Justification of unconventional ECB policies: an interdisciplinary perspective

Interdisciplinary thesis
Liberal Arts and Science
By: Bart Piersma (5511186) Jorn Besteman (4155092) Tim Draijer (4240871)
Coco Kanters

Abstract

This thesis will search for grounds of justification for some of the unconventional policies from the European Central Bank, from an interdisciplinary perspective. From an economic perspective, the context in which the ECB operates will be described, followed by an evaluation on the unconventional policy of quantitative easing. The discipline of international relations will take a closer look at the case study in which the ECB pressured fiscal reforms in Italy during the Euro Crisis of 2012. A moral framework for the justification for the policies mentioned above, will be provided by the ethical discipline. The conclusion of this thesis will be based in the value of well-being, from the perspective of the Member States of the Eurozone. The different effects of the ECB policies on the well-being of the member states is therefore decisive for the justification of the ECB policies.

Content

Chapter 1: Introduction

When Mario Draghi, the president of the European Central Bank (ECB), realized in July 2012 that the financial situation in Europe was still very unstable, he knew that something had to be done to reinforce trust in the European markets. At the Global Investment Conference in London, he gave a speech in which he told the (financial) world what the ECB had done, and still does everything within her power to maintain economic (price) stability in the European Union. To underline this message, he stated in this speech that “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough. (ECB, 2012,, p.4)” But what did Draghi mean when he said whatever it takes? And how does he think an institute like the ECB can morally justify ‘doing whatever it takes’?

The question for this thesis will be: ‘On what grounds could the ECB justify some of their more controversial policies?’ As the ECB and her policies are quite complex, there are multiple perspectives needed to grasp all the different facets of the ECB. Therefore, in this thesis, an interdisciplinary approach will be used to evaluate ECB policies. The different disciplinary perspectives are economics, international relations and ethics.

Introduction to the ECB institute

Before explaining the disciplinary context of this thesis, the following section provides an introduction to the institutional structure of the ECB. The ECB is an European institute with one main objective: maintaining price stability in the Eurozone (which are all the countries in the European Union that adopted the Euro) (ECB, 2017). The ECB has three decision-making bodies: the Governing Council, the Executive Board and the General Council. The Governing Council is regarded as the main decision-making body, and consists of all six members of the Executive Board plus the governors of all the National Central Banks (NCB’s) in the nineteen euro area countries. The Executive Board consists of the president and vice-president of the ECB and four other members, and deals with the ‘day-to-day’ running of the ECB. All the members (also the president and vice-president) of the Executive board are appointed by the Eurozone-members of the European Council (the leaders of the EU member states), via qualified majority voting. The General Council has a advisory and coordination role, and consists of the president and the vice president of the ECB, plus the governors of all the NCB’s in all of the European

Union member states (28)(ECB, 2017). As this institutional architecture clearly shows, the governors of the NCB's of the Eurozone are closely involved into the decision-making process of the ECB. This (financial) relation between the NCB's and the ECB will be discussed later in this thesis.

Disciplinary context and sub questions

The ECB is in both terms of input and output a technical institution: the economic conditions in the European economy are decisive for the policies which the ECB conducts. The economic disciplinary addition will therefore start with giving the economic context in which the ECB is operating. By providing an economic theoretical framework, grasping the bigger (economic) picture for the ECB throughout the thesis will become more accessible. Besides this context, the economic chapter provides a brief summary regarding the situation of the Eurozone during the crisis, and how the ECB responded with conventional policy measures. Lastly, the economic chapter will address the unconventional monetary policy the ECB currently uses: Quantitative Easing. The question of the first chapter of the thesis will be whether the Quantitative Easing programme of the ECB could be effective in terms of reaching its main goal to achieve price stability.

Following, the discipline of international relations will examine the ECB mandate and the relation with sovereignty to give some disciplinary context. Hence, the sub question of this chapter will be: how does the ECB justify its part in the violation of the Italian sovereignty after the crisis of 2008? From the point of view of international relations it is very important to investigate the political actions from the ECB towards the member states (Ireland, Spain and Italy). Because political pressure does not fall within the borders of the ECB mandate, it is very interesting to look at the possible "overreach of power" is justified, especially in times of crisis. This discipline will therefore investigate the mandate of the ECB and in what way they justified their own actions against a particular member state (Italy).

Lastly, the disciplinary goal for the ethics chapter will consist of an investigation into providing a moral framework on what grounds ECB could be legitimized. Besides, it is important find out whether the exercised power of the ECB is legitimate from a moral point of view, since it is a non democratic institution. To initiate this investigation the political pressure the ECB currently exercises with her economic means on member states will be examined shortly. Subsequently an evaluation of this instrument of power will be given by making use of a dominant ethical theory called Scanlon's contractualism. In this way, an effort will be made to investigate on what moral grounds the ECB can or cannot legitimize her power. The disciplinary context given by the ethics perspective is about the question of what is justice? This is why the sub question of this part will be: On what (moral) grounds are ECB policies morally justifiable?

Summarizing, this research thesis consists of six different chapters. After the short introduction regarding the ECB, the second chapter will be an economic introduction to the terms used in this thesis and take a closer look at the QE from the perspective of an economist. The third chapter will be a closer look from an international relationships perspective on the case study about the ECB mandate and how letters to Italy might have violated the sovereignty of this country. In the fourth chapter an ethical theoretical framework will be given which can help with making a moral justification later on for the actions of the ECB that are discussed in chapters two and three. Hence, the fifth chapter will look at the common ground between the disciplinary chapters and make a moral assessment of the two subjects given in chapter two and three by incorporating these partly into the provided ethical framework. The last chapter will be a conclusion, where a final answer will be given to the main question of this thesis and certain recommendations are made for future research.

Chapter 2: Maintaining stability in sensitive markets: an economic perspective

The European Central Bank (hereafter: ECB) is a technical institution with a complex policy toolbox. This chapter of the thesis will try to provide both the economic framework in which the ECB operates and the policies tools she has at her command. As the mandate of the ECB focuses on keeping inflation “below, but close to 2%”, this chapter will start with a short section describing the importance of inflation rates for economists. After a short introduction regarding financial assets, the ECB’s relation with the central banks and commercial banks will be elaborated on, thereby also mentioning one of the conventional policy tools of the ECB. Subsequently, there will be a section devoted to a second conventional policy tool: open market operations of central banks in general. Besides economic context, the third section of this chapter will include a brief description of both the financial and the sovereign debt crisis in the Eurozone. The last section tries to formulate an answer to the question of whether the Quantitative Easing programme of the ECB could be effective in terms of reaching its main goal to achieve price stability.

Inflation

As noted earlier in this thesis, the ECB’s mandate seems short and concise; maintaining price stability in the eurozone by monetary policies (ECB, 2017). Maintaining price stability essentially is keeping inflation under control. Inflation is described as a sustained rise in the general level of prices; the inflation rate is the rate at which the price level increases (Blanchard et al., 2013, p. 24). The rate of inflation in the Euro-area is measured by the HICP, the harmonised index of consumer prices. This index indicates the development of prices of services and goods across member states of the European Union. The term “harmonised” means that the price index is constructed in such a way that it is roughly equally applicable in all the different Euro economies. Knowledge about the inflation rate is quite valuable for national economies, because when prices are going up and wages (or other forms of incomes) stay the same, buying goods grows more expensive relatively to the old situation. In economic terminology, nominal income is the income that does not take inflation into account; real income reflects the income that is adjusted for inflation. Therefore at high inflation rates, consumers whose income does not rise in a similar way to the inflation rate could be in trouble when paying for their daily necessities. On the other hand, deflation (a negative inflation rate) is also not a favourable economic position, since it implies that debts are increasing in value and that deflation limits monetary policies to affect output. According to most macroeconomists, an inflation rate between 1-4% is the most attractive for economies (Blanchard et al., 2013, p. 26). Before going into how the ECB tries to change the inflation rates in the Eurozone through monetary policies, there will be a short section regarding financial assets.

Financial assets and liabilities

A highly relevant asset for macroeconomic policies and financial markets are bonds. When a certain institution wishes to borrow money from someone, it can issue (or sell) bonds. The buyer of these bonds pays the institution a certain amount of money (the price of the bond), which will be returned at a specified date (the maturity of the bond). Until this date, the buyer of the bond receives interest on the invested amount of money, also called the bond's coupon payments which are constant and are implied to stay the same. Interest rates on bonds are sometimes referred to as the yield to maturity, or simply bond yields. These yields can change over time, together with the price of the bond. Since bonds are assets, they can be sold and bought by third parties. Therefore, bonds are somewhat liquid: this means that they can be turned into money moderately easy. Regular loans on the other hand, are less liquid. When a bank decides to make a loan to a company, the money that is lend may be used already for investing in new machines, and it may be hard to issue this money back at any point in time Blanchard et al., 2013, p. 72).

What is important to stress is that the interest rate on a bond is not the same as the interest rate on deposit accounts, or the interest for regular loans. Deposit accounts for instance, are (since they are highly liquid) considered as a form of money, where bonds are not. Furthermore, when monetary institutions mention policies to achieve certain interest rates they are mostly talking about interest rates on bonds. Since there are different types of bonds, there are also different types of interest rates bonds. When a government issues bonds for instance, the interest rate on those bonds is referred to as government bond yields. (Blanchard et al., 2013, p. 359). After this brief description of financial assets, the following section will describe the institutions that trade with those assets: banks.

Relation between central banks and commercial banks

As mentioned in the institutional framework in the introduction of this thesis, the European national banks and the ECB are closely related in the Euro-system. In essence, the national central banks of the Eurozone countries act as the executor of ECB policies and are involved in the decision making process. These policies often deal with the regular commercial banks in the Eurozone. Regular commercial banks hold deposit accounts from customers, and invest this deposited money into bonds or other financial assets. For commercial banks, deposit accounts are considered as a liability: this is money that is essentially borrowed from the customers. Below, the balance sheet of a regular, commercial bank is given.

Balance sheet commercial banks

Assets	**Liabilities**
Bonds Reserves Loans	Deposit accounts

Table 2.1: Balance sheet commercial bank

Since the deposit accounts could be issued back at any time by the customers of the commercial bank and the financial assets could be not sufficient enough to repay these deposits, Euro-area banks are required to hold reserves (Blanchard et al., 2013, p. 70). The amount of reserve requirements depends on the amount of deposits and the reserve ratio, and is held partly at the ECB. These requirements are therefore a monetary policy tool for the ECB: by lowering the reserve requirements, they stimulate banks to make more loans, thereby positively influencing liquidity in the economy. Furthermore, the ECB has the policy tool of open market operations, which will be described extensively in the following sections throughout this chapter. For this section, it is relevant to mention one of the open market operations: the main refinancing operations (MRO) (ECB, 2016). These MRO’s are weekly operations of the ECB to provide the commercial banks with more liquidity. Furthermore the ECB can alter the MRO interest rate: the interest rate at which banks borrow money from the ECB (ECB, 2016). MRO rates and reserve requirements are both generally viewed as *conventional* monetary policy tools for the ECB. An *unconventional tool* which the ECB uses as well, also deals with the relation between the central bank and the commercial banks, and is called Quantitative Easing (QE). As will be shown in the last section of this chapter, QE operates with the expansion of financial assets of the central bank balance sheet (Table 2.2).

