Structure, agency, and structural reform: The case of the European Central Bank*

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Abstract

Monetary and financial integration has been shown to increase the pressure on states to liberalize social and labor market policies. If structures do not come with instruction sheets, how do monetary regime pressures translate into policy? Through a case study of the euro area, we show that central banks play an underappreciated role in this process. Using mixed methods to analyse a large amount of data, including the complete corpus of speeches, we trace the evolution of the European Central Bank's advocacy for structural reforms between 1999 and 2019. To explain the ECB's activism in a policy area outside of its mandate, we theorize the ECB as navigating a dilemma between governability and legitimacy. Handed a monetary regime under which flexible labor markets were seen as a condition for governability, the ECB saw no alternative to pushing governments on structural reforms, despite the reputational risks. The ECB ended its advocacy when increasing political backlash coincided with a structural regime shift from an inflationary to a deflationary environment.

Keywords: monetary integration, labor market policy, social protection, central bank power, euro area

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1. Introduction

Monetary regimes determine national policy space and shape governments' economic policies. The institution of central bank independence, which takes stimulating growth via demand-side policies largely off the table, has been shown to be associated with supply-side measures such as financial and labor market deregulation (Aklin & Kern, 2021). Similarly, the fixed-exchange rate regime established by Europe's Economic and Monetary Union (EMU), has put pressure on member states to liberalize labor policies, contain the power of organized labor, and decentralize their wage bargaining systems (Baccaro & Howell, 2017; Bulfone & Afonso, 2020; Rathgeb & Tassinari, 2022). While these regime effects have long been debated, little is known about central banks' own agency in translating and enforcing monetary regime pressures.

We examine this agency via a case study of the European Central Bank's role as a champion of 'structural reforms'. This role is surprising: The ECB does not have a mandate, nor the legal authority, to shape social and labor market policies at the member-state level. Explaining its structural reform activism therefore requires a theory that takes central banks' autonomous agency seriously. One candidate is constructivism, which has shown the power of ideas—notably of the "Brussels-Frankfurt consensus"—to shape European macroeconomic policy (Matthijs & Blyth, 2018; Matthijs & McNamara, 2015). Another candidate builds on organizational and reputational theories to suggest that central banks in general, and the ECB in particular, have become increasingly concerned about their legitimacy (Moschella & Pinto, 2019; Moschella et al., 2020). While both approaches capture important elements, the nature of the ECB is peculiar in that its autonomy is extraordinary, yet is, at the same time, heavily circumscribed by the functional pressures of the monetary regime of the euro, which in turn the ECB has the power to shape over time.

In order to understand the ECB's agency in this multi-layered, dynamic setting, we combine insights from historical institutionalism with a pragmatist theory of technocratic agency (Hall, 2010; Jabko, 2019; Jabko & Schmidt, 2021). We explain the ECB's structural reform activism as a strategic response to being charged with a mandate that was extremely difficult to fulfil. The ECB's priority was to establish and maintain governability in a heterogeneous, incomplete, monetary union. In pursuit of this goal it was willing to push the boundaries of its authority, even at the cost of damaging its legitimacy—in line with the idea that their independence empowers central bankers to disregard political demands on monetary policy (Goodman, 1992; McNamara, 2002). Our empirical analysis shows that from its inception in 1999 through 2014, the ECB tested this power by consistently advocating for—and at times even helping enforce—structural reforms in the areas of social and labor market policy. In spite of its treaty-guaranteed independence, however, the secondary goal of maintaining legitimacy with its political principals and the broader public imposed a constraint on how far the ECB could go in pushing for structural reforms. We document that the ECB fell silent on the topic from 2015 onward, and that, besides a shift in the macroeconomic environment, legitimacy concerns played a critical role. By the end of Mario Draghi's presidency, structural reforms had completely disappeared from the ECB's public discourse, despite the central bank's continued belief in their necessity.

Covering a two-decade period allows our case study to leverage a key insight of historical institutionalism—namely, that structures that impose constraints on actors in the short-term can be reshaped by those same actors in the long-term (Streeck, 2009). Central banks operate under infrastructural constraints imposed by their currency area's fiscal, financial, and labor market institutions. At the same time, these constraints on monetary governance are subject to institutional engineering by central banks themselves, as has been amply documented for financial market infrastructures (Braun, 2020; Wansleben, 2022). We show that the ECB sought to reshape labor market institutions, too, despite lacking formal authority in that policy area. In doing so, we shed light on the dynamic relationship between (technocratic) agency and (monetary) structure.

We also contribute to the wider literature on the diffusion of contested liberalizing reforms under conditions of economic globalization (Dobbin et al., 2007). Here, recent scholarship has shown that the International Monetary Fund (IMF) carved out a new role for itself in the 1980s by making its emergency lending conditional on governments implementing specific structural reforms, many of which aiming at labor market deregulation (Kaya & Reay, 2019; Kentikelenis & Babb, 2019; Reinsberg et al., 2019). While the IMF thus evolved into an enforcer of structural reforms in the Global South, the Organization for Economic Co-operation and Development (OECD) emerged as a translator of structural adjustment pressures in the Global North (Baccaro & Rei, 2007). The EU, in turn, discovered conditionality as a tool to encourage structural reforms in the context of its

Eastern enlargement in the early-2000s (Jacoby & Hopkin, 2020, p. 1162). Our analysis shows that central banks, too, can act as translators of monetary regime pressures and as enforcers of structural reforms.[1]

The paper proceeds as follows. Section 2 provides a brief historical overview of European monetary integration with regard to the money-labor nexus. Section 3 introduces our theory of why (motivation) and how (instruments) the ECB took such an active approach to a policy area outside of its formal mandate. Section 4 elaborates on the data and methodology that underpin the empirical analysis carried out in section 5, which traces the ECB's thinking about, and advocacy for, structural reforms from 1999 through 2019. We conclude by discussing the broader implications of our analysis.

2. Monetary integration and labor in Europe

The euro area was preceded by a series of monetary regimes. Following the demise of the interwar gold standard, the post-war Bretton Woods system of fixed but flexible exchange rates prioritized national policy autonomy over international capital mobility (Goodman, 1992; Ruggie, 1982). After the collapse of that system in the early 1970s, governments reinstated international capital mobility, thereby reducing national autonomy in social and macroeconomic policy (Scharpf, 1991). The European Monetary System (EMS)—in which national currencies were fixed but adjustable via politically negotiated re-alignments—had been devised to reconcile the structural differences between Northern hard currency regimes and Southern soft currency regimes (Höpner & Spielau, 2018). The EMS sought to combine moderate exchange rate stability, moderate capital mobility, and moderate national policy autonomy—a tenuous midpoint in Mundell's trilemma (Bordo & James, 2019, p. 250).[2]

The political economy of monetary integration changed radically with the Maastricht Treaty. The decision to create the euro removed the option of exchange rate devaluation for soft currency countries (Hall & Franzese, 1998; Pérez, 2002). At the same time, and unlike the EMS, the novel EMU regime contained no adjustment mechanism to reconcile

[1] Note that our argument does not imply that the ECB was "right" in advocating for reforms. Indeed, structural labor market reforms may well *exacerbate* problems arising from international economic integration (Baccini et al., 2022; Solow, 1998).

[2] Otmar Issing, then the ECB's chief economist, described the EMS as "a prime example of policymakers' refusal to succumb to (or failure to acknowledge) the unpleasant logic of the trilemma." See Issing, 2006.

the structural heterogeneity of its member states, which differed greatly in terms of national and sub-national institutions governing welfare, fiscal, and wage policy (Copelovitch et al., 2016; Hancké, 2013; Höpner & Lutter, 2018; Nölke, 2016; Regan, 2017). This heterogeneity risked undermining the effectiveness of the ECB's one-size-fits-all monetary policy from the very beginning (Vermeiren, 2017).

How, then, could monetary governability be fostered in the run-up to the euro? There were two functionally equivalent solutions to the problem of coordinating prices across national labor markets. The first approach was to adapt the existing corporatist infrastructure for non-market coordination to the new requirements of EMU (Klein, 2020). This would have required new institutions to coordinate monetary with fiscal, wage, and social policies at the European level (Höpner & Seeliger, 2021; Marginson & Sisson, 1998). The alternative solution was to unleash the coordinating power of market competition among firms, sectors, and member states. This required the dismantling of national wage-setting institutions and the liberalization of labor markets (Scharpf, 2010).

These two solutions were firmly grounded in economic theory and institutional experience. *Theoretically*, they reflected the well-known U-shaped model by Calmfors and Driffill (1988), according to which fully centralized or fully decentralized systems of wage bargaining were best at achieving non-inflationary outcomes.[3] *Institutionally*, they reflected the experience that non-market coordination in labor markets, rather than having been obliterated by the monetarist experiments of the 1970s and 1980s, had proved highly congenial to disinflationary monetary policy: "corporatism and unionism [...] assumed a strategic role in central bank-led policy coordination" (Wansleben, 2022, p. 105). This was amply documented in the "mixed signals" literature on the successful coordination between increasingly independent central banks and corporatist wage-setting institutions (Hall & Franzese, 1998).[4]

The value of coordination through non-market wage-setting institutions was clear to monetary policymakers throughout the long process of European monetary integration.

[3]The model theorizes that centralized wage bargaining systems force unions to internalize the impact of their own actions on inflation and unemployment. By contrast, in decentralized firm-level wage bargaining systems, competition among firms imposes equally strong incentives for wage moderation. Soskice (1990) subsequently emphasized coordination as a functional equivalent to centralization in wage-setting systems.

[4]It should be noted that the disinflation campaign of the U.S. Federal Reserve under Paul Volcker was much more adversarial. See Mitchell and Erickson (2005) for a detailed study of the Volcker Fed's aggressive anti-union stance.

The Werner Report had insisted that "in order to avoid the emergence of excessive divergencies, the trend of incomes in the various member countries will be studied and discussed at the Community level with the participation of the social partners" (Werner, 1970, p. 12). Two decades and one macroeconomic policy paradigm shift later, the issue was still on the minds of the central bank governors who formed the Delors Committee, which deliberated on the possible paths towards monetary union during 1988-89 (Verdun, 1999; Vianelli, 2023). In an early, agenda-setting paper, the Bundesbank president noted that wage setting largely remained "in the hands of the European trade unions and trade associations" and therefore could not "be discharged by public authorities alone in the future" (Pöhl, 1988, p. 15). It was precisely because Pöhl thought it necessary that wage increases in high-cost countries "lag behind the increase in the Community average" that he considered the "principle of autonomous wage bargaining by management and labour and voluntary willingness to cooperate on the part of the trade unions" a key condition for monetary integration (Pöhl, 1988, pp. 17, 24). The experience of convergence towards the Maastricht criteria reinforced this view, as close coordination between central banks and trade unions, notably in the form of social pacts, helped achieve disinflationary goals (Hancké, 2013, pp. 25–34). In short, the choice between non-market coordination and labor market liberalization was not a foregone conclusion in the run-up to EMU. As we show in section 5.1, it was still on the table in 1999.

Eventually, in 1999, a lack of consensus among member states combined with the opposition of the ECB prevented the construction of institutions for the non-market coordination of monetary and wage policies at the European level. This amounted to a critical juncture that narrowed the options for macroeconomic governance dramatically. From that point onward, the structure of the euro area's monetary regime did, in fact, "come with an instruction sheet" (Blyth, 2003; Schelkle, 2021, pp. 50): in the absence of other coordination mechanisms, the only way for the ECB to manage the governability problem arising from the euro area's heterogeneity was to foster market-based coordination across national labor markets. What requires explanation, however, is just how far the ECB was willing to go in pushing for structural reforms at the national level, given the reputational and political risks of this strategy.

3. Theorizing central bank agency

Political scientists have long studied central banks through the lens of principal-agent theory. The post-2008 empowerment of central banks, however, has arguably put them beyond the scope of the logic of agency drift, and instead requires us to theorize them as actors in their own right (Verdun, 2017). The case of the ECB's advocacy for structural reforms confronts us with two challenging questions in this regard: Why—given the limits of its mandate—and how—given its lack of formal authority—did the ECB push for market-enhancing structural reforms? And why did it stop after 2015?

3.1. Why? Navigating the governability-legitimacy dilemma

The political economy literature offers two main theories of central bank behavior. A constructivist strand has focused on economic ideas to explain central bank action. Central bankers form a tight-knit "epistemic community" in which ideas diffuse globally and shape policymaking (Verdun, 1999). Indeed, economic ideas about the virtues of austerity (Blyth, 2013; Dellepiane-Avellaneda, 2015; Helgadóttir, 2016) and of a specific macroeconomic policy mix known as the "Brussels-Frankfurt consensus" (Matthijs & Blyth, 2018; Matthijs & McNamara, 2015) go a long way towards explaining the preeminence and persistence of austerity and structural reforms in the policy response to the sovereign debt crisis. Our reasons for departing from constructivism are twofold—to emphasize how ideas co-evolve with institutional structure, and to better understand the conditions under which technocrats set their ideas aside in order to achieve their goals as prescribed by their institutional mandate. Our analysis of the historical path to EMU in section 2 and of the critical juncture of 1999 in section 5.1 suggests that central bankers' ideas about labor market governance were heavily dependent on the institutional context of their quest for monetary governability. While the institutional infrastructure for coordination was in place, considerable support existed among central bankers for non-market coordination with collective wage setters. Only when the launch of EMU changed the "inflation game" did European central bankers, now at the helm of the supranational ECB, become committed structural reformers (Best, 2019). For the purpose of theory-building, the implication is that the structure of labor markets matters to central bankers for the same reason the structure of financial markets matters to them: both are part of the institutional infrastructure through which monetary policy is implemented and transmitted, and thus are key to maintaining governability (Braun, 2020; Wansleben, 2022).

