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Introduction

In February 2011, Axel Weber announced his resignation as President of the German Bundesbank. The former front-running candidate for the post of European Central Bank (ECB) president explained his imminent departure by noting his opposition to the ECB's purchase of Greek sovereign debt. On 9 September 2011, Jürgen Stark, the German Executive Board member of the ECB and its head of economic research, also resigned because of, it was widely assumed, his opposition to the extension of the bank's bond-buying (its Securities Market Programme) to include Italian and Spanish sovereign debt. The two resignations were the clearest indication of the depth of disunity in the Eurosystem of central banks since the start of EMU in 1999. In late 2011, with the yields on sovereign debt in even the euro area's core rising and the ECB facing unprecedented pressure from governments to step up its bond-buying as a defence against financial market pressures, Bundesbank opposition to bond-buying remained stubbornly firm and the ECB cautious (*Financial Times* 9 December 2011). Weber's successor, Jens Weidmann, publicly questioned the legality of the ECB's Securities Market Programme (*Financial Times* 7 December 2011).

ECB monetary policy making was designed to disguise real, and to counter imagined, disunity within the bank itself, and among its component national central banks (NCBs) and their governors. The legitimacy of the bank and its monetary policy relied in large part upon the perception that its inflation target was set for the entire euro area, without any national bias (Howarth and Loedel 2005). Given persistent economic divergence, and varying national rates of inflation in EMU, ECB monetary policy could never correspond to the economic interests of all euro area member states (Heinemann and Huefner 2004). Several mechanisms were put in place to shelter the ECB from accusations of bias: treaty guaranteed independence, a clear euro area mandate, a specific euro area inflation target, the *ad personam* (that is, independent and personal) status of its Governing Council's members, the non-transparency of monetary policy making and, after teething problems in the bank's early years, a rationalised communication strategy. Crucially, unity was achieved because the ECB's institutional design and monetary policy was based upon that of the Bundesbank. The unity of the Eurosystem of central banks and the appearance of unity depended upon the assumption that central bankers keenly supported the German model – which they endorsed in the Delors Report on EMU in 1989.

However, several features of the ECB undermined its unity and reputation for impartiality even prior to the start of EMU: notably, the greater representation of individuals from larger member states in the Governing Council. Crucially, though, the potential for disunity is in the Maastricht Treaty (Treaty on European Union) and the asymmetrical design of EMU. Euro area economic governance was insufficiently developed and, notably, fiscal policy rules were inadequately clarified and enforced. Similarly, in the Treaty, the responsibilities of the ECB to promote financial stability were left imprecise. Notably, due to central banker fears on the monetisation of debt, the ECB was not assigned the typical central bank function of 'lender of last resort'. The disunity in the Eurosystem of central banks that erupted during the sovereign debt crisis from late 2009, demonstrated that unity relied on consensus around German and notably Bundesbank preferences. Disunity stemmed above all from the absence of a road map for ECB policy making in a context of severe existentialist crisis.

Unity under the German model with caveats

The institutional design of the ECB, notably the bank's complete political and operational independence, its low inflation target – unqualified by other macroeconomic policy goals – and other features of its monetary policy making were based on the Bundesbank model. The ECB blueprint was designed and approved by the governors of all NCB governors in the Delors Committee and later clarified by NCB governors prior to the start of EMU in 1999. The design was the product of, some would have it, an epistemic community (Verdun 1998). Unity was the product of an overriding 'economic culture' of the ECB's membership (Howarth and Loedel 2005; Kaltenthaler 2006) structured by a strong interest in low inflation and fiscal rectitude as the preconditions to a sound European economy. Keynesian-inspired macroeconomic policy found little support, among ECB Governing Council members: a short-term trade-off between more inflation and less unemployment only created difficulties for the future. Bolstered by economic analysis, all NCB governors were firm believers in the benefits of independent central banks. The design and goals of the ECB had a clear political function: they were the *sine qua non* of EMU, without which German Chancellor Helmut Kohl would have been unable to lend his support given domestic opposition (Dyson and Featherstone 1999). Although the source of unity among central bankers, independence and the prioritised goal of low inflation remained controversial in several euro area member states and political leaders frequently railed against ECB monetary policy making (Howarth 2008). The specification of the ECB inflation target and the publication of a monetary map to show markets how the ECB would tackle inflation, dispelled disunity. The original Stability and Growth Pact (SGP) agreed in December 1996 was hailed by central bank governors as a crucial mechanism to ensure an appropriate policy mix in the euro area and to limit the future inflationary consequences and instability created by unsustainable debt burdens (Howarth and Loedel 2004).

