German Central Bank Chief Forced Out

by Rainer Apel

Confronted with new revelations about yet another irregularity in handling personal finances (BMW picked up the tab for a trip to a Monaco racing event in 2003 for him and his wife), German Central Bank Governor Ernst Welteke, on April 16, announced his resignation.

He had already suspended his active governor's functions the week before, because of the "Adlon Hotel affair," an exposé of a stay of Welteke and his family at one of Berlin's most expensive hotels during the New Year's weekend of 2001-02. The large hotel bill of 7,500 euros was paid by the Dresdner Bank. Rumor has it that the staff of Finance Minister Hans Eichel himself leaked the Adlon story to get rid of Welteke, with whom Eichel had had a falling out over Welteke's "obstructionism" on several monetary and fiscal projects.

Conflict Over Adhering to Maastricht

In the late Autumn of 2003, Welteke delivered several salvos against the planned European Union Constitution, which envisaged a reduced status of the European Central Bank (ECB). The finance ministers approved the change, but the central bankers did not. The constitution also envisaged rights of intervention and consultation for the national EU parliaments that would end the ECB's "total independence" status as laid down in the 1992 Maastricht Treaty. The constitution was subsequently vetoed at the December EU summit by the governments of Spain and Poland; with both of these governments now out, the constitution is very likely to be passed, soon.

Welteke also embarrassed Eichel with the Bundesbank's failure to transfer several billion euros from monetary market deals, to the finance ministry this year, leaving an additional black hole in Eichel's budget. An alternate project by Eichel, to have the Bundesbank sell its gold reserve to make some money for his budget, was also rejected by Welteke. Moreover, Welteke continued to attack any idea of softening the Maastricht budget criteria, over recent weeks—something Eichel had just begun to warm up to because of the worsening economic and fiscal problems. Previously staunch defenders of Maastricht, Eichel and the German cabinet were thinking of softer budget rules, to gain some maneuvering room.

It is worth noting that Welteke has also been given up by former neo-liberal friends in the media and central banking community of Europe, because it was felt that his absolute hardheadedness was becoming counterproductive, as it provoked Eichel into policies that hurt banking interests. For example, Eichel's refusal to grant supervision rights to the Bundesbank, under new German legislation, was seen by pro-monetaristic media as an avoidable strategic defeat of Welteke.

Axel Weber, the man whom the German cabinet proposed as new central bank governor on April 21, is an economist who has also served as a member of the government's chief economic policy advisory board. That he is neither a monetarist hawk nor an anti-monetarist, is widely seen as indicating that the cabinet wants continuity of cooperation between government and central bank in assessing the usefulness of the Maastricht rules. This is also indicated by the fact that Jürgen Stark, the vice-governor of the central bank and a monetarist pro-Maastricht hardliner, was not chosen as a replacement for Welteke.

None of those changes means, however, that the government has decided to opt for an alternative to the Maastricht system. It is still trying to keep that system, while at the same time creating some exemptions from the rules to gain fiscal maneuvering room. The German government has made a tiny step away from the system; but is not intervening with a policy, only reacting to events which are dictated by the reality of economic-financial depression.

Why Eichel Changed His Outlook

The change in Finance Minister Hans Eichel's views on the Maastricht issue just illustrates how reality dictates changes in establishment politics. Even a year ago, Eichel and Welteke shared the view, that budget-balancing through deep cuts and strict observance of the Maastricht budgeting rules had to be given priority. But during the Summer and Autumn of 2003, Eichel was confronted with a drastic drop in tax revenues, increased expenses for unemployment, and the failure, due to political opposition, of several attempts at budget-balancing legislation. No longer able to meet the Maastricht criteria of an annual maximum 3% of GDP net increase of the public sector debt—instead, being driven into the 4-5% sphere of net debt increase—Eichel got into fights with the two Maastricht watchdogs, the European Central Bank (ECB) and the European Commission. As similar conflicts had developed in other EU member governments as well, Eichel suddenly found himself drawn into an alliance with the finance ministers of France and Italy, the latter of which was the leading establishment politician calling for more profound modifications of the Maastricht system. Undoubtedly, all of this occurred against Eichel's will and political convictions, but he was forced to fight against the ECB and Commission, to stop them from launching sanctions against Germany, for violating the Maastricht rules.

The German government now has one foot in the Maastricht camp, while the other is moving to the opposite side. One thing is certain: It cannot go back, because reality won't permit it.