

Title:

The conflict between the concept of ECB's political independence with regard to the EU Member States and the influence they exerted on the Italian Political scene in 2011, culminating with Prime Minister Berlusconi's resignation, interpreted throughout classics on statecraft by Plato, Machiavelli and Hobbes.

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INDEX

Table of Content

Chapter 1: Introduction	pg.5
Chapter 2: Literature Review	pg.10
2. 1 Plato's Theory of Ideas, Hobbes's Leviathan, Machiavelli's The prince and their relevance with the present paper	pg.10
2.1.1 Plato	pg.11
2.1.2 Machiavelli	pg.12
2.1.3 Hobbes	pg.13
2.2. ECB's Structure, Mandate and Tasks	pg.14
2.3 ECB's Independence, Legitimacy and Accountability	pg.17
2.4. ECB's Political Independence to and from EU Member States	pg.17
2.5 ECB's Independence in comparison with FED and BOJ	pg.20
2.6. ECB stops buying bonds from Italy and changes for a clever bunds' buying policy: from quantitative easing (QE) to giving credit, <i>conditionally</i> .	pg.24
2.7 ECB letter to Berlusconi suggesting specific economic reforms sent on the 5 th August 2011.	pg.27
2.8. Italian Debt's crisis culminating in November 2011, with Berlusconi's Resignation	pg.30
Literature Review's Conclusions	pg.31
Chapter 3: Research Methodology	pg.32
3.1 Research Objectives	pg.33
3.1.2 Research Questions	pg.36
3.2 Proposed Methodology	pg.38
3.2.1: Research philosophy	pg.39
3.2.2: Research approach	pg.40
3.2.3: Research strategy	pg.40

3.2.4: Research Choice	pg.41
3.2.5: Time Horizon	pg.42
3.2.6: Qualitative Method	pg.42
3.2.7: Non-probability sample	pg.42
3.3 Issues about reliability	pg.43
3.4: Ethics	pg.44
3.5 Limitations	pg.44
Chapter 4: Findings	pg.45
4.1 Findings	pg.45
Chapter 5: Discussion and Conclusions	pg.54
5.1 Discussion	pg.54
5.2 Conclusions	pg.59
Appendix one: Reflection on Personal Learning	pg.61
Appendix two: Semi structured interview	pg.65
Appendix three: Research plan/ Diary	pg.68
References	pg.70

Abstract

This research focuses on the conflict between the platonic concept or pure ideal of central banks' independence from Governments and its practical application in real life. Plato taught us that a pure ideal is perfect because it is abstract, divorced from the external world. A pure ideal cannot be perfectly applied to a complex political scene determinate by social actors. Unlike a pure abstract and perfect ideal, reality is in fact characterized by heterogeneity and influenced by numerous uncontrollable factors. The specific events this paper examines concern the influence the ECB exerted on the Italian Political Scenario between August and November 2011 on two specific occasions, events which culminated in the forced resignation of Prime Minister Silvio Berlusconi. *The conflict our research attempts to elucidate pertains to the inconsistency between the ECB's concept of political independence (here intended as the influence used on the EU Member states) with the influence the ECB exerted on the Italian Political scene in 2011.* In other words: Is the ECB really politically independent from and to the EU Member States? Can its intervention in the Italian Political scene in 2011 be justified in terms of financial stability? Can we say with Machiavelli, that the ends justify the means and that the final result is taken to be more important than any abstract ideal? Italian professionals living abroad will be interviewed, their responses compared and contrasted. The theories of Hobbes Machiavelli and Plato, ranked as a classic western work on statecraft, will be used to shape the responses obtained which will be reported and exposed in a narrative structure.

KEY WORDS: ECB, ECB's Independency, ECB's Legitimacy, ECB's Accountability, ECB's independence versus the Influence it exerted on EU Member states, Plato's Doctrine of Ideas, Machiavelli's The prince, Hobbes' Leviathan, , Italian debt's Crisis, ECB letter to Berlusconi, ECB's Outreach Monetary Transactions (OMT), Berlusconi's resignations in 2011.

Introduction:

“With the 1st January 2002 changeover to the euro complete, it could be argued that the European Central bank has become the most important institutional creation since regulation of the nation state in the seventeenth century. While the EU may be the largest embodiment of supranational governance and European integration in post war Europe, it is the ECB that probably best defines the relinquishing of state sovereignty to an institution with powerful supernatural not democratically elected mechanism of decision making and enforcement.”
Howarth (2003, pg. xi)

Whether we agree or disagree with this preposition, the creation of the ECB has unleashed a whole range of questions: What are the political and economic consequences of the ECB? Isn't the ECB supposedly independent to and from all the EU member States? If the ECB exerted or received pressure in regard to an EU member state, wouldn't this conflict with ECB's concept of independence stated in their mandate? Should the ECB's operate be controlled? And controlled by whom, member states? Also, considering the democratic order which is the foundation of the European Union, is the ECB, a non-democratically elected body, accountable for its decisions?

This research investigates the inconsistency between the concept of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011, in two specific events we provided evidence for in the literature review. In the course of our research we will prove that this influence had an impact on Prime Minister Berlusconi's resignation in November 2011. We wonder if the ECB can concretely avoid exerting political influence on the EU member states it works for. It has to be clarified that when we mention ECB's influence, we are not referring to the influence of other member states on the ECB, but to the legitimacy of the ECB exerting pressure on other political actors, namely EU member states and Italy in the specific context of this research.

In their mandate it is stated that the ECB should avoid receiving or exerting political influence of any sort from and to the EU member states. ECB1 (2014). ECB3 (2014)

We wonder if ECB's avoidance of any influence to the EU member states is concretely applicable, specifically referring the influence ECB exerted on the Italian Political scene in 2011.

Central bank's independence could be considered an ideal, a platonic notion which cannot, because of its abstract nature, perfectly match the concrete and diversified real- life events. According to Plato's Theory of Forms ideas are abstractions, divorced from the so-called external world. Lacewing (2014)

This research attempts to expound the insoluble conflict concerning the application of a pure concept such as the perfect idea of central bank's independence to concrete life, typically characterized by diversified scenarios, determined by social agents and ultimately affected by innumerable, uncontrollable factors. In the context of our research we focus on ECB's political independence in relation to EU member states and whether its intervention in the EU member states politics is in conflict with the ECB concept of independence.

ECB's concept of independence has been defined by several authors and it is also clarified on the ECB official website.

“Political independence refers to the formal legal competence of the ECB to choose a course of action autonomously and without yielding to the covert or overt pressures of other political actors. By almost all accounts and the universal consensus among analysts, political independence to and versus EU member states should characterize the monetary policy of ECB.” Howarth (2003 pg. 128)

According to Avanadei (2013) “Empirical studies show how the independence of central banks is essential to the health and stability of macroeconomic environments”.

Independence implies the transparency of the relationship between Governments and the Central Banks. Transparency implies a timely mannered information transmission. Avanadei (2013)

ECB's political independence to and from EU member states is clearly defined on the ECB website, in the Treaty on the Functioning of the European Union. It is specified in the Statute of the European Central Bank. The Statute is a protocol attached to the Treaty. ECB1 (2014)

Reading from the ECB website, in the section dedicated to its independence we find statements that clarify how the ECB is expected to be independent to and versus any EU member state:

“Neither The ECB or any of its members are allowed to seek or take instructions from EU institutions or bodies, from any government of an EU Member State or from any other body”.
ECB3 (2014)

“The Eurosystem is functionally independent. The ECB has at its disposal all instruments and competencies necessary for the conduct of an efficient monetary policy and is authorised to decide autonomously how and when to use them.” ECB3 (2014)

Also on the ECB’s official website, regarding the ECB political influence *versus* or to the EU Member States, we found this last statement, crucial to the purpose of our research: “The ECB [...] has the right to adopt binding regulations to the extent necessary to carry out the tasks of the ESCB and in certain other cases as laid down in specific acts of the EU Council.”
ECB3 (2014)

The ECB disposes therefore of all the necessary instruments to conduct an efficient monetary policy, which is its main task, but it is also allowed to adopt *binding* regulations to finalize its aims.

We found concrete evidence however, that the ECB explicitly exerted some influence on the Italian debt crisis culminating in November 2011 with the resignation of Prime Minister Berlusconi and the appointment of a new Prime Minister (Monti) quickly and without democratic elections.

At least on two occasions from August to November 2011 the ECB directly influenced the Italian Government’s politics. The ECB tried to exert pressure for some much needed economic reforms to be undertaken rapidly and efficiently by the Italian Government. These reforms were promised to the ECB by the Prime Minister Berlusconi one year before, when Italy accepted ECB’s financial help, but never actuated.

Two events are here specifically taken in consideration pertaining the ECB’s influence on the Italian politics: firstly the ECB sent a direct but “confidential” letter to Prime Minister Berlusconi on the 5th August 2011 with a sharp tone, strongly recommending a list of detailed economic reforms to be quickly undertaken (signed by Draghi and Trichet, 2011) and, secondly, around the same period, the ECB stopped buying Italian bonds (in so doing interrupting the provision of easy liquidity, or quantitative easing, to the Italian Government).
Green (2013) Rose (2011)

Both manoeuvres aimed at putting pressure on the Italian Governments to implement essential economic reforms which, according to the ECB, would have helped in resolving the Italian debt crisis and the risk of bailout the country faced in fact just few months later, in November 2011. Green (2013)

At the beginning of November 2011, Berlusconi had been Prime Minister in Italy for 3 consecutive years and none of the reforms the ECB had recommended up to that point were in place. The interest rate on 10-year Italian government bonds touched 7%, the rate at which Greece, Ireland and Portugal were forced to seek bailouts from the EU and Italy was on the verge of a bailout as well. Green (2013)

These events culminated in the forced resignation of Berlusconi, in November 2011, and his replacement quickly and without democratic election of the following new Prime Minister. Green (2013)

The Head of the State, President Napolitano, named a new Prime Minister the day after Berlusconi resigned. The new Prime Minister, Mario Monti, is a former European commissioner with vast experience in the Internal Market, Services, Customs and Taxation. ECB 9 (2014)

A few months later, in a letter to a leading Italian newspaper, President Napolitano justified his decision to substitute Berlusconi, due to infighting within his conservative coalition and to the strong EU criticism against his economic policies, expressed in a “confidential letter” sent from the European Central Bank to Berlusconi. Morningstar (2014)

The specific events we have just described show how the ECB directly intervened in the Italian Politics. These interventions seem to be in conflict with the ECB’s concept of political independence as stated in their mandate, above quoted. We will provide clear evidence of these events in the course of our research and in the literature review, in the following chapter.

It has to be highlighted how, since the new Prime Minister Monti was appointed, international investors and German EU representatives have displayed more confidence in the country's finances. Italy's borrowing costs have fallen due to Monti's efforts to revive Italian Economy and cut down on the nation's debt. BBC (2011)

Most noticeably, after drifting above 7% in 2011, under the new Prime Minister's Monti's Mandate the yield on Italy's 10-year government bond has successfully fallen to about 4.5%. BBC (2011)

As stated above, this research investigates the connections between Berlusconi's resignation and the ECB's influence on it and to what extent a not democratically elected and ideally politically independent body such as the European Central Bank, can influence a country's politics without conflicting with the concept of political independence stated in their mandate. More specifically we wonder if the ECB can avoid exerting political influence on the EU member states it constantly collaborates with.

As a secondary object of our research, deducted from the main research focus, we also wonder if the central banks' decisions can be justified in terms of welfare generated by financial stability. In other words, even if we assumed that ECB's intervention in the Italian Political scene in 2011 is in conflict with their definition of independency versus the EU member states, *did the critical situation of the Italian Debts crisis justify ECB's intervention?* The justification of a Central Bank operate throughout the result obtained is often referred to as "output legitimacy" or "legitimacy by procedure" on the official ECB's website, meaning that decisions can be considered legitimate if they meet the expectations and needs of the people. ECB8 (2014)

Our aim, during the course of this research, was to conduct an abstract reflection attempting to elucidate the ideal of central banks political independence and the issues and conflict deriving from the practical actualization of this concept.

A broader philosophical perspective will be gained by considering the earliest political essays ever written in the human history. We will look at this conflict considering the perspective of Plato, Machiavelli and Hobbes explaining how their reflections pertain to our research and suggest intriguing comparisons.

Plato wrote that Ideas are perfect because abstract and divorced from the reality, which is imperfect and unpredictable, while Hobbes' Leviathan argues for a social contract and an absolute sovereign, not democratically elected body, to overcome the "brute situation of the state of nature". Machiavelli famous saying states: "The end justifies the means and that the effective truth (intended as positive outcome) is taken to be more important than any abstract ideal". Anton (2009)

Our research adopts a deductive approach: we use prebuilt theories and we try to test their validity. Therefore the theories of the classic authors above mentioned will be used to shape our interviewees' answers. We will try to elucidate the main research questions by investigating and comparing participants' opinions and perspectives.

Six Italian professionals living and working abroad around the world (respectively in Norway, Japan/ Australia, Switzerland, Ireland and Italy) will be interviewed and their opinion will be investigated, compared and reported.

This introduction is followed by five chapters. Chapter 2 exposes our literature review. Chapter 3 explains the research questions, objects and the research method we adopt. Chapter 4 shows our findings in a narrative structure. Chapter 5 shows the discussion of our findings. The discussion leads to the conclusions, followed by the list of the references and the Appendixes. The Appendix contains the Self Reflection Piece and the Semi structured Questionnaire we adopted to interview the research's participants.

Chapter 2 Literature review

2.1 Plato's theory of Ideas, Machiavelli's the Prince, Hobbes' Leviathan and their relevance with the present paper.

During the course of our research, we decided to consider some the oldest political essays, now considered universal masterpieces, ever written in the human history and compare the thoughts of these authors to ours to give to this research and our reflections a broader perspective and breath.

Plato's theory of Ideas, Hobbes' Leviathan and Machiavelli's the Prince will be therefore shortly introduced in this paragraph, to prove their relevance with our research. In particular, Hobbes' and Machiavelli's masterpieces rank as a two classic western works on statecraft. Hobbes (2012, pg. xiv)

These old classic theories will be adopted to shape our interviewees' answers. Our approach to this research is in fact, as the next chapter explains, deductive. This means that we use prebuilt theories and we try to verify their validity.

The adoption of these old masterpieces to interpret modern events is justified based on our belief that a book becomes a classic when it carries timeless thoughts. In the paragraph dedicated to the research findings, we will use the theories here exposed to shape the interviewees' answers. We will give our interviewees answers the same attention we pay to the thoughts of the great authors as we believe that any thought and reflection deserves respect and becomes what we call "philosophy" when honestly conceived.

2.1.1 Plato

Plato taught us that a pure ideal is perfect because it is abstract and divorced from the external world.

