

Strauss-Kahn Bailouts Give IMF Chief Popularity Over Sarkozy

By Richard Tomlinson and Sandrine Rastello - Jan 25, 2011
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As the dinner plates were cleared on a May night in [Basel, Switzerland](#), International Monetary Fund Managing Director Dominique Strauss-Kahn and his fellow guests settled in for a challenging final course: saving the euro from extinction.

Strauss-Kahn, European Central Bank President Jean-Claude Trichet and Bank of Italy Governor Mario Draghi had gathered with other central bankers at the headquarters of the Bank for International Settlements for a regular bimonthly meeting. They were waiting for word from Brussels, where European Union finance ministers were racing to assemble an emergency rescue program to restore investor confidence in the single currency, Bloomberg Markets magazine reports in its March issue.

Every half hour, French Finance Minister [Christine Lagarde](#), 55, would phone Basel from Brussels to report on the progress being made to contain [Greece](#)'s sovereign-debt crisis from infecting the entire euro region, Strauss-Kahn says.

Euro-region policy makers planned to aid the single currency's weakest members with a financial aid plan that grabbed the attention of bond buyers.

"We were gathered around a table -- it must have been midnight, 1 a.m., 2 a.m. -- and it carried on," he says.

Throughout the night, Strauss-Kahn led negotiations over the IMF's role in the emergency deal.

"There was a discussion about wording which I sent to [Washington](#) and, finally, around 2 a.m. or 3 a.m., they were able to deliver their baby."

Dawn Deal

As dawn broke, EU finance ministers announced a package worth a total of 750 billion euros (\$995 billion), with the IMF stumping up one-third of the resources for future bailouts and the ECB

pledging to buy an unspecified amount of government debt. Those announcements inspired a worldwide rally in stock and bond markets.

For Strauss-Kahn, 61, head of the IMF since November 2007, that night in Basel was just another step in the fund's -- and his own -- return as a key player in global economics.

When Strauss-Kahn arrived at the IMF, the organization was a bureaucratic backwater whose prominence had faded in a time of relative economic calm. IMF emergency lending plummeted from \$66.4 billion in 2002 to just \$58.7 million in 2006, when Paraguay and Albania were the only borrowers.

Less than a year later, in September 2008, the bankruptcy of Lehman Brothers Holdings Inc. triggered the deepest international recession since World War II. Amid the turmoil, the IMF became relevant again. Emergency IMF loans soared to a record of \$91.7 billion last year from \$1.1 billion in 2007.

Opportunity in Crisis

"The crisis was a moment of opportunity for the IMF," says [Eswar Prasad](#), head of the fund's Financial Studies Division from 2005 to 2006. "Strauss-Kahn grabbed that opportunity at a very difficult time by thinking big," says Prasad, currently a senior fellow at Washington's Brookings Institution. The IMF projects that the world economy will grow 4.4 percent this year.

Now, as sovereign-debt woes threaten to engulf Portugal and even [Spain](#), Strauss-Kahn may walk away from the IMF and use his newfound gravitas to grab the prize that eluded him the last time around: the presidency of [France](#).

Opinion polls indicate that Strauss-Kahn, a member of the Socialist Party and France's finance minister from 1997 to 1999, would easily beat French President [Nicolas Sarkozy](#), who belongs to the center-right UMP party, if the election were held today.

A January survey by polling company CSA for BFM TV, RMC radio and 20 Minutes newspaper found that 64 percent of electors would vote for Strauss-Kahn in a second-round run-off, compared with 36 percent for Sarkozy, 55. Segolene Royal, 57, the Socialist politician who edged out Strauss-Kahn for the party's nomination in 2007, would tie with Sarkozy, with each gaining 50 percent of the votes, the same survey showed.

Worried Populace

“The French are worried by the economic outlook, and they see Strauss-Kahn as someone who might manage things better than Sarkozy,” says Gerard Grunberg, a professor at Paris’s Political Sciences Institute.

Sitting in his 12th-story corner office at the IMF’s concrete headquarters in Washington, Strauss-Kahn dodges a query about his political future.

“I don’t want to reply to this question; I’ve said all I’ve got to say about it,” he says, making a scissoring motion with his arms to signal an end to the subject.

It’s a chilly January morning, and the burly Strauss-Kahn is nursing a heavy cold. Hanging on the wall is a large framed photograph taken in 1988 of his third wife, French television journalist Anne Sinclair, 62, dressed in the white robes of Marianne, France’s national emblem symbolizing liberty and reason.

