

From Menace to Mundane: Moral Hazard and the Politics of the ECB's Government Bond Purchases

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Abstract

During the Eurozone's Sovereign Debt Crisis, the ideational consensus that shaped the foundation of Economic and Monetary Union was destabilized by disagreement on unconventional monetary policies (UMP), specifically government bond purchases. In the ECB's 2021 strategy review, however, UMP were confirmed as standard elements of the ECB's toolbox. What happened? One argument frequently presented to question the legitimacy of UMP is that they undermine the prior objective of EMU of avoiding moral hazard. We analyse the politics of UMP by focusing upon how top officials in four major Eurozone central banks have discursively constructed the relationship between the ECB's purchase of sovereign debt and moral hazard. We find that top central bank officials aligned to a large degree on the non-necessary causal relationship between government bond purchases and moral hazard, which reinforced its legitimacy and eventual acceptance as 'conventional'.

Keywords

Economic and Monetary Union; unconventional monetary policies; European Central Bank; epistemic communities; constructivism

Introduction

'Monetary policy must be more careful — this is the "moral hazard" problem — not to create false incentives. That would tend to weaken the willingness to undertake reforms' (Wolfgang Schäuble, German Finance Minister 2009-2017, 2014).

This quote illustrates the controversy over central bank purchases of government bonds (sovereign debt) on secondary markets as an element of unconventional monetary policy (UMP) during the Eurozone crisis. UMP refers to the use of monetary policy tools — other than interest rates and monetary targeting — which have been challenged by a range of academic economists, Eurozone member state governments, and central bank officials. UMP includes forward guidance, low interest rate loans to the commercial banking sector, and the purchase of corporate debt through quantitative easing. However, the most controversial example of UMP concerns sovereign debt purchases on the grounds that they potentially contribute to inflation, thus undermining the price stability goals of the ECB, and allegedly create a moral hazard both for governments — notably those with large fiscal deficits and debt

loads — and for banks — notably those dependent on cheap ECB lending to bolster their balance sheets and purchase large quantities of sovereign debt. In this article, we focus upon sovereign debt purchases by central banks. A number of politicians blamed the ECB and other central bank purchases of sovereign debt for creating a moral hazard by undermining the pursuit of debt consolidation and sustainability in Eurozone member states with high debt loads (Reuters 2015).

For others, the purchase of sovereign debt represents a necessary and legitimate evolution of central banking. The preservation of the integrity of the Eurozone are socio-economic goals that some present as trumping a narrow interpretation of the ECB's mandate and a rigid application of EU fiscal policy rules (see, for example, Howarth and Schild 2021). Thus, the difficult macro-economic conditions created by the international financial crisis, the sovereign debt crisis, and the Covid-19 pandemic justified the adoption of UMP, encouraging a more pragmatic and nuanced discourse.

The controversies surrounding government bond-buying by the ECB led to two cases before the Court of Justice of the European Union (CJEU). The 2015 *Gauweiler* case on the ECB's Outright Monetary Transactions (OMT) and the 2017 *Weiss* case on the Public Sector Purchase Programme had the CJEU deliberate on two prominent examples of ECB programmes involving (potentially) large-scale sovereign debt purchases that the CJEU eventually upheld. Then, in 2021, the ECB's Strategy Review strongly defended the bank's UMP and made it clear that they 'will remain an integral part of the ECB's toolkit'¹. How did sovereign debt purchases go from threatening price stability, financial stability and fiscal rectitude to effectively being normalized — that is, from being a menace to being mundane?

The possibility that moral hazard could result from UMP is an argument of particular relevance in the context of European economic governance, since avoiding moral hazard was a shared principle among EMU negotiators (McNamara 1998; Dyson and Featherstone 1999). For example, the prohibition of monetary financing and the 'no-bailout' clause of the Treaty establishing the European Union — as specified in the Stability and Growth Pact — have been identified as institutional mechanisms to protect against sovereign moral hazard (Dyson 2014; Schelkle 2017; Rommerskirchen 2019). Although the question of avoiding moral hazard from banks was somewhat present in the EMU negotiations (Schelkle 2017), it became particularly salient with the international financial crisis and the related EMU reforms and UMP (Howarth and Quaglia 2016; Dyson 2016). Thus, whether explicitly or implicitly, a range of national policymakers and, notably, central bank officials designed both the ECB's monetary policy mandate and EU fiscal policy rules with the aim of preventing moral hazard in EMU.

We investigate the apparent tension between the principle of avoiding moral hazard entrenched in the Maastricht model and the ECB's sovereign debt purchases. This tension suggests three potential situations in relation to the ideas of Eurozone central bankers on moral hazard:

- 1) First, avoiding moral hazard is no longer a governing principle shared by EU central bankers. The causal relationship between sovereign debt purchases and moral hazard might be acknowledged, but priority is given to other objectives;

¹ 'An overview of the ECB's monetary policy strategy'; available at: https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_overview.en.html

- 2) Second, preventing moral hazard continues to be a shared principle but the proposition ‘sovereign debt purchases cause moral hazard’ is refuted by EU central bankers;
- 3) Finally, EU central bankers disagree that ‘sovereign debt purchases cause moral hazard’ or that importance that should be attached to avoiding moral hazard.

The first and second situations imply a professional consensus among central bankers. In contrast, the third situation implies a professional dissensus in central banking.

This article focuses on the relationship between government bond-buying and moral hazard, based on ideational theories of epistemic communities and strategic constructivism. The objective is not to demonstrate whether the proposition ‘sovereign debt purchases cause moral hazard’ is true or false. Instead, this article analyses how EU central bankers understand moral hazard and present its relationship to UMP in the public discourse aimed to legitimise or delegitimise it.

We focus on central banks rather than including other actors such as finance ministers. First, monetary policy (unconventional or standard) is the competence of central banks. Finance ministers and other actors may choose to comment on policy and attempt to influence it, but the high level of independence of the ECB gives substantial leeway in defining the parameters of monetary policy. For the purchase of sovereign debt to become normalized, it would need to be normalized amongst the central bankers themselves. Second, the CJEU decision on ECB government bond purchases under the OMT accepted the ECB’s argument that this constitutes appropriate monetary policy and that ‘indirect effects do not mean that such a programme must be treated as equivalent to an economic policy measure’ (Peter Gauweiler and Others v Deutscher Bundestag, 2015). Therefore, such sovereign debt purchases fall under the category of monetary policy, not economic policy, and any consensus legitimizing these purchases must originate within the central banking community.

This study thereby contributes to the existing literature both theoretically and empirically. Central banks emerged as the most important actors in combating economic and financial instability during the last 15 years, even becoming ‘the only game in town...finding new and increasingly unconventional ways to try to influence the direction of troubled economies’ (Rajan 2012). How innovation has been legitimized matters for the legitimacy of central banks in general. Moreover, the extent to which UMP represents a break with the Maastricht model or constitutes broad continuity with it matters for the future trajectory of Eurozone governance. Finally, it offers an innovative perspective on the politics of UMP and the future of monetary policy. Indeed, most of the academic literature on the legitimacy of the ECB’s sovereign debt purchases focuses on the problematic relationship between distributional effects of monetary policy and the central bank’s independence and accountability (Högenauer and Howarth 2019). This work, therefore, presents an important case study for those interested in ideas-based theories and the politics of central banking.