Pure ideas cannot perfectly match reality: a pure ideal cannot be perfectly applied to a complex political scene determined by social actors. Unlike a pure abstract and perfect ideal, reality is in fact characterized by heterogeneity and influenced by numerous uncontrollable factors. Lacey (2014)

We believe these considerations may help us in understanding why a pure concept such as the one of pure political independence of a Central Bank to and from the Government (or Governments) it continuously collaborates with, is not concretely applicable. A pure idea like those of mathematics, pure geometry or pure ideals, for example, can produce a perfect result, because they remain abstract. When an ideal encounters the real world, we believe it has to come to compromise, because reality is characterized by diversity, heterogeneity, imperfections and continuous change. Lacey (2014)

In our first research objective, from a theoretical perspective, we will firstly try to elucidate the theoretical concept of political independence of a Bank from the Governments it works for and with. With Plato and our interviewees, we will question if this concept is practically applicable.

2.1.2 Machiavelli

Machiavelli's work has been widely misunderstood over the century and confused with some sort of mischievous political behaviour which allows (or even encourages) corruption and

misconduct. “Machiavellianism” is in fact a term used to describe some sort of unscrupulous political conduct, but it comes from a misunderstanding of Machiavelli’s work. Machiavelli (1995, Edited by Bull, pg. ix, ixvii and ixviii)

When Machiavelli wrote the Prince in 1512, his “State” was the city and county of Florence, his “Princes” were Cosimo predecessor of the very famous Lorenzo Dei Medici, they were powerful visionary leaders, who brought the State of Florence to his highest peaks both in arts and economic growth during the Italian Renaissance. Machiavelli (1995, Edited by Bull pg. xvii)

The innovation of the Prince consists in the fact that while Machiavelli’s predecessors wrote political essays to praise the power in charge (who was also their magnate and sponsor) Machiavelli wrote a realistic guide book explaining how to win and maintain the Government of a State. The Prince (or those in power) should take political decisions according to Machiavelli, in the vision of the welfare and maintenance of the Government and the prosperity of the State. Unscrupulous choices must be undertaken if the final result justifies them. A Prince should rather be feared than loved, their decisions visionary rather than amenable in other words they should not try to receive the acquiescence of the people, but to look at the overall picture. The final result for Machiavelli is always the maintenance of the Government and welfare and prosperity of the State. Machiavelli (1995, Edited by Bull, pg. 52-53 and 70-71)

What he wanted was the prosperity of Florence and its citizens. Machiavelli’s essay it is indeed a “shocking” book, especially if compared to those of its predecessor. In the final resort he taught that, in politics, whether an action is evil or not it can only be decided in the light of what it is meant to achieve and whether it successfully achieves it. Machiavelli (1995, Edited by Bull, pg. xx).

We see a link between, Machiavelli’s advice and his bitterly recommended stern measures aimed at maintaining the Government of a State, exposed in The Prince, and ECB’s letter to Berlusconi sent on the 5th of August 2011.

Machiavelli’s “The Prince” and ECB’s letter are drastic but realistic solutions to resolve impelling problems, demanding an immediate fix. We will look at and try to interpret ECB’s letter to Berlusconi and ECB intervention on the political scene in 2011, shaping our interviewees’ opinion with the help of Machiavelli’s perspective. As Saunders (2009, pg.

489) suggests, we will use pre built theories to shape the interviewees' answers, also helped by the beauty of such an immortal powerful thought and work of art.

In the following chapters we will show how the ECB concretely influenced the Italian Political scene in two occasions. In our second research objective we wonder if the influence on a specific Country's politics is considered justifiable in terms of welfare generated by financial stability (Avanadei, 2013) and if, as Machiavelli taught us, the end justifies the means. Machiavelli (1995, edited by Bull, pg.70-72).

2.1.3 Hobbes.

Hobbes' Leviathan argues for a social contract and an absolute sovereign, not democratically elected body, in charge to overcome the "brute situation of the state of nature". Leviathan ranks as a classic western work on statecraft comparable to Machiavelli's The Prince. Hobbes (2012, Edited by Tuck, pg. xiv)

Written during the English Civil War (1642–1651) Leviathan argues for a social contract and rule by an absolute power as a form of Government. The figure of the Leviathan is a metaphor taken from the monster described in the Bible as imperious and invincible who can darken the sun with his powers. Hobbes wrote that civil war and the brute situation of a state of nature (from Latin the famous saying: "*Homo homini Lupus*¹", the war of all men against each other, each one of them fighting like animals, for their own personal desires). This state of Nature could only be avoided by a strong undivided, from Latin a *super partes*², non-elected form of government: a Leviathan. Hobbes advocates for absolutism, a totalitarian power to whom all human beings sacrifice part of their freedom to escape the unavoidable *Homo homini lupus*³, which would reflect men's real nature if they were left free to act. Hobbes (2012, Edited by Tuck, pg. 9-10 and pg. 92-93)

¹ Homo Homini Lupus: literally translated from Latin, "Each man is a wolf to another man". This famous Latin proverb indicates the war of all men against each other, each one of them fighting like animals, for their own personal desires.

² Super Partes: Translated from Latin, "Superior to the parties". It is a saying usually adopted to define a superior entity or an impartial form of judgment.

³ See footnote N 1

What we wonder is, taking into account the democratic foundation at the basis of the European Union, being that the ECB is not a democratically elected body, whether it can be considered accountable for its decisions in regards to all the EU citizens.

We use Hobbes' theory in the course of this research, to try to understand the role of the ECB played in the Italian political scene in 2011, whether it acted as a new form of "Leviathan" or not. With Howarth (2003) we wonder: Do we need a sovereign, not democratically elected body like the Leviathan Hobbes describes, to maintain economic stability? Do we need a new Leviathan?

2.2 ECB's Structure, Tasks and Mandate.

The ECB is composed by three bodies: the Executive Board, the Governing Council and the General council.

The Executive Board is responsible for the implementation of the monetary policy (defined by the Governing Council) and the day-to-day running of the bank. It can issue decisions to national central banks and may also exercise powers delegated to it by the Governing Council. It is composed of six members: the President of the Bank (currently Mario Draghi), the Vice-President and four other members. They are all appointed for non-renewable terms of eight years. "They are appointed from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the ECB". ECB4 (2014),

The Governing Council is the main decision-making body of the Eurosystem. It comprises the members of the Executive Board and the governors of the National Central Banks of the euro area countries (18 as of 2014). ECB5 (2014)

The General Council is a body dealing with transitional issues of euro adoption, for example, fixing the exchange rates of currencies being replaced by the euro (continuing the tasks of the former EMI). ECB6 (2014)

Regarding ECB's tasks and mandate, the European Central Bank's website describes them quite clearly. ECB1 (2014):

The objective of maintaining price stability is the clear and principal objective of the ECB, stated in the monetary policy chapter of the Treaty on the Functioning of the European Union. Conducting the monetary policy of the European Union is the main task of the ECB.

The ECB main task is to conduct the Monetary Policy of the EU and it has a single and clearly defined objective stated on their website: "The primary objective of the European System of Central Banks [...] shall be to maintain price stability". Article 127(1). ECB1 (2014)

All the tasks of the European System of Central Banks (ESCB) and the Eurosystem are written in the Treaty on the Functioning of the European Union. They are specified in the Statute of the European Central Bank. The Statute is a protocol attached to the Treaty. ECB1 (2014)

The Treaty on the Functioning of the European Union generally refers to the ESCB rather than to the Eurosystem, because it was written in the assumption that all EU Member States would eventually adopt the euro. The Eurosystem is composed by the ECB and the national central banks (NCBs) of the EU Member States whose currency is the euro, whereas the ESCB comprises the ECB and the NCBs of all EU Member States, including those that do not adopt the Euro. (Article 282(1) of the Treaty).

The treaty continues as follows: "Therefore the objective of maintaining price stability is the main clear and principal objective of the ECB, stated in the monetary policy chapter of the Treaty on the Functioning of the European Union. ECB1 (2014)

"The ESCB shall also support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union." ECB1 (2014)

The Article 3 of the Treaty on European Union includes the sustainable development of Europe based on economic growth, price stability and a highly competitive social market economy, aiming at full employment and social progress.

More specifically, regarding ECB's monetary policy, the Governing Council of the European Central Bank aims to keep inflation below, or close to, 2% over the medium term. In order to

achieve its primary objective, the Governing Council bases its decisions on a two-pillar monetary policy strategy and implements them using its operational framework. ECB2 (2014)

The evolution of the ECB monetary policy during the debt crisis is explained more in details in the following paragraph 2.6. This paragraph explains how the ECB transitioned from the old ECB's monetary policy, called SMP, which widely adopted quantitative easing, to a new Monetary policy (called OMT) which requires specific conditions to the country requesting the financial help, prior to granting credit to it.

The other basic tasks to be carried out through the Eurosystem are, besides the monetary policy for the euro area, the conduct of foreign exchange operations; the portfolio management which means the holding and management of the official foreign reserves of the euro area countries; the promotion of the smooth operation of payment systems. ECB1 (2014)

Collateral, but still very important, ECB's tasks are: the issuance of banknotes within the euro area and in cooperation with the NCBs, the ECB collects statistical information necessary to fulfil the tasks of the ESCB, either from national authorities or directly from economic agents. Regarding financial stability's supervision, the ECB contributes to the smooth conduct of policies by the competent authorities conducting a prudential supervision of credit institutions and the stability of the financial system. In terms of International and European cooperation the ECB maintains working relations with relevant institutions, bodies and fora, both within the EU and at the global level, in respect of the tasks entrusted to the Eurosystem. ECB1 (2014)

2.3 ECB Independence, Legitimacy and Accountability

ECB's definition of accountability is the following: mechanisms by which the principal holds the agent responsible for its performance. ECB8 (2002)

“The accountability of a bank is understood as the legal and political obligation of an independent central bank to justify and explain its decisions to the citizens and their elected representatives”. ECB8 (2002)

“Central bank independence is as an indispensable element of the monetary policy regimes of mature and emerging economies. The decision to grant central banks independence is firmly grounded both in economic theory and empirical evidence, both of which show that such a independence is conducive to maintaining price stability”. ECB7 (2014)

The above quotes mean that the ECB is independent in carrying out its mandate and tasks, but they also mean that it is a founding principle of democratic societies that any independent institution with a public function should be accountable to citizens and their elected representatives for the conduct of its policies. Accountability is therefore an essential aspect of central bank independence. ECB8 (2002)

The ECB's commitment to accountability is illustrated by its decision to go beyond the normal obligations in its regular reporting. For example, the ECB publishes a Monthly Bulletin, instead of a quarterly report, and members of the Governing Council deliver numerous speeches to address relevant topics of concern to the public. Moreover, the ECB President and Vice-President provide a precise explanation of the ECB's assessment of the EU economic situation and the rationale for its monetary policy decisions at the regular press conferences which always follow the first Governing Council meeting of each month. ECB6 (2014)

The Monthly Bulletin Article November 2002 "The accountability of the ECB" explains the above points more in details. ECB8 (2002)

“The accountability of the ECB is understood as a direct obligation to the political order prevailing within the EU and a crucial element of the legitimacy of the ECB and its policies. Accountability is a fundamental precondition for, and core element of, democratic legitimacy. In a democracy, all power emanates from the people. All decisions which bind and affect the community have to be legitimised by the will of the people.” ECB8 (2002)

While according to the ECB's website (ECB8, 2002) legitimacy is intended as composed by two principal elements: input legitimacy (government of the people) and output legitimacy (government for the people).

Firstly, public policy decisions are legitimate if they are, directly or indirectly, the expression of the will of the people or the “government by the people”. This is often defined as “input

legitimacy” or “legitimacy by procedure”. Secondly, decisions can be considered legitimate if they meet the expectations and needs of the people “government for the people”, a notion which is also referred to as “output legitimacy” or “legitimacy by result”.

According to the ECB8 (2002) Monthly Bulletin in fact, the ECB takes decisions which affect directly or indirectly the lives of 300 million people, and again quoting the ECB website, “While not totally isolated from the political process, the ECB has till now managed to take decisions which are independent from political influence of any sort in regard to the EU member states”.

Again as a support to the ECB legitimacy, the ECB website states, the following three aspects can be considered. ECB8 (2002):

Firstly, the ECB enjoys “input legitimacy” because it has been created through an international treaty signed and approved by all Member States in accordance with their Constitutional requirements and because the Members of the Executive Boards are elected every 8 years. Both these aspects confer continuous “input legitimacy” to the ECB’s operate. Secondly, the ECB can derive “output legitimacy” from the successful performance of the tasks it is in charge of. The management of monetary policy and the performance of the other tasks are characterized by independent decision-making for a specific reason: the maintenance of price stability in the euro area.

According to the ECB website in fact, ECB8 (2002) the experience of several central banks in the post-war period has shown that an independent central bank, which successfully provides the “good” of a stable currency trusted by investors “Can earn the highest levels of public support, obtain the confidence of the citizens and enjoy full legitimacy in spite of its intentional distance from the normal political process”. ECB8 (2002)

According to the ECB8 (2002) website, Independence and accountability are two sides of the same coin. Therefore the ECB is expected to explain and justify to the European citizens and their elected representatives how it uses the powers and prerogatives with which it has been entrusted of. ECB8 (2002)

The accountability requirement of central banks can also be conceptualised in terms of economic theory, as a principal-agent relationship. The principal are “the people” and/or the

elected representatives who delegate the task of conducting monetary policy to an independent agent, the central bank, and sets it a clearly defined mandate. An integral part of this contractual relationship between principal and agent are provisions on “To that end, a system of appropriately designed incentives must be in place. In abstract terms, this would involve, on the one hand, approval and reward if the mandate is successfully fulfilled, and, on the other hand, the application of sanction mechanisms in the event of sub-optimal performance”. ECB8 (2014)

2.5 ECB Political independence to and from EU Member States

The political independence of the ECB is clearly stated on the ECB website, we widely used as a source for this research. Most of our references quote the ECB website (see references ECB, ECB1, ECB2, ECB3 etc.). The website is constantly updated so all the references to the ECB websites, apart from one ECB bulletin article dated 2002, are dated 2014.

Quoting Avandei (2013) “Independence implies the transparency of the relationship between Governments and the Central Banks. Transparency implies a timely mannered information transmission”.

In our opinion the clarity and straight forward type of information provided by the ECB’s website reflects its transparency.

