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A bulwark against (differentiated) disintegration?

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> If monetary union goes ahead, the European Union will be divided into two groups for the foreseeable future.
>
> *Malcolm Rifkind, Zürich 1996*[2]

Introduction

As the guardian of the euro, the European Central Bank (ECB) manages what has long been considered the prime example of differentiated integration (Verhelst 2013; Schimmelfennig 2014). Originally known by other names, such as 'variable geometry' or 'two-speed Europe', differentiation arose when the Maastricht Treaty established Europe's Economic and Monetary Union (EMU) with two member states (Denmark and the United Kingdom) receiving formal opt-outs (Thygesen 1999). Importantly, their autonomous decisions not to join the single currency did not reflect a lack of capacity to meet requirements for joining. Rather this choice reflected deep-seated concerns among political elites and electorates about losing sovereignty in an area of core state powers. The 1992 and 2000 referendums in Denmark and the 2003 referendum in Sweden offer the clearest examples of this dynamic (Leuffen et al. 2013: 149).

The ECB has overseen both a significant widening and deepening of integration in its domain during the two decades since its birth. While it was confronted with the threat of disintegration in the context of the euro area crisis, it has played its part in successfully averting the scenario of one (or more) member states leaving the euro area (Spiegel 2014; Schoeller 2018). At the height of the Greek sovereign debt crisis, there was widespread concern that the departure of one member of the euro area could lead to a domino effect – thereby calling into question the long-term viability of the single currency itself (Chibber 2011; Kutter 2014). From a neofunctionalist perspective, one may argue that a supranational institution, such as the ECB, would seek to advance European integration as a supranational solution to transnational problems. The euro crisis offered a window of opportunity for pursuing this goal as the neofunctionalist logic suggests (Haas 1958; Schimmelfennig 2012; Hodson 2013; Niemann and Ioannou 2015).

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Ultimately, the sovereign debt crisis did result in a deepening of integration, firmly establishing the ECB as the lender of last resort for sovereigns in the euro area (Buiter and Rahbari 2012; Ban 2020). New institutions were established to provide financial stability, starting with the European Financial Stability Facility which later became the European Stability Mechanism (Meunier and Gocaj 2013; Verdun 2015). Furthermore, the ECB saw its competences increase when member state leaders bestowed upon it the role of the European Union (EU)'s main banking supervisor in 2013. These developments could be an indication of EMU spilling over into closer political and economic integration ('deepening'). At the same time, however, one could argue that furthering euro adoption among more EU member states ('widening') also advances the European integration objective. However, since the post-Maastricht EU has established differentiation as a permanent feature of European integration, clashes between the objectives of widening and deepening may become inevitable (Zimmermann 2016; Patel 2019). For example, one may consider what the deepening of integration in the context of banking union implies for euro outsiders (see Schimmelfennig (2016) and Schilin (in this volume)).

We define 'widening' in this context as the formal adoption of the euro by outsiders – in other words the formal extension of the Eurosystem (for example the eventual adoption of the euro by Bulgaria or Croatia, see European Commission 2020). We exclude from this definition the unilateral decision to use the euro as legal tender in a third country (euroization; i.e., using the euro as a de facto currency, which happens for instance in Kosovo and Montenegro). This process of widening within EMU reduces differentiation. Conversely, we define 'deepening' in the context of EMU as implying that existing euro area members integrate further. As this process leads to a bigger gap between euro insiders and outsiders, such deepening increases differentiation. Following Schimmelfennig (2018: 1154) differentiated disintegration implies 'the selective reduction of a state's level and scope of integration' which may possibly lead to internal differentiation if a member state remains in the EU but exits from EMU. While much of the contemporary discussion around differentiated disintegration now focuses on the case of Brexit (Leruth et al. 2019; Glencross 2021), earlier contributions discussed the spectre of disintegration in the context of a potential Greek exit ('Grexit') from the euro area (see Vollaard 2014). While the threat of Brexit eventually materialized and thus captured the headlines, the earlier threat of Grexit could be averted – in large part because it spurred the ECB into action (Spiegel 2014). We thus propose to extend the discussion of differentiated disintegration to also include cases where a state's selective reduction of integration does not ultimately happen but, instead, produces significant policy changes to avert the scenario of disintegration.

