How *Macron* Won It All

The French president as master kingmaker.

BY KLAUS C. ENGELEN

The French did it again. By recalling Christine Lagarde, who has served as managing director of the International Monetary Fund since 2011, from Washington and throwing her into the race to succeed Mario Draghi as head of the European Central Bank, French President Emanuel Macron effectively won the real power game in the competition for the top European positions after the May elections for the European Parliament.

But since Macron helped nominate, in a big surprise, Ursula von der Leyen, the Brussels-born francophone long-time member of German Chancellor Angela Merkel's government, to lead the new EU Commission, the disappointment in Germany of not seeing Bundesbank President Jens Weidmann chosen as Draghi's successor may have been somewhat mitigated.

HOW MACRON GOT THE POLE POSITION

When the race for the new EU chief executive began, the French president started questioning the system of *Spitzenkandidaten* (lead candidates). Macron referred to the Lisbon Treaty, which left the Council in the lead role to select and propose a candidate whom the European Parliament then would have to confirm with an absolute majority.

The Council consists of the heads of state or governments of the member countries, together with its president and the president of the Commission. In Macron's view, the 2014 European election, when the center-right European People's Party got Jean-Claude Juncker elected Commission president with the help of the Progressive Alliance for Socialist and Democrats, was an aberration to be corrected. Macron and other European leaders oppose any automatism on the side of the EU Parliament in determining who the EU Commission president should be. In this year's election, the lead candidates and their political groupings campaigned vigorously on a pro-Europe

---

Klaus C. Engelen is a contributing editor for both Handelsblatt *and* TIE.

THE INTERNATIONAL ECONOMY
ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

Team Macron Prepares for Action

Macron needed room among the European top jobs for four highly qualified people—he had promised to fill two of the jobs with women—who were likely to advance not only European interests, but also could be expected to work with "a French connection" in the coming years.

Ursula von der Leyen, *former German defense minister, is the incoming European Commission president.*

Christine Lagarde, *former IMF head and French finance minister, is the incoming ECB president.*

Charles Michel, *former Belgian prime minister, is the incoming European Council president.*

Josep Borrell, *former president of the European Parliament and Spanish minister of foreign affairs, is the incoming High Representative of the Union for Foreign Affairs and Security Policy.*

agenda, promising the voters that this time around one of the lead candidates would become the new EU president in an effort to strengthen democracy and bring citizens closer to the European Union. But this was ignored by the Council in a turbulent selection struggle.

To move the Council back to its pivotal role, Macron had to get Manfred Weber of Germany—the lead candidate of the largest political grouping, the European People's Party—out of the way. This was despite the fact that the three leading candidates had been promising the citizens all over Europe that one of them would be chosen to lead the EU Commission, and that there would be no back-room deals for the Council as in the past.

The French president waged a fierce personal attack against Weber, accusing him of "insufficient experience" and "lack of credibility," causing a lot of irritation and bad blood even among the EPP members and especially among Merkel's Bavarian CSU party allies. The CSU has sent Weber to the European Parliament since 2004.

Merkel—who lost much of her former negotiating leverage in Brussels after giving up her party leadership—did not make Macron's relentless attacks on Weber an issue, but backed Weber as lead candidate to the bitter end.

In an interview with the German tabloid *Bild,* Weber complained bitterly. "His bid to be European Commission president was rejected by EU leaders because French President Emmanuel Macron and Hungarian Prime Minister Viktor Orbán were powerful forces who did not want to accept the election results. There were backroom talks and late-night sessions, during which the Macron-Orbán axis prevailed and the *Spitzenkandidat* system was dismantled. This is not the Europe I want and I will continue to fight for the democratization of the European Union." Weber pointed to Macron's earlier EU election speeches calling for citizens "to vote for my Europe, not for Orbán's. And suddenly they are working together and damaging democratic Europe. And now we are in shambles."

As it turned out, Weber was given the chance to serve the second half-term as president of the European

The French president waged a fierce personal attack against Weber, accusing him of "insufficient experience" and "lack of credibility."

French President **Emmanuel Macron** *effectively won the real power game in the competition for the top European positions after the May elections for the European Parliament.*

Parliament, succeeding the Italian David Sassoli, its newly elected president.

