



Leadership Vacuum at the IMF

Jacob Funk Kirkegaard argues that the International Monetary Fund should move quickly to resolve its leadership crisis in order to deal with Europe's sovereign debt problems.

Edited transcript, recorded May 18, 2011. © Peterson Institute for International Economics.

Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics, with Jacob Kirkegaard, research fellow and ongoing commentator about the European financial situation. Jacob, with the International Monetary Fund facing an uncertain future in terms of its leadership, what impact is likely on the future steps that the IMF and Europe must take on Greece and other ailing countries?

Jacob Kirkegaard: I think that, while it's obvious that the Strauss-Kahn situation is very disruptive for the IMF in the short term -- this week and in my opinion quite possibly next week as well-- beyond that, I think it's important not to succumb to the big man of history fallacy, and assume that an institution like the IMF, on strategic actions, are determined by one man. In this case, of course, it's the managing director. I don't think that, in the longer term, the impact is going to be that large. I think Strauss-Kahn was instrumental last year when the European debt crisis began.

Steve Weisman: In what way?

Jacob Kirkegaard: In early 2010, as the clouds gathered around Greece, there was a lot of denial in Europe about how dire [were the] straits that Greece and other countries' economies were actually in. There was a misguided, in my opinion, perception that, "No we should not have the IMF involved inside the eurozone at all."

Steve Weisman: Who shared that perception?

Jacob Kirkegaard: There was a lot of talk like that in Brussels, with the European Commission, a political pride thing. That was certainly also the view espoused by many at the European Central Bank.

Steve Weisman: Also in Germany?

Jacob Kirkegaard: Also in Germany. Quite a lot of policymakers in national finance ministries in the eurozone didn't feel that their creation, the euro, would ever be in a position to need the IMF. When it gradually became clear that the situation in Greece was critical, and in many ways not dissimilar to many of the scenarios and situations that the IMF has dealt with over the years in emerging markets, the tune changed quite a bit. I think, in that case, it was really important to have a trusted confidant at the head of the IMF, in the person of Dominique Strauss-Kahn, that senior European policymakers in France, Germany, and other European capitals knew and trusted, so that they felt more comfortable allowing the IMF in.

Steve Weisman: Europe faces tough political decisions with regard to Europe and Greece – restructuring debt, austerity. The Germans and some others are saying they'd feel more comfortable with a European as head of the IMF.

Jacob Kirkegaard: Yes. In a realpolitical sense, it is a natural response for Europe not to want to give up what could potentially be an important political position at the global stage. It's quite natural, especially if you're the German Chancellor Angela Merkel, who has not exactly had a safe pair of hands with respect to placing senior German nationals at high profile international positions. So for her to come out and be quite proactive in this regard, I don't think it's too surprising. But having said that, I think that actually Europe runs a risk of making a far reaching strategic mistake by insisting [on] another European, [which would] undercut the long term transition or reform of the IMF towards being a less transatlantic and more truly global organization.

I think it's important that we have a leadership selection process where certainly I would expect the Europeans to put up a strong candidate. For instance, in the form of a political heavyweight like Christine Lagarde, the current French Finance Minister, who in addition to being well liked and obviously respected inside the Euro zone, has a lot of experience at the G20 level as well. She has the additional advantage that she would represent a new page in the book of the IMF and other international organizations, because she would be the first woman to be put in charge. I think you should have that. But at the same time I think it is important that you have credible high profile emerging market candidates put forward. I think there's a host of those potential names. But while I don't expect any particular problems in the Europeans uniting behind, say, a Lagarde candidacy, it remains to be seen if the emerging markets can unify behind a similarly heavyweight policymaker from one of their own. I don't think that's clear at all. If they don't, I think Europe will retain it.

Steve Weisman: How important is it for the IMF leadership post to be filled quickly?

Jacob Kirkegaard: I think it is absolutely crucial, not least because the current acting managing director, John Lipsky, has already announced that he is intending to step down, at the end of August. So there really is a risk with both the number one and number two person out of the picture. There is a risk of a serious vacuum at the top, and that is going to be quite important, particularly with respect to the Greek program as you talked about earlier. The IMF and the eurozone, other eurozone countries, are going to be involved in a series of very tough negotiations and tradeoffs about how to proceed on that program, which is going to be renegotiated over the coming months in some shape or form. It really is important to have a trusted, credible, heavyweight policymaker at the helm of the IMF in that situation.

Steve Weisman: Thank you, Jacob.

