Introducing Europe's New "Power Women"

Can they succeed?

BY KLAUS C. ENGELEN

In a big surprise, Ursula von der Leyen, the Brussels-born long-time member of German Chancellor Angela Merkel's government, was chosen by the European heads of state to lead the new European Commission for the next five years. She is the first woman to become president of the European Commission.

Then French President Emanuel Macron managed to put Christine Lagarde, managing director of the International Monetary Fund and former French finance minister, successfully into the competition to succeed Mario Draghi as head of the European Central Bank for an eight-year term, thereby blocking more conservative candidates such as Bundesbank President Jens Weidmann.

Macron also outmaneuvered Germany's Manfred Weber, the European People's Party's "lead candidate" and the European Parliament's leading fighter for the system of *Spitzenkandidaten,* and thereby succeeded in reasserting the primacy of the European Council over the European Parliament in choosing the European Union's top managers.

As we noted in the Summer 2019 issue of *TIE,* the "Macron the Kingmaker" narrative ended with "a grand French finale" when, on August 2, 2019, the Visegrád Four countries were able to consummate their part of the bargain. The majority of Eurogroup finance ministers nominated Bulgarian World Bank Group Chief Executive Kristalina Georgieva as Europe's candidate to run the International Monetary Fund. The old tradition that the United States gets the presidency of the

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The Power Women Take Command

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Incoming European Commission President **Ursula von der Leyen**

New ECB President **Christine Lagarde**

New International Monetary Fund Managing Director **Kristalina Georgieva**

German Chancellor **Angela Merkel**

Annegret Kramp-Karrenbauer: *German defense minister and Merkel's designated successor*

World Bank and Europeans get the managing directorship of the International Monetary Fund is still in force.

Among the leaders in the European Council for the past fourteen years was a "power woman" with an outstanding if not historical record: German Chancellor Angela Merkel, who has lost some of her negotiating leverage after giving up her party leadership to party colleague Annegret Kramp-Karrenbauer. A former governor of the state of Saarland, Kramp-Karrenbauer first became party secretary of the ruling Christian Democrats and then took over the defense ministry from Ursula von der Leyen. Thanks to her low rating in the polls, Kramp-Karrenbauer is struggling in her role as a potential successor to Merkel as German chancellor.

EUROPE'S BET ON "POWER WOMEN"

At a historic juncture, when macho men and autocrats control governments in major economic, political, and military powers around the world—some challenging openly the postwar multilateral order, rules, and institutions as never before—European leaders had the guts to choose women as heads of the European Commission, the European Central Bank, and the International Monetary Fund.

European Council President Donald Tusk committed to "making sure this time EU top jobs were more gender-balanced than ever. If there is something on which the leaders lived up to the expectations, it was this."

Considering the frightening economic, political, and strategic scenarios faced by Germany and the rest of the world, the question being asked is whether Europe's new "power women" can succeed.

Can Germany's von der Leyen, as first-ever female European Commission president, supported by twenty-eight EU commissioners and vice presidents and controlled by a fractured new European Parliament, meet Europe's mega-challenges? These include overcoming the damaging fallout from Brexit, countering the destructive U.S. policy upheavals in trade and military security, handling the anti-democratic legal assaults by Visegrád member states that receive record amounts of EU subsidies, and coping with the still-smoldering refugee crisis and its windfall for the growing right-wing political parties.

Can Lagarde, as incoming president of the ECB, come up with changes to the ECB's super-loose monetary policy after eight years of flooding European economies and banking systems with liquidity under outgoing President Mario Draghi? When Lagarde assumes the presidency on November 1, 2019, she will face an unprecedented backlash in Germany and other northern eurozone states against her predecessor's policies of negative interest rates and resuming asset purchases. "Coming to Frankfurt and making *'bella figura'* in 'better communicating what the ECB is doing' won't be enough," warns a veteran central banker.

