The Sadness *of* Karl Otto Pöhl's Legacy

"We now have the ECB française.*"*

By Klaus C. Engelen

With the largest ever bond-buying program by the European Central Bank looming, Bundesbankers were in an apprehensive mood when they gathered on January 13 for a commemorative ceremony to mark the passing of the Bundesbank's former President Karl Otto Pöhl.

Pöhl, who for decades served as a member of *TIE*'s editorial advisory board, passed away December 9, 2014, at the age of eighty-five.

For those present who are or were important to the institution, the huge quantitative easing program, pushed by the ECB's President Mario Draghi on shaky legal and economic grounds, is feared to be the Bundesbank's most damaging setback since the start of monetary union. In the long battle to block massive bond purchases from debt-laden eurozone member states, the Bundesbank under its President Jens Weidmann is being forced to take part in the largest money printing experiment post-war Europe has experienced. No wonder one of Weidmann's predecessors, Helmut Schlesinger, confessed in a recent interview that quantitative easing reminds him of "war financing."

Jens Weidmann has often drawn attention to the fact that the ECB's unconventional monetary measures have huge effects in shifting risks and burdens towards member countries and their taxpayers, including Germany. For the Bundesbankers, European monetary union means that the fortunes of German savers and taxpayers have been taken hostage

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The Bundesbank marked the passing of its former President Karl Otto Pöhl in a commemorative ceremony on January 13, 2015.

to lower the debt service costs of southern member states and to bail out their banks. The ECB will become the largest creditor of eurozone member countries, thus lessening pressure on governments for fiscal consolidation and economic reforms.

Adding insult to injury, Germany's politicians—led by Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble—seem to have been looking the other way or else hiding behind the assertion that the (highly politicized) ECB is independent in its "monetary" decisions. In reality, the Merkel coalition government lets the ECB do a large part of the eurozone rescue work while keeping quiet about the fiscal support for fear of getting in trouble with the voters.

Former Bank of Italy chief "Super Mario" is succeeding in using the Club Med debtor majority to remodel the ECB into what some call "a eurozone wealth-of-nations redistribution mechanism," giving not only Bundesbankers a sinking feeling. The Bundesbank under Weidmann is increasingly isolated in its struggle to keep the ECB within its monetary mandate. This hurts, but is seen as a challenge to close the ranks with increased resolve to stick to the economic and legal foundations of European monetary union.

Since most remember the years when Pöhl—at the levers of political power in Bonn and as vice president and president of the Bundesbank—was dealing with the monetary turbulence and challenges of the 1970s and 1980s, some nagging questions were in the air at his memorial ceremony. How could a central bank that was able to use its dominant position as monetary anchor on the European and global stages to protect the fortunes of the nation's economy be rendered so powerless now?

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The answer is obvious: The Deutsche Bundesbank was once the cornerstone of European monetary stability, but was used as a bargaining chip for politicians negotiating ever-deeper European integration. "Even the ghosts of Germany's Auschwitz past have been used to intimidate, demean, and sometimes even terrorize those who oppose the dismantling of the Bundesbank and the replacement of the deutschmark with 'political money'," this Buba-watcher wrote in *TIE* in 1997.

SON OF A CIVIL SERVANT

Karl Otto Pöhl was born in Hanover as the son of a civil servant a few days after the October 1929 stock market crash.

My Two Pöhl Encounters

As someone who began reporting on the world of high finance and central banking at a time when the old Bretton Woods System of fixed exchange rates still existed, I can look back at the decades where Karl Otto Pöhl played important roles as political advisor, key negotiator, and central banker. I'll never forget two memorable encounters with Pöhl.

At the 1986 IMF Annual Meeting, the almost two-year conflict between the German government and the Reagan Administration over macroeconomic and exchange rate policy following the Plaza Accord in September 1985 came to a head.