Balance sheet central banks

Assets	**Liabilities**
Bonds	Central bank money= Currency + reserves from commercial banks

Table 2.2: Balance sheet Central Bank

Open market operations

The following section will describe the general and conventional monetary policy which central banks use to influence the supply of money, and in case of the ECB, inflation. These general monetary policies are called open market operations, and are working with the Liquidity of Money (LM) relation. As often with economic relations, this theory works with the terms of demand and supply. On the demand for money side, it is assumed that when interest rates on bonds rise, people are willing to hold more bonds (this gives them a higher profit on bonds). Therefore, the demand for money (which is then the less profitable option) will fall. Economists refer to the interest rate also as ‘the opportunity cost’ of holding money, since when an individual holds money instead of bonds, the individual misses the income from the interest rate. The supply of money by the central bank is not affected by changes in the interest rate; this is the power of the central bank. The following graph provides the picture for the relation between the demand and supply for money and bonds. The money demand (Md) curve is downwards-sloping, since higher interest rates leads to lower demand for money and therefore a lower quantity of money. The money supply curves are straight, since they are unaffected by changes in interest rates.

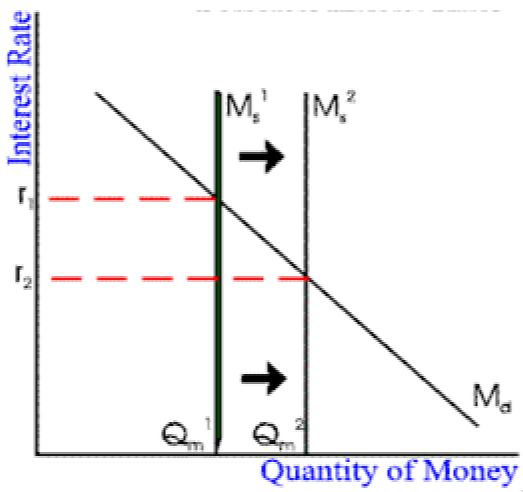

Figure 1: expansionary open market operation, Kaplan (2017)

The figure above is an example of how the central bank can influence interest rates and the quantity of money by a so-called ‘expansionary monetary policy’. Here, the central bank buys bonds, therefore increasing their demand and price and lowering the interest rates on those bonds and increasing the general supply of money. (Blanchard et al., 2013, p. 66). When this supply of money grows faster than the normal economic growth in an economic area, money will be worth less and prices will be higher: the inflation rate will increase (Blanchard et al., 2013, p. 246). As mentioned, open market operations are regarded as conventional policy tools.

However, the effectiveness of these operations has been reduced as the interest rates on the bonds bought were decreased to zero since the end of 2008. Therefore, the ECB lost its instrument to affect money supply: the economy had fallen in a so-called liquidity trap (Blanchard et al., 2013, p. 460). This constraint, and the major economic influences that appeared during the crisis, has paved the way for the ECB to investigate new and unconventional policies like Quantitative Easing. Before describing the QE policies however, the following section provides a brief overview of the consequences of the financial and sovereign debt crisis in Europe.

The crisis

The global financial crisis of 2009 started with falling housing prices in the United States. As these housing prices affected the assets of banks, these assets decreased dramatically in value and banks had to sell them for low prices. When investors became aware of the vulnerability of the banks, they grew reluctant on borrowing money for the banks, thereby increasing the interest rate on lending. This had a great negative effect on the bank's balance sheets, as the banks depended heavily on the lending of other banks and investors before the crisis. This became a negative spiral, also affecting consumer confidence and therefore consumer spending. Since some European banks also held US assets that went 'bad' at the start of the crisis and were also affected by the higher lending interest rates, the crisis started to influence the European banks as well (Blanchard et al., 2013, p. 456). Therefore, as banks in Europe became short in liquidity, the ECB reacted. It responded initially with a conventional monetary intervention to stimulate economic activity: lowering the interest rate on main refinancing operations (MRO) from 4.25% to 1%, to answer the banks demand for more liquidity. Furthermore the Eurosystem central banks started to buy covered bonds from banks in July 2008 (Lewis & Roth, 2015). However, the banking sector was not the only sector that needed support in Europe.

Since the start of the Euro in 1999, the Eurozone was already divided in the 'periphery' and the 'core' in terms of macroeconomic conditions. In terms of current account deficits for instance, the periphery countries (Greece, Portugal, Ireland etc.) were importing more than they exported and therefore ran current account deficits. These current account deficits were financed by borrowing money mostly from the core countries such as Germany and France, who were running account surpluses. Therefore, during the crisis, large flows of capital moved from German or French banks to Spanish, Irish and Greek banks. This capital was invested in domestic projects such as consumer loans in the periphery countries. (Blanchard et al., 2013, p. 442). During the financial crisis, the banks from the core of the Eurozone started to withdraw these loans, directly affecting the periphery's domestic conditions and leaving the periphery banks with high debts. These 'private debts' quickly affected 'public debts', because of government bailouts of periphery countries to save their troubled banks (Beckworth, 2016, p. 4). In figure 2 below, the development of debt to GDP ratios are shown.

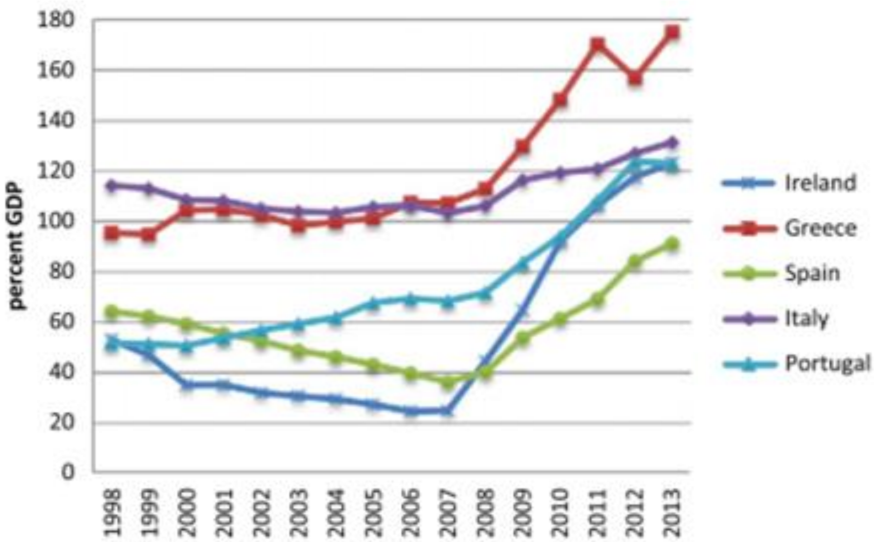

Figure 2: Gross government debt to GDP ratio, periphery countries, De Grauwe (2016)

As these government debts increased, investors became less confident in the earlier mentioned government bonds and started to sell these bonds. This drove the prices of these bonds down, and increased their interest rate (or yield), leading to even higher costs and liquidity problems for the periphery countries (De Grauwe, 2016, p. 152). As the uncertainty increased, the periphery countries experienced deep recessions.

It was during this spiralling effect, in which two crisis were heavily affecting each other, the ECB announced its OMT programme in 2012 saying that it would buy large amounts of sovereign bonds to decrease their interest rate. As this programme was mainly focussed on the troubled periphery countries, the ECB became 'the lender of last resort', which will be discussed in another chapter of this thesis. The OMT-programme announcement was effective; since the announcement in 2012 the sovereign bond yields of some of the periphery countries (especially from Greece), decreased dramatically. This led to some convergence between the periphery and the core in regard to the bond yields. However, the OMT programme did not affect the high debt-to-GDP ratios in the periphery; it only removed the market sentiment factors (De Grauwe et al., 2017). Therefore, the fundamental macroeconomic differences between the core and the periphery countries remained in place. Besides this OMT programme, the ECB introduced long term refinancing operations (LTROs) in 2011, aimed at improving lending conditions for commercial banks (Lewis & Roth, 2015). Furthermore, interest rates for deposit accounts have been lowered dramatically by the ECB (Urbschat & Watzka, 2017).

Quantitative Easing

The latest programme introduced by the ECB is called the Quantitative Easing (QE) programme. The justification of the ECB to start their QE programme in 2014, was the fact that inflation rates were falling since 2012, with a severe drop in 2014, as can be seen in Figure 3 below (Global-rates, 2017).

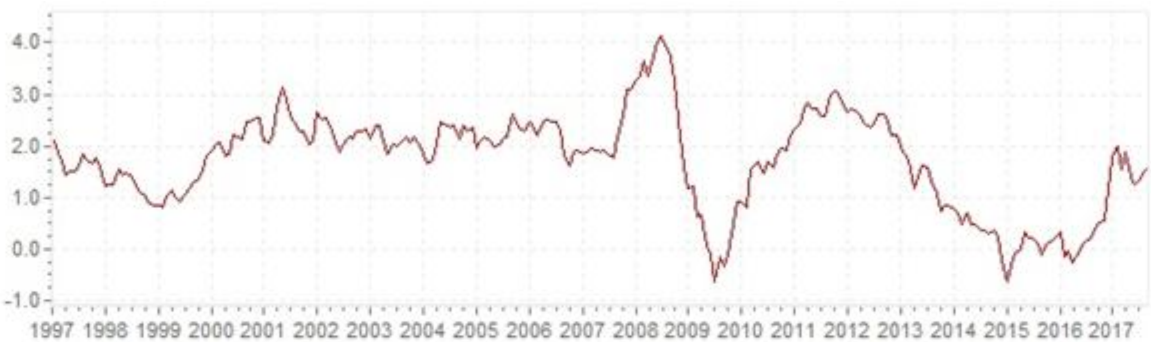

Figure 3: Inflation rates Eurozone (HICP), Global-rates (2017)

As mentioned above, the QE policy is assumed to work just as open market operations: assets are bought from investors or banks, bringing the interest rates of those assets down, thereby increasing the money supply and inflation rates. The two main differences of QE compared to open market operations, is the scale and the type of assets which are bought under the QE programme. This is also the reason why the earlier mentioned liquidity-trap could possibly be avoided (Blanchard et al., 2013, p. 462).

