Oskar Lafontaine's Resignation (March 15, 1999)

Abstract

When his neo-Keynesianism encountered rising criticism, leftist finance minister Oskar Lafontaine suddenly resigned from the cabinet, opening the way for the neo-liberal labor market reforms of SPD chancellor Gerhard Schroder.

Source

A Free Hand for the Chancellor

Oskar Lafontaine's abrupt retreat into private life gave Gerhard Schröder a second chance. Now he can— and must— push through his own economic and financial policy. The SPD supports his claim to leadership, if more out of reason than sympathy.

When the first rumors reached Bonn from the other end of the "global village"— New York City—the Federal Chancellor still suspected nothing.

Last Thursday afternoon American analysts and brokers frantically called the chancellery and the ministry of finance to ask whether it was true that Oskar Lafontaine has resigned. On Wall Street this news was treated as a hot tip.

Untrue, absolutely untrue, assured Torsten Albig, Lafontaine's speaker in the finance ministry. This was no white lie— he knew nothing. Nevertheless, when Wall Street opened for trading at 3:30 pm, stock prices immediately shot upwards. Of all people, it was the speculators, the representatives of exactly the kind of casino capitalism that Lafontaine so passionately aimed to combat, who sensed before anyone else what was brewing in a small city in Germany.

Only ten minutes later, at about 3:40 pm, a messenger delivered Lafontaine's letter labeled "For the Federal Chancellor – personal," to Marianne Duden in the antechamber of the Chancellor's office. Schröder, who was working alone at his desk, could hardly believe what he read at first: "Dear Federal Chancellor, I hereby resign as Federal Minister of Finance. Very truly yours, Oskar Lafontaine."

The Chancellor immediately rounded up a group of trusted colleagues in his office: Undersecretary of State Frank-Walter Steinmeier, Chancellery office director Sigrid Krampitz and SPD Whip Peter Struck. Head of the Federal Chancellery Bodo Hombach was just then chairing a meeting of the main committee of the Alliance for Jobs in the chancellery. He was called out of the meeting and briefed.

Shortly thereafter Hombach returned to the committee and declared to those present, with a faint smile: "The Minister of Finance has just resigned." The participants noticed that a certain jubilant expression remained on Hombach's face for the rest of the meeting.

No further explanations? Marianne Duden tried tirelessly to reach Lafontaine by phone, but he didn't want to speak with the Chancellor. The matter was decided, he had let it be known; aside from that, he was practically on his way to Saarbrücken already.

Later, once he had been reached by cell phone, he refused direct contact with Schröder. Once again, the Chancellor only learned via a third party that Lafontaine's decision was final; there was nothing further to discuss. Then he hung up. Up until last Friday evening, all attempts by Schröder and his crew to speak

with Lafontaine in the Chancellery remained fruitless.

That was it. A blackout? An act of disloyalty, a refusal of any explanation to the Chancellor, the rude resignation of a minister and party leader in anger, leaving all parties involved at a loss.

As so often happens when things get serious, the highly complex German party and governmental system comes down to a man-on-man duel. That's what happened between Konrad Adenauer and Ludwig Erhard, between Willy Brandt and Helmut Schmidt, Helmut Kohl and Franz Josef Strauß. And now between Schröder and Lafontaine as well.

As always, two strong figures claiming sole authority and having differing political styles and notions face one another. They enter into temporary marriages of convenience, but usually only maintain them begrudgingly and conditionally. The rivalry between Lafontaine and Schröder erupted openly when the government failed to extricate itself from a mess.

Which one of them was responsible for this failure? For weeks, Schröder's people had spread rumors about the ill-prepared Minister of Finance Lafontaine, who surrounded himself with his followers in the ministry, and who could not cope with the double burden. On the other side, Lafontaine's troops pointed reproachfully to the poor coordination in the chancellery and made fun of the "Cashmere Chancellor," who posed for lifestyle magazines in an expensive coat.

The Schröder/Lafontaine duo harmonized, as long as both paid mutual respect to one another and promised mutual protection. Each of the two power seekers could believe that he operated with sole responsibility for his own project— the Chancellor for the one, the Treasurer for the other.