Against this background, this contribution asks how the ECB has dealt with differentiated integration and the potential threat of disintegration. It analyses both the historical development of the ECB's relationship with euro outsiders – discerning between 'old' opt-outs and 'new' accession countries in the context of EU enlargement – and how differentiated integration affects ECB policymaking across its various tasks. We analyse whether ECB policies follow one or more of three logics of 'deepening' and 'widening': (1) Is the ECB encouraging euro membership among the current 'outs'? (2) Is the ECB seeking to reduce the impact of differentiation by keeping the 'outs' on board as much as possible? (3) Does the ECB contribute to further cementing differentiation, for instance by excluding the 'outs' from decision-making or deepening integration among the 'ins' only?

The structure of the paper is as follows. The next section examines the history, theory, and origins of differentiation in EMU. Section three provides an overview of ECB's bodies and how they engage with euro outsiders across its variety of tasks: monetary policy, financial stability, and support for economic policies across the union. The Section 'The ECB and the euro

crisis: combatting disintegration?' discusses the ECB's responses to episodes of crisis and its approach to differentiation in the context of EMU reform. Our conclusions offer insights into the extent to which the ECB may be regarded as an 'agent of change' or 'bulwark against disintegration'. We find that the ECB has long been hesitant to proactively push further integration but was prompted into action by the inaction of member state governments during critical moments. In counteracted the threat of disintegration through both monetary policies and discursive acts. The ECB has thus, albeit often reluctantly, accepted greater responsibilities within the EU and has gradually emerged as an agent of integration.

Origins of differentiation in EMU

Although the term 'differentiation' was developed more recently, its practice dates back to earlier periods. 'Variable geometries' ('two-speed' and 'multi-speed' European integration) were considered in the 1990–1991 intergovernmental conferences that led to the creation of the Maastricht Treaty (Dyson and Featherstone 1999; Verdun 2000). However, the plan to create an EMU in three stages built on earlier developments, such as the Werner Report (1970), the Tindemans Report (1976), and the developments of the European Monetary System (EMS) during the 1970s and 1980s (McNamara 1998). In its history, there had already been a recognition that there were different speeds and levels of ability to cooperate more. For instance, the Tindemans Report responded to instructions by the December 1974 Paris European Council; 'It called for a new approach to EMU, arguing that the member states in a position to go ahead with the project should do so, whereas the others would still be committed to the final objective, but would proceed according to a different timetable' (*Bulletin of the European Communities*, Supplement No 1/1976, quoted in Dyson and Quaglia 2010: 266).

Monetary integration was thus differentiated from the start and also fluctuated considerably over time (Leuffen et al. 2013: 145–147). Already in the 1970s with the creation of the European Economic Community exchange rate mechanism (ERM), informally called 'the snake in the tunnel', some countries would participate whereas others would not. Building on that experience the EMS was created in 1979 with the European Currency Unit (ECU), the ERM, and the European Monetary Cooperation Fund (EMCF) at its core. The EMS was designed so that it was open to all member states of the European Community. Some could join the wider margin of the ERM (6%) – the system of fixed but adjustable exchange rates – whereas those that had been part of the snake would be at 2.25% margin. While all member states participated in EMS, the United Kingdom did not participate in the ERM. The British pound was part of the ECU however and the United Kingdom had been part of the EMCF since 1973. This shows how the United Kingdom took on a different perspective on European monetary cooperation already in the 1970s (Walsh 2000; Ikemoto 2011). The European Community members allowed this difference to be part of the institutional design of EMU (Ludlow 1982). But to be fair, the discussions in the 1970s and 1980s were as much about how to obtain policy outcomes as about the structure of institutions. Some of these differences can be traced back to differences in ideas over macroeconomic policymaking (and how to reduce inflation) and to power politics (who dominated EU institutional structures).

The logic of trying to get the EU to stay close together (avoiding 'Europe a la carte' or 'variable geometries' as much as possible) was a major concern. Although the United Kingdom had had its exceptional position in the EMS, during the intergovernmental conferences (IGCs), negotiators nevertheless sought to avoid that this form of differentiation (some member states not participating in everything) would be institutionalized into the Treaty (Commission 1990; Commission 1993). It was known in advance, however, that starting discussions about EMU and

an ECB could be a challenge. After all the decision to open the Intergovernmental Conferences on EMU and political union had met with opposition by UK Prime Minister Margaret Thatcher. The United Kingdom had put forward its own proposals for EMU (the 'hard ecu', see Verdun 2000: 87). Nevertheless, the United Kingdom eventually was formally given an 'opt out' from EMU and the Social Chapter in the 1992 Maastricht Treaty that entered into force in November 1993 (Sandholtz 1993; Dyson and Featherstone 1999; Verdun 2000). Yet the design of EMU institutions still included all member states. Similar to the EMS in the 1970s, the European Monetary Institute (EMI) as the front-runner of the European System of Central Banks (ESCB) once again foresaw the representation of all member states. The Treaty envisaged in a separate protocol that some articles of the Maastricht Treaty would not apply to member states with a derogation (Protocol 11 and Protocol 12 annexed to the Treaty).