The American delegation, headed by Treasury Secretary James Baker, his deputy Richard Darman, and Undersecretary for International Affairs David Mulford, was upset that Germany continued to resist American pleas to stimulate domestic demand. Badmouthing from the German delegation reaching the American side through the press caused more irritation. The German delegation was headed by Finance Minister Gerhard Stoltenberg, his Permanent Secretary Hans Tietmeyer, and Bundesbank President Pöhl. Pöhl, for instance, had badmouthed Mulford as "just a messenger boy who thinks he is important."

From U.S. Treasury higher-ups too came insults. Pöhl was characterized as "someone talking from both sides of his mouth." Tietmeyer was ridiculed as "not knowing when to stop his endless economic lectures." Even Stoltenberg caused irritation because "all the time taking notes in his class gets on one's nerves."

At the Credit Suisse reception at Dumbarton Oaks in Georgetown, Mulford suggested getting together after the IMF meetings on Friday to talk things over. That meeting in the Treasury of a German journalist with a top U.S. Treasury official turned out to be quite successful. Mulford and Pöhl had never met in private. After sounding out Pöhl's assistant, Gerd Häusler, on a walk along the Georgetown Canal, the idea was born to persuade Mulford and Pöhl to meet privately for lunch or dinner in the near future.

That was easier said than done. Under the U.S. rules, a high Treasury official is not supposed to have an exclusive meeting with a top foreign central banker without someone from the Federal Reserve sitting in.

In spite of this, that "peace meeting" became reality when Pöhl visited the new representative office of the Bundesbank in New York. At the time, Häusler could confirm that everything went well.

"That private meeting in New York with Karl Otto was extremely helpful. From that meeting on we both started to work on what became the Louvre Agreement."

In a recent telephone call from the Davos World Economic Forum, Mulford, now vice president of Credit Suisse, recalled: "Yes, that private meeting in New York with Karl Otto was extremely helpful. From that meeting on we both started to work on what became the Louvre Accord in February 1987." Mulford recently published a memoir, *Packing for India: A Life of Action in Global Finance and Diplomacy* (Potomac Books, 2014).

Badmouthing from the top of the U.S. Treasury, it should be remembered, entered into the history books a year later when Baker blamed Helmut Schlesinger, the Bundesbank Vice President and chief economist, who had a near-legendary reputation as monetary hard-liner, for causing the "Black Monday" stock market crash of 1987, then the largest one-day market crash in history. The Dow lost 23 percent of its value on October 19, 1987.

There was another encounter with Pöhl that I cannot forget. I was invited to his office to talk about how much his public standing had been damaged by having been overruled and outmaneuvered by the Kohl government on the controversial issue of the timing and the exchange terms of German monetary union. What advice could I give?

Those television pictures from Berlin showing the president of the Bundesbank telling the nation that German monetary union was far off in the future but—as it turned out the next day—had already been decided as a political matter by the Bonn coalition government, with exchange rate terms that the Bundesbank had rejected on economic grounds, damaged Pöhl's standing irreparably at a historic crossroad of German history.

He was not only bested by Chancellor Helmut Kohl, Kohl's Minister of Finance Theo Waigel, and by their Permanent Secretary Hans Tietmeyer. He also was caught off guard for everyone to see. Some in the Bundesbank had known about the momentous government decision, but didn't inform their president in time.

But was this reason enough to step down? That was his personal decision. He could have played by the rules and served out his term. Or he could have followed the principle that one could not accept such a humiliation by one's own government and top colleagues, and step down early. The latter happened.

—K. Engelen

The Bundesbank was used as a bargaining chip.

Having joined the Social Democratic Party as a student of economics at Georg-August-Universität in Göttingen, Pöhl broadened his background as researcher at the IFO Institute for Economic Research in Munich. At the Association of German Banks, he became an insider of Germany's financial sector. As journalist at the weeklies *Wirtschaftswoche* and *Zeit* he become known in the economic policy battles of the time. Pöhl emerged as a leading economic policy brain in the SPD.

