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Leadership by Default: The ECB and the Announcement of Outright Monetary Transactions

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Abstract

Starting from the striking effect of the ECB's announcement of Outright Monetary Transactions, this paper examines why and how the ECB emerged as a leader in fighting the Eurozone crisis. Based on a rational institutionalist approach to political leadership, the paper argues that the ECB emerged as a leader because the benefits of preserving the common currency and thus its own existence outweighed the high costs of its politicization. Against the backdrop of superior power resources, homogeneous preferences, and a low institutional constraint, the ECB provided leadership by combining two strategies – namely the provision of common knowledge and unilateral action – which provided it with a first-mover advantage. As a result, the paper argues that the ECB acted as a "leader by default" rather than a power-maximizer. Instead of engaging in a competition about political influence with member states, the ECB refrained from taking the lead as long as possible because it shied away from the high costs that were connected to it. Only once it became clear that it would not be possible to free-ride on the leadership of any other actor, the ECB finally stepped in and assumed leadership.

„Leadership by Default": Die politische (Führungs-)Rolle der EZB und die Ankündigung geldpolitischer Outright-Geschäfte

Zusammenfassung

Dieser Artikel untersucht, wie und warum die EZB durch die Ankündigung geldpolitischer Outright-Geschäfte (OMT) die Führung im Kampf gegen die Eurokrise übernahm. Ausgehend von einem rationalistischen Verständnis politischer Führung wird argumentiert, dass die EZB erst dann Führung übernahm, als der daraus entstehende Nutzen – nämlich die Wahrung der Eurozone und somit der eigenen Raison d'Être – die hohen Kosten der damit einhergehenden Politisierung überstieg. Da die Übernahme politischer Führung im Konflikt mit der Unabhängigkeit der Währungsbehörde

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steht, schreckt die EZB selbst dann vor politischer Führung zurück, wenn ihr dies individuelle Vorteile verschaffen würde. Im Eurokrisen-Management agierte sie daher als ein „leader by default“, welcher erst dann die Führung übernimmt, wenn kein anderer Akteur dafür zur Verfügung steht und die Kosten des Status quo jene politischer Führung übersteigen.

Keywords: European Central Bank, Political Leadership, Economic and Monetary Union, Eurozone Crisis, European Union

JEL Classification: E58, F02, F55, H12, Y8

I. Introduction

In July 2012, government bond spreads in the Eurozone had reached an unprecedented height (see Figure 1 below). This happened despite all anti-crisis measures that member states (MSs) had decided on in the preceding months, and it came along with new speculations about a collapse of the Eurozone. In this situation, the President of the European Central Bank (ECB) Mario Draghi announced at the Global Investment Conference in London on 26 July 2012: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough” (President of the ECB 2012). Following this statement, the ECB announced on 2 August 2012 that it “may undertake outright open market operations of a size adequate to reach its objective.” (ECB 2012a).

As a consequence of these announcements, government bond spreads collapsed. This not only provided sudden stability to the Eurozone, but it actually suspended the crisis as it removed its most immediate trigger (*Altavilla* et al. 2014; *De Grauwe/Ji* 2015). While the announcement of the so-called “Outright Monetary Transactions” (OMT) was confirmed by the Governing Council only few days later, the technical details still needed to be elaborated in the following weeks (Interviews 13, 18, 20, 22). On 6 September 2012, the Governing Council delivered the technical features of OMT (ECB 2012b). There would be no ex-ante quantitative limits and the purchases would be conditional on the existence of a macroeconomic adjustment programme with the European Stability Mechanism (ESM) (*Altavilla* et al. 2014; *Lombardi/Moschella* 2016).

The announcement of OMT represents a policy and institutional change. It constitutes a policy change because OMT enlarge the ECB’s spectrum of policy instruments (*Salines* et al. 2012). At the same time, the announcement is an (informal) institutional change as the ECB has thereby become the Eurozone’s de facto lender of last resort (*De Grauwe/Ji* 2015). The institutional practice preceding the OMT announcement provided that the ECB could only make limited purchases of government bonds to safeguard the transmission of its monetary policy. Hence, by helping the Eurozone to preserve its common currency and to overcome the crisis through the realization of a major policy and institutional change, the ECB provided political leadership[1].

