ECB’s Quantitative Easing (QE) and Within the EU’s Inequality: Qualitative, not Quantitative Causal Inferences from Constructivism

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Abstract

This paper investigates the united monetary policy’s and especially QE’s effects on real economies mainly after the ECB’s additional QE implementation periods since December 2015 to January 2018, which is not covered by Suzuki (2016). Author employs the qualitative causal inference methods to verify potential hypotheses. Qualitative causal inferences are useful methods given appropriate sets of potential causal hypotheses are fully specified.

ECB’s stimulus of quantity channel (QE channel) and consumption and private investment channel (escaping from balance sheet recession channel) enable Europe to escape from deflation and to promote economic expansion, which is the success of ECB’s united monetary policy so far.

Key words: International Economic Norms, Constructivism from International Relations, ECB Press Interviews, Within the EU’s Inequality, ECB’s QE

1. Introduction: The Use and the Merits of Qualitative Causal Inference Methods

In this paper, we investigate the united monetary policy’s and especially QE’s effects on real economies mainly after the ECB’s additional QE implementation periods since December 2015 to January 2018, which is not covered by Suzuki (2016).

This paper analyzes relationships between “ECB’s QE and Within the EU’s Inequality” through ECB’s recognitions, thoughts or norms mainly expressed by ECB president Draghi’s comments, based on Suzuki (2016) and after additional QE implementation periods. Those relationships based on them are difficult to be analyzed “quantitatively” because of its hard quantification, but it is much easier to be analyzed “qualitatively” by constructivism which treats causal inferences among multiple recognitions, norms or thoughts. Why constructivism

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In this updated version, an analysis from constructivism is also employed to verify potential causal inference hypotheses qualitatively, not quantitatively.

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is needed for the purpose of analyzing “ECB’s QE and Within the EU’s Inequality” is that it enables us to have multiple competitive causal inference hypotheses to verify which one(s) is correct and best applicable to the real cases in Europe without difficult quantification for similar scientific causal inference verifications by such as the case with econometric regression analyses. For example, constructivism, which treats norms or thoughts, discriminates between phenomenon A and B by judging each phenomenon’s condition as sufficient, necessary, both or none relationships to verify its causal inferences chronologically, which process is called “Process Tracing” (Bennett (2010)). The merits of process tracing are 1, by verifying causal directions by facts from case studies, it is able to verify which way of the causal inferences between phenomenon A and B is appropriately valid, 2, it verifies whether it has the third factor or not which affects its causal inferences between phenomenon A and B. The demerits of process tracing are 1, it could need to regress backward unlimitedly to verify causal inferences, 2, it is fragile to degrees of freedom in verifying its causal inferences, both of which are amply overcome by presenting a wide range of “effective” facts from case studies and overcome also by the ample “quality” of facts to verify its causal inferences through its sufficient or necessary features for it.

1.1 What Is Constructivism? And Is It Different or Similar to Our Social Scientific Discipline When We Verify Causal Inferences Qualitatively, not Quantitatively?

Constructivism has three basic characteristics. According to Oyane (2013), 1, a perspective which values social interactions among actors in international relations and focuses on social composition arisen there. 2, a perspective which grasps mutually intended interactions of both actors and international structures in international relations. 3, a perspective which bases concept-wise factors, in other words, a dimension of idea on analytic axes. Furthermore, as at the intersection of 2 and 3 described above, it is characteristic for constructivism to grasp international structures as international norms. In addition to this, it is also the feature of constructivism to “objectify” these three perspectives and attempt empirical analyses “qualitatively”.

The recognitions, thoughts or norms of ECB’s QE and within the EU’s inequality are exactly in “qualitative dimension”, not quantitative one. Constructivism has offered effective causal inferences of qualitative context in economics, which is common to social science qualitative fields. So, we can employ the method of “Process Tracing” from constructivism to verify potential causal inference relationships between two observable phenomena, which means that there are exactly useful common qualitative verification methods among social science for fact-based causal inferences, even in qualitative economics contexts.

Taking these into consideration, this paper analyzes empirically and qualitatively the causal inference dynamics of “strengthening” and “standardizing” “international economic norms” as rule-based monetary policy operations advocated by ECB by “process tracing methods”.

1.2 An Established and A Potential International Economic Norms Advocated by ECB

ECB advocates the rule-based monetary policy operations as “International Economic Norms” in Eurozone. In following subsections, this paper attempts to employ the method of process tracing from perspectives of constructivism to 1, ECB’s recognition of balance sheet...
recession which potentially becomes an international economic norm in Eurozone when EU approves that future fiscal expansion in Eurozone is indispensable. 2, ECB’s standardizing process of an international economic norm of fiscal loss risk–sharing or fiscal stance by ECB’s press interviews.