Furthermore, QE also shows similarities with the OMT programme which was introduced during the crisis. The main distinction between these two, is that the OMT was primarily focussed towards lowering periphery countries bond yields; the QE programme started because of falling inflation rates in the whole EU. Furthermore, the OMT programme has not bought a single government bond until 2017; it only worked because of the announcement of the programme (Urbschat & Watzka, 2017, p. 9). The QE policies however, as will be shown below, have bought huge amounts of bonds form investors, banks and other financial intermediaries. Under the QE policies (or Asset Purchase Programme, APP), the assets bought are related to four different sectors: the Third Covered Bond sector, the Asset Backed Securities sector and the Public and Corporate sector. The ECB started buying assets from the first two sectors in September 2014, whereas the Public Sector Purchase Programme (PSPP) started in March 2015 (Gambetti & Musso, 2017). As the graph below shows, the latter policy is also the policy with the biggest scale (Urbschat & Watzka, 2017, p. 4)

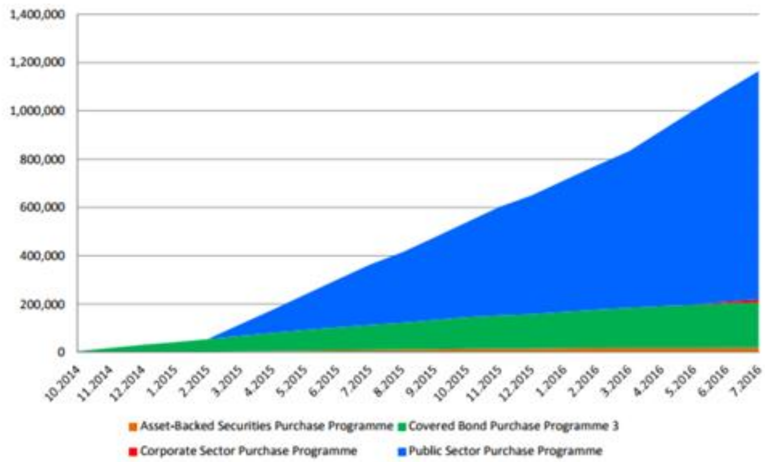

Figure 4: asset purchase programs of the ECB, Urbschat & Watzka (2017)

As the QE policies are relatively new, describing the (long-term) effects of the policy on the European economy is rather difficult. However, as the financial assets are bought from investors or other financial intermediaries, it is possible to estimate some effects on the financial markets. According to the literature, the effect of APP is expected to be the strongest on financial markets via three channels: the credit risk and liquidity channel, the portfolio channel and the rebalancing channel which will be described below.

The credit risk channel is in essence the same channel through which the OMT programme worked: by only announcing that the ECB would start buying government bonds, investors now assumed that these bonds would be less risky as the ECB would always buy them. As mentioned in the section above, this 'renewed market sentiment' led to a dramatic decrease in government bond yields from periphery countries. Applying the credit risk and liquidity channel to the QE policies, one would expect large reductions in the bond yields as well. However, one of the reasons why the announcement of the OMT program worked so well was because of the times of crisis in 2011. Uncertainty was high in financial markets and when the ECB acted as a 'lender of last resort', investors grew more confident, thereby highly influencing interest rates on bonds. During the relatively calm times in 2015 when the QE started, the effects from the credit risk and liquidity channel are expected to be small however (Urban & Watzka, 2015, p. 9).

The second possible channel is called the ‘signalling effect’, which mainly regard effects due to changes in expectations (Urban & Watzka, 2017). As the ECB’s policies are leading to smaller current interest rates and higher output, financial markets are expecting lower interest rates in the future as well (Blanchard et al., 2013, p. 411). Therefore, the QE policy is assumed to lead to lower uncertainty and volatility of the future short-term interest rates, which could be important for investment decisions (ECB, 2016). The biggest effect of the QE via the signalling channel however, can also be found at the announcement of the APP by the ECB in January 2015. After this, the effects of new APP programs were diminishing, even when the ECB decided to raise the APP from 60 billion per month to 80 billion in March 2016 (Urbschat & Watzka, 2017).

The third channel that is assumed to have a direct influence on government bond yields, is the portfolio rebalancing effect. It refers to the response of investors regarding their asset portfolio after announcements of the ECB to purchase government bonds via the APP (Urbschat & Watzka, 2017). As mentioned earlier, the purchase of these government bonds is assumed to decrease the government bond interest rate and increase their price. When certain investors hold these bonds in their portfolio, they now have an incentive to buy other financial assets with higher interest rates. Therefore, the overall demand of financial assets will increase, leading to higher asset prices and lower interest rates (Lewis & Roth, 2015). By purchasing government bonds, the portfolio rebalancing channel assumes that other assets on the financial markets are also affected (like stock market prices). This is indeed an effect that Luca Gambetti and Alberto Musso found in their paper: the reaction of the stock prices after the first APP shock in 2015 was almost a 10% increase (Gambetti & Musso, 2017).

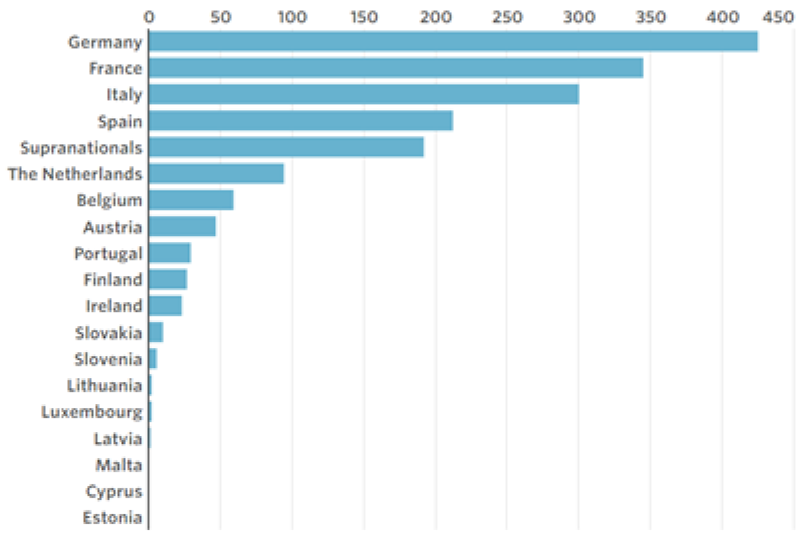

Figure 5: cumulative monthly net purchases of bonds under the QE program in billion euros, ECB (2017)

Inside the Public Sector Purchase Programme, the cumulative value of the bonds bought is not distributed equally across the Eurozone (ECB, 2017). As can be seen in Figure 5 above, most government bonds have been bought from Germany under the PSPP until 30 September 2017, followed by France, Italy and Spain (ECB, 2017). The biggest effect on bond yields has not been accomplished regarding Germany however. In fact, the biggest effect of the PSPP measured by the reduction of the yields of the government bonds, can be found on the earlier mentioned 'periphery countries', like Portugal and Italy. Therefore, it could be argued that these countries are somewhat dependent of QE policies. Quitting the programme, or even 'tapering it' (reducing the value of assets bought), would therefore imply negative welfare effects for the periphery countries (De Grauwe et al., 2017). For the core countries however, such as France, the Netherlands and Belgium, the effects on bond yields are very small; in Germany the effects on bond yields are the smallest (Urban and Watzka, 2017). Furthermore, other effects of the APP on the German economy are small or short-lived (Lewis & Roth, 2015).

In the paper of Gambetti & Musso, some effects of the APP on both the Gross Domestic Product (the total value of income generated) and the inflation rate in the Euro Area are found. Whereas the relation between APP and GDP between 2015 and 2016 the effects seem to fade out over time, the relation between APP and the inflation rate seems to become stronger (Gambetti & Musso, 2017). This is also supported by the current rate of inflation, which is close to the ECB's mandate of 2% (Figure 3).

Conclusion

The economic chapter of this thesis started by giving the economic context in which the ECB operates. Since the ECB mainly deals with price stability, financial markets and financial assets, the first sections of this chapter provided a short description of these concepts. As described in the section regarding the crisis, interest rate on bonds (especially government bonds) are highly dependent on market sentiments and vice versa. With monetary policy interventions by the ECB in 2012, financial market expectations seemed to improve, leading to falling bond yields in periphery countries.

The effects of the QE programme, which started in 2015 due to falling inflation rates, are also very dependent on market sentiments. Most of these effects were the strongest just after the announcement of the programme, and differ per country in the Eurozone.

Concluding, answering the question whether the start of QE policies could be justified in terms of economic effectiveness, seems difficult to answer. However, as the financial markets are highly sensitive and the periphery countries seem to experience some benefit of the QE, quitting the programme seems unwise, since it could possibly lead to renewed uncertainty.

Chapter 3: Justification of violating sovereignty (international relations)

Introduction

The main question for this chapter will be: how does the ECB justify its part in the violation of the Italian Sovereignty after the crisis of 2008? To answer this question, this chapter will examine the role of the ECB in the financial rescue of Italy. In this case the ECB sent a letter to Italy with certain “recommendations” to improve the fiscal situation of Italy. This was a unique event, because it had never happened before that a monetary supranational instituted made veiled fiscal demands on another country. As Bastasin describes in his book: “It had never happened that a sovereign country, without even asking for financial assistance, was dictated a policy agenda and not given a chance to discuss it (Bastasin, 2012, p. 305).”

To answer the main question, this chapter will start with the definitions of sovereignty and supranationality within the European Union. Subsequently the mandate of the ECB will briefly be examined to get a better understanding of the boundaries of the ECB policy in relation to the sovereignty of member states. In the next part the case study of the violation of the fiscal sovereignty of Italy will be examined by analyzing the letter with fiscal recommendations the ECB send to Italy. In the final section, the letter, the ECB’s official statement and the reasons why they send the letter will be examined, in order to determine how the ECB justifies her actions.

Sovereignty and Supranationality

Although there are different forms of sovereignty, the focus in this chapter will be on Westphalian sovereignty. Westphalian sovereignty refers to the autonomy of domestic authority structures. So, in the concept of Westphalian sovereignty a state cannot be influenced by another external authoritative power(s) (Krasner, 2001, p.11).

The European Union is a supranational union, this means that the member states have agreed that the decision power lies with an government consisting of those member states. So, the sovereignty and decision making ability of states is shared within a supranational union (Kiljunen, 2004, p. 22). The ECB is however the first supranational Central Bank in the world, and is therefore a special kind of institution not only within the European Union but as such (McNamara, 2001, p.158). The ECB is the only notable monetary authority without a fiscal counterpart, which makes the ECB the most powerful and at the same time the most overburdened central bank in the world. Baum and Hoffmann summarize this aspect of the ECB in the following way: “The ECB is powerful because the governing organizations (European Parliament, European Council) have no authority over their jurisdiction, but also overburdened because the ECB has no fiscal authority to share the burden of regulating the euro area economy (Braun & Hoffmann-Axtheim, 2017, p.16).”

