Crisis threatens European role at IMF

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Dominique Strauss-Kahn's arrest may have little immediate effect on the International Monetary Fund's operations. Yet it may well force the organisation's member countries to confront wider issues of European influence over the fund, even as it prepares to extend **more huge rescue loans to western Europe**.

"In the short term this may not mean too much for the eurozone negotiations, as the onus is currently on the Europeans to come up with a financing proposal," said Simon Johnson, a former IMF chief economist now at the Massachusetts Institute of Technology. But, he said, "it may well open up the question of who runs the IMF".

Mr Strauss-Kahn, a former French finance minister with excellent political connections, was once described by Mr Johnson as "Metternich with a BlackBerry" after the great 19th-century European diplomat. Mr Strauss-Kahn revived the IMF's relevance during the global financial crisis, massively increasing its resources.

Eswar Prasad, former head of the IMF's China division, said his likely departure "is a body blow for the IMF, which will find it hard to find as effective and skilful an advocate for keeping the institution central to the global monetary system".

If Mr Strauss-Kahn steps down soon, it will bring forward the question of the managing directorship of the IMF, which has traditionally gone to a European, in the light of its rescue lending to Greece, Ireland and now Portugal.

Mr Strauss-Kahn was believed to be planning to resign in the coming months but Mr Johnson said a premature departure would complicate any plan to install another European head.

"The prevailing belief was that the Europeans would pull one of their clever diplomatic moves and nominate one of their own as managing director, in consultation with the Americans who want to hang on to the presidency of the World Bank," he said. "This process is now much harder for the Europeans and the Americans to control."

Appointing another European managing director at this juncture may stoke particular resentment in emerging market governments. Some have privately questioned the size and generosity of some of the IMF's rescue programmes for western Europe and its co-financing of lending programmes largely designed by the eurozone authorities.

Mr Prasad said **emerging market** officials saw a contrast with the tough conditions imposed on developing country borrowers.

"The lending programme with Greece was putting the IMF in an increasingly uncomfortable position with emerging markets, who view this as yet another example of asymmetric treatment," Mr Prasad said.

There is no shortage of credible potential candidates from emerging market countries to head the IMF. One is Kemal Dervis, who as Turkish finance minister steered the country away from sovereign bankruptcy with the help of an IMF rescue programme in 2000-2001 and now directs the global economy programme at the Brookings Institution think-tank in Washington.

Mr Dervis also has administrative experience as a former head of the UN Development Programme, though he has the disadvantage that it is unlikely the Turkish government would back him.

"For me, Kemal Dervis would be a very good candidate – he is on the spot and has a strong record," Mr Johnson said. Also a credible possibility, according to Mr Johnson, was Agustin Carstens, governor of the Mexican central bank and a former IMF deputy managing director.

Stanley Fischer, former second-in-command at the fund and governor of the Bank of Israel, is another option. A group of developing countries proposed him for the job when it became open in 2000. Trevor Manuel, the former South African finance minister who chaired a commission into the IMF's future, could also be a contender, as could Montek Singh Ahluwalia, deputy chairman of India's planning commission and former head of the fund's independent evaluation office. Aged 67, Mr Ahluwalia exceeds the 65 age limit for IMF managing directors but those bylaws can be changed with a vote of the fund's member countries.

Though the outcome is uncertain, the likelihood of the IMF being headed by a candidate from a developing country is now higher than at any point in its history. Mr Johnson said: “The emerging markets have been waiting a long time and may now feel this is their chance.”