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Let's not be beastly to Germany's most ambitious minister

THE SUN had a bit of fun with the Germans again last week. It was crude and sophomoric as usual but, as always, there was a kernel of truth in the obloquy slung across the Channel into Krautland.

The tabloid's target this time was Oskar Lafontaine, the finance minister of the new German government. Is this the most dangerous man in Europe?, the Sun asked on its front page. To drive the point home, the page was replicated in German on page three, not normally associated with international news.

But was the Sun correct? That depends. If you cherish British monetary and fiscal independence, then Red Oskar is indeed a threat. If you believe in low taxes and a modest level of dirigisme, then you don't want to be in bed with Mr Lafontaine, either. If yours is the Blairite Third Way, meaning essentially Thatcherism with a gentler face, then stay away from Mr Lafontaine and his naive neo-Keynesianism.

If you look to markets and microeconomic reform, Mr Lafontaine is indeed a "problem", not only for Britain but for Germany and all of Europe. Though an intelligent man who has been known to scrap ideological verities at the snap of a party position paper, he now seems embarked on a strictly orthodox Social Democratic course.

And they don't call him the Napoleon from the Saar for nothing. He is small, he looks a bit like Bonaparte, and he easily matches the diminutive emperor's hunger for power. Whatever Mr Lafontaine has, noted a Bonn journalist the other day, he wants more of it.

He craved the chancellorship but lost the elections in 1990 and had to yield to Gerhard Schröder. A few weeks ago he wanted to be the Social Democrats' parliamentary leader, losing again.

Now, so the gossip has it, he has his eye on the presidency of the European Commission. But, for the time being, Mr Lafontaine wants to rout Milton Friedman, the neo-classical monetarist, and the ghosts of his dis-

Oskar Lafontaine's plans for Europe's economy could be disastrous. But they won't happen, writes Josef Joffe

ciplines. Margaret Thatcher and Ronald Reagan.

He has been preaching easy money and massive infusions of government money into the economy. He has led the attack against the Bundesbank in order to frighten its successor, the European Central Bank, into pre-emptive submission.

But the real thrust behind the assault is Mr Lafontaine's dislike of the ECB's main brief, which is rigorous monetary discipline, hence, in most cases, tight money. He and his French friends think that monetary policy must follow an expansionary macroeconomic policy à la Keynes, and not counteract it, as the Bundesbank's history suggests. And the ECB is just the Bundesbank writ large.

But Mr Lafontaine is too smart to believe that Keynesianism in one country can work. Hence his drive to Germanise European economic and fiscal policy. Hence his quest for tax harmonisation across the EU, which really means hiking them up to the towering German level so that tax-weary German business won't escape into Holland or Britain, where corporation taxes are much lower. So if you believe that

Europe's escape from its structural doldrums of too much statism and welfarism requires a dose of Thatcherism, then Mr Lafontaine is indeed its most dangerous man. For if his orthodox prescriptions became official policy across the Continent, then many bad things might happen.

The first victim would be the Stability Pact under which the euro candidates have sworn to stick to the fiscal discipline laid out by the Maastricht treaty. A second victim might be the euro itself. For if Lafontainism triumphs, inflation will surely rise and the euro will soften. But the main problem is Europe's economic future. The longer the EU meddles with neo-Keynesianism, the longer it will fail to tackle microeconomic reform.

Will this doomsday scenario come about? Not likely. From Britain, the EU looks like a huge monolith run either by Socialist stalwarts like Mr Delors or a Franco-German conspiracy. Actually Europe is as messy and contradictory as any modern Western polity.

Not even the Germans are dyed-in-the-wool Lafontainists. There is Chancellor Schröder and his collaborators who are Blairite modernisers and champions of the market. There is Holland, that cleaves to free trade and governmental downsizing at home. The Italians, by their very nature, are never going to submit their economy to the French-style dirigisme.

So this is not a time for Britain to let outdated fears and resentments get the better of policy in the puerile ways of the Sun. Tony Blair and friends have a lot of credit in Europe, especially in Germany.

True, one shouldn't count on personality and style beating out national differences. But a more benign chapter has opened up in Anglo-German relations. During Mrs Thatcher's days, the Germans could never expect better than to be harangued and hand-bagged. Today, Tony Blair and Gerhard Schröder listen to each other.

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The Sun's page 3 in German

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