

Exposé: Dissertation

**The real effects of neoclassical ideas on the European
Central Bank's (ECB) monetary Policy**

**Reconstructing the economic discourse on monetary
policy and the economic theory behind the ECB's
monetary policy strategy**

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1. Introduction: The ECB's monetary policy and economics

In recent years, monetary policy has emerged as one of the most important policy areas for contemporary capitalist economies (Wansleben, 2023; Wullweber, 2021).

For example, fiscal policy did little to resolve the euro crisis after 2008. Instead, it was primarily the ECB that saved the eurozone with its “whatever it takes” approach and an expansive, unconventional monetary policy (Tooze, 2018, S. 509; Sahr, 2022; Streeck, 2014, 2015; Wansleben, 2023; Wullweber, 2021). In doing so, the ECB counteracted the austerity policies pursued in the European Monetary Union (EMU), and the central banks remained “the only game in town” (El-Erian, 2016; Wansleben, 2023, S. 207).

However, there is considerable disagreement within the field of political economy regarding how to understand the ECB's monetary policy since 2008. Some speak of technocratic Keynesianism (Klooster, 2022), while others emphasise that the unconventional monetary policy after the financial crisis is a continuation of pre-2008 monetary policy with different tools (Sparsam & Flachmeyer, 2020).

Between July 2022 and September 2023, the ECB then raised its key interest rate from zero to 4.5% for the first time in 11 years and stopped all purchase programs, with significant negative consequences for the EMU economy.

The ECB itself always emphasises that its policy follows its mandate of price stability and that its decisions are “data-driven”. However, both the mandate and the data must first be interpreted. Underpinning these interpretations and the monetary policy decisions themselves are ideas about how the economic world works (Hall, 1989, 1993; Blyth, 2002, 2003; Abdelal et al., 2010). These ideas are summarised in the ECB's monetary policy strategy, updated in 2021 and assessed in 2025.

It can be expected that the economic mainstream, in the form of the new consensus on macroeconomics (NCM), its theories and its contemporary discourse on monetary policy, played a crucial role in this. Thus, as part of the neoclassical (scientific and political) paradigm, the NCM leads to the standardisation of conservative monetary policy by focusing on price stability as the most important goal for the operation of a market economy.

The ECB was originally created as an institution based on this paradigm (McNamara, 1998). But to what extent do the NCM's assumptions, theories and models continue to influence the ECB's central bankers' thinking and their monetary policy decisions and strategy? And to what extent are ideas and concepts from outside the paradigm applied? At the same time, it is important to examine the extent to which the NCM's paradigm itself changed after 2008, for

example by adopting ideas from outside the paradigm, such as post-Keynesianism, or integrating them into the neoclassical paradigm.¹

1.1. State of the art

The following section on the state of the art will first outline the disagreement within economic sociology, political economy, and economics research. It will begin by discussing research on the power of economic ideas in general. It will then present various related areas of research that deal with the impact of economic theories on economic and monetary policy. Here, the sociology of knowledge in economics will also be taken into account, as it can provide a picture of economics that will be influential for this work, among other things. We will also look at research on monetary policy decision-making, which is mainly available for the Fed, as it can be assumed that the social processes of decision-making at the ECB are very similar. Next, the sociology of the scientization of central banks will be discussed, followed by a brief look at economic research and controversies surrounding monetary policy. However, this will be kept brief, as this economic research is also part of the research object of this thesis and will be presented in more detail later on. Finally, the thesis will examine the political-economic research on the ECB's monetary policy, to which this thesis itself belongs, and from which the final research gap regarding the orientation of monetary policy and its strategy, as well as the underlying ideas, will be identified.

1.1.1. The power of economic ideas

As early as 1936, Keynes emphasized in his *General Theory* the importance of economic theories for economic reality (Keynes, 1964; Parsons, 1983). In order to act in a complex world, we need ideas and theories about how it works.

Since then, scholars such as Hall (1989, 1993), Blyth (2002), and Abdelal et al. (2010) have emphasized the importance of ideas and their study in political economy (see also Campbell, 1998; Carstensen, 2011b, 2011a; Carstensen & Schmidt, 2024; Gofas & Hay, 2012; Braun, 2014; Yee, 1996).

¹ Scientific and political paradigms are understood in this work according to Lakatos's (1982) conception. They are therefore constructed from an irrefutable core and a series of changeable auxiliary hypotheses and are to be understood as fundamentally dynamic.