In reality a part of the sovereignty of member states has been traded off, so that they can enjoy the benefits of international collaboration. In case of the ECB, member states have agreed to give the authority over their own monetary policy making (for instance devaluing a currency) to the ECB.

The ECB Mandate

In the Lisbon Treaty of 2007 (just before the financial crisis) the European member states agreed to adjust the existing rules concerning the functioning of the European Union. In this treaty several articles from the time of the establishment of the ECB were dedicated to its mandate.

In Article 127 the main objective of the ECB is set on maintaining price stability (Lisbon-treaty, 2007). Germany is one of the most important reasons for this main objective. Because of the strict price stability policy from the German central bank (Deutsche Bundesbank), Germany always had a strong currency before the Euro. This strict policy originated from the German hyperinflation of the 1920s (Werner, 2006,105). So, when Germany finally agreed in 2001 to trade in their own currency for the Euro, it only agreed if the new central bank (ECB) would keep a strict price stability policy.

Some parts of the Lisbon Treaty are interesting with regards to the sovereignty of countries. Especially Article 132 is interesting for this chapter. It states that: it's within the reach of the ECB to: “Make regulations, recommendations and deliver opinions for member states (Lisbon-treaty, 2007).” These regulations/ recommendations can be implemented to help the ECB complete its tasks. If a member state is interfering in such a way that the ECB can't properly perform its (main) tasks, the ECB can respond by proposing regulations and recommendations.

The last part of Article 132 states that: “Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 129(4), the European Central Bank shall be entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions (Lisbon-treaty, 2007).” So according to this Article the ECB can take action in the form of fines or periodic penalty payments against countries that don't follow agreements made with the ECB. However, there are no further explanations or examples given about the meaning of periodic penalty payments or obligations to member states.

Because of the ambiguity of these rules, the ECB was forced (during the Euro Crisis) to implement most of these regulations in a way that they saw fit for the situation as will be shown in the next part.

“Monetary policy under conditionality”

Especially Ireland, Portugal, Spain and Italy were in a lot of financial trouble because of the euro crisis. To help these countries the ECB reopened the Securities Market Program (SMP) for the purchase of government bonds (Braun & Hoffmann-Axtheim, 2017, p.17). By buying these government bonds the ECB could lend financial support to the countries that needed it. At first, they only used this program to buy bonds for Ireland and Portugal. But when the financial situation in Italy and Spain became dire (on august 4th yields on Italian and Spanish bonds spiked to 6.2 percent), the ECB also used the program to buy bonds from Italy and Spain (Bastasin, 2012, p.298). But not without strong “recommendations’’ for these countries, that were expressed in letters that the ECB send to these countries. These recommendations could be seen as demands in return for financial help. Henning explains it in his article in the following way: “Although they made no explicit link to bond purchases, the letters effectively laid down the conditions under which the ECB would be willing to deploy the bond buying program for Italy and Spain (Henning,2015, p.10).”

Italy did not want any involvement of explicit conditional lending programmes like the International Monetary Fund (IMF), because the country thereby had to yield over Westphalian sovereignty to a non-EU institution (Sacchi, 2015, p.2). That’s why the ECB bond purchasing program was the only way Italy could get the financial support. Which put the ECB in a powerful position, from which they set conditions that seemed like recommendations but were more like demands on the Italian government.

This is a new phenomenon in the violation of sovereignty that Darvas en Merler call the "monetary policy under conditionality" (Darvas & Merler, 2013, p.14). In their paper they assess that the ECB had (from a monetary perspective) no logical reason to continue their bond buying program if the beneficiary country would take no effort to comply with their recommendations. And so, as will be shown in the case study of Italy, the conditions of the ECB would have far reaching effects on Italian politics and international politics.

The Italian letter

In the summer of the year 2011 the yields on Italian bonds was about to reach the unsustainable 7 percent level. One of the most important rules with bond yields within the EU is that the yields can't reach the 7 percent level. If a bond reaches the 7 percent level the government debt will double in 10 years. Because of this, investors will lose faith in the bonds, only making the situation worse. So, the Italian bonds were close to reaching a point where they would be no longer interesting for investors (Bos, J., & Boer, M, 2011). Thus, after the yields on Italian bonds approached the dangerous 7 percent level on August 4th , on August 5th , 2011 the ECB send a letter to Italy with its conditions for the financial support (Bastasin, 2012, p.298).

The letter started with stating: "The Euro Area Heads of State or Government summit of 21 July 2011 concluded that «all euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms» (Corriere, 2011)." The ECB confirmed with this statement that the letter was in line with the wishes of the government summit. The ECB also took this one line out of the summits conclusion, to clarify that the countries needed to honour their own sovereignty by keeping to their fiscal commitments. However, after they stated that the actions of the Italian government were not sufficient, the ECB continued to give strict "recommendations''. As stated before these can also be seen as demands, leaving little space for Italy to keep to their own fiscal policy (Sacchi, S, 2015, p.2).

The ECB clearly stated in its letter the following demands: Full liberalization of public services, reform of collective wage bargaining, and new rules for the hiring and dismissal of employees. Besides, these measures the ECB also requested interventions in the pension system and reducing the cost of public employees (Bastasin, 2012, p.300). In the letter they mention that: *A constitutional reform tightening fiscal rules would also be appropriate* (Corriere, 2011). All of these demands are political changes in the fiscal economic policy of Italy that had far reaching implications for the population of Italy. And in some cases, as with the new rules for the hiring and dismissal of employees, direct impact on the lives of those employees.

Another interesting aspect of the letter is the tone that the ECB is using to clarify that Italy really needs to make a change. The letter contains sentences like: "However, more needs to be done and it is crucial to go forward decisively. The government needs to take immediate and bold measures to ensuring the sustainability of public finances and we regard as crucial that all actions listed in section 1 and 2 above be taken as soon as possible with decree-laws, followed by Parliamentary ratification by end September 2011(Corriere, 2011)." The tone in these statements is clear, yet they are never forceful or threatening towards Italy. They, for example, never clearly state the consequences if Italy does not comply with these recommendations. So, the ECB tries to make these statements look like they were all just non-binding recommendations to help a country in a financial crisis. However, because Italy was highly dependent on the financial aid of the ECB, these recommendations cannot be seen as non-binding.

These demands show that the ECB put considerable pressure on Italy with their "monetary policy under conditionality". And that wasn't without consequences for the Italian government as will be clear henceforth.

Effects on Italy

After receiving the letter from the ECB, the prime minister of Italy, Berlusconi, released the letters immediately, forcing the ECB to release an official statement on august 7 about the conditions of the bond purchases programme. Together with this statement German chancellor Merkel and French president Sarkozy issued a statement supporting the letter of the ECB in saying that the new measures needed to be implemented as complete and fast as possible (Bastasin, 2012, p.305). On august 8 the ECB started buying Spanish and Italian bonds.

The intervention of the ECB in Italy had bought Berlusconi some time to get his country's economy in order. The problem however was that the implementations by the Italian government were slow and chaotic. After five difficult weeks, the Italian government did pass budget corrections. But those corrections did not correspond with the requests from the ECB letter (Bastasin, 2012, 316)

Because Italy did not comply with the recommendations from the ECB, the bank wrote a second letter to warn Berlusconi of the consequences of not complying to their conditions. Although this letter was never sent, the ECB probably decided to suspend the purchases of Italian bonds. Because in October a decline in weekly purchases can be seen in the Security Market Program, the program under which the Italian and Spanish bonds were bought (Henning, 2015, p.11). This data suggests that the ECB did in the end back their recommendations up with a kind of financial punishment towards the non-compliance of Italy. And thereby breaking the illusion that the demands from the first letter were mere non-binding recommendations. Another interpretation might be that the ECB did not suspend its purchases of bonds, but that the increasing instability caused by the government made the Italian yields spike (Jones, 2012, 84). Because the ECB does not give any information about their weekly purchases, the exact reason for this yield spike cannot be determined. This lack of transparency can of course be seen as a problem in the justification of their actions.

When the Italian bonds spiked up dramatically at the end of October, and under pressure of world leaders (mostly Merkel backed by Sarkozy), the Italian government accepted the involvement of the IMF (Henning, 2015, 11). The combination of IMF involvement and his failure to revive the Italian economy, pushed Berlusconi over the edge. Early November he offered his resignation. Therefore, it might be possible to conclude that the “recommendations’’ the ECB set in their letter lead to the resignation of the leader of one of the central member states in the European Union.

Justification for the actions of the ECB

The ECB never released any official statements in which they justified their actions against Italy. The only official response from the ECB was the official statement they had to make about the Italian letter. Because the letter (send in secret to the Italian government) was exposed by Berlusconi, the ECB had to release an official statement concerning the letter.
The official statement ends with the ECB stating that: “It is on the basis of the above assessments that the ECB will actively implement its Securities Markets Programme. This programme has been designed to help restoring a better transmission of our monetary policy decisions – taking

account of dysfunctional market segments – and therefore to ensure price stability in the euro area (ECB, 2011).” So according to the ECB, the Central Bank only implemented the program to perform its main task of ensuring the price stability. The justification for the recommendations made by the ECB are from the “above assessments”.

One of these assessments is described as: “The ECB attaches importance to the declaration of Government of the euro area in the inflexible determination to fully honor their own individual sovereign signature as a key element in ensuring financial stability in the euro area as a whole (ECB, 2011).” Just like the in the letter, they assert that the individual sovereignty is key in solving the financial instability. With sentences like these, the ECB wants to show that they care about the sovereignty of the states. And that they would therefore never violate that sovereignty. However, because of the dependence on the ECB Securities Markets Programme, the implicit conditions that the ECB stated in their letter can be seen as a source of ECB involvement in domestic matters (Sacchi, S, 2015, 12).

Another interesting quote from the official statement is: “The Governing Council underlines the importance of the commitment of all Heads of State or Government to adhere strictly to the agreed fiscal targets, as reaffirmed at the euro area summit of 21 July 2011(ECB, 2011).” The ECB justifies its recommendations by linking them to the agreed fiscal targets. These were set by the Heads of State and not by the ECB. So according to this official statement the ECB only proposed recommendations to Italy that could help Italy get to their agreed fiscal targets.

Another quote from the statement confirms the assessments made about the ECB justification: “The Governing Council considers essential the prompt implementation of all the decisions taken at the euro area summit. In this perspective, the Governing Council welcomes the joint commitment expressed by Germany and France today (ECB, 2011).” Again, the ECB first exerts pressure on Italy by saying that it is essential that implementation of the recommended measures should be executed as quickly as possible. However, in the same sentence they refer to the decisions made at the euro summit, and declare that France and Germany support the ECB. So, the ECB frequently confirms that their recommendations can be fully justified, because they are in line with the fiscal targets all EU-members have agreed to.