EU PARLIAMENT GAVE AWAY ITS CHANCE

Since 2014, the European Parliament has had 751 members, according to the terms of the Lisbon Treaty. In the May 2019 elections, seventy-three British members took part who will leave when Britain departs from the European Union.

The EPP center-right alliance again emerged as the largest group. There was the expectation that Weber from the German CDU/CSU should become Commission president. There was hope that he would get the support of the center-left Progressive Alliance of Socialists and Democrats (S&D) and other party groupings in order to preserve control over the *Spitzenkandidat* system.

Weber's main competition was Dutch candidate Frans Timmermans for the Progressive Alliance of Socialists and Democrats, who as first vice president of the EU Commission had the difficult job of protecting the community's rule of law in the epic struggle with the Visegrád Four—an alliance of the Czech Republic, Hungary, Poland, and Slovakia—that are members of the European Union and NATO and work closely together on economic, cultural, military, and energy issues.

Prominent Italian politician Matteo Salvini, whom *The Economist* considers the most dangerous politician in Europe, declared Timmermans enemy number one on the Brussels stage. A third lead candidate was Margrethe Vestager of Denmark, who as competition commissioner became famous for her billion-euro fines. Both Timmermans and Vestager were able to remain on the European Commission with not-yet-defined responsibilities.

In the face of deadlock, Macron was ready to be the kingmaker.

Ted Truman, the veteran Federal Reserve insider, wonders how Lagarde will handle the ECB press briefings when she cannot read from prepared papers and has to respond to journalists on a wide range of specific questions on monetary policy actions.

There is no doubt that these three lead candidates helped to get more citizens to the ballot box. The turnout in the 2019 European elections jumped by 8.3 percent compared to the 2014 elections, to 51 percent. However, the S&D grouping insisted on the Dutch lead candidate Timmermans and did not compromise. A move by Merkel to give Timmermans the EU presidency was shot down by the members of the EPP party group. When the major party groups in the European Parliament were not able to get one of the lead candidates elected with the needed majority, it paved the way for the European Council to come up with a deal for the top job. In the face of deadlock, Macron was ready to be the kingmaker.

To implement his master plan for Europe, Macron needed room among the European top jobs for four highly qualified people—he had promised to fill two of the jobs with women—who were likely to advance not only European interests, but also could be expected to work with "a French connection" in the coming years. *Realpolitik* required colluding with the anti-Brussels Visegrád Four and the troublemaking Italians to get the necessary votes in the Council.

GREEN LIGHT FOR MACRON'S COUP

There was early speculation that Macron would propose former French Finance Minister Lagarde with her impressive experience as head of the International Monetary Fund as the new EU Commissioner.

The editors of *Eurointelligence* appeared enthusiastic about "the French president's coup," arguing, "On the face of it, the nomination of the EU's new top team looks like a victory for the Franco-German couple. But a closer look reveals that the one who really asserted himself is Emmanuel Macron. It is he who, by all accounts, suggested the list which finally received the backing by the other council members: His ally Charles Michel (former Belgian prime minister) will take over at the European Council, the francophone Brussels-born German federalist Ursula von der Leyen is to lead the European Commission, and [Lagarde] will be at the helm of the European Central Bank. If the European Parliament plays ball, what a coup!"

By including Josep Borrell, Spain's foreign minister, who knows the Brussels stage as a former president of the European Parliament, as High Representative for Foreign Affairs and Security Policy to the Council, Macron rewarded the crucial support he got from Spain's Prime Minister Pedro Sánchez in closing the top job deal.

The *Eurointelligence* editors were realistic enough about how Macron's top-job deal would be seen by member countries to warn: "The German establishment believes what happened yesterday was an undemocratic coup orchestrated by a French President. The SPD (as coalition partner) rejects von der Leyen so much so that Angela Merkel had to abstain in the Council vote. The east Europeans will wake up this morning and realize that not a single central or east European candidate is on the ticket. We think this is a classic diplomatic own-goal for the Visegrád Four. Even if the candidates are confirmed, this will not bring the eurozone any closer to resolution of the very real issues weighing on it. The Visegrád Four will do what they did before. So will the Hanseatic League. The issues will remain."

For Macron to get such difficult EU member states as the Visegrád Four led by Hungary's Viktor Orbán and Italy's populists to back his Council top job deal is, no doubt, a major achievement.