However, political leadership is costly (*Frohlich* et al. 1971). In the case of OMT, the ECB's costs consisted primarily in its politicization and the concomitant loss of independence (*Farrell* 2012). Against this background, the paper asks as to why the ECB emerged as a political leader. Moreover, it examines the strategies used by the ECB to provide leadership. This is of particular relevance because as a politically independent institution, the ECB is not supposed to use bargaining-based leadership strategies such issue-linking or coalition-building.

In qualitatively analysing the OMT announcement, the paper relies on a rationalist approach to political leadership (section II.). As opposed to previous research on the political role of the ECB (e.g. *Henning* 2016; *Torres* 2013; *Verdun* 2017), the empirical analysis focuses on one clear-cut case only. Nonetheless, based on original data gained from semi-structured interviews, it generates generalizable knowledge on the ECB's rationale of action and strategies (section III.). The paper concludes with some general remarks on the ECB's role, which emerge from the empirical analysis (section IV.).

II. Theoretical Approach

This paper takes a rational institutionalist approach to political leadership (see *Schoeller* 2017). Leadership is understood as a process in which an actor in a position of power uses its resources in such a way as to guide the behaviour of others towards a common goal. In the case of successful political leadership, this process results in policy and/or institutional change.

As *Kindleberger* (1981) pointed out, it is precisely the provision of a common good that distinguishes leadership from dominance or exploitation. Accordingly, a leader's followers ("followership") are those who profit from the leader's actions as a collective. This does not mean that the preferences of leader and followers are homogeneous: individual preferences about how to achieve the common good, and how to distribute the related costs, may still diverge.

In line with the definition outlined above, leadership requires power resources. They can be differentiated into material (economic capabilities), institutional (procedural rights) and ideational resources (information, credibility). Moreover, a leader needs to translate her resources into strategies. One way of doing so is the provision of common knowledge (see *Young* 1991). Such a leader defines a problem, proposes a solution to it, and promotes this solution towards her followers. A second way of providing leadership is the use of negotiation strategies,

[1] For a definition of "leadership", see the theory section below.

which serve to enable collective action outcomes that otherwise are prevented by imperfect information, high transaction costs, or free-rider dilemmas (*Tallberg* 2006; *Young* 1991). These strategies comprise agenda-management, arena-shifting and -linking, coalition-building, unilateral action, and leading by example.

Leadership emerges if there is a demand for and a supply of it (*Schoeller* 2017; *Tallberg* 2006). Given that a leader serves followers as a solution to collective action problems (*Young* 1991), the demand for leadership increases with the status-quo costs caused by a suboptimal collective action outcome. Thus, under the condition that there is an offer of leadership, we can expect that:

> If the aggregate status-quo costs are high, there is a high demand for leadership, and political leadership emerges.

Furthermore, leadership is costly. With regard to the supply of leadership, we can therefore expect that a utility-maximizing actor will offer leadership only if her expected benefits outweigh the costs of leading (*Frohlich* et al. 1971; *Shepsle*/*Bonchek* 1997). Hence, under the condition that there is a demand for leadership, the following applies:

> If an actor's individual benefits of leading exceed the particular costs related to it, political leadership is offered and thus emerges.

This approach, according to which a self-interested leader serves a group to reach a common goal, is close to the basic idea of hegemonic stability theory, going back to *Kindleberger* (1981). However, whereas hegemonic stability theory has focused on the role of states in the international economy, this approach includes also other actors such as supranational institutions.

III. Empirical Analysis

The launch of OMT is a leadership case par excellence. By committing "to do whatever it takes to preserve the euro" and through the ensuing announcement of OMT, the ECB did precisely what according to the above-mentioned definition a leader does: it used its power resources[2] to guide the Eurozone members towards a common goal, namely the suspension of the Eurozone crisis. As highlighted in the introduction, this not only represents a policy change, but also an informal institutional change as regards the ECB's role as a potential "lender of last resort".

[2] The ECB was able to announce OMT due to its institutional rights as the Eurozone's issuing authority, its material capabilities ("unlimited firepower"), and the credibility it enjoys in the financial markets (see section II.4. below).

1. *Methodological Note*

The following qualitative analysis serves as a congruence test (*George/Bennett* 2005) to ascertain whether the ECB's emergence as a leader can be explained by high status quo costs in Eurozone crisis management – causing a demand for leadership – and the fact that the ECB's benefits of leading exceeded its costs, thereby accounting for the supply of leadership. Moreover, the ECB's use of leadership strategies will be examined.

The analysis is based on 27 semi-structured interviews conducted at the ECB, the German Ministry of Finance, and the EU institutions in Brussels. In order to obtain the relevant information, the respondents were guaranteed strict confidentiality. If they agreed, the interviews were recorded. Otherwise, notes were made during and immediately after the interviews.

