Germany's Tax Reform Is a Lethal Attack on 'Rhenish Capitalism'

by Rainer Apel

The main characteristic of the tax reform package which the German government managed to push through the Bundesrat (upper house of parliament) on July 14, is that it legitimizes the practice, increasingly commonplace over the last ten years, of private banks and insurance companies pulling out of financing real industry, for the sake of greater involvement in financial market speculation. The "reform" eliminates the income tax on sales of industrial stocks, thereby granting the banks and insurance companies a windfall profit in the range of at least 200 billion marks (roughly $135 billion), according to modest estimates. Deutsche Bank, Germany's biggest private bank, alone currently holds about DM 110 billion of such industrial stocks.

But the tax reform has strategic economic implications beyond this "little favor" to the private banking sector: It will destroy the traditional link between the banks and real industry, which has been the secret of the historical success of the German social market economy model. With a striking directness, German Anglophile Josef Joffe, a longtime commentator for leading liberal publications in Germany, including *Die Zeit* and *Süddeutsche Zeitung,* addressed this point in the U.S. edition of the July 20 *Wall Street Journal*. Under the headline "Germany's Supply-Side Revolution," Joffe wrote, referring to the central aspect of the tax reform, that "this little item will do more to transform Germany Inc., or Rhenish Capitalism, than all the other measures." He forecast: "Expect the most brutal restructuring of German business in the country's history." Joffe was also most outspoken about the fact that it is a red-green, Social Democratic/Green party coalition government which has just passed this tax reform: "Outside of the U.S., it often takes a leftie to pull off right-wing economic policies. . . . In continental Europe, at least, only leaders of the left can reform the economy in the ways of [former U.S. President Ronald] Reagan and [former British Prime Minister Margaret] Thatcher."

Lafontaine Reemerges

This latter point was addressed by former Finance Minister and former Social Democratic Party (SPD) chairman Oskar Lafontaine, in a commentary in the July 23 Sunday tabloid *Welt am Sonntag*. He charged that the government of SPD Chancellor Gerhard Schröder is pursuing the same policy as Chancellor Helmut Kohl's government had, before it was ousted in the September 1998 elections; and that the same Social Democrats who are in the government now, had, at that time, attacked it as "socially unjust." With the tax reform package, "the red-green government can now claim that it has met with friendly reactions at the currency exchange and on the markets," Lafontaine wrote. But, he said, quoting from a jubilant article on Schröder's tax reform which the weekly *Der Spiegel* had run, "it almost seems as if the Social Democrats were walking in the footsteps of the iron tax reformers Ronald Reagan and Margaret Thatcher."

SPD voters are becoming confused, when their government in Berlin is now praised for the very policies which the SPD had lambasted at the time of Reagan and Thatcher, Lafontaine wrote. Nobody should be surprised that voters are becoming disgusted and sitting out the elections. The SPD of Schröder, he warned, will come to recognize that its policies, which follow the "ideologies of the old right," will not receive support from a majority of German voters. He concluded his commentary with a famous remark by author Karl Kraus, from the turbulent Great Depression period of the Weimar Republic 70 years ago: "They believed they were in power, but they only were in the government." And, they will lose the government, was Lafontaine's warning to his fellow Social Democrats.

The fact that his article was published by Germany's second-largest Sunday tabloid, reflects the fact that the opposition to the government has grown visibly during the recent weeks of the tax reform debate. Germany's second national television channel on Aug. 1 reported on a poll which showed that 60% of those questioned, expected the tax reform to have a negative impact on their personal income. Only 27% saw any benefit. Concerning health-care reform, which is already in preparation, 75% saw disadvantages, against only 19% who saw benefits. And concerning the pension reform, another neo-liberal government project which would base future pensions increasingly on private revenues from investment fund activity, 77% of those polled were opposed to it, against only 15% who were for it.