In the next section, we develop our analytical framework based on the epistemic communities approach and strategic constructivism, and we describe the mixed methods that we apply to demonstrate different usage of the moral hazard concept in our four central bank case studies: the ECB, Bundesbank, Bank of France and Bank of Italy. In the third section, we summarise the results of our empirical analysis, demonstrating the similarities and differences in how central bank officials understand the moral hazard concept in the context of UMP. Next, we summarize the discursive strategies employed by these central bankers to legitimize their positions on UMP. The final section concludes.

Analytical framework and methods

How do top officials in different Eurozone central banks understand the concept of moral hazard and present its relationship to ECB sovereign bond purchases?

We rely on two ideational approaches to formulate hypotheses. The political science literature on central bankers as an epistemic community explains policy change in terms of the influence of a network of experts in a specific area (Adler and Haas 1992; Haas 1992; Verdun 1999). Haas defines an epistemic community as a ‘network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area’ (Haas 1992: 3). To be considered as an epistemic community, the network of experts share (1) common normative and principled beliefs, (2) common causal beliefs, (3) common notions of validity for the knowledge in their domain of expertise, and (4) a common policy enterprise with a corresponding practice (Haas 1992: 3). These common views are achieved through interactions among members of this network of professionals over time. The epistemic communities’ influence often emerges on technical matters; in situations of uncertainty, interpretation and institutionalisation are very common in international coordination (Haas 1992; Adler and Haas 1992). Their influence is even more important when transnational epistemic communities are concerned, since they can display their causal beliefs and policy preferences throughout different countries (Verdun 1999).

Earlier research presents central bankers as members of an epistemic community which met regularly in international fora and developed a common understanding of the need to establish EMU in order to bolster the pursuit of low inflationary economic growth (Marcussen 2000; McNamara 2019: 68). Verdun (1999) considers that members of an epistemic community can use the same common goal to achieve diverging national interests. The uncertainty that triggers the consultation of epistemic communities is important in technical matters like monetary policy, and uncertainty also triggers the transfer of policy-making responsibilities to central bankers. Moreover, the creation of the ECB can be perceived as an institutionalisation that, according to Haas (1997) and Kapstein (1992), is important for new epistemic communities to emerge. To be considered part of an epistemic community, central bankers must share a common vision in their area of expertise. The price stability goal is the main purpose of Eurozone monetary policy and can be considered the common objective of the epistemic community consisting of Eurozone central bankers.

Strategic constructivism (Jabko 2006) offers an alternative explanation. Indeed, ideas are considered as strategic resources at the disposal of actors to influence others and help them achieve certain goals. According to Jabko (2006), the ambiguity of the concept of the ‘market’ allowed the promoters of Europe to bring together actors with diverse motivations and to build the single market and monetary union. The ambiguity of concepts often presents an opportunity to policymakers (e.g., Crespy and Vanheuverzwijn 2017). Moral hazard is characterized by fuzzy knowledge. Despite being a fertile source of research since the 1970s and the vivid interest in the concept of leading neoclassical economists (e.g., Arrow 1963, Holmström 1979, Stiglitz 1983), moral hazard means different things to different actors (Leaver 2015). Hence, the ambiguity of the concept of moral hazard offers an opportunity for actors to strategically construct the relationship between sovereign debt purchases and the phenomenon of moral hazard, predicting professional dissensus among EU central bankers linked to different specific goals.

Hypotheses

H1: *Top Eurozone central bank officials forming part of an epistemic community share a common understanding of the concept of moral hazard and its relationship to unconventional monetary policies.* Evidence that there are no noteworthy differences as to how moral hazard is understood, that avoiding moral hazard is presented as a primary policy objective in all cases or in none of the cases, and that the causal relationship between UMP and moral hazard is refuted in all cases or in none of the cases is empirical evidence consistent with H1.

According to hypothesis 2 (H2), in line with a strategic constructivist approach: *top Eurozone central bank officials, following specific national or supranational goals, diverge in their understanding of the concept of moral hazard and its relationship to unconventional monetary policies.* Evidence that there are noteworthy differences as to how moral hazard is understood, that avoiding moral hazard is presented as a primary policy objective in some cases but not in others, and that the causal relationship between UMP and moral hazard is refuted in some cases but not in others is empirical evidence consistent with H2. We would expect the ECB Executive Board members to have a broadly defensive position on sovereign debt purchases and moral hazard, while the three NCBs examined would have distinct positions, with the Bundesbank most preoccupied with and insistent upon moral hazard, the Bank of France somewhat preoccupied and the Bank of Italy the least preoccupied and / or the most willing to challenge the existence of a necessary moral hazard.

Selection of cases

Should one necessarily expect different views from national central banks, given that they all participate in the Eurosystem of national central banks of countries that adopted the Euro and might be expected to follow the lead of the ECB? Although a ‘single voice’ principal exists among Governing Council members for the communication of monetary policy decisions, ‘at times members have communicated individual views that were not always fully aligned with the Governing Council’s majority view and were often perceived by the media as conveying national preferences’ (ECB 2021). Indeed, the ECB makes efforts to provide agreed texts to national central bank governors to encourage them to use similar formulations when discussing a topic. That said, national central bank governors are not obliged to do so and have publicly expressed disagreements according to Gabriel Glöckler, Principal Adviser Communications at the ECB (interview, 24 November 2023).

The empirical analysis concerns four case studies: the ECB, Bundesbank, Bank of France, and Bank of Italy. First, the ECB and most EU national central banks (NCBs) have dedicated considerable discourse to encourage governments to meet their fiscal policy commitments, in some cases backed up by the threat of using monetary policy to tackle the potential implications of expansionary fiscal policy for price stability (Howarth 2004). We would expect an ongoing discourse on debt sustainability, despite the pursuit of monetary policies that involve the purchase of sovereign debt. Second, the comparison of the ECB and three NCBs is of analytical interest, as it allows us to determine the relevance of the cleavage ‘national versus supranational’ in relation to so-called technocratic institutions. Despite the independence of Eurozone central banks and the position of NCB governors on the ECB’s Governing Council as independent experts rather than national representatives, nothing in the treaties prevents NCB governors from representing institutional and/or national preferences. Indeed, a small body of literature exists that demonstrates a certain alignment between national government and NCB governor preferences or a perception of such an alignment (see, for example,

Howarth 2007). We might also expect that NCB positioning on Eurozone developments would reflect or even align with national economic priorities, e.g. German reluctance on sovereign debt purchases and Italian support. Third, even though the ECB was set up in emulation of the Bundesbank's mandate and design, the ECB and the Bundesbank presented divergent positions on UMP since 2010. Finally, the Franco-German comparison is of analytical interest because of their key role in EMU policy outcomes.