2. Empirical Analyses of Qualitative Causal Inferences

2.1 Fundamental Phenomenal Definition of Inclusion or not by its Larger Categories

2.1.1 Within the EU’s Inequality Increases Cases

We define here several factors expanding inequality included by within the EU’s inequality increases cases, individually (Figure 1-3). For example, that A is included by B means that with the others fixed, A is sufficient factor to cause B, but B is not always necessary factor to cause A. If A is sufficient and necessary factor to B, B is also sufficient and necessary factor to cause A.

Within the EU’s Inequality Increases Cases

1) Inequality caused by united eurosystem’s monetary policy cases is included by within the EU’s inequality increases cases.

2) Inequality not caused by united eurosystem’s monetary policy cases is included by within the EU’s inequality increases cases.

Figure 1 Within the EU’s Inequality Domains

Source: Author
ECB’s Quantitative Easing (QE) and Within the EU’s Inequality: Qualitative, not Quantitative Causal Inferences from Constructivism

**Figure 2** United-Monetary-Policy-Driven-Inequality Decomposition Domains

![Inequality by United Monetary Policy Diagram](image)

Source: Author

**Figure 3** Macroeconomic Decomposition Domains

![Economic Growth Diagram](image)

Source: Author
3) Inequality caused by fiscal contraction cases is included by within the EU’s inequality increases cases.
4) Inequality caused by united eurosystenm’s monetary policy’s interest rate channels is included by within the EU’s inequality increases cases.
5) Inequality caused by united eurosystenm’s monetary policy’s quantity channels is included by within the EU’s inequality increases cases.
6) Inequality caused by united eurosystenm’s adjustment programme channels is included by within the EU’s inequality increases cases.
7) Inequality caused by united eurosystenm’s the other channels is included by within the EU’s inequality increases cases.

Economic Expansion and Deflation Cases
8) Government expenditure case is included by economic expansion.
9) Corporate consumption and investment case is included by economic expansion.
10) Household consumption case is included by economic expansion.
11) Macro level increased employment case is included by economic expansion.
12) Macro level increased wage case is included by economic expansion.
13) Macro level increased export case is included by economic expansion.
14) Fiscal expansion under balance sheet recession case is both sufficient and necessary condition for economic expansion under closed economy.
15) Fiscal contraction under balance sheet recession case is both sufficient and necessary condition for deflation spiral.

2.1.2 Within the EU’s Inequality Decreases Cases
Economic Expansion and Deflation Cases
16) Government expenditure case is included by economic expansion.
17) Corporate consumption and investment case is included by economic expansion.
18) Household consumption case is included by economic expansion.
19) Macro level increased employment case is included by economic expansion.
20) Macro level increased wage case is included by economic expansion.
21) Macro level increased export case is included by economic expansion.
22) Fiscal expansion under balance sheet recession case is both sufficient and necessary condition for economic expansion under closed economy.
23) Fiscal contraction under balance sheet recession case is both sufficient and necessary condition for deflation spiral.

2.2 Competitive Inequality Hypotheses to Verify
Considering above definition, we have several inequality facts or hypotheses about ECB’s QE and within the EU’s inequality described below.

<United Eurosystem’s Monetary Policy and QE>
Hypothesis 1, with only the case of within the EU’s inequality increases cases, the effects of united eurosystem’s monetary policy on within the EU’s inequality are exactly decomposed into those of interest rate channels, quantity channels, adjustment programme channels and the
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others channels, which explains asymmetric within the EU’s inequality increases.

**Hypothesis 2**, with only the case of within the EU’s inequality increases cases, the integrated effects of both united eurosystem’s monetary policy’s quantity channels and fiscal contraction cases are same as the effects of adjustment programme channels on within the EU’s inequality increases cases.

**<Balance Sheet Recession and QE>**

**Hypothesis 3**, with both the cases of within the EU’s inequality increases and decreases cases, fiscal expansion under balance sheet recession case is both sufficient and necessary condition for economic expansion under closed economy.

**Hypothesis 4**, with both the cases of within the EU’s inequality increases and decreases cases, fiscal contraction under balance sheet recession case is both sufficient and necessary condition for deflation spiral.

**<Macroeconomy and QE>**

**Hypothesis 5**, with both the cases of within the EU’s inequality increases and decreases cases, are increases of macro level employment are sufficient factors for explaining within the EU’s inequality decrease or not?

We verify these qualitative causal inference hypotheses by the method of process tracing (Bennett (2010)) from constructivism below.

### 2.3 Causal Inference Verifications of 5 Hypotheses and Its Empirical Arguments

**<United Eurosystem’s Monetary Policy and QE>**

**Hypothesis 1**, with only the case of within the EU’s inequality increases cases, the effects of united eurosystem’s monetary policy on within the EU’s inequality are exactly decomposed into those of interest rate channels, quantity channels, adjustment programme channels and the others channels, which explains asymmetric within the EU’s inequality increases.