The ECB's relatively small six member Executive Board and its limited weight on the 21 member Governing Council which also includes the NCB governors demonstrates an important feature of the Eurosystem. Compared to other federal banking systems, the Eurosystem is decentralized: NCBs have more sway collectively than, say, representatives from the Federal Reserve District Banks. This reflects the Bundesbank model prior to EMU where Land bank governors dominated the Central Bank Council. It also reflects practical reality: the NCBs are well-established, whereas the ECB is a fledgling, small institution. Eurosystem NCBs perform several operations vital to the operation of the euro area. Notably, they conduct foreign-exchange operations and ensure the smooth operation of payment systems. The NCBs hold and manage the official foreign reserves of the member states (of which they can provide up to 40 billion euro to the ECB) and hold the capital of the ECB (just under 4 billion euro). However, unity is maintained through the requirement that NCBs follow the regulations, guidelines and instructions of the ECB in these and several other areas: buying and selling securities and other claims; borrowing and lending securities; dealing in precious metals; conducting credit operations with banks and other financial institutions based on adequate collateral; acting as fiscal agents for public entities (although they may not grant them credit facilities or buy their debt instruments directly from them). The ECB can also engage in these activities. The precise role of the ECB in relation to the NCBs depends on the kinds of open market operations selected (with regard to aim, regularity and procedures). NCBs are able to perform tasks beyond those specified in the Statute on the ECB and the ESCB (European System of Central Banks), except if the Governing Council decides that these activities interfere with the work of the ESCB (which includes all EU central banks). The ECB president alone attends meetings of the Euro Group and Ecofin, respectively the meetings of euro area and EU ministers of finance. ESCB NCB governors occasionally attended informal meetings of Ecofin with varying degrees of participation, as well as meetings of the EU's Economic and Financial Committee when macro-economic policy coordination issues discussed directly impinge on them. However, in 2003, euro area governors lost their right to sit in Economic and Financial Committee meetings—much to the opposition of several NCBs, including the Bundesbank (see Dyson 2008)—which reinforced the importance of the ECB in European economic governance.

The degree to which the Eurosystem is centralised will develop over time. The burgeoning research and analytical capacity of the ECB has reinforced its power, in relation to Eurosystem NCBs. Ottmar Issing was appointed from the Bundesbank to the Executive Board of the ECB in 1998 to lead the development of the fledging institution's research capacities. Under the leadership of Issing, who worked as an academic economist for over thirty years prior to joining the Bundesbank eight years earlier, the ECB developed an impressive research capacity. In 2010, 138 working papers were released – considerably more than the output of the US Federal Reserve. One of the direct effects of the reinforcement of the ECB's own research capacity was the development of the New Area-Wide Model—the principal inflation forecasting model for the euro area (Trichet 2007). The ECB also led and co-ordinated the research efforts of Eurosystem NCBs through four networks on Monetary Transmission, Inflation Persistence, Wage Dynamics, and the Euro Area Business Cycle. This reinforcement of the ECB's role at the heart of Eurosystem research, and increasingly analysis, contributes to the unity of the Eurosystem, even though it was met with some reluctance in those central banks, notably the Bundesbank and the Bank of Italy, with a traditionally strong role in economic research (Dyson 2010, Quaglia 2010).