Methods

Testing our hypotheses requires us to identify what moral hazard means and how the central bankers try to influence discursively the beliefs of others on UMP and moral hazard. A selection of speeches and interviews appearing in different media¹ — available on the respective institutional websites — was made based on the following cumulative criteria: at least one occurrence of the term moral hazard; the date of the document is equal or superior to 01.01.2010; and the topic of UMP is present.² References to central bank purchases of sovereign debt creating moral hazard were limited prior to 2010 concerning commercial banks and financial stability. Bundesbank President Axel Weber (2009) praised the Maastricht Treaty's 'no bailout clause' as 'an indispensable instrument for preventing moral hazard by the member states', but this reference refers to the easy financing member states enjoyed due to low interest rates, not to the possibility of sovereign debt purchases.

The result is a corpus of 140 documents (speeches and interviews, see Table 1 in the appendix):

- 97 occurrences in 78 speeches by and interviews with ECB Executive Board members in office between 2010 and 2022 — and 35 out of 97 (36%) specifically in relation to UMP;
- 37 occurrences in 26 speeches by and interviews with Bundesbank Executive Board members — and 12 out of 37 (32%) specifically in relation to UMP;
- 12 occurrences in 9 speeches by and interviews with Bank of France governors — and 4 out of 12 (33%) specifically in relation to UMP); and
- 33 occurrences in 27 speeches by and interviews with Bank of Italy Executive Board members — and 7 out of 33 (21%) specifically in relation to UMP.³

We place our detailed data in the appendices.

Figure 1 indicates the distribution of documents with moral hazard and UMP over time. Far more occurrences of moral hazard and sovereign debt purchases are in ECB speeches from 2010-2013, perhaps indicative of the ECB's desire to explain its government bond purchases under the Securities Markets Programme (2010-2012) and Outright Monetary Transactions (announced 2012). The Bundesbank made few references to moral hazard during this same period with 4 instances in 2012. The introduction of the Public Sector Purchase Programme (PSPP) in 2015 saw a total of 8 references by the ECB the previous year, and no references by the German Bundesbank or the Bank of France. In 2015 and 2016, none of the central banks referred to moral hazard and sovereign debt purchases more than 3 times. 2017 saw the most references for the German Bundesbank, likely related to criticism over the ongoing PSPP. Compared to the other central banks, the Bank of Italy made relatively constant references to moral hazard and UMP. Figure 2 presents the distribution of documents over time where moral hazard is specifically used in relation to sovereign debt purchases.

To identify key features of moral hazard and assess whether there are noteworthy differences, we first created a dataset of moral hazard occurrences in their textual context — one sentence before and after. To infer meanings and compare how moral hazard is understood, we used a mixed method that combines inductive quantitative and qualitative text analysis techniques. On the one hand, we looked at the semantic fields of moral hazard (word clouds, synonymous and antonymous concepts); on the other hand, we manually coded the descriptions of moral hazard according to four main dimensions: ‘what it is’, ‘what causes it’, ‘what it does’, and ‘how to deal with it’ using the software MAXQDA.² In addition, we conducted a discourse analysis on moral hazard and sovereign debt purchases to assess whether avoiding moral hazard is presented as a primary policy objective and whether the causal relationship between UMP and moral hazard is refuted. Here, we used an expanded dataset of moral hazard occurrences (5 sentences before and after). The empirical results are presented in the next two sections.

How central bankers understand the concept of moral hazard

Semantic fields of moral hazard

We focused on three types of word-relations: words that are frequently used around moral hazard; words described as having the same or similar general sense as moral hazard; and words described as having an opposite meaning to moral hazard. Figures 3 to 6 (in the online annex) present the word clouds of moral hazard for the four central banks. The most frequently used words next to moral hazard in speeches by and interviews by central bank are:

- Bundesbank: bank, financial, risk, and market
- ECB: not, create, risk, bank, financial, mitigate
- Bank of France: monetary, macroprudential, risks / risques, and stability
- Bank of Italy: risk and avoid.

In all four cases, moral hazard is associated prominently with the word ‘risk’ — albeit more for the Bank of Italy and the ECB than for the Bundesbank and the Bank of France — which refers to the possibility of something (usually) bad. Thus, moral hazard relates to something uncertain (and unwelcome). The ECB, Bundesbank and Bank of France also link moral hazard — in the context of discussion about UMP — specifically to banks.

There are also noteworthy differences in central bank usage. The frequency of the word ‘not’ next to moral hazard in ECB documents suggest that ECB officials tend to negate moral hazard. Furthermore, ECB and Bank of Italy officials present a greater confidence in their capacity to control moral hazard than policymakers of the Bundesbank and the Bank of France. The frequency of the words ‘create’ / ‘mitigate’ and ‘avoid’ in relation to moral hazard suggests a form of control over moral hazard.

Second, we compare synonyms (see Table 2). The only synonym common to all cases is ‘excessive risk taking’. The idea that moral hazard is about actions that increase the level of risks above the acceptable level is shared among central bankers. Also, in all cases but the Bundesbank, ‘excessive risk taking’ is the most frequent synonym employed. In contrast,

² Noteworthy differences are established in relation to frequency of results. We compare most frequent results and relatively frequent results among cases. If most frequent results are different, we conclude that there is a noteworthy difference. In addition, if a most frequent or relatively frequent result in one case is absent or relatively low in another case, we also conclude a noteworthy difference. A noteworthy difference is one that is present with relative frequency and that we can interpret as something that matters.

Bundesbank officials often present moral hazard as being similar to ‘mutualization of risks’, suggesting moral hazard is inherent to any mechanism that shares risks between parties. Furthermore, moral hazard is often described as a type of incentive (wrong, bad, adverse, etc.) in the cases of the Bundesbank and the ECB but not in the cases of the Bank of France and the Bank of Italy. To present moral hazard as an incentive problem is in line with the ordoliberal tradition and neoclassical economics. In the case of Italy, moral hazard is often described as wrong behaviours — abuses, fraud, or malpractice.

Finally, we compare antonyms (see Table 3, appendix), finding no antonyms common to all cases. Bundesbank usage of antonyms of moral hazard (33 occurrences) and variety (at least 8 different antonyms) surpassed other cases. For the Bundesbank, moral hazard is the opposite of ‘responsibility’, ‘ownership’ and ‘discipline’. The Bundesbank’s use of antonyms to moral hazard suggests a sustained and deliberate effort to place emphasis on what its officials perceived as inherently positive behaviours that also aligns with the ordoliberal framework. The Bank of France and ECB used fewer antonyms — five and three, respectively — and far less often. Italian officials refrained from using any antonyms, suggesting a deliberate effort to downplay the dangers of moral hazard and the risks of UMP for more appropriate incentives.

Some preliminary conclusions can be drawn from the analysis of the semantic fields of moral hazard. In all cases, moral hazard is understood as a danger of exceeding an appropriate level of risk. However, for Bundesbank officials, by far the most common association with moral hazard is the ‘mutualization of risks’. In addition, central bankers appear to have different perceptions of the capacity of policymakers to control moral hazard. ECB, French and Italian officials present a certain confidence in their ability to avoid moral hazard, but Bundesbank officials appear to perceive moral hazard as a concomitant attribute of the mutualization of risks.