Here there are the statements we found on the ECB website in the section dedicated to its independence, that we found most relevant to our research, regarding the independence of the ECB from EU member states:

“Neither the ECB or any of its members are allowed to seek or take instructions from EU institutions or bodies, from any government of an EU Member State or from any other body”. ECB3 (2014)

“The Eurosystem is functionally independent. The ECB has at its disposal all instruments and competencies necessary for the conduct of an efficient monetary policy and is authorised to decide autonomously how and when to use them.” ECB3 (2014)

While referring to the independence of the ECB versus the EU member states we found this last statement, crucial to the purpose of our research: “The ECB [...] has the right to adopt

binding regulations to the extent necessary to carry out the tasks of the ESCB and in certain other cases as laid down in specific acts of the EU Council.” ECB3 (2014)

The ECB disposes therefore of all the necessary instruments to conduct an efficient monetary policy, but it is also allowed to adopt binding regulations to finalize its aims.

In the course of this paper, we try to investigate to what extent the above conceptualization of the ECB independence is in conflict with the influence it exerted on the Italian political scene in 2011, influence we found evidence of as we show in chapter 2.7 and 2.8 of the literature review.

2.5 ECB Independence in comparison with FED and BOJ

“In the past, most central banks functioned as department of Finance Ministers. These banks were obliged by law to dispose of the monetary policy for attaining objectives predefined by the governments, including economic growth, employment, financing the public spending of the governments and solving problems related to the payment balance. Nowadays, in contrast to twenty five years ago, most central banks gain high levels of legal and actual bank independence. Central bank independence and institutional arrangements such as inflation targeting have become the independent central banks’ decisions. In this sense, the prior responsibility of the central bank is obtaining and maintaining price stability”. Cornell (2011)

As we said above, the ECB has a single clearly defined objective clearly stated on their website: "The primary objective of the European System of Central Banks [...] shall be to maintain price stability", Article 127(1). ECB1 (2014)

Continuing our reflection on the concept of Central banks independency, we find that: “Empirical studies show how the independence of central banks is essential to the health and stability of macroeconomic environments” Avana dei (2013)

Scholar articles specifically regarding the ECB’s independency quote:” It is forbidden any influence coming from European Institutions or member’s state authorities. The stability of the decisional member’s mandate is assured and the financial resources independently assessed.” Avana dei (2013, pg. 17)

Independence implies the transparency of the relationship between Governments and the Central Banks. Transparency implies a timely mannered information transmission. Avandei (2013)

ECB's independence is clearly defined on the ECB website. The ECB's independence is defined in Treaty on the Functioning of the European Union. They are specified in the Statute of the European Central Bank. The Statute is a protocol attached to the Treaty. ECB1 (2014)

The following statements showing on the ECB website, further define its independence:

“Neither the ECB nor the national central banks (NCBs), nor any member of their decision-making bodies, are allowed to seek or take instructions from EU institutions or bodies, from any government of an EU Member State or from any other body”. ECB3 (2014)

Also: “EU institutions and bodies and the governments of the Member States must respect this principle and not seek to influence the members of the decision-making bodies of the ECB (Article 130 of the Treaty)”. ECB3 (2014)

Regarding the ECB monetary policy, always on the ECB website it's quoted: “The Eurosystem is functionally independent. The ECB has at its disposal all instruments and competencies necessary for the conduct of an efficient monetary policy and is authorised to decide autonomously how and when to use them.” ECB3 (2014)

This final statement is very important to our research because it conceptualizes the independence ECB should seek versus the EU member states: “The ECB has the right to adopt binding regulations to the extent necessary to carry out the tasks of the ESCB and in certain other cases as laid down in specific acts of the EU Council.” ECB3 (2014)

The ECB is therefore independent to and versus the EU member states. It should not be influenced or try to influence the Governments it works for but it is allowed to adopt binding regulation in order to carry on its tasks.

As we said before, ECB has a single clearly defined objective clearly stated on their website:

"The primary objective of the European System of Central Banks [...] shall be to maintain price stability", Article 127(1). ECB1 (2014)

However during the debt crisis, which infected Europe only from 2008 to 2011, all central banks all over the world adopted unconventional monetary policies. Bank of Japan

implemented new monetary measures in 1999, followed by the FED in 2008 and ECB in 2009. In the context of the financial crisis, central banks applied a new method to spur economy, buying bonds from the Government, simplistically applying quantitative easing, providing Governments with easy liquidity. This process can lead to reduction of the bank's operational independence because the given credit can either be influenced by political pressure or influence the Government recipient's decisions. The independence of central banks could be also affected by financial losses (associated to bonds' purchase). High losses interfere with monetary policy objective and the bank loses its credibility. Avanađei (2013)

Avanađei (2013, pg. 19) collected information about BOJ, FED and ECB, quantifying legal and political aspects, objectives of central banks, exchange rate policy, monetary policy Government financing and transparency of central banks and concluded that ECB is the most democratic one of the three.

Regarding the ECB's independence, as we said above, is defined the Treaty of the functioning of the European Union and in the statute of the European central banks and includes four directions: functional independence, institutional independence, personal and financial independence. Avanađei (2013, pg. 17) The ECB website clearly states that ECB allowed to seek or take instructions from EU institutions or bodies, or any government, The ECB has all instruments necessary for the conduct of an efficient monetary policy and it is authorised to decide autonomously how and when to use them. The ECB also has the right to adopt binding regulations if necessary to carry out the tasks of the ESCB and in certain other cases as laid down in specific acts of the EU Council.

When considering the Bank of Japan, the Japanese Government is officially authorized to send two representatives, one from the Ministry of Finance and the other one from the board meetings, these two representatives have no voting rights but can influence monetary policy decisions. The Ministry of Finance also has decision power over the Central bank budget which seems as a severe limit to its independence. Avanađei (2013)

Dwyer (2012) highlights how Bank of Japan (OJ) adopted central bank independence over a decade ago, but politicians have tried to influence the bank's monetary policy ever since, through the power of appointments, threats of legal reforms and public persuasion. Emerging fiscal, regulatory, electoral and administrative conditions, created incentives for the backbenchers to actively challenge bank of Japan's monetary policy. The latest BOJ law took effect in 1998, although the law was conceived to grant more independence tot the BOJ, what

concretely happened is that political influence on the central bank increased when politicians felt more desperate for monetary policy to provide the conditions that would sustain the economy. Dwyer (2012)

BOJ together with FED, adopt quite a traditional Monetary Policy to support the Japanese economy: quantitative easing (QE) policies explicitly aim at supporting the money supply, to spur the economy, potentially increasing inflation and increasing bond yields in the immediate future. Mc Mahon (2012)

While analysing the FED, economists maintain the presence of a strong relationship between its decision and political pressure due to the long term debt problem. Analyses show the existence of a largely visible relationship between monetary authorities and political members. In particular the frequency of sending recommendations from the Government to the FED depends on their political closeness. Avanaei (2013, pg. 20)

To give an example, electoral pressures could cause the President to manipulate the economy for his own benefit via an economic policy that fits to their political agenda. A recession early in his first term would drive down inflation; subsequently, the President could generate a boom cycle by revving up the economy as the election nears without greatly impacting inflation in the short term, but risking greater inflation and negative consequences in the longer term. Ruben (2010, pg.2)

We agree with Avanaei (2013) when they state that a Central bank should be purely independent however it is always politically influenced on different levels. Central banks' decisions are indirectly subordinated to macroeconomic policies.

Considering BOJ, FED, ECB and the main features which define their independence, Avanaei (2013) concludes that BOJ is the less democratic, while the ECB is the most democratic among the three central banks. A conclusion we deduct from this analysis is that should any of these central banks seek to influence the politics of the Governments they work for, the ECB would be the one who benefits from a more independent range of action.

Avanaei (2013) also maintains another important point to our research, which is our second research object. At the end of their article, they wonder if central banks' decisions can be explained "in terms of welfare generated by financial stability". This is defined as "output legitimacy" or "legitimacy by result". On the ECB's website. This means that decisions can

be considered legitimate if they meet the expectations and needs of the people also defined as “government for the people”. ECB8 (2002)

2.6 ECB stops buying bonds from Italy and changes for a more intelligent bunds’ buying policy: form quantitative easing (QE) to giving credit, conditionally.

Information available from the ECB website (2014) shows that, as a response to the financial crisis, the ECB adopted different monetary policies to enhance credit support and help member states in crisis. From 10 May 2010 to February 2012 the ECB conducted interventions in debt markets under the Securities Markets Programme (SMP) which was terminated in September 2012. This programme was similar to those adopted by FED or BOJ: it simplistically consisted in buying bonds from Governments in financial crisis to spur their economic activity. This programme granted help to EU Member States, unconditionally.

However in August 2011, the ECB stopped buying Italian sovereign bonds as a way to get the bond markets to put pressure on the Italian government, which at the time had gone back on its commitment to drive through structural changes to the economy. ECB’s help had been granted to Italy providing it implemented economic reforms. Italy, under Berlusconi’s Government, sold bonds to ECB, accepting ECB’s credit, but none of the promised economic changes were made. The Government’s debt rose, decreasing investors’ trust in the ability of Italy not to default on its debts. The requested yield on Italian 10-year bonds rose to an unsustainable 7% rate and Prime Minister Silvio Berlusconi had to resign later in the year 2011. Green (2013)

The example of Italy shows how quantitative easing and monetization (which means injecting liquidity to improve the economy of a country) cannot fix a country’s economic problems unless the causes which brought the Country to the crisis are found out and resolved.

Monetizing debt is thus a two-step process where the government issues debt to finance its spending and the central bank purchases the debt, holding it until it comes due, and leaving the system with an increased supply of money. A deficit can be the source of sustained

inflation if it is persistent rather than temporary, and if the government finances it by creating money. McMahon (2012)

Textbook monetarist theory dictates, after all, that it is excessive monetary growth that leads to inflation, which is what the ECB is mandated to guard against. Mc Mahon (2012)

Tempelman (2012) highlights the negative consequence of quantitative easing in terms of inflation (simply injecting liquidity may decrease the value of the currency).

It has to be pointed out that the risk for the ECB in buying sovereign bonds is higher than for other Central Banks (such as Bank of England or FED). The bonds the EECB would buy are not issued by top rated countries such as Germany or Netherlands, but by the so called peripheral countries, such as Italy or Spain. These bonds are not free from credit risk which can be transferred from capital market participants to European taxpayers. No such risk credit transfer occurs when FED buys treasury security. Tempelman (2012)

Another objection Tempelman (2012) makes to quantitative easing is the potential impact on the political independence of central banks and monetary policy: when a central bank buys government debts in quantities beyond those needed to implement monetary policy, it engages in a process which has borderline consequences between an increase in disregard of the country's legislature and an encroachment upon banks' political independence.

We agree with Tempelman (2012) when they maintain that the refinancing of sovereign debt maturities is a key challenge for the ECB, "in preventing the crisis to spin out of control".

In 2011 ECB realized that the old bond buying programme involving quantitative easing was not fixing countries' issues and it was terminated. In practice, the new bond buying programme (OMT) differs from the old one (SMP) because it avoids giving help to Member's States in form of "easy credit", but requires them to stick with certain conditions prior to receiving the credit. The conditions involve the resolutions of the issues that caused the financial crisis in first place.

This is how the OMT work: once a Government asks for help from one of Europe's bailout funds (EFSF/ESM) and then promises to stick to the strings attached to that assistance (conditionality) then the ECB can, if it chooses, buy some bonds that mature in 1 to 3 years. The aim of the ECB is to bring bond yields, at the long end of the curve (10 years) down to

levels that lower borrowing costs for countries like Italy and Spain. The hope was that investors will regain confidence in the Euro and buy up bonds in these markets.

We believe that OMT is more intelligent than other policies adopted by other central banks for two reasons: it avoids easy credit (quantitative easing) and most importantly, the requested economical support is given to the Member State (in the form of buying bonds at a low interest rate) only conditionally, which means only if that Government implements those economic reforms that the ECB consider crucial to the resolution of the crisis.

The ECB has always rejected suggestions that its bond-buying programme was linked to demands for austerity cuts.

Also because no country has managed so far to comply with all the conditions the OMT requires, no bonds have been purchased so far. Green (2014) It has to be noted that the OMT specific processes and how they work have not been completely specified not even by the OMT's architects. We consider the OMT a more adept bond buying option in comparison to the easy credit provided by other central banks such as BOJ or FED because its aim it to fix the economic problems of a country in the long term by resolving the causes of the economic debt crisis and not by spurring credit into a country possibly provoking inflation and a set of future negative consequences.

We have now clarified how in practice, the new ECB bond buying programme (OMT) differs from the old one (SMP) because it avoids giving help to Member's States in form of "easy credit", but requires them to stick with certain conditions and meet some criteria prior to receiving credit. The conditions involve the resolutions of the issues that caused the financial crisis in first place.

As we mentioned above, at the beginning of August 2011, the ECB stopped buying Italian sovereign bonds (i.e. stopped providing the Italian Government with easy liquidity) as a way to get the bond markets to put pressure on the Italian government. In the same period the ECB modified their bonds buying programme applying new conditions to the given credit. Greene (2011)

During the European sovereign debt crisis up to August 2011, in order to help EU countries, the ECB kept buying bonds from countries in financial difficulty, applying what is called quantitative easing, as well as other Central Banks (i.e. BOJ or FED) simplistically hoping to spur in so doing, the economy of those countries. Italy in particular kept on selling bonds to

the ECB, basically receiving credit at a low interest rate, while the Italian national debt kept accumulating, but none of the economic reforms the ECB kept suggesting to the Italian Government to resolve the issues at the basis of the Italian economy were made. Greene (2013)

2.7 ECB's letter, on the 5th August 2011 to Berlusconi and its detailed economic reform requests

The confidential letter that was sent to the Italian Prime Minister Silvio Berlusconi on the 5th of August 2011, in the midst of a debt market crisis, was written by Trichet and Draghi (the present and future head of the European Central Bank). In this letter they dictated to the Prime Minister a detailed economic policy agenda to be immediately undertaken. Draghi and Trichet (2011); Rose (2011)

Due to a leak of information, the letter was published in full one month later in a leading Italian newspaper and its full English version is still available online on most of the leading European newspaper's website. Draghi and Trichet (2011); Rose (2011)

ECB's letter to Berlusconi reveals the bank's limitations and the risks taken in buying Italian debt. Draghi and Trichet (2011); Rose (2011). The letter set a precise September 30th deadline for a number of economic reforms to be adopted, which the Berlusconi's government had only partly met. Rose (2011)

As we highlighted before, the risk for the ECB in buying sovereign bonds from Italy is higher than for other Central Banks (such as Bank of England or FED). The bonds the ECB need to buy to re-boost EU's economy are not issued by top rated countries such as Germany or Netherlands, but by countries in a complex economic crisis, such as Italy or Spain. These bonds are not free from credit risk. If one of these countries default on its debts, the losses can be transferred from capital market participants directly to European taxpayers.

