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The (self-)empowerment of the European Central Bank during the sovereign debt crisis

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ABSTRACT

The European Central Bank (ECB) emerged from the sovereign debt crisis as one of the most powerful supranational institutions. Against this background, this article explains how and why the ECB became empowered during the euro area crisis. Building on the delegation, governor's dilemma, and epistemic community approaches, we argue that the ECB ability to play a strong role in this empowerment process and to convince member states to entrust it with more competences was the outcome of a combination of three factors: limited cohesiveness within the collective principal (Eurogroup); a fiduciary relationship characterized by broad discretion and independence on the trustee side (ECB); and strong specialization with the ECB acting as epistemic entrepreneur. We illustrate our argument with two cases: the Trichet letters exemplify an autonomous emergency empowerment and the introduction of the single supervisory mechanism demonstrates ECB influence on institutional design decisions in negotiating processes.

KEYWORDS

European Central Bank; principal-agent theory; self-empowerment; fiduciary relations; euro crisis

1. Introduction

Existing studies widely agree that the European Central Bank (ECB) played a very strong role during the sovereign debt crisis, the Bank coming out of it with hugely enhanced powers. Students of European integration, however, seem to disagree about the label or analytical concept to apply to this role. While Matthijs and Blyth (2015) consider that the move of supranational institutions from their technocratic domain towards more political action led to the politicization of European decision-making, Kreuder-Sonnen (2016) underlines the (anti-) constitutional dimension of this change. Several scholars emphasize that the ECB was 'an anchor of stability and confidence' (Torres 2013, 287), which acted as a policy entrepreneur and 'guardian' of the common currency (De Grauwe 2011; De Rynck 2014), performing extremely well in providing leadership (Nielsen and Smeets 2017; Verdun 2017) throughout the euro crisis. As a result, scholars consider that the ECB emerged from the financial crisis as one of the most powerful supranational institutions to date (Curtin 2017; Schimmelfennig 2018) – which was transformed into the 'world's first supranational bank supervisor' (Gren, Howarth, and Quaglia et al. 2015, 197) – and which

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had been able to disperse 'more risks effectively than previously envisaged' (Schelkle 2017, 330). Despite growing interest in several aspects of the ECB's power, accountability, and legitimacy (Braun 2017; Collignon and Diessner 2016; Howarth and Quaglia 2016), scholars have yet to explain how the ECB itself had a strong role in this empowerment process.

Against this backdrop, this article investigates how the ECB became empowered following the outbreak of the sovereign debt crisis. To explain this massive transformation, we introduce the term self-empowerment. By *self-empowerment* we mean the ability of supranational institutions to broaden the scope of their decision-making authority (tasks and issues), to expand their material capabilities (budget and staff), and to exert influence on institutional design decisions during negotiations with member states. The ECB itself played a strong role in this empowerment, hence 'self.' This process of self-empowerment can work only if two conditions are fulfilled. First, self-empowerment required at least some governments to support the actions of the central bank. Second, the ECB's epistemic authority enabled it to convince governments to entrust it with additional resources and power. Whereas in 2010 the ECB had a total staff of 1,765, this number tripled over the following six years, reaching a peak of 3,171 permanent and temporary personnel in 2016. The same is true for its budget, which increased from 415 million euros in 2010 to 965 million euros in 2016 (European Central Bank 2010, 2016).[1] The ECB's original mandate was confined to price stability. However, the role of the ECB within the European troika and the establishment of the European banking union widened the central bank's tasks and scope without formal treaty changes during the crisis. Together, these increasing material resources and new competences enormously empowered the ECB.