The relative importance of the NCBs in the Eurosystem arguably reflected the highly decentralized nature of the EU political system and the problematic legitimacy of the ECB and EMU in the eyes of many member state citizens (Howarth 2007). NCB governors had final say – thanks to their majority in the Governing Council – over monetary policy decisions and the allocation of functions. Any reform to strengthen the Executive Board at the expense of the Governing Council would be challenged on grounds of legitimacy: despite their *ad personam* status (and *not* as national representatives), the strong presence of the NCB governors on the Governing Council was considered vital to selling the EMU project to sceptical national publics (*ibid*.). The arrangements of the present US Federal Reserve Board were developed just under 70 years ago, around 160 years after the creation of the United States as a country and long after the conclusion of the Civil War successfully asserted federal government authority. There was obviously no parallel situation in the EU. European citizens were more likely to accept ECB monetary policy if they knew that they were represented, however indirectly and unofficially, by NCB governors.

Yet from 1998, the different treatment of member states was reinforced through their unequal representation in the ECB Governing Council. The largest member state governments repeatedly insisted that their nationals hold Executive Board positions and the periodic battles over these positions undermined the perception of the *ad personam* status of Governing Council members. The most notorious example of the perceived importance of the placement of nationals was the fudged appointment of the first ECB President in 1998. President Jacques Chirac — in a minority of one opposing the appointment of Wim Duisenberg — insisted that the first ECB president be a French national and forced the highly unusual compromise that Trichet would replace Duisenberg half-way through the latter's eight year term. Chirac insisted upon Christian Noyer's appointment as Vice-President as a compensatory stop-gap measure to ensure France's hold over a leading position prior to Duisenberg's replacement.

The 2002 Governing Council reform also undermined the ECB’s legitimacy based on national representation and *ad personam* status (Council 2003). The reform ended permanent voting by NCB governors and legally entrenched their inequality. While all governors were to continue to attend and be able to speak at meetings, the reform capped the number of NCB governors exercising a voting right at 15. When the number of NCB governors in the Governing Council exceeded 15, voting rights were to be exercised on the basis of tiered rotation systems which assigned the governors voting rights with different frequencies depending on the relative size of their home country economies (see Howarth 2007 for further details). Setting representation according to national economic size was important to the legitimacy of ECB policy making, even though the move ended full NCB voting rights and undermined the treaty-established *ad personam* status of the NCB governors (see Dyson 2008; Howarth 2007).

In several respects, the ECB lacked transparency compared to the US Federal Reserve and the Bank of England (Haan *et al.* 2005). Notably, the ECB opted not to publish its minutes. This in large part reflected an attempt to de-politicise monetary policy and the fear that NCB governors would come under pressure at home to justify where they had stood in intra-ECB debates. The lack of transparency came at a cost: to many economists, the ECB's interest rate setting process and economic analysis remain too opaque (OECD 2007: 7). Yet, the ECB still achieved a credibility-enhancing transparency with the markets through the publication of its monetary policy making map.

The ECB Executive Board was very cautious in its interventions into the operation of NCBs. One of the most controversial developments during the first decade of EMU was the Banca d'Italia Governor Antonio Fazio's mishandling of the takeover battle for Banca Antonveneta (Quaglia 2010), in which Fazio blocked a takeover bid by a German bank for questionable reasons to favour a merger with an Italian bank. Despite much criticism, the ECB Executive Board initially took a 'hands-off' approach and warned of a dangerous precedent for Eurosystem central bank independence if the Italian government used legislation to remove Fazio (*Financial Times* 16 September 2005). The ECB finally adopted a much tougher tone in mid-December 2005, after it was made public that Fazio had received gifts from the former head of the Italian bank involved in the merger (*Financial Times* 17 December 2005). However, the ECB had no investigative powers and was unable to pursue matters further. Ultimately, Fazio's resignation saved the ECB further damage to its credibility and the danger of public battles between Governing Council members.