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How will Kristalina Georgieva, chosen by the European Council to lead the International Monetary Fund, handle the job at a time when multilateral organizations such as the Bretton Woods institutions, established after the World War II, are being sidelined by big economic powers like the United States and China? At her first IMF annual meeting, Georgieva sounded the alarm, pointing out that the trade war is accelerating a synchronized downswing of the world economy at a cost of $700 billion, or 0.8 percent of next year's global output.

Also, Germany's own "power women"—outgoing Chancellor Merkel and her designated successor Kramp-Karrenbauer—are challenged as crisis managers on all fronts. Germany is reaching the end of a decade-long economic boom with high employment and more fiscal space than other EU countries. As Europe's largest export nation, Germany is confronted not only by a trade war but also by enormous environmental pressures in key industries and by huge structural deficiencies. In the automobile sector, more than a million good-paying jobs are at stake. The ongoing global trade war that was started by U.S. President Donald Trump under his "America First" policy is not only directed against Europe and China, but is also damaging for American neighbors. The disruption of supply chains and direct investments supporting production sites in many countries is especially destructive.

For Merkel and Kramp-Karrenbauer, a big uncertainty hangs over them like a Damoclean sword: Will their partner in government, the Social Democrats, whose popularity has been falling in the polls to historic low levels, continue the Merkel-led "GroKo" coalition under a newly elected SPD party leadership in December 2019?

VON DER LEYEN COMMISSION'S TROUBLING START

Unsurprisingly, in her first speech before the European Parliament, von der Leyen made gender equality a cornerstone of her plea to be appointed as the first female European Commission president. In the sixty-year history of the European Union, only two women have served as presidents of the European Parliament—Simone Veil and Nicole Fontaine—and not a single woman has been chair of the Commission, the Council, or the European Central Bank, she argued. "If the member states do not propose enough female Commissioners, I will not hesitate to ask for new names," von der Leyen promised. "Since 1958, there have been 183 commissioners. Only 35 were women. That is less than 20 percent. We represent half of our population. We want our fair share," she warned.

The European Parliament lawmakers approved von der Leyen for the EU top job by a razor-thin margin of 383 to 327, just nine votes above the 374 votes she needed.

This narrow victory reflected deep resentment after losing the battle over continuing the *Spitzenkandidaten*—lead candidate—system for choosing the next European Commission president. It was also the beginning of what some call a new wave of "French bashing" among EU lawmakers, since the German defense minister with a deep Francophile background was seen as Macron's personal choice.

"Von der Leyen sets out vision for a sovereign EU," noted Dave Keating of *Berlin Policy Journal*. "The new European Commission line-up signals an appetite to take on the United States, China, and Russia using existing

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tools like trade and competition, and new ones like an "EU Army."

"The world needs more Europe, the world is calling for more Europe," von der Leyen told journalists as she announced her new commission portfolio assignments. "Therefore, we have to stand up."

As Keating explains, "With this she announced what is perhaps the most outward-looking portfolio organization in the commission's fifty-year history. It reflects a newly assertive Europe on the world stage, with the EU eager to take on rivals like China and a protector and ally, the United States, that Europeans no longer trust."

Three executive vice presidents will serve under von der Leyen: Valdis Dombrovskis from Latvia will be executive vice president for economics while also serving as commissioner for financial stability and financial services. The Netherlands' Frans Timmermans, who was the "lead candidate" for the Progressive Alliance of Socialists and Democrats, will be responsible for the European Green Deal while also serving as climate commissioner, and Margrethe Vestager of Denmark will be responsible for digital affairs while also continuing to serve as competition commissioner.

In her agenda for Europe, von der Leyen calls for the incoming 2019–2024 European Commission to pursue six headline goals:

- A European Green Deal
- An economy that works for people
- A Europe fit for the digital age
- Protecting our European way of life
- A stronger Europe in the world
- A new push for European democracy.

But when lawmakers screened von der Leyen's gender-balanced proposed college of commissioners, three candidates were rejected. The Commission president-elect was forced to go back to the drawing board after the European Parliament's Legal Affairs Committee declared that her Hungarian and Romanian nominees would be "unable to exercise their functions, on the grounds of conflicts of interest found when their declarations of financial interests were examined," reported *Politico* magazine.