In this paper, the term “neoclassical paradigm” is used to refer to a series of economic theories based on the same basic assumptions of equilibrium markets. Since the rational expectations revolution and monetarism, these theories, together with the new neoclassical synthesis (also known as New Keynesianism), have virtually completely negated Keynes' political economy by misunderstanding it as a special case of the short term. Post-Keynesianism, on the other hand, can be seen as a direct continuation of Keynesian ideas, with a particular focus on macroeconomics. The relationship between these and other paradigms, such as ordoliberalism, will be explored in more detail in the theoretical part of this dissertation.

In conclusion, ideas concerning the functioning – or desired functionality – of the world are of pivotal significance in the establishment of institutions and markets, as well as for the subsequent policies pursued by actors within these institutions (Hall, 1989, 1993; Blyth, 2002, 2003; Abdelal et al., 2010)².

However, the power of economic ideas on monetary policy still requires further research.

1.1.2. Economic ideas in the economic policy of the eurozone

In 1998, McNamara examined the significance of the neoliberal consensus for the construction of EMU (McNamara, 1998) and building upon the contributions of Blyth and Hall, numerous studies have examined the specific impact of economic ideas on economic policy within the EMU. A significant proportion of these studies are closely associated with a critique of the neoclassical mainstream in economics and certain policies derived from it, such as austerity policy. For instance, economists Bibow and Flassbeck (2018) have critiqued the EUW's austerity policy in the aftermath of the financial and euro crises, attributing this policy to the neoclassical labor market idea. This theoretical framework perceives wages as solely costs rather than as demand (p. 40)³.

In a similar vein, Blyth's 2014 publication, *Austerity: The History of a Dangerous Idea*, elucidates the manner in which the crisis policy that emerged in Europe following 2008 was influenced by the concept of austerity policy. Concurrently, the author demonstrates that the conceptual underpinnings of this notion emanate from classical liberalism. However, the concept is deemed "inadequate" from both an empirical and theoretical standpoint (p. 297). For further insights into the euro crisis and economic ideologies, see the works of Stützle (2014), Petry (2013), Farrell & Quiggi (2017), Frieden & Walter (2017), and Johnstone & Matthijs (2022). For a comprehensive review of the Great Recession and its implications for economic thought, see the seminal works of Mandelkern & Oren (2023) and Oren & Mandelkern (2024). Biebricher (2021) also argue that the EU is moving closer and closer to the ideal of ordoliberalism, and Kapella and Grimm (2022) demonstrate how ordoliberal economists are

² According to Blyth (2002), in a world of fundamental uncertainty, ideas are crucial for both stability and social change. In the discipline of political economy, ideas and theories are not merely instruments for comprehension; they can also function as explanatory variables. Blyth's argument is as follows: 1) Ideas, rather than institutions, are the primary means of reducing uncertainty. 2) Ideas enable collective action. 3) Ideas are used as weapons against institutions. 4) Ideas serve as templates for new institutions. 5) Ideas are embedded in these new institutions, thereby enabling stability once again (Blyth, 2002, pp. 35-44).

For studies on the construction of institutions, see, for example, Best (2005), Abdelal (2006, 2007), and for the influence of ideas and theories on the organisation of the international monetary system, see McNamara (1998).

³ Here they refer to Keynes, who had already elaborated on this in Chapter 19 of *The General Theory* (Bibow & Flassbeck, 2018, p. 40, cf. Keynes, 1964 [1936], pp. 217–236).

significantly overrepresented in political consulting in German-speaking countries⁴ (see also Coman, 2020).

However, there is a paucity of studies on the topic of ideas and monetary policy within the EMU. The majority of extant research remains largely vague in its reconstruction of the actual ideas of actors, tending to infer policies consistent with certain ideas from the existence of those ideas. In addition, there is often a dearth of rigorous examination of the prevailing economic discourses surrounding these concepts.

1.1.3. (Knowledge) Sociology of Economics and Performativity Research

This is precisely where the sociology of knowledge in economics comes in. According to Pahl (2018), economics, like mathematics, is a field that is difficult for the sociology of knowledge to access (pp. 43–44). However, a separate field of research has emerged since the global financial crisis of 2008 that examines economics, often emphasising and criticising the dominance of neoclassical paradigm (see Pahl, 2011; Beckenbach et al., 2016; Beyer et al., 2018; Heise, 2023; Grimm et al., 2017)⁵.

According to Sparsam (2022b), this field of research can be divided into several subfields. On the one hand, the intradisciplinary social order can be examined, as can intradisciplinary knowledge cultures. One example of this is Pahl's (2018) study, which focuses on the genesis, consolidation and transformation of neoclassical economics (see also Colander et al., 1989).