Moreover, as we show in section 5.5, ECB policymakers' sudden silence on structural reforms after 2015 was *not* because they had suddenly stopped believing in the long-term desirability of structural reforms in a still-heterogeneous monetary union, but because they became increasingly concerned about the reputational costs of continued structural reform advocacy in breach of their mandate.

The second theory of central bank behavior emphasizes that despite their statutory—and, in the case of the ECB, quasi-constitutional—independence, central banks do, in fact, depend on maintaining their organizational legitimacy. It is well-established that non-majoritarian organizations depend on both output and throughput legitimacy (Scharpf, 1999; Schmidt, 2013). However, legitimacy is inherently relational, context-dependent, and contested (Imerman, 2018). In our case, whereas central banking had been thoroughly depoliticized under the inflation targeting regime, the massive scale of central bank interventions following the global financial crisis of 2008 has lead to a repoliticization. Central banks became exposed to a much higher level of public scrutiny—from their political principals but also, and especially, from the broader public (Macchiarelli et al., 2020; Riles, 2018; Tortola, 2020). It is therefore not surprising that, although on paper their independence has remained intact, central banks—including the ECB—have become much more sensitive to reputational concerns (Moschella & Pinto, 2019; Moschella et al., 2020). This perspective goes a long way towards explaining why the ECB stopped advocating for structural reforms in response to the backlash it faced during the mid-2010s, as documented in section 5.5. However, a purely organizational theory would have trouble to explain why, even as it was already under much greater public scrutiny, the ECB continued—and indeed escalated—its campaign for structural reforms during the period 2010-2014.

In sum, what is missing from both constructivist and organizational theories of central bank agency is a systematic engagement with the peculiar mix of institutional autonomy and structural constraints under which central banks in general, and the ECB in particular, form ideas and make decisions. As much as by its political mandate, the ECB's room for manoeuvre is circumscribed by the underlying structure of EMU. Imposing constraints that are obscure to many but perfectly clear to central bankers, international monetary regimes do, in fact, come with an "instruction sheet" (Blyth, 2003). At the same time, central banks can be powerful enough for their actions to change the monetary regime, and thus the conditions for monetary governability.

Our theory of ECB agency incorporates constructivist and organizational elements, but is firmly rooted in historical institutionalism. In line with what Hall and Taylor (1996, p. 939) have labelled the "calculus approach" to historical institutionalism, we posit that central bank agency is underpinned by a pragmatic calculus to maintain both monetary governability and organizational legitimacy. From this perspective, organizational actors seek to maximize the attainment of their mandated objectives within the constraints imposed by the institutional structure they operate in (Hall, 2010; Tallberg, 2000). The ECB, then, needs to be analyzed in the context of the historically contingent structure of the monetary union it was tasked to govern. Specifically, we theorize that the ECB's actions are guided by a defensive strategic calculus, namely a trade-off between the risk of policy ineffectiveness and the risk of political contestation. This dilemma stems from the very structures of the monetary union: the extent to which the central bank can achieve its mandated objective of price stability hinges on institutions not only at the supranational level of the union but also, and especially, at the national level. Diverse welfare state and wage-setting institutions generate heterogeneous inflation and unemployment outcomes, which threaten monetary governability. Therefore, we expect the ECB to seek to to reshape these institutions in ways that render its monetary policy more effective.

However, seeking to influence national policies is not without costs. The expected benefits of structural reforms for monetary governability are counteracted by the costs of the push-back against perceived ECB meddling (Tortola, 2020). While its statutory independence protects the ECB against political backlash in the area of monetary policy proper, its engagement in social and labor market policies in member states does not fall under this protection. To the contrary, weighing in on domestic reform debates and prescribing specific structural adjustment paths can be expected to expose the ECB to political contestation and challenges to its legitimacy (Macchiarelli et al., 2020; Schmidt, 2020). We thus submit that while the ECB is empowered, and willing, to push the boundaries of its mandate to maintain monetary governability, it will seek to avoid levels of political contestation that would prove detrimental to its legitimacy. An observable implication is that the ECB is more likely to take radical steps in either direction when it perceives the policy ineffectiveness constraint or the political contestation constraint to become binding.

Two caveats are in order. First, saying that the central bank maximizes its objectives does not imply that it is a unitary actor with a self-evident set of preferences. Recent research has documented significant disagreements within the ECB during the post-2010 period (Ferrara, 2020). Second, rather than denying that its actions are underpinned by ideas, we posit that the ECB deploys these ideas strategically in the pursuit of its interests (Carstensen & Schmidt, 2016). Our understanding of ideas thus builds on the pragmatist approach developed by Jabko (2019) and Jabko and Schmidt (2021), which emphasizes that economic policymakers operate in constantly changing environments that require them to adjust—often in innovative ways—their "discursive repertoires."

3.2. How? The ECB's power resources and instruments

In the ECB's own words, structural reforms are policies that "change the fabric of an economy, the institutional and regulatory framework in which businesses and people operate" (Speech 40, Appendix C).[5] On the face of it, structural reforms in member states would seem to lie beyond both the ECB's mandate and its formal powers. While the supremacy of EU law allows the European Court of Justice to use treaty law on individual rights to advance liberalization in areas such as labor law and social policy, the ECB lacks the authority to issue binding regulations to override national legislation. The question, therefore, is what power resources and instruments the ECB has at its disposal to push for structural reforms at the national level.

We distinguish five instruments, associated with three distinct power resources, summarized in Table 1.[6] Acting as a *translator* of the functional pressures of the monetary regime, the central bank can leverage its epistemic authority to persuade other actors that structural reforms are necessary. The ECB carefully cultivates its epistemic authority through continuous "investment in scientific prestige and scholarly research" (Mudge & Vauchez, 2016, p. 148). The payoff to investments in epistemic authority comes in the form of an enhanced "power through ideas" for the ECB, that is, the ability to convince "other actors of the cognitive validity and/or normative value" of its economic policy views (Carstensen & Schmidt, 2016, p. 323).

[5] On this definition see also ECB (2017). On the evolving meanings of "structural reform" in EU discourse, see Campos et al. (2018) and Crespy and Vanheuverzwijn (2019).

[6] For discussions of the ECB's ideational and coercive instruments, see Ban (2016) and Carstensen and Schmidt (2018).

Table 1: ECB agency disaggregated

Role	**Instrument**	**Power resource**	**Mechanism**
Translator of monetary regime pressures	Communicative discourse	Ideational power based on epistemic authority	Public rhetorical pressure
	Coordinative discourse	Ideational power based on epistemic authority	Moral suasion of governments
Enforcer of monetary regime pressures	Monetary policy	Central bank independence	Non-accommodating monetary policy
	Informal conditionality	Structural power of the lender of last resort	Conditions attached to unconventional monetary policies
	Formal conditionality	Structural power of the lender of last resort (with ESM and IMF)	Conditions attached to macroeconomic adjustment programs

The ECB exercises this ideational power via two discursive instruments, namely its "communicative" and its "coordinative" discourse (Schmidt, 2008, pp. 304-305). Through speeches and publications, it provides economic justifications for structural reforms, which other policymakers can resort to in order to bolster their own epistemic authority. Members of the ECB's executive board can also directly engage national governments in a coordinative discourse, especially in the meetings of national finance ministers, be it in EU configuration ('ECOFIN council') or in euro area configuration ('Eurogroup').

Although member states' structural policies exceed its formal authority, the ECB has learned to leverage its power resources to act as an *enforcer* of structural reforms as well.[7] The first coercive instrument—a hard monetary policy stance in the face of what the central bank deems inflationary wage demands or government spending—is available at any time and is not unique to the ECB (Rieth & Wittich, 2020).

In addition to this conventional instrument, however, the ECB gained further, unconventional powers during the financial and sovereign debt crises, which provided an "unprecedented window of opportunity for the ECB to extend its influence on Eurozone governance" (Fontan, 2018, p. 170). The peculiar architecture of EMU put the ECB in a position—unique among central banks—as *discretionary* of lender of last resort and mon-

[7]The ECB's lack of direct legal authority means that we cannot establish a direct causal link between the cenral bank's preferences and the implementation of structural reforms at the member-state level.

etary backstop to its own political principals, the EMU member states. The dependence of member states and their domestic banking systems on central bank liquidity empowers the ECB to attach informal conditions to its lending and asset purchase programs. Eventually, the ECB's powers to enforce structural reforms became institutionalized through its participation in the Troika, enabling the central bank to co-design formal conditions attached to financial assistance programs (Jacoby & Hopkin, 2020; Moury et al., 2021; Woodruff, 2016).

4. Data and method

The ECB is hard to study. The deliberations of its Governing Council are confidential; archival documents are released only after 30 years. To overcome these obstacles, we deploy a mixed-methods research strategy that draws on as wide a range of sources as possible. The main data source from which we reconstruct the ECB's *communicative* discourse are the 1,922 public speeches the central bank's Executive Board members delivered between 1999 and 2019. We exclude press conference statements because the structural reform prescriptions contained therein are brief and repetitive. Analyzing this corpus, we first use basic quantitative text analysis methods to chart the frequency with which the ECB mentions certain key concepts, most notably "structural reform" (Figure 1).

Second, we manually coded the ten speeches per calendar year that contained the most references to structural reforms. Our coding scheme distinguishes twelve policy goals the ECB associates with structural reforms (for instance, lowering minimum wages or loosening employment protection legislation). This coding scheme was created iteratively, by comparing what we found mentioned in the speeches with common classifications in the literature on structural reforms. The code book, with a detailed description of the coding procedure, can be found in Appendix A. We then grouped reform proposals aimed at strengthening the market mode of coordination into the category "disembedding reforms", and those aimed at increasing social investment (Hemerijck, 2017) into the category "embedded flexibilization" (Thelen, 2014). The results of this coding exercise are presented in table 3.

Third, we devised a ranking of the top five structural reform advocates within the ECB's Executive Board based on the share of speeches mentioning the term "structural reform" (see Figure B.5 in Appendix B). Appendix C provides an extensive selection of relevant quotes from the ECB's speeches over the full 20-year period, including hyperlinks to the full speech transcripts online.

Fourth, we conducted interviews with four former members of the ECB's Executive Board and one former finance minister (see list of interviews). Interviews with central bankers about their own former institutions need to be taken with a grain of salt, and our analysis does not depend on them. However, the interviews allow us to triangulate our findings, in particular with regard to the closed-door interactions (*coordinative* discourse) between monetary policymakers and national government officials, and to get a sense of how central bankers perceived and rationalized the challenges they faced.

Finally, to measure political contestation surrounding the ECB's structural reform advocacy during the post-crisis period, we collected and analyzed the questions put to the ECB president during the quarterly 'Monetary Dialogue' hearings at the European Parliament. We coded all 1,240 questions asked between 2009 and 2019, of which 47 specifically addressed structural reforms (Figure 4).

5. Another tale of two decades: The ECB and structural reforms, 1999-2019

We begin by zooming in on the critical juncture at the start of EMU, when the ECB intervened in the choice between non-market and market-based coordination. We then divide the first two decades of ECB reform advocacy into four periods, each marked by a distinct combination of macroeconomic problems, ECB strategies, and ideational resources (see Table 2). Contrasting the dominant view of the ECB's role in this area, the first two periods establish that the central bank's discursive advocacy for structural reforms was most intense *before* the euro crisis. The third period demonstrates how the ECB shifted its role from merely translating the functional pressures of the monetary regime to enforcing structural reforms in national labor markets. The final period recounts the ECB's eventual abandonment of structural reforms in the mid-2010s, amid deflationary pressures and mounting political contestation.