Tempelman (2012)

In the ECB's letter to Berlusconi, the present and future heads of the European Central Bank dictated a detailed economic policy agenda to Italy's prime minister, suggesting economic reforms to be implemented by the 30th of September of the same year. Draghi and Trichet (2011); Rose (2011)

The austere tone of the letter reflects how the ECB has reacted to the euro-zone debt crisis. After the publication of the letter, the ECB had “no comment” on it: it could prove embarrassing for the central bank as it provides a checklist against which financial markets will assume the ECB will judge Rome’s reform efforts – and decide whether to continue buying Italian government bonds. Rose (2011)

Mr Trichet and Mr Draghi set out a precise course of action focused on measures to promote growth, and separate legislation to balance the budget by 2013 – a year earlier than Mr Berlusconi and Giulio Tremonti, the finance minister, had planned.

At that time, the beginning of August 2011, the Italian government was way behind schedule in implementing the ECB’s other requirements.

Here’s the explicit requests made in their “confidential letter” by Trichet and Draghi to President Berlusconi. Draghi and Trichet (2011):

A comprehensive and credible reform strategy, including the liberalisation of local public services and of professional service: in particular local services should be privatized.

Allowing firm-level agreements to tailor wages and working conditions to firms’ specific needs and increasing their relevance with respect to other layers of negotiations. This means in other words that that the strong power of trade unions in Italy has to be restricted to fit business needs.

Also regarding the labour market, a thorough review of the rules regulating the hiring and dismissal of employees is strongly recommended, stabilising an unemployment insurance system and favouring labour market policies capable of easing the reallocation of resources towards the more competitive firms and sectors.

ECB also suggests that the Italian government needs to take immediate and bold measures to ensure the sustainability of public finances.

Additional-corrective fiscal measures are considered crucial to restore Governments debts. The aim should be to achieve a better-than-planned fiscal deficit in 2011, a net borrowing of 1.0% in 2012 and a balanced budget in 2013, mainly via expenditure cuts. ECB consider it possible to intervene further in the pension system, making more stringent the eligibility criteria for seniority pensions and rapidly aligning the retirement age of women in the private sector to that established for public employees. Following these changes, achieving savings

should have been possible already in 2012. In addition, the Government should consider significantly reducing the cost of public employees, by strengthening turnover rules and, if necessary, by reducing wages.

An automatic deficit reducing clause should be introduced, according to Trichet and Draghi (2001) stating that any slippages from deficit targets will be automatically compensated through horizontal cuts on discretionary expenditures.

According to the ECB, borrowing, including commercial debt and expenditures of regional and local governments should be placed under tight control, in line with the principles of the ongoing reform of intergovernmental fiscal relations.

Finally ECB encouraged the Italian government to immediately take measures to ensure major public administrative efficiency and business friendliness. In public entities the use of performance indicators should be systematic (especially in the health, education and judiciary systems). There is a need to abolish or consolidate some intermediary administrative layers (such as the provinces). Actions aimed at exploiting economies of scale in local public services should be strengthened.

Draghi and Trichet (2011) also add: “In view of the severity of the current financial market situation, 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.”

The letter concludes: We trust that the Government will take all the appropriate actions.

Following the publication of the letter, Mr Trichet trying to minimize the significance of the letter denied there was any direct deal between the ECB and the Italian government over the measures. The letter maintains however a very explicit tone and gives extremely clear indication of the economic reforms to be made. Rose (2011)

ECB’s letter to Prime Minister Berlusconi is undoubtedly direct, clear, has a sharp tone and highlights the fraught political situation across the euro-zone.

2.8 Italian Debt's crisis culminating in November 2011, with Berlusconi's resignation

Berlusconi rapidly rose to the forefront of Italian politics in January 1994. He was for the first time appointed as Prime Minister following the 1994 parliamentary elections, when Forza Italia, the party he created, gained a relative majority a mere three months after having been launched. BBC (2014)

Berlusconi was again leader of the centre-right coalition in the April 2006 parliamentary elections, which he lost by a very narrow margin, his opponent again being Romano Prodi. The third and last Berlusconi's Government started on April 2008 and concluded on the 13th of November 2011, when President Napolitano substituted him with Monti, without democratic elections, after losing his majority in parliament amid growing fiscal problems related to the European debt crisis. Alter (2013)

From May 2010 to August 2011, during Berlusconi's Government, the ECB purchased bonds from Italy as well as other countries in economic distress (such as Spain, Greece or Ireland), providing easy credit to these Governments at a low interest rate. They were hoping to spur the economy and that these governments maintained their promises to enact the agreed economic reforms. As no effective reforms were implemented or initiated in Italy, in August 2011, the ECB stopped buying Italian sovereign bonds as a way to put pressure on the Italian government, which had gone back on its pledge to drive through structural changes to the economy. Yields on Italian 10-year bonds rose to an unsustainable 7 percent and Prime Minister Silvio Berlusconi had to resign later in the year. President Napolitano appointed a Government of technocrats which was welcomed by all the investors internationally. Monti was appointed Prime Minister. He enacted a series of nation-wide unpopular reforms which received nevertheless the approval of the international markets: yield on Italian bonds went from 7% to 4.5% and international investors recouped trust in the Italian economy. ECB9 (2014) Green (2013) Rose (2011)

On the ECB official website an entire page is dedicated to Mr Monti and significantly titled: "Mario Monti, a Tribute". ECB9 (2014)

Also Germany's Representatives approved of Monti operate, in fact in an interview in Time Magazine, Merkel's Secretary affirms that "He has always worked very well with Monti". Faris (2014)

2.6 Literature Review's Conclusions

In this literature review we have considered the ECB's tasks, legitimacy, accountability and political independence to and versus the EU member states. We did not just consider ECB's political influence from the EU member states, but also the influence it may exert versus EU member states.

We have also highlighted two events which occurred in August 2011, which show how the European Central Bank definitely exerted some pressure on the Italian Government for it to implement a series of economic reforms considered essential to the resolution of the debt crisis and how this culminated with the forced resignation of Prime Minister Berlusconi. Rose (2011) Draghi and Trichet (2011)

The first event regards a "confidential letter" to Berlusconi on the 5th of August 2011, requesting a series of extremely detailed economic reforms. The second event occurred around the same period: the ECB stopped buying Italian bonds (interrupting easy liquidity provision to the Italian Government) applying new conditions on the given credit prior to allowing it. The confidential letter was later published due to a leak of information on a leading Italian newspaper. In response Mr Trichet tried to minimize the significance of the letter sent to Berlusconi and denied there was any direct deal between the ECB and the Italian government over the measures taken to substitute Berlusconi. Rose (2011), Draghi and Trichet (2011)

The Head of the State, President Napolitano, justified his choice to substitute Berlusconi due to infighting within his conservative coalition and to the strong EU criticism against his economic policies. Morningstar (2014)

Monti, the new Prime Minister, enacted a series of nation-wide unpopular reforms which calmed international markets receiving the approval of international investors and German EU representatives: yield on Italian bonds decreased from a critical 7% to 4.5% and international investors recouped trust in Italian's economy. BBC (2011)

As we stated before, the main focus of this research is the inconsistency between the idea of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011. With Plato, we wonder up to which extent a pure ideal as the one of central bank's independency, perfect because conceived as an abstraction, can be

concretely applied to a real social and political scenario, which is by definition, diversified and erratic, uncertain and unpredictable.

As a secondary research focus, we question if the critical Italian debt crisis at that time justified ECB's intervention. In other terms we wonder with Avandei (2014) if central banks' actions can be justified in terms of welfare generated by financial stability or quoting Machiavelli, "Does the end justifies the means?" Anton (2009)

We will try to elucidate the above scenarios and concepts with the help of our interviewees' shaping their answers by adopting three pre-built classic theories by Plato, Machiavelli and Hobbes.

Chapter.3 Research's Methodology.

Being that the focus of our research is of an abstract nature, we have adopted a deductive, interpretivist approach and a qualitative method for investigating potential findings. We conduct an exploratory study trying to find out the participants' interpretation and opinion about certain events and concepts. We used semi-structured, one to one, internet mediated interviews (via Skype). We selected by convenience sampling, six Italian professionals living in Italy and abroad (Ireland Switzerland, Norway and Japan/Australia). Their perspective and responses to our questions have been audio recorded, and written down firstly, then compared and contrasted. As stated above the research approach is deductive, this means that we use prebuilt theories and try to verify their validity. The interviewees' responses have been shaped by using some classic on statecraft by Plato Machiavelli and Hobbes.

This research investigates the inconsistency between the idea of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011, in two specific events we provided evidence for in the literature review. In particular we wonder if the ECB can avoid exerting political influence to the EU Member states it works for.

Therefore when interpreting the data, we decided not to use a quantitative method because this would fit more an objectivist approach, when the answers to the questions are less abstract, related to actual facts and concrete results, while in our case we investigate the participants' opinions about concepts and political events.

We decided not to use in depth interviews either, because they allow too broad answers and we did not want to lose the focus of our research. We adopted semi-structured interviews. Semi structured interviews have a flexible structure, there are some key points clearly defined that must be covered, but the questions can vary according to the flow of the interview. Also probing questions can be used to clarify participants' answers. Saunders (2009, pg. 489)

3.1 Research Objectives

In the previous paragraphs we have highlighted how on two different occasions, the ECB exerted pressure on the Italian Government for it to enhance a series of economic reforms the ECB considered mandatory to resolve Italy's economic problems. First of all, on the 5th August 2011, a confidential letter was sent to the Italian Prime Minister Silvio Berlusconi in the midst of a debt market crisis, by the ECB (signed by Trichet and Draghi) which dictated a detailed economic policy agenda to be enhanced. The full English version of the letter is still available online, on the newspaper's website. Trichet and Draghi (2011) The letter became anything but confidential because it was later published on the main European Newspapers due to a leak of information. Trichet and Draghi (2011)

The second occasion during which the ECB exerted pressure on the Italian Government was when they changed their bond buying programme. As said above, this action aimed to put pressure on some EU Governments to quickly implement a number of suggested economic reforms and how this led to Berlusconi's resignation in 2011 to avoid the Italian Government's bailout. BBC (2011)

Following the above described two events, due to the Italian debt crisis, the risk of bailout, the ECB exerting pressure on the Prime Minister for economic reform to be more efficiently implemented, on the 12th of November 2011, it was the Head of the State President Napolitano, to directly substitute Prime Minister Berlusconi with a new prime Minister, the ex EU economist Monti, without democratic elections. MSU (2014)

Being that the ECB is a sovereign, not democratically elected body, this research evaluates the opinions of Italian Professionals living in Italy and abroad in regards to the above described events, especially focusing on the ECB's influence on the Italian political scene.

In particular, this research investigates the inconsistency between the idea of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011, in those two specific events above mentioned and for which we provided evidence for in the literature review.

From a theoretical perspective, we will firstly try to elucidate the theoretical concept of political independence of a Bank from the Governments it works for and with. With Plato and our interviewees, we will question if this concept is practically applicable. We will then focus on the two specific events above described and try to investigate if the ECB overstepped their mandate and the definition of their independence from Government's politics by trying to concretely influence a country's politics. We also wonder if the influence on a specific Country's politics is considered justifiable in terms of welfare generated by financial stability (Avanadei, 2013) and if, as Machiavelli taught us, the end justifies the means. Machiavelli (1995).

Saunders (2009, pg.34) states that research objectives express what has to be established in order to answer the research questions. "The accumulative realisation of research objectives should answer the research questions and prove the argument one wishes to propose". Saunders (2009, pg.35).

Here there are the three research objectives or key areas the present paper tries to elucidate:

3.1.1 First Research Objective:

This research objective is purely theoretical: we wonder with Plato's "Theory of Ideas"(Lacewing ,2012) , if a pure ideal such as the one of central bank political independence from and versus EU member states could be actually applied to real life.

This research investigates the inconsistency between the idea of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011. A pure ideal like the one of ECB political independence is initially conceived as an abstraction, while the actualization of this pure concept seems a more difficult task to be undertaken and put in practice. We wonder if considering the ECB concept of political

independence, it can concretely avoid receiving and/or exerting political influence on the EU Member states it works for.

3.1.2 Second Research Objective:

Our second research objective refers to real events and it is therefore more specific and concrete: we specifically refer to two events which occurred in 2011.

On the 5th of August 2011 the ECB sent a letter (signed by Trichet and Draghi) to the Italian Prime Minister Berlusconi, this letter had a sharp tone and suggested a list of economic reforms to be undertaken by the Italian Government to resolve the ongoing debit crisis. Draghi and Trichet (2011)

Around the same time, at the beginning of August 2011, the ECB stopped buying Italian Bonds. In our literature review we have clarified how buying bonds from a Government in economic debts' crisis is a way to finance it. The ECB also modified its bond buying policy and transitioned from an "unconditional bond buying policy (quantitative easing) to a conditional one". The new bond buying programme differs from the old one because it implies that any EU Government must enhance economic reforms *prior* to receiving ECB's help. This passage can be interpreted as another way to put pressure on the Italian Governments to enhance the suggested and much needed economic reforms. Green (2013)

Considering that Italy is the fourth largest economy in the EU and that its bankruptcy may influence the EU as a whole, (QUOTE) this research investigates if the influence the ECB exerted in these two occasions is in conflict with their definition of independence, or if the influence on a specific Country's politics is considered justifiable in terms of welfare generated by financial stability. Avandei (2013) With Machiavelli (1995, edited by Bull, pg. 70-72) we wonder if the end justifies the means, if the avoidance of bailout and the partial recovery of country's debt that the ECB's intervention determined, justified their influence in the Italian Politics in 2011.

3.1.3 Third Research Objective

The ECB is a not democratically elected body. The highest regulatory body of the ECB is the Executive Board. We may consider the Executive Board as the last democratic boundaries of the ECB, because it is the only component of the ECB which is elected or appointed by external authorities. The Executive Board is composed of six members including the President of the Bank (Mario Draghi). These six members are all appointed for non-renewable terms of eight years. They are appointed "from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council". ECB4 (2014)

The Executive Board and its six members are the only part of the ECB which is appointed externally. All the other decisions and members are taken internally to the ECB5 (2014)

What we wonder is, taking into account the democratic foundation at the basis of the European Union, if being that the ECB is not a democratically elected body, whether it can be considered accountable for its decisions in regards to all the EU citizens.

We use Hobbes' theory in the course of this research, to try to understand the role of the ECB played in the Italian political scene in 2011, weather it acted as a new form of "Leviathan" or not. With Howarth (2003) we wonder if we need a sovereign, not democratically elected body like the Leviathan Hobbes describes, to maintain economic stability.