For the *Eurointelligence* observers, it is "the most federalist team imaginable." And they make another point: "Just as significant as this new federalist, west-European flavored top team is the emergence of Emmanuel Macron as the pivotal figure in the European Council. Michel is his closest supporter. Lagarde is his personal choice. And we don't think that von der Leyen is a concession to Germany at all—especially judging by the German reaction. He got the most pro-European of CDU members. As the Romans used to say: *divide et impera.*"

The German magazine *Der Spiegel,* mostly in its online section, gave the surprise rise of Germany's defense minister to the EU Commission presidency a mixed blessing. After von der Leyen was confirmed by the European Parliament with only nine votes above the needed absolute majority, *Der Spiegel's* chief political commentator Sebastian Fischer praised her election as a "big moment for Europe" because "for the first time in more than fifty years (when Walter Hallstein held that job in the 1950–60s), a German will head the European Commission. It was a close vote but it's good news for Europe because Ursula von der Leyen is a genuine dyed-in-the-wool European. And it's good for Germany because as defense minister, von der Leyen was in the wrong office. Europe suits her much better. Her story could even inspire more people to identify with the EU."

Elsewhere, *Spiegel Online* was more reserved, pointing out that "nobody in Berlin or Brussels is in much of a mood to celebrate. Her nomination is not a German victory, it is not a stroke of genius on Merkel's part. Indeed, the German chancellor wasn't even the person who threw her

Continued on page 59

Club of Losers

German Chancellor **Angela Merkel** *has lost much of her former negotiating leverage in Brussels after giving up her party leadership.*

Manfred Weber, *European People's Party leader, expected to become Commission president, but was outmaneuvered by French President Emmanuel Macron.*

Jens Weidmann, *head of the German Bundesbank, never had a chance to be chosen to lead the European Central Bank.*

Continued from page 45

defense minister's name into the ring. Rather, her nomination was a last-second solution to a deadlock."

Der Spiegel shed some light on the fierce struggle to nominate the next European leader. "Indeed, the move brought a grueling process to an end during which all of the unwritten rules were broken that political leaders in Brussels had become accustomed to. And the EU lead candidate system was left by the wayside. Merkel, the longest-serving EU head of government and the most experienced Brussels negotiator, was forced repeatedly to change course on personnel nominations by her counterparts and party allies. Von der Leyen's nomination has also resulted in a conflict within Merkel's governing coalition with the center-left Social Democrats, with the SPD working against her in Berlin and Brussels."

France's huge banks have high exposure in the euro area, especially to Italy, and all over the world, including in the emerging economies.

It could be expected that German opposition parties such as the Greens, with their high-flying climate change demands, would find reasons not to vote for the first German woman candidate for the EU presidency coming from the center-right CDU party. But the German Social Democrats as staunch Europe supporters and as partners in Merkel's governing coalition will have some explaining to do about campaigning fiercely against von der Leyen—thus letting the voters of the anti-Europe Visegrád Four rescue her confirmation.

JENS WEIDMANN HAD NO CHANCE

There were hopes that after the Netherlands had Wim Duisenberg, France had Jean-Claude Trichet, and Italy had Mario Draghi at the helm of the European Central Bank, it was time for Germany to get Jens Weidmann, their central banker, as ECB chief.

Many German critics of the euro system, reacting to the years-long *de facto* confiscation of savings due to zero interest rates, are convinced that debtor countries in the eurozone dominating the EU Council and the ECB Governing Board will never allow a German central banker to head the ECB.

The eurozone majority at the monetary policy levers of the eurozone does not want any change in the "wealth of nations redistribution mechanism" that favors the eurozone member countries with high debt and weak banks.

The economists of Germany's DZ Bank calculate that since 2010, German households incurred accumulated interest losses of €358 billion, while since 2008 the German state saved interest payments on its debt of €368 billion.

Adam Tooze, the author of *Crashed: How a Decade of Financial Crises Changed the World* (2018), emphasized in *Foreign Policy* magazine how important it was who in the top job deal would get the ECB presidency. "Nationality, party, and political identity were all crucial to the selection process. By contrast, the specifics of policy barely entered into the discussion. This is what made the question of who got the top job at the ECB different. The presidency of the ECB, as the EU's one truly federal institution … is one of the most significant policymaking positions in the world."

