Lafontaine's resignation: how German business pressured the government to change course

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"Money rules the world" is an oft heard expression. The phrase assumes new meaning in light of the events of the past weeks. In the days following the spectacular resignation by German Finance Minister Oskar Lafontaine from all political offices, new details have emerged which verify the enormous pressure exerted by leading members of the employer organisations, company chiefs and the business lobby in an effort to impose their course on the government.

Six months after the German national elections, big business has essentially corrected the election result in its favour. The development has many elements of a putsch. People who have been voted for by no one--and represent nothing other than their own narrow-minded interests and that of their business organisations--put the elected government under massive pressure and thereby determine the political course of the country.

Last Tuesday the American newspaper the *Detroit News* reported on a private meeting between the company chairman of DaimlerChrysler, Jürgen Schrempp, and Gerhard Schröder where the former urgently warned the German chancellor: "If you don't sort it out with Lafontaine, you will lose some of your strongest supporters." Shortly afterwards Manfred Gentz, the finance chief of DaimlerChrysler, wrote a letter to Schröder threatening to shift the company headquarters from Stuttgart to Detroit if the tax increases planned by Lafontaine were not reversed.

The heads of Germany's biggest company were not alone in their threats and attempts to intimidate. At the beginning of March, 22 leading managers directed an "urgent letter" to the government demanding the ultimate dropping of the tax reform. Among those who signed were the head of Krupp-Thyssen, Gerhard Cromme, and Deutsche Bank board member Hilmar Kopper. Jürgen Zech, the chairman of the insurance concern Gerling, declared at a press conference that he was checking various models on how individual companies belonging to the concern could be transferred abroad.

The large German energy companies announced a boycott of the so-called consensus talks, in which the future development of the energy sector was to be discussed. This was after they had successfully prevented a withdrawal from atomic energy planned by the government. Together with the insurance companies the energy concerns enjoy special tax privileges. Reserves set aside for special risks, measured in billions, are not taxed and are used for large-scale investment in other industries. The energy business has used this money to move into the lucrative field of telecommunications. The German energy concerns RWE and Veba created the telecommunications company Otelo, and Viag has built up the Interkom company. The energy companies vehemently resisted finance ministry demands for the taxation of a part of their reserves. They claim that the proposed tax measures would result in an additional financial burden of 40 billion marks; the government had estimated it at between 9 and 13 billion marks.

The dispute escalated as even independent experts described the employers' figures as grossly exaggerated. On March 3 the head of the insurance company Provinzial, Bernd Michaels, Allianz insurance chief Henning Schulte-Noelle and finance chairman Helmut Perlet lodged a complaint with the chancellor's office, demanding the maintenance of tax-free reserves. In response to Lafontaine's rejection of their demand they threatened to close factories and carry out mass redundancies.

Previously, they had effectively evaded a new ecological tax. They pushed through a measure whereby those factories with the highest use of energy would be either totally or largely freed from taxation.

The leading representatives of business were furious when in this latest case the finance ministry did not do exactly as they asked, and they were determined to persevere. *Der Spiegel* magazine quoted Deutsche Bank head Rolf Breuer after the meeting with Lafontaine saying: "He is a real political criminal. The man hardly listened to me. I have never experienced that before from a politician."

The intrigues against Lafontaine intensified, and when he eventually resigned champagne corks popped in the corporate boardrooms.

The chairman of the Employers Organisation for Insurance Companies, Hans Schreiber, described the dismissal of

Lafontaine as "the most wonderful day in my professional career". He added in an interview with the German Press Agency (dpa): "My spontaneous reaction is delight. Lafontaine was a destroyer of capital and jobs." The National Organisation for Wholesale and Foreign Trade (BGA) called for an immediate stop to the taxation plans. The German Industry and Trade Council demanded that the government respond to the employers and "pursue a policy to support investment". And Organisation for German Industry President Hans-Olaf Henkel spoke of the urgent need for a correction to the tax reform plans.

Share prices shot up. In the space of a few hours the German *Dax* index rose by 6 percent. Insurance and energy companies in particular benefited: Allianz (up 14 percent), Münchner Rück (up 13.1 percent), RWE (up 11 6 percent), Veba (up 10 percent) and Viag (up 6.5 percent).

Lafontaine also met with increasing and vigorous opposition on the international front. At the time of the German elections a half-year ago the financial crises in Asia, Russia and Latin America, combined with a steep fall in share prices, unleashed a wave of uncertainty. Calls for controls on the international flow of capital were heard from various quarters. However following the passing of the first shock waves and a rise in the stock markets, the calls for such controls rapidly subsided. The Murdoch press in Britain declared Lafontaine to be "the most dangerous man in Europe". The America media took a similar view, and at the most recent meeting of the G-7 countries in Bonn Lafontaine was vigorously rebuffed by American Treasury Secretary Robert Rubin.

The media was filled with rantings that Lafontaine threatened to ruin the economy and reduce the banks and businesses to penury. The facts, however, tell a very different story. Just a week after Lafontaine's resignation Deutsche Bank announced record profits. After taxes, in the past year they have trebled their profits to $3.4 billion marks. Through the issuing of new shares Germany's biggest bank seeks to raise an additional 6 billion marks and thereby accelerate its international expansion.

Also, on a closer look, the claim that the German tax system is strangling the economy, preventing investment and blocking job creation is shown to have nothing to do with reality. Based on a study by the Organisation for Economic Collaboration and Development (OECD) the following figures were made public in Bonn. The percentage paid by employers to the entire pool of taxes in Germany has fallen from an average 5.5 percent in 1980 to 3.8 percent today. The average in Europe is 7.5 percent, and in the OECD countries 8.2 percent.

Lafontaine's resignation constitutes a profound political watershed.

Under the previous government of Helmut Kohl complaints by the business lobby became louder and louder. Although the Kohl government had organised an unparalleled redistribution of wealth in its one and a half decades in power, these changes were not sufficient for big business.

Even though company profits grew by nearly 90 percent, while wages rose by just 6 percent, and despite the fact that taxes on wages doubled while taxes on profits were halved, the banks, transnational companies and gigantic conglomerates that rule economic life were not satisfied. They demand an end to every sort of traditional social welfare policy, the breaking up of tariff wage agreements and the consequent introduction of cheap wage labour. The Kohl government was, in their eyes, excessively anchored in the old politics of consensus and social equilibrium and unable to carry out these changes.

The SPD offered to take up this task. Behind their empty election campaign slogans they developed a program which was fully focused on satisfying the interests of business. Initially they strove to form a Great Coalition with the conservative CDU. However the election result in September put paid to this plan and the SPD formed a coalition with the Greens. Opinion poll researchers and politicians were equally surprised by the result.

It was the working class and the concern for social questions that had decided the election, not Schröder's "new middle". The new government was unable to proceed directly on a course tailored exclusively to the needs of big business. It was forced to a certain extent to take into account the social moods that had determined the result of the election. This conflict was above all expressed in the strained relations between Chancellor Schröder and SPD Chairman Lafontaine.

In opposition to the economic wing of the SPD, Lafontaine advocated government measures to counteract the negative social consequences of globalisation and an unrestricted market. The measures which he proposed--the closing of a few tax havens, increases in wages to encourage domestic demand, an internationally co-ordinated finance policy--were humble proposals in no way comparable to policies advocated by the social democrats a decade or so ago. But for big business such policies were unacceptable.

With Lafontaine's resignation big business has now corrected the election result in its favour.