



CDU/CSU manifesto: A programmatic umbrella for a catch-all party

- At last, the Conservatives revealed their 140-page election manifesto. In contrast to 2017, the two sister parties agreed on a joint programme, signaling that disputes between Laschet and Söder have been settled. Thus, the CDU/CSU looks set for the hot phase of the election campaign, which we expect to start only after the summer break. The manifesto is centered around the key themes of stability and, as Laschet put it, “the triad of climate change, economic strength and social security” in a modernised state. The Conservatives (faithful to their name) thereby differentiate themselves from the Greens’ focus on faster change and transformation.
- Climate policy is not featured prominently, forming part of a broader chapter on the future growth model. The CDU/CSU are sticking to the recently tightened targets of reducing CO₂ to 65% by 2030 and reaching carbon neutrality by 2045. Moreover, they emphasize the use of efficient, market-based tools like CO₂ pricing in conjunction with the national/EU emissions trading system (ETS) and tax deductions for investments in climate-friendly technologies.
- On tax and fiscal policy, the CDU/CSU keep their conservative profile by rejecting any tax increases and calling for a (moderate) reduction of the tax burden. However, they do not provide any details on how to square the circle of sticking to the debt brake, spending more on social welfare and funding tax breaks as well as the transformation to a net zero world. Interestingly, the “Germany investment fund”, which Laschet referred to in previous statements, is not mentioned.
- With respect to EU policy, the Conservatives emphasize the one-off character of the NGEU, opposing the Greens’ push for further fiscal integration. But this is more a matter of principle for the moment, as no relevant decision is looming over the next four years. The Conservatives also call for swiftly applying the fiscal rules of the SGP again. These demands could become relevant in the near term as the EU Commission puts forward its proposal for the reform of fiscal rules in autumn.
- Overall, the CDU/CSU offer a wide range of policy proposals for their broad voter base. The manifesto provides sufficient leeway for upcoming negotiations with potential coalition partners – be it with the Greens or the Liberals. Bear in mind that in Germany the need to form coalition governments always requires some degree of political flexibility, and that in the end the coalition agreement is what counts. In the short run, the manifesto is not likely to add further momentum to the CDU/CSU’s approval rates, currently polling 7pp ahead of the Greens.

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The comeback of the Conservatives. The Conservatives' policy proposals will be under more scrutiny than before, as they can no longer point to Merkel as a guarantor of continuity. Having been occupied with the selection of new leadership, they are the last ones to deliver. With a roughly 3-month lag versus other parties, the CDU/CSU presented their joint manifesto this afternoon. Intraparty (moderate centrists vs the more economically liberal camp) as well as interparty tensions (Laschet vs Söder) have subsided. Söder stressed in today's press conference that the CDU/CSU is the "market leader" for a broad political programme and that the excellent performance of Laschet as chancellor candidate has helped to better position the CDU/CSU in the polls. Driven by subsiding intraparty tensions and media attention shifting towards the Greens, the Conservatives' approval rates have risen towards the 30% mark again, polling 7pp ahead of the Greens (see Figure 1). Similar to all the other parties, the presentation of the election manifesto is not expected to generate additional momentum to the Conservatives' campaign. With the summer break approaching and Germans keen to use the regained freedom to travel, the hot phase of the election campaign is unlikely to resume before end-August.

A programmatic umbrella for a catch-all party. In programmatic terms, the Conservatives are facing a trilemma of 1) portraying themselves as modernizers after having been in office for 16 years, while simultaneously 2) appealing to a wide spectrum of voters as a big-tent party and 3) differentiating themselves from the Greens with respect to climate and social policies. Overall, they have succeeded quite well. They dedicated one full chapter to innovation, targeted families with generous tax proposals, and kept their relatively conservative edge with respect to domestic and foreign security. Still, several questions remain: (1) how to finance proposed tax relief, (2) how to keep social security contributions stable in the face of demographic change (despite proposals on privately financed pension schemes) and (3) how to concretely reach ambitious climate-reduction targets while remaining an industrial powerhouse.