3.2 Research Questions:

Question 1: This question is purely theoretical and it simply requires the interviewee's reflection. Plato thinks that pure Ideas (or Ideals) are divorced from real life, in other words Ideas cannot be perfectly applied to reality because ideas are abstractions, while reality is characterized by continuous change, heterogeneity and influenced by social actors. Lacewing (2014)

- 1) *Do you believe that the ECB (who's continuously working for and with the EU Member States) could keep this profitable collaboration without exerting or receiving any influence whatsoever by these counterparts it is working for? In other words: do*

you think that the concept of absolute political independence of a central bank from Governments is feasible, in concrete?

Question 2: In the literature review we show evidence that the ECB's explicitly exerted influence on the Italian debt crisis in two events, all around August 2011, events which culminated in November 2011 with the resignation of Prime Minister Berlusconi and the appointment of a new Prime Minister (Monti) quickly and without democratic elections. Firstly the ECB sent a direct, but "confidential" letter to Prime Minister Berlusconi on the 5th August 2011 with a sharp tone, strongly recommending a list of detailed economic reforms to be quickly undertaken. Draghi and Trichet (2011); Rose (2011)

Secondly, at the beginning of August 2011 The ECB stopped buying Italian bonds (in so doing interrupting the provision of easy liquidity to the Italian Government). Both manoeuvres aimed to put pressure on the Italian Governments to implement essential economic reforms which, according to the ECB, would have helped resolving the Italian debt crisis and the risk of bailout. Green (2013)

At the beginning of November 2011, Berlusconi's had been Prime Minister in Italy for 3 consecutive years and none of the reforms the ECB had been recommending till then were in place. The interest rate on 10-year Italian government bonds touched 7%, rate at which Greece, Ireland and Portugal were forced to seek bailouts from the EU and Italy was on the verge of a bailout as well. Greene (2013)

These events culminated in the forced resignation of Berlusconi, in November 2011, quickly and without democratic elections of the following new Prime Minister. The Head of the State, President Napolitano, named a new Prime Minister the day after Berlusconi resigned. The new Prime Minister, Mario Monti, is a former European commissioner with vast experience for the Internal Market, Services, Customs and Taxation.

Since the new Prime Minister Monti was appointed, international investors and German EU representatives have displayed more confidence in the country's finances. Italy's borrowing costs have fallen due to Monti's efforts to revive Italian Economy, cut down on the nation's debt. Monti's substitution and ECB intervention may have saved Italy from bailout.

Most noticeably, after drifting above 7% in 2011, under the new Prime Minister's Monti's Mandate, the yield on Italy's 10-year government bond has successfully fallen to about 4.5%. BBC (2011)

EC's intervention on the Italian politics in 2011 contributed to the stability of the Italian economy determining the avoidance of bailout and the partial recovery of country's debt. Do you think the ECB intervention on the Italian scene is in conflict with their concept of independence? Could we affirm that the influence the ECB exerted on the Italian Government is justified in terms of financial stability? Can we say with Machiavelli (1995, Edited by Bull, pg. 72-75) that the end justifies the means?

Question 3: The ECB is a not democratically elected body. The highest regulatory body of the ECB is the Executive Board. The Executive Board is responsible for the implementation of monetary policy. It is composed of the President of the Bank (currently Mario Draghi) and five other members. The six members are all appointed for non-renewable terms of eight years.

They are appointed "from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council". ECB5 (2014)

The Executive Board is the only part of the ECB appointed externally. All the other decisions are taken internally and independently. ECB5 (2014) ECB6 (2014) ECB7 (2014)

Considering the democratic foundation at the basis of the European Union, is the ECB accountable for their decisions in regard to all the EU citizens?

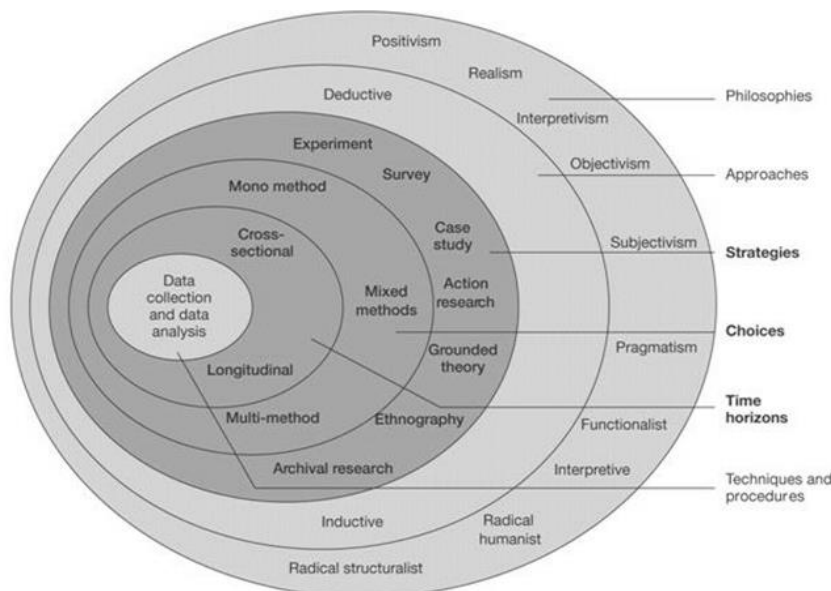
3.2 Proposed Methodology

This research focuses on social actors. For this reason, in conducting this research the philosophy adopted will be the one of the interpretivism with a deductive approach. We will use prebuilt theories (classics by Plato, Machiavelli and Hobbes) and test the validity of the

interpretation of the reality given by these great philosophers with those of our participants in regard to modern political events.

We believe in fact that any reflection made by an ancient philosopher or by one of our interviewees, if genuinely conceived, deserve the same respect. We will collect qualitative data through semi structured interviews (mono-method). Following, the rationale behind the method we have chosen will be explained. Saunder's (2009, pg. 108) research "onion" shows the range of our choices.

Figure 1: The research 'onion'



Source: Saunders, Lewis and Thornhill (2009, p.108)

3.2.1 Research Philosophy: Saunders (2009, pg. 108) States that “the research philosophy you adopt contains important assumptions about the way in which you view the world”. The philosophy adopted is the one of interpretivism: the researcher believes that the social world is influenced by too many factors and to gather a deep understanding of the phenomena it is necessary to look at things from the perspective of the actors. Social reality offers too much variety, it cannot be simplified with scientific laws or with mathematical generalizations. Saunders (2011, pg. 137)

We do not adopt an objective approach because we will be evaluating participants' opinions which are personal and not objective or repeatable. We will not adopt a pragmatic approach because our research focus is abstract, while pragmatism is required to deal with concrete results.

Also Ponterotto (2013, pg.20) states that interpretivism is the ideal method to investigate an "Apprehend-able reality shaped by political economic and social factors".

Moreover we are aware that that our political views, may influence the answers, therefore we will be paying attention during the interviews, and make sure to use a neutral tone of voice and no comments to interviewees' answers not to influence the responses.

3.2.2. Research approach: According to Saunders (2011, pg. 143-144) there are two main researching approaches: inductive or deductive. We have chosen to use a **deductive approach**. We will test with our participants' help, the validity of three classic prebuilt theories. This approach fits better with the qualitative investigation we intend to conduct: we will use classic theories on statecraft (by Plato, Machiavelli and Hobbes) and we will compare the thoughts of these philosophers with those of our interviewees. We will simply try to interpret our participants' opinions, in regard to the research objects, by comparing and contrasting them with each other,. We believe in fact, that any man becomes a "philosopher" when their reflections are genuinely conceived and we will pay to them the same respect we pay to the theories of the ancient thinkers we above quoted.

Also Saunders (2009 pg. 489) recommends the deductive approach for a qualitative method because the pre-built theory can help shaping the responses gathered.

3.2.3 Research Strategy: Regarding the research strategy the **Grounded Theory** will be used. According to Saunder (2011, pg.185) grounded theory is the necessary complement of interpretivism. While interpretivism sees reality as the consequence of the meaning that social actors give to it, the grounded theory is used to develop a rational explanation of a socially constructed scenario such as, for the purpose of this research, a country's political and economic situation. Grounded theory seems therefore useful where to explain the participants' perspectives.

3.2.4 Research Choice: A **mono-method** consisting in in semi structured interviews is considered appropriate to this research. Information available on the University of Florida's website (2013) clarifies: "Qualitative interviews use an open-ended, discovery-oriented method, which allows the interviewer to deeply explore the respondent's feelings and perspectives on a subject. This result is rich background information that can shape further questions relevant to the topic."

In order to answer the research questions, 6 Italian professionals living in Italy and abroad, will be interviewed.

Choosing between the options given by Saunders (2009, pg. 321) the interviews will be semi structured, one to one, internet mediated (the participants will be reached online, via Skype calls) in different countries including Australia and Japan, Norway, Switzerland, Ireland and Italy. Adopting Saunders (2009, pg. 321) suggestion, The interview will be audio recorded and notes will be taken while interviewing.

A list of 20 questions will be used during the semi structured interviews. The questions cover the research objectives the research focuses on.

The researcher may decide to omit some questions or empathize others to gather a better understanding of the participant's perspective according to the flow of each interview. Semi structured interviews will be conducted with participants to gather primary qualitative data. According to Saunders (2009, pg. 324) when using questionnaires, the choice is between structured, Semi structured or in depth interviews. We believe semi structured interviews fit an interpretivist approach: they help explaining the "why" behind the participants' explanation of the events. On the other side we prefer not to use in depth interviews because they lack of structure, the answer received may be too generic and the risk is to lose the focus on the research's subject. While a fully structured questionnaire fits more a quantitative research, which does not reflect our aim to investigate and interpret people's opinion about certain events. The experience and opinions of the participants will be very considered crucial to the research's result. The responses of the participants will be compared with each other and conclusions will be taken by looking at the overall responses.

As said above, the interview format will be semi-structured, not standardized with 20 predetermined open questions. All the questions cover our key points and we intend to use them in a flexible way: some questions may be used, other omitted according to the flow of the interview. The purpose is to receive answers which can be further investigated by using

“probing” questions. According to Saunders (2009, pg. 338) probing question can be used to give direction to a semi structured interview when the received answer is too vague. Thus, the interviews will be open to additional questions depending on the responses. The intention is to audio record the interviews and take notes during them. At the beginning of each interview, the participants will be thanked for participating and advised that the interview is recorded. According to Saunders (2009, pg. 334) the date, location, setting of the interview will be registered, together with the professional and social background of the interviewee. Technical issues affecting the conversation will also be recorded. Before concluding the research, a sum up of the interview will be done together with the interviewee so that we could agree on the responses given. Finally, the first impression on the researcher about how the interview went will be noted down. According to Saunders (2009, pg. 497) the data will be structured in a narrative way, creating a coherent report from our interviewee’s answers ordinated accordingly to our research objectives.

3.2.5 Time Horizon. This research will be **Cross sectional:** due to time constraints, we cannot keep diaries of the evolution of the phenomena. According to Saunders (2011, p.190) a cross sectional time horizon is required in most dissertation undertaken for academics purposes due to time restrictions. This is therefore the study of particular phenomena at a particular time or a “snapshot”. Saunders (2011, pg. 190) However a diary (or self reflection piece) of the progresses we made when writing the thesis (from the original idea throughout the progresses with the supervisor, to the findings and conclusions) from the beginning to the end will be kept and included in this research, in the Appendixes.

3.2.6 Qualitative: The choice of method is **qualitative research** because in order to answer the research questions, primary data will be collected through semi structured online interviews. However, secondary data such as articles and research papers, library and online text book (including two editions of *Saunders’ Research Method for Business Students* 2009 ed. 5th and 2011 ed. 6th) also represent an essential source of information.

3.2.7. Non-probability sample: Due to time and budget constraints, we have selected and defined a specific sample of population: we have chosen a sample of Italian professionals, one living in Italy

and the others living abroad in different countries including Europe, Asia and Australia. A suitable sample of population according to Saunders (2011, pg. 283) as in this case, must have a logical relation to the purpose of the research. Again According Saunders (2011, p. 258-59) there are different sampling techniques which can be divided into two groups; probability and non-probability sampling. With non-probability samples, it is impossible to generalize on statistical grounds; however non probability sampling offers “information rich case studies to gain theoretical insights”. Saunders (2011, pg. 283) Non-probability sample will be used in this research.

A total of 6 participants will be interviewed. All the interviewees live abroad, apart from one who lives in Italy, the other participants will be interviewed from Australia, Norway, Switzerland and Ireland.

Convenience sampling will also be useful for this research in order to gain a higher number of participants. Saunders (2011 pg. 291) criticizes this sampling arguing that although widely used, it can bring “biases to the sample, meaning that subsequent generalizations are likely to happen”. However, objectivity will be gained by the fact that most of the interviewees are spread in different countries around the globe and are not in contact with each other.

Issues about reliability: Because we adopt a qualitative method, the sample of the interviewees is relatively small and also because we have adopted a convenience sampling method, they may be issues about the reliability of the findings.

We would like to highlight in response, according to Saunders (2009, pg. 327-328) that the results we obtain are relative to a specific situation reflecting the time when they were collected, so they do not have to be necessarily repeatable by another researcher at a different time. The assumption behind this research is that the circumstances examined are complex and dynamic. The value of using semi-structured, not standardize interviewees derives from the flexibility we can benefit from when exploring the complexity of the topic. The findings of this research are not intended to be repeatable by another researcher because they reflect the time at which they were collected in a situation which may be subject to change. We understand that the result of this research will not be able to be used for a statistical generalization (about the entire Italian population for instance) because our findings are based on a small and unrepresentative number of cases.

We believe as well that the fact that all the participants live in different countries around the world may confer a higher level of objectivity to the results.

3.3 Ethics: Saunders (2011, pg. 191) maintains that ethical issues normally pertain to any research that involves human participation. Prior to commencing our interviews we would like to clarify some guide-lines to make sure that we meet the requested ethical criteria for an academic dissertation.

The information obtained through interviews will be used only for the dissertation purposes, participants will be informed in detail and in advance about the purpose of this research and the research topic, events treated and institutions involved. Interviewees will be able to decide whether to participate or not, their consent will be clarified prior to starting each interview, according to Saunders (2011, pg. 191) suggestion.

Furthermore, the right of privacy of participants will be respected their identity will not be revealed. However all the participants have agreed to disclose their work related qualification, background and current job role. Interviewees will have the opportunity to refuse answering any question that they consider inappropriate or whether they simply preferred not to reveal their position in regard.

It will be ensured that participation is voluntary, that participants could withdraw at any time and confidentiality will be protected.

The interviewee will not suffer for any form of economical or material disadvantage because the interviewees will be internet mediated. Where expenses due to the need to connect from different countries/continents (Online Skipe's call costs etc.) will be required, the researcher will undertake them and this will be also clarified up front. The researcher will also adapt to the interviewees' timetables and time-zone difference when required.

3.4 Limitation: Time Management can be a limitation: the researcher works full time so a precise timetable defining the time off work to be dedicated to the study and the interviewees has been adopted. No particular language barrier or difficulties should be encountered during the research as all the participants speak English fluently as their job positions require.