On the other hand, the relationship between economics and society can be examined. Here, co-evolution is generally assumed (Sparsam, 2022b, S. 28; Wolff & Resnick, 2012). Such a study could examine either the effect of society on economics or the influence of economics on society. For instance, Fourcade (2009) presents a comparative study of economics in the United Kingdom, the United States, and France, reconstructing the connections between economic knowledge and its national contexts of origin⁶.

In his dissertation, Sparsam (2022b) examines the influence of economics on economic policy and the economy, focusing on the use of economic technologies (in the form of models). He argues that economic knowledge in the form of models is not simply transferred from academia to practice (e.g. economic policy). Rather, economic knowledge is just one type of knowledge

⁴ For example, only about 8% of all German economics professorships are held by ordoliberal economists, yet they account for 40% of economists involved in politics; Keynesian economists, on the other hand, do not play any role in political consulting (Kapeller, Puehringer, & Grimm, 2022, p. 1202).

⁵ A philosophical critique of economics is provided by Brodbeck (1998). For the teaching of economics in German-speaking countries, see, for example, Grünhagen (2024); Rebhan (2022); Peukert (2019, 2020).

⁶ In a similar vein, Dobbin (2001) has highlighted in *Why the Economy Reflects the Polity: Early Rail Policy in Britain, France, and the United States* how the structure of the economy is linked to its national political contexts.

among many. Economic knowledge and models must therefore first be translated into practice according to the practitioners' own criteria. He illustrates this with the example of the use of economic models in the Fed (see section 1.1.6, cf. Sparsam, 2022c; see also Braun, 2014).

Additionally, research on performativity has emerged within the field of economic sociology, describing the performative, and thus constitutive, nature of economic knowledge within the economy (see, for example, Callon, 1998; D. A. (Herausgeber) MacKenzie, 2007; D. MacKenzie & Millo, 2003; Best, 2020). However, as Sparsam (2022b, S. 159–166) points out, it is virtually impossible, not to mention implausible, to identify the actual constitutive nature of economics in relation to the economy.⁷ Conversely, the sociology of knowledge in economics often lacks reference to the application of economic knowledge in economic policy and practice.

1.1.4. The Scientization of central banks

Another field of economic sociology is the literature on the scientification of central banks and their role as producers rather than mere users of scientific knowledge (cf. Goutsmedt et al., 2023; Goutsmedt & Sergi, 2024; Ibrocevic, 2023; Marcussen, 2006, 2009).

Mudge and Vauchez (2016), for example, examined the “hyper-scientization” used by the ECB to generate symbolic power and legitimacy through the provision of knowledge.

Subsequently, they examined how the development of the ECB’s dynamic, stochastic, general equilibrium (DSGE) model enabled it to establish itself as a legitimate institution within international economics, economic policy, and financial markets, and how this embedding prevented the ECB from abandoning this underlying model (despite its failure to predict the 2008 financial crisis and much subsequent criticism, cf. also Best, 2022)⁸.

For economic forecasts by central banks, see Binder and Sekkel (2024). At the same time, the discussion of scientification through the focus on central banks as knowledge producers often lacks reference to monetary policy itself, which is decided in other parts of the central banks.

⁷ Furthermore, accepting the performative nature of models and economic sciences as a whole means that they can no longer be criticized as simply poor representations of reality (cf. Sparsam 2022). This becomes clear, for example, when Best (2020) analyzes the quiet failures of early neoliberalism and concludes that neoliberal policies have failed due to, among other things, inconsistencies in implementation and the absence of a neoliberal subject (pp. 608-612).

⁸ For a case study of cooperation between central bankers and (international) economists, see also Thiemann et al. (2021).

1.1.5. Economics and monetary policy

Monetary policy also constitutes a distinct field of macroeconomics (indeed, the majority of central bankers are PhD economists and, in some cases, active academics prior to and following their tenure as central bankers, see Conti-Brown, 2016, S. 90–93).

In contemporary macroeconomics, as the sociology of economics observes, a neoclassical New Keynesian mainstream dominates the scientific discourse on monetary policy. For instance, Goodfriend (2007) outlines the process by which the global community reached a consensus on monetary policy (cf. also Mishkin, 2007). The theoretical underpinnings of this approach are rooted in the principles of monetarism, from which the strategy of flexible inflation targeting for the central bank was derived. In the aftermath of the global financial crisis of 2007-2008, and the subsequent unanticipated inflation experienced between 2021 and 2023, there have been no fundamental shifts in this area (Mishkin, 2011, S. 31, 47–48; see also Adolfsen et al., 2024; Best, 2019; Storm, 2024).

Qanas and Sawyer (2024) also emphasize the link between the goal of inflation targeting and the idea of independent central banks. These two concepts both stem from the “new consensus in macroeconomics” (NMC)⁹.

