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VIEWPOINT

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Good Riddance

But who will Germany find to blame now?

HE WAS THE WRONG MAN IN THE WRONG PLACE AT THE WRONG TIME, AND SO Oskar Lafontaine did the right thing when he resigned as Finance Minister and SPD chairman. He was a Keynesian in an era when large deficits and cheap money could no longer take the unemployed off the streets. He was a booster of Big Government when public spending was already eating up one-half of German GDP. He was a devout statist who refused to see that Germany's problem was too little self-reliance and too much welfarism.

Is this unfair? The markets immediately roared "No!" as soon as the news of the twin resignation hit the wires at 5:47 p.m. on Thursday. The bourses—though formally closed—went into overdrive. The euro rose by 2%, and futures for German government bonds soared by more than a full percentage point. In New York, stocks of German firms, wilting for weeks, leapt by 10 or even 15%. On Friday, the spree continued, propelling the DAX Frankfurt stock market index past the 5,000 barrier.

The message of the markets was as blunt as could be. With Lafontaine out of the equation, there was hope for a change of variables—for an economic policy that would turn away from Big Taxes, Big Spending and Big Regulation. Justifiably or not, "Red Oskar" had become the symbol of everything that went wrong in the first five months of the Schröder government.

Germany's crushing tax burden (the top rate is 55%) was not so much reduced as shifted around—from households to corporations, from payrolls to fuel and utilities. Lurking a little farther down the road was another Lafontaine favorite: a further hike in the already oppressive Value Added Tax on goods and services.

The timid pension and labor market reforms instituted under Kohl were rolled back almost immediately. And worse. The government then went after all those people—freelancers and part-timers—who were able to sell their labor minus the outrageous social levies Germany imposes on wages and salaries. The idea was to fill the public coffers and retighten regulations. But because such measures raise the price of work to employers, they destroy jobs.

Indeed, since Gerhard Schröder and Oskar Lafontaine took over, German unemployment has risen relentlessly, just as the textbooks would have predicted. The—nonadjusted—rate now stands almost half a million above where it was last September. Business confidence has sunk to dismal levels. Large companies like the insurance giant Allianz have openly threatened to flee the country.

Will all of this change? Don't hold your breath. Nothing ever changes wholesale in Germany, as it did in the U.S. and Britain in the 1980s. Only three things are for sure. The Chancellor, now party leader as well, has at last bested the man who would be king. Second, the true believers no longer have a commanding voice in the cabinet. Finally, Gerhard Schröder is free to be what he has always craved being: Bill Clinton and Tony Blair rolled into one. Unfortunately, the German Chancellor has followed Helmut Kohl, who did little to restructure the economy, instead of succeeding radical reformers like Ronald Reagan and Margaret Thatcher. And if Schröder now fails to get the country moving, Lafontaine won't be around to take the blame. ■

JOHNNY EGGITT—AFP

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