Yet it was not only the United Kingdom that had some reservations about joining EMU. Denmark held a referendum about the Maastricht Treaty in 1992 and 1993. In response to the outcome of the 1992 referendum, in which a majority of 50.7% rejected the Maastricht Treaty as envisaged, it was given some assurances, including an opt-out of EMU. This contributed to the outcome of a second referendum when a majority supported accepting the Maastricht Treaty (Worre 1995). After the creation of EMU, Denmark and Sweden held further referendums on whether to join the euro area, resulting in popular majorities against doing so – a clear testimony of ongoing lack of popular support for the single currency among Danish and Swedish voters (Friis 2002: 383; Miles and Lindh 2004: 201). Since then, a number of other member states have chosen not to take the next steps towards joining the euro, even if they potentially could. These member states are formally called 'member states with a derogation'. Informally Denmark and the United Kingdom are noted as having a de jure opt-out whereas the countries that do not adopt the euro when they possibly could are considered having a de facto opt-out (see Majone 2014).

This process firmly established the notion of differentiation in the EU. Upon his arrival into office, UK Prime Minister Tony Blair discontinued his privilege to use the opt-out in the social domain. At times, there were considerations that the United Kingdom might join the euro but it did not materialize, in part because of the political difficulties surrounding the Iraq War (cf. Schmidt 2006: 196). In the end, the United Kingdom became less rather than more interested in monetary integration and other forms of deepening (continuing to stay out of the Schengen Area for instance). Following the negative referendum in 2003, the Swedish government took it upon itself for the foreseeable future not to join the ERM – a prerequisite to joining the euro.

In 2004, ten more member states joined the EU. Since there was no official 'opt out' granted to these countries, they signed on to the notion that they would join the euro area once they met the criteria (Schadler et al. 2005; Dyson 2006; Epstein and Johnson 2010). Of these ten, as many as seven have since joined (all but Poland, Hungary, and the Czech Republic). Two more countries joined in 2007 (Romania and Bulgaria), followed by Croatia in 2013. In July 2020, the latter two have joined the ERM, which is an important step to joining the euro.[3] We may hence distinguish pacesetters and laggards among the new EU member states when it comes to euro adoption. Juliet Johnson (2008) convincingly explains this pattern with the countries' size and economic openness. While smaller and more trade-dependent countries such as the Baltics benefit strongly from joining EMU in terms of international credibility and facilitating trade, this is less true for Poland, Hungary, and the Czech Republic, which are larger and less trade-dependent.

During the euro area crisis, these 'laggards' were content that they had not pegged their currency to the euro as they were now able to use the exchange rate as an instrument for adjustment.

However, the seven countries that did join the euro did so enthusiastically: Slovenia joined in 2007, Cyprus and Malta in 2008, and Slovakia in 2009 (Dandashly and Verdun 2018). Lithuania was told in 2006 that it did not qualify as it missed the criteria by a small margin. However, once the worst of the crisis was over, it joined in 2015. Meanwhile, Estonia had joined in 2011 and Latvia in 2014. Some member states had previously been informed by the International Monetary Fund (IMF) that it could be better if they abandoned their interest in euro adoption and instead let their currencies float. Yet the Baltic states defied that recommendation and instead focused on internal devaluation as an adjustment mechanism (Dandashly and Verdun 2020). All these developments indicate that differentiation has a long history within EMU. It also suggests that the EU institutions have not a priori necessarily pushed for deepening if it meant that member states would be joining the final stage of EMU before being ready. Hence these institutions have had a checkered record of pushing integration in the context of differentiation. Let us now turn to a more detailed examination of the specific role of the ECB in this process.