1, interest rate channels-driven-within-the-EU-inequality increases, 2, quantity channels-driven-within-the-EU-inequality increases, 3, adjustment programme channels-driven-within-the-EU-inequality increases or 4, the others-channels driven-within-the-EU-inequality increases are included by within the EU’s inequality increases. So, with the other factors fixed, each factor is sufficient for asymmetric within the EU’s inequality increases.

Empirically, 1, inequality caused by united eurosystem’s monetary policy’s interest rate channels is empty set, because united ECB short term policy rate is unitedly conducted to interbank short term rate symmetrically. Consequently, developed interbank transactions almost don’t give rise to asymmetric transmissions by united interbank short-term-driven-transmission inequality at the private bank level. Suzuki (2018) showed that with limited exclusion of the causes of asymmetric transmission effects of euro member states idiosyncrasy on real economies by transformation of methods to delete the panel country fixed effects which could affect asymmetries among euro area real economies by way of the other channels, united eurosystem’s monetary policy’s interest rate channels are not statistically recognized or significant for explaining within the EU’s inequality increases (: as to EMU’s convergence criteria, short-term-interest-rate-driven explanations for asymmetric inflation and cumulative government debt securities are not valid in this case).
2, opposed to 1, as to quantity channels driven within the EU inequality increases, there are divergent factors caused by country fixed effects and by financial market arbitration. Considering these factors, we can verify whether quantity channels affect euro area inequality increases without being influenced by those divergent factors. Suzuki (2018) also shows that united eurosystem’s monetary policy’s quantity channels (QE channel) give rise to statistically significant asymmetries which explain for euro area member states disparities of inflation and cumulative government debt securities. At this real economy level, country fixed effects vary due to determination process of long term interest rate or arbitration. However, with control of those, the effects of quantity channel still make differences among member states.

This quantity channels also refer to the relationships between QE and assets inequality. Suzuki (2016) shows below. Stiglitz (2015) argues that although QE benefits a lot the wealthy who own plenty of assets, QE expands wealth inequalities, affecting extremely asymmetrically the middle classes who possess almost only bank deposits and houses as valuable household assets. In particular, as only limited wealthy classes in Eurozone possess numerous financial assets, QE’s assets effects and portfolio rebalancing effects are biased, which causes asset disparity expansion. According to Reuters (2015), George Soros states that ECB’s QE expands wealth disparity among nations and ordinary citizens depending only on monetary policy.

3, as to adjustment programme channels–driven–within–the–EU–inequality increases, see arguments Hypothesis 2 below.

4, the others channels–driven–within–the–EU–inequality increases include all the other possible effects not described in this paper.

**Proposition 1:** united eurosystem’s monetary policy on within the EU’s inequality after the crisis is mainly explained not by interest rate channels, but by quantity channels.

**Hypothesis 2**, with only the case of within the EU’s inequality increases cases, the integrated effects of both united eurosystem’s monetary policy’s quantity channels and fiscal contraction cases are same as the effects of adjustment programme channels on within the EU’s inequality increases cases.

The effects of ECB’s QE are classified as quantity channels. And ECB persuades member states under QE programme into obeying ECB’s advices of introducing fiscal contraction into their participant member states under QE. This policy combination is called adjustment programme. So, we can say that the integrated effects of both united eurosystem’s monetary policy’s quantity channels and fiscal contraction cases are sufficient and necessary conditions as the effects of adjustment programme channels on within the EU’s inequality increases.

Empirically, Suzuki (2016) shows relationships between ECB’s adjustment programme’s advice and income inequality. QE implementation requires member states to accept ECB’s adjustment programme, which means that members states receive fiscal contraction of its countries. This decision makes member states’ redistribution restrained, which leads to within the EU inequality increases.

The rationale of ECB’s advice to member states in adjustment programme is a logic that price stabilization in Eurozone depends on financial stability, resilient labor market, and the
other reforms recovering investors’ confidence in member states’ financial markets.

According to Gros (2015), from a law-wise perspective, it was in vague and at least secondary influence that ECB’s advisory rationale of fiscal implication of monetary policy to member states in adjustment programme when the Maastricht treaty was signed and ratified. However, as financial crisis happened, the situation changed. After the EU’s establishing ESM and stipulating ESM treaty article 13 section 3, ECB gathered legal authority to engage in fiscal implication of monetary policy.

ECB, EC and IMF called Troika, manages adjustment programme on condition that they offer financial support to member states involved in crisis. ECB is not an official decision maker of each sovereign state in Eurozone. However, ECB has an enormous influence on member states by both offering policy advice and huge capital support. In particular, as an official rationale, ECB’s financial support aims to recover transmission channels of monetary policy, but, in reality, ECB intends to obtain national reforms from member states in adjustment programme in return for financial support. The conditionality is written down on letters sent from ECB’s president to member states’ governments. The content of conditionalities were fiscal contraction and structural reforms. Notorious letters sent from ECB’s president to Italian and Spanish governments referred to “necessary policy actions” and showed that ECB engaged in member states’ administration and national fiscal issues. ECB aims to draw member states’ reforms through adjustment programme.