But as Schröder was increasingly taking advantage of the precedence bestowed upon the government head by the chancellor democracy, Lafontaine no longer wanted to play along. His retreat into private life was lightning quick and total.

It was also no mere rivalry. Once again, the two Social Democrats stood before the classic conflict over goals: how much burden may a government place on the economy in the name of social equity? Are jobs to be created by improving investment conditions for the economy? Or is it better to stimulate the economy through mass consumption?

Lafontaine fought with the energy companies and insurance firms. But Schröder did not, and still does not want, to govern in opposition to the economy. The latent opposition between the two could be observed last week in all its glory.

On paper, Schröder is now as strong a chancellor as Helmut Kohl was in his heyday. He followed Helmut Schmidt's advice and took over the role of SPD chairman as well. Yet no party leader as unpopular among members as he was had ever taken over this office in the post-war SPD. For now, the party must and will comply if it desires success and leadership.

Schröder made it clear what role he was assigning to the Greens: more Fischer and less Trittin, more goal-oriented governmental pragmatism and fewer stunts to serve minorities.

The Greens have lived and fought for far too long to sit at the cabinet table in Bonn to give up their chance lightly now. They also have limited potential to make threats: if they fail as a majority-maker, then the FDP is available as a replacement. A grand coalition is also not to be discounted as an alternative; Schröder's preference for broad majorities in the government and in society would come closest to an alliance with the CDU/CSU anyway. For now, the public leans towards another grand coalition, as determined by the Emnid Institute under contract to *Spiegel* magazine.

The showdown began at the cabinet meeting last Wednesday. Schröder commenced to issue a dressing down, which ended up as a deliberately exaggerated headline in the *Bild* newspaper: “Schröder Threatens to Resign!”

The chancellor did not once raise his voice as he got to the point among his ministers, calling for a “return to the fundamentals of our election success.” We “courted the new center and in fact gained their trust,” he stated. “But there are some who continue to assume that the country can be governed in opposition to the economy. That won’t work.”

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Then the Chancellor came to the embarrassing jumble of figures surrounding the financial burden on energy suppliers, and the zigzag course in tax reform: “Things can’t continue in this way.” He did not mention Lafontaine by name, but everybody knew whom he meant.

At first silence reigned in the cabinet room, until Lafontaine of all people uttered the first words, which were indeed surprising: “Gerd,” he said, “I agree with you on all points.” He would be available for coordination talks.

After that Schröder did not have to hold back anymore. He finally had free rein in economic and financial policy, just as he had always wanted. The “auto man” who had always believed that there was no right, no left, but certainly that there was modern economic policy, ultimately hitched his fate to new jobs.

And on this point almost nothing has gone according to plan: currently, there are over 500,000 more unemployed than on the day Schröder took office. The German economy is threatening to stagnate, and what is more, many businesspeople are summarily postponing investments for the coming months—for fear of new burdens coming out of Bonn.

Now Schröder is aiming for a quick change in mood. The SPD modernizers are striving with renewed vigor to push their projects forward with the support of the Greens, who this past Friday quickly shifted to a liberal economic tack.

 Tax reform, part one, is indeed being implemented. And as early as January 1, 2000, industry should benefit greatly from business tax reform. Families should benefit from the Karlsruhe judgment.

 Schröder’s people promise new impetus for the Alliance for Jobs and the energy agreement: without the bogeyman Lafontaine, Schröder can count on sympathetic businesspeople.

 The Chancellor called for well-crafted work on further reform plans related to the economy: health, pensions, the low-wage sector. Finally, what the Chancellor had promised following the first 100 days of chaos was to be realized: precision before speed.

Lobbyists and business associations triumphantly celebrated Lafontaine’s exit, as though it was the second victory of capitalism over the planned economy.

“This is one of the best days of my professional life,” crowed Hans Schreiber, president of the Insurance Employers Group: “Lafontaine was a capital and jobs destroyer.”

In a buoyant mood, Hans-Olaf Henkel also commented on the news. “Now the Chancellor is freed from a ball and chain,” the president of the Federation of German Industries rejoiced, “now he only has one left – and it’s called Jürgen Trittin.”

