



## Breaking the Merkel Habit

The European Union has relied too heavily on German Chancellor Angela Merkel and now it will have to learn to survive without her or a strong Germany. Is this a bad thing?

European leadership in both national capitals and Brussels will have to figure out how to advance the EU values and economic recovery without their taskmaster. It is hard to think of the EU collective leadership rising to the challenge given they have never worked in concert smoothly before. This will leave the EU in a continuous internal political battle with only fits and starts at making the Union 'ever closer.'

Or will German domestic political proceed leadership that creates space across Europe for more European leadership to find a more uniform and balanced voice that can resonate globally as well as domestically? I find that highly unlikely but not impossible.

There was a glimmer of hope with the July 2020 agreement on the €750 billion recovery effort, Next Generation EU, to help the EU tackle the crisis caused by the pandemic. This announcement made it look like the EU could come together in this crisis, work together and think strategically about the future.

However, that quickly changed as the pandemic continued. The EU's long-term budget negotiations were bogged down with issues from a variety of countries, each one playing their stereotyped roles and again raising the question of whether the EU could ever actually work together. In the meantime, Joe Biden's and the Democrats' victory in the US righted the almost capsized American ship.

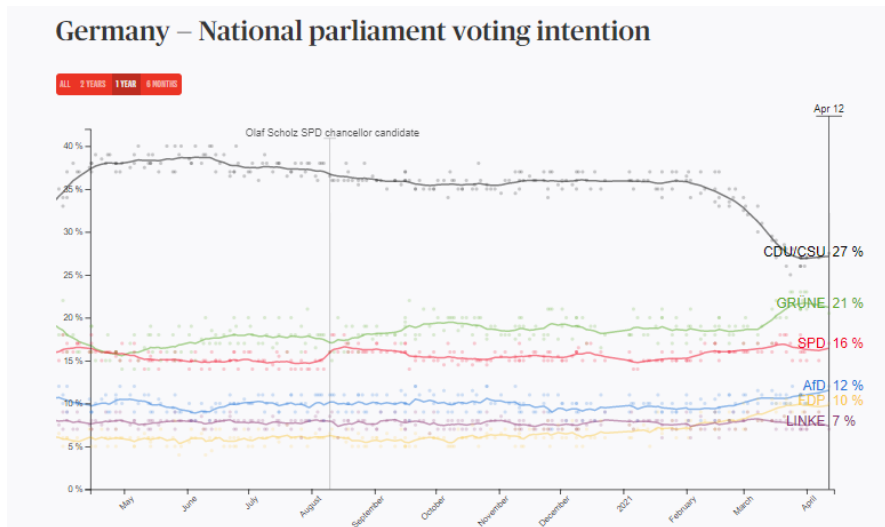
Boris Johnson's popularity recovered after sinking on the back of delivering 1) a less immediately traumatic Brexit and 2) vaccines. The EU fell back to third place.

Now not only does the current environment look marred with a resurgence of COVID-19 but we are now rushing towards a September election in Germany. The first in 16 years without Merkel. The recent break with tradition and support of two candidates by Merkel's CDU/CSU leaves everyone feeling like Germany isn't going to have the capacity to drive the EU as it did before.

Right before I began my homeschooling adventure, I wrote about how [Merkel needed to exit the scene to prepare Germany and Europe for the post-Merkel period](#). It would be hard for any leader, let alone a popular one with 15 years in power under her belt, to leave during a crisis but Merkel should have made space for an heir. History is littered with leaders who stayed too long.

The CDU/CSU has been in power for too long and is too associated with the status quo. What made Merkel great was her ability to read public sentiment and tack to the middle ground. It seems that

the German public is no tired of that and looking for a new direction. The Greens ascendancy in polling demonstrates that.



Source: Politico.EU poll of polls

Merkel's legacy is also complicated by the CDU/CSU division on who to put forward as a candidate. Armin Laschet, leader of the CDU and from North Rhine-Westphalia will face off against Markus Soeder, the leader of CDU's Christian Social Union sister party in Bavaria. Laschet is closer to a continuity candidate while Soeder has been more outspoken and definitive in his views which is proving more popular currently. Neither is likely to change any policies significantly. The question will be if CDU/CSU can maintain its small lead to be the governing party in the coalition. Where there may be an opportunity for renewal and a different path forward comes from the strength of the Greens and the possibility of a Green Chancellor. The Greens have long been ticking up in popularity, sitting comfortably in 2nd place, and could change Germany's political trajectory. There are two questions now regarding the Greens: 1) which of the co-leaders, Annalena Baerbock or Robert Habeck, will ascend to the candidate and 2) how much will the Greens change in power?



Annalena Baerbock and Robert Habeck Photographer: Ina Fassbender/AFP via Getty Images

The Greens have a unique opportunity. The climate is front and centre to many voters, the Greens look increasingly moderate and pragmatic, and Merkel's and the CDU/CSU position is weakening.

The Greens in Germany are likely to be better partners to national leaders throughout Europe without being the singular force that Merkel was. This could be better for the EU. This could be better in support of the EU's Long-Term Budget and the Next Generation EU recovery efforts.

What it won't do is anything interesting to German Bunds. It does however begin to develop a sightline to better and sustainable growth in Europe. It also starts to create a foundation for a changing Europe that not only talks about sustainability but implements it. Depending on the specific country's plans for use of the Next Generation EU funds, it also makes you think there is a possibility for change in Italy. And peripheral bonds start to get a lot more interesting.

And if that is a step too far along that sightline, we still have a very accommodative ECB to smooth the path in the short term. But we can't take that for granted for too much longer. The US is starting to wake up to that idea already.

Feel free to file under: IT CAN'T ALL BE MERKEL OR MONETARY POLICY FOREVER