Multi-dimensional coding of moral hazard

To identify how policymakers in the four central banks understand moral hazard, we complement the analysis of the semantic fields with a coding exercise: each occurrence of moral hazard has been coded in relation to the four main dimensions: ‘what it is’, ‘what causes it’, ‘what it does’, and ‘how to deal with it’ (the results are presented in Tables 4-7, appendix). In both cases, policymakers put relatively more emphasis on policy prescriptions (155 coded segments in ‘how to deal with it’) and causes (168 coded segments in ‘what causes it’), than on its essence (55 coded segments in ‘what it is’) and effects (49 coded segments in ‘what it does’). This suggests that the heart of the policy debate about moral hazard regarding UMP, fiscal policy, and banks centers on potential solutions to moral hazard, not its meaning. This implies a certain professional consensus around its meaning, allowing policymakers to take the concept for granted in their communication.

Nonetheless, we found 23 ways to answer the question ‘what is moral hazard?’ (Table 4, appendix) with none common to all cases. Moral hazard as situations in which discipline is undermined or excessive risks are taken is present in all cases except the Bank of Italy. However, in the case of the ECB, the most frequent understanding of moral hazard is the ‘inciting’ of ‘excessive risk-taking’, and in the case of the Bank of France, moral hazard as ‘creation of incentives for irresponsible behaviour’ or ‘to create bad incentives’ (3 and 2 occurrences, respectively). These results suggest that moral hazard is interpreted as both the fact of acting recklessly (actual outcome) and the possibility of acting in such manner (potential outcome). Despite this ambiguity, no clear differences in interpretation arise between cases.

As for ‘what causes moral hazard’ (Table 5, appendix), all four central banks recognized that government bond-buying was a potential — but not necessary — cause. Most surprisingly, in those occurrences of moral hazard in documents also discussing UMP, the Bundesbank was the least likely of the four central banks to identify UMP as a potential cause of moral hazard (only 1 occurrence, versus 11 for the ECB, 4 for the Bank of France and 3 for the Bank of Italy). Nonetheless, the Bundesbank found that ‘asymmetric monetary policy’ caused moral hazard and specifically the purchase of a disproportionate amount of bonds issued by highly indebted governments. We detect a marked difference regarding the perceived relationship of bank activities and moral hazard. Bundesbank and Bank of Italy officials placed a particular emphasis on too-big-to-fail financial institutions as a cause for moral hazard in the context of UMP. However, Bank of France officials focused on the cause of moral hazard involved defending the country’s large national champion banks. Similarly, the Bundesbank emphasised the financial sector as the cause of moral hazard (20 occurrences), an issue not mentioned by the ECB, only twice by the Bank of France, and once by the Bank of Italy. The Bundesbank also stressed the Lender of Last Resort role of the ECB and the mutualization of liability, which arguably points to its concern with UMP. More generally, the Bundesbank blamed the institutional design of the eurozone as a major cause of moral hazard (7 occurrences). The Bank of France blamed — no doubt with more deliberate vagueness — the expectation of public intervention in bad times (6 occurrences). Officials from all four central banks frequently discussed different types of public intervention as a potential source of moral hazard.

The analysis of effects of moral hazard — ‘what it does’ — shows concern for monetary and financial stability (Table 6, appendix). The ECB focused upon price stability as the main effect of moral hazard (but only 2 occurrences), whereas Bundesbank and Bank of France officials found that moral hazard in the context of UMP undermines financial stability. Bank of Italy officials are much vaguer, emphasizing only the impact on trust and the likelihood of disruption. Thus, Bundesbank officials present a greater preoccupation of the effect of moral hazard on financial instability than on monetary policy — although this is also a preoccupation of Bank of France and ECB officials.

Finally, policy prescriptions (‘how to deal with it’) (Table 7, appendix) differ markedly among the central banks. The ECB and the Bank of Italy argued for the need for conditionality. Officials from the Bank of France emphasized appropriate design and safeguards. The Bundesbank focused on risk reduction before risk sharing and the need for the ECB: to avoid purchasing the debt of highly indebted governments; to avoid building up market expectations of a monetary policy that will encourage ‘collective moral hazard’; and to avoid common debt issuance. These positions largely aligned with long standing German government positions on financial support for both sovereigns and banks (Howarth and Quaglia 2016).

In all cases, moral hazard is understood as the danger to exceed an appropriate level of risk. However, the expected empirical importance of this danger — and hence the extent of the perceived problem — differs. ECB and Bank of Italy officials appear more confident in the capacity of policymakers to avoid moral hazard — notably through conditionality. In contrast, the Bundesbank presents moral hazard as a necessary implication of mutualization of risks, with risk reduction as a solution to moral hazard. We situate the Bank of France in the middle of this spectrum. Finally, it is worth stressing that — surprisingly — while the causal relationship between UMP and moral hazard is discussed in all cases, Bundesbank officials do not emphasize this relationship.

Discourse on sovereign debt purchases and moral hazard

To further understand the role of the UMP-moral hazard relationship in the discursive strategies of central bankers to legitimize their positions on sovereign debt purchases, we conduct a discourse analysis that focuses on argumentation (see Tables 8-13, appendix). In all cases except for the Bundesbank, sovereign debt purchases most frequently were welcomed as:

- Bank of France: an appropriate response to the severity of the crisis
- Bank of Italy: to preserve the functionality of markets and restore the monetary policy mechanism;
- ECB: a win-win situation.

In addition, officials from all three central banks provided legitimacy to their position by arguing that — against what is often claimed — UMP were in conformity with the ECB’s mandate and the principle of monetary dominance at the heart of the Treaty. See, for example:

‘It has been argued that the purchase programme goes beyond the ECB’s mandate of price stability, blurring the distinction between monetary and fiscal policies. I do not agree with such a view. It is evident to all members of the Governing Council that monetary policy cannot solve every economic problem that affects the euro area. The programme has the very clear objective of bringing inflation back on target and therefore is fully within the ECB’s mandate.’ (Visco 2015, Bank of Italy).

‘So to the extent that "unconventional" tools are implemented, there should be no ambiguity as to their close link with the Central Bank's mandate of price stability. I believe that has been the case in all major countries and certainly so in the Eurozone’ (Noyer 2015, Bank of France).

‘The goal of OMTs is a narrow one: to eliminate the unwarranted and self-reinforcing fears of a euro area break-up that have undermined our ability to effectively conduct monetary policy in the pursuit of price stability’ (Coeuré 2013, ECB).

Bundesbank officials were distinctive in their positioning on sovereign debt purchases which — in documents that mention moral hazard, at least — ranged from critical to neutral, but never positive.

‘Governments, too, are exposed to the problem of moral hazard, which can cause them to become greedy and dampen their efforts to reform. The dramatic waning of enthusiasm for reform on the part of the Berlusconi government following SMP purchases of Italian government bonds shows how quickly a country's will to reform can evaporate when budget constraints are eased’ (Weidmann 2015, Bundesbank).

Bundesbank Executive Board member Joachim Wuermeling explained that the Bundesbank ‘has always been critical of government bond purchases in a monetary union because purchases of this kind blur the boundary between monetary policy and fiscal policy’ (Wuermeling 2017). However, in the same speech Wuermeling clarified that ‘government bond purchases should only be used as an emergency tool’, not that government bond purchases should never be used.