Before becoming a leading central banker, Pöhl played a key political role as economic adviser and from 1972–1977 as Permanent Secretary in the German Ministry of Finance in Bonn. The Social Democrats came into power with Willy Brandt as chancellor in 1969, followed by Helmut Schmidt in 1974, who governed in a coalition with the Free Democrats until the fall of 1982.

Pöhl was nominated by Chancellor Schmidt as vice president of the Bundesbank beginning 1977, and served as president from 1980 to 1991. Pöhl stepped down early in a dispute with Chancellor Helmut Kohl about the timing and the terms of German monetary union. He then started his "third career" as a private banker, becoming partner and later head (1993–1998) of Cologne's Sal. Oppenheim bank, a venerable finance house established in 1789. In the private sector, Pöhl served on advisory boards of such companies as Royal Dutch Shell, Unilever, Rolls-Royce, Volkswagen, and the private equity firm the Carlyle Group. About a decade after Pöhl had left Sal. Oppenheim, the bank ran into trouble and was taken over by Deutsche Bank in 2009.

SAYING FAREWELL TO KARL OTTO PÖHL

"Today we mourn the passing of an outstanding figure in the world of central banking who was instrumental in paving the way for European monetary union. He was not only a profound man but a man of considerable humor as well," said Bundesbank President Weidmann before a gathering of around 150 invited guests. "Karl Otto Pöhl possessed the ability to think simultaneously in political and economic terms and to express himself."

Weidmann recalled Pöhl's opposition to German monetary union because he considered this step premature and the exchange rate economically not justified. This dispute with the Kohl government on the terms and timing to introduce the deutsche mark to East Germany led to Pöhl not serving out his full term.

And Weidmann reminded those present that "Karl Otto Pöhl was also initially skeptical about another project: that of European monetary union, for which he was among the founders as key negotiator in the Delors Committee."

Continued Weidmann: "At the same time, however, he was keen to ensure that this project was not solely left up to others." Thanks to his deeply held stability-oriented stance, Pöhl succeeded in convincing his fellow members of the Delors Committee of the need for an independent central bank committed to price stability and able to make decisions as the guarantor of a functioning monetary union. The Bundesbank's independent status was subsequently used as the model for the European Central Bank, later described by Pöhl as his greatest achievement.

Former Bundesbank President Schlesinger recalled the "new touch" that Pöhl brought to the Bundesbank's external presence during his tenure. As a one-time journalist, Pöhl had realized that the Bundesbank needed to move away from what could be seen as schoolmasterly lecturing to adopt a more accommodative approach when presenting its arguments to other countries.

The Bundesbank also invited historian and *Welt* columnist Michael Stürmer to speak. He put Pöhl on a pedestal as "Banker der Republic," and as a "trustee of the nation," who in times of global upheaval wrote himself into the German history books, and over time came to personify the German nation's faith in its national currency, and increasingly in the euro as well.

The huge quantitative easing program, pushed by the ECB's President Mario Draghi, is feared to be the Bundesbank's most damaging setback.

In Stürmer's view, Pöhl saw many problems that are still vexing us today. He sounded the alarm early on the emerging weaknesses of the euro. In the historian's account, "Karl Otto Pöhl set standards that will endure far into the future, a future perhaps less certain than some of us would like it to

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be." At home and abroad, Pöhl was "a legend in his time," dealing with major challenges. This included the breakdown of the Bretton Woods system of fixed exchange rates, when in August 1971, U.S. President Richard Nixon suspended U.S. dollar convertibility in gold, allowing the currency to float freely, with enormous repercussions for the world economy and for a leading export and monetary surplus country like Germany. John Connally, Nixon's Treasury secretary, told European finance ministers who were worried about the export of American inflation into the global economy, "The dollar is our currency, but your problem."