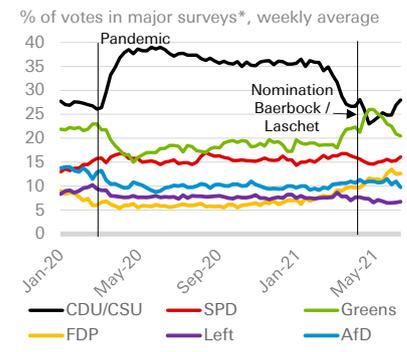
Climate policy: Not the target dominating everything else

Sticking to ambitious targets. In contrast to the Greens, the CDU/CSU do not put the transformation to a net-zero world at the center of their programme. They are sticking to the recently tightened targets of reducing CO2 by 65% by 2030 and reaching carbon neutrality by 2045. This does not differentiate them much from the Greens, which aim for 70% and "as soon as possible". In the press conference (June 21), Söder stressed the Conservatives' holistic approach towards change.

Relying on price signals and green innovation. In terms of the proposed toolbox to reach those ambitious targets, the Conservatives emphasize the use of efficient, market-based tools like the CO2 price in conjunction with the national/EU emissions trading system (ETS) and tax deductions for investments in climate-friendly technologies. More specifically:

- They aim to extend the EU ETS to transportation (incl. shipping) and the building sector as quickly as possible. In the existing national system, they want to accelerate the move towards market-based CO2 prices for those two sectors and eventually integrate this into the EU ETS.
- They address the trade/investment angle of national/EU carbon pricing and call for a WTO-compliant EU Carbon border adjustment mechanism (CBAM). While the establishment of a global climate club (and implicitly a global minimum CO2 price) seems a sensible proposal, we doubt that the

Figure 1: Popularity of major political parties since COVID-19 outbreak



Note: * major political surveys taken into account: Allensbach, Kantar, Forsa, FG Wahlen, Infratest, INSA.
Source: Wahlrecht.de, Deutsche Bank

Figure 2: Carbon prices climbing to new highs



Source: Ember



suggestion of a new dedicated “EU Climate commissioner” would per se accelerate the establishment of such a forum.

- To speed the transformation of energy-intensive industries (like steel and cement), so-called “Carbon Contracts for Difference” (government subsidises the difference between the current CO2 price and the break-even price for a specific investment) have moved to the center of the discussion. The current government is already running a pilot phase and this idea might gain further traction in the course of the next few weeks (also heavily pushed by the Greens).
- In contrast to the Greens, the Conservatives do not focus only on electrification, but on a variety of technologies (incl. carbon capture and storage, hydrogen). They promote research on the production of green hydrogen but are also open to blue hydrogen.
- Still, heating and transportation account for the bulk of energy consumption and emissions. How to quickly electrify the stock of buildings and large parts of the existing fleet of vehicles (without restraining mobility and demand for heating) remains largely unanswered (barring major technological breakthroughs in carbon capture and storage). This holds true for all the other parties as well. Concrete plans of the Conservatives (like the promotion of energetic renovation of buildings and speeding the expansion of renewable energies (“Sonnenpaket”)) would lead to reductions falling massively short of those needed to comply with the ambitious targets.

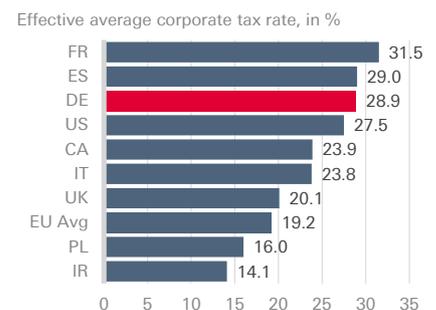
The Conservatives also address the question of how to mitigate the distributional aspects of climate policies. They focus on the redistribution of revenues from the ETS – not on a per-capita basis like the Greens, but via lowering taxes on electricity (reduction of the renewables mark-up “EEG-Umlage”). Moreover, they pledge to retain the compensation of commuters (“Pendlerpauschale”). So far, there are no signs of a German “gilets jaunes” movement emerging, but the recent debate about gasoline prices has shown how sensitive the topic is amongst the electorate and could turn out to be quite explosive in the years to come.