Mid-Term Review Comes Early

This broad sentiment against the government, is the stuff from which its coming fall is made. And the government is aware of that danger: Propaganda about the economic upswing has increased, with fresh news-bytes daily on even the tiniest improvements in the stock and currency markets, or in some economic sector, as allegedly indicating that the tide has turned, that the troubles of this spring have been left behind. The Chancellor even gave his rosy official mid-term review of his government's record at the end of July—three months before the mid-term had been reached, which is at the end of October (the red-green government took office only in late October 1998). And, as the events around August 1998, when the Russian economy almost defaulted, and around September 1998, when the New York-based Long Term Capital Management hedge fund defaulted and almost brought down the world banking system, showed, many unpleasant things can still happen between July and November.

There are more and more warnings in the German press, however cryptic, about a "cooling of the U.S. economy in autumn," and about the consequences that that will have for German exports and financial prospects. Therefore, the fact that Chancellor Schröder set his "mid-term" in July instead of October, has prompted many people to begin asking questions, and some of the leading media have rediscovered anti-government critics in the establishment, to whom they have not paid much attention, over the last year. The Lafontaine article in *Welt am Sonntag* is evidence of that, as is the interview that he gave to Deutschlandradio, the national public radio station, on July 28. In the interview, not only did Lafontaine lash out again against the red-green government's tax reform package, calling it unjust and a windfall for tax evaders who are making millions or billions in profits. But he also said: "The word *investor,* today has become another word for international financial speculation, which has nothing to do any longer with real investments. On a world scale, what is called *international investment,* is nothing but a moving around of paper and money without any real investment made." The government, he charged, is allied with those who move paper around, and the SPD of Schröder has broken with the policies which the party still had, when Lafontaine was its chairman in 1998. "There has always been the struggle between the line, which in England has been pursued by Tony Blair, and the line which has been pursued by the French Socialists. The struggle is solved now by the fact that the Labour Party in England is suffering massive losses in constituency support, at present, because—as Tony Blair has assessed himself—the government has lost contact with the innermost sentiments of the people. What, in a high-flying mood, was once announced as the 'Third Way,' is met with opposition among voters."

Lafontaine said, "For my part, I stick to the first way, and that is: Social Democrats represent the interests of the great majority of the people, that is, the workers and the pensioners. And they are, if I am right, about 50 million people. With that, one always has an appeal to the majority."

Why did Lafontaine say that? Is he, who resigned from Schröder's government in March 1999 in protest against its policies, and resigned from the SPD party chair as well, preparing a political comeback? Is he paving the way for his own ambitions to become Chancellor, succeeding Schröder in a new government?

Former German Finance Minister Oskar Lafontaine, who has criticized speculators, but has yet to come up with a proposal to deal with the global financial collapse.

These are questions that cannot be sufficiently answered at this point. More will certainly be known in the autumn, when the Schröder government is expected to be heading into bigger trouble on the financial markets, in unemployment, and among the population. One thing has to be kept in mind, however: The situation is becoming critical for the government, and because the new round of financial, economic, and political troubles will vindicate everything the LaRouche movement has been saying for some time, more Germans will be ready to listen to what LaRouche has to say; they will no longer be willing to respect the media taboo against LaRouche. As was the case in the summer of 1997, when the global financial crisis broke out in Asia, throwing the future of the global financial system into doubt, a part of the German elite that was looking for alternatives to the International Monetary Fund-based global financial system, built up Lafontaine as a big critic of speculators—a more acceptable alternative, from their standpoint, than LaRouche. But, Lafontaine was more acceptable only because he did not challenge the principles of monetarist policy. Lafontaine was on the mark in exposing the Schröder government for the monetarist regime which it is, in his media appearances on July 23 and 28; but, he did not offer a real alternative, which is what Germany needs. The alternative is there, in the form of LaRouche's call for a New Bretton Woods, and if Lafontaine were serious, he would sign onto it, as leading politicians in many other countries of Europe have already done. Lafontaine can still change his mind, and take a step forward.