Drawing on the delegation, governor's dilemma, and epistemic community literature, we argue that the (self)-empowerment of the Bank was the outcome of three elements in combination: the low internal cohesiveness of member states, a trustee-beneficiary relationship, and strong specialization. Low internal cohesiveness within euro member states allowed the ECB to autonomously widen the scope of its power. A fiduciary relationship – which confers a high degree of independence and discretion on the ECB with corresponding low oversight and few credible sanction mechanisms – enabled a massive increase in the Bank's power since the beginning of the euro crisis. This empowerment of the Bank was possible because a highly specialized trustee played a central role as epistemic entrepreneur and was able to shape how the collective principal (Eurogroup) thought about monetary and financial issues. This is in line with the governor's dilemma approach, a dilemma that results from the trade-off between the transfer of competences to the trustee (the ECB) and the principal's ability to control the trustee in the post-delegation stage. To illustrate this argument, we investigate two cases during the euro crisis. First, the secret letters from ECB president Trichet with explicit policy demands to euro area governments exemplify an autonomous emergency empowerment facilitated by the crisis situation (see also Kreuder-Sonnen 2019). The second case focuses on the establishment of the Single Supervisory Mechanism (SSM) by which member states empowered the ECB to conduct banking supervision. The SSM case gives us an account of a supranational institution's influence on institutional design decisions during negotiations with member states (see also Johnson 2014). The ECB, together with the European Commission, used this opportunity and adopted a more proactive role by centralizing power and implementing new rules at the European level. These two cases stand for the ability of the ECB to use the changed external conditions of urgency and uncertainty to re-interpret its mandate (in the case of the Trichet letters) and to widen the scope of its tasks and action by adding banking supervision to its authority portfolio (in the case of the banking union). This extension of power enabled the ECB to increase its capabilities extraordinarily by hiring over 900 new staff. The empowerment of the ECB by member states to conduct banking supervision and Trichet's decision to re-interpret the ECB's mandate are particularly puzzling.

Hitherto, scholars have focused predominantly on intergovernmental preferences, leadership, spillover processes, and the role of ideas to explain the role of the ECB during the euro crisis (Howarth and Quaglia 2016; Jones 2013; Nielsen and Smeets 2017; Skuodis 2018). Intergovernmental studies investigate national government preferences on the banking union and explain the outcome of the SSM as a consequence of unbalanced preferences (Howarth and Quaglia 2016). Jones, Kelemen, and Meunier (2015) argue that these intergovernmental bargains lead to incompleteness because outcomes reflect the lowest common denominator. By contrast, neo-functionalist scholars show how integrative pressure from supranational institutions, transnational interest groups, and markets result in functional spill-overs and powerful 'reproduction mechanisms' of institutional stability (Glöckler, Lindner, and Salines et al. 2017; Niemann and Ioannou 2015). Schimmelfennig (2014), in turn, examines how path dependency, endogenous preference change and functional spillover led to successful management of the euro crisis. Leadership-centred studies draw our attention to the ECB's pivotal role under the presidencies of Trichet and Draghi, who managed to take the lead in inducing followers (Eurogroup member states, ECB's Governing Council) to solve the sovereign debt crisis (Verdun 2017). In addition, Schulz (2017) examines how the positive beliefs of central bankers influenced their policy choices. Finally, Mabbett and Schelkle (2019) and Braun (2016) show that the ECB unsuccessfully opposed empowerment, having to do the 'dirty' work for euro area governments, namely recapitalizing banks via the ECB balance sheet instead of governmental budgets.

We add to this literature by investigating how the ECB became empowered in the course of the sovereign debt crisis. To this end, we study how the ECB itself, with its epistemic authority and the support of some member states played a central role in this empowerment process. This is why we use the term 'self-empowerment.' Empowerment, by contrast, focuses on the role played by governments in widening the competencies of supranational institutions (Heldt and Schmidtke 2017) and leaves less room for institutions themselves to play a proactive role. We examine documents issued by the European Commission, the European Council, the ECB, and articles from Agence Europe and newspapers. They include statements and speeches by the presidents of the ECB – Mario Draghi and Jean-Claude Trichet – in press conferences, euro area summit documents, letters issued by the presidents of the ECB, and reports by the European Commission on the SSM. We also draw on six informal conversations with high ranking officials from the European Commission, the ECB, and national central banks, who agreed to talk with us only on condition that they would not be identified.[2] The research design is based on in-depth qualitative case studies to illustrate our argument on how the ECB became empowered.

The remainder of this paper is organized as follows. In the next section, we conceptualize and operationalize self-empowerment. In the third section, we delineate the theoretical framework to explain the empowerment process of the ECB. In the fourth, we illustrate our theoretical framework with two case studies: the secret letters of Trichet to heads of governments and the establishment of the SSM. The final section summarizes the main findings and provides avenues for further research.