The ECB's bodies and tasks: differentiated decision-making

Twenty years after the ECB came into being, it has arguably developed into the most central and powerful supranational institution of our times (Curtin 2017). During this period, the adoption of the euro by several new member states has not only widened integration in the ECB's domain. Following the financial crisis of 2008, the ECB's adoption of unconventional policies has also extended its powers to provide monetary stability while the bank simultaneously acquired supervisory powers to safeguard financial stability. Despite these steps of widening and deepening, the ECB still oversees a highly differentiated policy area. Hence the ECB's authority differs across the union depending on member states' levels of monetary and financial integration. This section details how such differentiation impacts the ECB's internal structures and decision-making procedures as well as its operations across its various tasks: monetary policy, banking supervision, and its support of the wider economic policies in the EU.

The ECB's General Council arguably represents the clearest imprint of differentiated integration on the institution. It is, formally, the third of three decision-making bodies (Art. 44 of the Statute) whose only raison d'être derives from the fact that some EU member states have not (yet) adopted the euro (currently 8 out of 27). While the central bank governors from those euro outsider countries are therefore absent on the other two decision-making bodies – the Governing Council and the Executive Board – they retain their seats and voting rights in this third body. The ECB itself thus describes the General Council as 'transitional body' which is to be dissolved once all EU member states have introduced the single currency. It is worth noting that this – de jure – view of differentiation as a temporary condition goes against the bulk of academic research with perceives it – de facto – as a permanent feature of the post-Maastricht EU (Holzinger and Schimmelfennig 2012; Leruth et al. 2019). Hence the General Council is the ECB's institutional embodiment of the ESCB (comprising the ECB and the central banks of all EU member states), while the Governing Council and the Eurosystem remain limited to euro insiders. Beyond its status as symbol of differentiation, however, most scholars pay little attention to the General Council given that has 'no real executive powers' (Dyson 2008: 120).

In its key domain – monetary policymaking – the ECB grants euro outsiders only limited access. This might reflect the motive to make non-participation a less attractive option for member states that remain 'on the fence' about joining (Smits 1997: 98). Hence, non-members do not only stay on the outside when decisions are made at the top level (the Governing Council), they also do not participate in Eurosystem working groups which prepare top-level decision-making. There is a complex substructure of staff committees (and their associated working groups and

task forces) which bring together staff from the ECB and the national central banks (NCBs), which may also include NCB experts from outside the euro area.

These committees embody the Eurosystem's key organizing principle of 'centralized decision-making and decentralized implementation', thus enhancing the ECB's administrative capacity by including the expertise from the NCBs (Jung et. al. 2010). At its inception, there was even a concern that the ECB might be overwhelmed by powerful NCB governors and their large staffs, given that the NCB workforce collectively was about 100 times larger than that of the ECB in 1999 (Cecchetti and Schoenholtz 2008: 5). However, the ECB's own workforce has since expanded significantly, and ECB staff can exert control by setting the agenda and chairing the committees. While relatively little is known about the political dynamics *within* those structures, the importance of expertise in central banking suggests that NCBs with large staffs (such as Germany's Bundesbank, the Banque du France, or the Banca d'Italia) yield relatively more power over outcomes than smaller NCBs (see Schulz 2017: 43–46 for a detailed discussion).[4]

By the same token, one might expect the euro outsiders to successfully make their voices heard in ESCB committees, where no formal differences exist between insiders and outsiders. After all, the outsiders include prestigious and well-staffed institutions, including the two oldest central banks in the world (Sweden's Riksbank and the Bank of England). In the much more influential Eurosystem committees, however, they have no seat at the table, for instance when it comes to preparing the macroeconomic projections as a key input for monetary policy decisions. The key committee – the Monetary Policy Committee (MPC) – and its substructures are equally limited to staff from central banks participating in EMU.

Euro outsiders have thus little say over the ECB's monetary policy stance, which nevertheless has important implications for monetary conditions in their countries. This is most obvious in cases where euro outsiders have decided to tie their national currencies to the euro at a fixed rate, as in Denmark. Yet, as Marcussen (2005) points out, Denmark and other small states have traditionally not enjoyed monetary sovereignty to any significant extent; they have always been more decision takers than decision makers. Furthermore, its status as an outsider has not prevented Denmark from following 'sound' fiscal and economic policies in line with EMU priorities, perhaps even more so than some euro insiders. Finally, Danish policymakers have tried to establish various indirect means to influence monetary policymaking in the euro area, including ESCB committees (Adler-Nissen 2008: 675) and meetings among central bankers in the context of international organizations such as the IMF, the OECD, or the Bank for International Settlements (Marcussen 2005: 56).