PÖHL'S CHALLENGES UNDER BRANDT AND SCHMIDT

Before becoming a central banker, Pöhl played a key political role as economic adviser in the chancellery and from 1972–1977 as Permanent Secretary in the German Ministry of Finance in Bonn. On his first day working at the Bonn chancellery in 1970, Pöhl recalls, he had to help then-Economic Minister Karl Schiller relieve the Bundesbank from its intervention liability against the dollar. Then it was necessary to explain to Chancellor Willy Brandt why this was necessary.

In the SPD, Pöhl had two high-caliber economic policy heavyweights on his side. The first was Manfred Lahnstein, who followed him as Brandt's economic advisor and eventually became "super minister" for finance and economy in the last stretch of the Schmidt era. The second was Horst Schulmann, who had served at the World Bank and the EU Commission before entering the German finance ministry. Later he was head of the Institute of International Finance in Washington, followed by Charles Dallara, a high-ranking U.S. Treasury official. Schulmann returned to Germany as a member of the Bundesbank policy council.

Pöhl's important counterparts on the U.S. side over two decades were Paul Volcker—also a legendary central banker—and David Mulford, who as powerful assistant secretary and later under secretary for international affairs at the U.S. Treasury under Secretaries James Baker and Nicholas Brady had a key role in devising and preparing such historic monetary cooperation and financial rescue projects as the Plaza Accord in September 1985, the Louvre Accord in February 1987, and the so-called Brady Plan in March 1989, under which bank loans to mostly Latin American countries would be converted into "Brady Bonds." During the administration of U.S. President George H.W. Bush, Mulford's special assistant was Timothy Geithner, who served as U.S. Treasury secretary from 2009 to 2013.

After Nixon took the dollar off the gold standard, the economic fallout from two oil price shocks on a strongly export-oriented German economy in the 1970s was another major challenge for Pöhl and his colleagues. In the 1980s, Pöhl had to act as crisis manager on the global stage in the monetary upheavals, for instance negotiating the 1985 Plaza Accord in New York to restrain the value of the dollar. This was followed by working on the 1987 Louvre Accord

Pöhl saw many problems that are still vexing us today.

Pöhl: A Man of Uncommon Achievement

Manfred Lahnstein, who served Chancellor Willy Brandt as top economic advisor, held key positions under Chancellor Helmut Schmidt and his Finance Minister Hans Apel, and eventually served as finance and economic minister in the final phase of the Schmidt coalition of Social Democrats and Free Democrats in 1982, worked closely with Karl Otto Pöhl over many years.

Manfred Lahnstein *in 1983.*

For Lahnstein, Pöhl "is a great civil servant, a great central banker, and a man of the world in the best sense of the word. He despised academic wise-acres and narrow-minded dogmatists. He knew too much about life not to know that considered compromise is necessary to save the essential. However, Karl Otto never compromised on principles. That is why he resigned from the Bundesbank after German unification when 'his' institution was overruled and outmaneuvered by the Bonn government. That is why he left his party when the SPD seemed to have forgotten that you can distribute only what you have produced in the first place. Both decisions have been painful ones. They do him as much honor as do his relevant achievements in the field of financial and monetary policy as well as in fostering true international understanding and friendship. I have learned a lot from Karl Otto Pöhl and remain deeply grateful for his lessons and his example."

—K. Engelen

in Paris which aimed to stabilize volatile exchange rate markets.

At the end of the 1980s, Pöhl turned to work on European monetary union. He became a dominant figure in the Delors Committee that drafted the blueprint for monetary union which was later inserted in the Maastricht Treaty with few amendments. There, Pöhl tried to frame a future European Central Bank as much as possible after the German Bundesbank model.

BEHIND POLITICAL CORRECTNESS

What was not addressed openly at the commemoration ceremony was how deeply Pöhl was eventually disappointed in European leaders, the European Union, and the ECB for disregarding EU law and the ECB statutes to save a defaulting Greece. Those who were in touch with Pöhl during his last years got the impression that he must have gone through hell watching the billion-euro Greek rescue packages starting in 2010.

