Savior or Villain?

By Klaus C. Engelen

How Germans view Jean-Claude Trichet's legacy.

When Mario Draghi, governor of the Bank of Italy, takes over the presidency of the European Central Bank from Jean-Claude Trichet on November 1, Europe's financial and economic crisis will probably be worsened, dragged down by the global slump.

The new man at the helm of the ECB will take over an institution seriously damaged by the worst crisis that has hit the euro common currency area since its formation. Like his predecessor, Draghi will be under heavy pressure from the European Commission and EU governments to maintain or even expand the central bank's crisis support. He will be under attack from different corners, especially from Germany's conservative monetary establishment that has been fighting against the ECB's bond-buying program as if it were the devil's machinations.

Just before starting his new job in Frankfurt, Draghi made a big mistake. In a joint secret letter with outgoing ECB President Trichet to Italy's Prime Minister Silvio Berlusconi, dictating a detailed economic policy agenda, Draghi demonstrated that he is ready to use his new position as Europe's most influential central banker to assume a key political role in his home country of Italy. He should have avoided that trap.

For those who accuse outgoing ECB President Trichet of pushing Europe's central banks too much into the "fiscal realm" of governments and thereby damaging the whole European system of central banks, Draghi's signature under the joint letter to Berlusconi offers the dark specter of more ECB politicization and more blurring of monetary and fiscal responsibilities in the euro area in coming years. The confidential letter raises the fundamental question of whether the ECB—without any parliamentary legitimation—could act as a European Commission or an

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

THE INTERNATIONAL ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY

888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

International Monetary Fund, dictating to a euro-area member country the details of an austerity program. The Trichet-Draghi letter reads like the conditionality list of an IMF standby arrangement: Increase economic growth, strengthen competition through privatization and liberalization, open the labor market, reform and modernize the pension system, reduce the public deficit, and balance the budget by 2013.

In effect a *quid pro quo* for the ECB buying the country's sovereign bonds in order to push down the interest costs of such securities, it is not the governance expected from a new ECB president.

On the other side, the legislative backing by Germany and other important euro countries of the new €440 billion European Financial Stability Facility bailout fund could open windows of opportunity for Draghi to wind down or even to stop the highly controversial Securities Market Programme, through which the ECB under Trichet spent at latest account the staggering amount of €156.5 billion over the past five months to "conduct interventions in the euro area public and private debt securities markets."

When Draghi takes charge in Frankfurt, the political battle over leveraging EFSF and how its voting mechanism will be structured may have moved to the center of the euro crisis debate, especially in Germany. Being overruled on the issue of bond purchases in the ECB Governing Council, in spite of the largest general voting share of 18.94 percent and a 28 percent voting share on ECB balance sheet matters, has given Germany's monetary conservative establishment a sinking feeling. Fears are growing that the trusted Bundesbank has been taken over—through the ECB Governing Council—by Club Med central bankers.

German Finance Minister Wolfgang Schäuble is under considerable political pressure to secure an EFSF voting mechanism that is more reflective of financial and economic realities. The key question is whether Germany, which contributes by far the largest share and the strongest international credit standing to the EFSF, will concede to a voting mechanism of "one country, one vote," with the added constraint of "unanimity" where most of the eurozone states could be blocked by smaller countries. Berlin should heed the lessons from the ECB under Trichet's reign, where Germany was overruled on the crucial decision of bond purchases on the basis of "one country, one vote."

GERMANY'S INFLUENCE FURTHER MARGINALIZED

As the eight-year term of ECB President Jean-Claude Trichet ends, German influence on the twenty-three-member ECB Governing Council and the six-member Executive Board will be further minimized.

This turn of events cannot be blamed solely on Trichet's French centrist dictatorial leadership style. Germany has made its share of blunders.

First, the slow and zigzagging way Berlin responded to the Greek financial crisis and its spread to other euro area countries was seen as an invitation to financial market speculators, and shifted ever-larger portions of outstanding value-impaired sovereign debt exposure in the euro area from the private to the public sector. Merkel's hesitant and indecisive handling of the Greek disaster escalated the crisis and its cost to taxpayers. In order to protect French and German banks with high exposure to euro member countries in difficulty, Berlin and Paris did not push for early market solutions. (See "Angela's Amateur Hour," *TIE*, Summer 2011.)