One of the key changes following the financial crisis of 2007/2008 has been the creation of the European Banking Union (EBU) in 2012. During the negotiations of the Maastricht Treaty, national governments had been unwilling to surrender the supervisory duties over their national banks (James 2012), leading to a system of horizontal coordination and cooperation among national supervisors. Therefore, both central bankers (Draghi 2013) and academics (Howarth and Quaglia 2014) have described the shift towards supranational banking supervision as the most significant step towards deepening integration since the start of the euro. To be clear: What was unusual about the previous system was not so much the fact that the ECB lacked control over banking institutions operating in the euro area. Many states have historically assigned the powers to conduct monetary policy and banking supervision to separate institutions. Yet the pre-2012 EMU was unique in terms of the asymmetry between supranational monetary policymaking and national banking supervision it implied (Issing 2008). These national arrangements for supervision remained quite diverse and often marked by bank-state ties at the national level, which contributed to the severity of the financial crisis (Epstein and Rhodes 2018).

Against this background, the ECB used the opening presented by the crisis to actively pursue an extension of its powers (Davies and Green 2010: 202–204). While its previous attempts to expand its supervisory powers had always met national resistance (Quaglia 2008: 137), the crisis experience clearly demonstrated the weaknesses associated with a fragmented supervisory system. Hence the ECB's policy entrepreneurship proved successful this time around (Howarth and Quaglia 2014; De Rynck 2016; Skuodis 2018) as the Single Supervisory Mechanism (SSM) established the ECB as the sole supervisor for EMU's biggest banks. The following discussions led to the Single Resolution Mechanism (SRM) as the second pillar of EBU, while the third pillar to 'complete' the banking union – a common backstop or deposit insurance system – still remains hotly debated (Howarth and Quaglia 2018).

Numerous empirical studies examine the creation of the SSM and SRM by focusing on the role of the EU institutions – most importantly the European Commission and the ECB itself – or the diverging interests between Northern and Southern EMU member states. However, the interests of euro outsiders in its creation should not be overlooked. As Frank Schimmelfennig (2016) argues, we may see the case of the banking union as a 'first major instance of a spill-over of differentiated integration from one policy to another' which also suggests that a path-dependent continuation of differentiated integration can turn into a slippery slope over time. This explanation focuses on the differentiated effect that the creation of the single currency had on euro insiders and outsiders. For insiders, the euro undermined the ability of NCBs to safe-guard financial stability because (1) they could no longer provide liquidity as lenders of last resort in a financial crisis and (2) their national resolution powers were constrained by European rules. This encouraged them to look to supranational solutions. Euro outsiders, however, still saw their lender of last resort functions intact in the crisis, which made the banking union a relatively less attractive prospect for them (Howarth and Quaglia 2014: 127).

Outsiders therefore expressed concerns about a greater role for the ECB in banking supervision as they feared its dominance in setting technical rules (Hennessy 2014: 163). To overcome their concerns, the agreement on an EBU included some 'sweeteners', including protection in the voting procedures of the European Banking Authority (EBA) and the possibility for euro outsiders to voluntarily join the EBU through an arrangement called 'close cooperation'. To date, however, only Bulgaria and Croatia have submitted a request for close cooperation while other outsiders remain on the fence. Initial assessments argued that this option should be particularly attractive to outsiders with large international banking groups such as Sweden and the United Kingdom (Schoenmaker and Siegmann 2013). While the United Kingdom vocally opposed joining early on, Sweden and Denmark have set up national taskforces to address the question of whether to join on a voluntary basis (Spendzharova and Bayram 2016; Schulz and Henökl 2020).

The case of Sweden is illustrative in this regard. Subsidiaries of Swedish banks have long dominated large parts of the banking markets in all three Baltic states since the late 1990s. Given that the Baltic states joined EMU – and hence the EBU – the ECB now does not only supervise those systemically important banks operating in the euro area directly, it also participates in the supervision of non-systemically important banks domiciled in countries outside the Eurozone (in the context of supervisory colleges managed by the EBA). Additionally, the Nordic region's biggest bank – Nordea – announced the relocation of its headquarters from Stockholm to Helsinki in 2017 to position itself 'on a par with its European peers' through participation in the EBU. This move reopened the Swedish debate about joining EBU, which is supported by several important domestic players, including Sweden's central bank.