"Imagine, if claims were made and Germany had to pay countless billions, this would be dreadful and it could lead to the euro becoming a weak currency," he lamented. Talking about big European rescue funds, Pöhl drew attention to the fierce fight of the Bundesbank to block French demands for a fund for stabilizing exchange rate markets in support of the European Exchange Rate Mechanism as part of the European Monetary System. As someone who had seen his share of financial turmoil over decades, Pöhl used to complain with a dose of sarcasm about "financial market illiteracy among finance officials, politicians, and parliamentarians."

Pöhl openly admitted some of his own mistakes. He accepted the "one country, one vote" governance system at the ECB.

Pöhl openly admitted some of his own mistakes. For instance, he accepted the "one country, one vote" governance system at the ECB. He justified his original support for "one country, one vote" because he assumed that only the six founding member countries would be admitted to the euro. In interviews, he stated, "It cannot be that central banks from Malta to Cyprus have the same voting power as the Bundesbank. 'One country, one vote' should therefore be changed to distribute ECB votes according to the economic weight of member countries. This would help the ECB to manage future crises."

FOUNDING FATHERS OF EMU

For historian Michael Stürmer, Pöhl was one of the "founding fathers" of European monetary union because of his dominant role on the Delors Committee. It consisted of twelve EC central bank presidents, three independent experts, the EC Commission president, and another EC commissioner. The EU summit meeting at Hanover in 1988 commissioned the group, chaired by the president of the European Commission, Jacques Delors, to submit new proposals on the road toward monetary union.

A decade before, in 1978, French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt had come together for an initiative for wider-ranging monetary cooperation in Europe.

An excerpt from the British *Telegraph*'s obituary page of December 14, 2014, draws attention to Pöhl's role as EMU architect. "At home and abroad," wrote the *Telegraph,* Pöhl was "an implacable advocate of the role of central banks as independent institutions, focused on price stability and free from political interference."

When the Delors Committee convened in September 1988 to draft a plan for economic and monetary union—with the creation of the euro at its center—"the strongest voice at the table besides European Commission President Jacques Delors was that of Pöhl, who proposed his own blueprint for a European central bank modelled precisely on the Bundesbank, with a strong mandate to combat inflation. He also called for binding rules on member nations' budget deficits."

Negotiating the statutes for the European System of Central Banks and the European Central Bank for the Delors Committee was indeed a Herculean task with most articles highly contested. Günter Baer, a veteran official of the Bank for International Settlements who was secretary of the Delors Committee, can point to such battles, for instance about Article 127(6) of the Treaty on the Functioning of the European Union.

When European heads of state and governments, at the June 2012 EU summit, decided to transfer bank supervision—in the form of a pan-eurozone Single Supervisory Mechanism—to the ECB, they used Article 127(6) as the legal basis. Baer recalls Pöhl's "fierce struggle with France when rejecting French proposals to let the new ECB also supervise the eurozone's banks." The Bundesbank was afraid that empowering the ECB as lead bank supervisor would expose the European System of Central Banks and the ECB to an erosion of central bank independence from governments and mass conflicts of interest.

The Bundesbank won that battle by insisting on a very narrow wording of Subsection 6. In this effort, the Bundesbank was supported by the German government under Chancellor Kohl.

Although practically all leading legal authorities in the German-speaking euro member countries and even the EU Council's legal service have taken the position that this article cannot be used as the legal foundation for the Single Supervisory Mechanism and banking union, it is being used anyway. By disregarding the wording and intent of Article 127(6), argues Baer, "France was able to get in 2012 what they were not able to get from Germany in 1988, when the ECB statutes were negotiated."

Pöhl's anger about the European rescue packages exploded.