Moreover, there exists a substantial body of critique, chiefly from the post-Keynesian school, regarding inflation targeting and its deleterious impact on growth, employment, distribution, and so forth (cf. Argitis, 2008; Argitis & Pitelis, 2001, 2006). Furthermore, the extent to which central banks can influence inflation through interest rates is a highly contentious issue (Lavoie, 2022)¹⁰.

In summary, it can be stated that there continues to be a consensus among mainstream economists on inflation targeting and the independence of central banks. Nevertheless, this consensus does not necessarily find full expression in the decisions of central banks. Concurrently, there are also disagreements and ambiguities within the consensus. For instance, Blanchard and Bernanke (2023) advocate for the utilisation of neoclassical DSGE modelling as the foundation for monetary policy. However, it is noteworthy that certain central banks have

⁹ The majority of neoclassical economists highlight the beneficial impacts of central bank independence or interpret the success of low inflationary policies by attributing it to central bank Independence (see Alesina & Summers, 1993; Cukierman, 1993; Mishkin, 2007, 2011; Neyapti, 2012).

Conversely, Qanas and Sawyer (2024) posit that the tangible positive impacts of central bank independence remain controversial (see also Garriga, 2016; Posen, 1993). For the question of whether central bank independence violates democratic or liberal principles see Levy (1995), Drazen (2002) and Best (2018).

¹⁰ In addition, there is widespread criticism of the theoretical foundations of the neoclassical conception of money (e.g., its neutrality, see Binswanger (2006), its origin in exchange, see Graeber (2012), as well as the economic theory based on it, see for example Keynes, (1964 [1936]) and the monetary and economic policy derived from it, see Sahr (2022)).

shifted away from this modelling approach in favour of a data-driven strategy, particularly during periods of economic uncertainty (cf. Storm, 2024). However, the ECB's conceptualisation of a data-driven approach remains ambiguous, as does its actual relationship to neoclassical economics as a whole. The actual similarities or discrepancies between the economics of monetary policy and the actual monetary policy of central banks are not examined in this branch of research (at most as demands by post-Keynesians or in Blanchard and Bernanke (2023)).

1.1.6. Sociology of monetary policy

One field in which this gap is partially addressed is the sociology and political economy of monetary policy, particularly with regard to the Fed. In their (2017) study, Fligstein, Brundage and Schultz examined how the economic perspective on macroeconomics, shaped by the new neoclassical synthesis, prevented the Federal Reserve from recognising the effects of the financial crisis on the real economy at an early stage (see also Fligstein & Roehrkasse, 2016). Abolafia (2010) examined the Fed's decision-making process, highlighting the construction of plausible narratives by political decision-makers¹¹.

Sparsam and Pahl (2022a, S. 173–195) adopted a comparable approach, highlighting that economic models represent merely one form of knowledge among numerous others at the Fed. These models can be employed selectively for communication, plausibility checks, or legitimization. The Federal Open Market Committee (FOMC) has been observed to employ macroeconomic knowledge in a tool-like manner, utilising it to inform personal judgment, to comprehend situations characterised by radical uncertainty, and to persuade others (Sparsam, 2022a, S. 186). Binder and Sekkel (2024) provide a comprehensive overview of the forecasts of the Fed, the Bank of England, the Bank of Canada, and the ECB, their respective frameworks, their role in policy, and the challenges they face in times of greater uncertainty. Pfeifer (2022) examines the communication of different audiences and the role of trust in their communication (for communication by central banks in the eurozone, see also Braun, 2016; and Feldkircher et al., 2024).

In summary, there is a paucity of studies on the ECB's decision-making (Schulz, 2017, S. 6), as the same materials are not available for analysis as for the Fed, which publishes the transcripts of the minutes of the monetary policy decision-making bodies (the FOMC) after five years.

¹¹ On the role of narratives in economics, see also Reccius/Roos (2024); for economic models as narratives, see Watson (2024).

1.1.7. (Dis)continuity of European monetary policy (and its ideas)

However, there are several studies on the continuity of European monetary policy and its relationship to the underlying economic ideas, especially since the global financial crisis of 2008, the euro crisis, and Draghi's "whatever it takes" statement, but also as a result of inflation since 2021.

Above all, controversy emerged concerning whether the loose monetary policy adopted since the eurozone crisis was the result of alternative economic concepts, a distinct economic paradigm or merely a shift in policy instruments without a substantive shift in underlying economic ideas.