In addition, due to time zone difference and the busy schedule of the interviewees, contacting the participants and obtaining their response required several contacts and several rescheduling we happily adapted to, in order to conclude our research.

To conclude, we understand that personal bias can interfere with the process of interviews. My personal political views may influence the way questions are formulated and respondents could be under my influence during the interviews modifying their response to my ideas.

We will try however to adopt a natural tone of voice and avoid any comment to the participants' answers, to avoid interfering.

Finally, we are aware that the interpretation of data could be also a bias since our political views could again, affect the result and make them less objective. To avoid this bias we will try to use a neutral tone when asking the questions not to compromise the answer.

4. Research's Findings:

We clarified in the chapter dedicated to the research method, that this research is conducted following a deductive approach. This means that we adopted prebuilt theories to test their validity and shape our interviewees answers. The theories we adopt come authors we rate between the greatest philosophers and thinkers the human history has ever had: Plato, Machiavelli and Hobbes.

We adopted the ideas and opinions of these great ancient philosophers and compared them to those of our interviewees. We believe that a book becomes a classic masterpiece when it carries timeless thoughts. We paid the same respect to the thoughts of our interviewees and to those of ancient philosophers because we believe that a genuinely conceived reflection deserves the same regard we pay to those of great philosophers. In particular Hobbes' *Leviathan* and Machiavelli's *The Prince*, ranked as a classic western works on statecraft will be used to understand ECB mandate and operate. Hobbes (2012, pg. xiv)

This research investigates the inconsistency between the concept of Political independence of the ECB in regard to the EU Member States with the actual influence the ECB exerted on the Italian political scene in August 2011, in two specific events we provided evidence for in the literature review. In their mandate it is stated that the ECB should avoid receiving or exerting political influence of any sort from and to the EU member States. ECB1 (2014)

We wonder if this concept of complete independence is concretely applicable in real life specifically referring to the influence ECB exerted on the Italian Political scene in 2011. In the course of our research we have provided evidence for this influence showing how it had

an impact on Prime Minister Berlusconi's resignation in November 2011. In other words what we wonder is if the ECB can concretely avoid exerting political influence on the EU Member states it works for.

The first pre built theory we used comes from Plato. Plato thinks that ideas and concepts are divorced from real life, pure ideas are abstractions which cannot be perfectly concretized in real life because reality is characterized by heterogeneity, imperfection and continuously influenced by social actors. Lacewing (2014)

We applied this Idea to the concept of ECB independence to and from EU member states.

As a first research objective, We asked our participants if they think that central banks' Political independence is an idea which can be concretely applied to real life. Our interviewees were asked for their opinion which we compared and contrasted.

The second pre built theory we used comes from Machiavelli. Machiavelli believes that "*the end justifies the means*", in other words what is important is the final result: the State and the Government must survive. Anton (2009), Machiavelli (1995, edited by Bull, pg.70-72).

In our second research objective, we used this idea to interpret ECB's intervention on the Italian Political scene in 2011, how this intervention determined the resignation of Berlusconi and how this helped Italy avoiding the bailout partially recovering country's debt crisis.

We wondered together with our interviewees if the ECB overstepped their mandate by intervening in our Italy's politics and if their intervention can be justified in terms of Financial Stability. Avandei (2013)

The third prebuilt theory we adopted comes from Hobbes. Hobbes believes that to escape the brute state of nature (which sees all men fighting against each other pursuing their own personal will, from Latin *homo mini lupus*) the humanity must renounce to part of their freedom and submit to a superior entity, not elected and sovereign that can maintain the order above all. Hobbes (2012, edited by Tuck, pg. 92-93)

In our third research objective, we wondered if the ECB should be accountable for their decisions, being the ECB a not democratically elected body, in regards to all the EU citizens or if we have already, like in Hobbes' Leviathan, surrounded part of our will to the ECB.

In this case the focus of the questions to our interviewees, concerned the accountability of the ECB in regards to all the EU citizens considering that within the ECB, only the six members of the Executive Board are appointed externally and all the other decisions are autonomously taken. ECB5 (2014)

Here below there is a description of our six interviewees which includes their background. It is followed by the responses they gave which are compared and contrasted in the attempt to elucidate our three research objectives.

To preserve the anonymity of these interviews, the participants will be given different names. We used Italian names, although not corresponding to those of the interviewees, to give to our narrative the shape of an actual debate. All the participants agreed to disclose their professions, work qualifications, locations and background. All the interviewees are Italian, one of them lives in Rome, Italy, one lives between Norway and Italy, one in Australia at the moment, but lived in Japan for 4 years from 2010 to 2014. Two interviewees live in Dublin, Ireland and the last participant I interviewed lives in Zug, Switzerland.

As said above, the participants' responses are shown in a narrative structure. According to Saunders (2009, pg. 497) the data will be structured in a narrative way, because the narrative method allows an interpretation of the responses in chronological order and fits a qualitative method.

We attempted to create a coherent report from our interviewee's answers ordinated accordingly to our research questions and objectives.

All the responses will be shown compared and contrasted following the order of our three research objects and three research questions, following the order they are presented in, in the chapter dedicated to the research method.

Elisa is a female of 33, from Milan. Their job role is Senior Merchant Support at PayPal EBay Inc. in Dublin; they hold a Bachelor in Marketing and a Diploma in Accounting and Finance from DBS Dublin. They moved to Dublin five years ago initially to study English, later they found a job here in PayPal- EBay Inc. and opportunity for career progression, so they decided to stay in Ireland.

Francesco is a Mechanical Engineer of 42 years of age. They live in Rome with their wife and two kids. They work for a company called "Thales Alenia Space", in Rome. They are

specialized in hardware designing; they are currently working at the construction of a satellite module that will be sent to Mars, the first launch being programmed for the 2016.

Marco is 38, at the moment they work as a post-doctoral researcher in Physics for the University of Australia, but they also worked for the National Institute for Materials Science Tsukuba, Ibaraki, Japan from 2010 to 2012 and for the University of Osaka Japan from 2012 to 2014 in Osaka-shi, Osaka, Japan.

Luca is a 35 years old, their job role is Senior Construct Engineer. They live between Italy and Aukra, a small island in Norway. They work for “Nihamna” a sub-sea gas Processing Plant, in Norway. They previously worked in different Gas Processing plants around the globe, including Kazakhstan, Austria and Czech Republic.

Giuliana is 40 years old, they work in Zug, Switzerland, as a Supply Chain Senior Manager. They hold a Masters in Economics. They are originally from Florence, but moved to Switzerland 15 years ago for work. They would normally commute every weekend to Genoa, a city on the north west of Italy, where their family lives.

Giuseppe lives in Dublin with his life partner, they moved here 10 years ago. They are 43 years of age and hold a Masters in Economics undertaken at DIT Dublin, Ireland. They used to work for Lufthansa Ireland and now work for PayPal-EBay Inc. as a Compliance Specialist.

4.1 Responses to the first research question:

The first research question is purely theoretical: Plato thinks that pure Ideas (or Ideals) are divorced from real life, in other words Ideas cannot be perfectly applied to reality because ideas are abstractions, while reality is characterized by continuous change, heterogeneity and influenced by social actors. Lacewing (2014)

Regarding central banks independence intended as a pure ideal therefore, Plato would say that the perfect, abstract concept of ECB independence cannot find an exact application in real life, because real life is not static or perfect like pure maths concepts.

As few of our interviewees have a scientific background, we obtained some intriguing answers to this first question.

All my interviewees except from Marco seem to agree with Plato: pure ideas cannot be concretized in real life. Marco, a research fellow in Physics, thinks that some pure abstractions or ideas can be applied to real life, although conditionally and after years of research and attempts.

Francesco thinks that pure abstractions sometimes collide between themselves such as in some mathematical theories which deny each other. Therefore the idea of central bank independence cannot be concretely applied; the ECB will always try to exert some sort of influence or it will be influenced by the EU member states. ECB perfect independence form or versus the EU member States, exists only as an abstraction. The ECB will always influence or try to influence the EU Member States and this is unavoidable. Giuliana, our interviewee from Switzerland, believes that ECB conduct, as well as any other EU regulatory body, is the actual precise expression of a political or economic party behind it and never independent.

Francesco thinks that the ECB independence is an abstract concept which does not reflect the reality of the events. None of my interviewees thinks that the ECB is politically independent from or to the EU member states. The opinion of my interviewees' is that the ECB is far from being independent if not actually (according to Giuliana) the exact expression of power groups behind it. According with Giuliana and Giuseppe there are many countries, actors and economic interests inside the EU, so it's inevitable that lobbyist groups play a role in any ECB decisions. Giuseppe also believes that the actors who play the main role in ECB's decisions are its main shareholders among which he quotes the four ones that own the majority of the shares over the overall 5 billion ECB's capital (Deutsche Bundesbank, Banque de France, Bank of England and ultimately Banca d'Italia). ECB10 (2014)

4.2 Responses to the second research question

Our second research question is less abstract: we refer to two specific events occurred in 2011. We highlighted in the literature review, how we found concrete evidence that the ECB explicitly exerted their influence on the Italian debt crisis around August 2011, events which culminated in November 2011 with the resignation of Prime Minister Berlusconi and the appointment of a new Prime Minister (Monti) quickly and without democratic elections. . . Green (2013)

The first event regards the ECB sending a direct, “confidential” letter to Prime Minister Berlusconi on the 5th August 2011 with a sharp tone, strongly recommending a list of detailed economic reforms to be quickly undertaken. Draghi and Trichet (2011)

The second event also occurred at the beginning of August 2011, the ECB made a second manoeuvre to influence Italian’s political decisions: they stopped buying Italian bonds, in so doing interrupting the provision of easy liquidity to the Italian Government. Both manoeuvres aimed to put pressure on the Italian Governments to implement essential economic reforms which, according to the ECB, would have helped resolving the Italian debt crisis and the risk of bailout. Green (2013) Draghi and Trichet (2011)

We asked our participants how they value these two interventions of the ECB in the Italian Politics, if the ECB overstepped their mandate. Was the ECB allowed exerting pressure on a Country’s political and economic decisions? What about the ECB political independence to and versus the EU member states?

According to Machiavelli (1995, edited by Bull, pg. 52-53 and 70-71) The Prince (or those in power) should take political decisions, in the vision of the welfare and maintenance of the Government and the prosperity of the State. Unscrupulous choices must be undertaken if the final result justifies them. A Prince should rather be feared than loved, their decisions visionary rather than amenable in other words they should not try to receive the acquiescence of the people but look at the overall picture. The final result for Machiavelli is always the maintenance of the Government and welfare and prosperity if State.

Machiavelli would argue therefore that the ECB has the right to exert pressure on the Italian political scene if the result is the implementation of much needed economic reforms that will ultimately maintain the welfare of the State.

Lorenzo does not justify ECB’s influence in the Italian Politics, they believe that Governments should be left in charge of taking their own decisions; this is the only way which guarantees that the will of the people is respected. The ECB should limit its activity to their official task which is the Monetary Policy of the EU.

Elisa has the opposite vision: they believe and are somehow thankful that a “superior authority” overstepped Italian Government’s decisions: they believe that our Government showed to be incapable of resolving our financial issue and that ECB intervention was required in this scenario.

According to Elisa, the ECB Executive Board (composed by six members) is appointed by the EU member States, the EU citizens voted the EU representatives, therefore the EU citizens, even if *indirectly*, voted for the ECB as well. This sort of *indirect* election leads to a mutual relationship: the ECB is accountable for their decisions in regards to all the EU citizens while the EU citizens must respect ECB's decisions because they indirectly voted the ECB. Elisa considers the ECB a *Deus ex Machina*⁴ (from Latin "God from the Machine") a new unexpected resolving event that saved Italy from bailout in 2011. Elisa therefore agrees with Hobbes in this scenario: they believe that the presence of a "superior entity" was decisive and justified for the avoidance of bailout. However Elisa points out in regard to the letter the ECB sent to Berlusconi on 2011, that it should have not been "confidential", but official and publically and rationally motivated. Elisa believes that any ECB's act should be made official and transparent and that the confidentiality of the letter is in conflict with ECB concept of transparency as states in their mandate. ECB11 (2014) Transparency is to Elisa, the condition of ECB's independence.

Giuseppe thinks that the ECB sent the letter to the Italian Prime Minister, because of the ECB's role is to be a technical committee, playing the interest of the EU as economical organization. Italy signed a treaty to join the EU. So the Italian government had no choice but accepting the ECB's directives. The final decision that basically brought Berlusconi into the resignation occurred within the internal Italian political scene, it was only partially influenced by the ECB pressure and ECB should not be considered accountable or at least not fully accountable for it. Other reasons internal to the political Italian scene determined Berlusconi's resignation, for example the not secondary fact that he had lost the support of the majority of the parliament.

Marco Lorenzo and Francesco completely justify ECB's intervention if this determines financial stability, but again all of them put transparency and accountability as the mandatory conditions of ECB's autonomy and intervention.

4.3 Response to the third research question:

In our third research question we consider that the ECB is a not democratically elected body. The highest regulatory body of the ECB is the Executive Board. We can consider the

⁴ From Latin "God from the Machine" a superior entity who unexpectedly resolves an unsolvable situation.

Executive Board as the last democratic boundaries of the ECB, because it is the only component of the ECB which is elected or appointed by external authorities. The Executive Board is composed of six members. The members are all appointed "from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council". ECB4 (2014)

What we wonder is if considering the democratic foundation at the basis of the European Union, being the ECB a not democratically elected body, it can be considered accountable for its decisions in regards to all the EU citizens or if we need a new Leviathan, a sovereign authority to supervise the EU member States.

Hobbes' Leviathan argues for a social contract and an absolute sovereign, not democratically elected body in charge to overcome the "brute situation of the state of nature". Hobbes (2012, pg. xiv)

The Leviathan argues for a social contract and rule by an absolute power as a form of Government. Hobbes wrote that civil war and the brute situation of a state of nature, from Latin the famous saying: "*Homo homini lupus*", the war of all men against each other, each one of them following their own personal desires. This state of Nature could only be avoided by a strong undivided, non-elected form of government: a Leviathan. Hobbes advocates for absolutism, a totalitarian power to whom all human being sacrifice part of their freedom to escape the unavoidable *Homo homini lupus* which would reflect men's real nature if they were left free to act. Hobbes (2012, edited by Tuck, pg. 93)

Elisa disagrees with Hobbes and thinks that the ECB is, even if indirectly, elected by all the EU citizens, because the Executive Board members are nominated by the EU member states, and the EU member states representatives are elected by the EU citizens. The ECB is, therefore even if not directly, nominated by all the EU citizens who democratically voted the EU representatives. According to Elisa, the ECB is responsible for their actions in regards to all the EU voters.