On the UMP-moral hazard relationship, we found evidence that it indeed played a role in the legitimization of central bankers’ positions on UMP. Notably, central bankers in favour of UMP

most often presented UMP as a potential — but not necessary — source of moral hazard. The potential causal relationship between UMP and moral hazard was acknowledged:

‘Worries about possible side effects of the public bonds purchase programme have, however, been raised within the Governing Council as well as by external observers. They concern, in particular, the risk of moral hazard by governments and the risk of generating financial instability’ (Visco 2015, Bank of Italy).

‘The third challenge is the moral hazard implied by many, if not most, non-standard measures. Because the central bank may be expected to use its virtually unlimited “firepower”, the need for making the painful, but necessary, adjustments may easily be forgotten by the other actors – be they banks or sovereigns.’ (Gonzalez-Paramo 2012, ECB).

‘On the other hand, fostering economic recovery and reducing unemployment goes in the direction of helping the most vulnerable part of the population. In other cases, strong intervention may raise legitimate moral hazard concerns. Should Central Banks have refrained from acting at the risk of not fulfilling their mandate? (Noyer 2015, Bank of France)

In addition, in all three cases in which UMP are welcomed, the objective of avoiding moral hazard is described as a shared principle and a matter of consensus:

‘We may say that the Germans are fixated with moral hazard, but it is something important, we need to trust each other as Europeans and therefore we need ways to avoid moral hazard’ (Visco 2016, Bank of Italy).

‘Amid these concerns, it is hoped that all the relevant legislation and related exemptions are applied in the wake of our Comprehensive Assessment with the adequate balance between the different values of avoiding moral hazard, assuring market discipline and level playing field, and safeguarding financial stability’ (Constâncio 2014, ECB).

However, central bankers in favour of UMP argued that there is no need to be worried about government bond purchasing causing moral hazard since effective mechanisms — conditionality and partial risk sharing — have been put in place to prevent such effect.

‘The Governing Council addressed the moral hazard concern by opting for a partial risk-sharing of the purchase programme. The decision to let the balance sheets of the individual national central banks (NCBs) bear the entire risk of losses on the government bonds they purchase reflects the concern within the Council that full sharing might have led to unintended cross-country transfers of resources, without the approval of the competent bodies, and might have induced governments to relax their reform efforts’ (Visco 2015, Bank of Italy).

‘It is based on fiscal discipline leading to debt reduction. If those disciplines are not respected or implemented with insufficient vigilance, then monetary policy through public sector debt securities purchases may be perceived as creating strong moral hazard, thereby weakening the necessary consensus and compromising its efficiency. When fiscal transfers take place between countries of the Eurozone, they are

implemented through mutually agreed and conditional programs (Noyer 2015, Bank of France).

‘The securities market programme in place from 2009-2012 again aimed at specific dysfunctional government bond markets, where volatility had increased and liquidity diminished. Purchases were not aimed at targeting specific yields and were fully sterilized to offset impact on the size of the Eurosystem balance sheet. The Outright Monetary Transactions announced last September to address unwarranted tail risks, allow for ex ante unlimited interventions, but are subject to strict conditionality (IMF/EU programme) to address concerns over moral hazard’ (Mersch 2013, ECB).

‘Consistently with the results of the academic literature, offering partial insurance has been our guiding principle to mitigate moral hazard concerns. The conditionality associated with our OMT programme, can be viewed as direct applications of this principle’ (Coeuré 2013, ECB).

It should be noted that over time, the arguments to refute the proposition that ‘sovereign debt purchases cause moral hazard’ have changed. For example, in 2011 and 2012, some ECB officials argued that in order not to cause moral hazard, UMP should be temporary (see for example, Tumpel-Gugerell 2011; Gonzalez-Paramo 2012). In contrast, by 2020, instead of arguing that UMP should be temporary, conditional, and characterized by partial risk sharing, some officials from the ECB refuted the causal link between sovereign debt purchases and moral hazard with reference to empirical evidence and the different nature of the Covid-19 crisis compared to the previous economic crises.

‘For example, there is no evidence that purchases of government debt have undermined the disciplinary function of financial markets or created moral hazard’ (Schnabel 2020a, ECB).

‘Our current situation is a completely different one. The shock has hit all countries, out of the blue, through no fault of their own. We have no significant moral hazard issue and so the incentives that are attached to support are not a priority. Conditionality is not required in the same way’ (Schnabel 2020b, ECB).

If central bankers in favour of UMP framed the UMP – moral hazard relationship so as to legitimise their position on UMP and challenged the arguments of their opponents, it is worth stressing that the officials of the Bundesbank did not emphasize the sovereign debt purchases – moral hazard relationship in their discourse to justify not welcoming UMP. Much of the Bundesbank discourse on moral hazard concerned financial markets rather than central banks inciting more government spending; only 6 speeches (1 in 2015, 5 in 2017) referred to moral hazard resulting from government bond buying. The spike in Bundesbank speeches mentioning the potential relationship between moral hazard and government bond-buying in 2017 could be related to concerns that the PSPP had been interpreted by some as a way to keep Italian and French bond yields under check in advance of elections (Reuters 2017). Although the Bundesbank clearly expressed more skepticism towards sovereign debt purchases than other central banks, it accepted that these purchases did not necessarily cause moral hazard. Indeed, moral hazard could be avoided:

‘By allocating purchases to each country in accordance with the ECB capital key, the Eurosystem seeks to avoid the moral hazard that could arise as a result of purchasing a

disproportionately large amount of bonds issued by highly indebted governments' (Wuermeling 2017, Bundesbank).

This result suggests a professional consensus among central bankers on the capacity of policymakers to prevent government bond buying causing moral hazard. Demonizing government bond-buying would be counterproductive in limiting the central bank's room to manoeuvre. While politicians might be able to paint the relationship between sovereign debt purchases and moral hazard with broad brushstrokes, central bankers want to retain these purchases as a policy tool.

Conclusion

In investigating the role of the relationship between ECB sovereign debt purchases and moral hazard in the discursive strategies of central bankers to legitimize their positions on UMP, we first studied how these central bankers understood the concept of moral hazard. We found evidence of a shared understanding of moral hazard as the danger to exceed an appropriate level of risk. However, central bankers appear to disagree on the expected empirical importance of moral hazard. Some were more confident in the capacity to control moral hazard than others. In particular, Bundesbank officials presented a greater pessimism than others and tended to present moral hazard as a necessary effect of mutualization, therefore favouring risk reduction over conditionality. We find this a noteworthy difference as to how moral hazard is understood between cases.

Second, our analysis showed that senior central bank officials demonstrated caution with regard to how they presented the relationship between ECB sovereign debt purchases and moral hazard. While avoiding moral hazard was presented as a shared principle, no officials in the three NCBs wielded the moral hazard concept directly to oppose the ECB's sovereign debt purchases. Interestingly, Bundesbank officials did not emphasize a necessary causal relationship between UMP more generally and moral hazard. Instead, officials in all four central banks emphasised that UMP had the potential to create moral hazard for governments and banks but did not necessarily do so. On this crucial issue, we detect the operation of an epistemic community and an effort to avoid delegitimising ECB monetary policymaking. The most noteworthy and surprising difference with regard to moral hazard used in the context of documents focused in part on UMP was quantitative. The Bundesbank and the Bank of France were far less likely to mention moral hazard than were the ECB and the Bank of Italy. This greater use by the ECB may suggest the perceived need to respond to widespread criticisms of UMP and concerns about its effects.