For example, Hesse and Steininger (2024) identify an ideational shift by the ECB toward a perspective of "unlimited liquidity". Klooster (2022) attributes "technocratic Keynesianism" to the ECB, and Braun (2018) also argues that influencing long-term interest rates through quantitative easing and forward guidance represents a structural break in the paradigm and should be understood as "the return of hydraulic macroeconomic state agency". Quaglia and Verdun (2025) speak of a shift from a paradigm of price stability to a "multidimensional stability paradigm" in monetary policy¹². Wansleben (2023) argues that the rise of central banks can only be understood from a post-paradigmatic perspective (p. 37)¹³.

In contrast, a majority of studies emphasize the continuities of monetary policy. Matthijs and Blyth (2018) write: "the ECB and the Commission, while we see a shift in emphasis, the underlying ideas remained largely the same, despite any and all evidence to the contrary" (p. 119; see also Johnson et al., 2019)¹⁴. Sparsam and Flachmeyer (2020) also emphasize the continuity of the ECB's monetary policy before and after the 2008 crisis. According to them, "unconventional monetary policy (...) is the continuation of pre-crisis monetary policy by other means" (p. 182). Best (2024) highlights the knowledge controversies of the ECB (as well as the Fed and Bank of Canada) since 2008 and notes that "[a]ll three central banks opted not to dramatically change their policy strategy" (p. 11; see also Best, 2022)¹⁵. Mugnai (2024), on the other hand, points out that the ECB's positions on fiscal policy have moved toward a more

¹² For the ECB's (increasing) consideration of issues such as inequality and climate change, see Cerdeira & Rimkutė (2024); Qanas & Sawyer, (2024) and Best (2024).

¹³ In this regard, it is important to note that Wansleben's (2023) primary focus is on the Federal Reserve and the Bank of England.

¹⁴ This study of Johnson et al (2018) is based on an analysis of 13,586 speeches by central bankers between 1997 and 2017. They examine whether central banks' beliefs about monetary policy have fundamentally changed since the 2008 crisis and conclude that "the core pre-crisis monetary policy paradigm remains relatively intact" (p. 546).

¹⁵ Best (2024) emphasizes that the return of inflation could also signal a return by central banks to more conventional approaches to monetary policy and revive the avoidance strategies adopted by central banks prior to 2008 (during the Great Moderation) to address broader political issues (such as climate change or inequality) (p. 11).

pragmatic Keynesian perspective with “gradual but meaningful changes” (p. 60) to a more pragmatic Keynesian perspective, while the ECB continues to maintain neoliberal positions on structural reforms that envisage greater flexibility in (labor) markets, etc. Mugnai thus positions himself between the positions of continuity and discontinuity, but leaves the ECB's paradigmatic orientation on the issue of monetary policy itself unanswered¹⁶.

Only Schulz (2017) and Diessner (2023) directly address the question of the influence of ideas on the ECB's monetary policy¹⁷. Schulz (2017) elucidates the conservative monetary policy (in comparison to that of the Fed and BoE) following the financial crisis (too little, too late) with the greater belief among central bankers within the ECB in the neutrality of money. This would result in a propensity for lower inflation, consequently leading to more conservative monetary policy decisions (p. 118). Schulz (2017) conceptualises ideas as “shared causal beliefs” (p. 97), from which he subsequently derives preferences. Despite the fact that these convictions are derived from overarching economic paradigms, they cannot be reduced to them. The conceptualisation of these assumptions as shared causal beliefs facilitates the querying and mapping of a spectrum of these assumptions on various topics and a link to political preferences (pp. 88-93, 95-121). Subsequently, Schulz endeavours to trace and explain the ECB's monetary policy from 2007 to 2016, and to point out alternatives (pp. 123-159).

In doing so, Schulz provides an explanation for the ECB's late entry into quantitative easing and, to a certain extent, also answers the question of the continuity of European monetary policy and its ideas (at least until 2016/2017). However, he fails to recognise the actual significance of economics and its paradigms for monetary policy.

It should be noted that others also lack a genuine connection to economic ideas and concepts. There is a paucity of consideration of specific contemporary ideas, for example in the form of economic discourse and its evolution since 2008 and its influence on monetary policy (cf. Hesse & Steininger, 2024; Johnson et al., 2019; Klooster, 2022; Matthijs & Blyth, 2018; Quaglia & Verdun, 2025; Wansleben, 2023).

This dissertation aims to build on Schulz's work by examining the ideas of the ECB's central bankers after 2008 and under the new president Lagarde. It will do so by relating these ideas consistently to economic discourse and its paradigm, basic assumptions, and theoretical developments.

¹⁶ For the ECB as a political actor beyond monetary policy, see Tokarski (2016).