The stock markets experienced an explosion not seen for a long time: within seven minutes, European currency gained two cents over the dollar; on Friday, within the first quarter of an hour the German stock

index DAX climbed over 300 points in comparison to the previous day— early praise for Schröder.

To the same degree that the economic side celebrated unashamedly, Lafontaine's colleagues reacted with shock. For a moment the political heart of the republic appeared to skip a beat as the news of the resignation of the SPD chairman broke on a sunny early spring afternoon last Thursday.

Foreign Minister Joschka Fischer was jogging in the beautiful sunshine on the banks of the Rhine in Bonn, as usual with his security staff, when a call from the Chancellor reached him by cell phone: "Don't shower, come right away," the head of government ordered, without indicating why he needed to see the Green leader as quickly as possible.

The Foreign Minister immediately broke into a sprint until he reached the Chancellery: sweating and breathing heavily, wearing shorts and a baseball cap over his grey hair, he received the news from the Chancellor personally.

Schröder also personally called the SPD deputy leader and presidential candidate Johannes Rau. He set out right away for Bonn from Wuppertal. The news was not a total surprise for him: a few days earlier he had offered the already bitter Lafontaine his services as mediator. Too late. "Now difficult times are coming for the SPD."

The Chancellor also saw it that way. "We are in a difficult phase, and it could become a dangerous downhill slide," he forewarned on Thursday. Yet as always, last week when the man from Lower Saxony saw his domains threatened, he shifted into high gear. He acted quickly, clearly, and decisively.

The coalition meeting on Thursday was scheduled for that evening anyway. Now he invited the top members of both parties to come to the chancellery beforehand. "With great seriousness," according to one participant, coalition arrangements were to be "clearly spelled out." The group agreed on one official talking point: the dual citizenship compromise was to be praised as the first great success in citizenship legislation.

Schröder renewed his coalition promise in an almost celebratory tone: "I want this coalition to be successful. I want it rationally, and I want it emotionally. I will stand by this." It was clear to all participants: there would be no more excuses now. The starting shot for the second round had been fired.

The bromance between Lafontaine and Schröder is over. Up until the end, both had presented this media fairy tale to the world with flashy images and assertive forced smiles. This collaboration was "very close, very positive, very friendly," the Federal Chancellor continued to affirm this past Monday.

That Lafontaine had not been in a good mood over the past weeks and months was a topic of conversation among party members who gathered at the party council in Bonn, the highest-level SPD meeting between the party conventions. Yet Lafontaine heroically assured his listeners that "It doesn't matter how poorly the chairman is doing. What matters is how well the party is doing."

That the economic sector was raging against the Red-Green reform projects was "understandable" he asserted: the course would indeed be set differently than it had been over the past 16 years. Lafontaine passionately urged party members to continue to go on the offensive in support of this "worker- and family-friendly policy" that had been absent for too long, even in the face of resistance.

Then Schröder spoke. "In fact," he said, he largely agreed with Lafontaine. But he considered it wrong to be so one-sided. Politics should not be pitted against the economy. "When debates are approached with the old class struggle mentality nobody benefits."

There was no great applause after Schröder's speech, but rather more of an uncomfortable silence. Yet the conflict was now out in the open.

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Now Schröder was following in the footsteps of Helmut Schmidt, and Lafontaine saw himself as the successor to Willy Brandt. They promoted "political change in Germany" under the motto, "Innovation and Justice." Schröder and Lafontaine were the German Social Democrats' answer to Tony Blair and Lionel Jospin.

Lafontaine assumed the traditional role within this duo. Even his closest friends did not once claim that he had been especially popular among party members. Yet he was respected and feared by all, including Schröder.

"Yes, you could be the chairman," Lafontaine used to say to the man from Lower Saxony when grumbling about the party. "But you wouldn't do that to me," he used to answer. This was one of those jokey rituals with a deeper background that characterized the sarcastically fractured mode of communication between them.

Following the March election in Lower Saxony it was clear that Lafontaine no longer had a chance against the media star and darling of the public Schröder. They fought the election campaign together, and together tried to establish the Red-Green coalition in Bonn.