Table 2: Four periods of structural reform advocacy by the ECB

	1999-2004	2005-2009	2010-2014	2015-2019
Economic context	Unemployment and low growth	Diverging unit labor costs	Diverged unit labor costs	Deflationary pressure
ECB theory	Endogenous OCA	Endogenous OCA	Expansionary austerity	Absence of shared theory
Risk of in-effectiveness	++	+	++	++
Risk of contestation	+	0	+	++

5.1. Duisenberg shuts the door: 1999 as a critical juncture

As soon as it came into existence in June 1998, the ECB was confronted with the question of how to resolve the coordination problem between transnational monetary policy and national wage setting. With public opinion becoming "increasingly pessimistic about the implications of EMU for employment" (Goetschy, 1999, p. 124), trade unions advocated forcefully for *ex ante* coordination with the ECB and the ECOFIN/Eurogroup to achieve a more employment-friendly macroeconomic policy mix (Jacobi, 1998). This preference received Germany's support under the auspices of finance minister Oskar Lafontaine, who proposed a European Employment Pact centered on a Macroeconomic Dialogue "to get social partners to agree and coordinate their wage settlements with monetary and fiscal policy" (Collignon, 2009, p. 463). However, following resistance from the United Kingdom and Lafontaine's ousting from the German government led by Gerhard Schröder, a watered-down version was ultimately signed by member state governments at the Cologne Council in June 1999. Convening representatives of the Council, the Commission, the ECB, and the social partners, the bi-annual Macroeconomic Dialogue was designed only to "improve the conditions for a cooperative macro-economic policy mix geared to growth and employment while maintaining price stability" (European Council, 1999, p. 1).

Our interviews reveal that the ECB was internally divided on the question of its involvement in the Macroeconomic Dialogue. Several members of the executive board had "much sympathy" for *ex ante*, non-market coordination (Interview 4). Others were deeply concerned about the ECB's independence (Collignon, 2009, p. 463). During his first official appearance before the European Parliament, President Duisenberg announced that the dialogue "should be clearly distinguished from any attempts to coordinate policies *ex* *ante*, so as to achieve a certain 'policy mix'", as this would "decrease accountability, reduce the transparency of the policy framework for the public and increase uncertainty about policy actions, potentially threatening to destabilise the economy" (Speech 7, Appendix C). Thus, when prompted to position itself on the question of non-market versus market-based coordination, the ECB chose the latter.

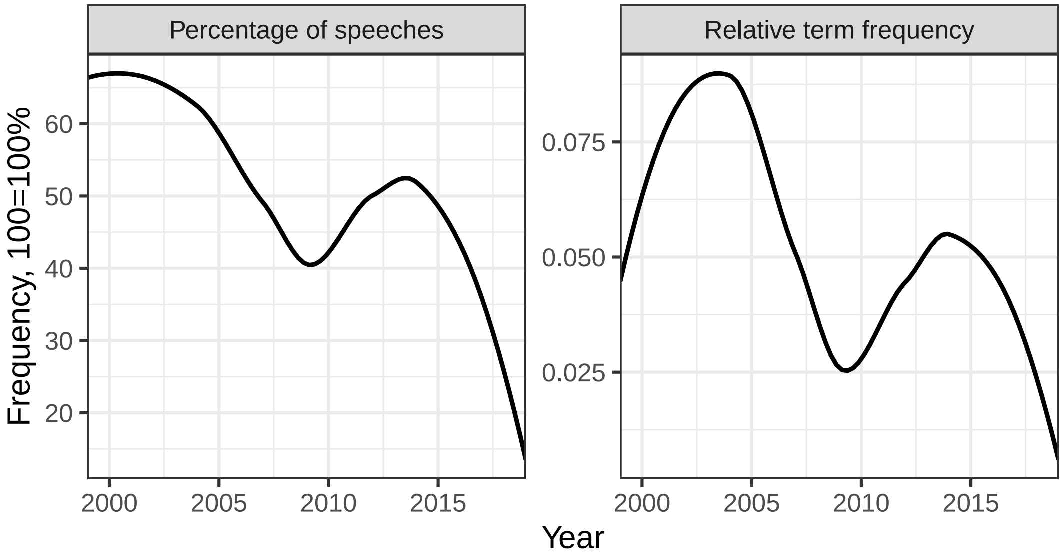
The ECB's choice was overdetermined, with both organizational interests and ideational leanings pointing in the same direction. The ECB was keen to establish a reputation as an independent and credible central bank, and extricating itself from the Macroeconomic Dialogue was its first opportunity to set a precedent. At the same time, the ECB's preference for market-based coordination was firmly grounded in the New Keynesian consensus in macroeconomics that was at the core of the "Brussels-Frankfurt consensus", according to which economic growth lay beyond the reach of macroeconomic policy (De Grauwe, 2006; Fitoussi & Saraceno, 2013; E. Jones, 2013). This allowed the ECB to argue, in direct response to the Macroeconomic Dialogue proposal, that "the best contribution monetary policy can make to fostering employment growth and reducing unemployment [...] is to maintain price stability" (ECB, 1999, p. 31). According to this logic, the growth potential in the EMU could only be increased through supply side–oriented structural reforms aimed at removing labor market rigidities (Speeches 3 and 4, C).[8] Another powerful idea at the time was that of endogenous "Optimum Currency Areas" (OCA). By 1999 it was clear that EMU did not meet Mundell's original criteria for an OCA.[9] In the meantime, however, Frankel and Rose (1998) had formulated a variant of OCA that proved strategically expedient to monetary policymakers. According to Frankel and Rose's "endogeneity hypothesis," the very *establishment* of monetary union would create an optimum currency area by forcing firms—and wage setters—to adjust to the competitive conditions of the single market. Our interviews suggest that ECB policymakers concurred with the view that "the criteria of OCA are endogenous" but worried that the theory underestimated the staying-power of heterogeneous national institutions (Interview 4).

It is beyond the scope of this paper to determine whether these economic ideas caused

[8] So widespread was this thinking by the late 1990s that Solow (1998, p. 205) mocked it as "your basic European central banker's folk-theorem."

[9] Mudge and Vauchez, 2016, pp. 154–155. According to OCA theory, a monetary union generates the greatest economic benefit if four criteria are met: labor mobility, price and wage flexibility, fiscal risk-sharing, and synchronized business cycles. See Kenen, 1969; Mundell, 1961. For a critical discussion, see Schelkle, 2017.

Figure 1: “Structural reforms” and “structural policies” in ECB speeches, 1999–2019



Duisenberg’s 1999 veto. What matters for the present argument, however, is that it permanently changed the “inflation game” in the euro area (Best, 2019). EMU henceforth came with a clear “instruction sheet” for monetary governance. The ECB came to view the euro as a “strong catalyst for structural reforms” (Speeches 10 and 11, Appendix C) and deemed it necessary to “cajole governments into implementing” those reforms itself (Speech 6, Appendix C).

5.2. Structural reforms for monetary governability (1999–2004)

During the first years of EMU, and throughout the presidency of Wim Duisenberg (1999–2003), the ECB used its communicative discourse to promote structural reforms at every occasion. The dotted line in Figure 1 shows that 70% of ECB speeches from that period mentioned structural reforms or structural policies, while the relative frequency of both terms (as a share of total words) nearly doubled between 1999 and 2004 (solid line). Jean-Claude Trichet, Christian Noyer, and Duisenberg were the most active reform advocates on the Executive Board (Figure B.5). Our manual coding of the instruments advocated by Executive Board members suggests that, to the ECB, market-enhancing integration meant: to decentralize wage-setting to the firm level (WS); to decrease the generosity and availability of unemployment benefits (UB); and to decrease payroll taxes (LT). With slightly less emphasis, the ECB also advocated increasing spending on education, as well as on research and development (ER) (Table B.5).

Why did the ECB go out of its way to promote structural adjustment right from the beginning? A closer reading of its speeches suggests that the central bank was concerned, first and foremost, with the negative consequences that asymmetric shocks to the monetary union would have for the effectiveness of its monetary policy (Speeches 11, 14, 15 and 17, Appendix C. In doing so, the ECB justified its push for structural reforms by latching onto endogenous OCA theory (Speeches 9, 10 and 23, Appendix C and Interviews 2, 3 and 4). Discursively, it also championed structural reforms through "naming and praising," as opposed to openly naming and shaming the non-reforming governments (Interview 4). This included suggestions that member states "with more flexible labour markets, more moderate wage increases and less discouraging tax and social security policies, have managed to avoid the trend of ever-rising unemployment" (Speech 4, Appendix C).[10]

Soon, however, the ECB came under pressure by national governments for its persistent refusal to cut interest rates (Barber, 2001). The German chancellor, Gerhard Schröder, openly attacked the ECB for failing to mitigate the euro's appreciation: "I assume the intelligent people in the leadership of the ECB discuss the question everyday whether they have done enough in the context of the dollar-euro exchange rate to maintain the competitiveness of exports from Europe" (Major & Williamson, 2003). It is important to note that this backlash from member state governments targeted the ECB's tight monetary policy stance rather than its structural reforms advocacy, at a time when national governments—not least in Germany and Italy—sought to liberalize their labor markets (Simoni & Vlandas, 2021). The ECB's statutory independence insulated it against this type of political pressure, which was directed at the central bank's core competency to independently set the monetary policy stance. President Duisenberg pointed out that the ECB did not concern itself with exchange rate policy, defended interest rates as appropriate, and encouraged governments to press ahead with social policy and labor market reforms (Financial Times Editorial Board, 2003). Asked whether the ECB cared about member states' increasingly vocal opposition to his hard monetary policy stance, Duisenberg (2001) could afford to retort: "I hear but I do not listen."

[10]Speech 17 contains further examples. The ECB also pointed to "best practices" beyond the euro area, praising the growth-enhancing effects of the more flexible US labor market; see Speech 14, Appendix C.

5.3. Wage restraint against divergence (2005–2009)

The year 2005 marked the high point in the ECB's discourse on structural reforms (Figure 1). What is more, the ECB also started to advocate for wage restraint across member states. It observed that in Southern Europe and Ireland, weakly developed collective bargaining institutions put upward pressure on labor costs in the private sector (Hancké, 2013; Johnston & Regan, 2016). This was reinforced by permissive government wage setting in the public sector, at a time when an austerity drive by state-level finance ministries imposed severe wage restraint on the German public sector (Di Carlo, 2023). The ECB worried that the resulting divergence in national wage and price levels would undermine monetary policy effectiveness and eventually pose an existential threat for EMU (Interview 2).

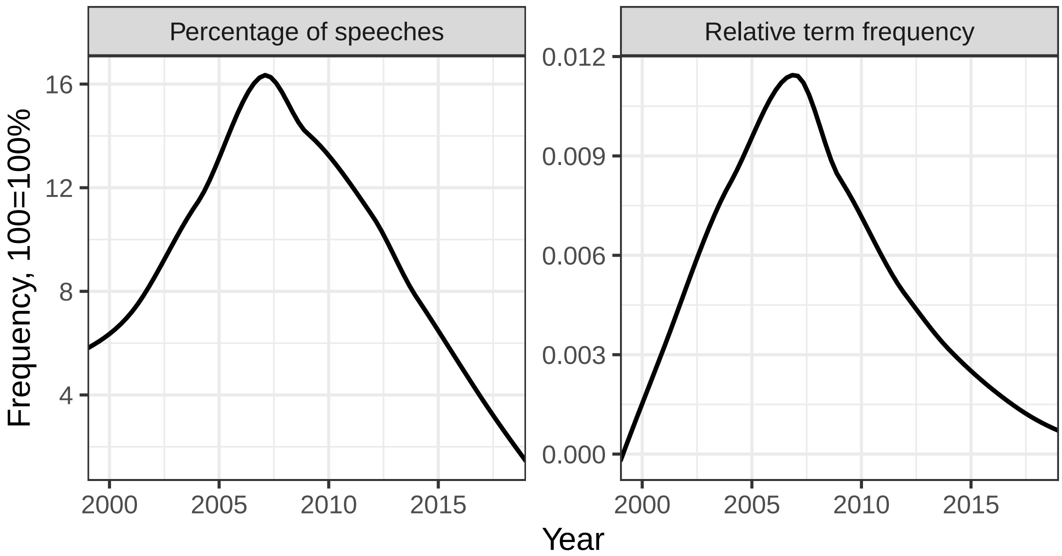
That the ECB frequently voiced these concerns publicly is illustrated by the skyrocketing mentions of "unit labor costs" during the mid-2000s (Figure 2). Going further still, the ECB also urged governments to bring about internal devaluation through public sector wage restraint and through the abolition of wage indexation clauses. Jean-Claude Trichet was the most active carrier of this message (Figure B.5). Among others, Trichet called for an "[a]ppropriate handling of the unit labour costs in the civil service and public sector" and suggested that the latter "should be a role model in terms of wage-setting and should not contribute to strong overall labor cost growth." (Speeches 29 and 30, Appendix C).[11]

Given the delicacy of calling for internal devaluation, it is perhaps surprising that this period was among the calmest for the ECB in terms of political contestation. In contrast to the post-crisis years, there was virtually no public talk by ECB officials about legitimacy (Figure 3). This can partly be explained by the central bank shifting some of its advocacy to the backstage arena of ECOFIN and Eurogroup meetings, where it routinely presented detailed competitiveness indicators and lectured finance ministers about the need for wage restraint in their domestic public sectors.[12] Another part of the explanation, however, is that in the absence of enforcement powers, the ECB's translation of monetary regime pressures lacked bite. Member states, too, could "hear but not listen." This would change with the onset of Europe's sovereign debt crisis.