Tooze also explained why Jens Weidmann never had a chance to get the backing of the debtor countries in the eurozone. "Jens Weidmann, who as Bundesbank chair was the leading German candidate for the job, was long regarded as the front runner. He is a savvy central banker who has recently made some effort to show ideological flexibility. But he also had an unfortunate track record of pandering to German conservative public opinion. Most disastrously, he disowned Draghi's promise to do 'whatever it takes' at the most dangerous moment in the summer of 2012. If he had thrown the weight of the German central bank squarely behind the ECB at that moment, he would have been a shoo-in for the ECB presidency this summer. But he opted instead to pose as the defender of German savers against monetary experiments."

Macron—and the Italians who resolutely campaigned for Lagarde—got what they wanted: the floodgates of the ECB will stay wide open.

How the French Banks Were Saved

Christine Lagarde's main job as French finance minister from mid-2007 to mid-2011 was to avert an even bigger crisis of the French banking system.

After the Greek sovereign default in early 2010, not only French niche banks such as Dexia that were hit early were at risk, but so were the large private and cooperative network banks. This included Europe's largest bank by assets, BNP Paribas, that had been heavily engaged in the EU periphery, both through portfolio lending and direct investments.

In a concerted effort by Lagarde at the French Ministry of Economy and Finance, Dominique Strauss-Kahn at the International Monetary Fund, and Jean-Claude Trichet at the European Central Bank, France pulled out all the stops to convince Germany to avoid a Greek sovereign debt restructuring.

The European Financial Stability Facility was set up in the spring of 2010 to roll over Greek government debt. Instead of the initially proposed approach by the Institute of International Finance—representing the major private banks—of a partial roll-over with banks extending some of their exposures due, the EFSF became a full bail-out mechanism for banks. At the ECB, Trichet engaged in a Greek government bond purchase program called the Securities Markets Programme, purchasing bonds at 80 to 90 cents to the euro, giving banks another easy exit from those bonds that were too long-term to be rolled over immediately into the EFSF.

However, resistance in Germany, where banks were hit less hard by the Greek crisis, to continuing bailouts at taxpayers' expense grew, and by June 2011 the French banking association found itself coerced into proposing its own restructuring plan for what was left of its Greek exposure, which already was down from US$85 billion to less than US$60 billion. The German Ministry of Finance proceeded to organize Greek government bond haircuts.

When Lagarde was moved over to the IMF to replace Strauss-Kahn in July 2011, the main work regarding the European fiscal policy response to the Greek crisis had essentially been done, as a certain balance between French and German interests had been achieved. France's interest shifted to maintaining control of the IMF, so that the Fund would remain heavily engaged in co-financing the bank bailouts together with the Europeans, despite the fierce opposition of the IMF staff pointing to the Fund's statutory lending limits. No wonder that resistance by stakeholders in the IMF against these enormous and unprecedented lending commitments escalated, especially from the emerging countries.

Looking back at how she focused on ensuring bank bailouts at the Ministry of Finance in Paris and at the IMF, I believe that Lagarde at the helm of the ECB will make it more difficult for Europeans to reach consensus over banking union.

When I presented my analysis about the fiscally expensive bailouts of many Spanish, Greek, and Cypriot banks in 2013 at the IMF, Lagarde sent a close confidant to head the meeting who was hostile to the entire idea of bail-in. At the end of the discussion, almost all staff present had turned against Lagarde's emissary in favor of bail-in.

But for the European banking union, in particular the European Deposit Insurance Scheme, to become reality, fiscal policymakers need to take control from the (central) banking side, as happens in the United States through the Federal Deposit Insurance Corporation telling the Federal Reserve in a crisis which banks it can still lend to and which banks need prior restructuring or resolution.

This means a radical institutional change for Europe, where so far the ECB has been in control of crisis management, and as a result of the delay in restructuring caused by its lending and its reluctance to accept bail-ins, costs for taxpayers have ballooned. For example, in the case of Greece, the Hellenic Financial Stability Fund, according to its September 2018 financial statement, posted an accumulated loss of more than €36 billion. Even though this is nominally Greek government debt, after rounds of official debt restructurings it is fair to say that European taxpayers rescued both bank bond investors and the ECB.

