Report from Bonn by Rainer Apel

A pact for monetarism

Led by Finance Minister Oskar Lafontaine, the government is working with France to defend the IMF system.

The Franco-German consultations in Potsdam on Nov. 30-Dec. 1, and the visit of Finance Minister Oskar Lafontaine to the United States on Dec. 3-4, made clear that the "red-green" government poses no threat to monetarist institutions. At least, such a threat to the International Monetary Fund (IMF) and similar structures would never emerge from a policy based on principle; the only threat that might emerge, is measures which the government's populism would lead it into.

Before the Sept. 27 elections, there had been a lot of speculation about a "new financial policy" which Lafontaine would allegedly pursue. Because he had repeatedly mentioned during the campaign the need for "a stable exchange rate system" and "certain controls on the hedge funds," many people believed that he would become what the daily *Frankfurter Allgemeine Zeitung* called a "German Mahathir" (after the Malaysian Prime Minister who has taken on the globalist speculators). But, Lafontaine has shown that he is neither a German Mahathir, nor does he seem interested in doing anything more than creating a media image for a policy that does not even exist. There is no change in financial policy—this government is on the same monetarist course that the previous government had been on.

The Potsdam meeting, the first official Franco-German consultations since the German elections, resulted in a joint statement that both governments endorse an increase in the political power of the IMF, including strengthening its global role as a supervisory body, and that restrictions should be placed on IMF bailouts. The IMF can only welcome that, since it is running out of money for huge bailouts anyway.

No New Bretton Woods, but certain modifications of today's free market system, are on the agenda, the leaders of both governments stated. More transparency, rather than new controls on hedge funds and the like, is what the Franco-German initiative wants. This will be at the top of the German government's agenda during the first half of 1999: Germany chairs the European Union from January to July, and also hosts the Group of Seven world economic summit in Cologne in June. The government hopes, naturally, that the global markets behave accordingly, and do not disturb the policy strategists over the coming months.

This is what Lafontaine had in his bag, when he went to Washington to meet with the heads of the IMF and the Federal Reserve, Michel Camdessus and Alan Greenspan, respectively. All that he really wants, Lafontaine assured them, is implementation of the recommendations made in 1994 by the so-called Bretton Woods Commission, headed by former Federal Reserve chairman Paul A. Volcker.

Lafontaine pointed out to U.S. journalists who voiced skepticism of his monetarist loyalties, that, after all, two prominent German monetarists, Count Otto Lambsdorff (the former German Economics Minister and current head of the European branch of the Trilateral Commission) and Karl Otto Poehl (former governor of the German central bank), are on that commission. And the recommendations of that commission—including for coordinated purchases and sales of the leading currencies among the central banks of the G-7, but within the existing structures of global monetarism—are also his own recommendations, Lafontaine told journalists. In a 1997 book, *No Fear of Globalization,* Lafontaine and his wife explicitly endorsed the Volcker commission's script.

Lafontaine's outlook expressed in the United States did not really come across on the other side of the Atlantic. Here, he still cultivates the image of a politician who has a bigger heart for labor, than for the banks. The one message that Lafontaine brought home from his visit to the United States, was that he feels very much inspired by the "American model of revitalizing the job market," and by the policy of the Federal Reserve, which allegedly has helped to create jobs by lowering interest rates.

But, reality is quite a contrary picture of the "American model" to that which Lafontaine presented. First of all, the savings rate of American citizens has become the lowest in decades, which has to do with the fact that millions are emptying their bank accounts to engage in speculation on Wall Street, or to make ends meet. And second, lower interest rates have not improved the investment ratio in the United States at all, as indicated by the continuing loss of manufacturing jobs. The fact that the United States projects a net loss of more than 600,000 jobs during 1998, despite the Federal Reserve's repeated lowering of interest rates, is something that Lafontaine has never paid any attention to.

Instead, he keeps propagating the myth of the "domestic stimulus, at a time when exports are decreasing," a stimulus which would be created by lower interest rates, according to Greenspan's Federal Reserve model.

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