

**Mr. Tietmeyer reviews the Central Bank Council of the Deutsche Bundesbank on its 50th anniversary** Address delivered by the President of the Deutsche Bundesbank, Prof. Hans Tietmeyer, during the ceremony marking the 50th anniversary of the first meeting of the Central Bank Council at the Land Central Bank of Hesse in Frankfurt/Main on 5/3/98.

On March 8, 1948, eleven men gathered next door in the building of the then Land Central Bank of Hesse.

The Central Bank Council - which at that time was still “provisional” - of the *Bank deutscher Länder*, which had been established on March 1, was meeting for the first time. An American officer of the Allied Banking Commission (appropriately named Mr. Freeman) convened the first meeting at 10.30 a.m.

There will be quite a few fiftieth anniversaries in the coming weeks and months occasioned by the flood of major events relating to Germany which took place in 1948 and 1949.

Many of these events were certainly more dramatic and spectacular than the first meeting of the Central Bank Council. Yet, if we remember this meeting now, it is because a crucial decision for the future began to take shape at that time. If that which was begun on March 8, 1948 had not met with success, the history of the D-Mark (and perhaps also the history of our country) would have taken a different course.

It is true that the preparations for the introduction of the D-Mark were carried out elsewhere and by others, particularly by the Allies themselves. Yet, with monetary reform on June 20, when the first D-Mark banknotes came into circulation, the fate of the new currency began to be linked to the viability and the stability orientation of the German Central Bank Council.

It is also true that the Central Bank Council did not act alone in achieving and safeguarding the D-Mark’s subsequent success and high level of stability. However, it acted in an exposed position, i.e. particularly wherever the scarcity of money was and is the issue.

## II

The first Central Bank Council meeting was preceded by fundamental differences of opinion among the Allies on the shape of the future German central banking system.

The Americans wanted to start again from scratch. They saw a highly concentrated and largely centralised economy as an environment in which the totalitarian regime in Germany had been able to thrive. They therefore wanted the structures to be as pluralistic as possible. Incidentally, that was also why they favoured a central bank which was independent of instructions by German agencies. Their reasoning was not so much based on scholarly economic arguments, nor solely on the model of the Federal Reserve Bank back in America. Rather, they were particularly anxious not to allow any new excessively dominant political structures in Germany.

Above all, decentralised structures were to be created. Independent Land Central Banks were established in Bavaria, Württemberg-Baden, Hesse and Bremen, which were linked relatively loosely to begin with. They were headed by new people who were to introduce a different, “new way of thinking”.

The British had other priorities. They wanted a functional and efficient central banking system as quickly as possible. Initially they adhered to the old centralist Reichsbank structure and created a central agency in Hamburg, making use of experts with Reichsbank experience in many cases. Only in 1948 did they dissolve the Reichsbank organisation and create Land Central Banks in Düsseldorf, Hanover, Hamburg and Kiel.

French intra-zonal central banking policy was closer to the decentralised approach of the Americans. As early as 1947, the French created Land Central Banks for Württemberg-Hohenzollern, Baden and Rhineland-Palatinate. Admittedly, they were less than enthusiastic about the plan to link Land Central Banks across the borders of the occupation zones, not least because they were much less interested in a currency reform than the Americans and the British.

The list of participants (and, to a nearly greater extent, the list of non-participants) in the first Central Bank Council meeting is very revealing.

Firstly, there were the two representatives of the Allied Banking Commission, an American and a Briton. The Americans and British were the architects of the *Bank deutscher Länder*.

Secondly, there were the already appointed “proper” Presidents (or Vice Presidents) of Land Central Banks that were already firmly established. They came from the American zone.

Thirdly, there were the representatives of the “embryonic” Land Central Banks which were still in the process of being established; these representatives were separately commissioned by the Länder governments. They came from the British zone.

Fourthly, the representatives of the Land Central Banks from the French zone were absent. They were not to join until a few weeks later, with retroactive effect as of March 25. The files reveal that an important motivation for the French joining quickly was their overriding interest in gaining influence on the initial decisions on staffing in the new central bank.

Fifthly, no representative of Berlin was present. The Western Powers excluded Berlin from the plans concerning currency reform. This also drew sharp criticism from the conclave of Rothwesten. As late as the autumn of 1957, the President of the Berlin Central Bank attended the meetings only as a guest, having what was termed an “advisory vote”.