France pulled out all the stops to convince Germany to avoid a Greek sovereign debt restructuring.

A European deposit insurance system without a change in the power allocation over the ECB and consequent creditor participation in a banking crisis is therefore unthinkable, and anathema for Germany and other fiscally conservative northern eurozone states. Given her legacy and the implicit mandate behind her appointment, Lagarde will be seen by many as a lobbyist for flexibility in future bailouts, rather than a driver of consensus with the fiscal policy side. Her appointment is also a wake-up call for fiscal policymakers to prioritize the design of banking union and establish better control mechanisms for ECB lending to banks in crises.

—A. DÜBEL
Founder, Finpolconsult

Tooze continues, "As has been obvious for the last decade, if the ECB acts like the central bank of the world's largest economic blocs—supporting public bond markets and ensuring that prices even in the weaker parts of the eurozone do not slump into deflationary territory—this is unlikely to play well with German conservatives and their allies in Northern and Eastern Europe. … Given the painfully slow progress in making the eurozone stable and Italy's dangerous debt burden, the risk of a catastrophic crisis is real."

This explains why it is so much in the interest of France to have Christine Lagarde as trusted former finance minister with eight years' experience as IMF managing director as head of the most powerful European institution over the next eight years. That means that France will have one of their own at the ECB for almost two decades giving a helping hand.

France is the second-largest EU country, with high state debt and not so much fiscal space as, for example, Germany. In view of a possible next financial crisis, France's huge banks have high exposure in the euro area, especially to Italy, and all over the world, including in the emerging economies.

As a former investment banker, Macron surely recalls how helpful another French ECB president, Jean-Claude Trichet, and two former French finance ministers as head of the IMF, Dominique Strauss-Kahn and Christine Lagarde, were as key crisis managers to soften the blows to global banks with high exposures when the financial and euro crises hit a decade ago.

Achim Dübel, a Berlin financial market analyst, quantified the extent to which the ECB helped to reduce the major French banks' huge Greek exposure in the last euro crisis. "Lagarde as French finance minister and then as head of the IMF was essential in helping French banks reduce their exposure to the Greek banking system, according to BIS locational banking statistics, from a peak of almost €90 billion to under €5 billion through the crisis, while incurring minimal losses in the process," says Dübel (see box).

Macron—and the Italians who resolutely campaigned for Lagarde—got what they wanted: The prospect that in the coming eight years, the floodgates of the ECB will stay wide open in order to keep countries with high debt levels and weak banks above water.

LAGARDE'S CHALLENGE AT THE ECB

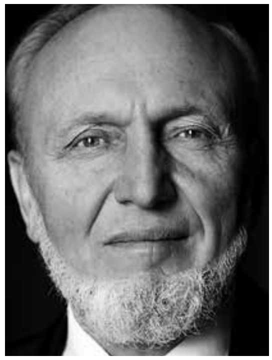
There are very few top positions at financial institutions in the world. To move from leading the IMF for eight years to the presidency of the ECB with an eight-year term is a historic first.

Christine Lagarde, the successor to Mario Draghi, needs no introduction. As a woman rising in the leading international law firm Baker & McKenzie to chairman, she was connected with the world of global finance. When the financial crisis hit, Lagarde was serving as French finance minister. Like her French predecessor at the ECB, Jean-Claude Trichet, she also had legal trouble in France. She was sent to head the IMF when the institution was in turmoil as its French managing director, Dominique Strauss-Kahn, stepped down following allegations of sexual assault and rape. Leading the IMF, she worked together with the Eurogroup and the ECB on the rescue effort for Greece and other eurozone crisis countries. From these crisis years, she knows most of the major actors who supported her nomination to head the ECB. And they know that she is an experienced crisis manager with outstanding administrative, diplomatic, and communications skills.

One can agree with Phillip Inman of *The Guardian* when he writes, "Christine Lagarde will take up the role of head of the European Central Bank as a self-confessed economic outsider who has preferred to emphasize her ability as a listener and tough negotiator during her seven years as managing director of the International Monetary Fund." He also quoted her speaking to *The Guardian* in 2012 when she admitted, "I'm not the topnotch economist; I can understand what people talk about, I have enough common sense for that, and I've studied a bit of economics, but I'm not a super-duper economist."