2. *Status-Quo Costs in Eurozone Crisis Management*

According to the first theoretical expectation, a leader emerges if high costs of status quo create a demand for leadership.[3] Status-quo costs are assessed via two proxies. First, interviewees were asked for the "perceived pressure for action" in Eurozone crisis management. Second, the relative development of government bond spreads is used as a complementary proxy, since they partly reflect the fragmentation risk in the Eurozone in case of non-action – and thus the gravity of the crisis.

Most interviewees stated that the perceived pressure for action has never been as high as in spring 2010 and summer 2012. Of the 18 interviewees who answered the question concerning the most critical moment during the crisis, 10 named summer 2012. Moreover, 14 of 18 respondents (77.8 %) stated that in summer 2012, the perceived pressure for action was very high (10) or rather high (4) as compared to other periods of crisis management. The perceived costs in case of status quo consisted in the default of Italy and/or Spain and the ensuing fragmentation of the Eurozone (Interviews 6, 22).

This assessment is corroborated by the development of government spreads at the time. For reasons of better distinctiveness, figure 1 shows the spreads without Greek bond yields.

[3] In the case of OMT, it could be objected that no demand is needed for the ECB's emergence as a leader because it could have announced and even launched OMT without any other actor perceiving a need for it. However, even if the ECB did so, there would be strong objections by negatively affected MSs, which would most probably bring actions against the ECB to the European Court of Justice. Without a perceived need for OMT, the ECB could not rely on its mandate to secure price stability in the Eurozone and would thus lack the legal basis for its measures.

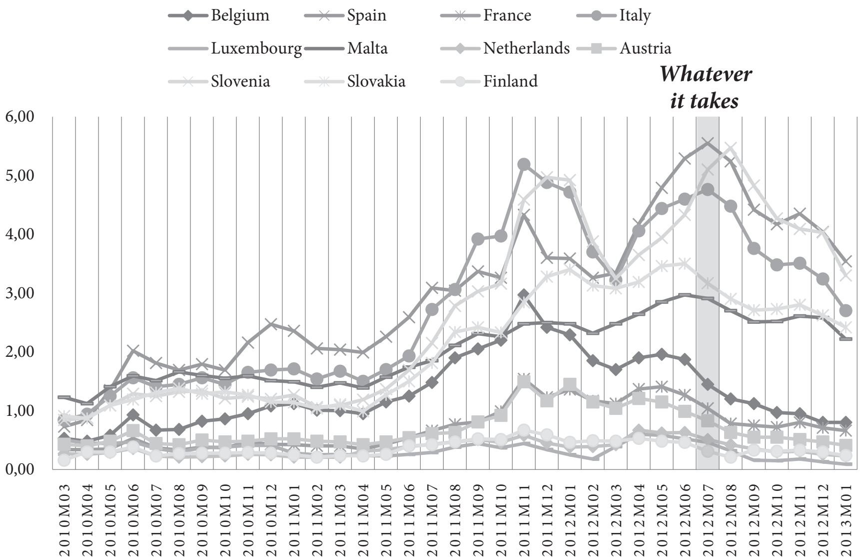

Figure 1: Government Bond Spreads Relative to German Bond Yields (excl. Greece)

The figure illustrates that, alongside a second peak by the end of 2011, the spreads in the Eurozone – and thus its fragmentation risk – have never been as high as in July 2012 when Mario Draghi committed publicly to do "whatever it takes". Especially Spanish bond yields were as high as never before during the crisis, and Italian bonds had almost reached the level they had in November 2011 when Prime Minister Berlusconi finally stepped down. Accordingly, pressure on the ECB to take decisive action increased.[4] In sum, status-quo costs were extraordinarily high in summer 2012, and thus created a high demand for leadership.

[4] See e.g. http://www.euractiv.com/section/euro-finance/news/speculation-rife-over-ecb-s-new-bond-buying-plan/ (rev. 2017-09-14). As the ECB is not supposed to receive any instructions, there is not much evidence that MS governments directly called on the ECB to take action. Moreover, any such request by a "debtor state" would be interpreted as a sign of weakness by the markets, and thus result in self-fulfilling expectations (in terms of rising interest rates on sovereign bonds) or even purposeful speculation against this MS. However, the overwhelming public support for OMT after the announcement (e.g. http://www.euractiv.com/section/euro-finance/news/draghi-gets-ecb-backing-for-unlimited-bond-buying/ rev. 2017-09-14) can be considered ex post evidence for the MSs' demand for leadership.

