**GERMAN POLITICS: THE MERZ PARADOX**

Berenberg Macro Flash

Friedrich Merz or Armin Laschet? One week after CDU chairwoman Annegret Kramp-Karrenbauer (AKK) threw in the towel, the list of serious CDU candidates to succeed Angela Merkel as German chancellor next year seems to have narrowed down to these top two contenders. The ambitious young health minister Jens Spahn is less popular than the others and CSU boss Markus Söder too wedded to his job as prime minister of Bavaria to make the running.

Advantage Merz?
To settle the succession, the CDU will not hold a membership vote. The uninspiring result of the SPD’s leadership vote last autumn argues against granting the party base a decisive say. Instead, the top echelons of the CDU (and CSU) will try take the decision. If that fails, a special party convention will do so.

Abstracting from their personal ambitions and network loyalties, the key players within the CDU will likely be guided in their decision by one key consideration: who can win the most votes for the CDU/CSU in the next election to be held in 2021? On this count, Merkel's (and AKK's) erstwhile rival Merz (64) starts from the pole position. Various opinion polls among CDU supporters put him clearly ahead of Laschet, who turns 59 tomorrow. Although Merz is prone to occasional verbal gaffes, his conservative credentials and his habit to speak plainly („Klartext“) appeal to many current and potential CDU voters. However, going for the conservative Merz instead of the more centrist, less articulate and less polarising Laschet would come with two snags, a big and a small one.

The big snag: could Merz boost green-red-red?
The key questions for Germany is not which CDU/CSU candidate may succeed Merkel and whether or not the conservatives will end up in a post-Merkel coalition with the centre-left Greens instead of the centre-left SPD. As we have argued repeatedly, the impact on actual policies would be minimal even if a CDU-led government including the self-confident Greens would probably get a few things done faster than the current government. The only outcome that would significantly change the outlook for Germany would be a green-red-red coalition between the Greens, the SPD and the left-wing Left Party. Such a federal government may seriously harm the economy through a barrage of reform reversals and regulations along the lines of the cap on housing rents which a red-green-red state government is imposing in the city state of Berlin.

Opinion polls show that, taken together, Greens, SPD and Left Party are no more than 2ppt away from a potential majority in parliament in case of new elections (see chart 1). In the wake of the Thuringia debacle, an infratest-dimap poll from 13 February even put green-red-red at 47%, on par with the combined tally for all other parties likely to make it into parliament. Merz may well strengthen the conservatives by taking votes back from the right-wing AfD and the small liberal FDP. But in a more polarized debate, he may also energise rather than weaken the political left.
Despite possibly winning more votes for the CDU/CSU, he might still land the party in opposition in the end. With Merz at the helm, this paradoxical risk could be more pronounced than with the centrist Laschet. If, for example, the strong pro-business credentials of Merz were to push the small liberal FDP below the 5% threshold for seats in parliament, a green-red-red majority of seats would seem highly likely. Three of the four most recent opinion polls put the FDP at a mere 6% (see chart 2).

The small snag: new elections in spring rather than autumn 2021?
Merkel wants to serve out her fourth and final term as chancellor until regular elections in autumn 2021. If a designated successor were to push her out earlier, Germany would most likely need early snap elections as the SPD would leave the coalition in such a case. Merz and Merkel are not seen as the best of friends, to put it mildly, whereas Laschet seems to be closer to her in terms of style and policy preferences. If Merz were to be nominated as the CDU’s choice to replace Merkel, she would be under pressure to resign early, that is once Germany’s stint at the rotating presidency of the European Council in the second half of 2020 is over. That could potentially lead to early elections in the spring of 2021, possibly jointly with state elections in Baden-Württemberg, Rhineland-Palatinate and/or Saxony-Anhalt next spring.

The process
Although nothing has been decided yet, the process to nominate the new CDU leader is starting to take shape. This week, AKK will consult with the potential candidates and other key players ahead of a CDU board meeting on 24 February. The CDU wants to formally settle the issue at a special party convention before mid-year. Against AKK’s initial intention, the CDU may first elect a new party leader who would then have to be confirmed as the joint candidate to succeed Merkel by the Bavarian CSU later on instead of settling the latter issue first. Whereas CSU boss Söder reportedly wants to delay the decision on the joint candidate until early 2021, possibly to raise his own chances, the CDU will probably not want to wait that long. On balance, Merz seems to have a slightly better chance to make it. But at this stage, the race between him and Laschet seems to be wide open. Relative to Laschet, Merz could have the stronger potential but also turn into the higher risk candidate for the CDU/CSU.
Chart 1: Opinion polls – combined left only a few points short of a potential majority

Support for Greens, SPD and Left Party in opinion polls, in %; two-poll averages; threshold needed for a majority of seats in the Bundestag varies with the support for fringe parties that do not make it into parliament. Source: ARD DeutschlandTrend, Berenberg

Chart 2: German election results and opinion polls, support for political parties in %

Election results 1990-2017; “ARD DeutschlandTrend” opinion polls thereafter, 5-poll average for last observation, the dots mark the European election result of 26 May 2019. Sources: ARD, INSA, Forsa, FG Wahlen, Emnid, YouGov