

## Strauss-Kahn Resigns as IMF Managing Director

By Sandrine Rastello - May 19, 2011

[Dominique Strauss-Kahn](#), once considered a leading contender to win the French presidency next year, resigned as head of the [International Monetary Fund](#) after being charged with attempting to rape a New York hotel maid.

Strauss-Kahn, 62, informed the Executive Board of the IMF of his intention to resign as managing director with immediate effect, the IMF said in an e-mailed statement.

“I want to protect this institution which I have served with honor and devotion, and especially -- especially -- I want to devote all my strength, all my time, and all my energy to proving my innocence,” Strauss-Kahn said in a letter included in the IMF’s statement.

Strauss-Kahn’s arrest reshaped the race for the French presidency, eliminating President [Nicolas Sarkozy](#)’s biggest rival. His resignation from the IMF, more than 17 months before his term was scheduled to end, opens the fight for succession between Europeans that have held the job for 65 years and emerging markets such as South Africa and [Russia](#) that seek to end the monopoly.

“Strauss-Kahn was an important figure and it will cast a long shadow on the IMF even though he has resigned,” said Venkatraman Anantha-Nageswaran, the Singapore-based global chief investment officer at Bank Julius Baer & Co., which has about \$304 billion of client assets. “Now that he has departed, the stakes are high and the Europeans will dig in their heels to keep the top seat for themselves. There will be a lot of bargaining taking place before his successor is appointed.”

### Charges Denied

Strauss-Kahn denied charges that he attacked a 32-year-old woman at a Sofitel hotel in midtown [Manhattan](#) on May 14. He was ordered held without bail by a New York judge after prosecutors said he presented a flight risk and he is now asking a second judge to release him on bail. He had been taken into custody and removed from an Air France flight at John F. Kennedy International Airport.

The IMF chief is charged with criminal sexual act, attempted rape, sexual abuse, unlawful imprisonment and forcible touching, according to court papers. Strauss-Kahn, a former French finance minister, faces as long as 25 years in prison if convicted of the most serious charges,

prosecutors said. His lawyer said he will plead not guilty.

## Acting Head

John Lipsky, the first deputy managing director at the IMF, was serving as acting managing director while Strauss-Kahn was out of [Washington](#), in accordance with standard IMF practice.

The IMF, set up after World War II to promote global financial stability, said it will “communicate in the near future on the Executive Board’s process of selecting a new managing director,” adding that Lipsky remains acting chief.

“Strauss-Kahn’s resignation clears the path for the IMF Board to shift from crisis mode to credibility mode,” said Julie Chon, senior fellow at the Atlantic Council and former senior adviser to the U.S. Senate Banking Committee. “The Board should now formally appoint [John Lipsky](#) as managing director and announce a longer-term plan for Fund leadership that will increase transparency and geographic diversity.”

Doing so would remove any question as to who speaks for the IMF during European sovereign debt negotiations, provide continuity of leadership, and buy the Fund time to evaluate longer term leadership options, she said.

Strauss-Kahn’s arrest cast a shadow over a meeting of European finance chiefs in Brussels, who on May 16 endorsed a 78 billion-euro (\$111 billion) aid package for [Portugal](#), the third euro-area country to receive a bailout after [Greece](#) and Ireland.

### [Europe](#) Risk

The IMF was represented at the euro-area finance ministers’ meeting by Deputy Managing Director Nemat Shafik, who oversees the organization’s work in a number of European Union nations. Seventeen nations use the euro.

European officials are working to prevent the region’s first default as Greek ministers plead for terms to be relaxed on 110 billion euros of aid from the IMF and European Union.

“It’s certainly, in these negotiations with Europe, very hard to replace him,” said David Dodge, a former governor of the Bank of [Canada](#). “He understands so deeply and profoundly the European political and economic situation. I don’t think there’s anyone at the Fund who would come close to having that.”