The ECB mandate clearly states that they are “entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations.” The problem with Italy was that, because the country was in financial trouble, so the fines would only work counterproductive. Therefore, the ECB had to find another way.

The ECB mandate also states that the ECB can make regulations for, and recommendations to countries. According to its own mandate, the only occasion in which the ECB can impose regulations, is when a country is interfering with its tasks. In 2011 Italy formed a threat for the Euro currency. Because protecting the currency is one of the ECB main tasks, the bank could justify their recommendations within the framework of their own mandate.

Conclusion

As this chapter has shown, the ECB used a new phenomenon the “monetary policy under conditionality” to violate the Italian (Westphalian) sovereignty. However, the ECB justifies the actions in the letter and official statement sent to Italy, in which they assert that they are operating within their own mandate, and their “conditions” are in line with the agreements made at the summit of 21 July. The problem with these conditions is that it’s hard to say to what extent the ECB made recommendations and not just threats. The ECB tries to avoid using threats in formulating the letter of recommendation they sent to Italy, but at the same time, they set strong conditions for their financial support. In their own justification, the ECB keeps on reminding that the sovereignty is key in solving the financial problems, but at the same time they violated this sovereignty of Italy to choose their own fiscal policy by making implicit threats.

In conclusion, the ECB does justify its recommendations by referring to the agreement Italy made at the summit of 21 July. But whether or not the actions of the ECB can be justified depends on the definition of the recommendations as non-binding conditions or binding demands.

Chapter 4: Moral framework: an ethical justification

The disciplinary focus of this chapter will first of all consist of a short moral examination of the policy the ECB conducted after the financial crisis of 2008. Second, there will be an investigation into the question on what grounds the ECB could possibly legitimize her policy from a moral point of view. To initiate this investigation the political pressure the ECB currently exercises with her economic means on member states (MSs) will be examined. Thereafter, an effort will be made to evaluate this instrument of power ethically, by making use of a dominant ethical social contract theory called Scanlon's Contractualism. This theory presumably suits this ECB dilemma best, and to have an optimal evaluation, it will be combined with an analysis of the ECB policy on certain main values of justice. In this way, an effort will be made to investigate on what moral grounds the ECB can or cannot legitimize her power. It should be noted however that this disciplinary focus will lay more on providing a moral framework for evaluating the ECB as an institution than on making exact recommendations for future ECB policy.

The European Central Bank (ECB) is an institution, which has done more than any other actor to save the financial and economic system of the euro area from collapse during the financial crisis of 2008. Its crisis-related activities went well beyond what her architects had envisioned as the central bank's role, and therefore require greater scrutiny. Mario Draghi (the president of the ECB) vowed "to do whatever it takes to preserve the euro" in 2012 (Braun & Hoffman, 2017, p.4). But the role in governance the ECB fulfilled led to two fundamental concerns (Braun & Hoffman, 2017, p.5). The first one is that central banks have been overburdened, which puts a severe strain on the institutional arrangement that supports the partial exemption from the principle of democratic accountability. Secondly, because of this exemption, a much higher level of transparency seems to be needed, for instance "[...] in view of the ECB's discretion in supervisory practices, the wide-ranging impact of its purchases of private-sector securities, and its role in global regulatory bodies such as the Basel Committee on Banking Supervision (Braun & Hoffman, 2017, p.5)."

This chapter will suggest a systematic method for the ECB to evaluate her policy on. Because it would be simply far too ambitious for this thesis to evaluate the ECB on every aspect of her policy, this chapter will suggest a method to evaluate certain policy decisions of the ECB in an ethical way. Also, on the basis of a potential hypothetical scenario, it will be shown how to weigh certain moral principles next to each other. For that purpose, it is needed to know which values are at stake, how these values can be interpreted and ought to be interpreted.

Because the ECB is a supranational institution which has to serve the interests of every MS (member state), and since there are different dominant political philosophies in these MS, a politically neutral evaluation method seems to be required first. Nevertheless, it would also be too ambitious to provide a political philosophical foundation for an evaluation of ECB policy. The only political assumption that will be made is that because of the ECB's partial exemption from the principle of democratic accountability, her policy ought to be extra justified to the all MS. For this reason, the evaluation of ECB policy should focus on what actions are just, in regard of every MS, and in regard of the moral responsibility of the ECB. This is important because when the ECB has a policy that overreaches her mandate, she should somehow be held accountable for her actions, especially because she is are already placed outside the democratic politics. As Braun & Hoffman state: "The ECB's accountability framework is not appropriate for the far-reaching political decisions taken by the Governing Council. (2017, 5)" Therefore, it is important to know what recommendations ought to be made regarding ECB policy, and hence an ethical evaluation is required.

A suitable moral theory

Before initiating an investigation on what grounds the ECB might justify her policy decisions, it is useful to have a quick examination into some key moral values. What is justice? And why is it important? For this problem the principle of justice depends at first sight on values like political relational equality, social stability, economic prosperity for all MSs. The main dilemma of the justifiability of the ECB policy depends presumably most on these two aspects of justice: distributive justice and relational equality. That is because every MS presumably want the ECB policy to benefit their own economic efficiency and prosperity and wouldn't want another MS to benefit significantly more. Therefore the policy of the ECB would need to promote the values distributive justice and political relational equality. How are these values to be interpreted or weighed against each other? Questions of relational equality might often be about one individual or group that is disadvantaged in comparison to other individuals or groups, which leads to a violation of the principle of justice and fairness. Distributive justice dilemmas are frequently issues about whether every individual or group gets what they deserve, hence the question will be: what does every MS deserve? Which criterion ought to be used here?

The criterion that ought to be used in this case has to consist of a proper moral theory of justice. Oftentimes a consequentialist theory is used for these kind of dilemmas. Consequentialism evaluates actions, as the name implies, on the basis of their consequences in terms of utility. Utility can be viewed as happiness, or in this case benefits to the most people/ member states (Driver, 2014)(Stanford Encyclopedia of Philosophy, 2015). However, this theory doesn't seem the most fit to evaluate this case dilemma because it allows aggregation of utility. To illustrate this: imagine that certain policy actions of the ECB could possibly promote the most utility overall, but could at the same time still have a lot of disadvantages to for example a small MS. This is because the interests of a small MS are relatively not that important in terms of utility in comparison to the interests of other bigger MS. This is only the case when supposed that there would be certain policy action that could result in such different consequences for the MS. Therefore, another moral theory seems to be needed for this case dilemma in order to justify the actions of ECB policy to every single MS.Hence, an avoidance of aggregation of utility seems essential for a supranational organisation like the ECB.

Scanlon's Contract Theory

How can we justify ECB policy to every MS? To realize this goal it might be suitable to apply a form of a social contract theory, namely Scanlon's contractualism (Scanlon, 1998)(Driver, 2014). Opposite to consequentialism, Scanlon's contractualism evaluates moral rightness of acts more on the basis of duties, than on their consequences. Contractualism is suitable for this kind of case dilemma since we are dealing with one institution which ought to function as a representative for all the MS of the EU and therefore has to serve their interests. Also, social contract theory is famous for justifying actions on the basis of acceptability to every single stakeholder (MS), and not - to say it very simplified - just letting most votes count, like in a consequentialist theory.

Scanlon's theory is a normative ethical social contract theory that is mainly concerned with these two questions: First: What do we owe each other? Second: When is an act just or unjust? His theory is best summarized by the next quote:

"An act is wrong if its performance under the circumstances would be disallowed by any set of principles for the general regulation of behavior that no one could reasonably reject as a basis for informed, unforced, general agreement (Scanlon 1998, p.153)."

Let us now focus on explaining some parts of his quote to get a more comprehensive understanding of his theory. First, why did Scanlon chose word choice for 'reject' instead of for instance 'agree to'? Scanlon states that there ought to be more reason to not reject a proposal than to accept it if there would be unreasonable conditions since a person would rather not reject a proposal than accept it. Also, according to Scanlon, justification to others "gives us a direct reason to be concerned with other people's points of view [...] in order to find principles that they, as well as we, have reason to accept. (Ashford, p.297)"

Besides, it is important to know what the word 'reasonable' entails according to Scanlon. Why did he for example not chose the word 'rational'? This is because Scanlon states that if we are to consider what conditions ought to be reasonable, we would automatically start to think from a more moral point of view, where we take into account: the views of others, alternatives, and give an adequate estimation of burdens. This is contrary to the concept of rational egoism where we would only care to see our own interests realized (Scanlon, 1998).

This raises the question what counts as reasonable rejection. Ashford (2003, p.276) states there are two central features that count as a legitimate reason for rejecting a principle. The first is that principles can only be rejected on the basis of the objections of various individuals for or against that principle. So individuals (or member states in this case) can only object on their own behalf, and not on behalf of a group. By making every 'player' or stakeholder or able to reject a principle, some kind of balance of power is constituted. At the same time, by rejecting interpersonal aggregation of benefits and burdens, the theory of contractualism is extremely demanding (Ashford, 2003, p.301). However, for a moral theory to be rather ambitious, doesn't have to be a disadvantage, although it can be impractical.

Secondly, what counts as reasonable rejection depends on the comparative strength of the individual's (MS) reasons for or against the principle. So "The essentially comparative nature of reasonable rejection, combined with the restriction to individuals' reasons, together entail that any individual can reasonably reject a principle to which no other single individual has an equally strong objection" (Ashford, 2003, p.276). This of course begs the question what counts as a "strong" objection. According to Scanlon an important primary ground for reasonable rejection is weighing the gains or losses in well-being of stakeholders as effects of an implemented principle. So well-being is regarded as an important value for Scanlon, although he states there are more grounds for objections.

A Scanlonian test procedure

Scanlon also offers some kind of test procedure to find out if a principle is morally justifiable or not. This test procedure exists of four steps. This is a very technical explanation, but will become more clear later by applying the procedure in a hypothetical ECB policy scenario. This is to give an example of how some potential actions of the ECB could be weighed by making use of certain principles The first one is to formulate a principle that would allow for an action (policy decision) in a specific situation. Next, we ought to look at the abstract positions of all the parties that are involved upon general acceptance of the contract - whether in a direct or indirect way - and simultaneously look at their interests (including that of the actor: ECB). The third step involves contemplating about what could be potential objections that would be proposed by all parties. Lastly, and this step is crucial, there ought to be a weighing of the potential objections. While weighing it should be considered which objections weigh the heaviest. And then the final question ought to be asked: would the burden of the least advantaged player be heaviest upon acceptance or rejection of the principle? So if the burdens for a 'player' are heavier when accepting a principle, then by rejecting it, there is a moral ground for reasonable rejection of the principle which makes an action morally wrong (Scanlon, 1998).