¹⁷ Diessner (2023) only deals with the influence of “folk ideas” on monetary policy.

1.2. Research question

As demonstrated by the extant research, there is a paucity of studies, and moreover a considerable absence of consensus, on the economic ideas and paradigms of the ECB, in particular with regard to its monetary policy since 2008 and its return to “normality” since 2022. *How can the ECB's monetary policy and its new monetary policy strategy of 2021 be explained by drawing on different economic paradigms and their development?*

In order to respond to this research question, it is first necessary to engage in a reflection on a range of economic paradigms and the prevailing economic discourse, as well as the positions and theories on monetary policy that are represented therein. In the following examination, the manner in which economic paradigms and economic discourse have been reflected and adopted in the ECB's monetary policy decision-making body (the Governing Council) and in monetary policy itself since 2008 will be investigated. This will facilitate a more nuanced comprehension of prevailing monetary policy, encompassing the issues of continuity and discontinuity.

Conversely, it enables the formulation of conclusions concerning the influence of economics, economic discourse, and its paradigms on monetary policy, as well as, in a more general sense, the impact of economic ideas, paradigms, and discourses on economic reality (Keynes, 1964 [1936]; Hall, 1989, 1993; Blyth, 2002).

1.3. Theory

The ECB's monetary policy is primarily explained in terms of ideas and institutions as opposed to interests. Despite the existence of divergent interests among the various EMU member states, these interests are not entirely clear and are primarily shaped by ideas: As Blyth (2002, S. 32) asserts, “Ideas are important because without having ideas as to how the world is put together, it would be cognitively impossible for agents to act in that world in any meaningful sense”.

Furthermore, the nature of the institutionalisation of monetary policy is also of significance. This dynamic is further influenced by prevailing ideas (cf. McNamara, 1998) and concurrently determines the actors involved in monetary policy decision-making and the manner in which these decisions are made.

Concurrently, monetary policy invariably exerts a distributional effect, directly impacting the interests of creditors and debtors, and consequently, indirectly influencing the interests of capital and labour (Koddenbrock, 2019, S. 102–105; cf. Ingham, 2004, S. 149; Sahr, 2022, S. 215–216). In the former case, it can be assumed that creditors prefer hard money or a more restrictive monetary policy. However, this is less clear in the latter case, although it is also possible to interpret a restrictive monetary policy as a means of enforcing capital interests.

Conversely, it is important to note that monetary policy cannot be derived from these interests alone. Despite the enduring interest of capital in a restrictive monetary policy, the particular form this policy assumes and its adaptation to the prevailing economic circumstances must, in turn, be derived from extant theoretical frameworks.

The four institutionalist approaches (rational choice, organisational, historical, and discursive institutionalism) appear to be helpful in explaining monetary policy; as such, this dissertation will draw on certain concepts from all of these approaches. The micro perspective is adopted from rational choice institutionalism, with a particular focus on the decision-makers within the central bank (cf. Campbell, 2004). By way of contrast, historical, sociological/organisational, and discursive institutionalism place significant emphasis on the role of ideas in the development of concrete policy, as well as in the promotion of political and institutional transformation. In this theoretical framework, ideas and institutions are understood to be inextricably linked. Institutions are primarily understood as formal and informal rules that produce structures within which action can take place¹⁸ (Campbell, 2004, S. 4). Ideas are said to be of particular importance in that they reduce uncertainty and enable collective action (e.g. joint decisions in central banks) within the given structures (Blyth, 2002, S. 35–39). Moreover, the role of ideas in both stability and change is considered pivotal.

However, only discursive institutionalism highlights the dynamic nature of ideas, whether scientific or political, emphasising their constant evolution (cf. Lakatos, 1982; Carstensen, 2011a; Hay, 2001; Schmidt, 2002). Political actors utilise and combine these ideas pragmatically, often in contradictory ways, guided by their own unique logic (often termed „bricolage,“ see Carstensen, 2011b).

In the domain of monetary policy, it can be hypothesised that the relevant actors primarily draw on extant concepts from the field of economics, in which neoclassical economics represents the dominant paradigm (Kuhn, 2023 [1969]) or, according to Lakatos (1982), research program. The various economic paradigms define not only the specific situation-oriented policy, its tools, and its goal, but also what is meant by monetary policy in the first place (cf. Hall, 1993; Hay, 2001; Best, 2019).

