France's Minister of Finance Strauss-Kahn resigns

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The resignation of French Minister of Finance Dominique Strauss-Kahn plunged the Socialist Party-led government into the deepest crisis of its two-and-a-half-year existence.

Strauss-Kahn resigned his office in Prime Minister Lionel Jospin's government on November 2, once it was clear he faced a formal investigation. He is suspected of receiving a fee of 603,000 francs (US$97,000) from France's largest student insurance company, MNEF, for work he did not carry out.

These accusations are not new, but Strauss-Kahn has always maintained his innocence. He does not deny receiving the fee, but states he worked for MNEF for two years and played a considerable part in arranging a syndicate operation for the company worth US$3.8 million. He claims his fee was not exceptional.

Last week it was revealed that documents purporting to confirm this account had been falsified. Analysis in a police laboratory showed that the paper and typefaces used did not exist at the time when the documents were alleged to have been produced. They must have been created subsequently and given an earlier date.

In view of this compromising evidence, Strauss-Kahn resigned, saying his departure was not an admission of guilt, but a “moral obligation”. He would now be able to answer before the law as a "free man".

For the Jospin government, the entanglement of their most prominent minister in a corruption scandal is extremely embarrassing. Not least because Jospin owes his popularity to his reputation as a "Mr. Clean". After the Socialist Party and other parties were severely damaged by years of high-level corruption, Jospin stressed that he would not tolerate any corruption in his government. This reputation is now placed in question. In order to prevent it being destroyed completely, Strauss-Kahn had to resign with unusual speed.

With Strauss-Kahn gone, Jospin has lost his most important colleague. His style of government is often ironically described with the words "indicate left, turn right". While it utilised certain left-wing symbols and rhetoric, his government's economic and financial policy did not substantially differ from that of all other European governments. Between Jospin and Strauss-Kahn—close friends for 20 years—a division of labour existed. Jospin was responsible for indicating, and Strauss-Kahn for turning.

Strauss-Kahn is so popular among employers that this modus operandi worked well for the government. In July, Ernest Antoine Sellière, the head of an employers' association, announced: "We have a very good Minister of Finance, perhaps the best in the universe.... He does his best so that no obstacles get in the way of the employers." According to the German newspaper *Süddeutsche Zeitung*, Strauss-Kahn was "for the world of business, more a guarantor of a [pro-market] liberal policy than a left-wing one".

France is presently experiencing one of the highest growth rates in Europe. Low interest rates, combined with a lowering of the Value Added Tax applied to labour intensive services, has substantially accelerated the demand for real estate, autos and consumer goods. The increase in taxes on wealth, capital gains and inheritance has, paradoxically, acted in the same direction. Less is being saved and more spent. In the first six months of 1999, the purchase of free-hold flats and houses rose by 62 percent. In the summer, consumer spending exploded, and the *Galeries Lafayette* in Paris registered a record turnover in sales of luxury goods.

The beneficiaries of this economic policy have been predominantly among the upper middle class, while the number of workers who must live on a minimum wage or less has increased substantially. The total number of people officially classed as poor still amounts to 6 million. In order to fill the treasury, Strauss-Kahn privatised more state enterprises than all his conservative predecessors put together. Previous attempts usually failed because of resistance by the workforce.

Strauss-Kahn, who speaks fluent German, English and Spanish, enjoys recognition in European business circles. The success of the euro is largely ascribed to him, because he succeeded in quickly screwing back the French budgetary deficit to the level agreed upon in Maastricht.

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Since then, he has actively encouraged stronger political co-ordination among the countries within the euro-zone. Declaring that "The euro-zone has lost one of its weightier policy makers", the *Financial Times* of London complained: "With Mr. Strauss-Kahn gone, it is not clear who will provide leadership."

Particularly in Germany, Strauss-Kahn's efforts for the euro earned him a good reputation. He is friendly with former German Minister of Finance Oskar Lafontaine, but also maintains good relations with his predecessor and successor, Theo Waigel and Hans Eichel. The former Christian Democratic Chancellor Helmut Kohl regarded him so highly that at the Luxembourg European Union summit he asked President Chirac to "let Dominique do it"—urging that Strauss-Kahn be chosen to speak in the name of France and Germany, thereby preventing German Minister of Finance Theo Waigel from placing the euro in danger at the last moment.

The fear is that after Strauss-Kahn's resignation, the French government may come unstuck. Strauss-Kahn always succeeded in making his policies acceptable to the different coalition partners in the Socialist Party-led government—the Greens, Communist and Radical parties. It is expected that his successor, Christian Sautter, will not be able to emulate this. Previously holding the office of under-secretary of state at the treasury, Sautter wants to continue Strauss-Kahn's course, but is considered a colourless bureaucrat without the political force to carry things through.

In recent weeks the Jospin government has shown increasing signs of crisis. At the beginning of September it was threatened when the tire company Michelin announced mass redundancies at the same time it was making record profits. When Jospin explained that the government would not interfere in the affairs of big business, his statement provoked a public outcry and he was forced to back-peddle.

In the middle of October, the Communist Party together with the so-called "extreme left"—Lutte Ouvrière and the Ligue Communiste Internationaliste—organised a demonstration against government policy. Approximately 50,000 turned out to protest the fact that the law introducing a 35-hour workweek had been transformed into a means for companies to implement flexible work time.

Shortly before Strauss-Kahn's resignation, the Communist Party's parliamentary group decided to vote against a law changing the way social security is financed. Only after a two-hour telephone call from government headquarters did the CP withdraw its decision and abstain, in order to save the government from defeat and possible collapse.

The background to these conflicts is the fact that, under Jospin, none of the fundamental social problems of French society have been resolved. Above all, the question of financing the welfare state, which in 1995 led to protests against social cuts lasting for weeks, has been continually postponed. The attempt to implement major reductions in this area inevitably creates massive tensions within the government.

This is less out of concern for the consequences to the general population than out of concern for the privileges of the various interests groups that comprise the government. The French social security system, which is administered jointly by the companies and the trade unions, is a lucrative source of income for union and party functionaries.

In this regard, the MNEF scandal is illustrative, and it is far from over. Strauss-Kahn was its first victim, but he is not the central figure of the piece. Other Socialist Party functionaries face many more serious accusations. They are said to have been in the pay of the MNEF for years, earning millions through sophisticated real estate transactions and the financing of Socialist Party advertising campaigns using MNEF funds.

The MNEF administers a social insurance scheme for students, and was originally controlled by the student trade union UNEF-id. At the end of the 1970s, the leadership of UNEF-id was taken over by members of the Organisation Communiste Internationaliste (OCI). Later, many of these individuals crossed over to the Socialist Party. The MNEF developed into a company with an annual turnover of US$161 million, which deals in real estate and operates student hostels and a printing factory.

Amongst others, Jean Christoph Cambadelis, the number two in the Socialist Party, is involved in the scandal. A former OCI member, he is said to have been on several MNEF payrolls for many years. Another central figure is Jean Marie Le Guen, chairman of the Socialist Party in Paris, who was MNEF president for several years.

The affair almost exclusively concerns people who are closely involved with Jospin and who played a major role in building him up to head the Socialist Party. It cannot be excluded that he may be sucked into the vortex of the scandal.

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