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News

Battle to form over IMF leadership



French Finance Minister Christine Lagarde is among those touted to replace IMF chief Dominique Strauss-Kahn.

Georges Gobet, AFP, Getty Images

Tim Shufelt, *Financial Post* · May 17, 2011 | Last Updated: May 17, 2011 3:14 AM ET

Suddenly, a job opening has popped up at the helm of one of the world's most influential economic institutions.

With Dominique Strauss-Kahn, head of the International Monetary Fund, behind bars in New York on allegations of attempted rape, the matter of his succession could well spark a nationalistic showdown between two of the world's great collective powers.

On the one hand is the emerging world, itself the traditional subject of IMF-mandated restructuring, arguing the time has finally come to crack the European monopoly on IMF leadership.

On the other is Europe, from which every IMF head has originated, claiming that a steady hand familiar with the vagaries of the eurozone is needed to steer through still-volatile sovereign debt crises.

Neither side is likely to relent, said Bessma Momani, who specializes in studying the IMF at the Centre for International Governance Innovation at the University of Waterloo. "I think they're going to have a fight on their hands," she said.

Oh, how the tables have turned. Just a few years ago, only developing countries required IMF assistance. Now, however, the developing world has become the seat of global economic growth and promise.

It's the troubled finances of the eurozone that have necessitated intervention by the IMF and European Union.

"In an ironic twist of history, it's now the former creditors of the fund who are now the debtors," Ms. Momani said. And countries such as China, India and Brazil say growing economic influence should be matched by greater influence within the overseer of the global financial system.

Given the IMF's role in European bailouts, the stakes could hardly be higher. That's a sharp contrast to the fund's standing just a few years ago, when it was largely considered irrelevant, Ms. Momani said.

"It was a fire truck without a fire," she said. Cue the twin infernos of the global financial meltdown and the sovereign debt crisis.

In bringing the IMF back from the brink of insignificance, all credit goes to the man known in Europe as DSK, she said.

"What people don't know about him is that he's a very charismatic person who has taken the European debt crisis very personally," she said. "Now part of the struggle is finding someone who can really handle this job."

Before the sovereign debt crisis changed the rules, the IMF declared its intention to choose its next managing director on merit alone.

To fulfill that pledge now, and possibly install an IMF chief from the emerging world, is a troubling prospect to European leaders, said Mark Calabria, director of financial regulation studies at the Washington, D.C.-based Cato Institute.

"You could imagine the scenario where you get somebody from a country that's been through the ringer, having had the IMF come in and tell them they need to restructure," he said, citing past IMF bailouts in Asia, Latin America and Mexico, where financial assistance has been conditional on often unpopular structural adjustments.

"I'm pretty sure those countries would love to turn that table around on Europe," he said. Hence, the backpedalling on liberalizing the IMF's nominating process.

The leading European candidate is French Finance Minister Christine Lagarde. "I think the French will make an argument that they're entitled to this seat," Ms. Momani said. "But to some extent I think this has been a blow to the French reputation."

From developing economies, the names most often put forward include Kemal Dervis, a former Turkish finance minister, and Mexico's chief central banker Agustin Carstens.

Even Bank of Canada Governor Mark Carney's name has been raised as a possible successor. But as Mr. Carney pointed out at a press conference Monday, he is not yet halfway through his term at the central bank.

"I am interested in fulfilling my responsibilities," he said. "I understand the interest in the issue and the serious situation, but it's very early stages to make judgments about any of the specifics and what would come afterward."

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