Tax and fiscal policy: Squaring the circle

Corporate tax unchanged but easier accounting rules. The key message here is that the tax burden – be it for corporates or individuals – will not be increased but, if possible, reduced. This coincides with the position of the Liberals but differentiates the Conservatives from the Greens, all the more as the CDU/CSU explicitly reject a wealth tax. Still, rather than a mere tax moratorium, German corporates reiterate the need for a reduced tax burden to remain competitive in light of declining corporate tax rates in other OECD countries (see Figure 3). This is unlikely to happen in any potential coalition, though. Otherwise, state-financed investment plans lack funding. Instead, the CDU/CSU plan to improve accounting rules for corporates by (i) increasing thresholds for tax loss carry-forward and carry-back, (ii) the re-introduction of degressive depreciation and (iii) better depreciation rules for investment in capital goods related to new technology and climate change. On these points there is an overlapping with the Greens in principle, though they do not provide as many details as the Conservatives in this regard.

Limited tax relief for individuals. The CDU/CSU vaguely promise to fully abolish the solidarity surcharge on the income tax that higher income earners (incl. a substantial number of SMEs) must pay – in essence a left-over from the last coalition treaty. Households and families should benefit from a flattening of the tax income curve as well as higher tax allowances in general and for children in particular.

Figure 3: Comparatively high corporate tax burden in Germany



Source: ZEW, Mannheim Tax Index 2020



Interestingly, the manifesto explicitly addresses the so-called cold progression, e.g. adjusting the income tax regime for inflation. This was not an issue back in 2017 and might be seen as an attempt to anticipate inflationary concerns that are beginning to emerge in the German public.

Reinstate debt brake asap. Several of the proposals mentioned in tax and other policy areas are subject to fiscal caveats. This is because the Conservatives want to keep the debt brake unchanged (fiscal deficit 2021: 5.9%) and plan to return to a balanced budget and a public debt ratio of 60% (2021: 72.6%) as soon as possible. The Conservatives – as is true for the Greens and the SPD – provide no details on how to square the circle of sticking to the debt brake, additional spending on social welfare and financing the transformation to a net zero world. In the press conference, Laschet said that there had been a credible assessment of the costs along the proposed timeline. He also stressed that he believes that on balance higher growth would contribute more to overall revenues than tax increases. Another proposal that Laschet mentioned in an interview (Handelsblatt, May 4) is a prospective off-budget investment fund (“Deutschlandfonds”). However, this is not explicitly mentioned in the manifesto, and it is unclear whether the idea will be pursued.

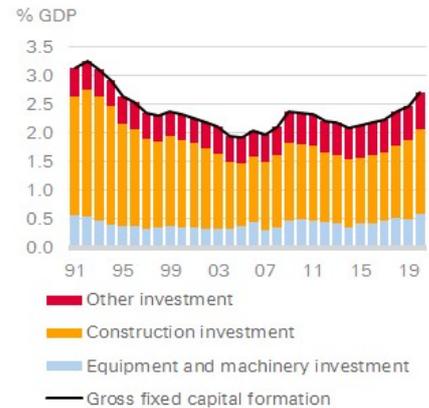
Strong emphasis on Europe

Still fiscally conservative. Not surprisingly, the Conservatives stick to their conviction that the SGP fiscal rules should be applied sooner rather than later in a post-pandemic EU. Moreover, they do not want adjustments of the fiscal framework to result in a substantial weakening of the rules. In addition, they call for reduced discretionary leeway with respect to deficit procedures and for strengthening the principle of conditionality. These demands could become relevant in the near term as the EU Commission puts forward its proposal for the reform of fiscal rules in autumn. Thus, the next German government has to quickly position itself in this potentially controversial debate. They also emphasize the one-off character of the NGEU. But this is currently more a matter of principle, as no relevant decision is looming over the next four years. With the exception of the digital tax, the manifesto does not mention EU own resources or providing the EU Commission with a competence for taxation – unlike the Liberals, which reject it, or the Greens, which support it. The CDU/CSU back the completion of the capital and banking union. The precondition for the latter is further risk reduction in the banking sector. Albeit not mentioned, this refers to EDIS, the discussion of which has been postponed in the EcoFin until after the German elections. This will likely be a difficult topic for a potential coalition agreement between CDU/CSU and the Greens.