The ECB's approach to differentiation came to light in a series of speeches on the EBU, which ECB policymakers gave to audiences in non-EMU countries. While these speeches

typically focused on the desirability of the project as such, they often specifically alluded to the benefits it may bring to countries such as Denmark, Sweden, and the United Kingdom. To cite the title of one of those speeches, the ECB's perceives EBU as 'essential for the ins [and] desirable for the outs' (Asmussen 2013). The arguments focus both on the large size of the Danish, Swedish, and British banking sectors and, more importantly, their high degree of integration with the rest of Europe. While this discourse explicitly emphasized the benefits of joining and presenting the EBU as 'the place to be' (Lautenschläger 2018) for outsiders, it simultaneously stressed that they would incur no disadvantages relative to the status quo if they decided to remain on the outside. Hence, the ECB repeatedly stressed that EBU would benefit all member states which were part of the single financial market, irrespective of EBU membership. Since many euro outsiders, and especially the United Kingdom, were leading providers of financial services in Europe, ECB policymakers emphasized that they could 'see only advantages for Britain from its creation' (Constâncio 2013). In sum, however, the ECB appeared much more active in promoting EBU membership than EMU membership among the opt-outs, as the comparison of such speeches with the typically neutral stance and factual tone of the ECB's convergence reports shows.

The ECB and the euro crisis: combatting disintegration?

The ECB's monetary policies during the 'Great Recession'

Following the ECB's 'happy childhood' during the first ten years of its existence (Enderlein and Verdun 2009), the global financial crisis of 2007/2008 set the stage for what would become very difficult teenage years (Howarth and Verdun 2020). The subsequent 'Great Recession' saw the ECB leap into the unknown, when interest rates approached zero and unconventional instruments were added to the toolkit to prevent the recession from worsening and a deflationary spiral from inflicting even more harm (Chang 2019). Of course, the ECB was not alone in confronting these challenges, but one of many central banks struggling with the 'new normal' in monetary policymaking. What made the ECB's situation particularly dire, however, was the fact that markets suddenly woke up to specific but known problems of the euro area's asymmetrical institutional structure (Verdun 1996; 2020; Schlosser 2019).

When the incoming Greek government announced in 2009 that the budget deficit it inherited was much worse than the previous government had claimed, it set an avalanche in motion. Within the time span of only a few months, investors' fears about the sustainability of governments' finances spread from one Eurozone country to another, leading to sharp increases in interest rates for government bonds and hence threatening their access to bond markets to refinance their public debts. Importantly, this element of contagion also affected countries with previously low levels of public debt such as Spain and Ireland, invoking fears of a domino effect across the currency area. Thus, the ECB found itself not only fighting a recession of historic dimensions with largely new and untested instruments; it also had to confront the very real prospect of a disintegrating euro area.

This existential crisis situation produced far-reaching changes for the ECB's interpretation of its own mandate (Schmidt 2016). In Draghi's now famous 'whatever it takes' remarks, he offered the image of the asymmetrical euro area as a bumblebee that shouldn't be able to fly even though for some years it miraculously had managed to stay up in the air. Going forward, however, he argued that 'more Europe' and steps towards political union were needed for the bumblebee to become a real bee:

> The euro is like a bumblebee. This is a mystery of nature because it shouldn't fly but instead it does. So the euro was a bumblebee that flew very well for several years. And now – and I think people ask "how come?" – probably there was something in the atmosphere, in the air, that made the bumblebee fly. Now something must have changed in the air, and we know what after the financial crisis. The bumblebee would have to graduate to a real bee. And that's what it's doing. […] The last summit was a real success because for the first time in many years, all the leaders of the 27 countries of Europe, including UK etc., said that the only way out of this present crisis is to have more Europe, not less Europe. A Europe that is founded on four building blocks: a fiscal union, a financial union, an economic union and a political union
>
> *Draghi (2012)*

This commitment to further integration (which also included vaguely worded commitments to structural reforms and a centralization of banking supervision) is clearly linked to concerns about the disintegration of the euro area. This became clear when ECB officials subsequently called fears that a country might exit the euro – so-called redenomination risks – unfounded, and frequently reiterated that the euro was irreversible. The ECB's announcement to do 'whatever it takes' to preserve the euro thus includes a clear commitment to further steps in European integration (combined with an increased role for the ECB). Crucially, it offered such a commitment only in the context of an existential threat, suggesting that the ECB's change of heart was motivated by the fundamental interest in the survival of the euro area – and the ECB itself.