A JACOBSSON LECTURE FAREWELL

In his commemoration speech, Stürmer noted correctly that Pöhl—having been at the center of so many momentous developments and decisions for so long—didn't leave much in writing. That contrasted with another famous permanent secretary in the Finance Ministry who became president of the Bundesbank, namely Hans Tietmeyer (1993–1999), who left behind an extensive list of published works. This explains why Pöhl and Tietmeyer were rivals and not on close terms. "That Karl Otto Pöhl, in his relaxed and worldly Anglo-Saxon way, has achieved a standing in the financial world as the German equivalent of Paul Volcker, may have irritated Hans Tietmeyer, a workaholic and prolific writer with professorial habits," says an insider. As Bundesbankers recall, some had put in their offices a famous Pöhl quote that read, "In this country you must give the impression you are overworked in order to be taken seriously."

But talking about the founding fathers of monetary union, Tietmeyer also has his place. Having started his career in 1962 in the Ministry of the Economy, Tietmeyer emerged as the leading economist ready to serve a center-right coalition government under Helmut Kohl. The so-called "Lambsdorff Paper," named after the liberal Minister of the Economy Otto Count Lambsdorff of the Free Democrats, and published September 9, 1982, was the economic policy agenda for the long Kohl era. As permanent secretary in the Ministry of Finance (1982–1990), Tietmeyer had to work with Pöhl in the Bundesbank, eventually as member of the board of directors of the Bundesbank and vice president. In 1993, Tietmeyer became president of the Bundesbank, a position he held until August 1999. In his years at the Ministry of Finance and then at the Bundesbank, Tietmeyer had a key role in the introduction of the euro.

After leaving the Bundesbank, Pöhl seemed to be too busy as a banker. He already was a partner of the Sal. Oppenheim bank when he gave the 1992 Per Jacobsson Lecture at the 1992 IMF Annual Meeting in Washington. It was titled "A New Monetary Order for Europe." Some consider this lecture as sort of a "Pöhl Testament" worth reading.

In his lecture, Pöhl welcomed that Germany's partners have realized that an agreement was only possible on a design which incorporated key elements of the Bundesbank model, with perhaps minor adaptations. If Germany was to give up its dominant position and share its monetary anchor role with others, a price had to be paid. "I think it has become very clear that only a multi-speed approach has a chance to be realized, as I have said already some years ago. … A minimum condition for success, or an insurance against disaster, is that participation should be strictly limited to members which fulfill a number of stringent conditions."

He goes on: "They should offer adequate assurance that their inflation rate, their fiscal deficit, and their public debt, quite apart from other relevant factors, will not be a cause of discord and tension from the very outset. A core group could be allowed to move ahead in full confidence of success, while leaving others to join as they meet the necessary entry criteria."

And he warns: "Recent developments have shown that these conditions cannot be ignored without causing tensions which can finally threaten the existence of the system itself."

"NOW WE HAVE THIS MESS"

How much Pöhl had soured on the euro rescue operations became apparent in interviews he gave in reaction to the controversial Greek rescue in 2010. He talked to *Wirtschaftwoche* and *Der Spiegel,* deeply upset about eurozone governments—especially the German government—disregarding the no-bailout clause of the Maastricht Treaty and thereby severely damaging the foundations on which the ECB and the European System of Central Banks have to operate.

Pöhl's anger about the European rescue packages exploded in a larger interview with *Der Spiegel.* "The foundation of the euro has fundamentally changed as a result of the decision by eurozone governments to transform themselves into a transfer union. That is a violation of every rule. In the treaties governing the functioning of the European Union, it explicitly states that no country is liable for the debt of any other. But what we are doing now is exactly that. Added to this is the fact that, against all its vows, and against an explicit ban within its own constitution, the European Central Bank has become involved in financing states. Obviously, all of this will have an impact."