3. *The ECB's Costs and Benefits of Leading*

According to the second theoretical expectation, a leader emerges if the expected benefits outweigh the costs of leading. Figure 2 gives an overview of the ECB's costs and benefits of leading in the case of OMT as mentioned by the interviewees. There is one benefit of leading, namely the restoration of the ECB's effectiveness in the transmission of its monetary policy and thus the preservation of the Eurozone (being the ECB's raison d'être), which only by the number of mentions outweighs all costs of leading.

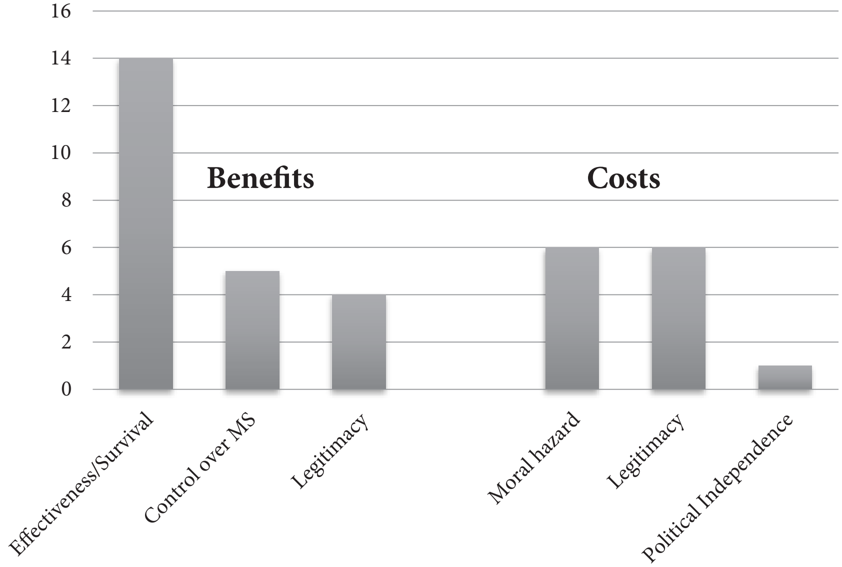

Figure 2: The ECB's Costs and Benefits of Leading by Interview Answers

Table 1 gives a more detailed overview of the ECB's expected benefits of leading according to the individual interviewees. (Answers by interviewees who were particularly strongly involved in the events surrounding the announcement of OMT are printed in bold, answers by ECB officials are italicised.)

The most frequently mentioned benefit of announcing OMT is the signal sent to the financial markets to stop over-reactions (self-fulfilling expectations) or even purposeful speculating against certain MS. By sending this signal, the ECB could not only restore the effectiveness of its monetary policy, but also prevent the Eurozone from falling apart. In this way, it ultimately ensured its own institutional survival.

Table 1

The ECB's Benefits of Leading According to Interviewees (OMT)

INTERVIEW	BENEFITS
	EFFECTIVENESS ⇨ SURVIVAL
2	**Effective signal not to speculate against Euro** **⇨ Preserving the euro (= preserving the ECB)**
5	Ensuring effectiveness of own monetary policy and existence of Eurozone
11	ECB's *raison d'être* is to provide effective monetary policy for Eurozone
13	**Saving the euro as 'lender of last resort'**
14	*Saving the Euro; Restoring own credibility vis-à-vis financial markets due to* *a) conditionality (grip over MS' fiscal policy)* *b) unlimited capacity of OMT*
15	**Own survival (euro was facing collapse)**
18	***Effective transmission of monetary policy***
19	***Restoration of the ECB's ability to fulfil its mandate of price-stability against the background of self-fulfilling expectations in the markets***
20	***Signal not to speculate against euro in order to maintain price-stability (even interests for Belgian or French bonds went beyond mere reflection of 'real' credit risk)***
21	***Signal against over-reaction in markets; preventing contagion; containing redenomination risk***
22	***Stopping speculation against euro in the context of rising interests for Italian and Spanish bonds ⇨ avoidance of Eurozone disintegration***
23	*Avoidance of systemic risk and self-fulfilling equilibria*
24	***Ensuring stability and avoiding redenomination risk***
27	**ECB found itself endangered in its existence; thus it took a unilateral decision which, if any, should have been taken in ECOFIN Council instead**
	CONTROL OVER MS
3	Control over concerned MS' fiscal policy through conditionality

