

**Moral Hazard, Central Bankers, and Banking Union:  
Professional Dissensus and the Politics of European Financial System Stability**

*Journal of European Integration*, vol. 45, 2023, *forthcoming*

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European Banking Union was presented by a range of national, European and international policymakers as a potential institutional development to reduce moral hazard for banks and sovereigns. This moral hazard was frequently presented as a major cause of the international financial crisis that began in 2007 and the subsequent sovereign debt crisis in the Eurozone. In Banking Union, with the conferral of supervisory tasks to the European Central Bank (ECB), the latter acquired a significant responsibility to ensure financial stability in the Union. In contrast, prior to the international financial crisis what was perceived as the central risk in relation to moral hazard in the financial sector was *ex ante* explicit coordination at the EU level. This belief justified the decentralised arrangements for banking supervision. Paradoxically, the objective of tackling moral hazard has justified over time significantly different institutional frameworks to safeguard financial stability in the EU. The ubiquitous use of the moral hazard concept in official explanations for different and often contradictory policy options is surprising. This puzzling ubiquity is also to be found in opposed preferences on Banking Union. For example, while the German government and the Bundesbank presented divergent positions from those of the ECB on almost all issues related to Banking Union, the officials of both central banks also placed considerable emphasis on the need to prevent moral hazard. To address this paradox, this paper investigates moral hazard as a political concept — that is, a concept whose precise meaning is contested — and studies the discursive strategies employed by policymakers to influence others' beliefs on moral hazard and achieve policy outcomes in line with their institutional preferences.

Using text analysis and interviewing, this paper compares how central bankers from the Bundesbank and the ECB understand and use the concept of moral hazard in relation to financial stability issues. We found that Bundesbank officials tend to label 'moral hazard' situations where the possibility of increased risk-taking arise, while ECB officials tend to label as moral hazard situations where excessive risks have been taken. This difference is crucial because it changes the universality of moral hazard: in the case of the ECB, moral hazard is presented as something more restricted than in the case of the Bundesbank. In our review of discursive strategies, we found common and specific strategies: in both cases, despite defending opposed positions, conformity to academic knowledge and continuity with the past is claimed by central bankers. While ECB officials tended to emphasize the complexity of the social world and the value of moderate positions; Bundesbank officials tended to emphasize the value of credible, prudent, and fair positions. Moreover, while ECB officials tended to minimize the risk of moral hazard and to present it as something mostly theoretical, central bankers from the Bundesbank tended to exaggerate moral hazard and to present it as an empirical phenomenon. The analysis of positions and discursive strategies on moral hazard presents evidence of a 'battle of ideas' between top Bundesbank and ECB officials.

Our empirical analysis provides evidence to conclude that there is a professional dissensus on what moral hazard is and that a discursive battle between Bundesbank and ECB officials to influence the beliefs of others in relation to moral hazard and Banking Union took place. Moral

hazard is not a technical concept but a political one: its meaning is contested and appears to stem from distinct influences of ordoliberal ideas and different institutional interests and preferences on the construction of Banking Union. The power of the moral hazard concept in this context of central bank positioning on Banking Union does not lie in an ideational professional consensus but rather in its ambiguity which can serve to promote different preferences and specifically the Bundesbank's caution on and the ECB's stronger support for the construction of Banking Union. The different use of the moral hazard concept also demonstrates an important development in the politics of central banking in the Eurozone, and specifically how the Bundesbank and the ECB have grown apart in their conceptions of what the role of a central bank should be.