Sixthly, and finally, representatives from the Soviet zone of occupation were absent. This is mentioned not merely for the sake of completeness.

After all, in early March 1948, negotiations were still taking place on a four-zone currency reform - at least in a formal sense. On March 20, the Soviets left the negotiating table for good. The die had probably been cast beforehand, though. And therein lies a sort of tragedy of that time. Currency reform perpetuated the division of Germany which to all intents and purposes had already been under way. The *Bank deutscher Länder* became the first institution of “Trizonesia”.

Much has been written, and speculation has abounded, regarding the events of that period and the reasons for them. One thing is sure: currency reform was certainly not the cause of the subsequent forty-year division of Germany. However, it undoubtedly made the separation of both parts of Germany more obvious than it already was. And it is certainly not completely accidental that the introduction of the D-Mark in eastern Germany in 1990 also paved the way for political reunification. On November 12, 1992 - following the reorganisation of the Bundesbank's structure - representatives of Land Central Banks with responsibility for the east German Länder became members of the Central Bank Council for the first time.

### III

The Central Bank Council of March 8, 1948 thus also mirrored the conflicts of that period. But that is only one aspect.

The first Central Bank Council meeting was, at the same time, a reflection of the compromise between the American approach, which tended to be federalist, and the British approach, which was more centralised, and this included those issues which remained controversial to the end: Is the Board allowed to be operationally active? And: What is the composition of the Central Bank Council?

Since that time, the institution of the Central Bank Council has had, on the one hand, a centralist element - as the name says. In particular, it is responsible for a single monetary policy. The Land Central Banks do not have any discretionary scope in that respect; their task is to implement that policy. On the other hand, though, the Central Bank Council has an inherent decentralised element owing to its composition.

Besides the Presidents of the Land Central Banks, the Central Bank Council of the *Bank deutscher Länder* had only two other members: its chairman and the President of the Board. The members of the Board did not join the Central Bank Council until the Bundesbank Act became law in 1957. However, the decentralised element was preserved in the process by which Land Central Bank Presidents are appointed.

The Central Bank Council thus has a sort of "dual character". Even today, it is at the same time a centralised body in terms of its function and partly decentralised in its composition. This dual nature has not always been without problems. It could have torn the Central Bank Council apart.

There were also fears at the beginning that the Presidents of the Land Central Banks were merely servants of their Land governments, and that they would be unable to resist requests by the Länder for loans, in particular. Fortunately, things transpired differently. Even in the more decentralised composition of the *Bank deutscher Länder*, the dual character proved not to be a predetermined breaking point but rather its strength.

Why? Particularly because it was possible for a collegial principle to develop and consolidate up to the present day. The members came more and more to feel themselves part of a joint body with a common responsibility for the stability of the D-Mark. This principle of collegiality prevents exaggerated centralism - both on the Board and in terms of the President. At the same time it prevents fragmentation. There is no horse trading, no coalitions geared to special interests. Despite all the differences in the detailed judgements, the common orientation towards the goal of monetary stability predominates.

Two institutional factors played a crucial role in encouraging the development of the collegial principle. Firstly, the role of the President. He is *primus inter pares* - no more and no less. As opposed to some other countries, we do not have a hierarchical presidential constitution. Yes, even the President can be outvoted. Secondly, the collegial principle is also strengthened by the fact that only the members are present at the meetings.

The decision-makers are by themselves. Everyone - including the President - is thus compelled to become personally involved and to state his own arguments. And this, it should be noted, in a body whose decentralised composition entails a high degree of plurality, and diversity in terms of professional careers, personal experiences and even policy judgements, in some cases.

The collegial principle makes the Central Bank Council a sort of specialist parliament. Daily issues, and party political interests, too, are to be left outside.

Karl Schiller coined the term Frankfurt Areopagus - a term which has often been quoted since. The fact that this sometimes carries a slightly mocking undertone does not bother me too much, either.

This collective responsibility, subject only to the legal mandate, and the Central Bank Council's concept of its own role as a specialist parliament are crucial preconditions of the Bank's independence. Collective responsibility is, at the same time, a protection against external political influences. The specialist judgement,

unencumbered by tactical and political considerations, is the basis of the legitimacy in taking decisions on interest rates and the money stock independently of political bodies.

