Report from Bonn by Rainer Apel

United States, Germany draw a line

Bailouts to help the banks and speculators are meeting fierce opposition, even among monetarists.

When U.S. Treasury Secretary Robert Rubin met with German Finance Minister Theo Waigel in Washington before Christmas, they sent an unmistakable message that their governments and central banks do not support pumping money into the International Monetary Fund and other financial institutions, to bail out the private banks in the Asia crisis. "Not a nickel for the private banks," Rubin declared, and Waigel said that Germany had the same view. Both rejected doubling the IMF quota, as pushed by banking circles.

Their initiative is important, because it is a common U.S.-German policy against "market exuberance," and represents a clear line against the speculators, that whatever they do in the private banking sectors of Asia and other parts of the world, they operate at their own risk. They will not be bailed out.

The statement forced the private banks, the biggest creditor banks for Asia, to convene during Christmas and New Year's, to discuss emergency measures of their own, to roll over the short-term debt of the private banking sector in South Korea. Given that most of the economic media in the West are dominated by free-market fans, it came as no surprise that they did not report on the Rubin-Waigel initiative.

All the more surprising then, that the German and Swiss press did report on the issue. For example, on Dec. 29, the *Süddeutsche Zeitung* wrote on the U.S. decision for a $10 billion emergency loan to the government and central bank of South Korea, that "with his lonely decision, Rubin has definitely taken the initiative out of the hands of the IMF." The daily noted that this loan was granted "de facto without conditionalities," in sharp contrast to IMF practice, and that the Clinton administration was pressuring international private banks to reschedule or write off about $100 billion of South Korean debt over the next 12 months. All of this, author Peter de Thier wrote in another article in the daily *Berliner Zeitung* on the same day, was the result of a "dramatic policy shift by U.S. Treasury Secretary Rubin."

The Bundesbank, the German central bank, also publicly supported the new U.S. policy. Edgar Meister, a member of the Bundesbank board of directors, in a speech in Frankfurt, criticized the IMF's ever-new aid packages as "a dubious bailout for the private banks," which would not help the national economies of the respective countries solve their acute financial problems.

Meister's remarks signaled a deep split inside the hard-core monetarist institutions. The question was, however, whether his view was shared by the rest of the Bundesbank.

Bundesbank Chairman Hans Tietmeyer, in an interview with the year-end issue of *Börsenzeitung,* the semi-official daily of the Frankfurt stock exchange, echoed Meister. "I think we have to fundamentally review IMF policy," Tietmeyer said. He characterized the situation in Asia as a "dangerous mix of politics and the private sector," which requires more than just bailout programs and IMF conditionalities. It is most important now, he said, in the emergency crisis meetings on the South Korean situation, to make sure that there is no room for "the impression, that whenever there is a problem, the international organizations or other countries are available for a bailout with huge credits. . . . The private creditors have to be included in the rescue programs. Why do we reserve all the problems for the public sector and the international organizations? This leads to the problem of moral hazard and, sooner or later, to the overloading of the public sector. A solution, only intended to rely on IMF money, is just producing the next case. Is it right, to negotiate only with the country, or do we have to take also the [private] creditors into the business? I think, we have to seriously discuss this matter."

Helmut Schieber, another member of the Bundesbank board, in an interview with the German business daily *Handelsblatt* on Jan. 5, said that there are "lessons to be learned." The IMF is trying to set up rescue packages intended "to make good for the entire capital outflow by IMF programs and international programs." This IMF policy, he warned, "is not sustainable."

A Bundesbank spokesman explained to this author, that these comments were designed to "make clear that the private creditor banks have to find their own solutions to their problems, there cannot be an institutional bailout for everybody. . . . The IMF must not become a fire brigade for the entire world." The IMF emergency loans to South Korea in late 1997 were justified, as an "exception," to prevent an instant default on a massive short-term debt, he said. And, if Waigel shares the views of Rubin, he also reflects the policy of the Bundesbank, he added.

Thus, new policy principles are emerging from the ruins of the old IMF system, and it is good that they are also emerging in Germany, a longtime bastion of monetarism.