[11]For further explicit references to wage indexation and public sector wage setting, see speeches 25 to 33 in Appendix C, dating between between 6/29/2006 and 10/12/2011.

[12]Confirmed in Interviews 2, 3 and 4. The ECB continued to use ECOFIN meetings to push for public-sector wage restraint also after the financial crisis (Interview 5).

Figure 2: "Unit labour costs" in ECB speeches, 1999–2019



5.4. Structural reforms to save the currency (2010–2014)

In the wake of the global financial crisis, social and labor market policy briefly receded from view as the ECB was preoccupied with financial stability and crisis management. However, calls for structural reforms soon re-emerged, in line with the broader EU discourse on enhancing member states' competitiveness (Crespy & Vanheuverzwijn, 2019; E. Jones, 2016). Although authorship of the competitiveness interpretation of the crisis is commonly attributed to the European Commission and to the German government, our analysis suggests that that interpretation took hold on ground that the ECB had been cultivating since at least 2005. Consistent with its pre-crisis stance, the ECB's communicative discourse from 2010 onward emphasised wage-setting decentralisation and, to a lesser extent, active labour market policies (Table B.5). In addition, frequent European Council meetings brought ample opportunity for the ECB to leverage its coordinative discourse with member state governments (Interviews 2 and 5).

The ECB's strategic deployment of economic ideas was on full display in its adoption of a new theoretical justification for its reform advocacy, based on the notion of "expansionary austerity" (Giavazzi & Pagano, 1990). The theory reversed the Keynesian logic by arguing that fiscal austerity, when combined with market-enhancing structural reforms, could have growth-increasing effects (Dellepiane-Avellaneda, 2015; Theodoropoulou, 2018). In the words of its most influential proponents, "[s]upply-side policies ... are critical" because the "expansionary effects of [contractionary] fiscal adjustments work via the labor market" (Alesina et al., 1998, p. 206; Alesina & Ardagna, 2010, p. 4).

Table 3: Structural reforms aimed at 'disembedding' vs 'embedded flexibilization' in ECB speeches

	Purpose	
Year	Disembedding SRs	Embedded flexibilization SRs
1999	18	4
2000	0	0
2001	3	0
2002	4	1
2003	2	0
2004	26	10
$\sum 1^{st}$ Period:	53	15
2005	6	4
2006	33	10
2007	35	9
2008	26	6
2009	0	1
$\sum 2^{nd}$ Period:	100	30
2010	3	2
2011	4	0
2012	3	1
2013	3	1
2014	5	9
$\sum 3^{rd}$ Period:	18	13
2015	6	11
2016	3	5
2017	1	2
2018	0	0
2019	0	0
$\sum 4^{th}$ Period:	9	18

The Greek debt crisis of 2010 ushered in a period of "governing by panic" (Woodruff, 2016) during which the ECB took the leap from merely translating structural adjustment pressures via discursive advocacy to also enforcing them via coercive instruments. As it had done during the first years of EMU, the ECB flanked its advocacy for structural reforms with a restrictive monetary policy stance. In response to the escalating Greek crisis, the central bank pondered toughening its collateral rules for sovereign bonds so as to "force the Greeks to get serious about fiscal discipline and economic reform" (Tooze, 2018, p. 334). A year later, in April and July 2011, the ECB hiked interest rates twice, despite a deteriorating economic outlook and against the view among economists that the situation in the euro area warranted continued monetary easing (Mody, 2018, pp. 293-296). The defining feature of the ECB's strategic agency during this period, however, was its newly acquired capacity to impose formal and informal conditionality on member state governments. *Formal* conditionality was first applied in the IMF–EU lending programs to three non-EMU countries before 2010 (Hungary, Latvia, Romania), in which the ECB toed a more hawkish line than even the IMF (Ban, 2016; Fitoussi & Saraceno, 2013; Lütz & Kranke, 2014). The experiment of those early lending programs was later institutionalized in the so-called Troika, as a member of which the ECB monitored the implementation of macroeconomic adjustment programs in EMU countries alongside the Commission and the IMF (Henning, 2017; Jacoby & Hopkin, 2020; Lütz & Hilgers, 2019; Moury et al., 2021).

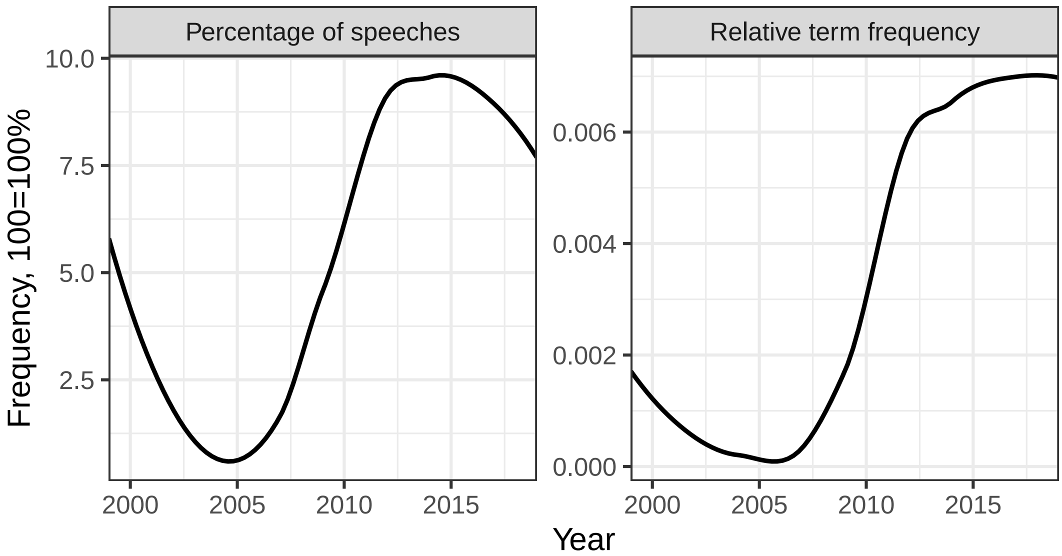
The most striking case of ECB-imposed *informal* conditionality occurred in August 2011, when Jean-Claude Trichet sent two—initially secret—letters to the prime ministers of Italy and Spain. The letters effectively made the continuation of the ECB's bond-buying under the Securities Markets Programme conditional on the implementation of structural reforms and fiscal consolidation. Although the ECB avoided any direct mention of bond purchases, the message was clearly understood, and the ECB followed up with direct phone calls (Interview 2).[13] Within days of receiving the letters, Spain's finance minister Elena Salgado held a press conference pledging swift progress on labor market reforms, while the Italian government announced it would enshrine the "liberalization of all economic activities" in the country's constitution (Rostagno et al., 2019, p. 195). The Italian letter, co-signed by Trichet's successor Mario Draghi, was instantly leaked to the press, triggering a public outcry (Corriere Della Sera, 2011).[14]

The backlash against the letters and the ECB's role in the Troika was directed against actions that clearly lay outside of the ECB's mandate. Given that it was predictable, one might be tempted to conclude that the ECB simply did not care about the consequences for its reputation and legitimacy. There is little doubt, however, that its sensitivity towards the risks of political contestation increased throughout this period (Macchiarelli et al., 2020; Moschella et al., 2020; Schmidt, 2020). As shown in Figure 3, the frequency with which Executive Board members mentioned "legitimacy" in their public speeches peaked between 2011 and 2015. In terms of the ECB's strategic calculus, however, the doomsday risk of a disorderly disintegration of the euro area clearly outweighed the risks

[13]See also Ban, 2016, pp. 202-204; Tooze, 2018, p. 398.
[14]The Spanish letter was revealed soon after and printed in Zapatero's crisis memoir.

from political contestation. This is illustrated by Mario Draghi's game-changing promise to "do whatever it takes to preserve the euro" via unlimited asset purchases (Draghi, 2012), which he made despite fierce resistance from the German Bundesbank and public resignations by two German members of the ECB's Governing Council.

Figure 3: "Legitimacy" in ECB speeches, 1999–2019



5.5. Deflation, contestation, and silence (2015–2019)

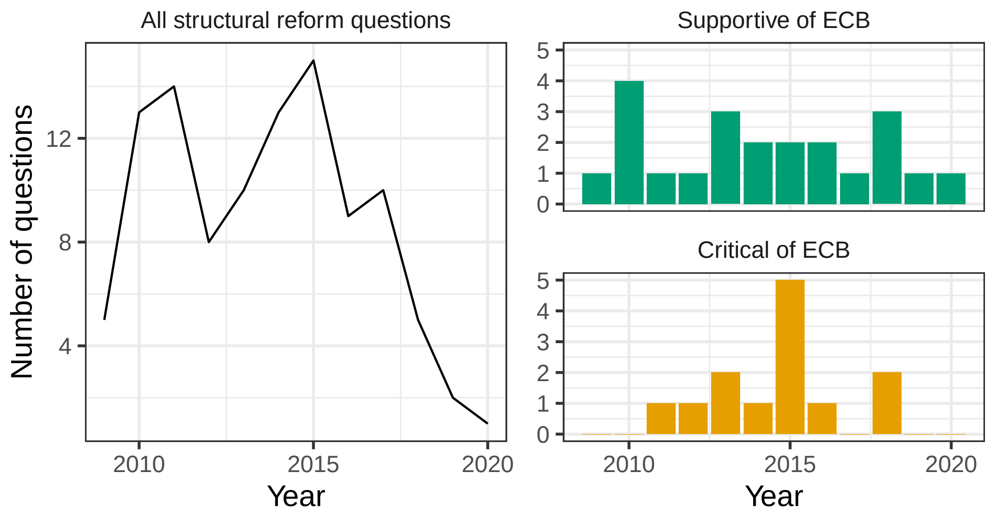
From 2015 onward, the ECB's communicative discourse contained ever fewer references to structural reforms, until the central bank stopped talking about them altogether (Figure 1). After almost two decades using every available means to push for reform, why did the ECB reverse course so dramatically? The evidence points to changes in the institutional structure and economic environment that altered the ECB's governability-legitimacy calculus. First, monetary policymakers realized—and publicly acknowledged—that by advocating for labor market structural reforms in a context of increased contestation, they incurred significant reputational costs. The ECB's public legitimacy was at risk. Second, the ECB no longer needed to advocate for 'one-size-fits-none' structural reforms in order to safeguard governability. Structural reform advocacy had become both macroeconomically counterproductive in the new deflationary environment *and* institutionally superfluous given the introduction of the European Semester.

Regarding *legitimacy*, the ECB's highly prominent role during the EMU sovereign debt crisis had ushered in a period of intense public contestation, both from the left and from the right (Macchiarelli et al., 2020). This contestation manifested itself in a variety of ways across the euro area—in the courts, in the street, and, most importantly, in parliaments. As part of what Saurugger and Fontan (2019) have called the "judicialisation of EMU politics", the European response to the sovereign debt crisis spawned a flurry of lawsuits, brought by diverse groups across the euro area. The most serious of those were constitutional complaints brought by German citizens, notably against the ECB's asset purchase programs. More relevant for the question of the ECB's structural reform advocacy, however, was public contestation targeting the EU-led austerity policies in general, and the ECB's involvement in macroeconomic adjustment programs in particular. In a rare case of street-level protest against a central bank, the Blockupy movement staged mass protest in front of the ECB's new headquarters. While the protest was directed against austerity policies generally, Blockupy had deliberately chose the ECB headquarters as the "heart of neoliberal Europe" (della Porta, 2020, p. 383). In the words two Blockupy spokespersons, the protests were directed "against the ECB, as a member of the troika" (Weaver, 2015) and against its "active role in politics" (C. Jones, 2015).

More than the courts and the streets, however, the primary forum of institutional accountability for the ECB is the European Parliament, and especially the quarterly "Monetary Dialogue" hearings during which the ECB president responds to questions from members of the European Parliament (MEPs) (Akbik, 2022). During the years 2009-2015, structural adjustment and fiscal consolidation had featured prominently in MEPs' remarks during those hearings—out of eleven topics identified in a topic model analysis, macroeconomic adjustment programs were the most-discussed (Ferrara et al., 2022). At a more granular level, our manual coding of all Monetary Dialogue hearings between 2009 and 2019 reveals that structural reforms were the primary concern of 47 questions raised by MEPs. The solid line in Figure 4 shows that the number of questions about structural reforms increased steadily during the crisis years, with a peak in 2014, and that questions that were critical of the ECB's role in promoting reforms spiked in 2015.

Although these 47 questions account but for a small fraction of the total, the Monetary Dialogue transcripts contain clear evidence of their importance for the ECB's shifting stance. In July 2014, a Spanish MEP (Greens) confronted Mario Draghi, saying that it was "high time" for the ECB to "refrain from linking its monetary policy decisions to individual reforms in its public statements" (European Parliament, 2014). In June 2015,

Figure 4: MEP questions concerning structural reforms in the Monetary Dialogue, 2009–2019



when pressed on whether the ECB intended to keep up its structural reform advocacy in the future, Draghi, referring to that earlier question, responded that "I have already been told I should not talk too much about structural reforms" (European Parliament, 2015).