Pöhl warned that "the euro has already sunk in value against a whole list of other countries. This trend could continue, because what we have basically done is guarantee a long line of weaker currencies that never should have been allowed to become part of the euro." Pöhl rejected the government's justification that there was no alternative to the rescue package for Greece, nor for other debt-laden countries, retorting, "I don't believe that. Of course there were alternatives. For instance, never having allowed Greece to become part of eurozone in the first place." In Pöhl's view, "One would also have expected the (European) Commission and the ECB to intervene far earlier. They must have realized that a small, indeed a tiny country like Greece, one with no industrial base, would never be in a position to pay back €300 billion worth of debt."

Pöhl rejected Chancellor Merkel's justification that without huge rescue operations there would be a domino effect with repercussions for other European states facing debt crises of their own. "I don't believe that. I think it was about something altogether different. It was about protecting German banks, but especially the French banks, from debt writeoffs. On the day the rescue was agreed on, shares of French banks rose by up to 24 percent. Looking at that, you can say what this was really about—namely, rescuing banks and rich Greeks. They could have slashed the debts by one-third. The banks would then have had to write off a third of their securities. Investors would quickly have seen that Greece could get a handle on its debt problems. And for that reason, trust would quickly have been restored. But that moment has passed, now we have this mess."

How is it possible, asked *Spiegel*'s banking reporter Wolfgang Reuter, that the foundation of the euro was abandoned, essentially overnight? "It did indeed happen with the stroke of a pen—in the German parliament as well," said Pöhl. "Everyone was busy complaining about speculators and all of a sudden, anything seems possible."

Pöhl didn't share in the common bashing of speculators that has been dominant since the beginning of the euro sovereign debt crisis. "A lot of those involved are completely honorable institutes—such as banks, but also insurance companies and investment and pension funds—which are simply taking advantage of the situation. That's totally obvious. That's what markets are for. They should be investing their investors' money as securely as possible. Should the credit rating of a debtor worsen because that debtor has been living beyond his means for years, then it is completely rational for these institutions to get rid of these bonds—because they have become insecure. Then other investors buy them at a lower price. They receive a higher return, but also have greater risk. That is totally normal market behavior."

In Pöhl's view, it is plausible that politicians invented the specter of rampant speculation in order to legitimize a break with the Lisbon Treaty and with the ECB statutes. As consequence of the euro crisis, warns Pöhl, "the whole mechanism of the European community will change. The European Union is a federation of nations, not a federal republic. But now the European Commission will have a lot of more power and more authority as well as the potential to interfere in national budget law. That, however is constitutionally problematic in Germany."

PÖHL WAS DUPED

In probably his last interview, on November 27, 2014, Jörn Bender of the DPA news agency asked Pöhl what advice he would give Bundesbank President Jens Weidmann in his role on the ECB Council as the "lone voice in the desert." Pöhl's answer sounded somewhat tired and disillusioned: "Keep on shouting and stay firm. That's not easy."

What most may have thought privately at Pöhl's farewell commemoration was that Germany's political elite in the major parties could accept a fair share of the blame for disregarding and thereby undermining the legal basis of monetary union. This started in 2002 when Chancellor Gerhard Schröder and his coalition of Social Democrats and Greens—supported by France—forced the EU Commission to weaken the Stability and Growth Pact in order to be able to exceed the allowed limit of 3 percent of GDP for its budget deficit. Even larger infringements followed after Merkel entered Germany's chancellery in 2005 and, with Greece, has had to cope with the euro sovereign debt crisis since 2010.

THE HALL OF FAME

As Manfred Lahnstein, Chancellor Schmidt's last finance and economics minister, noted, "Karl Otto never compromised on principles. That is why he resigned from the Bundesbank after German unification when 'his' institution was overruled and outmaneuvered by the Bonn government."

In that regard, Pöhl qualified for the "Hall of Fame" of those post-war German central bank leaders who stood up for real central bank independence and—to quote historian Michael Stürmer—felt themselves morally bound to act as trustees for the nation's people and fortunes.