2. Conceptualization and operationalization of self-empowerment

Delegation literature has extensively discussed why, how and with what consequences states have delegated power to European institutions (Conceição-Heldt 2010, 2013; Delreux and Adriaensen 2017; Heldt 2017; Pollack 1997, 2003; Tallberg 2000). Far fewer studies have conceptualized and operationalized the concept of the self-empowerment of supranational institutions (for an exception in the conceptualization of the empowerment of international organizations see Heldt and Schmidtke 2017). *Self-empowerment* refers to the ability of a supranational institution to broaden the scope of its decision-making authority (including its tasks and issues), to expand its material capabilities, and to exert influence on institutional design decisions for new organizations (see also Heldt and Schmidtke 2017; Johnson 2014). In contrast to other definitions available in the literature, self-empowerment presupposes that the supranational institution plays a strong role. Self-empowerment can happen only if two conditions are fulfilled. First, self-empowerment requires at least some member states to support the actions of the central bank. Second, the trustee's epistemic authority is of central importance, as it enabled the ECB to convince governments to entrust it with additional power. Supranational institutions are more likely to influence institutional design decisions where governments have trust in the expertise provided by the institution.

Self-empowerment is related to but distinct from concepts such as policy entrepreneurship, mission creep, or agency slack. Whereas mission creep means the systematic shifting of organizational activities away from original mandates (Einhorn 2001) and policy entrepreneurship refers to the ability of organizations to define issues and present proposals that can be accepted by member states (Pollack 1997), self-empowerment turns our attention to how changing external conditions increase urgency and uncertainty, creating the political room for the ECB to widen the scope of its action and material resources with the tacit consent of its masters – without a formal treaty change – and to exert influence on institutional design decisions for new organizations. This term is also distinct from agency slack, which describes a situation in which agents act in a way unintended by their principals (Conceição-Heldt 2013). In the context of the euro crisis, a majority of member states supported ECB action and trusted in the technical expertise of the trustee to solve the crisis; in such a situation, it is misleading to speak of slack. The theoretical assumptions about agency slack in the principal-agent literature draw our attention to the likelihood of agency slack occurring when the principals have deficient monitoring and sanctioning mechanisms and the agents' superior expertise and knowledge advantage (specialization) make it hard for principals to find out whether agents are acting in or against their interests, not least because these interests are also influenced by agents' assessments (epistemic entrepreneurship). We complement this literature by looking at the positive side of giving trustees a wide range of discretion to interpret and widen their mandates. This is more in line with the governor's dilemma and the trade-off between transferring competences to trustees and controlling trustee action in the post-delegation stage (Abbott et al. 2018). The concept of self-empowerment allows us to characterize a subtle procedure and active role of trustees in the process of acquiring more influence and power (see also Johnson 2014). For example, Heldt and Schmidtke (2017) have described informal empowerment as a process by which new tasks are added to the portfolio of an international organization, the issue areas in which international organizations' tasks are performed are extended, and financial and staff capabilities increased without changing the formal delegation contract. This is also true for the ECB, as the number and importance of the tasks delegated to the Bank increased, as did the scope and intrusiveness of issue areas in which it performs these tasks.

So far, the literature on measuring the extent of formal delegation to the ECB has focused mainly on two principal components of power: tasks and issue scope (Curtin 2017). The capabilities of the ECB to perform its tasks, together with its influence on institutional design decisions for new organizations, has received considerably less attention. In this contribution, we view financial and staff capabilities as a third component of ECB power. The number and types of *task* are a principal component of the authority transferred to the central bank. The delegation contract between principal and agent specifies the types of task the ECB is expected to fulfil – these might include monitoring compliance or distributing funds (see also Hawkins et al. 2006). *Scope* refers to the issue areas in which the ECB is allowed to operate. It may be limited to narrow, policy-specific issues, so that that it operates more generally within an entire issue area. By contrast, the scope of general-purpose organizations may extend to a variety of issue areas (Börzel 2005; Hooghe and Marks 2015). The concept of *capabilities*, in turn, adds to this literature by focusing on the financial and human resources available to the ECB (Heldt and Schmidtke 2017). Regardless of what specific tasks are delegated to an institution, staff and financial resources are central components that give power to it. Without these basic resources, the ECB cannot act. In other words, empowerment requires power to be delegated under a treaty that stipulates the tasks, scope, and capabilities of the ECB. Self-empowerment, in addition, requires the trustee to play a proactive role in this process, for example by exerting influence on institutional design decisions.

In the next section, we present our theoretical framework that allows us to explain how the empowerment process of the ECB happened without formal amendment of the treaties.