Overall, the empirical analysis provides evidence in favour of a professional consensus on moral hazard and its relationship to UMP (our first hypothesis): we conclude that avoiding moral hazard continues to be presented as a primary policy objective by EU central bankers and that the relationship between UMP and moral hazard is described as possible but noncausal in all cases (the second situation presented in page 2). Noteworthy differences as to how moral hazard is understood but not in relation to the UMP-moral hazard relationship indicates a 'strategic professional consensus'. Overall, top central bank officials were pragmatic and nuanced in the manner in which they publicly spoke of UMP, moral hazard, national fiscal policy and banking activities. This suggests the existence of an epistemic community which, to a certain extent, aligned its discourse on these topics, whether intentionally or not.

We therefore find differences in how central bankers from the four cases we examine understood the concept of moral hazard. One of the main differences relates to the expected empirical importance of moral hazard: some central bankers appeared more confident than others in the capacity of policymakers to avoid moral hazard. However, we also find that the four central banks aligned to a large degree on the importance attached to avoiding moral hazard and on how they present the relationship between UMP and moral hazard. Top officials of the four central banks acknowledged that UMP had the potential to create moral hazard for governments and commercial banks but did not necessarily do so. Above all, Bundesbank officials rarely commented on the link between UMP and moral hazard, and when they did, they noted how measures were being undertaken to prevent it.

This alignment does not mean that the Bundesbank was uncritical of the ECB's UMP, but the relationship between moral hazard and UMP was not firmly established in its discourse. For central bank officials, sovereign debt purchases may be necessary and justifiable in some circumstances. Therefore, establishing a causal link with moral hazard would be counterproductive and would restrict the ECB's ability to deploy UMP when appropriate. All four central banks maintained the Maastricht model with regard to the need to avoid moral hazard by not making it a necessary consequence of UMP. Indeed, by the time of the Covid crisis, the ECB refuted the relationship between moral hazard and government bond purchases. Further research could delve into specific criticisms of UMP to identify the relevance of strategic constructivism with regard to other concepts wielded by central bankers and government officials.

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NB. References for most central bankers' speeches and interviews are placed in the online appendix. See: <https://doi.org/10.1111/jcms.13614>

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Appendix:

Figure 1: Distribution of documents with moral hazard and UMP over time (2010-2022)

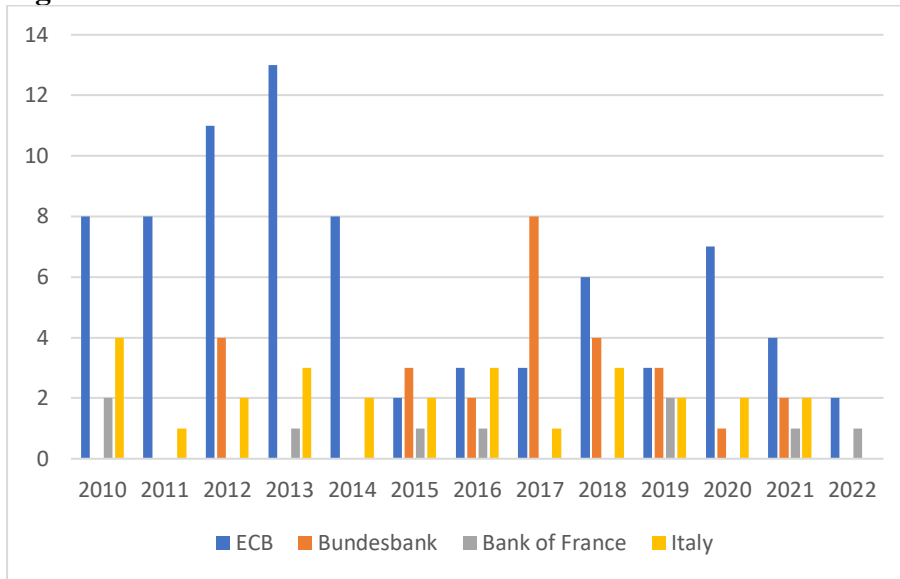
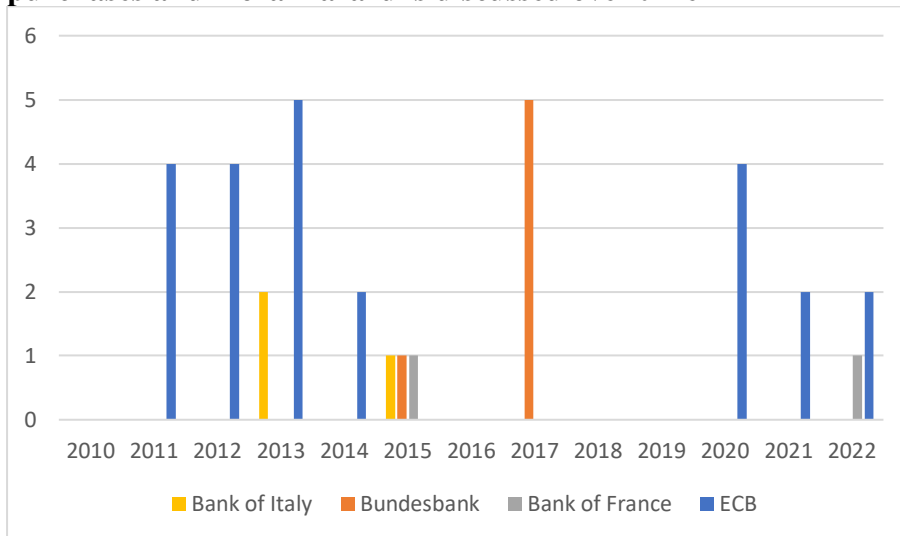


Figure 2: Distribution of documents where the relationship between sovereign debt purchases and moral hazard is discussed over time



How central bankers understand the concept of moral hazard: Semantic fields of moral hazard

Table 2: List of synonyms

	Bundesbank	Bank of France	Bank of Italy	ECB	Total
mutualisation of risks	24	1	0	0	25
excessive risk taking	6	1	2	3	12
Credit misallocation	6	0	0	0	6
Excessive or highly indebted	6	0	0	0	6
wrong / false incentives	3	0	0	2	5
mispricing	2	0	0	0	2
irresponsible behaviour	0	1	0	1	2
fewer incentives	1	0	0	1	2
communitarisation	2	0	0	0	2
lender of last resort	2	0	0	0	2
Weak or flexible rules	2	0	0	0	2
the too-big-to-fail problem	0	0	1	1	2
bad incentives	0	0	0	2	2
the fiscal free lunch	0	0	1	0	1
abuses	0	0	1	0	1
fraud	0	0	1	0	1
information asymmetries	0	0	0	1	1
the lender of first resort	0	0	0	1	1
malpractice	0	0	1	0	1
Fehlverhalten (misconduct)	0	0	0	1	1
Fehlanreize (disincentives)	3	0	0	1	1
adverse incentives	0	0	0	1	1
misaligned incentives	0	0	0	1	1
the hunt for yield	0	0	0	1	1
reduced market discipline	0	1	0	0	1
adverse effects for financial stability	0	1	0	0	1
N = Documents	26	9	27	78	140

Table 3: List of antonyms*

	Bundesbank	Bank of France	Bank of Italy	ECB	Total
appropriate incentives	1	1	0	1	3
Responsibility and ownership / 'skin in the game'	11	0	0	1	11
fiscal discipline	5	0	0	1	6
market discipline	8	1	0	0	9
Compliance with rules	4	1	0	0	5
Incentives to reform	1	1	0	0	2
Limit liability	2	0	0	0	2

Financial soundness	1	0	0	0	1
constraining reform contracts <i>contrats de réforme contraignants</i>	0	1	0	0	1
N = Documents	26	9	27	78	140

*The numbers indicate the frequency of coded segments.

