



The IMF Leadership Struggle, Part One

Edwin M. Truman says the United States is remaining neutral as Europe rallies around Christine Lagarde while China, India, Russia, Brazil, and South Africa demur.

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Steve Weisman: The international monetary fund is looking for a new managing director to replace Dominique Strauss-Kahn. This is Steve Weisman at the Peterson Institute for International Economics with Senior Fellow Ted Truman. Ted, how is the race shaping up?

Edwin M. Truman: It's clearly going to be a race if there's not a stampede to one candidate or the other. There will be one European candidate supported, it would appear, by all of Europe.

Steve Weisman: And that is?

Edwin M. Truman: Christine Lagarde. And that support will command maybe about 30-34 percent of the votes.

Steve Weisman: Those are the votes controlled by Europe?

Edwin M. Truman: Controlled by Europe. Then the question is where will the other 16 percent of the votes come from to get her to 50 percent, preferably beyond that, because you don't want to have an elective head of an organization like that with just a 50 plus 1 percent of the votes. On the other hand, we have at least one principal candidate from the developing world.

Steve Weisman: And that is?

Edwin M. Truman: Augustin Carstens from Mexico. I should say that Christine Lagarde is the Finance Minister of France and Augustin Carstens is the former Finance Minister of Mexico and currently Central Bank Governor who also served as one of the deputy managing directors in the Fund as well as Executive Director for Mexico and other countries in the fund. So they both have nice pedigrees.

Steve Weisman: The so called BRICS countries: Brazil, Russia, India, China, South Africa, want a candidate from outside of Europe. But are they rallying around Carstens?

Edwin M. Truman: Not so far. We don't know which way things will cut. There are some reports that they are actually the other way around.

Steve Weisman: What do you mean?

Edwin M. Truman: The French say China will support Lagarde. On the other hand, the Chinese executive directors signed the statement that you alluded to and was issued yesterday.

Steve Weisman: Sounds mysterious.

Edwin M. Truman: It's not the first time the capitals haven't known what the ambassadors' are doing or vice versa. These things happen in the best of families. But the real issue I think is whether the principal emerging market countries -- there's five countries involved -- [stick together]. They hold a significant amount of the votes, probably less than 15 percent, but enough to be a substantial block of the 11 executive directors from emerging market and developing countries.

Steve Weisman: You can't beat somebody with nobody, as the old saying goes. Why aren't they rallying around someone?

Edwin M. Truman: I assume they're thinking about it, quite frankly. They all know, certainly their Finance Ministers do, Augustin Carstens. Their leaders know president [Mexican President Felipe] Calderon, just as similarly, with President [Nicolas] Sarkozy [of France]. They can do their own handicapping of what's in the best interest of their countries. One would hope they would also be thinking in terms of the system as a whole.

Steve Weisman: What about the United States? What is the Obama Administration's position?

Edwin M. Truman: The Obama Administration position is silent as far as we know from the general public. There was an earlier report that they favored an open process, which we have, with two candidates. There's a report today that says that they informed Mr. Carstens that they were neutral between him and Christine Lagarde and any other candidates that might come forward. The nomination period doesn't end until the 10th of June. So we have a few more weeks to go. I found that report credible...

Steve Weisman: The report that the US is neutral?

Edwin M. Truman: [That the US] is neutral and promises to be neutral at least for a period [until] support for one or the other candidate emerges.

Steve Weisman: You're not terribly sympathetic, to put it mildly, with the idea that the European debt crisis being the most pressing issue, so the tradition of a European head of the IMF should continue.

Edwin M. Truman: No, I'm not sympathetic to that. Those are really two separate questions. Should the tradition continue? It is an anachronism and it should end. Should a European be chosen on his or her merits as the next Managing Director of the International Monetary Fund -- and is one of those merits the fact that they have a European debt crisis going on, as well as problems in other parts of the world? In my view that's a weak argument because the Managing Director of the International Monetary Fund has to have the objectivity to be able to make his or her calls on what the IMF as a whole should be doing, independent of the influence of Europe.

It's not just that Christine Lagarde is European. She has been a very active and vocal participant in the debates over the last year over what to do about Greece, Ireland and Portugal, and the various mechanisms that Europeans have set up. It's going to be difficult for her, in terms of convincing people before she's elected or after she's elected,

that she has the objectivity to represent this. Which doesn't mean that she can't, by the way. But I think she has a challenge to be able to demonstrate that she has an open mind about whether, sooner rather than later, there should be a debt restructuring in Greece or Ireland or Portugal, or how much more money should be put into the program and what ways the program should be redesigned. Now they are joint programs with Europe and the IMF. But the IMF should have its own independent voice about what's good for the countries involved and for the system as a whole.

Steve Weisman: Why should we care about this?

Edwin M. Truman: The International Monetary Fund, especially in the recent years, but before that, is the key multilateral institution that we have to conduct surveillance over the international monetary and financial system and to assist countries when they get into trouble by policy advice and lending. So it makes a difference who's there. Indeed we have moved from a period in which we've had very strong managing directors of the fund but technocrats. Jacques de Larosiere and Michel Camdessus, at the time, were technocrats. Horst Kohler was something more than technocrat because he had been head of the EBRD [European Bank for Reconstruction and Development]. [Rodrigo] De Rato was the finance minister of Spain. [Dominique Strauss Kahn was] a former Finance Minister of France. So in some sense we've elevated the job. It is in some sense more demanding because it is someone who has a bigger voice on the global stage than was the case 20 or 30 years ago.

Steve Weisman: It's hard to imagine an IMF Managing Director succeeding without some political skills.

Edwin M. Truman: Yes, you absolutely need political skills and they have to be global. I think in terms of those two candidates in particular, but there are others who might well come forward, have been around. They know a lot of people. They have the perspective of that. It is an advantage, quite frankly, for Christine Lagarde that she has worked in the United States and knows the United States very well, since we are an important country...

Steve Weisman: Still.

Edwin M. Truman: Yes, we're still an important country even though we're shrinking, relatively. And Augustin Carstens, because he's had a lot of experience and has worked in the organization at a very high level, the number three position, has a lot of the experience too. So they bring a lot to the job. I noticed that Carstens laid out the countries that he was "responsible for" when he was a deputy managing director. An odd mix of advanced and emerging and low income countries to demonstrate his experience in working around the problems of those countries as well as coming from a major emerging market country.

Steve Weisman: Ted, thanks.

Edwin M. Truman: You're welcome.