Pointing to great individual achievements does not by any means discount the significance of the Central Bank Council as a body. The authority of a specialist body always needs minds and personalities who also ensure the necessary continuity.

I should like to mention two of my predecessors, both of whom are present here today: Karl Otto Pöhl and Helmut Schlesinger. And I would also like to bring to mind some great personalities of the 1950s, 1960s and 1970s. Their names are inseparably linked with the post-war history of the German central bank: Wilhelm Vocke, Karl Bernard, Otto Veit, Otto Pfleiderer, Karl Klasen, Karl Blessing, Otmар Emminger.

The history of a central bank is not only contained behind glass cases, in file folders, ceremonial speeches, or the like. No, more importantly, the history of a central bank lies in its reputation, or in its "capital stock", so to speak. And it also lies in its "institutional memory".

By the way, five of the above-named personalities - Vocke, Bernard, Veit, Pfleiderer and Klasen - played a key role when the *Bank deutscher Länder* withstood its first serious clash with the Federal Government in October 1950. At that time, the Central Bank Council raised official interest rates by 2%, contrary to the insistent urgings of Adenauer and Schäffer.

That was a milestone on the road to a truly independent German central bank and to a stable D-Mark.

The legendary meeting took place in the Chancellery in Bonn, by the way. To that extent - for *that* meeting, it should be noted - geographical proximity to policy makers has not done any harm.

On the whole, though, the logic behind an unpolitical monetary and financial system implies protecting oneself from the all-too-hearty embrace of politics by not being too close to the policy makers.

#### IV

Without a doubt, the year 1998 is a special one for the Central Bank Council.

It will hold its thousandth meeting in the autumn. Incidentally, we have not pulled any tricks in order to reach the 1000 figure in time before the end of the year.

At the end of the year, as you all know, the Central Bank Council of the Deutsche Bundesbank will surrender its monetary policy decision making powers to the ECB Governing Council, in accordance with the Maastricht Treaty. (The place where the ECB Governing Council's meetings are to be held is only a few hundred metres from here, by the way.)

It is occasionally said that the European Central Bank is a copy, a clone, of the Deutsche Bundesbank. In actual fact, there are major features which the future European and the present German central banking systems have in common - particularly independence and the combination of centralised and decentralised elements, of course. Nevertheless, it is precisely in the decentralised elements that differences exist which cannot be overlooked.

Admittedly, the fleshing out of the structures defined in the Treaty, the practical handling of monetary policy powers, are not things that can be xeroxed and thrown into the European Central Bank's mailbox. These are things which have to evolve there themselves, much as they evolved in the *Bank deutscher Länder* and then in the Bundesbank.

The ECB Governing Council should also soon arrive at a truly collegial principle. In that way, the European general public will be able to recognise it as a credible, completely objectively-oriented specialist body with responsibility for all aspects of the single currency.

The accountability of individual members of the ECB Governing Council to national bodies or the European Parliament must not aim at sowing the seeds of division among the members or gearing monetary policy to special interests. That would jeopardise the collegial principle, and thus actual independence.

Within the European Parliament, too, there are obviously those who feel that there should be regular consultations on monetary policy decisions with the ECB Executive Board.

That surely exceeds the necessary scope of accountability. This is evidently a matter of subjecting monetary policy to, or at least involving it in, political plans and objectives. Yet the Treaty consciously envisages not only a supranational but also an unpolitical currency.

Some may find a parallel between the forthcoming establishment of the European Central Bank and the beginnings of the *Bank deutscher Länder* fifty years ago. Then, as now, the primary objective was to rapidly establish confidence in the new currency. However, the conditions are not comparable - thank goodness!

The conversion of national currencies to the euro is not a currency reform. No one is going to lose anything because of the conversion. And the European Central Bank is not starting from scratch. It can carry on the legacy of the past, with all its different facets in the participating countries.

In particular, it can - and hopefully will - build on the international reputation and the weight of the D-Mark as the present anchor currency in Europe. Hans Roeper gave us the much-quoted saying "From a child of occupation to a world star".

I do not wish to lapse into adulation. However, I do believe that the Central Bank Council of the Deutsche Bundesbank has played its due part in this development.

All in all, Germany's currency has had conscientious stability guardians for fifty years. And the general public has a right to expect that this will remain so when our money is no longer the D-Mark but the euro.