Second, after rejecting Deutsche Bank CEO Josef

Europe's Savior

When the Institute of International Finance held its annual meeting in Washington on September 23–25, 2011, leaders in the world of banking, finance, and politics gathered at the landmark National Building Museum for a "Special Tribute in Honor of Jean-Claude Trichet." Former Federal Reserve Board Chairman Paul Volcker heaped praise on Trichet's work and career but didn't hide his anger and dissatisfaction with the bankers around the dinner table.

Jean-Claude Trichet
receives highest honors.

And on June 20 of this year, the Charlemagne Prize, one of the most prestigious European prizes, was bestowed on the outgoing ECB president, who as former governor of the Bank of France and long-time French finance official played his part in establishing a common European currency. The Prize is how the German city of Aachen honors Europe's founding fathers and those who have been crucial to building European unity. With this award, Trichet stands with such European luminaries such as Jean Monnet, Konrad Adenauer, Winston Churchill, François Mitterrand, Helmut Kohl, and Jacques Delors, the architect of European Monetary Union.

—K. Engelen

Ackermann's early public-private €30 billion bridge loan offer for Greece in April 2010, Merkel and Sarkozy decided at their October 2010 Deauville meeting on private sector involvement—debt rescheduling with "haircuts"—to solve the crisis. But it took until July of this year when, with the cooperation of the Institute of International Finance, the global association of financial institutions, Greek debt reduction amounting to 21 percent was reached, but on a "voluntary" basis. This allows losses without activating risk premiums and without making the Greek bonds unsuitable as a pledge given by the banks to the ECB to restore liquidity.

Third, unprecedented self-inflicted setbacks by its top representatives are contributing to the loss of influence. Thanks to Germany's prominent "fugitives from public responsibility"—Axel Weber and Jürgen Stark—the first Italian ECB head can now move the ECB's policies more to the west, in the direction of the U.S. Federal Reserve or the Bank of England.

Finally, Weber and Stark, but also the new German ECB representatives Jens Weidmann and Jörg Asmussen, have some explaining to. Why have they let the horrific misreading of the markets by Berlin's policymakers happen? Capital market experts agree that Berlin's ill-timed private-sector involvement proposals caused a massive flight of private pension funds and other big bond investors from the euro area. This was a high-risk policy move, considering that European member states may need to raise as much as US$2 trillion in debt in 2011. Also, Germany's former and present representatives at the ECB cannot ignore the fact that without restoring confidence among private investors globally, the European financial systems will be more and more dependent on continuing central bank support or the credit leveraging of the few AAA-rated eurozone countries, with Germany at the top of the list.

The slow and zigzagging way Berlin responded to the Greek financial crisis and its spread to other euro area countries was seen as an invitation to financial market speculators.

What happened with Germany's ECB relations is adding to the dismal and costly record of German Chancellor Angela Merkel's response to the euro crisis.

High hopes for placing a monetary conservative such as German central banker Axel Weber at the helm of the ECB in order to promote a more stability-oriented culture in the tradition of the Bundesbank and regain more control of the country's monetary destiny have been shattered. The "one country, one vote" rule in the seventeen ECB member states leads to the politically explosive and economically absurd prospect of the eurozone's highly indebted spenders of yesterday manipulating the European System of Central Banks in order to massively use Germany's financial resources to soften their adjustment pain.

The "one country, one vote" rule is also a unique concept compared to the governance

Opening Pandora's Box

As EC President José Manuel Barroso, in his annual State of the Union speech to the European Parliament in Strasbourg, stated recently, "The European Central Bank—in full respect of the Treaty—will do whatever is necessary to ensure the integrity of the euro area and to ensure its financial stability," because "we face the greatest challenge our union has seen in its history." He pleaded for rapid approval of an agreement struck on July 21, 2011, to increase the flexibility of the bailout fund by adding the ability to deploy precautionary interventions, intervene to support the recapitalization of banks, and intervene in secondary markets to help avoid contagion.

Then Barroso opened—from a German perspective—a new political Pandora's box by announcing that the Commission was looking into ways to increase the firepower of the fund, possibly via some form of leverage, seen by markets as vital if it is to offer protection to large states such as Italy or Spain.

—K. Engelen

José Manuel Barroso

structures of international monetary institutions such as the International Monetary Fund. There, voting shares are determined by the size of a country's financial contribution while the IMF's Executive Board can take decisions with a qualified majority. However, institutional changes, such as the introduction of new lending instruments, can only be taken by an 85 percent majority, which gives the United States a veto over any substantial change in the IMF's policy.

Germany's negotiators for the Maastricht Treaty followed their vision of an independent and more importantly "depoliticized" monetary policy and central bank system—a concept which now appears utopian given the different national perspectives on the role of monetary policy in the course of crisis resolution.