In this respect, the warning of Ted Truman, the veteran Federal Reserve insider, is noteworthy. He wonders

For an outstanding international lawyer such as Lagarde to denigrate the German Constitution this way is not easily forgotten. Former Ifo Institute for Economic Research President **Hans-Werner Sinn** *is quoted as saying, "They now propose an ECB President who declares that it was correct to breach the EU Treaties to save the euro. This attitude is cause for worry."*



France will have one of their own at the ECB for almost two decades giving a helping hand.

Two Days in Karlsruhe

Losing the battle but winning the war?

On July 30, 2019, one major legal battle that prominent euroskeptic plaintiffs in Germany have been waging against the "ECB Enabling Act of 2013"—which transferred bank supervision to the European Central Bank—was decided by Germany's Federal Constitutional Court. And a day later, the constitutional judges in Karlsruhe held hearings on the other outstanding euro-related hot issue: the ECB's asset purchases.

The court rejected legal challenges to the first two pillars of European banking union and ruled that ECB's Single Supervisory Mechanism and the EU's separate Single Resolution Mechanism are legal, meaning they can be considered to be within the boundaries of Germany's basic law.

Referring to the experience from the financial crisis and considering the role of large banks operating in a monetary union, the judges argued that the ECB sharing oversight was "pivotal," because national regulators still retain "broad authority."

Andreas Vosskuhle, the court's president, took the position that the rules for the European Banking Union make full use of the legal framework of the constitution but do not overstep it. Germany's "constitutional identity" and the "claim to democracy" so far have been preserved. The judges, however, expressed concern about the dimension of power the ECB has because of its "wide mandate in the realm of monetary policy that is far-reaching and hard to fence in."

The judges warned that the rules installed to save systemically important banks are raising questions of democratic legitimacy, since both the ECB and the national supervisory authorities can operate quite independently.

A group of plaintiffs led by Markus Kerber, a Berlin law professor, Peter Gauweiler, a veteran Bavarian politician, and Bernd Lucke, founding member of the Alternative für Deutschland—that started as party of Euroskeptics—had claimed that the EU treaties did not cover the decision to transfer supervisory power over eurozone banks to the ECB. They also claimed that the German constitution did not allow the government to put billions in taxpayer money into the European Stability Mechanism, set up as an intergovernmental financial institution with a maximum lending capacity of €700 billion to help countries in severe financial distress.

The leader of the plaintiffs, Kerber, expressed deep disappointment about the court's judgement and warned, "If this trend continues, then we Germans will have to sacrifice our democracy on Europe's altar."

Veteran euro area observers such as *Eurointelligence* wonder, "Why does Germany's constitutional court keep on accepting euro-related complaints only to dismiss them later? This happened with the Maastricht Treaty, the Lisbon Treaty, ESM, and now the banking union." The answer is simple: Because German basic law, the *Grundgesetz,* gives potential plaintiffs more room than the Constitution and higher court system in other EU member countries.

As to the hearings, *Eurointelligence* concluded from chief justice Vosskuhle's statement, "There existed important legal arguments in favor of the plaintiffs," that the debate had a certain Brexit-like quality, with one plaintiff's lawyers describing the European Court of Justice as "the command center of the ECB."

Eurointelligence notes that through a large body of rulings, the German constitutional court has managed to bind the hands of the German government in the future. Its rulings over the years set clear limits to European integration under German constitutional law. With each ruling, the court strengthens the principle that all sovereignty rests with the national state. They conclude, "The stuff that works badly in the eurozone is deemed to be just in the confines of German constitutional law. The stuff that is needed is unquestionably unconstitutional."

—K. Engelen

how Lagarde will handle the ECB press briefings when she cannot read from prepared papers and has to respond to journalists on a wide range of specific questions on monetary policy actions. But Truman thinks that she will learn quickly.

In view of Lagarde taking over from Draghi in the coming November, the editors of *Eurointelligence* felt "that the political preferences are swinging violently in the opposite direction. The governors of the two largest central banks in the world—the Fed and the ECB—are now both lawyers. That is, in our view, the most radical part of yesterday's nomination. … The time of the academic economist as central banker is over."