The ECB’s legal rationale to engage in adjustment programme incrementally changed through the progress from Greece Loan Fund to EFSF to ESM. The legal rationale of present ESM is stipulated in ESM treaty article 13 section 3. The range of authority is stipulated that both EC and ECB cooperate with each other and that they negotiate conditionality of economic policy attached to financial support. Supported financially by ECB, recipient member states of adjustment programme are in a more and more tough condition to decline the fiscal contraction and structural reforms requested by ECB.

That’s why ECB engages in fiscal and structural reforms of participant-countries under adjustment programmes of QE. Then, this paper clarifies the relationships between Troika’s adjustment programmes and increasing income disparity among the countries under adjustment programmes of QE below, which is sufficient and necessary factor for explaining the relationships between ECB’s adjustment programme’s advice and income inequality.

According to Hoshino (2015), the cores of required structural reforms by Troika in return for its financial support are financial reconstructions and related welfare, social security and labor market reforms. Its meaning describes below.

The ECB’s conditionality under adjustment programmes of QE possibly affects asymmetrically recipient member states of adjustment programme related to elasticized labor markets as a result of EU’s structural reforms. So far, Europe has reduced increases of relative poverty, income inequality within the EU, by income redistribution policy through fiscal spending. As to decline of income inequality within the EU, social transfer has played a very important role. However, under the structural reforms of neo-liberalism, the authorities expand income disparity dramatically within the EU by curtailing both government expenditures and social security budgets mainly demanded by those who need fiscal supports.

Due to such fiscal contractions, liabilities of real economies in Europe remain high. In particular, in April 2015, average unemployment levels in Eurozone went beyond 10%, and
those of Greece and Spain recorded over 20% with half the young unemployed. As the structural reforms of EU member states are mainly reduction of public expenditures by elasticizing labor market and cutting both welfare and social security budgets, unemployment rates within the EU have still remained high. Elasticized labor markets proceeded by EU authorities aim to both decreasing labor costs and increasing labor mobility. However, even Germany as the most successful case is harshly criticized for increasing income disparity because increases of German employment rates have been achieved by increasing unstable low payed workers widely. Therefore, labor markets reforms centered on structural reforms are at present problematic due to income bipolarization within the EU arisen by increasing proportions of atypical employment to overall employment rates and then by causing high unemployment level and many low payed workers.

As an indicator of income inequality due to fiscal contraction during the crisis, this paper compares Gini index from EU–SILC which means distribution of equivalent disposable income of member states within the EU in 2013. A maximum equivalent disposable income disparity including pension before social transfer was 20 ranging from 40 of Norway to 60 Greece. Furthermore, while a maximum equivalent disposable income disparity not including pension before social transfer was 18 ranging from 46 of Ireland to 28 of Slovakia, EU member state authorities reduced a maximum equivalent disposable income disparity to 13 through national redistribution policies ranging from 35 of Bulgaria to 22 of Norway.

Therefore, it can be said below. So far, although redistribution policies and social transfers budgeted through fiscal policy in countries under crisis secured certain income levels to the wide middle classes, fiscal contraction under adjustment programmes of QE did curtail these expenditures. As the result, it can be said that ECB’s conditionalities caused unnecessary and unprecedented unemployment and expansion of both relative poverty and income inequality.

Proposition 2: fiscal contraction under QE programme expands both relative poverty and income inequality, and causes unemployment.

<Balance Sheet Recession and QE>

Hypothesis 3, with both the cases of within the EU’s inequality increases and decreases cases, fiscal expansion under balance sheet recession case is both sufficient and necessary condition for economic expansion under closed economy.

Whole economy consists of households, firms, governments, and overseas sectors. Balance sheet recession means that households and corporations sectors are inclined to save more and are reluctant to consume and invest. In addition, we assume closed economy here. So, when we assume balance sheet recession, only active sector is government sector left to stimulate overall economy.

Consequently, fiscal expansion under balance sheet recession is both sufficient and necessary condition for economic expansion under closed economy.

However, there are still two cases with either within the EU’s inequality increases and decreases cases. So, with this assumption, we can’t recognize which case the economy really is.

Empirically, we can have its meaning described below.
Balance Sheet Recession

ECB’s monetary policies affect Eurozone economy asymmetrically. The reason why ECB’s monetary policies’ effects are so far limited is due to an economic reasoning called balance sheet recession advocated by Richard Koo. It says that it’s not monetary policy but fiscal policy that is effective against economic stagnation in present Eurozone. However, from a perspective of EU legislation, it never permits implementing fiscal policy to rectify asymmetric effects of monetary policy among euro member states.

