

THE ECONOMIC PROGRAMMES OF THE SPD AND THE CDU/CSU

After the no-confidence vote on 1 July sought by Chancellor Schröder, the President of the Republic, Horst Köhler, has dissolved the Bundestag the 21 July. Early general elections will then be held on 18 September this year. For the time being the CDU/CSU union is comfortably ahead in the opinion polls; it would appear difficult for the SPD, in strong competition on its left, by September to be able to surmount its handicap based on the unpopularity of the reforms contained in Agenda 2010.

The two major parties, already campaigning, have presented modestly reform-oriented economic policies (none has presented pension or federalism reforms) based on measures in favour of their reference elector group (cf. attached table). In both cases, reducing the public deficit is far from a priority. Examined in light of the EU budgetary constraints, while they have been loosened by the reform of the Stability and Growth Pact last March, both programmes seem somewhat unrealistic.

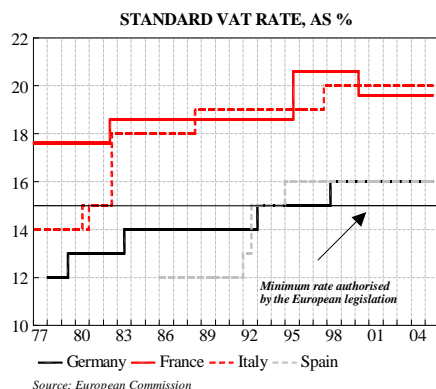
The SPD is presenting a programme of compromise between its various internal currents

In addition to pursuing the measures presented in its Agenda 2010, the SPD's programme specifies three leading measures inspired by its left wing: improvement in family benefits, creation of a citizen health insurance programme, and the implementation of an additional tax for very high income earners. "Social" measures that could have been included in Agenda 2010 have been selected, most likely to attempt to recover voters from the East who blatantly abandoned the SPD after the April 2002 elections in Saxony-Anhalt.

On jobs, the SPD is defending the record of its Hartz reforms (though costly, they led to the creation of part-time jobs and subsidised jobs) and intends to continue to rely on the "Ich-AG" and Minijobs to fight unemployment. It is not offering any additional reform and again falls down in the vote-catching promise that "no citizen under 25 will be without work or training for more than three months" which evokes the fall in the number of unemployed to four million that Gerhard Schröder promised in 1998. There are still question marks over how to finance the lowering of the corporate income tax. Even if the SPD should win the elections, this plan will again be refused by the opposition, which holds the majority in the *Bundesrat*, unless consensus is reached on how to fund it.

The CDU/CSU is ignoring budgetary rigour and is offering a continuation of reduced direct taxation

The CDU/CSU's key plank is the raising of the usual rate of VAT (one of the lowest in the European Union) by 2 points, a measure that has met with stiff opposition even with the Christian Democrat coalition. If the Union wins the elections, but has to form a coalition with the liberals, which is the most likely scenario, it is not certain that it would be able to introduce this measure, fiercely opposed by the FDP. Furthermore, Edmund Stoiber has achieved the return of 4 of the 16 billion euros in additional income to the *Länder*, thus restricting the financing of the lowering of the unemployment contributions (paid to the federal labour office, the *Bundesagentur für Arbeit* and included in the federal government's budget).

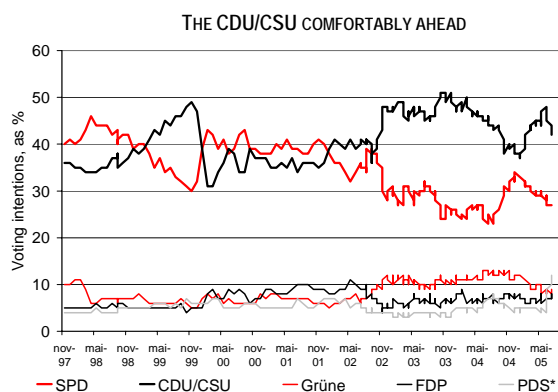


The lifting of the VAT would threaten to plunge household consumption down at least 0.5% from its already weak level (as occurred in Japan in 1997 and, to a lesser extent, in France in Q3 1995). The Federal Statistics Office has estimated that a raise of the VAT by 2 points would add at least