Members of the Governing Council were expected to speak with one voice on the basis of the agreed-upon forecasts, although there was no legal requirement to do so. Efforts were made to ensure a tight coordination of official statements on ECB monetary policy: the President was made spokesperson in the official press conference following the bi-weekly meetings, while the other members of the Council were to explain Eurosystem policy in the member states in their own languages. There were a number of incidents where different NCB governors made ambiguous remarks between Governing Council meetings that led to false predictions of monetary policy decisions (for examples, see Louis 2002; Howarth and Loedel 2005). However, prior to 2010 there were no publicly expressed substantive differences of opinion between members of the Governing Council.

The ECB's negligible role in prudential supervision

During the 1991 Intergovernmental Conference on EMU, it was decided to leave the ECB's role in the micro-supervision of banks and in the macro-supervision of financial markets very limited. The Maastricht Treaty grants the Eurosystem NCBs the responsibility 'to contribute to the smooth conduct' of prudential supervision and the monitoring of euro area financial stability. The so-called BCCI Directive (96/25/EC of 29 June 1995) lays the foundations for cooperation (exchange of information) but does not contain specific provisions or institutional arrangements to this end. The ECB must be consulted on the adoption of EC and national legislation relating to prudential supervision and financial stability and has the right to perform specific tasks concerning policies relating to this supervision. Clearly, the ECB's limited powers in this area were the subject of considerable debate at the time and it was decided to establish a simplified procedure in the Maastricht Treaty (Article 105(6) TEC) making it possible, without amending the Treaty, to entrust specific supervisory tasks to the ECB.

The precise role of the ECB in prudential supervision remained the subject of periodic debate. It is not unusual that the ECB lacks control over banking supervision, in that the central banks in many advanced industrialized countries do not have this power or share it with ministries of finance (more often there are completely separate institutions responsible for supervision). However, the euro area is unique in that the areas of jurisdiction over monetary policy and over banking supervision – which remains nationally based – do not coincide. ECB Executive Board members thus argued in favour of improved cooperation between Eurosystem central banks (including the ECB) and national banking supervisors on the grounds that central banks are, because of their responsibilities, necessarily concerned with the health of the banking system, and central bank credit control is managed in 'a situation that is generated by problems of interest to the supervisor' (Padoa Schioppa 1999; see also Duisenberg 2002; ECB 2001). The Basle Committee on Banking Supervision assumed the task of promoting cooperation between the ECB, the NCBs, and national supervisory authorities. To give the EU members of this Committee a more specifically Eurosystem profile, their gatherings were officially labelled the Banking Supervision Committee of the ESCB. The ECB pushed to develop this cooperation further: to ensure that the system of national supervisors could operate as effectively as a single authority when required, in particular when dealing with local or national banking problems which could have wider effects.

ECB Executive Board members tended to argue in favour of transferring full supervisory powers to the NCBs rather than centralizing them in the ECB, due in part to the NCBs' role managing the TARGET payment system, which gave them much greater awareness of the situation of the banks. The precise role of the ECB in the handling of solvency crises remained unsettled, and the lack of crisis management capacity of the Eurosystem was repeatedly criticised (see IMF 1998 for an early example). The Brown-Eichel plan of April 2002 (subsequently approved by Ecofin) proposed the creation of an umbrella EU financial-sector supervisory body which would seek to improve coordination between national regulatory authorities. The creation of such a Lamfalussy-style committee structure for banking and insurance markets was a blow to the existing ESCB Banking Supervision Committee, and ECB President Duisenberg warned that a sideline role of the ECB in bank supervision would risk violating the Maastricht Treaty (Engelen 2002).

Growing disunity in the uncharted waters of euro area stabilisation

From the outbreak of the international financial crisis in 2007, the ECB had to shift the focus of its policy making from the maintenance of low inflation to measures to combat financial and economic instability. The fight against inflation and the agreement on a clear policy map prior to the start of 1999 created a unity among Governing Council members. However, the goal of euro area financial stability lacked a clear policy map and was the subject of strong differences among NCB governors.