Unlike the contestation by the German and other national governments in the early 2000s, which was directed against the ECB's core competency of monetary policy, the contestation during this period was explicitly directed against the ECB's structural reform advocacy, which was not covered and protected by its mandate. The street protests and, more importantly, the backlash in the European Parliament, thus posed a more serious threat to the ECB's legitimacy. The minutes of the meeting of the governing council on 20-21 April 2016 provide first-hand evidence for the impact of this backlash on the ECB, and for the latter's concern for its legitimacy. The minutes note that "it was agreed that giving structural reform recommendations might prove challenging" and that establishing a country-specific agenda for reforms was "in the realm of national governments and other European institutions" (ECB, 2016). Here, ECB policymakers referred to the European Commission which—since the launch of the European Semester in 2011—had acquired the capacity to propose, coordinate and monitor structural reforms in member states through the elaboration of fine-grained country-specific recommendations (Haas et al., 2020).

This brings us to the *governability* dimension of the ECB's strategic calculus. As indicated by the above quote from the ECB minutes, the consolidation of the European Semester, combined with the European Commission's commitment to structural reforms

(Miró, 2021) and to wage moderation (Cova, 2022, p. 648), had made ECB advocacy for structural reforms institutionally redundant. With regard to the economic effects of structural reform, the ECB had slightly adjusted its views, newly distinguishing between short- and long-term effects. In the ECB's own telling—in an ECB working paper titled "A tale of two decades"—this adjustment was necessitated by the transition, after 2010, from an inflationary to a "deflationary regime" (Rostagno et al., 2019). Towards the end of 2014, a "long slide in inflation" persuaded the ECB that monetary policy ineffectiveness now manifested itself in the form of an *under*shooting of its inflation target (Rostagno et al., 2019, p. 205). In the event, the structure of EMU ceased to provide a clear instruction sheet for monetary policymakers. When the ECB launched its quantitative easing (QE) program in early 2015 to counter deflation, it had not been guided by any established theoretical framework (Rostagno et al., 2019, p. 241).

At the same time, mainstream economists began to raise questions about the wisdom of structural reforms and fiscal consolidation in a zero-interest environment (Ban & Patenaude, 2019; Eggertsson et al., 2014). Echoing their concerns, the ECB contemplated the possibility that these policies had been counterproductive due to their short-term deflationary effects (Speech 43, Appendix C).[15] Executive board members Benoît Cœuré and Vitor Constâncio were among the first to concede that "in the short-term" structural reforms were "contractionary" and that there was thus "a need today ... to focus less on achieving internal devaluation, and more on raising productivity" (Speeches 37 and 43, Appendix C). Our qualitative analysis confirms a shift in the ECB's advocacy throughout this period, away from liberalizing structural reforms (Table 3) and towards active labour market policies and investment in research and education (Table B.5). Interestingly, the ECB's research department began to grapple with the distributional consequences of the reforms it had been promoting for so long. In October 2017, at an ECB conference on "Structural reforms in the euro area", Draghi called for "reforms with positive distributional effects," such as "active labour market policies that allow people to reskill" (Speech 45, Appendix C). The following year, the ECB dedicated its flagship annual forum in Sintra to the topic of "Price and wage-setting in advanced economies." There, Draghi applauded recent "growth in negotiated wages" and public-sector wages, notably

[15] On the evolution of the ECB's communication on fiscal policy before and after the crisis, see Diessner and Lisi (2020).

in Germany, France, and Spain (Speech 47, Appendix C). The shift in emphasis between these two events—from structural reforms to the study of wage-setting—encapsulates the ECB's turnabout. To the extent that the ECB talked about structural reforms at all, it did so in a way congruent with the new European discourse on "social investment" (Crespy & Vanheuverzwijn, 2019).

In sum, over the course of 2015-2016, the ECB's governability-legitimacy calculus pointed firmly to abandoning public advocacy for structural reforms. It is important to note that structural reforms becoming temporarily dispensable from a governability perspective is not the same as wholesale ideational change. In fact, the ECB had not fundamentally changed its ideas about the economic desirability of structural reforms. At the meeting of the governing council on 20-21 April 2016, ECB officials still reaffirmed that "there was no doubt that the structural policies set by governments ultimately had a key role to play in determining growth in the long run" (ECB, 2016). What had changed, however, was the intensity of the political backlash against the ECB's participation in the campaign for structural reforms. In September 2016, speaking before the European parliament, Draghi announced that it was "certainly not in the ECB's mandate to suggest specific structural policies and agendas to different countries and different governments" (European Parliament, 2016). Draghi's speech marked a watershed moment—for the first time, a sitting ECB president distanced himself from the Duisenberg doctrine of "cajoling" member states into implementing structural reforms. By 2017, the concepts of structural reform and structural adjustment had disappeared from the ECB's discursive repertoire altogether.

6. Conclusion

The ECB's stance towards structural reforms has evolved as a function of its uncomfortable position between the rock of monetary governability and the hard place of political legitimacy. Throughout the first fifteen years of EMU, political contestation was present to varying degrees, but the binding constraint on the ECB's ability to achieve its mandate remained monetary policy effectiveness. Under conditions of undisputed monetary dominance, the supranational central bank regarded it as its mission to "cajole" member state governments into submitting to the monetary logic of European integration. After 2008, the ECB, now the "only game in EMU", wielded formal and informal power resources

Table 4: Four periods of structural reform advocacy by the ECB

	1999-2004	**2005-2009**	**2010-2014**	**2015-2019**

to not only translate but also enforce market-enhancing reforms. During the mid-2010s, however, a political backlash gained momentum, with contestation both in the European Parliament and in the broader public sphere. At the same time, the euro area experienced a shift from an inflationary to a deflationary macroeconomic environment, and the ECB concluded that structural reforms were no longer serving the goal of monetary governability. In response, the ECB abandoned its long-standing campaign for structural reforms.

Our analysis carries deeper insights into the relationship between structure and agency. On one hand, we show that some structures are more constraining than others, leaving little room for maneuver. The "institutional structure of macroeconomic governance" (Mandelkern, 2016, p. 211) in general, and the monetary regime in particular, are a powerful case in point. Creating functional pressures that are, for all practical purposes, inescapable, monetary regime structures do "come with an instruction sheet" *in the short run* (Blyth, 2003; Schelkle, 2021, pp. 50). At the same time, those structures are not beyond agents' reach in the *long run*. A highly independent agent with the ability to focus on the medium to long run, such as the ECB, has both the incentives and the ability to re-shape the institutional structure of the monetary regime to better fit is own policy toolkit. Notwithstanding the question of the precise causal impact of the ECB's structural reform advocacy on reform implementation at the member-state level, the ECB contributed to altering the balance of power between capital and labor, and thus the structure of the monetary regime it has been tasked to govern.

Why the ECB's focus on reshaping labor market institutions, rather than other structural elements of the monetary regime, such as the financial system? Some would argue that this thrust of the ECB's reform activism reflected its ideological priors. It is at least as plausible, however, to argue that the ECB strategically went for the weakest link in the chain of structural constraints. Pushing for restrictions on certain types of cross-border capital movements could, in theory, have done the trick for monetary governability. However, the freedom of movement of capital is enshrined in the European Treaties, whereas collective wage bargaining institutions and unemployment protections are not.

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List of interviews

No.	*Role*	*Date*	*Form*
1	Former member of the ECB Executive Board	11/18/2020	Video call
2	Former member of the ECB Executive Board	11/19/2020	Video call
3	Former member of the ECB Executive Board	11/27/2020	Video call
4	Former member of the ECB Executive Board	12/14/2020	Video call
5	Former member-state finance minister	03/05/2021	In person

Appendix

Online appendix for Braun, B., Di Carlo, D., Diessner, S. and Düsterhöft, M. (2024). Structure, Agency, and Structural Reform: The Case of the European Central Bank. *Perspectives on Politics.*

A. Coding procedure for qualitative analysis of ECB speeches

Our qualitative analysis of ECB structural reform advocacy focused on manually coding the ten speeches per calendar year that contained the highest number of references to structural reforms, yielding a total of 200 speeches across our corpus. The software used to perform this part of the analysis was MAXQDA.

The first step of the coding exercise was to perform a simple keyword in context (KWIC) analysis to identify the paragraphs in each speech that contained the term "structural reform". We read these paragraphs as well as the immediately preceding and subsequent paragraphs in order to identify, inductively, the universe of reform purposes that ECB executive board members mentioned in their advocacy of structural reforms. In total, we identified twelve different purposes attached to structural reforms that were emphasized across our sample and assigned a code to each purpose. We then re-read the aforementioned paragraphs and coded a speech as "1" if a paragraph referred to one of these purposes. Our scheme allowed for the possibility of a speech making reference to more than one purpose, which most speeches did. The outcome of this first step of our qualitative analysis is reported in Table B.5.

The twelve different purposes, the codes that we assigned to them, and an example speech for each purpose, are: LT (labor taxation: advocating for a decrease in the tax burden on labor; see link to Speech 30 in Appendix C, for example); UB (unemployment benefits: advocating for a decrease in the availability and/or generosity of unemployment benefits; see link to Speech 29 in Appendix C, for example); EPL (employment protection legislation: advocating for a decrease in the protection against job dismissals; see link to Speech 22 in Appendix C, for example); EC (employment contracts: advocating for the use of flexible employment contracts; see link to Speech 18 in Appendix C, for example); WT (working time: advocating for an increase in working time; see link to Speech 24 Appendix C, for example); RA (retirement age: advocating for an increase in the retirement age; see link to Speech 26 in Appendix C, for example); WS (wage-setting: advocating for a decentralization of wage-setting; see link to Speech 30 in Appendix C, for example);

EW (early withdrawal: advocating for a decrease in the availability and/or generosity of early withdrawal schemes; see link to Speech 21 in Appendix C, for example); MW (minimum wage: advocating for a decrease in minimum wages; see link to Speech 17 in Appendix C, for example); ALMP (active labor market policies: advocating for an increase in the availability of ALMPs; see link to Speech 45 in Appendix C, for example); ER (education and research: advocating for an increase in spending on education, research and development; see link to Speech 41 in Appendix C, for example); IOT (investment in other instruments: advocating for an increase in spending on other instruments, such as the provision of child care or improving the prospects of labor market outsiders; see link to Speech 24 in Appendix C, for example).

The second step of our qualitative analysis was to aggregate the simple counts of each purpose into two overarching categories, by means of assigning the different types of purposes either to the label "disembedding reforms" or "embedded flexibilization" (in line with Thelen, 2014). The former label refers to reforms that are aimed at strengthening the market mode of coordination, commodifying labor, and/or weakening authoritative and collective institutional arrangements, while the latter label refers to reforms that can be associated with the broader "social investment" agenda (see Hemerijck, 2017. As a result, we grouped the codes LT (advocating for a decrease in the tax burden on labor), UB (advocating for a decrease in the availability and/or generosity of unemployment benefits), EPL (advocating for a decrease in the protection against job dismissals), EC (advocating for the use of flexible employment contracts), WT (advocating for an increase in working time), RA (advocating for an increase in the retirement age), WS (advocating for a decentralization of wage-setting), EW (advocating for a decrease in the availability and/or generosity of early withdrawal schemes), and MW (advocating for a decrease in minimum wages) into the category "disembedding reforms". By the same token, we grouped the codes ALMP (advocating for an increase in the availability of ALMPs), ER (advocating for an increase in spending on education, research and development) and IOT (advocating for an increase in spending on other instruments, such as the provision of child care or improving the prospects of labor market outsiders) into the category "embedded flexibilization". The result of this aggregation is reported in Table 3 in the main text.