3. Explaining the ECB (self)-empowerment process

Drawing on the delegation, governor's dilemma, and epistemic literature, we make a first attempt to assess the extent to which the ECB played a strong role in the process of its empowerment during the euro area crisis and thus exerted influence on institutional design decisions. What changed during this period were external conditions that increased urgency and uncertainty. In such a situation, control over trustee action became secondary, epistemic entrepreneurship and a strong role of the ECB were seen as crucial to save the common currency. We examine how a combination of three interrelated factors – a fiduciary relationship, strong specialization, and limited cohesiveness among euro area member states – enabled empowerment of the ECB.

While the delegation and the governor's dilemma literature allows us to theorize a new fiduciary relationship and to examine the trade-off between competence and control, the epistemic community literature helps us open the black box of trustee motivations.

3.1. Principals-trustee-beneficiary relationship

The relationship between the ECB and euro area states corresponds to a fiduciary transfer of authority (Alter 2006; Majone 2001). In fiduciary delegation relations, the goal is to convince third parties that their interests are being protected (Alter 2008). The collective principal (Council of the EU; Eurogroup) empowers the trustee (ECB) to perform specified tasks on its behalf by giving trustees considerable discretion in fulfilling their mandates. One of central trustees' duties is to avoid enacting the will of those who have empowered them (Grant and Keohane 2005).

In this piece, we conceive member states as principals, the ECB as trustee, and European citizens as beneficiaries. In this fiduciary relationship with three different types of actors (principals-trustee-beneficiaries), member states expressed their will when they delegated authority to the ECB and bound themselves to a particular institutional structure and policy goal. The will of principals at t = 1 was protected against their will at t = 2 in the name of a higher rationality of will (Elster 1984, 2000), namely saving the common currency as the cornerstone of the European integration process. The same is true for the ECB, whose original mandate was confined to price stability. As suggested by De Grauwe (2012), the ECB mandate is vague in affording the ECB a degree of goal independence (as opposed to the common operational independence). This shows an original desire for self-limitation. At the same time, the ECB mandate is protected by the difficulty of amending the European treaties, which also sets the ECB apart from other central banks.

The delegation of authority to trustees has three components. *First*, trustees are selected (and empowered) because principals expect them to act according to their personal reputation and professional norms, which brings their own sources of authority and legitimacy to bear rather than the concerns of single principals within the collective principal. *Second*, trustees are granted independent authority to make decisions according to their best judgement or professional criteria. *Third*, trustees are empowered to act on behalf of their beneficiaries, the European citizens (Alter 2008, 39–40). Hence, a trustee is charged with a 'duty of care' – in this case, the ECB's responsibility for the common currency.

The transfer of authority in a fiduciary relationship is characterized by a high degree of independence, a vague delegation mandate, few control mechanisms, and practically no sanction mechanisms in the event of dissatisfaction with trustee performance. A vague delegation mandate is discretion-based in the sense that principals merely define their goals but do not specify what action trustees must take to fulfil their assigned mandate (Hawkins et al. 2006). Fiduciary relations thus entail a high degree of discretion, as principals are not supposed to influence central bankers, whose authority arises from their specialized knowledge (Alter 2008). In short, the ability of member states to control their trustees is secondary, as principals trust in the technical expertise, knowledge, and impartiality of central bankers.

This is in line with the governor's dilemma approach that draws our attention to the fact that no policy maker or ruler has the capability to govern alone. The governor's dilemma results from the trade-off between competence and control. The principal can maximize either competence or control, but not both. Competent agents are difficult to control because their superior expertise and knowledge gives them leverage over principals. Control by principals impedes trustee competence by constraining the exercise of trustee capabilities. The dilemma is that if principals emphasize control, they limit trustee competence and risk policy failure. By contrast, if beneficiaries emphasize competence, this provides opportunistic agents freedom to manoeuvre and risks control failure (Abbott et al. 2018). If the delegation design in itself gives trustees a high degree of discretion and specialization, the control dimension is relegated to the back seat. We now turn to the specialization factor and how it empowers trustees.