There are some special general principles that might be extra relevant for the ethical evaluation of ECB policy, and provide more moral grounds to base the justification on. The first one is the "Rescue Principle" which claims that: "if we can prevent something very bad from happening to someone by making a slight or even a moderate sacrifice, it would be wrong not to do so (Ashford, 2003, p.286)." So if one MS is on the edge of national financial misery, and would need the help of the ECB or other MSs, while the sacrifice of these other MS are only moderate, it would be wrong not to provide this help. But as Ashford argues, there are always individuals who can object to this Rescue Principle and propose a more demanding one, for instance called the "Stringent" Principle. Therefore, the long-term cumulative burden of repeated actions of giving help should also be considered when weighing objections, because this could lead to an unfairness objection. Relatively affluent MSs can object to a more stringent principle proposal of MS in need on the basis of an unfairness objection.

In light of this last objection, a last important principle might be relevant for an ECB policy evaluation, namely a cooperative principle of benevolence (Ashford, 2003, p.290). This principle holds that while the individual burden to help those in need might (cumulatively) be too high, this might not be the case if these burdens are shared together with enough other individuals (MSs). Reason for this cooperative scheme is that it makes the duties of the affluent towards those in need more fair by distributing the burdens, hence making the objection to reject aid diminish. So this principle can be very relevant for the ECB as supranational organization trying to aid those MSs in need. Whereas more affluent MSs might have a legitimate individual objection against helping other MSs, their individual objection might not hold up against the cooperative principle of benevolence. For example because their individual burdens are significantly diminished, as the ECB covers all MSs.

Now that we have acquired a moral theory that is able to constitute whether some sort of social contract between individuals is morally just, it will be illustrated how to use this theory. This will be shown by evaluating a hypothetical ECB policy scenario and thereby making use of Scanlon's contractualism. This illustration is based on the work of Jos Philips (Delsen, Van den Hoogen & Philips, 2012, pp.131-137) who also evaluated the moral responsibility of an institution (pension fonds) by making use of Scanlon's contractualism. He illustrates this in an adequate way by composing a hypothetical scenario, form certain principles and evaluate them structurally by placing them in a table. Hence, an effort will be made to do the same applied to ECB policy.

So let's assume that there is a scenario whereby some the ECB has to intervene in the fiscal or monetary policy of certain MSs in order to preserve euro stability, and thereby other values like economic efficiency or political stability. Let's call these MSs with a weak fiscal policy group A, and the MS that don't need intervention group B. Also, let's view the ECB policy from the perspective of the interests of EU as a whole (group C). Now we assume very simplified that these parties can only choose two principles which represent ECB policy decisions. The first principle (A) holds that the ECB should always be legitimized in intervening in fiscal policies, even when that would violate her mandate. The second principle (B) holds that the ECB can only make recommendations for the fiscal policies of MSs, whereby her mandate might be violated. In table 4.1 the possible objections of all the stakeholders are shown.

Table 4.1 A Scanlonian analysis of moral responsibilities for ECB policy

	Member States A	Member States B	C: EU as a whole
Principle A (ECB is legitimized to intervene in fiscal policies of MS)	Moderate to strong objection	No objection	No objection
Principle B (ECB can only make recommendations to MS)	Moderate to no objection	Sometimes moderate objection	Moderate to strong objection

By means of this table it can be shown how objections can be structured and thereafter weighed against each other. Since this is only a hypothetical scenario, and the purpose of this table was to show how a Scanlonian analysis would look like, elaboration on which principle is best deems not relevant for our constitution of an ethical evaluation method.

Ethical evaluation

The objections of table 4.1 can be based on different values, like justice, fairness, equality, social stability or economic efficiency. Whatever values they are based on, they all serve one value which is most intrinsic in this case dilemma and that is well-being. As noted earlier, an important ethical part of this evaluation consists of a consideration into what values ought to be used, and how they should be weighed. It is evidently an interesting question if there are universal values that every member of the EU would like to pursue. If there are, the ECB should - at least from a moral point of view - adopt the pursuing of those values. Goodin & Headey et al (1999, p.22) state that there are certain moral, social and political norms and values that could be desirable for everyone, and therefore ought to be pursued by the institutions of our society, hence especially a supranational organization like the ECB.

However, because the strategy towards these values often differs, the outcome on the realization of certain values differs as well. Certain values are normally pursued from different ideologies and these ideologies and the pursued outcome can be evaluated ethically according to Goodin (1999, p.22) by accumulating these effects on the following values: promoting economic efficiency, social integration, social equality, social stability, autonomy, and reducing poverty and social exclusion. So this doesn't have to be a problem for the ECB when one accepts that certain values are indeed desirable for everyone. If that premise ought to be true, then the problem of the ECB making certain decisions for the whole of the EU might be less of a problem than is perceived in this interdisciplinary thesis earlier. Nevertheless, this is only a matter of shifting the debate into which strategy ought to be used by the ECB, probably because the strategy can or does matter for the outcome. For instance whether or not the ECB continues with a certain strategy that is Quantitative Easing as one of her economic tools to achieve her ends. Or whether she uses other economic tools to achieve the optimal realization of these values. If a certain strategy pursues these values more or in a better way, or avoids more risk than another strategy, then the first is morally superior to the latter.

Moreover, while Goodin's claim may be true that everyone ought to desire the realization of certain values, there obviously are preferences into the level of realization of these values if one ought to choose. It remains difficult to weigh certain values like freedom, equality, and justice against one another. So if we would weigh the potential objections certain member states would have against the policy of the ECB, it might still remain unclear which value ways heavier if there are moral grounds for reasonable rejection of both MS of the policy.

In the simplified hypothetical scenario used in this chapter, there are only two groups of member states which make the dilemma of weighing objections still quite clear and doable. But when one would imagine how complex this weighing process would be if we ought to evaluate all objections of the different member states while also holding into account their - democratically chosen and therefore often fragmented - political beliefs, one would easily come to the conclusion that this is what makes this dilemma so immensely complex. Nevertheless, to tell if the current policy is justifiable in terms of the extent of the realization of certain (moral) values is possible in terms of testing empirical phenomena into what extent they are realized. It is for example possible to do research into the instrumental value of economic efficiency to see how much of the intrinsic value of well-being is realized by ECB policy. It is not possible however to test whether other ECB policies are morally justified, since we cannot (yet) know how things would have been when another strategy was exercised. For that purpose, it requires a lot more specific research into, for instance, multiple alternative economic strategies, (if at all possible) to find out if there are other potential strategies for the policy of the ECB possible where more risk is avoided than in the current scenario.

Conclusion

The ECB policy and the desired outcome that is being pursued can be evaluated ethically by accumulating the effects on at least the following values: promoting economic efficiency, distributive justice, political and relational equality, autonomy, and reducing poverty. If the current strategy of the ECB is most effective to pursue these values which ought to be desirable for every member state, then the policy of the ECB is morally justified. It remains difficult to weigh certain abstract values against each other since these often depend on political beliefs. Therefore, we need to adopt a form of contractualism in order to lay an overall foundation that can legitimize or reject the ECB policy by means of a Scanlonian analysis, and hence provide a moral accountability framework. However, to really make an adequate ethical evaluation of the policy of the ECB, a lot more research needs to be done.

Chapter 5: Common ground and Integration

In this chapter the integration will be discussed. First, the limitations and benefits of disciplines will be examined and secondly the differences and common ground will be established between the disciplinary chapters. Thereafter disciplinary insights and integration tactics will be used to make a more comprehensive theory that will help to provide an answer to our main question: On what grounds could the ECB justify some of their more controversial policies?

It's important to know the limitations and benefits of the different disciplinary perspectives before these disciplinary views can be used to answer the main question of this thesis. The benefit of using the economic discipline for this thesis for instance, is that it provided the economic context to understand the policies of the ECB. This is quite convenient, as the ECB is a mainly technocratic institution which is assumed to make decisions on a rational basis. As most macroeconomists solve their models based on the rational expectations theory, the economic perspective on the ECB is pivotal. However, as most economists try to answer the question what *could* the possible outcomes of policies (like the QE) be, the question regarding 'what *should'* is not always answered. Therefore, a limitation of the economic perspective is the lack of normative questions; this is indeed were ethics as a discipline comes in.

The limitations of international relations is that this view mainly focuses on political relations between countries and (supranational) organizations. Therefore an important aspect of the ECB is forgotten, namely that it ought to be a solely economic organization with only economic monetary stability as its main objective. Because of the political nature of the European Union (which is at its core a political partnership between European countries) the reality is that policy decisions made by the ECB are in most cases not only economical but also political. That's why it's beneficial to have a international relations view on the ECB, especially if the focus is on justification of ECB policy.

The limitations of ethics is that in this view oftentimes stays very abstract. The plus side to staying abstract is that almost all aspects of evaluating ECB are covered, but not in a very concrete manner. So to really evaluate ECB policy, more specific information is needed. Nevertheless an adequate ethical evaluation method can be constituted whereby the other disciplines could come up with more specific information about the effects of certain policy decisions that subsequently can be evaluated in a moral framework.

Differences

In this part the differences between the disciplinary chapters will be discussed.
The International relations part of the Italian letter and the economic part of the QE policy differs in the way they envision the future of the European Union. Where the international relations part is focusing more on the importance of sovereignty and political stability between the member states, the economical part gives more value towards technocratic effectiveness of the economic collaboration between member states. These contrasting views on the European Union are an excellent example of the different views on the ECB. From the view of international relations, all the steps the ECB undertakes to help the Eurozone, have a political purpose. In other words, from this view all the actions from the ECB are political/ have political motives. Where the economic views the ECB more as a technocratic organization that only makes rational and well calculated steps towards its goal. These different views are important to keep in mind when it comes to the justification of ECB policy. From the ethical perspective, the main difference with the other two disciplines is that those chapters look at certain values of justification bound to a case study. Whereas ethics looks at the concepts of justification by providing an abstract framework using Scanlon's contractualism.

What comes apparent from these differences is that economics and international relations have their own disciplinary core values, but are at the same time similar to each other in the way they solve this ECB dilemma. They already have some kind of disciplinary framework they build their justification on, while within the ethics chapter this framework is designed particularly for this ECB dilemma. For these frameworks to be legitimate, they have to be build upon values and principles. In the case of international relations the value of autonomy of states (also called sovereignty) is fundamental, economics focuses more on economic efficiency and ethics looks more at the way how to weigh certain values against one another.