For example, from economic expertise, fiscal expansion is required to redistribute economic benefits fairly both within “Eurozone” and within “each member state”. However, in January 2017, it’s only Germany out of Euro member states that affords enough room of fiscal expansion if necessary. In addition, because at least two institutionalizations considerably restrict fiscal expansion in Euro member states, its implementation is, to put it mildly, almost infeasible not impossible. Concretely, 1, TFEU article 126 as the rule of balanced budget of Stability and Growth Pact stipulates banning Euro member states from both spending annually over 3% of yearly fiscal deficits of GDP and being in liability to creditors for over 60% measured by accumulated government deficits to GDP ratio. In consequence, even if it is possible for euro member states to implement fiscal expansion inadequately, its implementation gives rise to asymmetric effects among euro member states. 2, fiscal transfer prohibited clauses (TFEU123–125) stipulated by The Treaty of Lisbon structurally and strictly banned any EU institution and member states governments from implementing redistribution by fiscal transfer within Eurozone. Therefore, considering redistribution by fiscal expansion both within “Eurozone” and within “each member state” is so far considerably infeasible.

Claeys (2017) analyzes that preserving the fiscal framework as it is today would be harmful. Claeys (2017) supposes that “The Stability and Growth Pact and the Fiscal Compact need to be revised: 3 percent deficit and the badly measured structural deficit should not be used as operational targets for fiscal policy.” And Claeys (2017) continues to suppose that “instead the fiscal framework should focus on a rule limiting the growth of public expenditure, excluding unemployment insurance expenditure and one-off expenditure.”

An Empirical Analysis of ECB’s Policy Stance Consistence by Constructivism: Has ECB Considered Balance Sheet Recession in Implementing QE Design?

According to Koo (2015), it’s since 2012 that balance sheet “recession” theory got to garner both attention and gradual apprehension in Europe. Therefore, it is possible for us to implement process tracing whether ECB has taken balance sheet recession theory into consideration for QE design. Then, from a perspective of constructivism, this paper analyzes closely its policy stance consistency or its change of ECB’s perception about balance sheet recession by process tracing of ECB press conferences announced from in January 2015 to in January 2018. To put its conclusion preemptively, ECB consistently hasn’t considered directly balance sheet recession so far. However, ECB makes balance sheet recession channel repaired by CSPP implementation of QE. Background of its assessment is explained in detail below excerpts of ECB press conferences and from a perspective of constructivism.

As to the causes of limited effects of monetary policy despite QE, ECB president Draghi has consistently referred to the delay of balance sheet adjustment, fiscal disciplinary improvement and structural reforms as impediment factors for economic recovery, stating constantly...
from in January 2015 to in March 2016 that “Domestic demand should be further supported by our monetary policy measures and their favorable impact on financial conditions, as well as by the earlier progress made with fiscal consolidation and structural reforms.” Then, from June 2016 to September 2016, ECB stated with emphasis on moderate effectiveness of monetary policy that “Domestic demand remains supported by the pass-through of our monetary policy measures to the real economy.” And ECB once retreated in October 2016 again that “Domestic demand should be further supported by our monetary policy measures and their favorable impact on financial conditions, as well as by the earlier progress made with fiscal consolidation and structural reforms.” In turn, from December 2016 to September 2017, ECB stepped forward to announce the effectiveness of monetary policy that “The pass-through of our monetary policy measures to the real economy is supporting domestic demand (and has facilitated deleveraging).” Finally changes have come that QE gets to be effective, from October 2017 to January 2018, ECB reviewed that “the continued effective pass-through of our policy measures to the financing conditions of the real economy” in October 2017, and also afterward “The pass-through of the monetary policy measures put in place since 2014 continues to significantly support borrowing conditions for firms and households, access to financing—notably for small and medium-sized enterprises—and credit flows across the euro area.” To note, ECB expresses its policy as effective in October 2017. What backgrounds are behind this arguments?

ECB has launched CSPP programme (Corporate Sector Purchase Programme) since 8, June 2016 to promote households and corporates consumption and investment, which compensates economic depression caused by private underconsumption and underinvestment by affecting the causes of balance sheet recession, not by prompting government expenditure increases. This CSPP and foreign trade expansions have explained for euro area recovery under balance sheet recession, which actually deserves ECB’s success to some degrees.

Proposition 3: when we assume balance sheet recession, only active sector is government sector left to stimulate overall closed economy.

Hypothesis 4, with both the cases of within the EU’s inequality increases and decreases cases, fiscal contraction under balance sheet recession case is both sufficient and necessary condition for deflation spiral.

Similar to arguments of Hypothesis 3, whole economy consists of households, firms, governments, and overseas sectors. Balance sheet recession means that households and corporations sectors are inclined to save more and are reluctant to consume and invest. In addition, we assume closed economy here. So, when we assume balance sheet recession, only active sector is government sector left to stimulate overall economy.

If government sector decides to reduce expenditure under balance sheet recession, whole economy diminishes. Then shrunk economy reduces future government expenditures, which leads to further shrunk economy. This is the vicious circle and also the cause of a kind of deflation spiral.

