# LETTER FROM BERLIN

## Cultural Change At the Bundesbank

*The new Nagel era begins.*

**BY KLAUS C. ENGELEN**

Some ten weeks after the German Bundestag elections, a traffic light coalition of Social Democrats, Greens, and Free Democrats took office on December 8, 2021. Olaf Scholz, who served in the previous coalition government as finance minister, was elected chancellor. With his Merkel-like low-key election campaign, Scholz turned out to be the surprise winner of the 2021 election. Thus ended the four-term sixteen-year chancellorship of Angela Merkel. Now a set of new politicians are in charge.

The new year also brought another unexpected leadership change, this one at the Bundesbank. As the traffic-light coalition was negotiating a coalition agreement in a spirit of organizing a new beginning for Germany, meeting the challenges of climate change, holding the European Union together, and coping with mounting geopolitical risks, a bombshell came from Frankfurt.

On October 20 of last year, Jens Weidmann, for many Germans the only guardian against the erosion of their savings left at the European Central Bank, announced that he had asked German President Frank-Walter Steinmeier to dismiss him from office "for personal reasons" at the end of the year.

In a letter to the Bank's staff, Weidmann stated, "I have come to the conclusion that more than ten years is a good measure of time to turn over a new leaf—for the Bundesbank, but also for me personally." Weidmann expressed a diplomatic but clear warning as his legacy: "A stability-oriented monetary policy will only be possible in the long run if the regulatory framework of the Monetary Union continues to ensure the unity of action and liability, [and] monetary policy respects its narrow mandate and does not get caught in the wake of fiscal policy or the financial markets."

The large contingent of adamant critics of the ECB's ultra-easy monetary policy, featuring endless bond purchases even in a time of record inflation, consider Weidmann's early departure as the final protest of an inflation fighter after years of frustration. According to Europe's Eurostat statistical office, in December 2021 inflation in the European Union—pushed by ever-higher energy prices—reached 5 percent, the highest level since record-keeping began in 1997.

"For personal reasons" sounds familiar. Weidmann's early departure is reminiscent of similar events at the Bundesbank and the ECB. In February 2011, Weidmann's predecessor, Axel Weber, announced that he would leave his post early "for personal reasons." At the time, Weber was in the race with his Italian colleague Mario Draghi to succeed Jean-Claude Trichet as president of the ECB. It seemed to be the moment for Germany, by far the largest EU country, to be trusted with the ECB presidency. But since Weber had spoken out publicly against the ECB's crisis-driven buying of euro bonds to calm financial markets, his candidacy failed due to the strong opposition from the Club Med governments. They wanted the ECB to continue to purchase as many of their government bonds as possible—especially in favor of the Club Med states under French leadership—in order to lower their

---

*Klaus Engelen is a contributing editor for both* Handelsblatt *and* TIE.

public financing costs. After leaving the Bundesbank, Weber became chairman of the UBS supervisory board, a key position in international banking.

In September of the same year, there was another spectacular protest action from Bundesbank veteran Jürgen Stark, the ECB's chief economist for five and a half years. Stark stepped down because he could not share the majority decision of the ECB Governing Council to massively buy sovereign bonds. In Stark's view, the fiscal effects and the inflation risks were extremely damaging. In an interview with *Frankfurter Allgemeine Zeitung,* Stark warned, "We know from economic history that when a central bank has financed states in grand style, it has always led to disaster. It ends in inflation—not always in the short term, but in the medium to long term. And it ultimately leads to economic and social instability."

Other German ECB members also opted for early exits. In December 2013, Jörg Asmussen quit the ECB to become a deputy minister in the German government. And Sabine Lautenschläger, who helped set up the ECB's banking supervision arm, serving as the first deputy chair of the Single Supervisory Mechanism, stepped down in September 2019 without giving any reasons. As Reuters reported at the time, the announcement came "amid unprecedented discord at the top of the ECB, where a third of policymakers at the Sept. 12 meeting dissented with a decision to resume bond purchases in a bid to revive inflation in the euro area. … Frustration at the central bank's easy-money policy of sub-zero rates and massive bond buys is running high in Germany, with tabloid *Bild* depicting ECB President Mario Draghi as a vampire sucking off Germans' savings."

Reacting to Weidmann's early exit, Bloomberg's Zoe Schneeweiss commented: "Since the ECB was founded in 1999, just one Bundesbank president and one Executive Board member from Germany have finished their terms as scheduled. Those who departed early often cited the frustrations of the savings-oriented nation with loose policies and low interest rates. Weidmann did the same on Wednesday in a letter to staff where he signed off with a final expression of frustration at the inflation dangers fostered by ECB policies."

