

Forget Iraq ... I Need a Job!

By Terry Martin

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Although foreign distractions helped re-elect Gerhard Schroder, Germans expect him to deliver on the domestic front

Anxiety over a possible war in Iraq dominated the last phase of Germany's election campaign, but fear of recession was never far from voters' minds. Rising unemployment, economic stagnation, and record business failures nearly cost Gerhard Schroder the ballot. If he fails to address these problems adequately in his second term, voters could prove less forgiving in 2006.

Just one month before September's election, Germany's jobless figure surpassed the psychologically critical 4 million mark. This played perfectly into the hands of the conservative opposition candidate Edmund Stoiber. He reminded Germans at every turn that their chancellor had broken his promise to reduce unemployment below 3.5 million. Schroder's failure to deliver new jobs became the conservative's clarion call.

The unflattering details of Germany's economic performance provided Stoiber, state premier of prosperous Bavaria, with plenty of ammunition. To start with, Germany's growth rate in 2001 was a dismal 0.6 percent. Analysts say this year could be even worse. On the business front, more than 40,000 German companies are projected to fail in 2002, exceeding last year's record high. In September business confidence fell for the fourth consecutive month, while the country's blue-chip stock index, the DAX, hit a five-year low. Then, of course, there is unemployment, currently hovering around 10 percent. These combined forces are choking tax revenues and draining the social welfare budget. Government finances are severely strained.

What caused this calamity? According to Stoiber, it was Gerhard Schroder's misguided economic policies. The conservative candidate accused his rival of pampering big business with tax breaks while neglecting the country's famed Mittelstand (small and medium-sized enterprises). Unfortunately, Schroder's much heralded tax reforms anticipated a scenario of economic expansion, not stagnation. When the recession finally hit, Germany's structural weaknesses made it more vulnerable than other European states. The EU's largest economy soon found itself performing at the rear of the club's statistical parade. This humiliating image served as Stoiber's favorite campaign illustration.

Less than sixty days before the election, the conservatives' strategy appeared to be working. Opinion polls showed Schroder's Social Democrats ten points behind Stoiber's Christian Democrats. Sensing parallels with past American elections, the German press revived a familiar English-language slogan: "It's the economy, stupid!"

Germany's economic prospects seemed so much more promising when Schroder took office in 1998. All the leading indicators were pointing up. At the time, the chancellor appeared to be risking little by vowing to lower unemployment. Foolishly, however, he stated his pledge in the form of a wager. The chancellor told the German public that if he failed to cut

joblessness below 3.5 million he would not be worthy of a second term. As the 2002 elections loomed and the jobless figure rose, that wager became an albatross around Gerhard Schroder's neck.

Remarkably, despite his broken promise, Gerhard Schroder managed to win a second term in office. He profited from having a charismatic "running mate"--Joschka Fischer--and an uninspiring challenger. But personalities were not enough to shift the focus of the campaign. Schroder required a deus ex machina. He got it in the form of a natural disaster (flooding) followed up by a foreign policy crisis (Iraq). These double distractions played to Schroder's leadership strengths and diverted the electorate's attention away from Germany's economic woes.

Those woes remain, and treating them will prove extremely difficult. Gerhard Schroder has some tax adjustments and labor reforms up his sleeve, but it will take more than that to put things right. Germany is already straining EU debt limits, so it cannot spend its way out of this crisis. Moreover, control of monetary policy has been ceded to the European Central Bank. Barring more divine intervention, German politicians cannot expect a quick fix for their moribund economy.

At this point Edmund Stoiber may still be feeling the sting of his election defeat. However, he must appreciate not being saddled with the chancellor's awful burden.
German Election by the Numbers

BUNDESTAG ELECTION RESULTS

Party	Percent	Seats
SPD	38.5	251
CDU/CSU	38.5	248
Green Party	8.6	55
Free Democrats	7.4	47
PDS	4.0	2

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