VIP Calls

Behind his desk, there’s a bookcase adorned with pictures of the IMF chief with VIPs such as [Barack Obama](#) and [Bill Clinton](#). Strauss-Kahn, who speaks fluent English and German, notes that he frequently confers with the likes of German Chancellor Angela Merkel and U.S. Treasury Secretary [Timothy F. Geithner](#). “Geithner, I talk to him on the telephone every week,” he says.

Strauss-Kahn had less clout with those policy makers when he first arrived at the IMF. In 2007, following his loss to Royal to face off with Sarkozy in the general election, Strauss-Kahn took the IMF job, succeeding Spain’s Rodrigo Rato. Sarkozy backed Strauss-Kahn’s appointment in part to get a dangerous political rival out of the country, Grunberg says. Now, Sarkozy’s acquiescence may come back to haunt him, if Strauss-Kahn yields to the entreaties of political allies and announces another run for the Elysee Palace.

Socialist Party Pressure

“I’ve spoken with him many times, but I’m not sure if I’ve persuaded him that we need his engagement,” says Jack Lang, 71, the former Socialist culture minister who is a neighbor of Strauss-Kahn’s on Paris’s Place des Vosges, a colonnaded, 17th-century square where novelist Victor Hugo once lived. While his opinion ratings are high, Strauss-Kahn can’t delay a decision too much longer: Under Socialist Party rules, he must declare his candidacy by July.

Even if he quits the IMF before his term expires in October 2012, Strauss-Kahn will have reshaped the organization, which was established in 1945. The fund’s original mission was to help rebuild war-

damaged national economies and oversee the construction of a new international monetary system.

During the 1950s and 1960s, the U.S. effectively controlled the IMF, as most communist countries refused to join the organization. The steep rise in the price of oil in 1973, followed by soaring interest rates in the second half of the decade, triggered a series of financial rescue programs coordinated by the IMF. Countries that borrowed emergency financing from the fund ranged from the U.K. -- which asked for a bailout of 2.3 billion pounds (\$3.6 billion) in 1976 -- to [Mexico](#) in 1982, which received about \$4.5 billion in an IMF-led program when the country came close to defaulting on its debt.

[China](#) Emerges

Today, the IMF is financially supported by 187 countries, with the size of a nation's economy determining its contribution and the percentage of votes it holds on the governing board. In 2010, the U.S., as the largest contributor to the IMF's resources, had 16.7 percent of the [votes](#), followed by Japan (6 percent) and [Germany](#) (5.9 percent). Last year, IMF nations agreed to rule changes that will give China the third-largest percentage of votes.

In the middle years of the last decade, as national economies boomed, there was little demand from member states for emergency IMF loans. DSK, as he is called by his aides, arrived for his first day to be faced by a letter from the IMF's largest shareholder nations demanding that he reduce the organization's budget. Within weeks of starting the job, Strauss-Kahn approved a program to cut about 400 jobs from the fund's 2,900-strong payroll and drafted a plan to sell off some [gold reserves](#).

"Morale wasn't good, not only due to this problem of reducing the head count, but in a wider sense, because there was a lot of disagreement about the fund's role," he says.

Slowdown Concerns

Strauss-Kahn made his first attempt to sound a warning about an economic slowdown eight months before the collapse of Lehman -- when many world leaders were still in denial about the coming economic crisis. At the [World Economic Forum](#) in Davos, Switzerland, in January 2008, Strauss-Kahn -- a former economics professor at France's elite [Ecole Nationale d'Administration](#) -- lectured world leaders on the need to boost demand with state-backed stimulus measures. He told a panel at the summit that it was time "for some economies, among them strong economies, to prepare for a new fiscal policy as an accurate way to answer the crisis."

Strauss-Kahn's move was triggered by revised IMF forecasts showing a global slowdown in economic growth.

“It was the moment when I took the plunge in saying there would have to be stimulus programs,” he says. “I did this because I’d seen our forecasts that were going to come out.” (Strauss-Kahn isn’t attending Davos this year.)

Increased Resources

On Oct. 11, 2008, Strauss-Kahn warned that the world’s financial system was on the brink of meltdown, after the Standard & Poor’s 500 Index had fallen 18.2 percent the previous week. By the spring of 2009, Strauss-Kahn was calling for a doubling of the IMF’s lending reserves to about \$500 billion. At the Group of 20 summit in [London](#) in April of that year, world leaders trumped Strauss-Kahn by taking even stronger action to calm markets as they tripled the fund’s resources to about \$750 billion.

“There was a discussion with Gordon Brown and Barack Obama and Tim Geithner,” Strauss-Kahn recalls. “They were almost reproaching me, saying, ‘Now, you have announced a doubling; if you want to have an impact, you need more than a doubling.’ I said, ‘Fine, let’s do it.’”