At the core of the current burden-sharing battle between the rich and poor states of the eurozone operates the AAA-rated EFSF, created on May 9, 2010, within the framework of the Ecofin Council. As part of rescue guarantees of €750 billion for on-lending to member states in difficulty, the Luxembourg-based special purpose vehicle is authorized for up to €440 billion for on-lending to highly indebted eurozone countries. Under what conditions such lending takes place will be decided by the European Commission in cooperation with the ECB and the International Monetary Fund. It is headed by Klaus Regling, former director-general for economic and financial affairs at the European Commission.

As EC President José Manuel Barroso, in his annual State of the Union speech to the European Parliament in Strasbourg, stated recently, "The European Central Bank—in full respect of the Treaty—will do whatever is necessary to ensure the integrity of the euro area and to ensure its financial stability," because "we face the greatest challenge our union has seen in its history." He pleaded for rapid approval of an agreement struck on July 21, 2011, to increase the flexibility of the bailout fund by adding the ability to deploy precautionary interventions, intervene to support the recapitalization of banks, and intervene in secondary markets to help avoid contagion.

Then Barroso opened—from a German perspective—a new political Pandora's box by announcing that the Commission was looking into ways to increase the firepower of the fund, possibly via some form of leverage, seen by markets as vital if it is to offer protection to large states such as Italy or Spain.

International capital markets consultant Achim Dübel puts the debate over leveraging the EFSF into a larger perspective. "In Tim Geithner's world, Europe is one player in a concerted re-inflation by central banks globally via bond purchases," argues Dübel. "For that strategy to have maximum effect, the EFSF must be as highly leveraged as possible, funded by banks or the European Central Bank. It is *de facto* grand legal arbitrage and financial engineering trying to get around ECB's dysfunctional institutional setup."

But Dübel warns, "Leveraging Franco-German credit means also concentrating their risk exposure towards a possible default of Spain and Italy. There is far greater asymmetry here than in the cases of Greece, Portugal, and Ireland, where the United States and other non-eurozone countries are co-sharing credit risk. EFSF guidelines should at least reflect that higher risk by introducing a version of the Prussian voting system of the nineteenth century, where besides aristocracy only active taxpayers were allowed to vote." Dübel points to the approach's risks: "The leverage approach is generally dangerous for the ratings of Germany and in particular France. Also, it is economically unjustified given that Spanish and Italian debt levels can at best only be partly associated with the euro. After all, debt crises have emerged more often than not within flexible currency regimes, with debtor currencies getting inflated and competitiveness suffering."

High hopes for placing a monetary conservative such as German central banker Axel Weber at the helm of the ECB have been shattered.

And he continues: "It seems inconceivable that all maturing Italian and Spanish debt could be assumed by Germany and France, or even by a global public-sector initiative, at anywhere near par levels. The private sector needs to be induced to keep rolling their debt, which can only mean that secondary market interventions are only a means of last resort at lower prices in order to avoid offering an exit on a silver platter. In essence, the target should be a new Plaza or Louvre Accord for bond markets: a concerted intervention, going beyond the EFSF, at a time when the market nears its bottom and it takes only limited public resources to turn it around."

BERLIN'S EFSF ENHANCEMENT BATTLE

Such EU Commission plans to leverage the seventeen eurozone member countries—after its lending capacity was

Continued on page 57

Continued from page 15
increased from €250 billion to €440, run counter to assurances by the Berlin government. During a two-and-a-half-hour parliamentary debate, opposition lawmakers and coalition euro-rebels pressed German Finance Minister Schäuble to confirm speculation that the fund already needed more money than the current legislation provided for, and to say whether it was planned to allow the fund to leverage its assets. But contrary to what has been leaking from the EFSF and the Brussels Commission, Schäuble has been sticking to the line that after the passage of the EFSF enhancement bill, the country's share, increased from €123 billion to €211 billion plus interest plus costs, would be the end of the rope sustaining a European bailout fund with an effective lending capacity of €440 billion (US$590 billion).

Fears are growing that the trusted Bundesbank has been taken over—through the ECB Governing Council—by Club Med central bankers.

In order to get her EFSF enhancement bill through the German parliament, Merkel had to overcome a fierce rebellion within the ruling coalition parties—the Christian Democratic Union and its Bavarian sister party the CSU, but in particular the Free Democrats. As it turned out, her fractious coalition government won the crucial vote for the expansion of the EFSF bailout fund despite the fact that between two-thirds and three-quarters of German voters, according to recent polls, reject using billions in taxpayer money to bail out fiscally profligate and highly indebted eurozone member countries such as Greece, Ireland, Portugal, or Italy.