László Trócsányi, who was in line to become commissioner for EU enlargement, was Hungarian Prime Minister Viktor Orbán's former justice minister. He helped undermine Hungary's legal system, triggering endless conflicts with the European Commission. For example, he played a key role in putting in place the anti-NGO laws and forcing Central European University to quit Budapest. Trócsányi was quickly replaced as candidate by Olivér Várhelyi, currently Hungary's permanent

Short Commute

Incoming European Commission President Ursula von der Leyen decided to set up her own *pied-á-terre* inside the Commission's Brussels headquarters, which may in the future help broaden her contacts there. As the German daily *Die Welt* reported, her new private quarters measure "a cozy 25 square meters, just a few steps away from her office on the thirteenth floor of the Berlaymont building."

This would be similar to von der Leyen's arrangements in her previous job as Germany's defense minister. As *Die Welt* noted: "She had a tiny bedroom inside the ministry for her use during the week and spent the weekend with her husband and seven children at the family home in Hannover." The paper added, "von der Leyen's decision to overnight inside the Berlaymont would reduce the need for external security, since the Commission headquarters already has round-the-clock guards."

—K. Engelen

The headquarters of the European Commission is housed in the Berlaymont building in Brussels, with over 240,000 square meters of office space.

representative to the European Union. Rovana Plumb, the candidate of Romania, was slated to take over the transport portfolio, but got in trouble for not declaring outstanding loans of nearly €1 million in her financial statements.

A LAWMAKER'S REVENGE

Never before has a French candidate for European Commission been rejected. In a political bombshell, the internal market and industry committees, in a secret ballot, rejected France's candidate, Sylvie Goulard, who was to take over a beefed-up portfolio of internal market, technology, and defense. The rejection was such a blow to French President Macron that his European affairs minister, Amélie de Montchalin, talked of a "major institutional crisis" and "a European failure."

Goulard, who was supported by the liberal-centrist Renew Europe group, comes with years of Brussels experience and is close to von der Leyen. Goulard served as a consultant to Romano Prodi's European Commission, and from 2009–2017 she was member of the European Parliament. Macron took Goulard into his cabinet as defense minister in May 2017, a position she gave up a month later, in reaction to her legal and ethical problems. The European Anti-Fraud Office (OLAF) accused her of using a European Parliament assistant for her outside political work. She also was questioned about the high monthly retainer she received from the U.S. think tank Berggruen.

In questioning by the committees, Goulard was pressed on "why she should be eligible to serve as a commissioner if an investigation of misuse of funds had forced her to resign as French defense minister."

Goulard's rejection is seen by some observers as revenge on Macron for killing the "lead candidate" system. As *Politico* notes, "Much of the criticism of Goulard was led by the European People's Party (EPP), and some MEPs suspect the center-right bloc wanted to exact revenge on Macron after he torpedoed EPP group leader Manfred Weber's campaign for the Commission presidency." The EPP is von der Leyen's political home.

The suspicion of revenge is backed by a tweet from the EPP group that read: "Guys, we are going to kill her in the vote later but do not say until then." For the French president and the incoming Commission president, the steep fall of France's star Goulard is a major setback, reflected in the bitter *Politico* headline: "Finger pointing and charges of betrayal follow Goulard's defeat."

The Economist also points to fact that "the EU is more plural, its diplomatic and political landscape more diverse and its parliament more powerful," so that France and Germany no longer dominate as in earlier European Commissions. *Der Spiegel* also blames von der Leyen for bunkering herself within a small team, in effect shutting herself off from warnings from former colleagues. Cutting exploratory contacts with Brussels insiders and European Parliament members may also explain why von der Leyen's "Goulard setback" was not on her radar screen.

Never before has a French candidate for European Commission been rejected.