3.2. Strong specialization

The delegation of authority to central banks leads to strong specialization and dependence of principals with respect to the knowledge provided by trustees. This comes, however, with several caveats, as states are sometimes unable to judge whether a central bank has empowered itself deliberately because they lack the technical knowledge to evaluate trustee action. Strong specialization is thus an important dimension in explaining how the ECB managed to play a strong role and exert influence during negotiations on institutional design decisions for new organizations. Trustee opportunism is one of the central challenges after authority has been transferred. Trustees are vested with a high degree of discretion and independence to fulfil their mandates without interference from single principals. The uniqueness of the sovereign debt crisis, due to the urgency, uncertainty and timing of crisis decisions, makes it particularly difficult to judge whether the trustee oversteps its mandate or not. This raises the question whether strong specialization, together with the vagueness of the mandate, can lead to self-empowerment. Are trustees opportunistic actors, or 'self-interest seeking with guile' (Williamson 1985, 30)? The existing 'myth of bureaucratic impartiality' (Adolph 2013, 10) of central bankers has hindered scholarship so far from opening the black box of their motivations. The ECB can have material and non-material motivations for seeking to widen its power. Whilst material motivations involve increasing the scope of their action, tasks and capabilities, non-material motivations mean the intrinsic motivation to do a good job, technocratic rewards, or policy preferences (see Adolph 2013). The unique constellation of a strong specialization – allied with the ability to issue reserves – can in emergency situations enable trustees to use their knowledge advantage and act as epistemic entrepreneurs to empower themselves.[3] However, in exceptional circumstances, it could also be that there is no alternative to widening the mandate of a supranational institution, and clever manoeuvring might play a secondary role.

By transferring authority to a third party, member states transfer responsibility to an epistemic community consisting primarily of a group of professionals (economists) sharing the same ideas on the public good (common currency) (see also Haas 1992). This epistemic community is in charge of securing the survival and the irreversibility of the common currency. The original mandate of the ECB, the central task of maintaining price stability, gives the trustee a wide range of discretion to take any conceivable measures to save the common currency. This explains Draghi's announcement that the ECB would be 'ready to do whatever it takes to preserve the euro' (Draghi 2012b). In addition, the broad scope of the enabling clause of Art. 127(6) TFEU gives the ECB the power to take 'specific tasks relating to prudential supervision' that can be all-encompassing.

Epistemic communities have superior expertise and a knowledge advantage allowing them to justify the expansion of their tasks, issue scope into new policy areas, and to exert influence on institutional design decisions for new organizations. We add to this literature by looking specifically at how strong specialization – together with fiduciary relations and divergence of preferences among principals – gives the ECB a preponderate role and unique expertise as entrepreneur in monetary and financial issues, making self-empowerment more likely. Put simply, the greater the specialization and uniqueness of the expertise, the greater will be the opportunity for trustees to play a proactive role in the empowerment process. However, specialization and epistemic entrepreneurship require support from at least some members states. Disunity between member states on such topics of great importance is a necessary condition for explaining how the ECB became empowered during the sovereign debt crisis.

3.3. Principals' degree of cohesiveness

If member states have difficulty reaching a common position and then present it to the trustee in disunity, the latter is more likely to act opportunistically by widening its competences. Limited cohesiveness creates scope for the trustee to increase its autonomy and is more likely to lead to self-empowerment.

Greater preference heterogeneity might affect ECB attempts to increase its power in three different ways. First, it might lead to distributional conflict within the collective principal with different governments preferring different policy outcomes and the ECB positioning itself on the side of the principals that favour transferring more competences to the supranational level. For example, countries such as France are more likely to favour SSM with extensive powers to the ECB, while countries such as Germany with a more diverse national banking system are more likely to be opposed to this outcome on grounds of moral hazard (Copelovitch 2010; Howarth and Quaglia 2016). Countries with a high debt burden, in turn, are more likely to oppose extensive conditionality rules in bailout programs, and those with low debt and high creditworthiness are more likely to support extensive conditionality rules. Depending on how pivotal euro area countries, such as Germany and France, position themselves, preference heterogeneity should result in an expansion of ECB competences.