Common ground:

As shown in the previous part, there are major differences between the disciplinary chapters. This makes the search for common ground a bit complex. But to achieve a common ground between the different disciplinary chapters of this thesis, a closer look at the concepts that were used is needed. When viewing disciplinary concepts next each other, it becomes clear that ethics has similarities with all other disciplinary concepts. This is because ethics has to take into account every aspect there is to evaluate a phenomenon. So for instance economics and ethics both share a concept of economic efficiency. And international relations and ethics share a common ground on the concept of autonomy. Both disciplines use this concept. Only in the international relations addition it's called sovereignty because that's the term used within the study of international relations for the autonomy of countries. Economics and International relations share as common ground the concept of stability. Both disciplinary chapters have stability within the Eurozone in mind, when they analyse the ECB policy in their case studies. The difference is that international relations looks at the political stability between the Eurozone countries, whereas the economic part looks more at the economic stability of the Euro.

All the different chapters also examine the ECB mandate. International relations analysed certain parts of the mandate in order to look whether or not the ECB overreached their mandate. Ethics also looks as to whether or not the ECB overreaches their mandate with their policy because this should have consequences for the way they ought to be held accountable. The economic chapter on the other hand, has its focus on the justification of actions (like the QE policy) within the mandate.

Besides some overlapping concepts, the common ground of all the different disciplinary chapters lies in the main question of this thesis: On what grounds could the ECB justify some of their more controversial policies? Because of this question, the main focus of all the chapters is the justification of ECB policy. Every discipline in this thesis evaluates legitimacy of the ECB policy in the light of certain values each discipline holds as important for justification. As stated before these values are sovereignty for international relations, economic efficiency for economics and ethics look at different moral concepts that can help evaluate the justification of the ECB policies. All together, each discipline gives its own interpretation of the concept of justification by valuing certain phenomena. All these phenomena taken together are our common ground and the integrative challenge will be to weigh these values against each other in an evaluation of the ECB as an institution and its policy.

Economic perspective

The economic chapter of this paper started by giving the economic context regarding for instance inflation, which is quite relevant when investigating ECB policies. Furthermore, a brief description of how the ECB operated during the crisis was discussed. During this crisis, the importance of financial market sentiments became very relevant. As investors became aware of risks of Eurozone countries' economies, the bond yields from those countries increased dramatically leading to even more uncertainty. For the latest programme, QE, the ECB seems to become a 'buyer in sensitive markets'. Whereas it is too early to answer the question of whether these policies are effective, quitting the QE program would seem unwise as financial markets and some Eurozone countries are very sensitive to sudden changes.

International studies perspective

The conclusion of the international relations part is that the ECB has justified its actions within their own framework and within the agreements that countries made at a higher political institutional level. However there are some problems with this justification. Because on the one hand they made more demands than recommendations, and on the other hand the ECB was acting from a position of power with regards to Italy and the other countries that received financial support because they alone made decisions about this financial support. An insight in regards to sovereignty of member states may thus be that your economic position within the Eurozone, can affect your autonomy within this zone. An economically weaker country like Italy has more to fear from the ECB in regards to its sovereignty, than a economic strong country like Germany.

Ethics perspective

The ECB policy and her desired outcome that is being pursued can be evaluated ethically by accumulating the effects on at least the following values: promoting economic efficiency, distributive justice, political and relational equality, autonomy, and reducing poverty. Also, ECB policy decisions can be evaluated ethically by making use of Scanlon's Contractualism which states that her policy actions are regarded as morally justified if they are in consensus with a principle that no one (MS) could reasonably reject. And objections for reasonable rejection can be on the basis of certain values like the ones mentioned above, as long as they all serve the value of well-being for all the Member States.

Integration strategy

For this thesis, we used a combination of different integrations strategies. To illustrate a more comprehensive understanding of the differences between the disciplines, some theories from Repko and Szostak (2017) are used. In this thesis the horizontal or side-by-side and multicausal integration will be used (Repko & Szostak, 2017, 328-331). The most essential part of this integration method for this thesis is formulated as follows: “Here the challenge of performing horizontal integration is to figure out the relationships among the different causal explanations (or at least some of their variables) using the strategy of organization in order to construct a more comprehensive theory” (Repko & Szostak, 2017, 329). This integration strategy is the most effective for this thesis because all the different disciplinary chapters have complementary explanations, since all explanations have to do with the ECB mandate. As noted in the common ground, all the different disciplinary chapters explain that the ECB is operating within their mandate in order to justify their actions. Economics and International relations also share a complementary explanation about bond purchasing programs they both explain that the program is a tool that is often used by the ECB.

But all these different disciplinary explanations are based on different variables, namely different values. In order to construct a more comprehensive theory, it is also necessary to use the multicausal integration method. This is because: “Multiple causation explains the phenomenon or behavior by creating a theory of sufficient generality that it incorporates multiple propositions or causal factors from relevant theories, each of which explains only a part of the phenomenon or behavior. (Repko & Szostak, 2017, 331)” So as we have seen in the constitution of the common ground, these different disciplinary chapters base their evaluation of the justification of the ECB policy on certain values. For instance within the economic chapter the focus lays on the value of economic efficiency, whereas within the International Relations chapter this focus lays upon the value of sovereignty. So the variables of these chapter lay horizontal next to each other, but how about the ethics chapter? The ethics chapter lays more focus upon providing an overall ethical framework to justify different aspects of the policy. The power of this framework is that it is rather abstract and that this gives opportunities to integrate the other chapter in a multicausal way into this framework.

Since the previous chapters have all focused on a different way on solving the same complex problem, the combination of the different integration strategies can construct a more comprehensive understanding into how to justify such a supranational policy as the ECB has. The organisation technique as explained in Repko will also be used to organize the different parts of this thesis (Repko, 2017). From looking at the common ground and organising this accordingly we found that Scanlon's contractualism would be the perfect comprehensive theory to the most concrete answer to the research question of this thesis.

Case studies analyzed using the contract theory

Scanlon's theory uses an objection-matrix to make a clear overview of the different parties that are involved and their different views on debatable principles (or possible policy-decision/actions). First a short explanation regarding the involved parties will be given, after that the choice for the principles will be explained.

In our case, these involved parties are the countries that are currently in the Eurozone. As noted earlier, these countries already differed a lot regarding budget deficits before the crisis. During the crisis, these differences became deeper due to the earlier mentioned negative effects of investor's expectations. The following graph shows the gap between cumulated current accounts (the current account of each year added to the year before) as a percentage of GDP through the years.

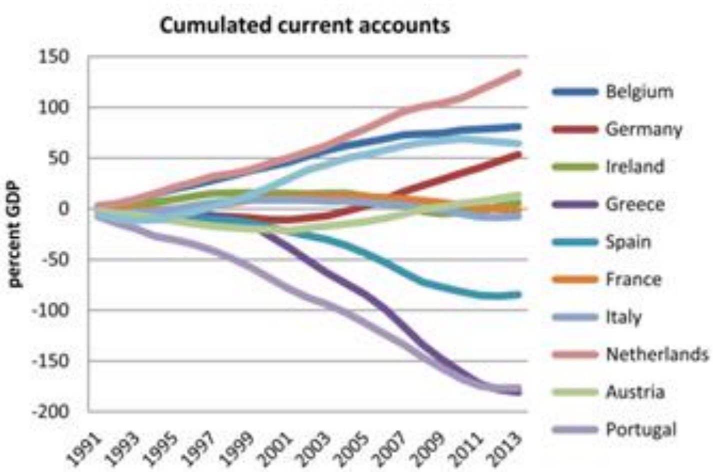

Figure 6: Cumulated current accounts Eurozone (De Grauwe, 2016)

Those differences cover more macroeconomic conditions like incomes, housing prices and wages between the core and the periphery in the Eurozone. As this section of the thesis focuses on the question of how ECB policies are experienced from a national perspective, the different macroeconomic conditions are very relevant. The following graph shows the yellow regions in the EU25 which are assumed as the 'core' in Europe in terms of wealth. Darker blue countries show the 'periphery' and light blue as 'intermediate'. For the question regarding country perspectives on ECB policies, we only look from the Eurozone countries view.

Furthermore, as can be seen, in for instance France, this distinction is not only based on borders. However, for the next section, we regard France together with the Netherlands, Belgium, Luxemburg, Germany as the core and Portugal, Italy, Greece and Spain as the periphery.

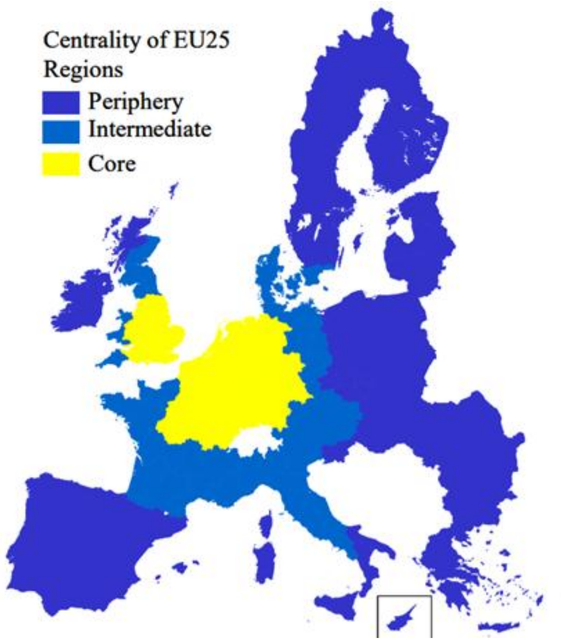

Figure 7: Core-periphery distinction in EU25, Baldwin & Wyplosz, 2004.

For the principles used in the contract theory, the core questions of the two case studies are used. For the Italian letter case study this question is: ‘is the ECB legitimized to intervene in fiscal policies of the MS? The second principle focuses on the question whether the different parties would accept a possible quitting of the QE program. Both these questions are essential in the case studies, because both those questions are grounded in ECB policy that is debatable when it comes to the justifiability of these policies. That's why, in order to answer the main question of this thesis, they will both be put in Scanlon's theory as presented in the third disciplinary piece and thereby integrating all the different disciplinary chapters together. In order for this theory to work, the questions need to be formulated as statement so that the parties can properly show their objections.

Tabel 5.1 A comprehensive Scanlonian analysis

-	Party 1 (Core countries)	Party 2 (Periphery countries)	Party 3 (ECB)
Principle A *ECB is legitimized to intervene in fiscal policies of MS*	Sometimes moderate objection	Often heavy Objections	No objections
Principle B *The ECB should quit the QE programme*	No objections	Moderate to heavy objections	Heavy objections

Explanation table

The first noticeable thing is that both principles are supported by the third party: the ECB. The obvious reason behind this is that the ECB is in favour of their own policies. Furthermore this matrix shows that when it comes to Principe A : *ECB is legitimized to intervene in fiscal policies of MS* the core countries and the ECB agree most of the time by both having no objections to intervene in fiscal policies. Of course the core countries agree that their is a need for fiscal autonomy of member states, hence the foundation of their 'sometimes object'. But in the case of a crisis (like the European crisis) the core countries see the need for fiscal interventions and therefore supported the recommendations sent by the ECB. The periphery countries however are on the other side of this issue, they would have heavier objections because (as the international relations insight showed) they are at more risk when it comes to fiscal interventions by the ECB.