0.9 point to inflation; it would then come near to 1.9%, instead of the 1.0% currently expected in 2006 (though likely somewhat less, since some companies will not manage to pass on this rise in total). The Union's programme is the one that is least risky for the public deficit, since the rise in VAT would in principle add 0.6-0.7% of GDP in additional receipts in 2006, since the lowering of the income tax is scheduled not to come into effect until 2007.

Most likely outcome: a win by the CDU/CSU Union

Despite its announced intention to raise the VAT, the CDU/CSU remains well ahead in the opinion polls. Its programme, which is more reform-oriented than the SPD, is favoured by the business community, even though they are opposed to this measure, fearing its effects on domestic demand.



* As of 17 June 2005, shared PDS/WASG list
Source: Infratest-dimap, Sonntagsfrage carried out each week with at least 1000 German citizens "Which party would you vote for if legislative elections were held next Sunday?"

A threat is posed to the SPD on its left wing by the joint list of the former East German Communist Party, the PDS, and the populist current launched by Oskar Lafontaine, the WASG; this list is gaining ground in the polls and is credited with more than 10% of voting intentions. The only good piece of news for the SPD is the popularity of Gerhard Schröder, which is still slightly ahead of that of Angela Merkel. Combating unemployment will be at the heart of the campaign. In this respect, the Schröder government has a dismal record: the *Minijobs* and the "Ich AG" have not been enough to turn unemployment around.

Beyond the economic programmes that should satisfy the traditional voters of each of the two parties, issues that will count considerably in voting decisions include on the one hand, the CDU/CSU's desire to continue to operate nuclear power plants in Germany, to which the majority of Germans is opposed, and on the other, its refusal to let Turkey into the European Union (opting rather for a partnership), an issue which troubles many Germans.

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(Sources: « Vertrauen in Deutschland, Das Wahlmanifest der SPD », 4 Juli 2005; « Deutschland Chancen nutzen. Wachstum. Arbeit. Sicherheit. Regierungsprogramm 2005 - 2009. Verabschiedet in einer gemeinsamen Sitzung des Bundesvorstands der CDU und des Parteivorstands der CSU », 11 Juli 2005)

