

Still the European Bundesbank?

Sources and Channels of German Influence at the ECB

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The European Central Bank (ECB) receives harsh criticism for doing “too little, too late” in the crisis. Like most other monetary authorities around the globe, the ECB has tapped into uncharted territory in its attempt to counter the economic crises after 2007. But compared to other major central banks (e.g. the Federal Reserve, the Bank of England or the Bank of Japan), which drastically increased the money supply through a variety of mechanisms, the ECB took a much more cautious approach. Despite record-high unemployment and extremely low inflation, it has until 2015 been very hesitant to adopt the expansionary policies its peers pursue. Why?

When trying to explain the ECB's puzzling (relative) conservatism, the economic commentariat usually points out the influence of German politics. Adopting this explanation, however, poses another puzzle: why and how does a single country succeed in effectively constraining the world's most independent central bank? In any measure of statutory independence, the ECB scores highest. What is more, the German Bundesbank governor does not enjoy more formal voting power than, say, the governor of the Maltese central bank and has occasionally been overruled – most visibly regarding the OMT program in 2012 and the QE decision in early 2015.

Against this backdrop, I examine the sources and channels of German influence on ECB policy-making in the crisis. In essence, I ask whether German influence is best understood in terms of external political pressure or in terms of prevailing ‘German’ ideas of monetary policy inside the ECB. Contrary to the dominant narrative of ECB decision-making as a clash between the ECB and the German Bundesbank, I argue that the ECB itself is still very much a ‘German’ organization. Ordoliberal ideas are shared by many actors across Europe, including European central bankers. The preliminary findings presented here are based on an extensive literature review, an analysis of actors' positions as portrayed in the media and public speeches, and a first-wave of exploratory interviews with both ECB staff and external experts.