In view of the rejection of Goulard and the need for replacing Romanian Commission candidate Plumb, the next European Commission will likely not take office before December 1, 2019, one month later than planned. According to a spokesperson, European Parliament President David Sassoli and leading MEPs have agreed that the European Parliament's confirmation vote on the new commissioners and vice presidents could be in the week of November 25, to enable the Commission to take office December 1, 2019.

VON DER LEYEN'S CHALLENGES

On October 18, 2019, German television broadcaster ZDF looked at the many challenges that new Commission President von der Leyen would have deal with. For comment they asked Guntram Wolff, head of the Brussels think tank Bruegel, which specializes in European affairs.

The veteran EU insider began with the observation that working with the new European Parliament will be difficult: "as independent as the German Bundestag but more heterogenic and more unpredictable."

The European Union, Wolff argued, "is facing a totally changed geopolitical situation, not only in the security and military areas, but also in the bloc's global economic stakes." And he added: "In the past, the European Union was able to operate in a rules-based world. But now multilateralism is in a crisis. Now it's not enough to have a global economic world order because the world's largest economic powers, the United States and China, are in the process of defining new rules. The old division of labor where Brussels takes care of the economy and

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the individual member states take care of their security needs does not work anymore."

This means, according to Wolff, that the new European Commission will have to give cyber security the highest priority. Wolff also called for closer cooperation among the national militaries, especially in the area of procurement.

Wolff questioned von der Leyen's "Green Deal" promises. "If Germany isn't doing enough for climate change, how will it work for Poland with its powerful coal industry?"

On Europe's still-smoldering refugee crisis, the Bruegel director remained pessimistic. He saw no room for compromise among the EU member states.

There Wolff was on the right track. Immediately after the ZDF interview, Europe's exposure to new waves of incoming refugees from the Middle East war zones highlighted Europe's geopolitical powerlessness. As a *Der Spiegel* cover story warned: "Now that the U.S. has withdrawn from northern Syria, a trio of autocrats is dividing the country between them. But with Putin, Erdogan and Assad now having the say in the region, dangers are on the horizon for Europe." In the German *Der Spiegel* edition, the headline was even more somber: "Die Kapitulation des Westens."

CHRISTINE LAGARDE IN HOSTILE TERRITORY

When Christine Lagarde arrives in Frankfurt, the new president of the European Central Bank will inherit the legacy of the financial crisis from a decade ago and the policies put in place by her predecessor, Mario Draghi.

She will take charge of a central bank of nineteen member countries that has expanded its balance sheet to equal 40 percent of the eurozone's annual output. The ECB is by far the largest holder of the member countries' outstanding public debt, and is currently discussing how to exceed its self-imposed limit of one-third of bonds outstanding, by both issuer and issue, to continue its forward guidance with further asset purchases.

Lagarde will probably have read the press reports about the only German member of the ECB's executive board, Sabine Lautenschläger, stepping down at the end of October 2019, more than two years before her term ended. Lautenschläger gave no official reason for ending her ECB career prematurely, but it was understood that she was quitting in disagreement with Draghi's recent monetary policy decisions which Lagarde wishes to continue.

Lautenschläger joins other German ECB Governing Council members who resigned early, including Jürgen Stark, the chief economist of the ECB, and Jörg Asmussen, a former deputy German finance minister. When Draghi's predecessor, Jean-Claude Trichet, started his policy of quantitative easing with asset purchases, Axel Weber stepped down as head of the Bundesbank and member of the Governing Council in April 2011, foiling Chancellor Merkel's hopes of seeing a German become the next president of the ECB.

As *Eurointelligence* noted: "The serial departures by Germany, in our view, reflect the alienation of German economists from the ECB mainstream. It will be interesting to see whether the German government can find an economist who can at least manage to engage with the debate in the governing council, which has not been the case since the days of Otmar Issing. That was at a time when the ECB monetary policy was more orthodox."