Campbell (1998) emphasises that ideas can both constrain and enable decisions. The author distinguishes between four categories of ideas, depending on whether they operate in the background or on the surface, and whether they are cognitive (organisational institutionalism)

¹⁸ Thus, institutions themselves can be understood as ideas (just as interests can be understood as a specific type of idea) (cf. Campbell, 2004). Nevertheless, this paper follows the common conception that analytically distinguishes between ideas, institutions, and interests, emphasizing that both institutions and interests are derived from ideas.

or normative (historical institutionalism). According to this distinction, programmatic ideas (programmes in the form of concrete political decisions) prevail above all when they are compatible with the underlying paradigm and the programmes correspond to (assumed) social norms (public sentiments), or when they can be framed in such a way that they appear to correspond to these norms.

With regard to the ECB's monetary policy, it can be hypothesised that the principle of institutional independence engenders a certain degree of autonomy from prevailing social norms. Concurrently, as emphasised by Qanas and Sawyer (2024), this autonomy pertains to governments, yet it does not extend to macroeconomics (or the interests of the banking and financial sector, on whose decisions and assessments the effectiveness of monetary policy depends; see also Wullweber, 2021).

Accordingly, the following dissertation will focus on the ECB's specific monetary policy strategy (understood as a policy programme according to Campbell, 1998) from which monetary policy is to be derived, and examine its connection to economic paradigms (understood as research programmes according to Lakatos, 1982).

The concept of organisational institutionalism is utilised in this instance, as it pertains to the notion that ideas, as underlying paradigms and concrete political programmes, function as normative and cognitive constraints. Concurrently, these ideas provide a framework within which political decisions appear meaningful (Campbell, 1998, S. 381–383; Campbell & Pedersen, 2001; Hay, 2001). Simultaneously, ideas are not conceived as static or necessarily consistent. Conversely, learning processes also occur within institutions through experimentation and feedback (historical institutionalism). At the same time, both the ideas and monetary policy and its monetary policy strategy itself are part of the economic discourse (discursive institutionalism) that is likely to have a significant impact on monetary policy and which, in turn, will be cognitively and normatively constrained by the prevailing paradigm (research program).

This dissertation, therefore, adopts a multifaceted approach, synthesising concepts from all four institutionalisms as complementary elements.

The guiding hypothesis of this paper is that, consequent to mounting instability (e.g., the spectre of deflation after 2008 or escalating geopolitical tensions since the 2020s), the neoclassical research program and central banks after 2008 have incorporated certain (post-)Keynesian ideas (e.g., conflict inflation, uncertainty, climate change, and other risk factors relevant to monetary policy, etc.), despite these actually contradicting other assumptions.

These adjustments were deemed necessary as new auxiliary hypotheses to “protect” the core of the neoclassical paradigm (Lakatos, 1982, S. 46–52). Concurrently, this approach served to uphold the prevailing neoclassical paradigm. The resurgence of inflation in 2022 signalled a continuation of economic and monetary policy frameworks anchored in neoclassical and New Keynesian theoretical assumptions, which conceptualise inflation as predominantly a monetary phenomenon.

These theories and concepts can therefore be used to explain, on the one hand, the unconventional monetary policy after 2008 and, on the other hand, the rapid return to conventional monetary policy after 2022.¹⁹

1.4. Method

In order to examine the guiding hypotheses, it is first necessary to define New Keynesianism, as part of the neoclassical paradigm, in terms of its core, several auxiliary hypotheses, and its positive and negative heuristics, etc. Post-Keynesianism and ordoliberalism will then be characterised as alternative research programmes.

Subsequently, an examination will be conducted of the economic discourse on monetary policy since 2008. This objective can be accomplished through an examination of extant literature within the domain of knowledge sociology of economics, complemented by a review of selected current economics textbooks and paper on monetary policy, including those published by the ECB itself. The prevailing consensus that existed prior to 2007 (cf. Goodfriend, 2007; Mishkin, 2011) and the subsequent defence and adaptation of this consensus by the mainstream will be examined. The following presentation will also address criticism of the principles of this consensus from the post-Keynesian camp. A further objective of this study is to examine differences and conflicts with the aforementioned consensus from the ordoliberal school of thought, which is often assumed to be influential for the ECB (cf. McNamara, 1998; Schluz, 2017; Quaglia & Verdun, 2025). This section does not claim to be exhaustive, but rather aims

¹⁹ The theory presented should therefore explain both the development and the continuity of monetary policy. A radical change in monetary policy cannot be explained causally in this way except, perhaps, by the emergence of a new dominant paradigm to replace the neoclassical one. According to Liebermann (2002), such alterations occur primarily due to mounting tensions amongst diverse ideologies and/or institutions. A persistent failure to achieve the desired price level could be a cause of precisely such tensions, which make ideas and institutions appear increasingly implausible and could ultimately lead to their replacement. This replacement could be by new ideas that place less emphasis on price stability, for example (Post-)Keynesian ideas, or by the help of other institutions that attempt to enforce price stability by other means, for example in the form of price controls, or a simultaneous change in both. In contrast, Hay (2001, p. 200) emphasises that changes in policy paradigms would also require public debate and agreement on policy objectives; otherwise, failure to achieve objectives would lead primarily to adjustments and learning processes within the paradigms.

to provide an overview of developments and possible differing positions within the paradigms, while also highlighting the differences between positions in other paradigms.