The intensified debate over supervision

Following the outbreak of the crisis, the ECB asserted the need for its reinforced role in both the macro-supervision of financial markets and, up to a point, micro-supervision of single cross-border institutions. Executive Board members expressed the concern that warnings about threats to the euro area's national financial systems might not be passed on fast enough at times of crisis because of the fragmented regulatory system in the EU and the insufficient cooperation and exchange of information both between supervisory authorities in different member states and between them and central banks (Stark 2008). Executive Board members (Bini Smaghi 2008) claimed that the effective conduct of the Eurosystem's liquidity-boosting operations from August 2007 relied upon the ECB's access to necessary information concerning the liquidity and solvency problems of the markets and institutions. They argued that banking supervisors needed to strengthen their cooperation to 'exert strong pressure on financial institutions to disclose in a prompt and coherent fashion their balance sheet situations' (*ibid*.). The ECB also argued that member states – Germany was frequently cited – must be required to remove all national legislative obstacles preventing supervisors from providing information to the ECB about specific banking institutions. The international financial crisis reinforced government openness to the arguments made by the ECB and NCBs. The German government moved to transfer most responsibilities for prudential supervision back to the Bundesbank. The ECB was also given a greater supervisory role at the EU-level: the ECB president was assigned the first five-year chair of the newly created European System Risk Board (ESRB), which began operating on 16 December 2010, and gained voting rights along with the ECB vice-president and NCB governors, forming all but eight members of the new body. The ECB also gained a position on the European Banking Authority – the London-based body responsible for EU-wide bank stress tests – established at the start of 2011.

Some NCBs continued to resist the idea of a centralized European supervisory body for banks. In particular, the Bundesbank advocated a decentralized system emphasizing national control on the grounds that this best served the German financial industry. Axel Weber, then president of the Bundesbank, appeared to reject the de Larosière Committee's proposals (2009) for the 'authorities' on the basis of the asymmetries between supranational bodies, which would possess the power, and national supervisors, which had the fiscal responsibility (*EuroIntelligence* 16 April 2009). Weber subsequently clarified the Bundesbank's position as more focused on ensuring greater harmonisation and coordination between national supervisors for cross-border firms in the short-term, towards an 'internationalisation' of supervision over the long-term (*Financial Times* 21 April 2009). However, his initially voiced concerns over fiscal responsibilities revealed the generalised fear among German policy makers that, as the biggest contributor to the EU's budget, Germany could be unfairly burdened with paying for future banking crises were greater supervisory powers transferred.

Central banking in exceptional times

With the outbreak of the sovereign debt crisis, extraordinary monetary and other policy measures became the subject of intense disagreement among Governing Council members and euro area member state governments. Debates focused on the ECB's liquidity boosting measures (notably, the purchase of covered bank bonds) and the ECB's purchase of sovereign and other debt from the euro area member states most at risk of default and facing high bond yields. The ability of the ECB to neutralise fully the inflationary impact of its sovereign debt purchases was the subject of increased scrutiny. Despite the *ad personam* rule assigned to Governing Council members, several 'Northern' European members expressed concerns that were widely shared in their home member states. Although the full details cannot be known because of ECB secrecy, a growing number of unilateral public announcements by Executive Board members and NCB governors that criticised ECB policy could be seen as the clearest indication of discord.

The German Governing Council members and the Bundesbank, like the German government, typically argued for further fiscal consolidation in the besieged Southern European member states and criticised ECB action to reduce their bond yields. From the outside, Otmar Issing, the former German Executive Board member, repeatedly challenged the bank's purchase of Greek and other sovereign debt on the grounds that it took pressure off governments to engage in reform (*Bloomberg.com*, 3 September 2011). The resignations of Axel Weber from the Bundesbank and Jürgen Stark from the ECB's Executive Board demonstrated the intensity of internal discord. In February 2011, Weber announced his intended departure at the end of April. He publicly explained his departure in terms of the impossibility of leading an organisation in which his policy preferences placed him in a small minority (*Financial Times* 13, 16 and 21 February 2011). Weber publicly opposed ECB emergency bond buying from its start in May 2010 and was joined by up to four other Governing Council members who remained anonymous (*Financial Times*, 12 May 2010). Weber's opposition reflected widespread German concern over what the conservative newspaper *Frankfurter Allgemeine Zeitung* referred to as the

‘Americanisation of monetary policy’ (10 May 2010). In early April 2011, the Dutch central bank governor, Nout Wellink also went public with his concerns over bond purchasing (*Central Banking.com*, 4 April 2011) and called for a reduction. There were additional hints at deeper tensions within the Eurosystem. Sources from within the Bundesbank complained that French banks – the most heavily exposed to Greek debt – were using the ECB purchase programme to clean their balance sheets of Greek debt, while German banks had reached an agreement with the German finance ministry to hold on to Greek debt until 2013 (*Der Spiegel*, 31 May 2010).