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(Table 1: Continued)

INTERVIEW	BENEFITS
11	Getting grip on MS' fiscal policy through conditionality provided by MS
13	**Gaining influence over politicians through conditionality**
14	*Solution to problem of preceding SMP programme ("We had no control"): getting leverage on MS*
19	***Enforceable conditionality against background of failed SMP***
	LEGITIMACY
2	**Increase of reputation (usefulness of ECB was challenged as compared to more successful Fed)**
11	Increase of reputation in the EP
13	**Increase of reputation**
14	*Improving standing with EP*

The first aspect, restoring the effectiveness of monetary policy, may appear to be of rather technical nature. Given that the high interest rates for certain MSs' bonds were arguably based on over-reactions and thus not "justified" by the real economy and actual credit risk, the ECB's monetary policy was rendered ineffective. In other words, the ECB's interest rate policy lost its effect on price stability. By announcing OMT, the ECB signalled to the markets to better stop speculating against the euro because it would buy as many government bonds as necessary to lower the interest rates and – as opposed to the markets – it had unlimited resources to do so. Thus, if it came to an attrition war between the ECB and the markets about interest rates, the ECB would win it for sure. Hence, by announcing OMT, the ECB could restore the effectiveness of its monetary policy and thus fulfil its mandate of ensuring price stability in the Euro Area (Interview 18).

However, at the time the ECB's institutional survival was jeopardized in an even more concrete way, which consisted in the rise of primarily Italian and Spanish bond yields. For the Eurozone, this implied the danger of fragmentation because bailing out Italy or Spain not only represented an economic problem, namely the lack of resources, but also a political problem, which consisted in the lack of political feasibility or willingness. Therefore, calming the markets by announcing OMT corresponded to the avoidance of monetary disintegration and thus to the preservation of the ECB's reason to exist (Interviews 22, 27).

A second benefit of leading, which was mentioned less often, is the control the ECB could gain over the debtor states' fiscal policies by linking OMT to the adjustment programmes ("memoranda of understanding") of the ESM. The ECB supervises these programmes as it is a part of the so-called Troika. By tying its hand through the credible commitment to buy sovereign bonds only from those MSs that sign an adjustment programme with the ESM, the ECB obtained control over their fiscal policies and thereby over the value of the bonds in its own balance sheet. The lack of influence over MSs' behaviour was considered a major flaw of the "Securities Markets Programme" (SMP) which preceded OMT (Interviews 14, 19). As non-compliant MS would lose the next disbursement tranche from the ESM, the ECB found a way to create credible conditionality through OMT. This is why "the ECB came out stronger as an institution" (Interview 11).[5]

The third and least frequently mentioned benefit of leading is an increase of legitimacy in the eyes of the (South-)European public and the European institutions. While two of the four interviewees referred to the ECB's reputation in public (Interviews 2, 13), the other two referred to its standing with the European Parliament, which was predominantly in favour of OMT (Interviews 11, 14).

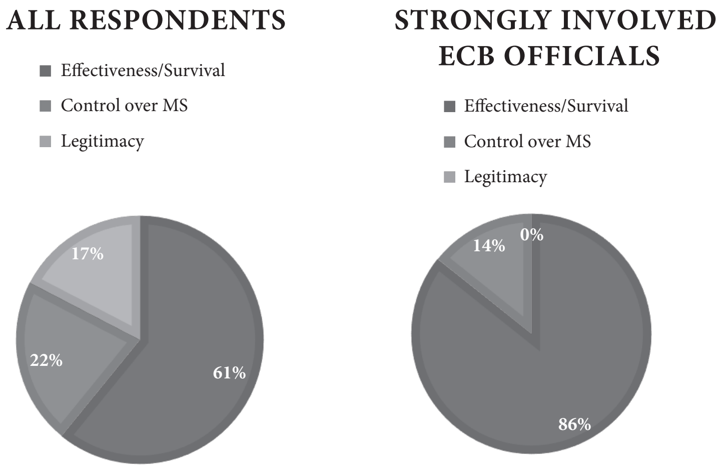

Figure 3: Mentioned Benefits of Leading (OMT Announcement) by Group of Respondents

Figure 3 compares the distribution of answers of all respondents with that of the six strongly involved ECB officials, who among all interviewees should know best what the ECB's expected benefits were at the time. While the effectiveness of the ECB's monetary policy and its institutional survival is the most frequent-

[5] Considering issues of legitimacy, this direct influence of the ECB is highly problematic. Being designed as a purportedly apolitical institution, the ECB cannot be held to account by national constituencies (or their national parliaments) despite its significant influence on the living conditions of these people.

ly mentioned benefit among all respondents (61 %), it is almost the only answer in the "expert group" of strongly involved ECB officials (86 %). An expected increase of legitimacy, by contrast, was not mentioned by any of the strongly involved ECB officials. This increases our confidence that the preservation of its effectiveness and survival was the decisive benefit of leading expected by the ECB when it came to the announcement of OMT.