Disunity among euro area countries may allow the ECB to use this internal division strategically to maximize its power. The ECB can, for example, argue that its superior expertise and knowledge advantage through in-house knowledge of monetary and supervisory mechanisms (see also Copelovitch 2010, 58) makes it the ideal and competent institution to take the lead on new banking supervision issues. At the same time, member states can also point to the unique expertise of the ECB and the lack of alternatives to banking supervision by institutions other than the central bank. In such a situation, it is not clever manoeuvring by the trustee that is of crucial importance but the reference by principals to TINA. By the same token, the degree of principals' cohesiveness can change over time and across issue areas. For instance, political coalitions among member states with similar preferences can vary according to whether they pertain to monetary policy or to financial regulatory and supervisory issues. In short, self-empowerment depends not only on the degree of disunity among pivotal euro area countries but also on the fiduciary relationship and strong trustee specialization. Taken together, this reasoning leads us to the following proposition:

> *A fiduciary relationship, combined with a strong specialization and limited cohesiveness within the collective principal in a context of changed external conditions is more likely to enable the empowerment of the ECB.*

4. Self-empowerment in practice

This section spells out how a combination of factors enabled the empowerment of the ECB following the outbreak of the sovereign debt crisis. We investigate two specific cases: the Trichet letters as an exercise of autonomous emergency empowerment facilitated by the crisis situation; and the creation of the SSM as an instance of supranational bureaucrats' influence on institutional design decisions for new organizations.

4.1. Trichet's letters to euro area governments

At the outset of the sovereign debt crisis, some members of the euro area were unable to pay their debts because interest rates on governments bonds had risen enormously and impaired their access to capital markets. To solve the crisis, euro area states agreed on extensive bailout programmes that included financial aid as well as strict reform packages. The troika – the European Commission, the International Monetary Fund, and the ECB – supervised the implementation of these programmes.

The ECB's expertise allowed it to be part of the troika and to act as lender of last resort. The central bank used its new powers to position itself as the 'ultimate manager of financial stability' (Brunnermeier et al. 2016, 337) in the euro area. The ECB had the authority and the instruments to decide on individual countries' financial viability, as a decision by the ECB to stop providing liquidity would have automatically hindered banks from transferring funds and would have sealed their financial system off from the rest of the euro area (Brunnermeier et al. 2016). The president of the ECB at the time, Jean-Claude Trichet, used this window of opportunity to demand greater budgetary austerity as one of the conditions for the Securities Markets Programme for Ireland, Italy, and Spain.[4]

Hence, Trichet was able to exert influence by using ECB power as lender of last resort to explicitly linking financial aid to austerity measures (Braun 2017, 16), including structural and financial sector reforms, that stretched the scope of the ECB monetary policy mandate. In the Irish case, Trichet argued that 'the extraordinarily large provision of liquidity by the Eurosystem to Irish banks' (Trichet 2010b) would require structural and financial reforms (Trichet 2010a). In the event of non-compliance with these demands, the ECB would not provide further financial assistance to Irish banks. The same applies for Spain and Italy, where Trichet urged both countries to significantly reform the labour market and increase competition in the energy and service sectors (Trichet 2011a, 2011b). Hence, the selective use of its lender of last resort powers enabled the ECB to detail conditions of lending – including letting the ECB potentially refuse to purchase the bonds of certain countries and thereby drive up their yields. This exemplifies that international bureaucrats working in pre-existing institutions take a proactive role, exerting extensive influence when it comes to interpreting their tasks (see also Johnson 2014).

A high degree of discretion conferred on the trustee by the collective principal, allied with the ECB's expertise on monetary policy, helps us to explain how the autonomous emergency empowerment of the ECB was facilitated by the crisis situation. Recurring to what was stipulated in the EFSF/ESM programmes, the ECB used its expert knowledge within the Troika to widen its power. A fiduciary relationship and strong specialization are necessary but not sufficient conditions for self-empowerment. Equally important was the limited cohesiveness of euro area states. While a group of countries – Portugal, Ireland, Italy, Greece, and Spain – with high debt and extremely high yields on government bonds supported the communalization of debts and a lax austerity policy to overcome the crisis, a second group – Finland, Austria and the Netherlands – under pivotal German leadership with low debt and high creditworthiness called for rigorous austerity measures and refused to be bound by assistance obligations (Pisani-Ferry 2010; Schimmelfennig 2014). Germany and France indirectly supported the demands of the ECB for reforms by crisis-hit countries. Chancellor Merkel and President Sarkozy agreed at a summit in Paris that euro area members should within a year introduce a balanced budget rule to reduce debt, but opposed the communalization of debts (Agence Europe 2011).

The case of the Trichet letters illustrates how a combination of factors – trustee-beneficiary relations, a high degree of specialization, and disunity among pivotal euro area states – facilitated autonomous emergency empowerment.