Following this crucial turning point in the euro area crisis, the ECB followed up with a program that potentially enabled unlimited purchase of government bonds of euro area countries in case governments were facing excessive borrowing costs (Verdun 2017; Schoeller 2019). While the Outright Monetary Transactions (OMT) program has not needed to be activated to date, its availability alone was sufficient to have the desired effect of dramatically reducing interest rate differentials for sovereign debt across the euro area. Hence, Mario Draghi lauded the program as 'probably the most successful monetary policy measure undertaken in recent times' (Steen 2013). Yet while its effectiveness remains undisputed, the same cannot be said about the OMT's legality. The program launched a lengthy legal battle between the European Court of Justice (ECJ) and Germany's Constitutional Court, owing to substantial ambiguity in the ECB's mandate (see de Boer and van 't Klooster, 2020). After all, the OMT de facto transformed the ECB into a lender of last resort to governments (de Grauwe 2013) – a role which the Maastricht Treaty left undefined (Eijffinger 2005: 475) but which some would claim is a central bank's main reason d'être (Goodhart 1988). The far-reaching implications of the Weiss case for the EU's legal order and the ECB's democratic accountability are beyond the scope of this chapter. Yet we note that the OMT seemed to show that credibly *promising* to purchase government bonds may have been the most effective way to avoid having to actually make the purchases (Schulz, 2017: 144).

However, the moment for bond purchases eventually did arrive in early 2015. While the OMT eliminated the immediate risk of 'differentiated disintegration', it was insufficient to end the economic crisis. Only after having exhausted all other avenues – negative interest rates, forward guidance, and several rounds of cheap funding for banks – the ECB followed the example of other central banks to launch a Quantitative Easing Program. This asset purchasing program provided monetary stimulus until 2018 and was quickly restarted during the COVID-19 crisis in March 2020.

The ECB's response to this most recent crisis event reveals both significant learning and change vis-à-vis the sovereign debt crisis and continued concerns about the long-term integrity of the euro area. On the one hand, the rapid response showed that it is now widely accepted

that, in the face of sudden shocks, the EU needs an actor like the ECB to act fast (Jones 2019) and that asset purchases are a part of its toolkit. On the other hand, a remark by ECB President Christine Lagarde that the ECB was 'not here to close spreads' in sovereign debt markets quickly reawakened fears of fragmentation. The borrowing costs of hard-hit Italy rose sharply and, echoing the contagion fears of the sovereign debt crisis, the government bonds of other Mediterranean EMU countries weakened seemingly in sympathy with Italy. While the ECB succeeded in walking back those comments in the following weeks, their effect on market sentiment showed that the evolution of its monetary policies alone was not enough to quell fears of differentiated disintegration in a lasting way. Thus, we now turn to the long-term institutional reforms designed to overcome such concerns.

The ECB's role in EMU reform

Parallel to its emergency monetary policies, the ECB also became an important partner in discussions on the institutional structure of the EU in the wake of the immediate crisis (Hodson 2015; Niemann and Ioannou 2015). For example, ECB President Draghi was involved in drafting a blueprint for the future of EMU – 'Towards a Genuine Economic and Monetary Union' – in cooperation with the presidents of the European Council, the Eurogroup, and the Commission (see European Council 2012). Three years later, in 2015, the ECB president was once again party to the so-called five presidents' report (including the president of the European Parliament) under the chairmanship of Commission President Jean-Claude Juncker (Juncker et al. 2015). Again, the recommendations focused on steps towards deeper economic and monetary integration, including the aim to complete the banking union. It also called for a European Minister of Finance, a euro-area budget, and a Capital Markets Union. These documents spelled out what were seen as the necessary steps to move towards deeper economic and monetary integration. Notably, the chairperson of the Eurogroup (first Juncker, later Dijsselbloem) relied heavily on the ECB president for expertise in these efforts (Verdun 2018).