The ECB's expected *costs* of leading, in contrast, are listed in Table 2. (Answers by interviewees who were particularly strongly involved in the events sur-

Table 2

The ECB's Costs of Leading According to Interviewees (OMT)

INTERVIEW	COSTS
	MORAL HAZARD
4	Moral hazard despite conditionality: OMT calmed the markets, thereby buying time for debtor states and strengthening their position in programme negotiations
15	**Creation of moral hazard (although considerably reduced by link to programmes)**
18	***Incentives for moral hazard (although mitigated by link to conditionality)***
21	***Moral hazard (although mitigated by link to consolidation programmes)***
22	***Endangering stability in the medium term by sending wrong signals to debtor states***
23	*No pressure for reform in MS*
	LEGITIMACY
3	Public opinion in Germany and, to a minor extent, in Finland and the Netherlands
8	Decrease of legitimacy in German public
14	*Court cases and public opinion in Germany, but no decrease of legitimacy Eurozone-wide or globally*
20	***Perceived legitimacy in public (but not a significant cost)***
22	***In case of failure: result of defaults would be A) prohibited monetary financing; B) loss of ECB's credibility***
24	***Legal issue ⇨ loss of trust in ECB***
	POLITICAL INDEPENDENCE
24	***OMT make ECB's actions dependent on MS' policy decision (through link to programmes)***

rounding the announcement of OMT are printed in bold, answers by ECB officials are italicised.) Basically two types of costs were mentioned: the creation of moral hazard and a loss of legitimacy. Only one interviewee mentioned also the ECB's loss of political independence.

As regards moral hazard, the ECB feared that by acting as a de facto "lender of last resort", MSs would lose the incentives to pursue fiscal discipline. Although many interviewees acknowledged that this risk has been reduced by linking OMT to the ESM programmes, the problem could not be completely eradicated since there is no certainty that MSs, once a programme has been signed and the ECB has purchased their bonds, would actually implement the agreed austerity measures and structural reforms. Moreover, by announcing OMT, the ECB took away the market pressure from the debtor states. This strengthened their position vis-à-vis the creditor states, which could result in more lenient adjustment programmes or less compliance in their implementation (Interview 4). This creation of moral hazard entails the risk that in case a MS really defaults, the bonds purchased by the ECB lose their value, which would result in prohibited monetary financing.

The second major cost mentioned by the interviewees regards a loss of legitimacy. In particular, possible actions against OMT at the German Constitutional Court were considered a source for a loss of trust in the ECB. While a loss of legitimacy would in the short run damage the ECB's credibility in the financial markets and thus its effectiveness, it would threaten its entire raison d'être in the long run (Interviews 8, 14). However, the interviewees also emphasized that the expected legitimacy costs were either not significant for the ECB's decision (Interviews 20, 21, 23), regarded only Germany and a few other MSs like Finland and the Netherlands (Interviews 3, 8, 14), or would play a role only in case of an ultimate failure of OMT, namely MS default (Interview 22).

The final cost of leading is related to this loss of legitimacy. By linking OMT to the ESM programmes, the ECB made its monetary decisions dependent on the MSs' approval (Interviews 18, 22–24, 27). This is because the MSs' consent is needed to sign an ESM programme in the first place, which gives them an indirect veto on OMT. As the German Finance Minister Schäuble has noted: "[the ECB] cannot make these decisions because it has bound them to conditions that are beyond its control […] ESM decisions are subject to a unanimous vote and we will not approve of such a programme as announced by the ECB"[6] (CESifo 2014). This nexus implies a loss of political independence for the ECB, makes it vulnerable to politicization, and could ultimately damage its legitimacy and credibility (Interview 24).

[6] Schäuble's original statement in German can be listened to at http://www.bloomberg.com/news/videos/b/8e23c8fc-e227-4444-b418-204a425bb91f rev. 2017-03-26.

