



## The CDU/CSU election manifesto: Something for everyone

- Today, the CDU/CSU has presented its election manifesto. It is a potpourri reflecting the CDU's self-image as a broad-church party. Thus the CDU promises lower income taxes for the middle class and extended social spending, while also stressing its willingness not to increase the financial burden for businesses and to reduce red tape. Anyway, Chancellor Merkel remains the trump card in the CDU's campaign.
- The manifesto begins with a clear commitment to Europe and the euro. But the respective proposals are well-known: strict conditionality for the support of partner countries, rejection of eurobonds and a transfer union, support for a banking union, e.g. ECB supervision, but only for large, systemically important banks, no common European banking deposit guarantee scheme, and introduction of an FTT.
- The agenda for fiscal policy is ambitious. Proposed tax cuts and extended public spending could amount to an estimated EUR 21 bn p.a. Increased spending on education and infrastructure will add further billions. But most spending is under the reservation that public coffers will be sufficiently filled without considering additional tax hikes. Also, the CDU advocates a balanced budget and a reduction of the debt ratio to below 60% of GDP (2012: 81.9%).
- In contrast to 2009, this year's manifesto does not name the FDP as the favoured partner for a coalition government but leaves all relevant options open. Certain proposals like increased social spending would fit similar requests from the Green party and especially the SPD, while others, e.g. the strict rejection of higher taxes on income and wealth would not. In contrast, the FDP as partner could agree to the latter but not to the former.

Today, about three months ahead of the federal election on September 22, the CDU and its Bavarian sister party CSU have presented their common election manifesto. It is a potpourri reflecting the CDU's self-image as a broad-church party. The manifesto praises Germany's model of a market economy based on two principles: the self-responsibility of the citizens and the reliability of the state. The state has to foster private activity by means of a good legal framework, social stability, education and the rule of law, but should not patronise private actors. According to the CDU, the latter sharply contrasts the ideas of the SPD and the Greens.

It is remarkable that among the bunch of issues addressed in the manifesto in more detail European policy ranks first. The respective chapter begins with a clear commitment to Europe and the euro. The CDU states that Germany ("we") and its partners have been able to secure the coherence of the eurozone and to implement important reforms for lasting stability, e.g. introduction of debt brakes, strengthening of the stability pact and implementation of structural reforms to increase competitiveness. The CDU strongly advocates continuing with this policy, i.e. support for partner countries shall be subject to conditionality, with explicit rejection of eurobonds and of a 'transfer union'.

To enhance trust in the euro's stability the CDU identifies three major fields for action:

1. Banking union. Here, like in the other fields, the manifesto repeats the CDU's well known pledges: A banking union, e.g. ECB supervision, shall be established for large, systemically important banks while leaving out the savings and cooperative banks in Germany. A common European banking deposit guarantee scheme is rejected.



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2. Compliance with strict budget rules: Governments have to stick to the rules of the stability and growth pact and the fiscal compact. Failures to miss established thresholds shall be sanctioned. Implementation of a debt restructuring mechanism for sovereigns that are not able to cope with their debt should be considered.

3. Enhancement of competitiveness. The individual member states and the European Commission shall agree on a pact for competitiveness. Germany shall support partner countries in implementing a system of dual training in schools and on the job to contribute to the reduction of youth unemployment.

With respect to financial market regulation the CDU, like the other relevant German parties, favours comprehensive and stricter regulation – rules are needed for every product and every actor on the market. Here, controls for shadow banks are mentioned in particular. Furthermore, the CDU points out that Germany (“we”) and ten other EU countries have agreed on an FTT and that the party will take care of the interests of Germany as a financial centre when such a tax is implemented. One subheadline stresses that the existence of universal banks shall be secured. However, no further details are given with one exception: the CDU wants to avoid that risks from proprietary trading endanger the (traditional) deposit and lending business. What follows otherwise is a general commitment to the existing three-pillar structure of private, cooperative and public-sector banks in Germany.

Next to the euro rescue and European policy issues economic policy also ranks high. Here the focus is on the German “Mittelstand” (SMEs as well as larger family-controlled enterprises). The Mittelstand shall be supported by the following measures:

- Tax incentives to increase R&D spending
- Tax incentives to strengthen the SMEs’ equity capital base, i.e. to provide more of a level playing field between equity and debt capital. (Today interest paid on debt capital can be deducted from income and corporate taxes, but there is no equivalent relief for equity.)
- Subsidies for private investments in venture capital will be increased.
- Rejection of tax hikes that would especially burden the Mittelstand, i.e. the CDU definitely says “no” to higher top rates of income tax, to an increase of the inheritance tax and to a (re-)introduction of a wealth tax.

To enhance the quality of Germany as a production location the CDU will launch a EUR 25 bn infrastructure investment programme primarily for the maintenance and extension of the network of long-distance roads, e.g. motorways. Public spending on education shall also be increased. The compatibility of environmental and energy policy on the one hand and economic growth on the other shall be improved. The CDU also stresses that energy costs must be affordable for private customers as well as for industry. (See separate German Policy Watch on energy policy to follow soon).