As the sovereign debt crisis intensified in the summer of 2011, the Bundesbank held firm in its opposition to the ECB’s Securities Market Programme. Jens Weidmann publicly queried the legality of the ECB’s ‘monetary financing’ of debt as contrary to EU Treaty provisions (*Financial Times* 7 December 2011) and a German economist brought a case against the ECB to the EU’s General Court. There was speculation that the Bundesbank could even move to undermine any possible ECB action on reducing bond yield differentials by casting doubt on its willingness to defend this action (*Financial Times* 29 November 2011). Weidmann publicly argued that Italy could ‘handle even an interest rate that remains over 7 per cent for a while’ (*Financial Times* 29 November 2011): its bond yield would lower in time following what Weidmann saw as long-overdue structural reform. Yet criticism has not all been in one direction. In the aftermath of Stark’s resignation, the former Italian Executive Board member, Lorenzo Bini Smaghi, publicly challenged criticisms of the ECB’s bond buying as the result of ‘inadequate economic analysis’ (*Financial Times*, 15 September 2011) a direct jab at German Governing Council members.

The difference in positions among ECB Governing Council members also potentially reflected their professional background – although it is impossible to dissect the relative importance of different influences. Jean-Claude Trichet (President from 2003 to 2011) came to central banking relatively late in his career, following lengthy service in the French Treasury and ministerial *cabinets* (support staff). His non-central banking background potentially made him more open to the kinds of extra-ordinary measures that the ECB adopted in response to the crisis from 2007 to boost liquidity and purchase sovereign debt. In early August 2011, Trichet led the controversial decision to step up, considerably, the ECB bond-buying programme. Yet Trichet also performed a delicate balancing act, insisting publicly that the ECB was not a 'lender of last resort' and that its Securities Market Programme was not driven by the goal of maintaining the government solvency but rather was a 'temporary and limited' measure adopted for monetary policy reasons and the need to restore a better transmission of the bank's interest rate decisions – a claim made necessary for legal reasons (Lee 2011). Trichet has similarly insisted upon the ECB's success, far greater than the Bundesbank prior to 1999, in maintaining low inflation (*Financial Times* 8 September 2011).

The decision to temporarily halt the emergency purchase of bonds in late January 2011 was the ECB's response to the rise in inflation, especially in Germany. It also potentially reflected a battle within the Governing Council over the prioritisation of inflation. By early 2011, the bank's measure of inflation (HICP) reached 2.4 per cent, the highest level for over two years. The ECB had consistently insisted that it could 'sterilise' the purchase of Greek debt and that its monetary policy remained focused upon its core goal (*Financial Times*, 31 January 2011). However, there was concern over the repeated failure to neutralise fully the inflationary impact of the ECB's bond buying and that financial markets would not take seriously a threat to raise interest rates if the ECB was still intervening heavily in debt markets. A second temporary halt in late March 2011 reflected ongoing concerns. By May 2011, the ECB had failed five times to neutralise fully the inflationary impact of its debt purchases (*Financial Times*, 3 May 2011), thus reflecting directly the tensions between the two ECB roles of financial and euro area stability and combating inflation and, most certainly, between Governing Council members – as demonstrated most clearly in the resignations Weber and Stark. While some economists have insisted that the amounts involved in the debt purchases were very small in relation to the ECB's overall operations, 'sterilisation' was an important political message to the Germans that the bank's actions would not create inflation (*Financial Times*, 3 May 2011). The extension of sovereign debt purchases to additional euro area member states from August 2011 undermined further the thrust of this message. At the same time, the European bank pursued its traditional anti-inflationary interest rate policy. In early April 2011 and again in July, the ECB raised interest rates twice by 25 basis points. While the move reflected standard ECB reaction to inflationary pressures, it was widely criticised for having increased pressure on struggling euro area member states at risk of sovereign default.