As opposed to economics, cost-benefit analyses in political science can be conducted only under certain conditions as there is usually no countable currency (such as money) in which the respective costs and benefits could be balanced against each other. A first possibility is that there are either no significant costs or no benefits. If one of the two parts of the subtraction is zero, the respective other prevails. A second situation which enables a cost-benefits analysis is given if the benefits consist in an actor's (institutional) survival. Given the basic theoretical assumption that no rational actor risks suicide, the benefits always exceed the costs in this case. Vice versa, if the costs involve an actor's institutional death, they exceed all possible benefits. A third option of comparing the benefits of leading against its costs is to determine a common 'currency' to assess the two variables.

Option (1) does not apply because neither the mentioned benefits nor the costs can arguably be considered insignificant. Also option (3) cannot be employed as the ECB's expected increase of effectiveness, for instance, can hardly be weighed against its feared loss of legitimacy. However, option (2) allows for a cost-benefit analysis since OMT ensured the ECB's institutional survival and thus its benefits outweighed all the related costs of leading. As elaborated above, the interviews provide strong evidence that the ECB realistically feared that the status quo would result in a fragmentation of the Eurozone, which would ultimately imply the demise of the ECB itself. Therefore, the ECB secured its raison d'être by taking the lead. The other benefits of OMT only come on top.

In sum, while the high status-quo costs caused by the Eurozone crisis caused a demand for leadership, the ECB's benefits of leading, which consisted in its own survival, exceeded the related costs and thus account for the ECB's leadership supply (in the form of announcing OMT). Hence, the rationalist expectations outlined above can plausibly explain the ECB's emergence as a leader.

4. *The ECB's Strategies of Leading*

The success of the ECB's measures appears less surprising. In terms of power resources, the ECB's material resources exceed those of all other actors in the Eurozone, since it is the only actor that can actually create money ("unlimited firepower"). Also with regard to institutional resources, the ECB is the only decision-maker in the area of monetary policy. In terms of ideational resources, finally, the ECB's expertise exceeds those of the other relevant actors, too. As a proxy for expertise, the number of administrative staff who work primarily and specifically in the area of EMU-related policies has been used. In June and July 2015, when the inquiry was conducted, the ECB employed 523 permanent staff, followed by the Commission (391), Germany (117), and the EP (40).[7] These numbers are confirmed by the subjective assessments of the interviewees, who not only highlighted the ECB's high number of experts, but also its privileged access to country-specific data through the national central banks (Interviews 14, 21, 22, 24). Next to expertise, the ECB also enjoys more credibility than MSs or other supranational institutions due to its political independence.

Next to power resources, the preferences of other actors ("followers") and the institutional constraint play a role for a leader's impact (*Schoeller* 2017). In terms of the former, only three MSs, namely Germany, Austria and the Netherlands, were initially against the announcement of OMT (Interviews 1, 2, 13, 26). However, the surprising statement of Mario Draghi and its effect in the markets changed their strategic preferences. By opposing OMT after Draghi's announcement, the sceptical MSs would have exacerbated their situation. Therefore, they took a neutral position, or, in the words of one interviewee, "those who were sceptical decided not to be vocal" (Interview 2). With regard to the institutional constraint, the EU treaties grant the ECB political independence (Art. 282.3 TFEU) and thus full discretion in decision-making as long as it stays within its mandate. This is the lowest institutional constraint a leader can face.

Given these favourable conditions, the ECB had the chance to translate its resources into leadership strategies to reach the common goal of preserving the Euro. While no evidence could be found that the ECB made use of typical bargaining strategies used by political leaders, such as issue-linking, arena-shifting, or coalition-building, we do find two of the other pre-defined strategies (see theory-section above). The ECB, first, acted as a provider of common knowledge to ensure acceptance for its measures and, second, relied on unilateral action which provided it with a first-mover advantage.

First, the ECB prepared its measures through exchanges of views with all relevant actors. By providing "full information" (Interview 24) on the state of affairs and possible outcomes (Interviews 1, 2, 21, 24), the ECB shapes the strategic preferences of MSs. In particular during crisis management, ECB officials defined possible solutions and advocated their preferred outcomes in all relevant EU fora (*Beukers* 2013). In the concrete case of OMT announcement, the ECB – and in particular its President Draghi – were very "pro-active" (Interview 2) in communicating with MS governments and the Presidents of European Council, Eurogroup, and Commission (Interviews 1, 2, 10, 22, 25–27). This regarded in particular the German government as the potentially most powerful opponent of the ECB. Although the ECB thus prepared the ground for OMT, it did not inform other actors about its concrete plans or when to launch them.