Since the major opposition parties—the Social Democrats and the Green Party—are traditionally pro-European, a total of 523 lawmakers voted in favor of the EFSF enhancement bill versus 85 voting against, with three abstentions.

After mastering this funding challenge, the fractious ruling German coalition faces an even higher legislative hurdle when the "temporary" EFSF is set to expire in 2013 and be replaced by a permanent European Stability Mechanism. While the EFSF is a big step, it is widely seen as not bold enough to immunize Europe against the spread of financial contagion. As Kurt Lauk, head of a CDU business group, concedes, "The step that we are taking will not be sufficient. There will be another sequel to the euro thriller." Moreover, the European Stability Mechanism comprises features which could further aggravate the funding drain in peripheral countries, such as the explicit call for private-sector involvement and a preferred creditor status for its lending.

ANNUS HORRIBILIS FOR BUNDESBANKERS

What a year for German central banking. First came the blow in February of this year when Axel Weber, then the leading candidate to succeed Trichet, resigned a year early from the Bundesbank presidency, thus counting himself out as possibly the first German ECB president. This was a major setback for the Berlin government under Angela Merkel. She responded quickly by naming her trusted economic advisor Jens Weidmann, who had come from the Bundesbank, to succeed Weber by May 2011. She also moved Sabine Lautenschläger, the director for banking supervision at BaFin, to the Bundesbank's managing board.

It didn't take long before Weidmann made headlines by announcing that the Bundesbank opposed the ECB decision to resume bond purchases, thus deepening the rift with Trichet and the European Central Bank. Weber had opposed and publicly denounced the move in May 2010 to buy government bonds to alleviate tensions in financial markets. He realized, however, that he could not block Trichet and the majority of the ECB Governing Council from moving massively into large bond-buying operations for Greece, Ireland, and Portugal.

Then on September 9 of this year, Jürgen Stark, the ECB's chief economist, announced his resignation in a stunning move. The German stock market, in terms of the DAX, lost 2 percent of its value. The euro slid to its lowest level against the U.S. dollar since February. *Financial Times Deutschland* called it "the end of the ECB as we know it," referring to its perceived "hawkish" stance on inflation and its historical Bundesbank influence.

It became apparent that, from the beginning, Stark also had opposed Trichet's ever-larger bond-buying program. When in August Trichet got the majority of the members of the Governing Council to start buying huge volumes of Italian and Spanish government bonds to lower those governments' interest costs, Stark and Weidmann voted against the resumption of the bond-buying program for core eurozone countries.

"It is a position that all the Germans have," said Manfred Neumann, emeritus professor at Bonn University, who tutored new Bundesbank President Jens Weidmann's

Germans in the News

What a year for German central banking. First came the blow in February of this year when Axel Weber, then the leading candidate to succeed Trichet, resigned a year early from the Bundesbank presidency, thus counting himself out as possibly the first German ECB president. This was a major setback for the Berlin government under Angela Merkel. She responded quickly by naming her trusted economic advisor Jens Weidmann, who had come from the Bundesbank, to succeed Weber by May 2011. She also moved Sabine Lautenschläger, the director for banking supervision at BaFin, to the Bundesbank's managing board.

It didn't take long before Weidmann made headlines by announcing that the Bundesbank opposed the ECB decision to resume bond purchases, thus deepening the rift with Trichet and the European Central Bank. Weber had opposed and publicly denounced the move in May 2010 to buy government bonds to alleviate tensions in financial markets. He realized, however, that he could not block Trichet and the majority of the ECB Governing Council from moving massively into large bond-buying operations for Greece, Ireland, and Portugal.

Then on September 9 of this year, Jürgen Stark, the ECB's chief economist, announced his resignation in a stunning move. The German stock market, in terms of the DAX, lost 2 percent of its value. The euro slid to its lowest level against the U.S. dollar since February. *Financial Times Deutschland* called it "the end of the ECB as we know it," referring to its perceived "hawkish" stance on inflation and its historical Bundesbank influence.

—*K. Engelen*

Axel Weber

Jens Weidmann

Sabine Lautenschläger

Jürgen Stark

doctoral thesis. "This is a sign of huge problems within the central bank. The Germans clearly have a problem with the direction of the ECB."