Lorenzo also agrees with Elisa, they think that the ECB should be considered accountable for their decisions, but they should be more directly controlled by the EU members. Lorenzo reports the example of the FED whose representatives are voted by each US State. The ECB according to Lorenzo, should have a similar more democratic structure: Each EU state

should have a democratically elected member in the ECB, so that ECB's operate may reflect the will power of the EU citizenship more directly and effectively. Also, Lorenzo says, we should not be giving a higher level of independence to central banks because having a not democratically elected body with superior power could result in creating a new Leviathan which could have harmful consequences. Lorenzo believes that the political power should remain in the hands of politicians, as in this way it reflects the will of the people, while the ECB should simply deal with the Monetary policy remaining accountable for it in front of all the EU citizens.

Giuliana thinks that the actions taken by all regulators, ECB among them, never reflect the expression of the EU citizens but always of some political or economic group. The ECB should not become a new Leviathan, a sovereign authority influencing the EU Member States as this would turn out in a monster, like the Leviathan in the Bible, reflecting the will of lobbyist parties and not the one of the citizens.

None of my interviewees seems to think that the ECB is not accountable for their decisions to in regards to the EU citizenship. So they all disagree with Hobbes in delegating part of our will or decisional power to a superior institution. All my interviewees seem to believe that the ECB should remain accountable for their decisions at any time. Among the interviewees, those who seem to trust more the ECB's decisions, keep highlighting that transparency and accountability are essential conditions to ECB's independence.

Marco, Giuseppe and Elisa are the participants who seem to trust more ECB's operate. They fundamentally agree with Hobbes (2012, edited by Tuck, pg. 92-93) and Quintyn and Taylor (2004) when they say that Central banks should be allowed a greater deal of independence so that they can preserve financial stability and operate more effectively. Marco believes that BOJ helped the Japanese government to avoid bailout and even if it does it by applying quantitative easing, BOJ seems the only body capable of resolving the Japanese's Governments debts' issue at the moment. Inflation in Japan at the moment is in fact under control regardless of the injection of liquidity that the BOJ keeps allowing to the Japanese Government. Regardless of the quantitative easing applied by BOJ in fact, the inflation rate in Japan was recorded at 3.60 percent in June of 2014 as reported by Marco and the official trading website Trading Economic (2014).

Elisa states that she is ashamed of the inability showed by her Government to fix the issues at the basis of the economic debt crisis and it is thankful that a regulator intervened to resolve

the critical Italian situation and the risk of bailout. Elisa therefore partially agrees with Hobbes, as she thinks that a regulator with superior powers will help Europe preserving financial stability providing the ECB remains accountable for their decisions and their actions transparent at any time.

Chapter 5: Discussion and Conclusions

5.1 Discussion

In the chapter dedicated to the research's methodology we explained that we adopt a deductive approach. In other words we use prebuilt theories and test their validity with the help of the interviewees. The prebuilt theories shape the interviewees' answers.

As prebuilt theories we adopted classics on statecraft by Plato, Machiavelli and Hobbes.

As said above, this research investigates the inconsistency between the concept of Political independence of the ECB with the actual influence the ECB exerted on the Italian political scene in August 2011. We look at it in terms of the two specific events we provided evidence for in the literature review. In the course of our research we proved that this influence had an impact on Prime Minister Berlusconi's resignation in November 2011. Green (2013)

We wonder if the ECB can concretely avoid receiving and/or exerting political influence on the EU Member states it works for.

We asked our participants for their opinions, comparing and contrasting their responses with each other and with those of the great authors.

The adoption of old masterpieces to interpret modern events is justified based on our belief that a book becomes a classic when it carries timeless thoughts. In the course of our research we have used classic theories on statecraft to shape the interviewees' answers. We have given to our interviewees answers the same attention we pay to the thoughts of the great authors as we believe than any thought and reflection deserves respect and becomes what we call "philosophy" when honestly conceived.

Our research has three main objectives and three key questions, where the research questions are a direct reflection of the objectives.

In our first research objective we wonder if considering the ECB concept of political independence, it can concretely avoid receiving and/or exerting political influence on the EU Member states it works for.

In our second research objective we wonder if the end justifies the means, if the avoidance of bailout and the partial recovery of a country's debt that the ECB's intervention in the Italian political scene in 2011 induced, justified the ECB influence in the Italian Politics in 2011.

In our third research objective we consider that the Executive Board and its six members are the only body of the ECB which is appointed externally. All the other decisions and all appointments of members are taken internally to the ECB. ECB5 (2014) What we wonder is, taking into account the democratic foundation at the basis of the European Union and considering that the ECB is not a democratically elected body, whether it can be considered accountable for its decisions in regards to all the EU citizens.

We adopted a qualitative method to interpret participants' opinions on the above research objectives by using semi-structured interviews. Our interviewees are six Italian professionals living in Italy and abroad, including Norway, Sidney/Japan, Ireland and Switzerland. Their responses have been compared contrasted and exposed in narrative structure. The narrative structure follows our three research objectives and the three research questions. The participants' responses have been shaped by using the three prebuilt theories we adopt and the thoughts of the great authors above mentioned, compared and contrasted to those of the participants because we believe, as said and repeated above, that any reflection or opinion deserves respect and becomes "philosophy" if genuinely conceived.

In this context, we would like to clarify that we are fully aware that the convenience sample we used, the relative small number of participants chosen and in general the qualitative method we adopted, may raise issues about the reliability of our findings. We would like to highlight in response, according to Saunders (2009, pg. 327-328) that the results we obtain are relative to a specific situation reflecting the time they were collected, so they do not have to be necessarily repeatable by another researcher at a different time. The assumption behind this research is that the circumstances examined are complex and dynamic. The value of using semi-structured, not standardize interviewees derives from the flexibility we can benefit from when exploring the complexity of the topic. The findings of this research are not

intended to be repeatable by another researcher because they reflect the time at which they were collected in a situation which may be subject to change. We understand that the result of this research will not be able to be used for a statistical generalization (about the entire Italian population for instance) because our findings are based on a small and unrepresentative number of cases.

As we highlighted above, our findings have been exposed in a narrative structure, which reflected the order of the research's objectives, while the responses have been shaped by using the three prebuilt theories above mentioned. We investigated our participants' answers in regard to the ECB's influence on the Italian political scene in 2011, whose evidence we proved in the literature review.

The first theory we adopted to shape our participants answer is Plato's theory of Ideas: Plato believes that pure ideas are divorced from reality, because ideas are abstract and reality is characterized by imperfection, heterogeneity and continuous change. Lacewing (2014)

We also adopted two more works ranked as classic western work on statecraft: Hobbes' Leviathan and Machiavelli's The Prince. Hobbes (2012, edited by Tuck, pg. xiv)

Machiavelli (1995, Edited by Bull, pg. 52-53 and 70-71) states that the Prince (or those in power) is the vision of the welfare and maintenance of the Government and the prosperity of the State. Unscrupulous choices must be undertaken if the final result justifies them. A Prince should rather be feared than loved, their decisions visionary rather than amenable in other words they should not try to receive the acquiescence of the people, but to look at the overall picture. The final result for Machiavelli is always the maintenance of the Government and welfare and prosperity of the State.

Hobbes' Leviathan argues for a social contract and an absolute sovereign not democratically elected body in charge to overcome the "brute situation of the state of nature" to whom all men should submit part of their will to obtain financial and social stability.

In our first research object we wonder if considering the ECB concept of political independence, it can concretely avoid receiving and/or exerting political influence on the EU Member states it works for.

Our participants agree with Plato and believe that the pure concepts and ideas are divorced from reality; in particular the pure concept of ECB's complete independence to and from the

EU member state is definitely not feasible. The ECB will always be influenced or try to influence the EU States, this pure idea cannot be concretized and it is far from reality. Our interviewees believe that ECB's decisions are strongly influenced by the power groups behind it, in particular the ECB is influenced by its main shareholders among whom they quote the four ones that own the majority of the shares over the overall 5 billion capital: Deutsche Bundesbank, Banque de France, Bank of England and ultimately Banca d'Italia.

In our second research objective we wonder if the end justifies the means, if the avoidance of bailout and the partial recovery of country's debt that the ECB's intervention in the Italian political scene in 2011 determined, justified the ECB influence in the Italian Politics in 2011.

The second prebuilt theory we used to shape the answers obtained comes from Machiavelli's *The Prince*. Machiavelli (1995) In the literature review we showed how the ECB exerted pressure on the Italian Government in two occasions in 2011 and how this led to the resignation of Berlusconi and the non-democratic election of a new Prime Minister. After the election of the new Prime Minister, Italy partially recovered the country's national debt (the yield on Italian bonds went from an unsustainable 7% to 4.3%) and recouped investors' trust, avoiding the bailout. Morningstar (2014) BBC (2011)

In other words in our second research objective we wonder if the ECB intervention and influence on the Italian Political scene in 2011, although possibly in conflict with its concept of political independence, could be justified in terms of financial stability.

Machiavelli (1995, pg. 52-53 and 70-71) thinks that the end justifies the means. From Machiavelli's perspective therefore, ECB's intervention in the Italian politics is justified because it helped in maintaining the welfare of the Italian State.

According to the ECB official website decisions can be considered legitimate if they meet the expectations and needs of the people "government for the people", a notion which is also referred to as "output legitimacy" or "legitimacy by result". ECB8 (2002)

Two of our interviewees recognise the importance of the Central banks in preserving Governments from the debts crisis, especially Marco who lived in Japan for four years and understood how consistently BOJ helped in supporting the Country's finance providing easy liquidity (quantitative easing) to the Government in debt. All our interviewees seem to think that at least concerning these specific circumstances which occurred in Italy in 2011, the ECB's intervention is justified in the light of the result achieved. However accountability and

transparency are mandatory conditions of ECB's operate for all the interviewees at any time. All the interviews justify ECB's intervention if this lead to financial stability, providing that the ECB's choices are transparently taken. One of our interviewees in particular, points out that the letter the ECB sent to Berlusconi on 2011 should have not been confidential, but officially, publically and rationally motivated.

In our third research question what we wonder is, taking into account the democratic foundation at the basis of the European Union, if being that the ECB is not a democratically elected body, whether it can be considered accountable for its decisions in regards to all the EU citizens.

We used Hobbes' Leviathan to shape participants' answers in regard to this third research objective. Hobbes advocates for absolutism, a totalitarian power to whom all human beings sacrifice part of their freedom to escape the unavoidable *Homo homini lupus*⁵, which would reflect men's real nature if they were left free to act. (2012, Edited by Tuck, pg. 9-10 and pg. 92-93)

Some of our participants believe that the ECB and central banks should be allowed a higher amount of freedom to a certain extent when preserving financial stability: central banks can look at the overall picture without focusing on short term decisions politicians may take. It can be justified, providing the ECB remain accountable for their decisions and their actions are transparent in regard to the EU citizens who, voted the EU representatives therefore voted the ECB as well, even if indirectly. However few of our interviewees believe that the ECB should exclusively carry on the task it has been assigned which is the conduction of the EU Monetary policy and never interfere with politics. These interviewees fear that the ECB may become a new Leviathan, a "monster" with superior powers, like the Leviathan described in the Bible and Hobbes refers to, which will end up reflecting the operate of power groups behind it and not the need of the EU citizens.

⁵ From Latin: Men wolf of the man: the brut state of nature which sees all man fighting against each other for their personal desires.

Conclusions

All our participants seem to agree with Plato to certain degree and state that the pure notion of central bank's political independence is far from its actualization, and not feasible in concrete reality. The actual political independence of the ECB is widely questioned. None of our participants seems to think that the ECB is politically independent neither from nor versus the EU member states. This means that all the participants think that ECB's decisions are influenced by the EU countries (or at least by the main ECB's shareholders) and the ECB definitely tried to influence the Italian Government in 2011. Some participants believe that ECB's decisions are the result of power groups behind it: the ECB will always be influenced or try to influence the EU political and economic scene to favour those groups it represents.

ECB's intervention saved Italy from bailout and partially recovered the country's debt while our government had clearly shown not to be capable of taking a decisive action or even to stick to the suggestions given by the ECB in their letter to Berlusconi dated 5th August 2011, signed by Trichet and Draghi. Therefore ECB's intervention is justified in terms of the results obtained. ECB cannot however become a new Leviathan (a totalitarian power to whom all human beings sacrifice part of their freedom) they must remain accountable for their decisions, transparency and accountability being the legitimation of their operate at any time.

According to the majority of my interviewees we can say with Machiavelli that "the end justifies the means" and if the ECB intervention determines financial stability it is justified, providing that the ECB decisions remain transparent and accountable for their actions (although the feasibility of this transparency is strongly questioned).

I must note again in fact, that the transparency of the ECB's action is doubted by most of the interviewees: many of the participants see the ECB's actions a reflection of the main shareholders (Germany, UK, France and Italy) and power groups behind it. ECB10 (2014)

None of the interviewees seem to think that the ECB is politically independent in reality. According to some of the participants of my research, the ECB's operate is strongly influenced by the EU member states and the ECB will always try to influence EU states politics and decisions accordingly.

We must admit that when we started interviewing our candidates we expected the ECB's intervention on the Italian politics in 2011 to receive a higher level of consensus, at least in the light of the positive result (avoidance of bailout, partial recovery of country's debt) it

achieved. However, possibly due to the Italian political history and background and the incapacity our Government showed in resolving our economic problems (Jebreal, 2011) all the participants seem very sceptical about allowing a higher grade of independence to the ECB for it to guarantee financial stability to Italy and the EU. Only some of the interviewees allow ECB intervention, in the light of results achieved or providing ECB's continuous accountability and transparency.

We believe that the Italian political history and past, the way the country is administered and the level of corruption which deeply permeate any sector of the Italian political scene, (Jebreal, 2011) has deeply undermined the trust of Italian voters in regard to political or economic institutions. Even when, as is the case of the ECB, the positive results this body determined on the Italian politics in 2011 is quite outstanding this influence is strongly questioned. It seems that the Italian political history of inefficiency affects the Italians' trust in public institutions.

According to the official International Monetary Fund (IMF) website and the article by Quintyn M, Tailor M. (2004) published on it, we believe the ECB should be allowed a higher level of autonomy, for it to be able to guarantee financial stability and exert a supervisory role on Governments' and Banks' operate. We believe that ECB's intervention in the Italian politics in 2011, surpassed the short term decisions of the local politicians and determined a net resolution by avoiding country's bailout. We personally agree with Hobbes and believe that we should resign part of our freedom to a superior body like the ECB, capable of taking long term decision guaranteeing the financial stability of all the euro-zone. We see the ECB as a *Deus Ex Machina*⁶ and trust their operate. We are thankful to the ECB for intervening in the Italian debt crisis in 2011 and for exerting pressure to resolve the unsolvable. For the future we wish for their consistent intervention and regulatory action for Italy's economic debt crisis and economic problems to be seriously detected, faced and resolved.