Eurointelligence also sees the danger that Lagarde will inherit Draghi's problems with Germany and other northern member countries and concludes, "Christine Lagarde's main job at the ECB is not to prepare for another rate cut or buy government bonds. It is to shift the political debate in Europe."

As an example, they point to Annegret Kramp-Karrenbauer, the new head of the CDU and defense minister, who in an interview with *Frankfurter Allgemeine*

Macron's Georgieva Coup

The narrative of "Macron the Kingmaker"—how the French president dominated the selection for the EU top job—ended August 2, 2019, with what some called a "grand French finale."

That's when the Germany-backed former Dutch finance minister and Eurogroup chairman, Jeroen Dijsselbloem, tweeted that he would give up his candidacy for managing director of the International Monetary Fund to succeed Christine Lagarde. He congratulated his rival for the position, World Bank Group Chief Executive Kristalina Georgieva.

"In the Grip of the French? Outrage at election of IMF chief" asked Germany's *Frankfurter Allgemeine Zeitung* a few days later, referring to the Dutch daily *de Volkskrant* that questioned the role of French Finance Minister Bruno le Maire as "honest mediator" in the turbulent search for the next European candidate for the IMF position. "It appears that France tried to sow distrust and dissension between North and South in order to further the chances of the East European Georgieva," criticized *de Volkskrant*.

For *Frankfurter Allgemeine Zeitung,* there are two motives for the French campaign for Georgieva. First, after Macron was able to get his four candidates for key European jobs accepted by the European Council without including an Eastern European, he was under pressure to nominate someone from Eastern Europe to succeed Lagarde at the IMF. Second, since Dijsselbloem as head of the Eurogroup had negotiated austerity measures for Greece and other euro crisis countries, the French could easily use some painful bank rescue experiences of the South against the former Dutch finance minister.

In the Netherlands, the Macron-dominated selection process for Europe's top jobs caused anger and outrage. The Dutch feel that both of their highly-qualified candidates—Frans Timmermans for EU Commission President and Dijsselbloem for the IMF—were blocked by France in its bid for power.

Jan Hildebrand, who covers Berlin's finance ministry for *Handelsblatt,* traces the chaotic process of how, one after another, candidates were gently kicked out of the race for the Lagarde succession

In mid-July, at their meeting in the French town of Chantilly, the Eurogroup of finance ministers had commissioned their host with the "finder's job." As it appears, Macron's treasury chief seemed to concentrate first on convincing other competing candidates not to run to make room for the French candidate from Eastern Europe. Finland's highly respected central bank president Olli Rehn withdrew because of Finland's EU presidency, the present Eurogroup president from Portugal, Mário Centeno, gave up, as did Spanish Economy Minister Nadia Calviño.

Kristalina Georgieva, *European candidate to run the International Monetary Fund.*

Close observers of the "chaotic" selection process point to the technical fact that le Maire proclaimed Georgieva the winner although she did not fully meet both criteria which the Eurogroup had decided on.

Until September 6, 2019, candidates from IMF member countries can come forward in the selection process for managing director. Then the IMF board of governors will have to decide on changing or altering the rule that prohibits a managing director from being older than sixty-five. The nominated World Bank executive and former EU Commissioner celebrated her sixty-sixth birthday in August 2019.

—K. Engelen

Zeitung called on Lagarde to do something about those negative interest rates. "Therefore Lagarde—as a politician and international financial diplomat, not a classic central banker—may find it easier to explain to the likes of Kramp-Karrenbauer that the ECB cannot do its job without the support of member states. This requires reform of the fiscal rules and eurozone-level macroeconomic stabilization. In other words, her success will depend to some extent on whether she manages the out-of-area functions of the ECB presidency."

There were also some not-so-friendly welcome notes to Lagarde from the *Frankfurter Allgemeine Zeitung.* Their editors reminded their readers of Lagarde's warning, "If I hear another time the word *Bundesverfassungsgericht* [Germany's Federal Constitutional Court], I will leave the room," or her outburst, "Forget the [EU] Treaty," meaning the legal basis for European Monetary Union and the European Central Bank. For an outstanding international lawyer to denigrate the German Constitution this way is not easily forgotten. Former Ifo Institute for Economic Research President Hans-Werner Sinn is quoted as saying, "They now propose an ECB President who declares that it was correct to breach the EU Treaties to save the euro. This attitude is cause for worry." ◆