

The Crisis

Oskar Lafontaine

Oskar Lafontaine was President of the German Bundesrat. He was the SPD's candidate for Federal Chancellor in 1990, when he was attacked with a knife and badly hurt. In September 1998 he became Federal Minister of Finance and resigned the following March. In 2005, he left the SPD and founded the Left Party. He is now joint Chairman of The Left (Die Linke). We reprint some excerpts from his comments about the current political crisis.

In October 2008, Oskar Lafontaine responded to a statement in the Bundestag by Federal German Finance Minister Peer Steinbrück. We print some excerpts from what he said.

‘I think the term “financial market crisis” does not adequately describe the crisis we are talking about today. In our opinion this is not an economic crisis but rather a crisis of the intellectual and moral orientation of western industrialised societies.’

Responding to the interjection by a CDU/CSU MP that ‘This is communism’, Lafontaine said ‘how pathetic. I must repeat that. A colleague shouted “This is communism”. The Finance Minister just said it was necessary to regulate. Does this mean a communist is seated on the government bench? Don’t be ridiculous. The whole world recognises now that regulation is necessary in the international financial markets. And you defame or discredit the demand for regulation as communism. It’s really hard to believe.

I’d now like to raise a few issues on the question of what needs to be done. First, an issue, you Minister, did not speak about. We are convinced – let me repeat this for my party – that the current system of exchange rates is completely wrong as it tempts people to speculate, and that a proposal that has been on the table for more than 20 years should be considered, namely stabilising the exchange rates of the key currencies which nowadays also include the Chinese currency. What matters are target zones, which have been demanded internationally for many years. Nobel Prize laureate Robert Mundell demanded them again recently in

an interview with *Frankfurter Allgemeine Zeitung*. As long as you don't raise this subject you won't do anything about the first slump after the collapse of the Bretton Woods system.

The second issue concerns regulation of international capital movements. This is what Mr Schmidt (former German Chancellor) meant. Twenty years ago he said that rules are needed, as in motor traffic, sea traffic and air traffic. Or take a speculator like Soros who said that since capital could flow into a small national economy within just a few months – that was the crisis in Thailand, then – there should at least be devices to stop the elusive capital from leaving the country overnight and ruining the entire national economy. The supervision of international capital movements is the second point I'd like to raise here.

The third demand is to dry up the tax havens. You don't really believe that you manage to sort out the international financial markets if many industrialised countries, tongue in cheek, hang on to their tax havens where money gets laundered and untaxed money keeps accumulating.

It is to be welcomed that at last it has dawned on people that the rating agencies must, at least, be controlled. We say the rating agencies belong under society's supervision. Just as it would not be advisable to leave licensing drugs to the pharmaceutical industry, it is of little merit to leave admission of financial products to the finance industry. This is unbelievable. It is commendable that it has, at least, been identified now.

Of course, we need international rules in supervising banks. They have been worked on for decades. Some improvements have been made. Yet, apparently, they have not sufficed; otherwise we would not have these undesirable developments now. Such rules only make sense if all adhere to them; this has been mentioned, to be fair.

Let's talk about individual responsibility. It's really wonderful to point at international financial regulation and not to accept one's own responsibility. I can support the speaker of the Free Democratic Party. You should have spoken about your own responsibility. I'd like to point out the coalition agreement demands exactly what you have criticised ... Why don't you say anything about this? You have your part of the responsibility to accept.

The same goes, of course, for hedge funds, which were admitted by the previous government. After you identified the consequences of leverage effects, you should have done something to terminate hedge funds borrowing 40 Euros to the one Euro they own, thus causing disarray in entire national economies or companies. Why haven't you done anything? It really comes in handy to point at the United States, and say everything

has been so terribly bad there. You have nobody to blame but yourself; this gives you enough to do Finance Minister. Face up to your own responsibility!’

In conclusion, Oskar Lafontaine said: ‘We now witness that the formula of free market superiority has been driven into the ground, and that we are no longer subject to the control of international financial markets, but that those markets force us to make decisions due to misguided developments, decisions that are counterproductive, and which we did not intend to make because they result in big losses which nobody can foresee. We have learnt that the phrase “we cannot govern against the international financial markets” must be turned around: we must act against the international financial markets to get a handle on the system again, at last.’