In October 2019, Otmar Issing, who served as the first and ground-breaking chief economist of the ECB, together with his German successor Jürgen Stark and former central bankers from Germany, the Netherlands, and Austria, as well as a former deputy governor of the Bank of France, signed a "Memorandum" sharply criticizing the ECB's latest round of monetary easing (see page 35). As the signatories note, they also have the support of two former Bank of France governors.

The memorandum criticizes practically all monetary policy measures adopted by the ECB Governing Council in September, especially ECB asset purchases. "There is a broad consensus that, after years of quantitative easing, continued securities purchases by the ECB will hardly yield any positive effects on growth. This makes it difficult to understand the monetary policy logic of resuming net asset purchases. In contrast, the suspicion that behind this measure lies an intent to protect heavily indebted governments from a rise in interest rates is becoming increasingly well founded. From an economic point of view, the ECB has already entered the territory of monetary financing of government spending, which is strictly prohibited by the Treaty."

> *Trichet argues that monetary policy cannot remain the only game in town.*

No wonder some inside observers of the ECB see a "central bankers' revolt" against Draghi because of his recent push to restart quantitative easing with net asset purchases of €20 billion a month over the objections of two advisory committees. They point to *Financial Times* reports on leaks that the ECB's monetary advisory committee opposed the resumption of asset purchases "because the main reason for going ahead was to lower long-term interest

The German View

A "Count Dracula" has sucked the life out of German savers.

With the changeover at the top from Mario Draghi to Christine Lagarde, German anger at the ECB's negative interest rates will not go away. In the spring of 2016, then-German Minister of Finance Wolfgang Schäuble spoke to a high-level meeting in Kronberg and said he had told Draghi he could be "proud" to be responsible for half the election success of the Alternative für Deutschland, thanks to his monetary policy decisions.

At that time, the far-right AfD had reached 14.2 percent in the Berlin state election. Now it's the largest opposition party in the Bundestag, reaching up to 20 percent of disgruntled voters in the eastern parts of Germany. Three years on, the smoldering revolt of the German middle class and the financial sector against *Strafzinsen*—"penalty rates"—is considered, along with Chancellor Merkel's opening the borders for more than a million refugees, a main factor in an erosion of the voter base for Germany's major political parties.

The sense that saving is a virtue lies deep in the German DNA.

The German revolt against the ECB exploded on September 12, 2019, when the ECB Governing Council further lowered interest rates and restarted its purchases of government and corporate bonds at a monthly pace of €20 billion, beginning November 1, 2019.

The German tabloid *Bild* presented Draghi as "Count Dracula" who "sucks our accounts empty." German Finance Minister Olaf Scholz warned bankers against passing costs along to their customers. Bavarian Governor Markus Söder called for a ban on banks passing on negative interest rates on deposits of less than €100,000.

Hans-Walter Peters, president of the Association of German Banks, points out that at €2.3 billion, the annual bill for German banks from negative interest rates in 2018 was equivalent to nearly 10 percent of banks' annual pretax profit. The banking industry complains that euro area banks pay more than €7 billion a year to deposit funds overnight with their central bank while at the same time their income from lending is eroded. In a major analysis, *Handelsblatt* came out with an alarming warning that negative interest rates would eat into Germany's social security funds: "Germany's public pension and health funds have amassed billions of euros and should be able to earn a good return on their capital. But negative interest rates are making this almost impossible."

ECB President **Mario Draghi** *as Count Dracula: The lead story for the German tabloid* Bild, *October 24, 2019.*

Draghi, who stepped down at the end of October, sharply pushed back against criticism from the likes of Deutsche Bank's chief executive Christian Sewing, who warned recently that cutting interest rates further into negative territory would "ruin the financial system." The attack of the top echelons of the financial sector against the ECB's policies adopted under Draghi is getting sharper and putting politicians under pressure.

Oliver Bäte, CEO of Allianz, Germany's and Europe's insurance giant, in an interview with the *Financial Times* backs the suspicions expressed in the "Memorandum" by former central bankers (see page 35) that Draghi has politicized monetary policy and put it at the service of fiscal profligacy in southern eurozone countries. Fiscal reforms are not happening, he feels, because monetary policy makes it easy to avoid them. Said Bäte, "We actually created independent central banks in order to have this not happen, to have central banks not print money."