Weidmann, who worked at the Bundesbank before serving as Merkel's economic advisor and financial crisis manager, will be a lone monetary conservative voice in the ECB Council when it comes to opposing the full-blown monetization of member countries' public deficits as part of the eurozone rescue efforts.

Stark's replacement as Germany's designated member of the ECB Executive Board, Jörg Asmussen, currently state secretary of Berlin's finance ministry, has no central bank experience. But he is well connected in Europe and in the G-7 and G-20 worlds as a politically savvy negotiator and financial diplomat. His expertise and connections were so crucial to Merkel and Finance Minister Schäuble that they kept him in office even though he was a member of the opposition Social Democrats. He might be useful in helping Draghi make connections with the Brussels machinery. "Unlike Weidmann, Asmussen has no economic anchor or coordination system, so he adjusts to any economic policy doctrine," says a German economic professor who has worked with him. Having played a key role in the Berlin bank rescue effort under the Grand Coalition serving former German Finance Minister Peer Steinbrück (SPD), Asmussen is also experienced in the area of bank restructuring and financial market supervision. (See "Asmussen Complex," *TIE,* Summer 2009.)

AS IF NOTHING HAD HAPPENED

While attending the recent IMF/World Bank annual meeting in Washington—talking to Jürgen Stark and Axel Weber who moved around as if nothing had happened—I was tempted to mention to them other public servants I have met who stood their ground in hard times out of public duty. Weber will face some managerial challenges when

he takes up his new position as chairman of UBS, though the move will make him an instant multimillionaire.

When I noted to Stark that like millions of investors I had lost money because he quit his ECB job with such horrible timing, he argued that "such stock market losses are only transitory." And when I asked Weber during the question-and-answer session following his Per Jacobsson lecture whether one could sum up his speech with the somber message, "Under the enormous fiscal burdens caused by the banking meltdown and by the euro crisis, governments on both sides of the Atlantic have embarked on effectively destroying the central banks and taking the IMF down with them," he dodged the answer. But in the question-and-answer session he made an important point: That in times of crisis, central banks could use a Securities Market Programme to secure functioning markets and overall financial stability as a bridge to when governments would resume their fiscal responsibilities, but that in the case of the ECB since last year, the other side of the bridge had a sign reading, "Under Construction."

The ECB's Diplomat

Jürgen Stark's replacement as Germany's designated member of the ECB Executive Board, Jörg Asmussen, currently state secretary of Berlin's finance ministry, has no central bank experience. But he is well connected in Europe and in the G-7 and G-20 worlds as a politically savvy negotiator and financial diplomat. His expertise and connections were so crucial to Merkel and Finance Minister Schäuble that they kept him in office even though he was a member of the opposition Social Democrats. He might be useful in helping Draghi make connections with the Brussels machinery. "Unlike Weidmann, Asmussen has no economic anchor or coordination system, so he adjusts to any economic policy doctrine," says a German economic professor who has worked with him.

—K. Engelen

Jörg Asmussen *brings crucial connections to the ECB.*

TRICHET'S QUESTIONABLE LEGACY

As Jean-Claude Trichet's turbulent eight-year term at the helm of the European Central Bank winds down at the end of October, he is moving in starkly different worlds. For some he is a European hero, for others he is a villain for having turned the ECB into Europe's "bad bank" for toxic assets. By buying the outstanding bonds of troubled sovereign debtors, the ECB is in danger of taking high credit risks on its balance sheet, and in consequence needing to be recapitalized by the taxpayers of its financially able member states—as has already happened.

As witnessed at the annual meeting of the Institute of International Finance in September, the leading movers and shakers in the world of banking and finance hail Trichet for giving leadership to what is considered "the only functioning European institution" in the still-escalating debt crisis. The sponsors of the Charlemagne Prize for distinguished service on behalf of European unification honored Trichet at the highest level. And understandably, in the highly indebted eurozone countries which are being kept alive by generous ECB loans, liquidity support, and sovereign bond purchases, the former governor of the Bank of France who for many years chaired the Paris Club is hailed as "Europe's savior."

But on the other hand, Trichet is under attack and under pressure from many sides as never before. How much he is on the defensive at the close of his term was transmitted around the world's trading rooms at a press conference on September 8, the day before ECB chief economist Jürgen Stark announced his resignation. Trichet's emotional, intemperate outburst will go into the history books. Provoked by a question from a German journalist about why his country should not leave the euro, he shot back with a long lecture about the virtues of the European Central Bank. "We have delivered price stability over the first twelve, thirteen years of the euro. Impeccably!" he asserted—better than the Bundesbank's record. "We do our job. It is not an easy job." He did not mention though that he alluded to a period of exceptionally low inflation due to the impact of China and other price-depressing factors.

