

## Mrs Merkel's party turn their fire on the European Central Bank

There is no such thing as an independent Central Bank, owned as they are by governments on behalf of states or the EU. It is possible for Central Banks to call the shots on interest rates, credit, banking and money supply for periods without government interference, but in the end these are all issues that may come to matter to politicians and the public. When they do governments replace Governors, change the remits, change the legislation or the rules which control them. Under Mr Brown as Chancellor then PM the Bank of England accepted a change of inflation target, and during the banking crash was effectively rightly overridden by the government to cut interest rates at the height of the troubles. Substantial changes were made after the 2008 banking crash by the incoming Coalition government. Even during periods of apparent independence there is usually behind the scenes agreement. Chancellor Mr Osborne in the UK chose a new Governor of the Bank of England who shared many of his views. The Bank obligingly saw independently the Remain campaign in the EU referendum that followed as the right answer and produced inaccurate pessimistic forecasts of what would happen if Leave won. The current Fed Chairman is at one with Treasury Secretary Yellen over running the US economy hot. The Fed has a dual mandate on employment as well as inflation and is always expected to work with the Administration of the day.

The doctrine of independence is most advanced in the case of the European Central Bank. It should be much easier there, as no single state or national government can bend it to its will or appoint a new Governor. In practice the ECB works closely with the EU Commission and is understandably an advocate and enforcer of more EU integration. They came to see they needed to take extraordinary action that German opinion would not like to head off Euro crises and allow the continued financing of the deficit countries.

Nonetheless most establishment figures and mainstream political parties claim Central Banks are independent. This means the politicians in office or seeking government positions have to refuse to comment on a wide range of economic instruments from interest rates through cash and liquidity levels to credit policies and bank regulations, leaving these to a so called independent Bank. It is a shock to the system if a senior government figure does venture any public criticism of a Central Bank. Their efforts at behind the scenes influence have to be done invisibly.

That is what makes the decision of Germany's CDU party, the party of Mrs Merkel that claims to welcome EU integration, all the more remarkable. Mr Merz, runner up candidate to lead the CDU and the new Leader's chosen expert on economic matters has been critical of ECB policy. He thinks the ECB is allowing too much inflation. He shares the Bundesbank Chairman's fears that German inflation is heading for 5%, an unacceptably high figure to them. He thinks the ECB should stop buying so many bonds, facilitating yet more borrowing by the deficit states of the Union at low rates of interest. Like

it or not ECB policy has become an important tension in the German election.