1.2 multi-dimensional coding

Table 4: What it is

	Buba	BofF	BofI	ECB	Total
When discipline is undermined	5	1	0	2	6
To take excessive risks	4	1	0	1	6
To create incentives for irresponsible behaviour	0	3	0	2	5
To incite excessive risk-taking	0	1	0	3	4
To create bad incentives	0	2	0	2	4
To reduce incentives for due diligence	1	1	0	1	3
To defer something necessary	0	0	0	2	2
To reduce incentives for something necessary	0	0	0	2	2
To ignore something necessary	0	0	0	2	2
To count on help from others to persevere in the bad policies	1	0	1	0	2
The risk of encouraging opportunistic behaviour	0	1	0	1	2
When the public sector backstops private risk-taking	0	1	0	1	2
To invest without knowing that I may lose everything	0	0	1	0	1
To induce actors to relax their efforts	0	0	1	0	1
To take risks when feeling sheltered from the risk of failure	0	0	1	0	1
To forget about something necessary	0	0	0	1	1
When someone becomes permanently dependent on someone else	0	0	0	1	1
When someone else becomes the lender of first resort	0	0	0	1	1
When someone does something undesirable	0	0	0	1	1
To create incentives for misconduct	0	0	0	1	1
When treatments are independent of the actual situation	0	0	0	1	1
The 'originate to distribute' model	0	0	0	1	1
Taking the benefit from someone else's actions	0	0	0	1	1
N = Documents	26	9	27	78	140

Table 5: What causes it

	Buba	BoFF	Bank of Italy	ECB	Total
Public intervention					
Non-standard measures	0	3	0	1	4
Outright Monetary Transactions	0	0	1	4	5
Expansion of balance sheets	0	0	0	4	4
The public bonds purchase programme	1	1	1	0	3
Full sharing of the purchase programme	0	0	1	0	1
Trying to influence bond yields	0	0	0	1	1
sovereign QE	0	0	0	1	1
Insurance	1	1	1	5	6
Support countries with irresponsible behaviours	0	2	0	1	3
Coming to the aid of fiscal authorities	0	1	0	1	2
Liquidity support	0	0	0	1	1
Support mechanisms	0	1	0	1	1
Lender of Last Resort and mutualization of liability	7	1	1	2	11
The institutional design of the euro area	7	0	0	1	8
Expectation of public intervention in bad times	0	6	1	0	7
Euro area fiscal capacity	0	2	0	4	6
The expectation of bailouts	3	1	0	2	6
Expectation of a 'central bank put'	3	1	1	0	5
Central bank crises measures	2	1	0	1	5
Strong accommodative central bank intervention	1	2	0	1	5
Expectation of support in bad times	1	3	0	1	5
Implicit public guarantees	3	0	1	0	4
Bailouts	0	0	0	2	2
Assigning financial stability as an explicit objective to MP	0	1	1	0	2
Any type of intervention	0	1	0	1	2
The risk of confusion of authorities' roles	0	1	0	1	2
Actions that eliminate pressure from the markets	0	1	0	1	2
'Market makers of last resort'	0	0	1	0	1
Public money	0	0	1	0	1
A form of fiscal union	0	0	1	0	1
Some monetary policies	0	0	0	1	1
Direct recapitalisations	0	0	0	1	1
Expectation of protection from tail events	0	0	0	1	1
Leaving measures in place for too long	0	0	0	1	1
Safety nets	0	0	0	1	1
A permanent crisis management institution	0	0	0	1	1
EFSF	0	0	0	1	1
Expansion of credit to banks at a time of banks' mismanagement	0	0	0	1	1

The monetary policy response to this crisis	0	0	0	1	1
To buy according to the outstanding debt	0	0	0	1	1
Role for third parties in STS certification process	0	0	0	1	1
SRF	0	0	0	1	1
The asymmetry in the previous consensus view of monetary policy	0	0	0	1	1
Financial sector characteristics and activities					
The financial sector	20	2	1	0	23
Too-big-to-fail	8	0	5	1	14
(Large) financial sector counting on CBs support in bad times	1	1	0	2	4
Large banks	0	1	1	0	2
ABSs	0	0	0	1	1
An oversized financial industry	0	0	0	1	1
Large cross-border banks	0	0	0	1	1
Financial dominance	0	0	0	1	1
N = Documents	26	9	27	78	140

Table 6: What it does

	Buba	BofF	BofI	ECB	Total
It undermines stability					
It undermines financial stability	6	2	0	1	9
It leads to the accumulation of new imbalances	3	0	0	1	4
It can affect price stability	0	1	0	2	3
It creates financial stability concerns	0	2	0	1	3
It undermines long term stability	0	1	0	1	2
It makes disruption more likely	0	0	1	0	1
It makes liquidity buffers insufficient	0	0	0	1	1
It triggers financial turmoil	0	0	0	1	1
It (may) lead to excessive risk-taking					
It harms the economy and society	0	1	0	2	3
It feeds reckless behaviour	0	2	0	1	3
It undermines trust	0	1	1	0	2
It creates an unfair distribution of costs	0	1	0	1	2
Greek crisis/large budget deficits	1	0	0	1	2
Delegitimise and undermine the credibility of institutions	0	1	0	1	2
It creates systemic negative externalities	0	0	0	1	1
It delays the inevitable	0	0	0	1	1
It creates a trade-off between ex ante and ex post efficiency					
Blurs monetary and fiscal policy	1	0	0	0	1
N = Documents	26	9	27	78	140