Principle B: *The ECB should quit the QE programme* shows an almost opposite reaction. In this case, the periphery countries have moderate to heavy objections towards quitting the QE program. As mentioned in the economic paragraph, the periphery countries receive some benefits of the bond buying program as most of their bond yields decreased from the announcement of the QE. Furthermore, as financial markets are highly sensitive for sudden changes, and most of the periphery countries are influenced by market expectations, a sudden stop of the QE could entail problems for them. The core countries on the other hand, have no objections against quitting the QE policy because they (from an economic point of view) benefit less from this policy. Obviously, the ECB itself is in favour of the QE program as they assume it is the most convenient policy for achieving price stability. This matrix thus shows that when it comes to the member states, there is a difference in the support (and therefore the feeling of justification) for ECB policies.

So which objections weigh the heaviest? And on what grounds? As noted earlier, two fundamental values of the thesis, namely social stability or sovereignty and economic efficiency are core values, since they are embedded in the disciplinary research of the economics chapter and the international relations chapter. The ethics chapter comes up with other core values like equality, fairness, and justice but at the same time comes to the conclusion that in this case dilemma all these values serve one goal: and that is to promote the well-being. When considering the objections of table 5.1, it becomes clear that every Member State views ECB policy from their own perspective of promoting in one way or another the most well-being. It can be interpreted that the difference between periphery countries and the ECB in pursuing the value of well-being lays in the short-term thinking and long-term thinking. The governments of periphery countries presumably tend to look from a short-term perspective because they presumably have to defend their actions towards their electorate. At the same time the partial exemption from the principle of democratic accountability of the ECB and her policy leaves room for policy decisions that might not be beneficial on short terms for certain MSs, but will be in the long run. This assumption alone does not make certain policy decisions less morally justifiable. Certainly not if these long term policy decisions prove effective and lead to more well-being in the future, whether it be for periphery countries, core countries or the Eurozone as a whole.

Chapter 6: Conclusion

The answer to the main question of this thesis: *on what grounds could the ECB justify some of their more controversial policies* lies within the well-being of member states of the Eurozone. When the different different disciplinary insights were bundled together, using Scanlon's theory of contractualism the main conclusion was that all the different member states look at short term gain with the highest level of well-being. Depending on the financial situation of a particular Member State, which could be divided into two groups (periphery or core) the justification of ECB policy is objected to or agreed upon. The controversial policies of the ECB could be justified on the grounds of securing a certain level of well-being for the Eurozone countries. Therefore, the justification of the policies lies within the perspectives of the member states. Because the perspectives of the member states varies, there are different views and objections regarding the justification of a single policy.

Because there are different views on whether or not a policy is justified, it's difficult to make a general statement about the justifiability of ECB policies using only the method of this thesis. That's why future research requires more case studies to analyse ECB policies, whereby more specific information is acquired about the possible effects of ECB policies. On the basis of this effects a more adequate evaluation of the justification of the overall policies can be constituted by means of the comprehensive evaluation method used in this thesis.

References

Ashford, E. (2003). The Demandingness of Scanlon's Contractualism. *Ethics*, *113*(2), 273-302. doi:10.1086/342853

Baldwin, R., Wyplosz, C. (2004) *The Economics of European Integration.* Berkshire, United Kingdom: Mc Graw-Hill.

Bastasin, C. (2015). *Saving Europe: Anatomy of a Dream.* Brookings Institution Press.

Beckworth, D. (2016, June). The Monetary Policy Origins of the Eurozone Crisis. Mercatus Working Paper. Mercatus Center at George Mason University, Arlington, VA. Retrieved from: https://www.mercatus.org/system/files/Beckworth-Eurozone-Crisis-v1.pdf

Blanchard, O., Amighini, A., Giavazzi, F. (2013) *Macroeconomics: an European Perspective*. Harlow, United Kingdom: Pearson Education Limited. Second edition.

Bos, J., & Boer, M. (2011, November 11). Hoge rente Italië bedreigt vooral vertrouwen. Retrieved from: https://fd.nl/frontpage/Print/krant/Pagina/Economie___Politiek/793921/hoge-rente-italie-bedreigt-vooral-vertrouwen

Braun, B., & Hoffmann-Axtheim, L. (2017). Two Sides of the Same Coin? Independence and Accountability of the European Central Bank.

Corriere (2011). *La lettera originale in inglese*. Consulted on 18 October 2017. Retrieved from: http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml

Darvas, Z., & Merler, S. (2013). *The European Central Bank in the age of banking union* (No. 2013/13). Bruegel Policy Contribution.

Delsen, L., Van den Hoogen, T., & Philips, J. (2012). Over de morele verantwoordelijkheden van pensioenfondsen. Een ethische reflectie. *Maatschappelijk verantwoord ondernemen in de polder: MVO in Nederland bezien vanuit de economie en theologie* (translated: About the moral responsibilities of pension fonds. An ethical reflection. *Corporate social responsibility in the polder viewed from an economics and theological perspective).* pp. 123-138.

Driver, J. (2014). *Ethics: the fundamentals*. Malden, MA: Blackwell Publishing.

ECB. (2017). *Asset Purchase Programmes.* Retrieved from: https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

ECB. (2017). *European Central Bank: Institutional overview.* Retrieved from: https://europa.eu/european-union/about-eu/institutions-bodies/european-central-bank_en

ECB. (2016, January 22). (updated: 2017, April 1), *How does the ECB's asset purchase programme work?* Retrieved from: https://www.ecb.europa.eu/explainers/tell-me-more/html/app.en.html

ECB (2011). *Statement by the President of the ECB.* Consulted on 18 October 2017. Retrieved from: https://www.ecb.europa.eu/press/pr/date/2011/html/pr110807.en.html

ECB (2017). *Tasks.* Consulted on 18 November 2017. Retrieved from: https://www.ecb.europa.eu/ecb/tasks/html/index.en.html

ECB. (2016, August 11). *What are minimum reserve requirements?* Retrieved from: https://www.ecb.europa.eu/explainers/tell-me/html/minimum_reserve_req.en.html

Gambetti, L. & Musso, A. (2017, May 31). The Macroeconomic Impact of the ECB’s Expanded Asset Purchase Programme (APP). ECB Working Paper No. 2075. http://cepr.org/sites/default/files/40006_MUSSO%20-%20The%20macroeconomic%20impact%20of%20the%20ECB's%20expanded%20asset%20purchase%20programme.pdf

Global-rates (2017). *Inflation Europe (HICP).* Retrieved from: http://www.global-rates.com/economic-indicators/inflation/consumer-prices/hicp/eurozone.aspx

Goodin, R., Headey, B., Muffels, R. (1999) ‘Reasons for welfare’. *The Real Worlds of Welfare Capitalism*, Cambridge University Press, pp. 21-36.

Grauwe, de, P., Ji, Y., Macchiarelli, C. (May, 2017). *Fundamentals versus markets sentiments in the euro bond markets: Implications for QE*. Retrieved from European Parliament Website: http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/602049/IPOL_IDA(2017)602049_EN.pdf

Grauwe, de , P. (2016). The legacy of the Eurozone crisis and how to overcome it. *Journal of Empirical Finance*, 39, 147-155. Retrieved from https://ac-els-cdn-com.proxy.library.uu.nl/S0927539816300044/1-s2.0-S0927539816300044-main.pdf?_tid=70662c32-b63f-11e7-9d30-00000aab0f6b&acdnat=1508577104_1c3be1e15d78ab91baff41e45bff7fd4

Henning, C. R. (2015*). The ECB as a strategic actor: Central banking in a politically fragmented monetary union.*

Jones, E. (2012). Italy's sovereign debt crisis. *Survival*, *54*(1), 83-110.

Kaplan, J. (2017). The Federal Reserve and Monetary Policy. Figure 1, Retrieved from: https://www.colorado.edu/economics/courses/econ2020/section11/section11-main.html

Kiljunen, K. (2004). *The European Constitution in the making*. CEPS.

Krasner, S. D. (2001). *Problematic sovereignty: Contested rules and political possibilities*. Columbia University Press.

Lewis, V. & Roth, M. (2015, October). The Financial Markets Effects of the ECB's balance sheet policies. KU Leuven, Center for Economic Studies. Retrieved from: https://lirias.kuleuven.be/bitstream/123456789/510356/1/DPS1520.pdf

Lisbon-treaty (2007). *Article 127-132.* Consulted on 18 October 2017 Retrieved from: http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-viii-economic-and-monetary-policy/chapter-2-monetary-policy/395-article-127.html

McNamara, K. R. (2001). *Where do rules come from? The creation of the European Central Bank. The institutionalization of Europe*, 155-170.

Robeyns, I. (2016) Powerpoint Normatieve Analyse I (Translated: Normative Analysis I). Utrecht University; October 10th.

Sacchi, S. (2015). Conditionality by other means: EU involvement in Italy's structural reforms in the sovereign debt crisis. *Comparative European Politics*, *13*(1), 77-92.

Scanlon, T. (1998). The structure of contractualism. In *What we owe to each other*. Cambridge, MA: Harvard University Press.

Stanford Encyclopedia of Philosophy. *Consequentialism* (2015, October 22). Retrieved from https://plato.stanford.edu/entries/consequentialism/

Stanford Encyclopedia of Philosophy. (2017, May 31) *Contemporary Approaches to the Social Contract* (n.d.). Retrieved from:
https://plato.stanford.edu/entries/contractarianism-contemporary/

Stanford Encyclopedia of Philosophy. (2017, March 15). *Contractarianism* Retrieved from:
https://plato.stanford.edu/entries/contractarianism/

Stanford Encyclopedia of Philosophy. (2012, August 2). *Contractualism* Retrieved from:
https://plato.stanford.edu/entries/contractualism/

Urbschat, F. & Watzka, S. (2017, May 4). Quantitative Easing in the Euro Area – An Event Study Approach. University of Munich. Retrieved from:
https://epub.ub.uni-muenchen.de/37365/1/QEInTheEuroArea.pdf

Werner, R. A. (2006). What accession countries need to know about the ECB: A comparative analysis of the independence of the ECB, the Bundesbank and the Reichsbank. In *Emerging European Financial Markets: Independence and Integration Post-Enlargement*(pp. 99-115). Emerald Group Publishing Limited.