4.2. The single supervisory mechanism and the banking union

In the summer of 2012, the euro crisis reached a peak when Spain – the fourth largest economy of the euro area – sought financial assistance to bail out its banking sector. This new context marked the beginning of negotiations on the European banking union. Although there were differences among euro area member states regarding the extent of the Europeanization of banking supervision, they agreed at an emergency summit that direct bank recapitalization would be possible only in exchange for banking supervision under the aegis of the ECB (Euro Area Summit Statement 2012). Days before the summit, the presidents of the European institutions publicly supported a 'single European banking supervision and a common deposit insurance and a resolution framework' under the aegis of the ECB by fully exploring Article 127(6) TFEU (Van Rompuy 2012, 4).

Following presentation by the European Commission of a set of legislative proposals in September 2012 for the establishment of the SSM (European Commission 2012), the main controversial issue about the role of the central bank was the scope of direct ECB supervision. With the support of the European Commission, the ECB took the lead on this issue by endorsing the Commission's proposal regardless of the size of the banks concerned. In public speeches, Draghi showed a clear preference for direct supervision of all banks with the argument of ensuring a level playing field (Howarth and Quaglia 2016, 94). Before the official beginning of SSM negotiations, Draghi and members of the Executive Board had repeatedly criticized 'suboptimal' national crisis management (Draghi 2012c) pleading instead for 'a system of European rules' (Draghi 2012a). Coeuré argued that a successful monetary policy required 'an integrated banking system [. . .] supervised across the euro area as a whole' (Cœuré 2012) to break the feedback loop between banks and their sovereigns.

During the intergovernmental negotiations on the SSM, weak internal cohesiveness in euro area member states allowed the ECB to widen the scope of its tasks on banking supervision. France, the Netherlands, and Italy supported the proposal of the Commission for the ECB to supervise all 6,000 euro area banks because they feared unfair treatment and stricter standards for their system-relevant banks (Howarth and Quaglia 2016: 92, 100). While another group of countries – including Germany, Austria, Belgium and Finland – preferred ECB supervision only for system-relevant banks (Barkin and Askew 2012). This group of countries questioned the ECB's ability 'to handle the supervision of so many banks without a massive transfer of resources' (Howarth and Quaglia 2016, 92–93).

In fiduciary relations terms, the enabling clause of Art. 127(6) TFEU help us explain the empowerment of the ECB on banking supervision. The vague reference to 'specific tasks' made the transfer of competences covering all or certain aspects of prudential supervision possible. This 'Lamfalussy clause' was the important feature within the vague delegation mandate that gave the Bank as trustee extensive discretion. Draghi referred to the need to supervise all banks at the European level to prevent fragmentation and spillover effects (Agence Europe 2013b). Even though Draghi's political leadership (Verdun 2017) was of crucial importance, we consider that the ECB was able to use the political space created by the urgent and uncertain external conditions to present itself as the central epistemic entrepreneur with the required technical expertise to effectively supervise the euro area banking sector. Draghi pointed out that 'better supervision would facilitate monetary policy' and 'the ECB had healthy fundamentals and the green light from European Commission [...] for its new powers' (Agence Europe 2012a). Draghi also sought to minimize concern about the impact of this shift in the independence of the ECB by referring to some national central banks that also partially exercise banking supervision. At the same time, Draghi praised the transfer of banking supervision to the ECB as the only way to correct the current deficiencies of the banking supervision system, including the ability of national central banks to withhold crucial information – e.g. the value of collateral debt – from the ECB (Brunnermeier et al. 2016, 370). Informal conversations with ECB officials confirm that at the beginning the ECB was rather reluctant to take this new competence into its portfolio. According to these sources, there were several internal discussions on the caveats of banking supervision, in particular in relation to the independence of the ECB (Interviews with ECB officials #5 and #6). This situation then changed when the European Commission supported the transfer of banking supervision to the ECB and member states considered that there was no alternative to giving supervision to the central bank (interview with former Commission Official #1).