Table 7: How to deal with it

	Buba	BofF	BofI	ECB	Total
Banking Union	1	0	0	1	2
Resolution	2	0	5	8	15
Regulation	3	0	2	6	11
Supervision	2	1	2	0	5
Conditionality	2	1	3	17	23
Risk reduction before risk sharing	13	0	0	1	14
Appropriate design	0	4	0	6	10
Appropriate / preventive safeguards	2	2	1	3	8
(Macro) Prudential framework	2	2	2	1	7
Fiscal reform	6	0	0	0	6
Market discipline	0	1	0	4	5
Financial sector reform	3	1	0	1	5
Not a reason for inaction	0	2	0	3	5
Sanctions & penalties	0	0	2	2	4
Partial insurance	0	1	1	1	3
Minimizing the financial involvement of taxpayers	2	0	1	0	3
Provide appropriate incentives	0	2	0	1	3
Ways to internalise postential costs	0	0	0	2	2
Discretion	0	1	0	1	2
Not underestimate it	0	1	0	1	2
Make difficult judgments	0	1	0	1	2
The threat of defaults	0	0	1	0	1
Do not allow State aid	0	0	1	0	1
Reduce systemic risk	0	0	1	0	1
Evaluate the balance of the benefits and possible costs	0	0	1	0	1
Equity	0	0	1	0	1
Strong political and regulatory pressure to fulfil commitments	0	0	1	0	1
Be aware that I can lose my investment	0	0	1	0	1
Respond symmetrically to pressures on price stability	0	0	0	1	1
Unwinding of UMP as conditions improve	0	0	0	1	1
Powerful incentives	0	0	0	1	1
Apply Bagehot principle	0	0	0	1	1
Do not use monetary policy for crisis resolution	0	0	0	1	1
Do not distract from need by other policy domains	0	0	0	1	1
Mitigating it	0	0	0	1	1
Disintermediation	0	0	0	1	1
Structural fix of vulnerabilities in the non-bank sector	0	0	0	1	1
Deal with it outside crisis times	0	0	0	1	1
Outright purchasing without loss-sharing	0	0	0	1	1
N = Documents	26	9	27	78	140

2. The discourse on and around moral hazard

2.1 Argumentation-oriented analysis and legitimation of positions

Table 8: Justification of UMP

	Bu ba	Bo fF	Bo fI	EC B	Tot al
A response to preserve the functionality of markets	0	1	3	1	5
A response to restore the monetary policy mechanism	0	2	3	0	5
A response to the severity of the crisis	0	3	0	2	5
The redistribution of risk is not a zero-sum game	0	1	0	3	4
A response to maintain price stability	0	1	0	2	3
A response to fears of currency redenomination	0	0	0	2	2
PEPP to counter the negative shock on the economy	0	1	0	1	2
OMT totally different from standard bail-out programs	0	1	1	0	2
Rational calculation of benefits and costs in favor of UMP	0	1	1	0	2
PEPP as a response to stabilise financial markets	0	1	0	1	2
Why PEPP is unconditional vs. OMT	0	0	0	1	1
A response to foster better credit conditions for borrowers	0	0	0	1	1
A response to foster economic recovery, reduce unemployment and help the most vulnerable part of the population	0	1	0	0	1
Changes perception of risk (warning against)	1	0	0	0	1
N = Documents	26	9	27	78	140

Table 9: In conformity with mandate / Treaty

	Buba	BofF	BoI	ECB	Total
Conformity with mandate / Treaty	1	2	4	24	31
N = Documents	26	9	27	78	140

Table 10: Cause-effect relationship between UMP and moral hazard

	Buba	BofF	BoI	ECB	Total
UMP more or less moral hazard	3	6	3	3	12
UMP not equal moral hazard	0	0	2	2	4
UMP equal moral hazard	1	0	0	1	1
N = Documents	26	9	27	78	140

Table 11: moral hazard at the heart of a trade-off

	Buba	BofF	BofI	ECB	Total
Between moral hazard and stability	0	5	3	3	11
Between moral hazard and solvency problems	0	1	0	1	2

Between moral hazard and disruptive deleveraging processes	0	0	0	1	1
Between short term stability and long term instability	1	0	0	1	2
N = Documents	26	9	27	78	140

Table 12: What is described as consensual?

	Buba	BofF	BoI	ECB	Total
Avoiding / addressing / reducing / discouraging moral hazard	3	1	4	1	5
The bail-in principle	1	0	1	1	2
Protecting taxpayers' money	0	0	0	1	1
moral hazard associated with bailouts	1	0	0	1	1
The pandemic recovery fund	0	0	0	1	1
The fact that capital markets should be more developed	0	0	1	0	1
The need for fiscal discipline	0	1	0	0	0
N = Documents	26	9	27	78	140

Table 13. Main discursive strategies around moral hazard to legitimise positions on ECB sovereign debt purchases

Common strategies			
Accept UMP as a potential — but not necessary — source of moral hazard; Ascribe positive attributes to the ECB			
ECB	Bundesbank	Bank of France	Bank of Italy
<ul style="list-style-type: none"> • Conformity with the ECB's mandate and Treaty provisions. • Benefits of the redistribution of risks and price stability • A way to safeguard ECB independence • Need for a unified European response • Danger of taxpayers unfairly bearing costs 	<ul style="list-style-type: none"> • Warnings about the possible buildup of additional risk in financial markets and risky behaviour by governments • Ascribe positive attributes to central banks generally • Markets prone to misperceptions and moral hazard 	<ul style="list-style-type: none"> • Conformity with the ECB's mandate and Treaty provisions • Appropriate response to the severity of the crisis, to restore the monetary policy mechanism and financial market stability • Need for a unified European response • Ascribe positive attributes to central banks generally • Support for the German proposal on 'reform contracts' 	<ul style="list-style-type: none"> • Conformity with the ECB's mandate and Treaty provisions • Functionality of markets and monetary policy mechanism • Involvement of taxpayers creates moral hazard • Need for a unified European response • Danger of taxpayers unfairly bearing costs • Ascribe positive attributes to central banks generally • Markets sometime unreliable judges • Germans fixated with moral hazard

Source: authors' own compilation

¹ The data was collected from July to October 2022. There is broad similarity in the speeches of and interviews with central bank governors / executive committee members on the central bank websites. The speeches / interviews were all meant for public consumption and were made to four different venue-types: international public institutions, private associations (e.g. bankers' associations), central bank organized conferences, and in an academic context. The interviews conducted were published in quality newspapers and news magazines or appeared on television or radio programmes (with transcripts provided). We detect no trend in the kind of information presented on UMP and moral hazard in the eight different venue- / media-types even though the immediate audience of the speeches differed. We also detect no noteworthy differences among the four central banks in terms of the venue of the speeches and the media where the interviews appeared.

² The following keywords were used to identify the topic of unconventional monetary policy: non-standard; unconventional; quantitative easing; QE; balance sheet ; asset purchase; bond purchase; sovereign debt purchase; public debt purchase; public sector purchase; securities markets programme; SMP; outright monetary transactions; OMT; pandemic emergency purchase programme; PEPP.

³ The fifteen ECB officials were: Asmussen, Bini Smaghi, Coeuré, Constâncio, de Guindos, Draghi, González-Paramo, Lautenschlager, Mersch, Papademos, Praet, Schnabel, Stark, Trichet, and Tumpel-Gugerell. Four of the ECB officials (Schnabel, Asmussen, Stark and Lautenschläger) were Germans. The speeches of / interviews with General Council members were not examined on the grounds that these officials do not speak on Eurosystem matters. The six Bundesbank officials were: Dombret, Weber, Weidmann, Buch, Zeitler and Nagel. 2 statements attributed to the 'Deutsche Bundesbank'. For the Bank of France, the speeches of / interviews with the governors and deputy governors of the period were examined, with notably Noyer and Villeroy de Galhau speaking on UMP. The nine Bank of Italy officials were: Barbagallo, Draghi, Gobbi, Passacantando, Perrazzelli, Rossi, Sannucci, Signorini, and Visco.