Axel Weber, who as president of the Bundesbank from March 2004 to April 2011 played an important role in solving the banking crisis that began in the summer of 2007 with insolvency of IKB, resigned before his term ended and thus took himself out of the race to become successor to France's Jean-Claude Trichet as president of the ECB. In the sense of a "trustee" of his nation's savers and taxpayers, Weber was not ready to let an ECB majority force him to allow the ECB buy eurozone government bonds as a cover for state financing that is prohibited under the ECB's statutes.

Jürgen Stark, an architect and strong defender of the Stability and Growth Pact during his time as permanent secretary in the German finance ministry, and Bundesbank vice president and chief economist of the ECB, resigned in September 2011 on the same grounds as Weber. As Stark wrote in his farewell letter to the sixteen hundred members of the ECB staff, he could no longer be part of an ECB that is "operating under fiscal dominance," thereby "extending the ECB mandate to the extreme" and "acting under the illusion that monetary policy can solve huge structural and fiscal problems in the eurozone."

Hans Reckers, a Christian Democrat who worked under Finance Minister Gerhard Stoltenberg and Chancellor Kohl, became president of the Landeszentralbank Hessen (1999–2002), and then served as a Bundesbank board member from 2002 to 2009, was the only German central banker who had the courage to speak out against letting Greece join the euro.

When he told the press in April 2000, "In my opinion Greece is not qualified for European monetary union, and its accession has to be postponed at least a year," the Athens stock market crashed and Schröder's Finance Minister Hans Eichel immediately called then-Bundesbank President Ernst Welteke to stop Reckers from making such statements. However, Reckers went ahead, informing the media that the fifteen top-level members of the Bundesbank were convinced that Greece's entry into monetary union was a mistake.

PÖHL'S LEGACY? A SAD ENDING

On a day when the Bundesbank was commemorating one of its truly great presidents, some remembered Jacques Delors' famous statement, "Not all Germans believe in God, but they all believe in the Bundesbank."

Looking back at the years when the "founding fathers" of monetary union, Pöhl and Tietmeyer, worked on the mega-project, their institution, the Deutsche Bundesbank, was characterized in the political and financial world sometimes cynically as a "superpower with an expiration date."

In this regard, another quote might be appropriate. When economist and Nobel Laureate James Buchanan talked about the Maastricht Treaty and the progressing preparation for monetary union at the Alpbach Conference in August 1995, he stunned some participants with a sinister prediction: "The Maastricht Treaty will prove ruinous for the Deutsche Bundesbank. What is troubling me the most is that monetary union would destroy the Bundesbank and would become extremely costly. At a time when citizens and markets increasingly distrust government institutions, the needless destruction of bastions of stability such as the Deutsche Bundesbank will have negative implications for the relationship of citizens and state but also for the standing of Europe."

Although the battles about giving up the trusted deutsche mark are long over, the battles for the credibility of the Bundesbank and the ECB with the euro as its currency are still raging on with an uncertain outcome.

Germany's political elite in the major parties could accept a fair share of the blame for disregarding and thereby undermining the legal basis of monetary union.

How the Bundesbank, the economically most important central bank, now integrated and institutionally weakened, can preserve credibility and trust and protect its nation's savers, taxpayers, and entrepreneurs, is emerging as a politically explosive issue in a eurozone with zero interest rates and an ECB printing money in amounts never seen before.

In this respect, Pöhl—a central banker legend—had no illusions when he warned, "A common European monetary policy cannot ensure monetary stability on its own. Above all, it cannot paper over problems in the Community arising from differing economic and fiscal policies."

But in his last years, Pöhl had to realize that his hopes that the European Central Bank could be modelled after the Bundesbank had been dashed. Even when negotiating the Maastricht Treaty, Pöhl had shared such doubts "in private" with others such as Robin Leigh-Pemberton, governor of the Bank of England.

After having read the draft of this piece, an IMF veteran and BuBa-watcher sent back a one-liner that belongs here as a summation: "Hard hitting and sad, because Pöhl's achievements are gone. We have now the ECB *française.*" ◆