Despite the ECB's involvement in the preparation of these key documents, Frank Schimmelfennig (2015: 188) finds that it 'does not seem to have had a noteworthy agenda-setting role in institutional reform'. In a similar vein, Thomas Warren (2020) argues that Draghi's bold statements on 'fiscal union' mask the ECB's limited reform ambition which was mainly focused on stricter enforcement of fiscal rules. However, the events of 2020 saw the ECB act as a strong advocate of a centralized fiscal capacity in the debate on the 'Next Generation EU' (NGEU). What is more, the ECB also suggested openness to making this one-off response to the crisis a permanent feature of EMU (Arnold 2020). An early ECB research note suggested that NGEU holds lessons for the future of EMU which 'still lacks a permanent fiscal capacity at supranational level for macroeconomic stabilization in deep crises' (Giovannini et al. 2020). While it is early days for these debates, such openings may suggest that the ECB increasingly recognizes the costs of its institutional loneliness (Mabbett and Schelkle, 2019) when crisis fighting requires closer cooperation between fiscal authorities and the central bank.

Conclusion

How has the ECB approached differentiated integration and the perceived threat of disintegration? This contribution has demonstrated that it has taken this young institution considerable time to accommodate the persistent differences among EU member states. Past research has even described the ECB as a 'reluctant EU institution' given that it often resisted attempts to enhance the Community dimension of EMU when it perceived such initiatives to be at

odds with its primary mandate (Heisenberg and Richmond 2002; Hodson 2011, 2015). In this view, the ECB's support for 'more Europe' has long been contingent on its overriding commitment to price stability. When the sovereign debt crisis posed a potentially existential threat, however, the ECB started adopting a more proactive role. As national governments lacked the capacity or the political will to act, the ECB accepted its role as a lender of last resort and provided funds to member states in need. Its major concern was that financial difficulties of one or more member states could jeopardize the integrity of the euro area as a whole and with it the rationale underlying European unity. This fear of 'differentiated disintegration' turning into full disintegration (of EMU or even the entire EU) fostered the ECB's push for more integration during and after the sovereign debt crisis.

From a historical perspective, differentiation in the context of EMU is less novel than might appear at first glance. This contribution has shown that differences in visions about institutional structure as well as the desirability of deeper monetary integration prevailed since the 1970s. The way to accommodate the differences has been to build institutions that respect the lack of political will of some governments to be part of the institutional structures but to still include them as much as possible (for instance in the EMS all member states were part of the ECU). The same occurred in the 1990s when the institutional design kept the door open to countries with an opt-out to become part of the EMI.

Regarding the ECB's approach to differentiation, we examined whether the ECB tends to encourage outsiders to join, to keep them on board as much as possible, or to contribute to further differentiation by deepening integration only among the 'ins'. We found elements of all three approaches in the ECB's policies over the past twenty years. In its discursive engagement with euro outsiders, the ECB often explicitly highlights the benefits of euro membership for the current 'outs'. There is also some evidence for the second avenue, namely that the ECB sought to reduce the impact of differentiation by keeping the 'outs' as much as possible on board – yet not going the full length of accepting members which have not fully met the criteria (such as the case of Lithuania in 2005). Finally, we also witnessed policies which further cement the differentiated state of EMU. The creation of the EBU, for instance, increases differentiation between ins and outs. Hence our analysis suggests that the ECB has continuously tried to walk the tightrope between widening and deepening. However, when the chips are down, it has focused on the stability of the euro area as its main point of concern.

The COVID-19 crisis appears to confirm that the ECB has shed its narrow technocratic focus throughout the past decade in order to provide political leadership in the EU (Verdun 2017; Schoeller 2020). However, we note that it took several instances of potentially existential crisis to produce this evolution. From the perspective of the differentiation literature, the ECB's concern with preventing 'differentiated disintegration' became paramount. This motive of preserving the integrity of the euro area, by keeping all euro insiders on board, has prompted stark changes – both in the ECB's monetary policies and its approach to EMU reform. Yet, in our view, this does not suggest that the ECB is a competence maximizer 'hardwired' to ever closer union. Rather, the evidence suggests that it merely accepted its greater powers and a deepening of integration to avert the threat of (differentiated) disintegration.

Notes

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2 Quoted in Apel (1998).
3 To date neither have met all the criteria. Once they do, they may ask the Commission to assess whether they meet the convergence criteria – a condition that needs to be met before a country is eligible to join.
4 There are still few studies detailing the relative power of member states over the inner workings of the ECB. This might reflect the fact that most central banks are secretive institutions and notoriously difficult to study (Schulz, 2019). In the case of the ECB, this is particularly acute as the ECB officially always adopts an area-wide perspective and plays down any divisions along national lines. Hence the ECB itself does not facilitate research done by nationality. In research focused on gender relations in the ECB, for instance, ECB services made data available but explicitly made sure no nationality could be identified (Verdun 2022).

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