Despite disagreements on the ECB's bond buying programme, Governing Council members embraced a uniform position on the fiscal policies to be pursued by the member states most at risk of default. The ECB criticised member states for engaging in insufficient austerity; it took a strong position on the operation of the European

Financial Stability Facility (that it not be allowed to purchase debt directly from the markets); and it strongly opposed the move by member states to push for a 'selective' default on Greek sovereign debt. However, even on some of these highly sensitive policies, apparent disagreements appeared. In July 2011, Ewald Nowotny, the Austrian Central Bank Governor, announced in an interview with an American television news channel that a short-term 'selective default' by Greece might *not* have 'major negative consequences' (*Financial Times* 19 July 2011). Nowotny subsequently retracted his statement.

Conclusion

Some observers have argued that the resignations of Alex Weber and Jürgen Stark, a former Bundesbank vice-president, and their replacement with economists without recent experience working in the Bundesbank, symbolically demonstrated a shift of the ECB out of the Bundesbank's historical shadow (*Financial Times* 11 September 2011) and a shift in ECB policy making. Jörg Asmussen, the new German member of the ECB's Executive Board, was previously the top civil servant in the German finance ministry and known to be less hawkish on monetary policy, with links to the opposition Social Democratic party (SPD) (*ibid*.). The appointment of an Italian to lead the ECB – regardless Mario Draghi's competence as a central banker and credentials on fighting inflation – contributed to the sense of a permanent shift in the operation of Europe's monetary authority.

However the shift in ECB policy making should not be exaggerated. Jens Weidmann – who had prior to his five years as Chancellor Merkel's economic policy advisor been head of the Bundesbank's monetary policy division – proved to be as hawkish on inflation and as critical of ECB bond-buying and government fiscal policy failings as his predecessor (*Financial Times*, 22 September 2011). He came out strongly against the 21 July 2011 agreement to relax the terms of the bail-out packages for Greece, Ireland and Portugal and widen the use of the European Financial Stability Facility (EFSF), the euro area's bail-out fund, and he publicly opposed the ECB's move to expand its purchase of sovereign debt to include Italian and Spanish government bonds (*ibid.*). The Bundesbank's position on these matters likely worked to constrain ECB action. It refused to commit to extending its bond-buying programme following the 9 December 2011 European Summit agreement on reinforced euro area fiscal policy rules. President Draghi deliberately referenced the Bundesbank in noting that it was necessary to respect 'not just the letter, but the "spirit" of the treaties' on the monetisation of debt (*Financial Times*, 9 December 2011). The Bundesbank's shadow continued to darken the corridors of the European bank.

By late 2011, it appeared that a delicate balance had been achieved in the ECB's Governing Council. The ECB disappointed many national governments in its steadfast refusal to commit even greater resources to bring down yields on sovereign debt. The bank's bond buying was not to be accelerated but would be maintained and officially described as 'temporary and limited' – with the Bundesbank audibly grumbling. The ECB held firm on its position that it was not a 'lender of last resort'. Extraordinary liquidity-boosting measures would be continued and extended. The ECB remained unified in its insistence that governments had to take the lead in tackling the sovereign debt crisis and restoring confidence through fiscal consolidation and their own reinforced support mechanisms. Despite the bank's willingness to engage in a range of extraordinary manoeuvres that few predicted when the Maastricht Treaty was signed, the dominant 'economic culture' of the ECB remained intact. The almost inevitable intensification of the euro area's woes in 2012 could place the ECB in a situation where it would have to choose between holding to its principles and preserving the current membership of the euro area and even the single currency itself. The strong potential for damaging disunity with the Eurosystem of central banks remained.

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