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Debt crisis questions remain for Lagarde

By Alan Beattie in Washington

So, back to the future it is. Christine Lagarde will become the fifth French managing director of the International Monetary Fund and the 11th European out of 11.

The convention of putting a European in the job, which had become a largely symbolic tradition, has now assumed much greater importance. The IMF has been dragged into what many of its shareholder governments regard as an increasingly problematic bail-out of Greece, in which much of the direction has been set by the eurozone governments and the European Central Bank.

Ms Lagarde will have to show that her ability to use her European contacts to manage the fund's response will outweigh a potential conflict of interest – that she may not want to be the one to infuriate French banks and the French government by pulling the plug on a failing programme.

"The immediate priority for Lagarde is to reset the IMF's engagement with the debt crisis in Greece in a manner that avoids a blow-up but doesn't smack of favouritism," says Eswar Prasad, a former senior IMF official now at the Brookings Institution. "Having been embroiled in dealing with the European debt crisis, it remains an open question whether she can shed that baggage when she comes into the IMF job."

Ms Lagarde's statement after the decision gave little away, beyond a general commitment to make the IMF serve its entire membership.

The IMF under John Lipsky, its acting managing director, has taken a tougher line, insisting on clearer commitments to Greek austerity measures and financing commitments from the eurozone before agreeing to disburse its next tranche of aid. Ms Lagarde may have to make a judgment call early on about the strength of Greek political will and eurozone funding.

Further down the line, her appointment could also create interesting cross-currents with regard to the role of the emerging markets like the Brics (Brazil, Russia, India and China).

Those governments conspicuously failed to show developing world solidarity, declining to unite around Agustín Carstens, a candidate with exemplary qualifications. "China thinks in terms of China, not in terms of the Bric grouping, and will probably continue to do so for a very long time," says Arvind Subramanian at the Peterson Institute in Washington. "That same self-centered approach applies to India, Brazil and the others."

Thus IMF watchers will be on the alert for what Ms Lagarde might have promised individual governments in return for their support. During her global tour to gather support for the nomination, she spoke vaguely of more representation for emerging markets.

The fund is already halfway through a tortured process of giving emerging markets more votes and seats on its executive board and could in theory accelerate or rework the process. But since it will not remove the US veto over big decisions it is likely to make little practical difference in the short to medium term.

Ms Lagarde may intervene to promote senior management from emerging markets, perhaps including Zhu Min, the Chinese adviser to the managing director. But as the Europeans have proved, having management of a certain nationality in place does not guarantee that a particular view of the world will prevail.