In the following section, the organisational structure of the ECB will be presented, along with a discussion of changes in its personnel since 2008. A preliminary analysis will be conducted to examine the connections between the decision-makers (members of the ECB Governing Council since 2008) and neoclassical economics, as well as alternative paradigms. These connections will then be qualitatively elaborated. The publications of central bankers, along with an examination of their respective CVs, are suitable for this purpose.²⁰ This approach is informed by the micro perspective of rational choice institutionalism (cf. Campbell, 2004, p. 185). The present study thus breaks new methodological ground by simultaneously examining the institutional structure, the specific actors, and the ideas they hold within this structure.

Drawing upon this foundational understanding of economic paradigms and economic discourse on monetary policy, as well as the economic positions of the members of the ECB Governing Council, the subsequent examination will ascertain the extent to which the ECB's monetary policy strategy and its monetary policy reflect the neoclassical economic discourse on monetary policy after 2008. This review is based primarily on the ECB's 2021 monetary policy strategy review and the economic bulletins published after monetary policy meetings. A similar approach can be found in the works of Schulz (2017) and Mugnai (2024), as well as in several other studies on the ECB's monetary policy (cf. Johnson, Arel-Bundock, & Portniaguine, 2018; Klooster, 2022; Hesse & Steininger, 2024; Best, 2024). On the one hand, it can be assumed that the ECB's monetary policy strategy serves as the basis for the monetary policy decisions and is intended to justify them; i.e., it can be regarded as the overarching rationale for the specific policy.

It is evident that economic bulletins, as opposed to the speeches delivered by central bankers or other central bank publications, are a suitable means of reconstructing the ECB's monetary policy. Conversely, they can be interpreted as deliberate endeavours by the ECB to substantiate its monetary policy decisions, thereby aligning them with the prevailing economic discourse on monetary policy and the economic paradigms held by the relevant actors.

²⁰ A survey of these 26 individuals on abstract questions of economic theory would also seem conceivable, but it must be assumed that only a few of these decision-makers would respond to such a survey.

The underlying concept is that, since the decision-making processes within the ECB are not open to observation, it is essential to identify the prevailing paradigmatic orientations amongst its decision-makers. This is undertaken in order to ascertain to what extent the neoclassical paradigm operates as a cognitive constraint on the formulation of alternative policies by the decision-making body in its entirety, whilst concomitantly enabling the implementation of political decisions that are consistent with neoclassical principles.

At the same time, it should be noted that the 2021 strategy review and the economic bulletins are intended as public communications and do not necessarily reflect the ECB's actual views. Nevertheless this enables us to examine whether and, if so, how exactly both the ECB's monetary policy after 2008 and its monetary policy strategy of 2021, as well as neoclassical economics on the subject of monetary policy, initially behaved as bricoleurs and developed in a path-dependent, evolutionary manner. The central thesis posits that the ECB, akin to neoclassical economics, has adopted methodologies, theories, and concepts from alternative paradigms (learning and experimentation) in response to deflationary risks. The ECB has incorporated these into its monetary policy strategy framework, as has the economic discourse on monetary policy. Concurrently, the neoclassical paradigm maintained its hegemony, exerting a substantial influence on both monetary policy and economics. In this context, neoclassical economics and monetary policy would have moved further away from the ordoliberal paradigm, which had previously (until 2008) been more compatible with the neoclassical paradigm of monetary policy in many respects. However, with the resurgence of inflation in 2022, the ECB reverted to its customary monetary policy approach that prevailed prior to 2008. Concurrently, the field of economics saw a renewed attempt to explain inflation primarily through excess demand, the growth in the money supply, and rational expectations on the part of economic actors. Conversely, a post-Keynesian approach, for instance, would have identified rising profit margins, particularly in the oil and gas sector, as the predominant catalyst for price rises. In monetary policy and central bank communication, this would have been reflected in a lower interest rate policy, and in political demands for price controls and the expansion of production capacities in the energy sector (or at least the cushioning of price increases through government subsidies). From a post-Keynesian perspective, calls for austerity would be illogical, as the cause of inflation would have been identified not in the demand or money supply, but in supply and the power of companies.

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