	CDU/CSU	SPD
Technology & infrastructures	<ul style="list-style-type: none"> €# Allocation of one billion euros per year to research and development €# Construction of a high-speed train line (Transrapid) €# Extension of the term of operation of the nuclear power plants (in 2002, a law was voted that scheduled the gradual termination of the use of nuclear power plants on German territory: no new construction and the lifetime of existing plants limited to 32 years after their commissioning) €# Renewable energies should reach at least 12.5% of the final consumption of energy, as opposed to 4% currently; nonetheless, the subsidies on solar and wind energy are being lowered €# Confirmation of the <i>SolidarPakt II</i> for the former East Germany (€ 156 billion over the period 2006-2019) 	<ul style="list-style-type: none"> €# Expansion of research and development funded by a special tax on high income earners, since the elimination of the <i>Eigenheimzulage</i> on which the SPD depended was rejected for three years by the Union which holds the majority in the upper house. The SPD noted its goal to raise R&D expenses from 2.5% to 3% of GDP by 2010. €# Allocation of € 2 billion over four years to construct road and railway lines €# Continuation of the <i>SolidarPakt II</i> grants to enable the former East Germany to catch up ("<i>Aufbau Ost</i>"): transfer of € 156 billion over the period 2006 -2019.
Labour Market	<ul style="list-style-type: none"> €# Lowering of the unemployment contribution from 6.5% to 4.5% (half of which is paid by the employer), funded by a rise in the usual VAT rate from 16% to 18%. <i>Das Institut für Arbeitsmarkt- und Berufsforschung</i> considers that this measure could create up to 200,000 jobs (an increase of 0.5 %) in the long-term €# Assessment of the success of all training and subsidised jobs measures €# Elimination of the "<i>Ich AG</i>" measure €# Repeal of the law on the protection from dismissals in small and medium-sized companies with fewer than 20 employees (<i>Kündigungsschutz</i>) for new hires. The SPD had already raised this threshold from 5 to 10 employees on 1 January 2004 €# For two years, beneficiaries of the <i>Arbeitslosengeld II</i> would be required to accept jobs that are paid at up to 10% less than the wage set by the branch agreement €# Development of <i>Kombilöhne</i> measures (wage + social security benefits) to expand low-paying jobs €# Expansion of the power of local authorities (<i>Gemeinden</i>) to manage job centres €# Relaxation of the law on tariff agreements to encourage company agreements 	<ul style="list-style-type: none"> €# The SPD rejects any intervention in tariff agreements and joint management and intends to keep <i>Kündigungsschutz</i> as it is. €# The law on the minimum wage for foreign workers (<i>Arbeitsnehmer-Entsendegesetz</i>) must be extended to all industry segments in the form of branch agreements between employers and unions. The SPD does not intend to introduce a minimum wage unless the branch agreements prove not to be totally operative €# The <i>Arbeitslosengeld II</i> for the East must be aligned with that of the West, increasing from € 331 to € 345 for a single person €# The reduction of the term of unemployment compensation under <i>Arbeitslosengeld I</i> (from 32 to 18 months) planned for February 2006 by the Hartz IV law will not be introduced until February 2008, and then only for those aged more than 55.
Taxation	<ul style="list-style-type: none"> €# A rise in the usual VAT rate from 16% to 18% as of 1 January 2006 (except for food products, urban public transport, and books, whose reduced VAT rate will remain at 7%), which is expected to bring in € 16 billion, but more likely € 13 billion, once the lowering of the volume of consumption that it is likely to cause is taken into account. €# A drop in corporate income tax from 25% to 22%, followed by a thorough overhaul of the taxation of companies to be funded by lowering subsidies, particularly to the mining industry, and tax abatements (savings of € 3 billion) €# Elimination of the succession duties when the company continues its business for at least ten years (an idea taken up by the Schröder government with the drop in corporate income tax at the employment summit held in March 2005) €# Reintroduction of taxation on capital gains from the sale of equity holdings by corporations, repealed by the Schröder government in 2000 €# As of 1 January 2007, a drop in the minimum marginal tax rate on income from 15% to 12%, in the maximum rate from 42% to 39%, and a lifting of the € 7,664 individual exemption (to be extended to children) to € 8,000. Thus, a family with two children will be subject to income tax only if its annual income is in excess of € 38,200 – and with such income it would pay € 5,000 less tax than currently. Measure financed by: €# A drop in the benefit for the trip between home and work (<i>Pendlerpauschale</i>) from 30 to 25 cents per km; elimination in six years of the benefit for working nights, Sundays and public holidays 	<ul style="list-style-type: none"> €# A drop in the corporate income tax from 25% to 19% (cost: € 6 billion). This measure that was proposed after the March employment summit had been abandoned in June when it was considered in the <i>Bundestag</i>, since it was not fully