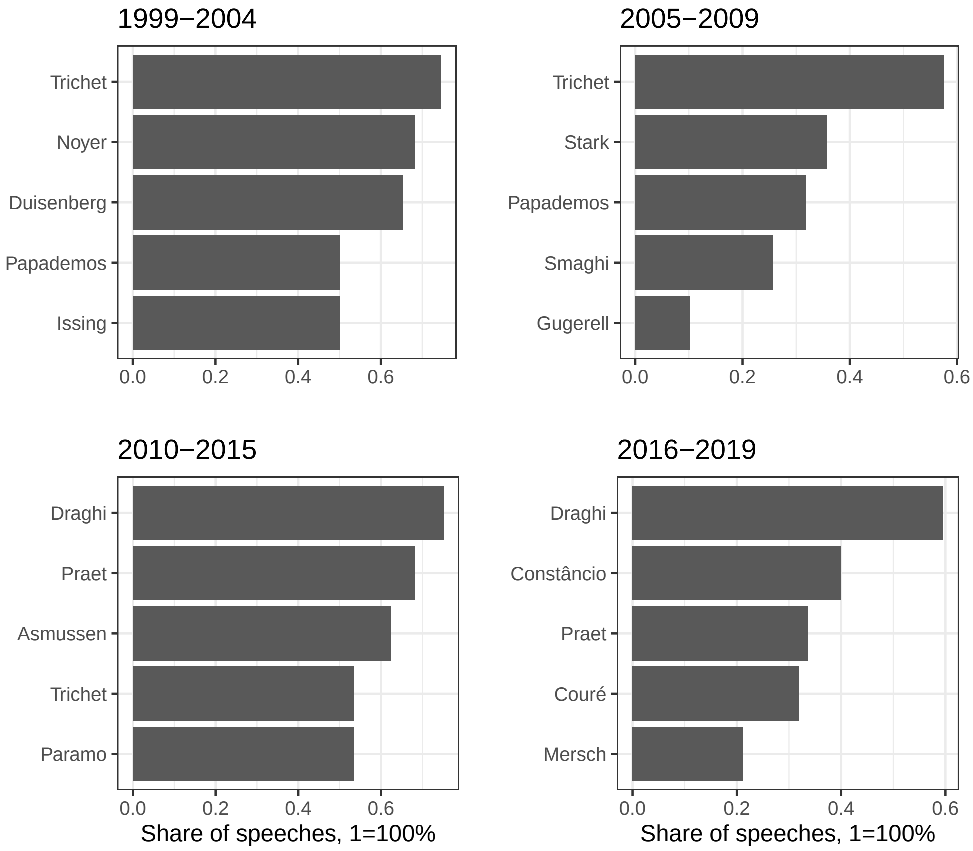
B. Additional tables and figures

Table B.5: Reform purpose mentioned in the ECB's communicative discourse on structural reforms, 1999-2019

	Purpose											
Year	LT	UB	EPL	EC	WT	RA	WS	EW	MW	ALMP	ER	IOT
1999	5	5	0	0	0	0	4	0	4	4	0	0
2000	0	0	0	0	0	0	0	0	0	0	0	0
2001	1	1	1	0	0	0	0	0	0	0	0	0
2002	1	1	1	0	0	0	1	0	0	1	0	0
2003	1	0	0	0	1	0	0	0	0	0	0	0
2004	5	6	1	3	1	1	6	2	1	3	7	0
$\sum$	13	13	3	3	2	1	11	2	5	8	7	0
2005	1	2	0	0	0	1	0	2	0	0	4	0
2006	6	6	4	4	2	1	6	4	0	0	6	4
2007	5	6	6	4	0	1	10	2	1	2	6	1
2008	6	5	3	5	0	1	6	0	0	0	6	0
2009	0	0	0	0	0	0	0	0	0	0	1	0
$\sum$	18	19	13	13	2	4	22	8	1	2	23	5
2010	1	1	0	0	0	0	1	0	0	0	2	0
2011	1	1	1	0	0	0	1	0	0	0	0	0
2012	0	0	0	0	0	0	2	0	1	0	1	0
2013	0	1	0	0	0	0	2	0	0	1	0	0
2014	0	2	1	0	0	0	2	0	0	4	3	2
$\sum$	2	5	2	0	0	0	8	0	1	5	6	2
2015	0	1	1	1	0	0	3	0	0	6	5	0
2016	1	0	1	0	0	0	1	0	0	2	3	0
2017	0	0	0	0	0	0	1	0	0	1	1	0
2018	0	0	0	0	0	0	0	0	0	0	0	0
2019	0	0	0	0	0	0	0	0	0	0	0	0
$\sum$	1	1	2	1	0	0	5	0	0	9	9	0

Legend: LT = Decrease tax burden on labour, UB = Decrease generosity/availability of unemployment benefits, EPL = Decrease protection against job dismissals, EC = Make use of flexible employment contracts, WT = Increase working time, RA = Increase retirement age, WS = Need for wage-setting decentralisation, EW = Decrease generosity/availability of early withdrawal schemes, MW = Decrease minimum wage, ALMP = Increase availability of ALMPs, ER = Increase spending on Education, Research and Development, IOT = Other Instruments (provision of child care and reduction of labour market dualities)

Figure B.5: Top-5 structural reform advocates on the ECB Executive Board (share of speeches that mention "structural reform")



C. Quotes from ECB speeches addressing structural reforms, 1999-2019

Table C.6: Period I: 1999-2004

No.	Date	Speaker	Quotes
1	14/1/1999	Duisenberg	Appropriate fiscal policies and structural reforms implemented by national governments are vital and considerable progress is required in these areas. Moreover, continued wage moderation in both the public and private sectors would contribute to reducing the unacceptably high level of unemployment in many parts of the euro area.
2	8/3/1999	Noyer	Appropriate structural reforms implemented by national governments are of the utmost importance. Much progress is required in this broad area. Moreover, responsible wage settlements in both the public and private sectors are necessary to reduce the unacceptably high level of unemployment in many parts of the euro area.
3	12/3/1999	Duisenberg	The root causes of high unemployment in the European Union are structural rigidities in the labour market as well as tax and public transfer policies. This view is supported by a wide body of academic literature and was also a key finding of the OECD Jobs Study. It is obvious that structural problems require structural solutions. ... in Europe there is an urgent need to improve incentives aimed at getting the long-term unemployed back to work. It also suggests that there is little scope for a stimulus to increase demand, but rather that structural measures should be implemented. ....Although the path of structural reform is not always an easy one, it is the only way in which we can achieve the lasting reductions in unemployment that are so urgently required. ... continued wage moderation in both the public and private sectors would contribute to the reduction of the unacceptably high level of unemployment in many parts of the euro area.
4	25/3/1999	Duisenberg	What is needed appears to be national structural reforms to make sustainable reductions in unemployment rather than a boost to euro area aggregate demand. For example, the Netherlands, Ireland, Portugal, Austria and Luxembourg all currently show unemployment rates well below the euro area average. ...The need for structural reform is widely recognised, for instance in the OECD Jobs Study and at the November 1997 Luxembourg European Council meeting, and some progress with new policy measures is already being made.
5	23/6/1999	Noyer	The root causes of high unemployment in the European Union are structural rigidities in labour markets as well as tax and public transfer policies. This view is supported by a wide body of academic literature and was also a key finding of the OECD Jobs Study. ... Although the path of structural reform is not always an easy one, it is the only way in which we can achieve the lasting reductions in unemployment that are so urgently required. Only structural reforms that aim at stable labour markets where supply and demand meet in a flexible way will ensure that the benefits of EMU for economic growth are really achieved.
6	11/10/1999	Duisenberg	The ECB will continue to cajole governments into implementing necessary structural reforms, but the final hard decisions – and I recognise that they are hard decisions, since the considerable benefits of structural reform only become apparent with time – lie with the national authorities.

7	26/10/1999	Duisenberg	While the contribution it makes through maintaining price stability must not be overlooked, monetary policy clearly cannot solve the serious structural unemployment problem in the euro area. Other policy areas have the instruments needed and are thus responsible for solving the structural problems. ... structural reforms in labour and goods markets, as well as a moderate development of wage costs, can best address the root causes of currently high unemployment in Europe. ... the debate on a "balanced and appropriate policy mix" should not be used to deflect attention from the structural reforms that are urgently needed to address the euro area's serious structural unemployment problem.
8	26/10/1999	Noyer	Another argument supporting better functioning labour and product markets is that the monetary policy of the Eurosystem is and can only be geared to the euro area as a whole. It can thus not take into account purely national or regional developments. The cyclical positions of participating countries have not yet completely converged, although – with the single currency in place – some national differences may disappear over time. This requires national policies and labour and good markets to be increasingly flexible in order to be able to respond effectively to economic shocks that can affect any monetary union.
9	16/10/2000	Hämäläinen	The single currency has been an important catalyst in stimulating the structural reform process. Certainly, we are only at the beginning of the process and much more needs to be done, but I am encouraged by the fact that there seems to be wider and wider support and understanding of the need for structural changes.
10	6/4/2001	Trichet	The Euro is, per se, also a strong catalyst for structural reforms in all non-financial domains in Europe: a single currency facilitates the full comparison of prices, taxes and earnings. I think that the euro could encourage "cross-fertilisation" of best practice through stronger co-ordination of Member States' structural policies in areas such as labour markets, education and training, job creation incentives, effective welfare safety nets, etc.
11	13/6/2002	Duisenberg	Both high, sustainable economic growth and the ability to adjust smoothly to changes in the economic environment require further economic integration and competition. This, in turn, is closely linked to the process of structural reform, which, to use Schumpeter's words, can be seen as a necessary precondition for a dynamic economic process, a disturbance of the economic status quo. The introduction of the euro acts as a catalyst for this dynamic process of structural change. ... Low wage flexibility is also an important factor behind the lack of price flexibility in the euro area. Many studies indicate that in comparison with the United States, real wages are relatively inflexible in Europe. More specifically, I mean that the downward responsiveness of real wages to the level of unemployment is more limited in Europe than in the US. There are, however, notable differences across countries in the euro area.

...11	13/6/2002	Duisenberg	... The irrevocable fixing of exchange rates and the introduction of the single currency may lead to a convergence in the production and export structures of economies in the euro area, thereby reducing the risk of future asymmetric shocks. This argument is often referred to as the “endogeneity” of the optimal currency area hypothesis. Hence, according to the endogeneity literature, the euro area could gradually become more of an optimal currency area, after the introduction of the euro. More generally, it has to be borne in mind that all empirical studies on whether the countries that have entered the euro area constitute an optimal currency area are based on historical data. These data refer to regimes with flexible or fixed-but-adjustable exchange rates. In short, the regime shift to a monetary union may have an impact on economic structures and may alter some of the conclusions drawn on the basis of these historical data. ... In addition to government policies, there are signs of a gradual change in labour market behaviour related to the wage formation process. Discipline seems to have improved in that field over the past decade. Such a change, resulting from lower inflation expectations, is important. Furthermore, there seems to be a growing awareness that, in a single currency environment, the price increases and loss of competitiveness generated by excessive wage settlements cannot be compensated by an exchange rate depreciation and may directly result in a loss of jobs.
12	29/4/2003	Papademos	One of the main messages of 2002 has been that the euro area economy needs to become more flexible and that, to this end, structural reforms need to be stepped up, notably in labour and product markets. Only decisive action to implement structural reforms can make the euro area a more dynamic economy and raise the welfare of its citizens.
13	9/5/2003	Duisenberg	the introduction of the euro has illustrated the need for more co-ordinated efforts in the European Union. I refer in particular to an increased need to enhance the co-ordination of structural policies in Europe, i.e. policies which aim to improve the functioning of market mechanisms and the operation of the economy as a whole. In my view, there are three reasons why such enhanced co-ordination of structural policies is necessary. First, the introduction of the euro has made exchange rate fluctuations obsolete as an instrument of adjustment. For instance, before the establishment of Economic and Monetary Union (EMU), divergent national economic developments could be addressed by a depreciation or appreciation of national currencies. ...to enhance economic adjustment via wages and prices so that it is comparable to the level of adjustment existing between regions of the United States, policies aiming at increasing the flexibility of the markets are necessary. ... Mr. President, I sincerely hope - both in my capacity as President of the ECB and as a European citizen and staunch supporter of European integration - that the introduction of the euro will act as a catalyst for increased co-ordination in the area of structural policies. And, as I already mentioned, I hope the euro will also perform this function in other areas.

14	5/9/2003	Duisenberg	By being strictly geared towards maintaining price stability in a credible and lasting manner, monetary policy makes an important contribution to achieving a high level of output and employment, and to sustaining growth. Confidence in lasting price stability removes the inflation risk premium on interest rates, ensuring low real interest rates, which in turn foster investment, growth and employment. Theoretical and empirical evidence clearly confirm that there is no long-term trade off between price stability and economic growth. Trying to use monetary policy to fine-tune economic activity or to gear it above a sustainable level will, in the long run, simply lead to rising inflation – not to faster economic growth. Structural reforms in the labour and goods markets are a key element of any long-term strategy to improve investment, growth and employment prospects. First, more flexible markets increase the speed with which countries can adapt to economic shocks, thereby speeding up economic recovery. Second, increased competition in labour and product markets is conducive to a high level of innovation and the rapid spread of technological progress. This in turn supports long-term growth, without contributing to inflationary tendencies. Third, structural reform may facilitate the transmission of monetary policy. In more rigid economies, interest rate changes are transmitted to prices after a longer delay, and structural barriers can prevent the economic efficiency gains of the primary objective of monetary policy - price stability - from being fully realised.
15	29/11/2003	Trichet	More than ever there is in Europe a need to push ahead with structural reforms for enhancing the competitiveness of the euro area. Structural reforms in the labour and product markets, and in social security systems, are needed to allow a more flexible allocation and utilisation of capital and human resources, thereby enhancing the euro area's growth potential and facilitating the adjustment to economic shocks. The Governing Council very strongly supports recent and ongoing efforts by a number of governments in this direction and also encourages social partners to fully commit themselves to the objective of making the euro area a more dynamic and innovative economy as called for by the "Lisbon agenda", which was agreed upon by the European Council in 2000. Sound supply-side policies should aim to increase the flexibility of the labour markets, reducing the disincentives to work. Such policies would enhance confidence that working hard and undertaking new investments in human and physical capital will not be penalised through costly rigidities. Entrepreneurs and international investors would invest more in equipment and research in the euro area and offer new jobs. Such a reform agenda would enhance supply-side dynamics and thus potential output growth in many ways. ...You may ask what all this has to do with monetary policy. First, as the central bank responsible for the euro area, we place great value on seeing a major necessary condition for growth, job creation and prosperity for current and future generations being fulfilled: ensuring price stability, confidence in the euro and its purchasing power is our own decisive contribution to sustainable growth. And this contribution is less difficult to deliver in an environment where governments and social partners contribute to confidence and potential output growth.
16	26/1/2004	Trichet	More specifically, [labour market] policies should aim at: ... Allowing for a sufficient degree of wage differentiation to ensure that wages reflect divergent productivity growth and regional/sectoral developments.