[7] These numbers were provided on request by the respective institutions themselves.

The second strategy employed by the ECB is that of unilateral action. According to *Underdal* (1994), unilateral action as a leadership strategy "is exercised whenever one moves to solve a collective problem by one's own effort, thereby setting the pace for others to follow". Indeed, the ECB solved the Eurozone's most immediate problem at the time completely by its own effort and thereby bought time for MSs to reform. As a top official in the German Finance Ministry explained: the ECB took a decision which actually should have been taken in the ECONFIN Council; instead, the ECB acted unilaterally (Interview 27). An ECB official admitted and justified the ECB's unilateral action: "There were only two alternatives: Either the ECB appearing as lender of last resort to governments or Germany moving on towards Eurobonds or Redemption Fund or something to stop the crisis" (Interview 22). Hence, by declaring to "do whatever it takes" and announcing OMT, the ECB exploited a first-mover advantage and thus modified the strategic preferences of sceptical MS governments. Although the latter were still against the activation of OMT, they strategically took a neutral or favourable position because otherwise they would have destroyed the effect of the announcement and thereby even increased their status-quo costs.[8]

IV. Conclusion: Leadership by Default

When announcing OMT, the ECB emerged as a leader because the status-quo costs were extraordinarily high at the time and its benefits of leading outweighed the costs. In other words: in the light of an unprecedented fragmentation risk in the Eurozone, there was a great demand for decisive action and the ECB needed to ensure its own survival. Against the backdrop of its superior power resources, homogeneity of preferences, and a low institutional constraint, the ECB used the strategies of providing common knowledge and unilateral action to ensure the success of its leadership.

The case of OMT bears important results for the study of leadership and the ECB. First, it sheds light on the phenomenon of "leadership by default". Leaders by default hope that another actor takes the lead before them because they shy away from the high costs of leading. By acting as late as possible, they thus attempt to free-ride on the leadership of others ("game of chicken"). However, if no other actor steps in, they have to take the lead in order to avoid the even higher costs of status quo. Thus, leadership by default is costly, but it is driven by the fear of a status quo that would be even more costly.

[8] The above-mentioned linkage between OMT and ESM programmes may have further helped securing the support of critical MS, as it grants them indirect control over when and how the ECB actually employs OMT.

In the case of OMT, the ECB's costs of leading consisted ultimately in its politicization (*Farrell* 2012). Therefore, the ECB waited as long as deemed possible, hoping that the MSs would finally move first. This also explains the ECB's approach prior to the OMT announcement, namely to put pressure on the MSs to impose budget cuts, so that the ECB did not have to take the burden.[9] However, in an asymmetrical game of chicken, it is the actor that has more to lose which can be expected to move first: in the event of a Eurozone collapse, MS would lose their common currency, but the ECB would cease to exist. Hence, as the deadlock among MSs in the Eurogroup persisted, the ECB finally took the lead by announcing OMT, so as to avoid the higher costs of a Eurozone break-up that would have implied its own institutional death (Interview 20, 22; *Krampf* 2016). Thereby the ECB became a leader by default.

Second, although the ECB evidently acted as a strategic player (*Henning* 2016; *Torres* 2013), it did not engage in inter-institutional bargaining with the Council, as other supranational institutions like the European Parliament or the Commission do. The reason for this behaviour can be seen in the fact that, as opposed to European Parliament or Commission, the ECB is no power-maximizer in the classic understanding of seeking to increase its political influence. Rather, it has been pushed in a leading position that it never wanted to assume. As one ECB official put it:

> "In the house there is a certain unease about expanding so much the role of the ECB. I think few people are happy with the fact that the ECB had to play such an important role in crisis management. Many people are aware of the risks that comes with it. The risk of mission creep and lack of legitimacy" (Interview 18).

From a normative point of view, one may indeed argue that the ECB is caught in a dilemma between input- and output legitimacy (*Scharpf* 1999). In an attempt to preserve the common currency (output legitimacy), the ECB has not only taken considerable influence on MS-Policies, but it has also made an essential decision about the future of the euro. However, both decisions should be made by MS governments, as only they are democratically legitimized and accountable (input legitimacy).

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[9] The secret letters sent to the Irish and Italian government are cases in point (http://www.ecb.europa.eu/press/html/irish-letters.en.html; http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml?fr=correlati rev. 2017-09-14).

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