US used Strauss-Kahn ouster to dictate terms of Greek bailout

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In its lead article on Friday, the British newspaper the *Guardian* revealed the way in which the US administration directly exploited the resignation of the head of the International Monetary Fund, Dominique Strauss-Kahn, following allegations of rape, to intervene and dictate terms in the European debt crisis.

The article in the *Guardian,* headlined “Hardline IMF forced Germany to guarantee Greek bailout,” describes how American officials placed intense pressure on the German government earlier this year to agree to a second bailout package for the Greece.

Up until the middle of May, German Chancellor Angela Merkel had repeatedly stressed that the Greek economy did not require a second bailout.

Under intense pressure from inside her own ruling coalition, Merkel had opposed new funding for Athens and also demanded that there should be some involvement of the banks and private-sector investors in debt relief for Greece. The majority of other European countries, led by France and supported by the European Central Bank and the US administration, have vehemently opposed any “hit”, i.e., financial losses, for the banks.

The *Guardian* article describes the immense pressure placed by the US administration on Germany, via Washington’s influence in the IMF: “Just as it was becoming clear that last year’s €110bn (£97bn) rescue had failed and that a similar sum would be needed to forestall a Greek sovereign default and a calamitous impact on exposed European banks, the IMF presented the German government with an ultimatum: deliver iron-clad guarantees on a new Greek bailout and put a figure on the sums needed, or there will be no release of IMF funds for Greece next month, risking a default by Athens.”

The article continues that the “turning point” in this dispute came in the course of discussions conducted at the G8 summit of world leaders, held in the French resort of Deauville May 26-27. In the course of the summit, US President Barack Obama met privately with French President Nicolas Sarkozy but snubbed the German chancellor.

Sarkozy supports the line of the US administration on the Greek debt crisis (opposing Germany) and was also a driving force for initiating the NATO war against Libya. Much to the displeasure of both France and the US, Germany abstained in the Security Council vote for military intervention against Libya.

Following an intensive campaign against him in the US and international media, Strauss-Kahn announced his resignation as head of the IMF in the week prior to the Deauville summit. At the same time, the US administration made clear its preferred replacement. In his first public pronouncement on the case of Strauss-Kahn, US Treasury Secretary Timothy Geithner called for Strauss-Kahn’s deputy, the American banking veteran John Lipsky, to take over on an interim basis.

At Deauville it was Lipsky who conducted the discussions with world leaders in place of Strauss-Kahn. The *Guardian* writes: “[the] temporary replacement head of the IMF, John Lipsky, went to France to force the hand of the Germans, the key players in the bailout drama.”

The article continues: “Strauss-Kahn had been a central figure in the euro crisis and had won plaudits for his role as a political fixer, and as a skilled French politician. Lipsky, an American, was less silky, much blunter. On the margins of the Deauville summit, he negotiated with the government of Angela Merkel, and with Herman Van Rompuy of Belgium” (the president of the European Council).

Finally, the *Guardian* writes: “In the current bind, the

Germans again hoped to play for time, and delay a new rescue until September, according to people involved in the Deauville negotiations. Too late. Lipsky called their bluff and the Germans yielded through gritted teeth."

On her return from Deauville, Merkel then dutifully announced to the German parliament that it was likely that Greece would require a second bailout later this year.

In a footnote to its article, the *Guardian* goes onto provide a brief resume of the career of Lipsky, noting that he has spent his entire working life either employed by Wall Street or the IMF. The resume notes: "He (Lipsky) has made clear he is very different from his predecessor, Dominique Strauss-Kahn, who voiced concerns about the lack of jobs created by western governments and the potential for social unrest. In all his public pronouncements, Lipksy has read the IMF rulebook about cutting public spending to meet debt obligations."

The *Guardian* article not only provides remarkable insight into the extent of the current political divisions between the US and Germany, it also reveals the ruthlessness with which the American administration is prepared to intervene in European political and economic affairs.

Following the failure of France and Germany to support the US war against Iraq, former US Defence Secretary Donald Rumsfeld raised the spectre of an "old Europe" (including France and Germany) against a "new Europe" consisting of European nations prepared to unconditionally defend US foreign policy. Following his election as president Obama promised to strike a new chord with his international partners and break with the divisiveness which characterised the Bush administration.

The latest revelations regarding the role of the US in the European debt crisis, however, reveal the extent to which Washington under Obama is prepared to use its own Machiavellian tactics to enforce its own policy requirements in the interest of American banks.

At the same time the *Guardian* revelations raise additional urgent questions concerning the criminal charges against Strauss-Kahn himself. At the time of his arrest on allegations of rape charges broad swathes of the US and international media conducted a filthy campaign to denigrate Strauss-Kahn and precipitate his resignation as head of the IMF. The same commentators from both the right and nominal left of the political spectrum ridiculed the notion that the charges made against Strauss-Kahn could be bound up with attempts to shift the axis of IMF policy.

The WSWS opposed such a campaign from the outset. In a perspective "The serious questions raised by the Dominique Strauss-Kahn affair", printed on May 19, we posed the question "Cui Bono?"… ("who benefits?"), and wrote:

"To understand how powerful forces are using the current scandal, one need only refer to a front-page story in Wednesday's *Wall Street Journal* headlined 'Pressure Is Building on Jailed IMF Chief.' The piece states that the Obama administration has 'strongly signaled it was time for the International Monetary Fund to replace Dominique Strauss-Kahn as its chief, indicating that he can no longer be effective in his job.' Clearly, the arrest of Strauss-Kahn is seen by the US government as a political opportunity."

The perspective continued: "It is understood that Strauss-Kahn's replacement will have important policy implications, and a bitter struggle is already underway between European governments and the United States over the selection of a successor. According to the *Wall Street Journal*, the Europeans want to hold on to the top post at the IMF. "But the US," the *Journal* writes, "as the largest single shareholder in the organization, will play a key role in determining the outcome."

This analysis has now been completely confirmed. The US government immediately grasped the affair surrounding Strauss-Kahn as a "political opportunity" to push its man, John Lipsky, into the chair of the IMF and dictate its terms for a new Greek bailout based on defending and advancing the interests of Wall Street. The 64-year-old Lipsky has announced his intention to retire soon, but no doubt Obama and Sarkozy discussed terms in Deauville for an appropriate successor—the favored candidate for the post is the current French finance minister Christine Lagarde.