QE and Balance Sheet Recession Theory

In recent years after financial crisis in 2008, the United States, Europe (especially Euro-
zone), the United Kingdom and Japan become involved in “balance sheet recession” (Figure 4), which worsens fear of long-lasting deflation. In economic theory, Fisher’s debt deflation, what is also called balance sheet “adjustment”, is well known. The most distinguished difference between them is main actors focused there. While Fisher’s balance sheet “adjustment” focuses on financial institutions as main actors there, Richard Koo’s balance sheet “recession” on firms and households as main actors.

In reality, entire economies involved in recession make it a rule to act according to debt minimization theorem. After doing so for a while, households and firms gradually accumulate surpluses such as internal reserves, capital and financial assets, consequently leading to entire net financial surpluses. However, even though balance sheet “adjustment” which is a process described above finishes, inertia of stingy mind caused through ongoing recession still keeps households and firms in debt minimization behavior regardless of their net financial surpluses, contrary to a common view in economic theory, say, business cycle theory. In this case called balance sheet “recession”, households and firms withhold both to borrow capital and to invest their capital in plant and equipment. Also, as a trend, they get to be grateful for excessive or more saving. Consequently, they don’t very much borrow from financial institutions and their volume of lending hardly rise or badly decline, which means the effects of monetary policy are valued as limited. This process is balance sheet recession which focuses mainly on households and firms as main actors for explaining the limited effects of monetary policy.

Needless to say, when whole economy is in balance sheet “adjustment”, monetary policy to stimulate business cycle is effective. However, with economy in balance sheet “recession”, monetary policy such as monetary easing, say QE, is ineffective or quantitatively limited in effects for economic recovery.

Empirically (Figure 5) from Claeys (2017) shows that “Since establishment of the monetary union, fiscal policy was only really countercyclical in 2009 and has been mostly procyclical the rest of the time, Therefore, before the crisis and in 2010-2015 the fiscal framework

![Figure 4](https://example.com/figure4.png)

**Figure 4** Financial Assets Net Worth: Balance Sheet Recession of 19 Euro Member Countries (Million Euro)

Source: Financial Balance Sheets, Eurostat (2018)
Ensured neither the sustainability of public finances nor macroeconomic stabilization.

Empirically from ECB press conferences and as to euro area fiscal stance, there are some changes of ECB’s perceptions.

Euro area fiscal stance is expanding. For example, from January 2016 to lastly October 2016, ECB also admitted that “the fiscal stance in the euro area is slightly expansionary, partly reflecting measures in support of refugees” in January 2016 and “the euro area will be neutral in 2017” in October 2016. And for any reason and from a perspective of balance sheet recession, its expansion of fiscal stance is favorable for escaping from euro area economic recession. After October 2016 to January 2018, ECB hasn’t referred anything of ECB’s stance to the EU level and member states level fiscal stance.

Again, Claeys (2017) analyzes that in 2017, “in countries like Spain and Ireland, fiscal policies were not countercyclical and should have been much more conservative during the boom, and did not build enough margin of maneuver to be able to use fiscal stabilization in the downturn. Therefore, in these circumstances, preserving the fiscal framework as it is today would be harmful.”
From a perspective of constructivism and as to support of rule-based monetary policy operations as an international economic norm, ECB consistently keeps its reasoning of limited effects of monetary policy, repeating naturally its reasoning since January 2015 press conference. Its ECB’s perception still hasn’t changed in January 2018 press conference. However, with economic recovery of Eurozone by CSPP programme, in Europe with ongoing deflation and with limited effects of monetary policy, ECB should make the use of balance sheet recession theory as a possible cause of economic stagnation in Eurozone.

**Proposition 4:** If government sector decides to reduce expenditure under balance sheet recession, whole closed economy diminishes.

**<Macroeconomy and QE>**

**Hypothesis 5,** with both the cases of within the EU’s inequality increases and decreases cases, are increases of macro level employment sufficient factors for explaining within the EU’s inequality decreases or not?

With other factors fixed, employment increases raise whole economy. Considering this seems to be reasonable for within the EU’s inequality decreases. However, there are missing pieces of differences between inequality expanding growth and inequality decreasing growth. At this stage, we can’t distinguish which case is in the reality. Furthermore, within the EU’s inequality decreases is not always meaning increases of macro level employment, because governmental redistribution policy also plays the same role without increases of macro level employment. So, increases of macro level employment are not sufficient factors for within the EU’s inequality decreases. Also according to Toussaint (2011), ECB’s purpose is not expanding growth and not reducing within the EU’s inequality but coordinating European crisis mainly for upper capitalist classes.

Empirically, euro area real economy has been expanding recently. However, it does not always mean the realization of within the EU’s inequality decreases in terms of its redistribution. Although ECB watches momentums of growth and employment, neither but price stability is the mandate of ECB.