17	20/4/2004	Trichet	Let me, first of all, stress again the importance structural reforms have for output and employment growth. As the ECB has stressed, what is needed for these objectives to be achieved are economic reforms that ensure that capital, labour and product market rigidities will be substantially lowered. Structural reforms in capital, labour and product markets and in social security systems are needed to allow an allocation of capital and human resources which would be much closer to the optimum, enhancing the euro area's growth potential and facilitating the adjustment to economic shocks. ...This is particularly important for employment growth in the services sectors, which are less exposed to international competition. In this area, structural reforms can yield further reduction in price pressures and at the same time create conditions for moderate wage developments that could enhance more pronounced employment creation. On the one hand, structural characteristics of labour and product markets will have an impact on the wage-price dynamics through the effects they may have on the price- and wage-setting behaviour of firms and trade unions. With imperfectly competitive product and labour markets, firms and employees can affect - at least partially - the price and wage dynamics on a local scale, resulting in stronger inflationary pressure and structurally grounded inflation dynamics that have to be met with more restrictive monetary policy. ...On the other hand, the transmission mechanism of monetary policy can be impaired by overly rigid economies, preventing monetary policy decisions to be properly reflected in price developments. In particular, structural rigidities may imply that monetary policy decisions affect prices and inflation rates only with a substantial lag. Consequently, policies have to be longer in place in rigid economies than in more flexible ones in order to ensure price stability. This not only lengthens the reaction time but will also increase the sacrifice ratio. The creation of a single currency and the introduction of the euro not only raises pressure to speed up the structural reform process but will also change profoundly the behaviour of the euro area economies and in particular the way prices and wages are set. In order to proceed with the necessary structural reforms in the euro area, the Lisbon agenda continues to provide an important benchmark against which to measure progress with reforms. ... In addition, the wide-spread use of undifferentiated minimum wages and the administrative extension of wage agreements do not allow an appropriate differentiation to account for regional asymmetries.
18	23/4/2004	Trichet	Thus far, progress with the implementation of labour market reforms has been uneven in the euro area. ...In many countries, it is important to enhance the flexibility of labour contracts and wage-setting to enhance employment growth in a lasting manner. ... Reforms are also needed that allow wages to reflect more strongly regional and sectoral productivity differences.
19	13/5/2004	Trichet	Let me mention some of the objectives at the top of the reform lists where I think progress is most needed. As far as the labour market is concerned, moderation in wage agreements is essential, not only in order to contain risks to price stability but also to foster employment growth and to enhance competitiveness. Wage bargaining outcomes should allow for appropriate wage developments in the overall economy, as well as a sufficient degree of wage differentiation to reflect more strongly regional and sectoral productivity differences.

20	28/5/2004	Issing	The ECB has always stressed the importance of a swift implementation of structural reform agendas across the euro area. This reflects above all the firm belief that structural reforms enhance the welfare of the European citizens. But structural reforms also tend to facilitate monetary policy and increase its effectiveness. A more flexible economic environment helps the labour and product markets to better adjust to economic shocks and respond to policy actions more quickly. For example, more flexible labour markets may imply that negative supply shocks are absorbed with a smaller short-term increase in inflationary pressures, as second round effects are more subdued. This, in turn, allows monetary policy to react less strongly. Such an environment will not only make it easier for monetary policy to maintain price stability, but it will also help to keep the volatility of inflation and output lower.

Table C.7: Period II: 2005-2009

No.	Date	Speaker	Quotes
21	18/10/2005	Trichet	Although the structural reforms have been moving in the right direction, they have not been far reaching enough. In fact, we need to step up considerably the implementation of the necessary reforms in order to achieve the Lisbon goals. In particular more progress in labour market reforms is needed to attract more people into labour market and investment in research and development and human capital should be strongly encouraged. What needs to be done is rather clear. But how to deliver it in an environment of rapid change is the more challenging question. ... regarding the insufficiently clear commitment, the Heads of State or Government also clearly set out the responsibilities of the European and the national level. Since the Member States are responsible for most of the policy reforms required for achieving the Lisbon objectives, they have now been called upon to take full national ownership of the Strategy.
22	6/2/2006	Trichet	Let me be somewhat more specific about the areas in labour and product markets where I think that further progress is most urgently needed. Structural reforms are crucial in the areas of employment protection legislation and wage-setting mechanisms, including wage indexation. A sufficient degree of wage differentiation is important to ensure that wage adjustments closely reflect regional and sectoral productivity differences.
23	24/3/2006	Issing	In other words, to quote Rose and Frankel: “countries which join EMU, no matter what their motivation may be, may satisfy OCA properties ex-post even if they do not ex-ante!” This has been termed the “endogeneity of optimum currency area” effect. Several authors have brought forward concepts similar to the above hypothesis of the “endogeneity of OCA”, but in areas other than trade. Artis and Zhang have discussed the endogeneity of symmetry of shocks. Blanchard and Wolfers, and Saint Paul and Bentolila, have discussed the endogeneity of labour market institutions. Kalemli-Ozcan, Sørensen and Yosha discuss the effects of sharing a single currency on financial markets and insurance schemes. Therefore, there may be diverse sources of “endogeneities of OCA.” Such endogeneities can be seen as a set of processes triggered by the start of a monetary union. Hence, monetary union may help to set in motion forces bringing countries closer together, forces that were not present (or strong enough) before.
24	24/04/2006	Trichet	The lack of sufficient structural reform in Europe is, in my view, a major cause of the gap in economic growth between Europe and the US. ... the ECB’s monetary policy has a role to play in supporting the implementation of structural reforms. A credible monetary policy aimed at maintaining price stability in the medium term and solidly anchoring medium and long term inflation expectations contributes decisively to a stable economic environment. In a stable macroeconomic context, it is not only easier to single out where reforms are needed, but the benefits of reforms are also made more visible and convincing, thus supporting their acceptance.
25	29/6/2006	Trichet	...the persistence of growth and inflation differentials also show that some other sources of diversity are not economically justified. They might be partly attributable to insufficient flexibility; in such economies corrections must be made. For example, in some economies the combination of weak labour productivity growth and of strong nominal increases of wages and salaries for a sustained period might lead to a progressive deterioration of their competitiveness. Furthermore, in several euro area countries there exists specificities in wage formation (for example due to indexation mechanisms or due to the influence of the public sector) and in price formation in general. This limits the responsiveness to shocks.

26	13/06/2007	Trichet	... the creation of the euro area – like globalisation – highlights the need for flexible economies. I do not see this as a negative aspect. On the contrary, it is a positive implication. In this sense, EMU has increased the pressure on all policy-makers and also all social partners [...]. They must ensure a well-functioning euro area, by good management aimed at enhanced flexibility, integrated labour, product and financial markets and disciplined fiscal policies. ... Needless to say, the responsibility for the implementation of reforms is in the hands of national governments, of Parliaments and of social partners. We know very well that structural reforms may face both resistance from economic agents and different sensitivities in public opinion. This is why it is extremely important to communicate the fact that the medium to long-term benefits of structural reforms will significantly outweigh any short-term cost. We therefore strongly support governments in their implementation of structural reforms and we consider our duty to stress and explain their benefits. What factors may help to increase flexibility within the euro area? Economic flexibility can be promoted by removing the institutional barriers to flexible wage and price-setting mechanisms. If wages and prices are flexible enough and be able to adjust to the changes in the economic conditions, then this will help to avoid unwelcome fluctuations in unemployment. Specifically, in a monetary union most of the adjustment has to take place through national labour markets.
27	21/9/2007	Trichet	Economic flexibility can be promoted by removing the institutional barriers to flexible wage and price-setting mechanisms. Specifically, in a monetary union, most of the adjustment has to take place through national labour markets. Therefore, wage setting should appropriately reflect the different situations of sectors, of firms and of overall labour market conditions. Let me stress that social partners share responsibility for ensuring that wage settlements fully take into account the need to reduce unemployment and to enhance labour market access and employment. Moreover, governments should also be aware of the way in which wage setting for public servants can serve as a role model for the private sector. And social partners need to take into account the different conditions at the firm and sectoral level, internalising the repercussions of wage settlements on competitiveness and thus employment at their company and in their industry, sector or region. Sufficient wage differentiation would improve employment opportunities for less skilled workers and in regions or sectors with high unemployment.
28	8/10/2007	Trichet	...the public sector also functions as a role model, for example as regards wages or administrative prices. The behaviour of the public sector can, for instance, make social partners more aware of the trade-off between higher salaries and job creation.
29	16/5/2008	Trichet	The smooth functioning of the euro area, taking into account the relative importance of the public sector and of the non tradable sector in a number of economies, calls for not relying exclusively on the working of the competitiveness channel amongst tradable goods and services to engineer corrections of deviations of relative cost competitiveness inside the euro area. Appropriate handling of the unit labour costs in the civil service and public sector, appropriate recommendations to social partners given in a timely manner would avoid in certain cases painful national corrections through the competitive channel. To sum up, changes in relative cost competitiveness provide much more room for manoeuvre than was foreseen prior to the launch of the euro. In several euro area countries, wage formation is still linked to indexation mechanisms or is influenced by the public sector. This limits the ability to respond to shocks. Structural reforms and the liberalisation of product and labour markets can and must contribute to significant increases in flexibility.

30	27/10/2008	Trichet	... national authorities can make a substantial contribution to more modest labour cost developments. In particular, the public sector should be a role model in terms of wage-setting and should not contribute to strong overall labour cost growth.
31	23/11/2009	Trichet	In the future, changes in labour market institutions to make wages adjust to productivity are essential to repairing past cumulative misalignments. There is a need for moderation in wage claims to regain competitiveness. This window of opportunity cannot be missed in those countries where substantial increases of production costs have been one of the causes for widening imbalances in current accounts, and Spain is one of them.

Table C.8: Period III: 2010-2015

No.	Date	Speaker	Quotes
32	7/10/2010	Constâncio	Concerning the third challenge, creating the conditions for growth, the G20 have approved the Framework for Strong, Sustained and Balanced Growth which, alongside a set of structural reforms, has at its core fiscal consolidation, which could lead to 1) internal rebalancing in advanced economies by substituting public stimuli for increased private demand; and 2) external rebalancing by promoting domestic demand in surplus countries and increasing external demand in deficit countries ...the EU-level targets under the Europe 2020 strategy are being translated into precise country-specific targets to guide policy-making at the national level. ... structural reforms should be introduced to increase wage flexibility and the adjustment of wages to appropriate levels. This could be achieved through measures to improve the functioning of labour markets, which would also facilitate the necessary transfer of workers from the non-traded to the traded sectors. In fact, we have already seen wagesetting developments in some European countries that many observers would have believed impossible just a few years ago. The adoption of measures to increase productivity growth is also essential.
33	12/10/2011	Stark	Some countries have built up significant internal and external economic imbalances during the past decade, and recorded inflation rates persistently above the euro area average. The ECB repeatedly warned against emerging imbalances. Increases in labour compensation in some countries, driven in most cases by high public sector wage increases, exceeded productivity gains by a significant margin, leading to increases in unit labour costs in excess of the euro area average and a gradual erosion of competitiveness. Let me stress that governments and social partners share responsibility for ensuring that wage determination sufficiently takes into account labour market conditions and does not jeopardise competitiveness and employment. Governments should also be aware that wage setting in the public sector can serve as a role model for the private sector. ...in the absence of nominal exchange rate flexibility, any real exchange rate adjustment had to be delivered via cuts in wage costs and prices combined with enhancements in labour productivity. The adjustment in wages was both market-driven, owing to a sharp decline in the demand for labour, and supported by policies aimed at cutting public sector wage costs. The labour market adjustment was not only achieved through wage cuts, but also through employment cuts, reductions in hours worked and a restructuring of production processes. As a result, unit labour costs declined significantly, partly offsetting their previous excessive gains.