Draghi sharply pushed back against criticism.

The sense that saving is a virtue lies deep in the German DNA, so the ECB's negative rates make a mockery of the national obsession. As Deutsche Bank calculated, for 2017, the savings rate in Germany was 10 percent, almost twice the euro area average. Since Germans held more than 40 percent of their financial assets in the form of bank deposits in 2018, negative interest rates explain the ire directed against the ECB. Germans are sensing that their political class is in collusion with a European monetary system of gradual expropriation of citizens' private financial reserves.

—K. Engelen

The ECB's New German Voice

Sabine Lautenschläger *resigned from the ECB executive board two years before her term ended.*

Well-known economist **Isabel Schnabel** *has been nominated to succeed Lautenschläger on the ECB executive board. Will she reflect Frankfurt's or Lagarde's thinking?*

rates and these had already fallen to record levels." More critical will be leaks from the ECB's legal advisory committee that had warned that in case the ECB were forced to raise its self-imposed limits on asset purchases, it would be harder for the ECB to defend against accusations that it is engaging in monetary financing. These ECB leaks, of course, will provide material for new litigation before the German constitutional court on the legality of ECB asset purchases.

There were earlier sensitive leaks regarding the €20 billion monthly asset-purchase program that Draghi pushed through for an indefinite period of time, using the same structure. As Hans-Werner Sinn, former Ifo president, points out: "The decision was not made unanimously: German, French, Dutch, Austrian, and Estonian members of the ECB Council had all voiced fierce opposition to further quantitative easing (QE). ECB President Mario Draghi claims that the majority in favor of further loosening was so large that it was unnecessary even to count the votes. Never mind that the countries opposing the decision hold 56 percent of the ECB's paid-in equity capital and account for 60 percent of eurozone output. Counting their compatriots on the ECB Governing Council, however, they have only seven out of 25 votes (subject to rotating limitation). Draghi did have a majority, then, but it represented a very clear minority of the ECB's liable capital. This raises considerable concerns about the Governing Council's decision-making process."

Veteran ECB observers such as *Eurointelligence*—which monitors the battles between central bankers from the Northern saver countries and the Southern debtor countries (who have dominated the ECB monetary policy decisions since the days of Trichet), talk about "revolution" and a "breakdown of collegiality" in the ECB Governing Council. "The attack of former grandees," they conclude, "increases the intensity of the revolt, and puts it squarely into the public debate. We see their memorandum as intended to intimidate Christine Lagarde as she prepares to take over the ECB presidency from Draghi. They may well succeed."

Lagarde will appreciate that Draghi's predecessor, Trichet, sat down and wrote a long rebuttal to the former central bankers' "Memorandum" (see page 37).

In some respects, Trichet's "Reflections" will be especially useful for Lagarde, who has no experience in formulating monetary policy. Trichet argues that monetary policy cannot remain the only game in town, and warns about the excessive and persistent surpluses of the eurozone. He recommends higher spending by countries with fiscal space, and calls for more government action to meet the structural policy challenges.

More quickly than expected, the German government proposed a well-known economist, Isabel Schnabel, as the successor for Lautenschläger. Schnabel, 48, is a professor at Bonn University, and has served as a member of the German Council of Economic Advisors since 2014. She was preferred over another close candidate, Claudia Buch, who has served since 2014 as vice president of the

The suspicion of revenge is backed by a tweet from the EPP group.

Bundesbank. The choice of Schnabel was immediately criticized by Florian Toncar, finance spokesman of the Free Democrats opposition party, on the grounds that Schnabel would side with the ECB executive board majority supporting the ultra-loose monetary policy. Instead, he said, Germany needed to propose a person "who would fight for a different monetary policy since the present one means a threat to the retirement system, the stability of the financial system, and ultimately the credibility of the ECB." ◆