After the change in power, Lafontaine expressed his gratitude for "the trust in Gerhard Schröder and me" with great aplomb. While Schröder presented himself as the head of government, the party chairman tried to establish himself in the ministry of finance as vice, senior and shadow chancellor.

Yet the double burden of being both minister and party chairman increasingly overtaxed Lafontaine.

As Minister of Finance, "double Oskar" not only wanted to do everything better, but also completely differently than his predecessors. During the coalition negotiation phase, he had already expanded the ministry of finance into a new super ministry, removing the responsibilities of the economics minister for larger parts of European policy, as well as essential matters of economic policy. According to his CSU predecessor Theo Waigel, "He took on much too much for himself."

Lafontaine needed his new power center not just to convince the world of his economic policy ideas. His ego demanded an independent project alongside the Chancellor. That is, as a macroeconomic missionary he tried to introduce a paradigm shift in financial policy, away from the politics of supply based on the free play of market forces and towards a politics of demand that placed monetary policy under pressure and stimulated the economy through government borrowing if necessary.

The theories of the neoliberal economists Milton Friedman and the Chicago School were "economic bullshit" for Lafontaine.

With support from his wife and co-author Christa Müller, last spring he published his economic creed, a 352-page book entitled *Keine Angst vor der Globalisierung* [Don't be Afraid of Globalization]. The trained physicist Lafontaine believed that he was finally internationally recognized as a macro-economist. In his lectures he defiantly asserted that many of his scientific and political positions were wholly "indisputable" —but in fact they were not.

Lafontaine repeatedly rubbed people the wrong way. He enraged the Federal Bank by demanding massive interest rate cuts from the Frankfurt monetary authorities. He horrified his European finance minister colleagues with his call for unified taxes across the European Union. He aggravated the

Americans with his constant demands for euro, yen and dollar exchange rates to be forced into target zones.

The arrogantly presented ideas of Lafontaine and his troops, above all those of his of State Secretary for international affairs Heiner Flassbeck, were thought by American financial diplomacy greats such as Alan Greenspan, chair of the US Federal Reserve Bank, to be "pure illusion." During Waigel's recent trip to Washington, Secretary of the Treasury Robert Rubin told him: "Theo, we miss you so much."

Lafontaine was just as controversial in his own country as he was unpopular as a minister within the international economy. He deliberately steered away from the very project that was so near to Chancellor's heart: tax reform.

This past fall, within just a few days the redistributor from the Saarland and his plans caused businesspeople and lobbying groups to become infuriated with the Red-Green government. Under pressure from the Chancellor he continued to improve his frantically produced plans. "Recent proposals from the ministry of finance had to be tagged not with a date, but with the time of day, because they changed so quickly," complained Gernot Mittler, SPD Minister of Finance for Rhineland Pfalz. "This infernal time pressure was disastrous."

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The dispute over economic policy within the SPD was decided with Lafontaine's departure. Now the modernizers have a free hand. Schröder and Lafontaine long sought to paper over their massive differences on economic and financial policy. Yet it became increasingly clear that they could not agree on what was modern, fair and innovative.

Oskar Lafontaine wanted to honor all of the Social Democratic election promises: away with Blüm's pension formula, strengthen protection against dismissal once again, return to full sick pay.

Officially, Schröder supported this, but internally his aide Hombach agitated against Lafontaine's plans. A paper had already been sent back to the chancellery by Lafontaine's people with the remark, "Rubbish!" In the meantime, Lafontaine's people in the ministry of finance gossiped about "senior coordinator Hombach's quest for glory."

This kind of petty warfare should now be over. The way appears to be clear for a "leftwing supply policy," as already proposed in a book by Schröder's Chancellery Minister Hombach with the polemical title *Aufbruch* [New Beginning] shortly after the federal parliamentary election.

This new freedom is certainly not without risks. Commitments to pro-business policy with a human face have remained largely theoretical thus far.

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Source: Jürgen Hogrefe, et. al, "Freie Hand für den Kanzler," *Der Spiegel*, 11/1999 (March 15, 1999), pp. 22–33.

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