For Trichet—who once wanted to be like a German central banker—reading the German press is anything but pleasant. There he can see that German President Christian Wulff made the ECB's controversial bond purchases a state affair at the highest level. A month after the ECB had extended its asset purchases to Italy and Spain, he accused it of "legally questionable" action in buying the bonds of countries hit by the eurozone debt crisis. As Wulff sees it, the ECB has gone "way beyond the bounds of its mandate." And he added that the prohibition on central bank financing of governments "only makes sense if those

responsible do not get around it by making substantial purchases on the secondary market." Wulff's attack on the ECB was missing one thing: An explanation of what Wulff himself did to push his CDU party colleagues Angela Merkel and Wolfgang Schäuble to act swiftly and resolutely so that the ECB would not have to serve as the only functioning savior in Euroland.

As Trichet and the majority of the ECB Governing Council see it, the European Central Bank had to intervene to stem the escalating erosion of investor confidence, starting in peripheral member countries such as Greece, Ireland, and Portugal, and now reaching core countries of the euro area such as Spain and Italy. They argue that eurozone governments—in particular the German conservative-liberal governing coalition under Angela Merkel—were much too slow to come up with adequate responses to the crisis. To calm unsettled markets with ever-higher interest rates and insurance premium costs required "bold measures" to dampen speculation and restore investor confidence in sovereign euro debt.

Some experts contradict Trichet's justification. They point to alternatives the ECB could have opted for in the crisis. "Trichet could have negotiated with the major euro area governments to bring in the ECB as fiscal agent, thus avoiding taking the considerable credit risks onto the ECB's balance sheet," says Gerhard Hofmann, former head of the Bundesbank's banking supervision department and now with the Association of Cooperative Banks.

But as the top crisis manager on the European stage, Trichet opted for proactive policies by using central bank balance sheet expansion to act as "sovereign eurobond buyer of last resort." This gave slow-moving governments such as Germany and France more time to respond to the institutional insufficiencies of European monetary union and the European Union.

After the EFSF was created in May 2010, the ministers of finance took until the present to make the €750 billion bailout fund, which has a AAA credit rating, more flexible. The EFSF operates in cooperation with the EU Commission and the International Monetary Fund and has so far disbursed about €110 billion in rescue programs.

It is Trichet's move of May 10, 2010, "to conduct interventions in the euro area public and private debt securities markets (Securities Market Programme) to ensure depth and liquidity in those market segments which are dysfunctional" that upset monetarily conservative central bankers, particularly in Germany. This is why in the final stretch of his presidency Trichet experiences outright hostility, accusations, and condemnations, especially in Germany, the strongest eurozone member country both economically and financially. Germany will have to come up with a 28 percent share, warns Weber, should staggering writeoffs on the ECB bond portfolio need recurring recapitalizations. In December 2010, the European Central Bank announced that it was going to double its capitalization as its most recent balance sheet before the announcement listed capital and reserves at €2.03 trillion. The member states' central banks had to transfer assets to the ledger in the ECB.

What some former Bundesbankers call "the hijacking of the ECB" casts shadows on the Frenchman's legacy as Europe's most powerful central banker while he is receiving farewell honors and accolades on both sides the Atlantic.

In order to get her EFSF enhancement bill through the German parliament, Merkel had to overcome a fierce rebellion within the ruling coalition parties.

From a German perspective, the ECB Governing Council decision in early May to move into the "fiscal space" of the currency union was—as former Bundesbank President Helmut Schlesinger called it—"crossing the Rubicon."

"The European Central Bank has gambled away its reputation. ECB President Jean-Claude Trichet is leaving a questionable legacy. He put without real need the central bank in the service of fiscal policy. The ECB Governing Council acted as willing helpers." So reads the headline of a recent not-so-friendly two-page report in Germany's economic and financial daily *Handelsblatt* on Trichet's eight-year reign. It was written Marietta Kurm-Engels, who for decades has worked as a Bundesbank and ECB watcher for *Handelsblatt*'s Frankfurt office. Her piece began with this sentence: "Talking these days to former German central bankers, one meets sheer horror mainly due to the ECB decision of August 7 to start a purchasing program for Italian and Spanish government bonds." Kurm-Engels quoted a former German central banker: "There are a few things I could think of but not this. That last spring they started to buy sovereign bonds (of eurozone countries) was bad enough. That they now resume this in this way is incredible." ◆