### MOST FORMIDABLE CRITIC

The editors of Eurointelligence were quick to conclude that "Weidman's mysterious resignation from the Bundesbank won't change the balance of power inside the ECB governing council, but it will shift the debate. Among the various candidates mentioned as his potential successor, none are even remotely like him."

Eurointelligence speculates: "What we do know is that [Weidmann] got reappointed for a second term in 2019. You normally don't leave two years into an eight-year term unless you have a very good reason. It would not be surprising if the recent German elections had been at least a contributing factor. Politics is currently moving against conservatives like Weidmann."

**We have seen a slow transformation, a gradual de-Bundesbankisation of the German central bank.**

What will change the debate, Eurointelligence points out, is that "Weidmann is one the few trained economists in the governing council. The hard-core debate in that group is between a relatively small number of people, in which the Bundesbank president punches above his weight, and even above the Bundesbank's weight inside the euro system. Weidmann is one of the few central bankers with links to the pre-ECB world of monetary economists, a time during which central banks struggled to keep inflation from rising. The vast majority of our central bankers have no first-hand experience of that period."

### LATEST STEP IN LONG JOURNEY

Ten years struggling as permanent leader of the Council's orthodox minority may indeed be enough.

As David Marsh, who in 1993 published his famous book *The Most Powerful Bank: Inside Germany's Bundesbank,* pointed out to Tim Bartz in an interview with *Der Spiegel,*

NILS THIES/BUNDESBANK

*New Bundesbank President*
**Joachim Nagel**

Joachim Nagel "embodies the principled yet pragmatic approach of a 'central bankers' central banker', combining a down-to-earth manner with a firm technical grasp of international financial markets. His appointment, one of the more important jobs settled in the aftermath of Chancellor Olaf Scholz's government formation, may signal a more emollient style and tone at the German central bank, but no shift in fundamental policy."

—*David Marsh,* Chair,
Official Monetary and Financial
Institutions Forum

"The Germans have had to face up to the fact that they are not alone in the world. Thirty years ago, I wrote: 'The Bundesbank is much too powerful to be controlled by others. But it has too much power to rule alone.'" Marsh continues, "In 1999, Germany would not have accepted an immediate takeover of the Bundesbank by the ECB, which, at that time, did not have its current significance. Instead, we have seen a slow transformation, a gradual de-Bundesbankisation of the German central bank. Weidmann's departure is the latest step in a long journey. German leaders should have prepared the electorate for the final destination on this voyage. Angela Merkel did not want to—or could not—do this and has left it to Olaf Scholz. Perhaps that is Jens Weidmann's farewell gift to the new chancellor."

> "We know from economic history that when a central bank has financed states in grand style, it has always led to disaster. It ends in inflation—not always in the short term, but in the medium to long term. And it ultimately leads to economic and social instability."
>
> —*Former ECB Executive Board Member* **Jürgen Stark**

### NAGEL: NEW TYPE?

As expected, after Weidmann's announcement that he was stepping down, there was a parade of possible successors. Pointing to the complexities of the new traffic-light coalition of SPD, Greens, and Liberals, Bloomberg headlined, "Weidmann succession suspense may last for weeks on Berlin talks." and "Weidmann Exit Could Pave Way for Bundesbank's First Female Chief." Isabel Schnabel, a member of the ECB's executive board, and Claudia Buch, the Bundesbank's vice president, whose term expires in the spring of this year, were seen as contenders. Marcel Fratzscher, president of the German Institute for Economic Research, who formerly worked for the ECB, and Jörg Kukies, who served under Scholz as finance secretary and was the German head of Goldman Sachs with a long SPD legacy, were in the race based on media reports.

**Adamant critics of the ECB's ultra-easy monetary policy consider Weidmann's early departure as the final protest of an inflation fighter after years of frustration.**

But contrary to the media speculation, Scholz, the new SPD chancellor—who knew how over the years the high-caliber central banker Joachim Nagel was blocked at career junctures by CDU/CSU and Liberal rivals but sometimes was able to mobilize backing from the SPD—kept the ball low and managed a rather smooth transition.

It didn't take long until it became apparent that Nagel, with nearly two decades of experience at the Bundesbank, six years as a member of the board, would be Scholz's candidate. The Liberals with Finance Minister Christian Lindner could support a Bundesbank veteran like Nagel. "Considering the risk of inflation, stability-oriented monetary policy is of increasing significance," Lindner tweeted. "This is an experienced personality who will ensure continuity at the Bundesbank."