34	7/2/2014	Mersch	Put simply, there is no way we can achieve higher potential growth in the euro area without them. Structural reforms are essential to raise the trend components of the inputs to production (investment and labour) and the efficiency with which they are used (total factor productivity). . . . These may seem like theoretical arguments. Yet Ireland is a very concrete working example. Thanks to prior structural reforms, relative prices in this country adjusted almost immediately after the 2008-09 recession, allowing the economy to quickly begin regaining its competitiveness. The unemployment rate started declining in 2012, falling from 14% in December that year to 12% a year later. By contrast, in other programme countries with less flexible economies the recovery started much later. . . . Since the 1990s we have known that supply conditions in the euro area needed to be reformed. This was the aim of the failed Lisbon Agenda. And indeed, it was the context for a famous quote about the apparent inconsistency between reform and re-election. What is new today, however, is the urgency for action. We are facing the risk of a structural set back in growth. We can therefore no longer afford to delay, nor should we over-burden monetary policy. Structural reforms are a must.
35	19/2/2014	Praet	A key complement to fiscal adjustment has therefore been structural reform. In several countries a series of bold structural reforms have been implemented. In Portugal in particular, the reform agenda has been broad-based and far-reaching. It has included public administration, health and pension systems, education, judicial systems, competition frameworks, industrial relations, labour markets, energy markets, network industries, services sectors and regulated professions Over time the economic and social pay-offs of reforms will be high, in terms of higher wealth and employment. . . . It is therefore crucial that the reform process is strengthened in all euro area countries, also those not affected by the crisis.
36	9/7/2014	Draghi	I believe that the case for community-level governance does not apply only to fiscal policy, or to the banking union, but also to structural reforms ...structural reforms play a crucial role – and perhaps an even more important role in the euro area than in other unions. Markets can be opened through EU legislation. But it is only through structural reforms that firms and individuals can be enabled to take full advantage of that openness. ...over the past few years, we have seen both the risks associated with insufficient competitiveness in some Member States and the benefit of structural reforms. We have witnessed the accumulation of external imbalances in peripheral economies prior to the crisis, and how that left them vulnerable to "sudden stop" dynamics. And more recently, we have seen the improvement that has taken place when governments implemented reform.

...36	9/7/2014	Draghi	...In fact, the return of market confidence in the euro area results mainly from the acknowledgement that individual governments, in particular in some of the most stressed countries, have taken significant corrective action and will continue to do so where needed. So while lack of reform can threaten the cohesion of the Union, we can already see how decisive reform can strengthen it. But we are only at the beginning. The final judgment now rests on our being able to show that cohesion also produces growth and jobs. The second reason why a stronger role for the Union could be beneficial is that, similar to fiscal policies, establishing rules at the level of the Union may in fact help national authorities implement reform. Structural reforms reach deep enough into societal arrangements and practices that they can only succeed if they are made the object of strong domestic ownership. At the same time, those reforms require substantial political capital. Historical experience, for example of the IMF, makes a convincing case that the discipline imposed by supranational bodies can make it easier to frame the debate on reforms at the national level. In particular, the debate can be framed not in terms of whether, but in terms of how reform needs to take place. In other words, I am not convinced by the argument that, in terms of structural reforms, there is an opposition between rules and ownership. On the contrary, they can be mutually reinforcing.
37	17/10/2014	Cœuré	Reforms can be shown to produce two, opposing sets of forces in the short-term. One is contractionary, as reforms lead to lower prices and higher real interest rates. If monetary policy is at the zero lower bound and unable to respond and fiscal space has been exhausted, higher real rates cause the private sector to postpone consumption and investment decisions and GDP to contract. ... I see a need today to rebalance our focus: to focus less on achieving internal devaluation, and more on raising productivity. And this entails a broader set of reforms than countries have adopted thus far ... reforms are a necessary but not a sufficient condition for growth ... Today the reform agenda facing European countries is largely about productivity, and this means that pursuing reforms aggressively is less likely to have negative short-term effects. Many of the reforms that lead to downward price pressures and higher real interest rates have already been done, and their effects are working their way through the economy now. The remaining reforms are more about boosting investment demand and productivity and so raising growth today.
38	27/11/2014	Draghi	Lack of structural reforms raises the spectre of permanent economic divergence between members. And insofar as this threatens the essential cohesion of the Union, this has potentially damaging consequences for all EMU members. Seen from this perspective, euro area countries cannot be agnostic about whether and how others address their reform challenges. Their own prosperity ultimately depends on each country putting itself in a position to thrive within the Union. And for this reason, there is a strong case for sovereignty over relevant economic policies to be exercised jointly. That means above all structural reforms. ... over the longer-term, acknowledging the community of interest and the reality of spillovers in the form of a real sharing of sovereignty in the governance of structural reforms.

Table C.9: Period IV: 2016-2019

No.	Date	Speaker	Quotes
39	02/02/2015	Cœuré	The conclusion, therefore, is that constantly tinkering with our common fiscal rules while leaving governance of structural policies entirely at the national level makes little sense. If fiscal policies are to be freed from structural dominance, then we need an equally strong framework in both domains. ... The only way to resolve this paradox is if, behind the "veil of ignorance", risk-sharing is symmetric between countries. This is only possible if all countries share sovereignty over structural reforms so that they have equivalent growth prospects and shock absorption capacity. ... I am of course aware that structural reforms can have mixed effects on growth and inflation, and in certain situations can impact negatively on both in the short-term. But empirical evidence is mixed and the balance of effects depends crucially on designing reform packages well.
40	22/5/2015	Draghi	In every press conference since I became ECB President, I have ended the introductory statement with a call to accelerate structural reforms in Europe. The same message was also conveyed repeatedly by my predecessors, in three quarters of all press conferences since the introduction of the euro. The term "structural reforms" is actually mentioned in approximately one third of all speeches by various members of the ECB Executive Board. By comparison, it features in only about 2% of speeches by governors of the Federal Reserve. ... A comprehensive package of structural reforms will therefore tend to increase both resilience and growth. These are clearly issues in which any central bank has a keen interest. But this is especially true for the central bank of a monetary union ... For this reason, that every national economy is sufficiently flexible should be accepted as a part of our common DNA. It has to be a permanent economic feature that comes with participation in the euro area, the same way that the Copenhagen Criteria are permanent political features of membership of the EU. And this is why, as I have said many times, I believe there is a strong case for governance of structural reforms to be exercised jointly at the euro area level: to help each country to achieve the necessary level of resilience; and to ensure that they maintain that resilience permanently. Since structural reforms in any euro area country are a legitimate interest of the whole union, there needs to be stronger ownership of reforms not just at the national level, but at the European level as well.
41	15/6/2015	Praet	But the key point is about diversity. It is not enough to give one-dimensional prescriptions such as that the all labour markets must become more flexible. What matters is that the combination of policies and institutions within each country produces an outcome that is satisfactory for its citizens and sustainable for the euro area as a whole. ... There are some minimum requirements that come with being part of a monetary union. But there are various ways of meeting them. This is perhaps a notion that, in the future, we could do a better job of conveying.

42	17/6/2016	Cœuré	I agree that central bankers should tread very cautiously in other economic policy areas. But monetary policy, and particularly so in a monetary union, does not operate in a vacuum. Although central bankers take their decisions independently, they also have to take into account what other parties are doing. ... there are at least three reasons why central bankers cannot be indifferent to structural reforms. First, the combination of low potential growth and the debt overhang inherited from the crisis threatens the European social contract, a contract that was established in the post-war era and that was fair and affordable at that time. This in turn is a threat to the sustainability of our social market economy, which is the environment in which our monetary policy operates. Second, factor reallocation over time and across sectors is necessary in order to adjust to shocks and therefore key to the smooth transmission of monetary policy. And third, convergence between economies is both an economic and political prerequisite for a well-functioning monetary union. ... for structural reforms to successfully lift potential growth in a monetary union, they have to fulfil two important criteria: (i) they need to be comprehensive and well sequenced and (ii) all-encompassing. "Comprehensive" means that a narrow focus on labour market reforms is not sufficient. Structural reforms are also about incentivising innovation, competition and fighting rent-seeking and monopolistic structures.
...42	17/6/2016	Cœuré	Labour market reforms should be sequenced carefully, in such a way that a negative short-term effect on employment is ideally felt only when the recovery is gaining momentum. This could in practice mean that employment protection is liberalised only when reforms to increase nominal wage flexibility have been carried out. This can have a quick effect on reducing unemployment even shortly after its implementation. Second, active labour market policies can help to reallocate workers across sectors of the economy while an adjustment is taking place. Third, expansionary fiscal and monetary policy can also dampen the negative short-term impact of labour market reforms. The current low interest rate environment and the mildly expansionary fiscal stance on aggregate in the euro area provide a good opportunity for governments to minimise the short-run costs of labour market reforms.
43	13/4/2016	Constâncio	... structural reforms entail short-term contractionary effects many times. Eggertsson, Ferrero and Raffo (2014) highlight that such contractionary short-term effects are amplified at the LB, because they cannot be off-set by expansionary monetary policy through a reduction in interest rates. A recent IMF working paper by Bordon, Ebeke and Shirono (2016) concludes that "Existing studies have shown that the long-run effects of structural reforms on growth and employment are positive. However, the evidence on the short-run effects of structural reforms is rather mixed and limited." The recently published April 2016 IMF WEO agrees and writes: "... reforms to employment protection arrangements and unemployment benefit systems have positive effects in good times, but can become contractionary in periods of slack. These results suggest the need for carefully prioritizing and sequencing reforms." ... the effects of structural reforms are contingent on the state of the cycle and the degree of slack in the economy as well as on the accompanying stance of macroeconomic policies.

44	30/11/2016	Draghi	Structural reforms are therefore urgently needed to raise productivity growth and unlock unused labour potential and thereby avoid stagnation in per capita income. ... There are benefits for fiscal policy too. By lifting output and employment and lowering unemployment, reforms improve governments' structural balances. Moreover, higher levels of potential output reduce the current overhang of public sector debt that is impinging on some countries' ability to carry out stabilisation policies. The greater fiscal space also enables governments to redistribute the benefits of reforms across the whole population. Some reforms can have upfront negative distributional effects, which governments may want to offset.
45	18/10/2017	Draghi	During the crisis, because of powerful vested interests, labour market reforms were not accompanied by product market reforms in some countries, and so wages fell and prices did not adjust in tandem. ... the case for structural reforms needs to go beyond their efficiency benefits. We need to show that reforms can contribute to both efficiency and equity. One way this can be achieved is by focusing more on reforms with positive distributional effects. ...some reforms will always have negative distributional effects, at least in the short term. But in these cases we can do more to reduce inequality by ensuring that flexibility is combined with security. Inclusive labour markets are ones with well-functioning active labour market policies that allow people to reskill, and proactive macroeconomic policies that shorten job transitions. Before the crisis, several countries introduced labour market reforms to increase flexibility, but did little to make their labour markets more secure. This ended up disproportionately penalising young people, who had weak job protections and meagre support during unemployment.
46	30/11/2017	Praet	Reforms which improve economic structures make countries more resilient and the single monetary policy more effective. In good times, reforms tend to face strong opposition, which only breaks down during times of economic demise, either following a long period of economic decline or in the wake of a severe crisis. Evidence of crisis-led reforms is plentiful: for instance, not just the Latin American trade reforms in the 1980s and 1990s, but also the most recent experience in the euro area goes in this direction. The long-run benefits of reforms are largely undisputed, but the potential short-term costs have increasingly been highlighted. Such undesirable effects can materialise through a number of channels. Reforms that enhance competition can displace workers and capital in the short run. In bad economic times, there is a risk that these factors of production will not be absorbed by new entrants, thereby aggravating the recession. Reforms that lower wages can depress consumer demand in the short term if not rapidly offset by employment gains and the prospect of future productivity related income gains that would materialise in normal times. To ensure that the expansionary effect of reforms dominates in the short run, both the sequencing of reforms and the policy mix matter. ... may be better if product market reforms precede labour market reforms and if product market reforms focus on reducing entry barriers in service sectors with large pent-up demand. As regards the policy mix, if there is fiscal space, IMF research has underscored the beneficial effects of carefully designed fiscal packages which can overcompensate for the short-run cost of reforms.
47	19/6/2018	Draghi	annual growth in negotiated wages has also started to move upwards. Looking ahead, recent wage agreements notably in Germany, but also in other large countries such as France and Spain, point to a continuation of these wages dynamics. There are signs that the restraint in public-sector wage growth, which had in the past dragged on aggregate wage growth, is starting to relax.

48	29/3/2019	Cœuré	Although pre-crisis policy advice strongly focused on reducing nominal and real rigidities in product and labour markets, today there are still significant differences across countries in the response to common euro area-wide shocks. ... The upshot is that, in this environment, monetary policy is more difficult to calibrate. Different transmission mechanisms propagate the same shock to different degrees and with lags that may vary across countries. Minimising these differences in transmission does not require all countries to adopt the same economic structures. What matters is for countries to have institutions that deliver the right outcomes, both individually and jointly. Our system of economic coordination, the European Semester, still falls short of achieving this objective. And as a consequence, it still falls short of supporting adequately the single monetary policy. ...Heterogeneity is part of the euro area's DNA. It is a source of strength, provided our institutions and markets have the instruments and ability to effectively absorb idiosyncratic shocks.