⁶ From Latin "God from the Machine": A superior entity capable of resolving an apparently unsolvable situation.

Appendix 1

Self-Reflection piece on personal learning:

This part of our research intends to clarify the steps of the learning curve process we have undertaken during the course of this research. The Initial idea for the thesis came up during a lesson on the Module International Financial Institution and markets. I firstly conceived the idea of writing a thesis about ECB's influence on the resignation of Prime Minister Berlusconi in 2011. I started therefore my research on the subject and collecting data.

The thesis started therefore with a practical focus, however during the course of this research my reflections on the events kept looking at the overall pictures and not at the specific events or details: I ended up writing a thesis with a very abstract focus which is the inconsistency between the concept of ECB 's political independence versus the EU Member states with the actual influence it exerted on the Italian Political scene in 2011, culminating with Prime Minister Berlusconi's resignation.

As my reflections kept being characterized by an abstract nature, I decided to adopt a deductive research approach and use prebuilt theories of great philosophers and classic on statecraft to shape the interviewees' answers. I realized therefore during the course of this research, that my learning style is reflective: I look at the bigger picture, think sometimes overthink about events, reflect about what happened and reach conclusions through continuous reflection. This I think is the inheritance coming from my master in Philosophy which I guess will affect the way I think for the rest of my life. These reflections normally start after a college lesson, a meeting with a supervisor, a learning opportunity of any sort.

In close associations with Kolb's (1974) learning cycle, later work by Honey and Mumford (1986) developed a set of individual learning styles that paralleled the four stages identified by Kolb.

According to Honey and Mumford (1986) a "reflector" ponders and observes; postpones decisions, they are thoughtful and cautious, low profile; tolerant and global in thought.

Although I am not too tolerant at times, I actually keep postponing events and meetings as I do not work well under deadlines, but when I am free to reflect by myself. During the course of this thesis I started carrying with me a small notebook where I wrote down ideas that came up in my mind while I was doing something else, not to lose the ideas. I think I will keep this

habit forever. I have therefore now developed the habit of taking notes of my reflections because sometimes they bring to unexpected good results and solutions to problems which seems unsolvable at a first glance.

I have decided that I intend in my life to never stop learning. My next aim is an advanced exam for Spanish (language I already work with) and a well-deserved trip to Argentina to practice the language. My small notebook full of unreadable notes will come with me: as I know now that it fits with my learning style.

In May I was notified by the Programme Administrator that I had passed all the exams so I could proceed to the dissertation.

With my thesis supervisor, we conducted 4 meetings, internet mediated because he is now working for a subsidiary of our College based in Malaysia. I found my supervisor's feedback very useful and constructive. I have however realised during our four meetings a cultural bias. I was aware of this bias even before, but it came up even more clearly when talking to Mr Kavanagh. I realised that I tend to speak over other people too much. This comes from my Italian background. In Italy a discussion is normally conducted with a very loud tone of voice, the participants raise their voice to prove the validity of what there are saying, while gesturing a lot. This may look like an actual argument from a different cultural perspective, but for Italians it is just a very and passionate and friendly normal exchange of ideas.

So during my meetings with Mr Kavanagh I realized that I tend to speak over other people and although Mr Kavanagh said he was not bothered by it, I understand that I need to adjust this attitude, because it may fit in Italy, but not in Ireland or in Northern European countries, especially in a work related context. In Ireland especially in a work related context, if I start talking the other person immediately falls silent and it looks like some sort of "attack". I need to moderate my voice tone and wait for the other person to finish talking, which to be honest seems to me like a huge challenge: regardless of the passion I feel for the subject, I need to allow the other person to speak not to miss an important piece of conversation or, as in the case of the meetings with Mr Kavanagh, a very useful feedback for my thesis.

I have also realised the importance of keeping minutes of the meetings to keep a record of the learning curve I have undertaken. I occasionally need to contact Merchants via phone at work in Italian and English and I have realised that a final, quick sum up of a conversation is always useful to make clear the key points we have achieved together. I therefore decided to

apply these concepts to all the interviews I made: at the end of each one I summed up the key points reached with the interviewees just to clarify them together avoiding confusion. I believe this is a learned lesson which applies in a work related context as well as an academic one.

Another very important lesson I learned during the completion of this research refers to my questionnaires. When I interviewed my research participants, I realized my questions were too complicated and specific. It took a lot of time for my interviewees to understand each question, I had to rephrase each one of them several times. Being my questionnaire semi-structured and not standardized, during my last interviews I tried therefore to use more straight forward and simplified versions of the same questions, always concerning the focus and key points of the research, obviously. Although I believe that by interviewing people living in different countries, with different backgrounds, education and job roles have conferred more objectivities to the responses, next time I need to interview someone I will make sure to better tailor the questions to the level of knowledge of the respondent.

I tend to overthink events and concepts and when I express them, whether it is a written or verbal sentence, the outcome is sometimes too complicated and contorted. This is also a consequence of my reflective and nature the study of philosophy I undertook in my early twenties. I need to work on expressing myself more clearly and refine my thoughts and reflections to something simple and linear so that it can be understood if needed, by non-specialists of the sector too. This consideration applies again to this research, but to a work related context as well.

I would like to give a concrete example. If I ask a PhD in physics or a mechanical engineer: "Is the ECB accountable for their decisions in regard to the all the EU citizens?" I am assuming that they know a number of very specific concepts: that the ECB is a not democratically elected body; that the only part of the ECB who is externally appointed is the Executive Board; that they fully understand the concept of accountability which even on the ECB's website takes 4 pages and a number of PDF attachments just to specify the different aspects of it. ECB7 (2014)

It has to be highlighted on the other side and in my defence that the research topic and concepts are very specific and it is difficult to be explained to non-specialists.

My conclusion is that the next time I need to ask questions about a specific topic, I will rather conduct my research interviewing a group of specialists or work extremely hard to clarify my questions to the basic points, making them as straight forward as possible. I will definitely better tailor the questions to the level of knowledge of the respondents.

While regarding the research's credibility, I am fully aware that the convenience sample I used, the relative small number of participants chosen and in general the qualitative method we adopted, may raise issues about the reliability of our findings. We would like to highlight in response, according to Saunders (2009, pg. 327-328) that the results we obtained are relative to a specific situation reflecting the time when they were collected, so they do not have to be necessarily repeatable by another researcher at a different time. The assumption behind this research is that the circumstances examined are complex, dynamic and not repeatable.

During my last meeting with my thesis supervisor I also understood that being the focus of my research very abstract, I needed to state and repeat the object of my research very clearly. I agree with this and I believe this applies to any type of research: the object of a research must be clearly stated from the beginning and repeated during the course of it, for the reader to follow the flow of the paper. As we stated in the abstract the conflict our research attempts to elucidate pertains to the inconsistency between the ECB's concept of political independence (from and versus the EU Member states) with the influence the ECB exerted on the Italian Political scene in 2011. Following our thesis' supervisor advice therefore, we made sure that the research main focus and object was clearly stated in the abstract, the introduction, discussions and conclusions.

One final lesson learned from this research is how to schedule my free time from work to complete all the tasks I am supposed to, in order to finish the thesis. At the beginning, when thinking about an entire 20,000 words thesis in English, to be submitted in three months' time and 40 (or more) hours working hours per week, I used to start getting anxious. The solution I found was not to look at the bigger picture, but to divide each task into "smaller steps". I subdivided the main tasks in smaller objectives to be completed each week. (i.e. week 3: complete literature review; week 4 clarify research objectives; week 5 Interview N1 and Interview N2; etc.). In this way the final aim seemed more reachable and the stress could be managed more reasonably. I will certainly adapt this method on a working context the next time I am under pressure due to a strict timeline as it turned out to be very effective.

The thesis is now proof read and ready to be printed, bound and submitted.

Although it took time apart from friends and work to complete it, I believe I have learned a number of key points which I will be applying on my working context from now on. I have learned how to conduct a methodical research, interview participants and tailor my questions, about my own learning style and how to take the most out of it, about how to deal with stressful situations

Overall I enjoyed the realization of this thesis and I am moderately satisfied with the final result.

Appendix 2

Semi structured interview:

The following semi structured interview has been used to interrogate the research's participants. It contains a list of focus points and twenty questions. The focus points are a reflection of the three research objectives. Not all the questions have been used with all the participants and probing questions have been used to confirm and clarify the respondents' answers.

Key Point One:

The following questions are purely theoretical: we wonder with Plato's "Theory of Ideas", if a pure ideal such as the one of central bank political independence from and versus EU member states could be actually applied to real life. A pure ideal like the one of ECB political independence is initially conceived as an abstraction, while the actualization of this pure concept seems a more difficult task to be undertaken and put in practice. We wonder if considering the ECB concept of political independence, it can concretely avoid receiving and/or exerting political influence on the EU Member states it works for.

According to their mandate, The European Central Bank is independent from any influence from or to the EU Member States.

- 2) Do you believe that the ECB (who's continuously working for and with the EU Member states) could keep this profitable collaboration without exerting or receiving any influence whatsoever by these counterparts it is working for?

- 3) Do you think that the concept of absolute political independence of a central bank from Governments is feasible, in concrete?
- 4) Is the ECB really Independent from and to the EU Member States?
- 5) Does the ECB exert or receive influence by other parties? If so, who are these parties?
- 6) Is the ECB concept of Independence in conflict with their decisions?
- 7) Can you provide an example of when the ECB tried to influence or was influenced by the Italian Government? If so, What do you think in regard?

Key point Two:

The following questions refer to real events and it is therefore more specific and concrete: we specifically refer to two events which occurred in 2011.

On the 5th of August 2011 the ECB sent a letter (signed by Trichet and Draghi) to the Italian Prime Minister Berlusconi, this letter had a sharp tone and suggested a list of economic reforms to be undertaken by the Italian Government to resolve the ongoing debit crisis. Draghi and Trichet (2011)

Around the same time, at the beginning of August 2011, the ECB stopped buying Italian Bonds. In our literature review we have clarified how buying bonds from a Government in economic debts' crisis is a way to finance it. The ECB also modified its bond buying policy and transitioned from an "unconditional bond buying policy (quantitative easing) to a conditional one". The new bond buying programme differs from the old one because it implies that any EU Government must enhance economic reforms *prior* to receiving ECB's help. This passage can be interpreted as another way to put pressure on the Italian Governments to enhance the suggested and much needed economic reforms. Green (2013)

- 1) How do you value the two interventions of the ECB intervention in the Italian Politics 2011?
- 2) Did the ECB overstep their mandate by sending a confidential letter to Berlusconi? Why was the letter sent confidentially?

- 3) Isn't the ECB operate expected to be transparent at any time?
- 4) Was the ECB allowed to change their monetary policy to put pressure on the bonds' market in 2011?
- 5) Was the ECB allowed to exert pressure on a Country's Economic decisions?
- 6) Is the influence on a specific Country's politics is considered justifiable in terms of welfare generated by financial stability?

Key Point Three:

The ECB is a not democratically elected body. The highest regulatory body of the ECB is the Executive Board. We may consider the Executive Board as the last democratic boundaries of the ECB, because it is the only component of the ECB which is elected or appointed by external authorities. The Executive Board is composed of six members including the President of the Bank (Mario Draghi). These six members are all appointed for non-renewable terms of eight years. They are appointed "from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council". ECB4 (2014)

The Executive Board and its six members are the only part of the ECB which is appointed externally. All the other decisions and members are taken internally to the ECB5 (2014)

- 1) Considering the democratic foundation at the basis of the European Union, is the ECB (a not democratically elected body) accountable for its decisions in regards to all the EU citizens?
- 2) Is accountability a condition to ECB independence?
- 3) Is transparency a condition to ECB independence?
- 4) Is the ECB responsible for their decisions in regards to the EU citizens?
- 5) What about the rights of the citizens and national Governments alike?
- 6) Should the ECB be allowed a higher level of independence?

- 7) Do you think that by conferring a higher level of independence to the ECB the EU will have a higher guarantee to preserve financial stability?
- 8) What would be the consequences of allowing a higher level of independence to the ECB?

Appendix 3

Activity -	Start Date -	Finish Date -
Initial idea about the thesis during the Financial Module. Start Searching for secondary data	January 2014	February 2014
Reading, analysing secondary data, writing a draw of research objectives and questions.	February 2014	March 2013
Clarifying research objectives and questions, Designing a suitable research method, Writing research proposal	March 2014	May 2014
Submission of Research Proposal.	May 2014	June 2014
First meeting with Thesis Supervisor on the 5th June. After the meeting we concluded that there was need to Refine research's questions., there is also need to redesign the Literature review for it to better fit research questions. Reviewing Research Method and check the consistency of the terminology adopted. Need to keep diary to record the learning curve and learn from the process. Need to write down minutes of each meeting. Need to set precise agenda before each meeting, highlighting the key points I would like to discuss.	5 st -15 th June 2014	July 2014

<p>Second meeting with Thesis Supervisor on the 25th June.. Checking Updated Research questions and Literature review. Checking progresses/ mistakes. Clarified need for more a comprehensive literature review which included more academic articles about ECB's independence vs democratic institutions.</p>	<p>25th June</p>	<p>30th June 2014</p>
<p>Third meeting with Thesis' supervisor. Checking updated literature review, now more focused on ECB's independence including more academic references.</p> <p>Explanation of the research method: deductive/ interpretivism. We will use qualitative method of data evaluation with semi-structured interviews</p> <p>The thesis will have an abstract focus and the findings will be deducted by comparing participants' answer.</p> <p>We will use pre built theories to share participants' answers. We decided therefore to adopt a deductive approach instead of an inductive one because we do have theories our investigation departs from whose validity we want to prove/disprove.</p> <p>Clarification of few points such as: clarify independence of ECB to and from EU member state in the literature review.</p> <p>How to administer semi-structured interview.</p>	<p>9th July</p>	<p>25th July</p>
<p>Creating semi-structured interviews. Interviews must reflect research objectives and questions. Collecting Primary data by Interviewing 6 participants, audio recording and taking notes. First draw of conclusions, Writing draw final Thesis' draft.</p>	<p>6th July 2014</p>	<p>30th July 2014</p>
<p>Final meeting with thesis' supervisor. Review of final Thesis'. After Supervisor's suggestion: As the thesis focus is very abstract, making</p>	<p>6th August</p>	<p>August 22nd , 2014</p>

<p>sure that the research focus is clearly stated throughout all the paper. Review of reference. Proof reading. Checking Grammar carefully. Submission of final thesis</p>		
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Username: laura.loreti5@gmail.com Password: Giocare80

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