Strengthening the EU as a geopolitical actor – EU of different speeds. Like all other mainstream parties, the Conservatives want to strengthen the role of the EU by expanding majority voting in EU bodies, especially in foreign and security policy. But a change from unanimity to QMV requires unanimity. Thus, even if the next German government is actively pushing that idea together with France, they are not very likely to succeed in an EU-27. Thus, the CDU/CSU is also advocating to make more use of possibilities to advance cooperation in certain policy fields in smaller groups. Moreover, they are reviving the slogan from the past decade that deepening of the Union is a prerequisite to further enlargement. The democratic role of the EP should be enhanced by introducing a threshold to enter the parliament to avoid further fragmentation.

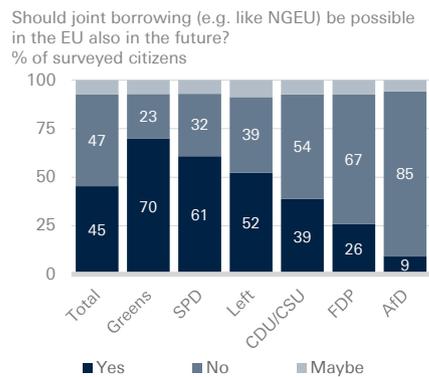
The Conservatives extend their call for stability and security to the EU level as well. They want to strengthen Frontex in the context of migration and – alongside NATO

Figure 4: Public investment: not there yet



Source : Federal Statistical Office, Deutsche Bank

Figure 5: CDU/CSU voters rather sceptical about joint borrowing



Source : Heinrich-Böll-Stiftung/Das Progressive Zentrum, Selbstverständlicheuropäisch! 2021, June 2021



– further enlarge EU defense capabilities (PESCO) with integrated European military forces and an own headquarter to lead EU missions.

Differing shades of pro-European. In the grand scheme of things, the CDU/CSU led by Laschet should remain strongly pro-European. By refusing to close the borders to Belgium and the Netherlands during the height of the pandemic, Laschet has held up the idea of European integration. He is a strong supporter of the German-Franco alliance and is likely to build on existing joint initiatives for providing leadership to and modernizing of the EU. The past 16 years of Chancellor Merkel and the numerous crisis during this era have proven that a CDU/CSU-led government will defend its principles but also be flexible enough to take action when needed. The agreement on the NGEU is the most prominent proof of that.

A credible push for innovation

Focus on R&D spending and emerging technologies. While all parties stress the need for better digital infrastructure, fully digitalized public administration, and a regulatory environment conducive to innovation, the Conservatives dedicate a full chapter of their election programme to innovation and emerging technologies. Overall, they want to improve conditions for private companies, to incentivize private investments. Similar to the Greens and the SPD, they aim to increase R&D spending to 3.5% of GDP, a modest increase from the 3.2% witnessed in 2019. Moreover, they want to double tax deductions for research activity and create a federal ministry for digital innovation and transformation. The Conservatives do not subscribe to active industrial policy to the same degree as the Greens – but more active innovation policies, especially with respect to frontier technologies, are part of the manifesto. The realisation of all their proposals and initiatives could indeed make a difference with respect to Germany’s innovative capacities. All in all, the Conservatives’ innovation policies are most closely aligned with those of the FDP, on free-market instruments and with no bias to certain technologies.

We have pointed out in the past that the nomination of a front runner will not do the trick for the CDU. Laschet has been able to clip the Green’s soaring polls and even – quite surprisingly – provided the CDU/CSU with a clear lead in the polls. We believe this manifesto ticks the next box. What is still missing – after 16 years in government – is a convincing team, with some new faces, as promised.

We would like to thank Ursula Walther and Jenny Franke for their valuable contributions to this research.

Figure 6: CDU/CSU's digital policy proposals

Public administration internal	<ul style="list-style-type: none"> • Digital procedures as the norm • Automation of processes - e.g. automatic registration for child support • Internal "app store" for easy access to software for public administration
Digitised interactions	<ul style="list-style-type: none"> • New Ministry of Digital Affairs • Digital tax declarations via app • "Digital TÜV" • Digital corporate account for administrative purposes • "Single access point" to request services from public administration • Basic digital supply for every citizen - secure inboxes, electronic signatures, electronic identification tools
Infrastructure	<ul style="list-style-type: none"> • Nation wide access to mobile data until 2024 • Expansion of 5G network • Public spending of EUR 15 billion in gigabit networks until 2025

Source : CDU/CSU election manifesto



Appendix 1

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