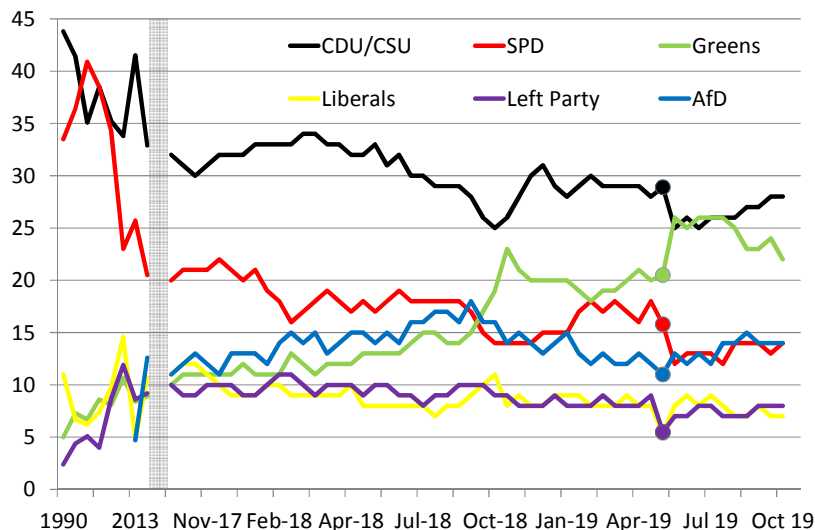


24 October 2019

German politics: quirky SPD race could decide Merkel's fate

A measure of despair: once mighty SPD flatlining at 15% in German polls



Election results 1990-2017; "ARD DeutschlandTrend" opinion polls thereafter; the dots mark the European election result of 26 May 2019. Sources: Bundeswahlleiter, ARD

- **One step closer to the end of Merkel?** Germany's centre-left SPD will announce the result of the first stage of its leadership contest this Saturday. If finance minister Olaf Scholz does not make it into the November run-off, the risk that a battered SPD may leave the coalition with Angela Merkel's CDU/CSU in early 2020 and end her political career could rise significantly. We currently put this risk at 30%.
- **Tough times for the SPD:** The SPD has been a junior partner to Merkel's CDU/CSU in the Berlin government for 10 of the past 14 years. This has not stopped the erosion of support for the once venerable party (see chart). As a result, the SPD is torn between a desire to shape policies in government and to renew itself in opposition.
- **A quirky race:** Six female/male duos are now vying to lead the SPD. After a series of regional party conferences, the two of the most left-wing pairs (Nina Scheer/Karl Lauterbach and Gesine Schwan/Ralf Stegner) seem unlikely to make it into the run-off for the two best-placed duos. The result of the final vote will be published on 30 November. On 6-8 December, an SPD party congress will formally install the new leaders and discuss whether to stay in government or not.
- **In or out?** We can rank the four duos with a good chance of making it into the run-off by their apparent inclination to stay in government: First comes finance minister Scholz with Klara Geywitz, followed by Petra Köpping/Boris Pistorius ahead of the more youthful Christine Kampmann/Michael Roth and Saskia Esken/Norbert Walter-Borjans. While an online poll from early October showed Scholz/Geywitz trailing behind the other three, a 35% plurality of SPD members expect them to win. They benefit from name recognition and the promise of being safe pairs of hands in unsteady times. Esken/Walter-Borjans and Kampmann/Roth seem to favour a looser fiscal policy than Scholz. But as they would probably leave the government, they would not be able to implement such plans.
- **What if?** If Scholz/Geywitz unexpectedly drop out on Saturday and the SPD later on elects a duo that takes the SPD out of government in late 2019 or early 2020, Merkel's CDU/CSU would try to form a new coalition with the Greens and the small FDP. However, the Greens – riding high in opinion polls – would likely insist on new elections first.
- **Life after Merkel:** A new government after potential elections next spring would no longer be led by Merkel. It would probably be a CDU/CSU coalition with the Greens led by CDU chairwoman Annegret Kramp-Karrenbauer or, possibly, her rival Friedrich Merz. Such a coalition would give policies a green tinge (ie faster exit from coal, higher price for CO₂ emissions) but not shift economic, fiscal, foreign and European policies by much.
- **The tail risk:** Snap elections carry the risk of ending with an alliance of the Greens with the SPD and the Left Party. In polls, the three are just 3ppt short of a majority. Such a left-wing coalition may re-regulate the German economy significantly. If so, the damage to trend growth would likely overshadow any modest short-term fiscal boost that such an alliance may enact. We currently put the risk of such an outcome at 10%.

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