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Back to the Glory Days for Bundesbank German Decisiveness Helps Weber Candidacy

By David Marsh

The German Bundesbank is a proud institution with a venerable past, which still commands considerable respect far beyond the German borders. Almost as if the loss of influence that accompanied the introduction of the euro and the transfer of powers to the European Central Bank in 1999 had never taken place.

All the more severe were the effects of the bizarre affair caused by former Bundesbank board member Thilo Sarrazin, who resigned at the end of September after a political row over a book claiming that Germany's future was under threat from Islamic immigration. The spectre of Germany's best-known post-war institution being dragged through the political mud was deeply damaging. But now the Bundesbank has moved swiftly to seal the damage. With last Thursday's quicker-than-expected nomination to the board of Joachim Nagel, the head of the markets department, Bundesbank President Axel Weber can now draw a line under the Sarrazin saga.

This highly politicized spat is important for three reasons. First, it removes some of the doubts about Weber's leadership, which had threatened to derail his bid (strongly backed by the German government) to take over as president of the ECB when incumbent Jean-Claude Trichet retires at the end of October next year. Second, Nagel has a high reputation as a serious player in a series of interactions with commercial banks and capital markets, not just in Germany but elsewhere in Europe and beyond, that are hugely significant to the smooth running of the ECB's overall operations. Third, by sending to the board a relatively young man from within the organization (Nagel, a 44-year-old economist, has been at the Bundesbank for 11 years), the Bundesbank is transmitting a weighty message internally and externally that it will promote quality and excellence from within -- an enormous boost to staff morale that has suffered from various upsets in recent years.

Politics was at the origin of the Sarrazin imbroglio because the Bundesbank -- although independent from government -- is at the mercy of German politicians from the federal and Land (state) governments when it comes to choosing its senior leadership. Sarrazin was placed on the board last year because his own government, in the federal state of Berlin, wished to get rid of him from his previous post as finance minister. What better sinecure than a well-paid post at the Bundesbank? -- a position that Sarrazin blatantly misused as a platform for his pseudo-scientific book on race and immigration policy.

Politics, in the form of the Rhineland-Palatinate and Saarland state governments, had to choose his successor. Fortunately, the two regional prime ministers in question, aided by deft behind-the-scenes string-pulling by a now-retired former Bundesbank board member, were able to pull off a coup by interviewing and nominating Nagel before speculation could arise about Sarrazin's successor. Assuming his confirmation by the Bundesrat, the upper house of Parliament that groups the states' interests, the Bundesbank will have appeared to have engineered a powerful coup.

The solution to the Sarrazin troubles is a return to the policy of the early post-war years of the Bundesbank, when candidates for the board were more often than not promoted from within the bank. No one in those days -- when the Bundesbank was embarking on a meteoric rise that would lead it eventually to become de facto the bank that ruled Europe -- would even have considered sending past-their-sell-by-date regional politicians to the Bundesbank's highest positions.

Axel Weber, as he eyes the ECB presidency, must be hoping that some vestiges of the old glory days may be returning.

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