So on December 20, Scholz's coalition cabinet confirmed Nagel as the new Bundesbank head to begin on January 1, 2022. Marsh, now chair of the Official Monetary and Financial Institutions Forum, greeted the new Bundesbank head, saying Nagel is close to "that new type of president" he had in mind. "Nagel, convivial central banking heavyweight, takes Bundesbank helm," reads his December 20, 2021, post. In his view, Nagel "embodies the principled yet pragmatic approach of a 'central bankers' central banker', combining a down-to-earth manner with a firm technical grasp of international financial markets. His appointment, one of the more important jobs settled in the aftermath of Chancellor Olaf Scholz's government formation, may signal a more emollient style and tone at the German central bank, but no shift in fundamental policy," Marsh predicted.

In Marsh's view, a major challenge for Nagel will be "offsetting Bundesbank's structural minority in [the] ECB" using "his vigorous speaking style tinged with waspish humor." "Behind Nagel's collegial and sometimes jocular air lies considerable steel. The interaction between Christine Lagarde, the ECB president, and Nagel will now become Europe's pivotal central banking relationship. Nagel's aim is to offer full co-operation between the ECB and Bundesbank, but help shift the ECB towards a more robust monetary policy."

*Continued on page 64*

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com



*Continued from page 13*

Marsh reminds his readers that "Nagel's scepticism about the long-term effects of ultra-accommodative policy is combined with deep experience of implementing it. As Bundesbank head of markets and then as board member, he has been closely involved with the ECB's ever-widening bond purchase programmes."

### POLITICS MATTER

Nagel earned his doctorate in economics at the Karlsruhe Institute of Technology, writing his dissertation on supply-side economic policy of Ronald Reagan. He took time to join an SPD economic team in elections. He worked in Washington on a research grant. After that, he began his Bundesbank career in 1999, starting in Hanover at one of the regional branches.

There were important stages in Nagel's career, where his long-time SPD membership came into play. Since positions on the Bundesbank board are political appointments, and all nominees must be approved by the German president, Nagel needed and got the backing of the SPD leadership to step into the vacant slot on the Bundesbank board that Thilo Sarrazin vacated in September 2010 because of the uproar over his anti-immigrant bestseller book, *Deutschland Schafft Sich Ab [Germany Abolishes Itself],* which argued that Germany is digging its own grave by letting immigrants taking over the country.

Nagel's responsibilities included markets and information technology, a big career step. He represented the Bundesbank in international negotiations and until the end of April 2016 also headed the bank's crisis-management team.

Since Merkel was able to install her chief economic advisor Jens Weidmann as president of the Bundesbank in 2014, the SPD wanted Nagel to get the Bundesbank's deputy position. This was blocked by the CDU leadership with then-Finance Minister Wolfgang Schäuble putting economics professor Claudia Buch as Weidmann's deputy.

"Realizing that the political wind was not blowing in his favor, Nagel left the Bundesbank and joined the executive board of KfW, the German state-owned development and investment bank," notes British economic historian and Columbia University professor Adam Tooze in his analysis of Nagel's Bundesbank career. But at KfW, Nagel couldn't be sure that he could get the political backing for a second term. To be safe, he took an offer from the "bank of central banks," the Bank for International Settlements, in Basel, to become deputy head of the banking department.

In his research, Tooze picks up a revealing excerpt from the speech that Weidmann gave at the 2016 Bundesbank farewell event for Nagel stressing his "decisiveness, ability to communicate, detailed knowledge of the financial markets, and analytical skills."

**For the Bundesbank, the transition from Weidmann, a leading monetary economist, to a successor with long central banking experience in markets and organization is a cultural change.**

Tooze argues that "Nagel is widely seen as an 'ordoliberal, whatever that means,' in German media that may just be a code for 'he is one of us.'" The *Financial Times* noted about Nagel's appointment, "Shortly after the ECB started its quantitative easing policy of buying vast amounts of government bonds in 2015, Nagel warned in an interview with German newspaper *Börsen-Zeitung* of the 'key danger' of an 'intermingling of monetary policy and fiscal policy'."

For the Bundesbank, the transition from Weidmann—who in the institution's tradition was, like his predecessor Axel Weber, a leading monetary economist—to a successor with long central banking experience in markets and organization like Joachim Nagel, is a cultural change. It will be interesting to see how the new president will manage the monetary economist elite at the once-powerful institution that is struggling with its structural minority position in the ECB system. ◆

*Former Bundesbank President*
**Jens Weidmann**

"Weidmann is one of the few central bankers with links to the pre-ECB world of monetary economists, a time during which central banks struggled to keep inflation from rising. The vast majority of our central bankers have no first-hand experience of that period."

—*Eurointelligence*