From the business point of view labour market policy proposals offer a mixed picture. On the one hand the CDU, in contrast to the SPD and the Greens, will not alter major elements of the Hartz IV reforms, e.g. major rules for temporary work as well as mini-jobs will remain untouched, although this regulation is often blamed as being the driving force for the expansion of the much criticised low-wage sector in Germany. To calm this criticism the CDU wants to extend the present scheme of industry-specific minimum wages. The trade unions and employers associations shall be urged to establish minimum wages in all industries. Minimum wages are popular. About three-quarters of the Germans even support statutory minimums.

To please broader ranks among the electorate the manifesto offers increased public spending and/or tax reductions for several groups, especially (future) pensioners, families and middle-class tax payers. Major measures here include:

- From 2014 onwards pensions for mothers with children born before 1992 shall be increased by an average of EUR 650 p.a. for those with two children (to reduce the existing gap towards pension premiums paid for children born afterwards). This would cost the public pension scheme about EUR 6.5 bn per year.
- The pensions of low-wage earners, who have been members of the public pension scheme for at least 40 years, shall be subsidised so that they will reach an amount of EUR 850 per month at least. As the number of the eligible



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- pensioners will be small at first the resulting costs will increase from EUR 0.1 bn in 2014 to an estimated EUR 3¼ bn by the end of the next decade.
- The tax allowance for children – at present EUR 7,008 p.a. – shall be increased towards the level for adults (EUR 8,130 in 2013, EUR 8,354 in 2014). As this would benefit primarily families with higher income the child benefit (at present EUR 2,208 p.a. for the 1st and 2nd child) shall also be increased appropriately. Both measures together would reduce tax receipts by about EUR 7.5 bn.
- Primarily in favour of middle-class tax payers the CDU wants to reduce the tax burden that results from the so-called “cold progression”, i.e. tax increases which result from Germany’s progressive tax scale as a result of inflation (wage increases which compensate for inflation). Although such a reduction is economically justified it would mean fewer taxes in the range of EUR 7 bn in 2014 if the impact of inflation (in 2013 and 2014) is to be compensated fully.
- The supply of dwellings and homes shall be promoted by a more favourable tax environment and subsidies. In addition, the CDU wants to establish further limits on rent increases in metropolitan regions to make sure that flats will be affordable there. This, however, contrasts the first objective, as such limits will have a negative impact on supply.

All in all the costs of these measures add up to EUR 21 bn p.a. The increased spending in favour of SMEs, for education and for infrastructure projects will add further billions. The CDU hopes that ongoing economic growth will provide the government and the pension scheme with revenues high enough to finance all proposed measures. Nevertheless, a social spending spree hardly fits the CDU’s credo that a cautious public budgetary policy is the basis for sustained economic growth.

Nonetheless, the manifesto provides a clear commitment to a stability-oriented, sustainable fiscal policy. The CDU promises to present a balanced budget without new debt in the imminent legislature period. What’s more, the debt rate of the general government shall be reduced to below 60% of GDP to comply with the stability and growth pact. The medium-term financial planning, however, does not account for major risks such as an increase in interest rates or burdens from euro crisis management.

According to a recent Allensbach poll, the CDU’s agenda apparently meets the population’s preferences. For 81% of those surveyed the priorities for the new government should be to reduce the increase in energy prices, to secure pensions (81%) and to contain Germany’s burden in the context of the euro rescue measures (76%). Reduction of inequality, i.e. of the gap between the “rich” and the “poor” – the major issue of the opposition parties – also ranks high (73%). However, only a minority (40%) favours the SPD’s and the Greens’ approach for a higher top rate for the income tax and the introduction of a wealth tax. Instead, 73% argue that the next government should reduce the tax burden on small and medium incomes.

The CDU has presented its manifesto as a laggard among all major parties and only shortly before the summer break. Obviously, the party is counting on a short, intensive campaign, and policy issues will most likely continue to take the backseat only. Instead, the focus will remain on Chancellor Merkel. As the last manifesto to be published, it could also be interpreted as a response to the other parties’ programmes. From such a point of view the manifesto is all the more interesting as the CDU will most likely need a coalition partner again to be able to remain in power in Berlin.

In contrast to 2009 this year’s manifesto does not name the FDP as the favoured partner for a coalition government but leaves all relevant options open, despite some verbal attacks against the SPD and the Greens. Certain proposals like the increased social spending would fit similar requests from the Greens and especially the SPD while others, e.g. the rejection of higher taxes on income and wealth, would not. In contrast, the FDP would agree to the latter but not to the former. The fact that the FDP is not mentioned, however, should not be misinterpreted. This might well be a consequence of the Bavarian election campaign, where the CSU aims at obtaining its own majority without the FDP, its present partner.

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