Supervision provided for a 'differentiated' approach, in the sense that the ECB would exercise new bank supervision competences together with national supervisory authorities. On the whole, this compromise agreement gave the ECB the power to supervise directly 128 banks holding 85 per cent of the euro area bank assets (Henning 2017, 48). This agreement also gave the ECB the right to step in if necessary (European Central Bank 2017) and supervise any of the 6,000 banks of the euro area in case of financial difficulties related to the restructuring or closure of banks (Howarth and Quaglia 2016, 93). After the agreement on the SSM, the ECB immediately called for a Single Resolution Mechanism and a Single Resolution Fund to complete the banking union (Agence Europe 2012b, 2013a; Draghi 2013). The establishment of the SSM under the aegis of the ECB also resulted in a substantial increase in ECB capabilities with the recruitment of over 900 new banking supervision experts (European Central Bank 2018).

Hence, the intergovernmental negotiations on the establishment of the SSM illustrate how a combination of limited cohesiveness among euro area countries, strong central bank expertise allied with a high degree of discretion through the enabling clause and the strong influence of European central bankers in support of transferring these competences to the ECB empowered the central bank. Even though banking supervision was delegated to the ECB after intergovernmental negotiations, the central bank played a decisively influential role when it came to the specific institutional design of the banking supervision by pleading for the inclusion of all, both systemically and non-systemically relevant, banks. This finding supports and extends previous research (in particular Johnson 2014) on the central role played by international bureaucrats working in pre-existing institutions. To an important extent, supranational bureaucrats influence and alter institutional design decisions.

5. Conclusion

This piece investigates how the ECB became empowered during the sovereign debt crisis. We call this process self-empowerment because the ECB played a strong role in the process. We argue that self-empowerment was possible due to a combination of three interrelated factors: a fiduciary relationship characterized by strong discretion and independence of the central bank vis-à-vis member states; superior trustee expertise; and limited cohesiveness among euro area member states. To illustrate our argument, we selected two case studies: the Trichet letters as an exercise of autonomous emergency empowerment facilitated by the crisis situation; and the creation of the SSM as an instance of supranational bureaucrats' influence on institutional design decisions for new organizations. The central bank used the sovereign debt crisis situation to stretch its mandate (Mueller 2014), to expand its material capabilities, and to play a substantial, influential role in the institutional design of new institutions (e.g. the banking supervision).

These findings have important implications for our understanding of the role played by supranational bureaucrats in emergency situations. By highlighting the importance of combining delegation, governor's dilemma, and epistemic approaches for clarifying how the ECB became empowered during the sovereign debt crisis, this contribution complements intergovernmental, neo-functionalist, and leadership studies on the ECB during the crisis. This framework can be applied to other supranational institutions to explain similar empowerment processes. Adapting and expanding this framework to study the role of other supranational institutions in other crises situations – including the refugee crisis or the Brexit negotiations – might help us explain the conditions under which European institutions are more likely to play a decisive role and to emerge strengthened or weakened from emergency situations.

Finally, the findings of this article also have implications for the consequences of delegation to supranational institutions and the inherent implications of the trade-off between competence and control. One of the preeminent questions in current discussions is how supranational institutions can be made more accountable to increase the acceptance of their decisions, as the proactive and influential role of the ECB bolstered criticism of power without control and of the lack of transparency and secrecy in decision-making. Analysing the complex relationship between power, accountability, and legitimacy remains a challenging avenue for future research in European and global governance.

Notes

1. To be sure, in staff numbers alone, the ECB is still a relatively small bank compared with national central banks. For example, the *Deutsche Bundesbank* currently has a core staff of 9,965 (Deutsche Bundesbank 2017). An avenue for further research could be to ascertain whether an increase in ECB staff led to a decrease in the staff of national central banks during this period. We are grateful for an ECB official drawing our attention to this point.
2. The informal interviews took place in July 2017 in Munich, May 2018 in Berlin, and May 2019 in Denver. None of the opinions expressed in the conversations are attributed to a particular person. All interviews are therefore cited in chronological number.
3. Conversations with high ranked Commission and ECB officials confirm this assumption. For example, a former president of the European Commission stated that supranational institutions always try to widen their power (Interview with Commission Official #1 and ECB Official #2). In the case of the ECB, within some national central banks there were discussions that the ECB had used the crisis situation to overstep its mandate (Interview with representative from the Portuguese Central Bank #4).
4. Disunity also prevailed at the ECB regarding government bond buying programmes, culminating in the resignation of Axel Weber (President of the *Deutsche Bundesbank*) and Jürgen Stark (executive board member and ECB's chief economist). Afterwards, however, the central bank acted mostly unitarily.

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