Greek Resistance

In the spring of 2010, as Greece’s fiscal turmoil threatened to infect other euro zone countries, Strauss-Kahn lobbied EU leaders for the IMF’s inclusion in a regional bailout program, says [Jacques Cailloux](#), chief European economist at Royal Bank of Scotland Group Plc.

“There was huge resistance in [Europe](#) to the IMF coming in and imposing an American policy agenda, because the IMF is perceived as a U.S.-backed institution,” Cailloux says.

Strauss-Kahn says that at the time, he discreetly dispatched IMF officials to Greece to survey the economic situation in preparation for a rescue package.

Last November, when the IMF contributed 22.5 billion euros to Ireland’s 85 billion-euro bailout, Strauss-Kahn found it easier to put his organization’s stamp on the final deal.

“The Irish began by saying they didn’t want the IMF, but that only lasted two weeks, where it lasted four months with Greece,” he says.

As his power has grown, Strauss-Kahn has made it clear that he prefers to deal directly with heads of government and central bankers, often showing impatience with the civil servants representing the member states who sit on the IMF’s board of directors, according to Daniel Heath, a U.S. member of the board from 2007 to 2010.

Impatient in Meetings

“Dominique can get amusingly sarcastic in responding to directors,” says Heath, now a senior fellow at Georgetown University’s McDonough School of Business. ‘He’ll sit there with a gavel, and you can tell when he’s impatient because he hits it in his hand while the person is speaking.’”

Yet, Strauss-Kahn owes his survival in the job to those same directors. In 2008, he had a fling with Piroska Nagy, a female economist at the IMF, who quit in August of that year. An investigation by the board, released in October 2008, concluded that while the managing director had made a “serious error of judgment,” he shouldn’t be fired. Strauss-Kahn apologized to his staff and family, which includes four children from two previous marriages.

Juggling Careers

Strauss-Kahn was born in the wealthy Paris suburb of Neuilly-sur-Seine to a tax adviser father and a journalist mother and spent most of his youth in Morocco and Monaco, where his father worked. In 1972, he obtained a law degree from the University of Paris, and in 1975, he gained a doctorate in economics from the same institution.

He spent the next two decades juggling parallel careers as an economics professor, lawyer and aspiring Socialist politician. In 1986, he was first elected to the National Assembly, representing the Alpine Haute-Savoie department. He served as industry minister from 1991 to 1993 under successive Socialist premiers Edith Cresson and Pierre Bérégovoy. In 1997, he returned to office as finance minister under Premier Lionel Jospin.

At the ministry’s stark, modernist headquarters in southeast Paris, Strauss-Kahn presided over a booming economy. France’s gross domestic product grew 3.5 percent in 1998, the fastest pace that decade. He took advantage of the good times to cut France’s budget deficit to below 3 percent in 1999, the level required for euro membership, from 4 percent of GDP in 1996.

Parrying with Summers

At a Group of Seven meeting in the late 1990s, Strauss-Kahn says he and [Lawrence Summers](#), then a deputy at the U.S. Treasury, traded economic models as they debated the effectiveness of a 35-hour workweek, which the Frenchman supported.

“They were sitting next to each other, and at the end of the meeting, I opened Strauss-Kahn’s file and saw it was full of math problems that he and Summers had been swapping,” says Jean Pisani-Ferry, who was then an economics adviser to the French government.

In November 1999, Strauss-Kahn resigned as finance minister, after magistrates began an investigation into financial irregularities at MNEF, a French student insurance group. The probe covered an allegation that the company had paid him about \$100,000 from 1994 to 1996 for legal work on a property deal that he never performed. Strauss-Kahn, who denied any wrongdoing, was cleared by a Paris court in November 2001.

Strauss-Kahn's restlessness meant he was always looking for distractions as he shuttled between European capitals for meetings with his fellow finance ministers, says Arnaud Chneiweiss, his European affairs adviser from 1997 to 1999.

Chess Moves

"On the plane, DSK would say, 'OK. This is boring. Let's play a little chess' -- without any chessboard," says Chneiweiss, now deputy chief executive officer at Rouen, France-based insurance group Matmut SA. "He could play a game in his head."

On most evenings, Strauss-Kahn hones his skills by playing anonymously on his computer with opponents around the world.

"On the Internet, you can find yourself up against a Korean or a guy from Greenland," he says. "It's not just a way of relaxing; it's also a way of measuring my stress levels. When I'm tired, I'm no good."

These days, Strauss-Kahn says that with the exception of his chess fixation, he's fully focused on helping the world avoid another financial debacle. As he shows a visitor around his office, Strauss-Kahn steals a proud glance at his wife dressed as Marianne. Next year, Strauss-Kahn may have the opportunity to hang the portrait in a new venue -- the Elysee Palace in Paris.

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