Empirically, in June 2017 press conference, ECB pointed that “euro area economy was improving because of QE. The unemployment rate was 9.3% in April, 2017. It was the lowest since March 2009. Consumption and investment in Europe were growing because of QE. As the result of QE, almost 5 million jobs had been created.”

In July 2017 press conference, when ECB was asked why there are still some trouble spots with high unemployment or where credit is difficult to find, ECB stressed that “Recovery had been broadening across sectors and regions. ECB recognized a strong average, not everywhere recovery of euro area real economy. Monetary policy produced very significant effects around 6 million jobs in the last three years.”

In September 2017 press conference, ECB stated that “Euro zone economy recognized broad-based growth. Six million jobs were created since 2013. As for explanation for low inflation, nominal wages were also lagged behind. Basically, it had to be with backward-looking wage negotiations. Now, some of the factors not all of them would disappear.”

In October 2017 press conference, ECB noted that “All the Governing Council members emphasized the better conditions, the growth momentum, unabated growth and improving
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market conditions. They created 7 million jobs in the last four years and continued to increase. As the result of this, consumption and private investment was in an upward trend.”

Recent Europe around in 2017–2018 has grown steadily. However, in terms of within the EU’s inequality increases and decreases, average growth is not sufficient for within the EU’s inequality decreases because of its troubled spots with high unemployment or where credit is difficult to find. As ECB’s mandate is neither growth nor employment but price stability, QE is not responsible for that. However, when QE promotes growth, QE implementation programme gives rise to some degree of distributive asymmetries of real economies in Europe. So, increases of macro level employment do not always cause within the EU’s inequality decreases.

**Proposition 5:** increases of macro level employment are not sufficient factors for within the EU’s inequality decreases.

3. Validity Fluctuation of Operational Rationales of QE?

In addition to above 5 hypotheses, this paper verifies one more hypothesis below, which clarifies the limit of the QE’s effects on real economies in Europe.

**<Operational Rationales of QE>**

**Hypothesis 6:** is united monetary policy really united or not at the operational level?

Monetary policy is formulated by Governing Council, but its implementation is left to the Executive Board of the ECB. And its monetary policy is actually operated by National Central Banks (NCBs). There are euro area level operational disparities by the discretion of NCBs to implement QE. Also, the design of QE is also an important factor to explain operational disparity: the rule of eligibility criteria, issue limit, issuer limit and market liquidity.

**The Single Monetary Policy and Its Decentralized Implementation**

Gros (2017) notes that “formally, the single monetary policy is executed by National Central Banks (NCBs). ECB assigns the formulation of the policy to the Governing Council and the implementation to the Executive Board of the ECB. The role of NCBs is limited to carrying out operations, but only to the extent possible and appropriate. The status are that NCBs should act simply as the agents of the ECB and refrain from exercising any discretion in carrying out operations, with all profits and losses equally shared. This is the way the Eurosystem worked until the crisis erupted.

However, in 2011 with the euro crisis, under certain conditions, NCBs were allowed to accept collateral of lower quality, but these transactions would be taken at their own risk. Although that exemption from the general ECB transaction rules was only temporary and no less were recorded, it represents the first time NCBs acquired a considerable margin of discretion in their execution of the common policy. The real decentralization came with the Public Sector Purchase Programme (PSPP) under which 80% of the purchases are implemented by the NCBs, which are supposed to buy only their own government’s bonds, The NCBs are only assigned the amount of bonds to buy. The maturity spectrum and all other aspects are left to their discretion. Moreover, there is no loss (or profit) sharing for these operations. Over time
the assets bought under PSPP (QE) have come to dominate the balance sheet of the Eurosystem, which no longer can be regarded as unified”.

**Capital Key in QE and its Asymmetric Purchase Volume**

In January 2018 ECB Press Conference, ECB stated that “ECB didn’t favor certain countries over others in its PSPP (QE) purchase programme implementation. Purchases were guided by the ECB’s capital key, which takes into account GDP and population”. And ECB continued that “The overall stock of Eurosystem PSPP holdings was the relevant metric for any assessment of the programme and not the recent purchase flows. Currently the Eurosystem holdings of German securities were above the German share of the ECB capital key. This equated to the Eurosystem holdings €18 billion more in German securities than what was implied by the German ECB capital key share. The largest deviation from the ECB’s capital key was Greece due to their ineligibility. In addition, Eurosystem holdings of Portuguese securities were 1.8%, which is 27% below, compared to the Portuguese share of ECB capital key, which is 2.48%. These flows could differ as the design of the programme was flexible and the distribution of actual purchases often deviated from the ECB capital key. If ECB fell short of purchase targets in one jurisdiction for market liquidity reasons, then the shortfall was made up in others.”

Also, according to Gros (2017), “Over time, the PSPP has come to dominate the balance sheet of the Eurosystem. At present about one-half of the balance sheet of the Eurosystem (which is about €3660 billion) is the result of operations that the individual central banks (Table 1) have executed with a wide margin of discretion and for which the profits and losses will accrue only to them.”