funded. The SPD announces that it will be funded this time, though it does not elaborate. A thorough reform of corporate taxation should make their taxation independent of their form of incorporation (<i>Kapitalgesellschaft</i> vs. <i>Personengesellschaft</i>), which will prevent small and mid-sized companies (the <i>Mittelstand</i>) from paying the <i>Reichensteuer</i> €# Elimination of business tax for artisans and small and mid-sized companies €# Reform of corporate succession duties to encourage the continuation of business €# Creation of a 3% tax (<i>Reichensteuer</i>) for annual incomes in excess of € 250,000 for a single person (€ 500,000 for a couple). This measure, which would affect 40,000 individuals, must gain € 1.2 billion, half of which will go to the federal government €# The possibility of deducting from taxable income up to one fifth of the expenses of modernising or renovating the private home, up to a limit of € 600. This measure is intended to support craft industry. Expansion of this measure to other household services will be considered.
Social Security	<ul style="list-style-type: none"> €# Introduction of a single contribution amount to the various health insurance funds (at present, each fund – or <i>Krankenkasse</i> – sets its own contribution rate, following the rules defined by law). Low wage-earning households will receive tax relief. The employer health insurance contribution will be frozen. Health insurance for children would be financed by taxation. No timing has been provided for this measure, nor has the lump sum amount. This system, called <i>Gesundheitsprämie</i>, was, along with the <i>Bürgerversicherung</i>, proposed as one of the possible reforms of health insurance by the <i>Rürup</i> report in 2003. The lump sum amount would be based on the total cost of health expenditure, i.e., € 210 per adult per month in the present situation (9.5% of the average wage). Households earning between € 40,000 and € 70,000 per year would gain from that to the detriment of those earning between € 10,000 and € 40,000. In the <i>Bürgerversicherung</i> system, each person pays as much as s/he can (redistributive system). According to the <i>Rürup</i> report, this system (which typically includes the abolition of the contribution ceiling) would make it possible to reduce the subscription rate to 13.1% in the short term (against 14.4% today) and to 12.4% in the long term. Households earning less than € 40,000 per year would gain from that, to the detriment of others. 	<ul style="list-style-type: none"> €# Implementation of universal health insurance (<i>Bürgerversicherung</i>) making it possible for the most poorly-off to benefit from pay-outs from the <i>Krankenkassen</i>. This measure will be funded partially by subscriptions from civil servants, elected officials (their health insurance has up till now been financed by taxation), the liberal professions, and a subscription on capital income. The SPD does not anticipate any rise in the contribution ceiling. €# The parental upbringing allowance (<i>Erziehungsgeld</i>) should be transformed into a parental leave allowance (<i>Elterngeld</i>) of 67% of net pay (up to € 2,700 per month) for a year. It would seem unlikely that such a measure, estimated to cost € 4.3 billion, could be entirely financed by the elimination of the <i>Erziehungsgeld</i>. €# The <i>Wahlmanifest</i> points out the goal of Agenda 2010 to create 230,000 child care places by 2010 and to make child care free one day.
Pensions	<ul style="list-style-type: none"> €# As of 1 January 2007, a € 50 discount per child on the pension contributions financed by the elimination of the home-buying grant (<i>Eigenheimzulage</i>). €# Dependence insurance (<i>Pflegeversicherung</i>) will be financed by an assets tax. 	<ul style="list-style-type: none"> €# End of the freeze on pensions that the SPD itself imposed in 2003 to stabilise pension contributions.
Public Finances	<ul style="list-style-type: none"> €# Return of the public accounts to balance by 2013 at the latest. €# A federal stability pact must stipulate that Germany will comply with the stability pace (public debt lower than 3% of GDP) by 2009, at the latest. €# Pension entitlements of government ministers and state secretaries would be reduced. 	<ul style="list-style-type: none"> €# The consolidation of public finances is presented in the SPD <i>Wahlmanifest</i> as "desirable," though it should not be done by lowering contributions. The SPD considers that additional savings will be made when the upturn consolidates. Reducing the public debt is not considered an urgent matter
Corporate governance	<ul style="list-style-type: none"> €# Emoluments of the managers of listed companies should be decided by the shareholders en masse (a law adopted in July 2005 makes it mandatory for listed companies to publish their managers' salaries). €# It will be mandatory for managers to retain stock options for at least ten years, and the number of positions on a supervisory board will be restricted. €# Companies will be encouraged to develop profit-sharing by employees. 	<ul style="list-style-type: none"> €# The SPD supports the development of fair profit-sharing by employees €# It opposes an overall increase in working time

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