

US veto on top IMF post

German nominee forced to withdraw

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Intense pressure from the United States has forced the withdrawal of the European Union's initial nominee for the post of managing director of the International Monetary Fund in a conflict that has increased US-EU tensions.

Following his effective blackballing by the US, Cio Koch-Weser, the state secretary in the German finance ministry, announced that he was stepping down.

In a letter to Chancellor Schroeder he said: "I am withdrawing my candidacy so as not to stand in the way of better understanding with the United States." Koch-Weser said his withdrawal would "clear the way for seeking a candidate who will have the support of all the IMF members."

Germany is now reported to have nominated Horst Kohler, the president of the European Bank for Reconstruction and Development, as the candidate for the top IMF post.

Conflict over the position has been simmering since last October when the previous managing director, Michel Camdessus, announced he would be stepping down in February. It came to a head last week when the US effectively vetoed Koch-Weser saying he did not have sufficient stature for the position.

There was not complete agreement within the EU on the nomination of Koch-Weser, whose main experience has been in the World Bank. But when the issue came to a vote by EU finance ministers last Monday week, opponents of Koch-Weser's candidacy, principally Britain and France, decided to swing behind the nomination rather than face an open confrontation with Germany.

Hours after the EU decision the Clinton administration went public with its opposition.

The EU nomination was followed by a straw vote in the 24-member IMF executive board last Thursday.

Under the IMF rules voting is according to financial contribution. Koch-Weser recorded a 43 percent vote—7 percent more than the bloc European vote—with the American deputy managing director Stanley Fischer receiving 12 percent and the Japanese candidate Eisuke Sakakibara 9 percent. Abstentions, including the 18 percent bloc vote of the US, amounted to 36 percent.

Speaking before the vote, US president Clinton said he supported the appointment of a European to the post and that he was in favour of Germany playing a bigger role in international institutions. The US, he said, would not vote for Fischer, who was nominated by a coalition of African countries.

In the days preceding Koch-Weser's withdrawal, the US actions were the subject of bitter recriminations by German government spokesmen.

Chancellor Schroeder's national security adviser Michael Stein said the way the US had handled the case "tells us something about how the United States now thinks it can throw its weight around as the world's most powerful nation. This goes beyond a matter of different opinions about who is right for the job. It really is a demonstration of how the United States lacks sensitivity toward its allies, and the response has been to unite the Europeans more than ever against American bullying."

According to Steiner in the weekend before the vote, French president Jacques Chirac had called Schroeder to tell him that French support for Koch-Weser had strengthened because it was important that Europe demonstrate to the US that its interference in the issue was intolerable and that Europe had to stand together. Steiner said that the issue had brought about a new solidarity among the Europeans.

"The United States put this great big lobbying machine to work. In the past it used to make some

countries back down, but now we see the Europeans coming together in a new cohesion. We all realise we have to stand up from time to time against this overwhelming superpower. This is no longer a personnel matter, but rather whether other countries are willing to let the United States exercise total control over the IMF.”

He said the US seemed bent on using the IMF as its special instrument to manage global financial turbulence.

The co-coordinator of German-American relations in the German foreign ministry, Karsten Voigt, was almost as outspoken. “The behaviour of the USA—after Ciao Koch-Weser became the common candidate of the Europeans—is an unfriendly act not only against Germany but against Europe as a whole,” he said.

“I believe that the relationship between Europe and the USA is, when it comes to financial and monetary policy—not in the military domain—a relationship between equals. The USA should in this case deal with Europe on the basis of equals.”

Behind the row over the appointment of the new managing director are far-reaching issues of policy and control. In the aftermath of the Asian crisis, the US is pushing to narrow the role of the IMF to one of overseeing the global financial system and short-term crisis management, withdrawing completely from the provision of loans to so-called developing countries.

Testifying before the US Senate Foreign Relations Committee last week, Treasury Secretary Lawrence Summers said the IMF had to focus on problems before they erupted into a full-blown crisis.

“Our plans for reforming the IMF start from a single framing new reality of the global financial system today, that the private sector is the overwhelming source of capital for growth,” he said.

“We believe IMF must increasingly reflect that change with a great focus on promoting financial stability within countries, a stable flow of capital among them and rapid recoveries following any financial disruptions.”

It is in the area of IMF action in financial crises that the present conflict is rooted. In the Mexican crisis of 1994-95 there was considerable opposition from Europe about the way in which the US strong-armed the IMF into organising a \$50 billion international bailout. German finance officials, among others, made

the accusation that the US actions were not so much designed to “rescue” Mexico as the American banks and financial institutions, which had invested heavily in Mexican government bonds.

A conflict of a different sort arose with the onset of the Asian crisis in August 1997. The American administration and financial establishment bitterly opposed a Japanese proposal for a \$100 billion Asian bailout fund, insisting that the resolution of the financial crisis had to be under the direction of the IMF. The chief US concern was that the Japanese plan would not have been accompanied by the stringent measures for the opening up of markets in Korea, Thailand and Indonesia, which formed key component of the eventual IMF program.

In vetoing Koch-Weser, the US has made clear that the new IMF chief, whether he comes from Europe or elsewhere, must be completely attuned to the interests and demands of Wall Street and key American banking and finance interests when the next global crisis arises. And such a crisis is already in the making, according to the outgoing IMF managing director Camdessus.

Speaking in Thailand last month where he delivered his last speech in his official capacity as IMF chief, Camdessus said he was “ringing the alarm bell to our member countries to tell them that we run the risk of a new financial crisis.” The world economy had entered a “dangerous period of twilight”, he said.

Well-known Massachusetts Institute of Technology economist Paul Krugman has recently echoed his warnings.

“If you have a sense of history,” he said, “you can see that the tequila crises in Mexico were just a rehearsal for the Asia crisis. Now we have to ask ourselves, what was the Asia crisis a rehearsal for?”



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