### 3.1 Fluctuation of ECB’s Rationale to Engage in Adjustment Programme?

In 2018, from a perspective of constructivism, reverse dynamics of “strengthening” ECB’s rule-based international economic norms is arising. In concrete, Gros (2015) argues that, due to ECB’s internally and structurally complicating progresses and its counteracting ECB’s “standardizing” and “strengthening” international economic norms, there arises suspicion of fluctuation of ECB’s validity of intervention into euro member states based on ECB’s adjustment programme, which is worthy of notice for considering future ECB’s commitment to Eurozone.

According to Gros (2015), as conditionality, validity of continuous ECB’s advices to QE recipient member states is weakening due to structural reasons. Henceforth, with more diversification of ECB mandates, ECB should refrain from engagement in policy advice to QE recipient member states without full ECB’s responsibility for its consequences.

Until now, the ongoing authority of ECB is stipulated by ESM article 13 section 3 that both EU and ECB cooperate to negotiate conditionality of economic policies on QE recipient member states. In 2015, ECB insisted that ECB only advised to QE recipient countries under adjustment programme, and that each member state country’s Finance Minister had all authorities to decide what economic policies to carry out including the decision of literal observance demanded by ECB advices. However, ECB hasn’t officially announced these perceptions, which gives rise to misleading discrepancy between ECB’s past explanations and ECB’s present perceptions.
In addition to this factor of validity fluctuation, ECB has three decision-making organizations within it (that is, 1, The Executive Board, 2, The Governing Council, 3, The Supervisory Board of the SSM), which makes it more difficult for ECB to control itself internally in the future as to ECB’s consistent engagement in policy advices to QE recipient member states under adjustment programme.

With diverse institutions and diverse mandates, ECB has fallen into a plight to be fully responsible for its consequences caused by its policy advices as conditionalities under QE implementation with ECB’s internal consistence. Therefore, ECB should refrain from unbearably engaging in future intervention to QE recipient member states through policy advices. ECB’s expanding diversity of its institution makes its united operation more difficult.

To sum up from a perspective of constructivism, ECB’s “strengthening” and “standardizing” international economic norms as rule-based monetary policy through ECB’s adjustment programme is in a plight caused by weakening of its rationale to do it.

These potential validity fluctuations of operational unity and appropriateness should not be regarded as amply neglectable inconsistency in implementing united monetary policy and unconventional monetary policy, because of its potential asymmetric effects on real economies, such as inflation, or other macroeconomic indicators within the EU or euro area, which influences ECB’s future effective monetary policy implementation afterward.
4. **Methodological Discussion: Are Qualitative Causal Inferences Also Fully Applicable for Economic Context?**

In economics, we usually employ the method of econometrics for verifying causal inferences among multi explanatory variables and explained variables, which is the standard. However, in some occasions, quantification required for the purpose of each research by econometrics is difficult. In this case, we can use the method of qualitative causal inferences (Bennett (2010)) to verify causal inferences among them. This method is not special in that we ordinary and unconsciously try to explain the causal inferences among them by not using econometrics. However, in some cases, its verification way is not sufficient to verify the causal relationships. The method of qualitative causal inferences is the way we can verify them far scientifically with describing the relationships focusing on the specific points below.

The method of qualitative causal inferences (Bennett (2010)) is applied to verify several causal inferences above hypotheses. It works based on fact-based two-way causal verifications, which enables us to infer the causal inferences between phenomenon A and B far certainly by establishing which phenomenon A or B is sufficient or necessary or both to the other. Case-studies-based-facts strengthen which causal direction phenomenon A or B is the cause of the other or not.

Qualitative causal inferences (Bennett (2010)) are useful methods given appropriate sets of potential causal hypotheses are fully specified. So far, when we don’t use econometric methods for some technical reasons to verify causal inferences, we can also as much verify potential hypotheses as the qualitative ones far scientifically. For example, when empirical verification of each hypothesis is able to offer the valid rationales of the causal inferences, the causal inference hypothesis is with full proof. If not, the causal inference hypothesis is said to be false one in real economies.

5. **Conclusion**

In this paper, we investigate the united monetary policy’s and especially QE’s effects on real economies mainly after the ECB’s additional QE implementation periods since December 2015.

We can say from causal inference hypotheses verifications above that ECB’s stimulus of quantity channel (QE channel) and CSPP’s consumption and private investment channel (escaping from balance sheet recession channel) enable Europe to escape from deflation and to promote economic expansion, which is the success of ECB’s united monetary policy so far.

From a perspective of constructivism, an analysis of ECB’s “strengthening” and “standardizing” international economic norms as rule-based monetary policy through ECB’s adjustment programme shows that ECB has recently been in a plight caused by weakening of its rationales to do it.

For future “enlarging” and “deepening” European integration and proper reforms of EU, these topics are several unescapable issues to resolve for stepping forward to more united Europe.
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