Strauss-Kahn has consistently been among the most popular possible candidates to contest [France](#)’s

2012 presidential election, opinion polls show.

## Opinion Polls

Sarkozy would have trailed Strauss-Kahn by 5 percentage points in the first round of the presidential voting if the election had been held at the end of last month, a CSA poll for 20 Minutes newspaper, BFM Television and RMC radio showed April 28. Strauss-Kahn had declined to say whether he was planning to run for office.

Strauss-Kahn's arrest improves the odds for his Socialist Party rival, Francois Hollande. The two-round French presidential elections will be held April 29 and May 6, 2012. The Socialist Party plans to hold its primaries in October. The ruling Union for a Popular Movement has no primaries planned and Sarkozy, 56, has yet to declare his candidacy.

Strauss-Kahn was chosen in 2007 to a five-year IMF term in keeping with an informal agreement under which a European heads the fund while an American leads the [World Bank](#).

The World Bank saw its own chief resign when former U.S. Deputy Defense Secretary Paul Wolfowitz quit in May 2007 after controversy over his role in a pay increase for his companion.

## Emerging Markets

The announcement may bolster a drive by [Brazil](#), [China](#) and other emerging markets for a selection process that's based on qualifications rather than nationality. Officials have already starting jockeying for the post.

At stake is leadership of an institution that approved a record \$91.7 billion in emergency loans last year and provides a third of bailout packages in Europe.

European officials this week including German [Chancellor Angela Merkel](#) closed ranks to defend their hold over the top job, with finance ministers from [Sweden](#) to [Spain](#) saying the region needs one of its own to get a handle on its debt crisis.

They were rebuffed by [South Africa](#) and Russia who say the next chief should come from an emerging economy. Still, developing economies haven't aligned behind a name.

Potential candidates include Singapore Finance Minister Tharman Shanmugaratnam, Trevor Manuel, head of South Africa's National Planning Commission, and Kemal Dervis, who was [Turkey's](#) minister of economic affairs at a time his country got aid from the IMF, according to Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF official.

## **‘Merit-Based’**

On the European side, Swedish Finance Minister Anders Borg endorsed his French counterpart [Christine Lagarde](#), telling Sky News yesterday that she “presents very strong leadership.”

The choice “should be absolutely merit-based,” said Dodge. “But I would argue that, all other things being equal, it would be very nice to have someone who has at least deep roots in, if not necessarily a current representative of, one of the major emerging-market countries.”

Strauss-Kahn took the helm of the IMF in November 2007, following his loss in the primaries of his French Socialist Party ahead of the 2007 presidential elections.

Strauss-Kahn, who succeeded Spain’s Rodrigo Rato, helped reshape the agency’s mission and restore its relevance. When he arrived, its emergency lending dropped to \$58.7 million in 2006 from \$66.4 billion in 2002. Among his first moves there was to cut about 400 jobs.

The global financial panic triggered by the bankruptcy of Lehman Brothers Holdings Inc. in September 2008 restored the IMF’s relevance as its emergency loans soared to a record of \$91.7 billion last year from \$1.1 billion in 2007.

## **New Missions**

Strauss-Kahn gained backing from the Group of 20 to triple the fund’s resources, and the group has over the past two years given the agency a host of new missions to help avoid another crisis. The IMF is helping the G-20 single out countries whose policies threaten global growth, and has also submitted proposals to fortify the international monetary system.

More recently, he played a key role in efforts to stem the European debt crisis which started last year in Greece, with a pledge to contribute about a third of future bailouts in the region by the European Union. The IMF has co-funded aid packages to Greece and Ireland.

Under Strauss-Kahn, the IMF also approved a plan that will make China the third-strongest voice in the 187-member organization, founded in 1945, while weakening Europe’s influence to make room for emerging countries.

“I think also of my colleagues at the Fund,” Strauss-Kahn said in his letter. “Together we have accomplished such great things over the last three years and more.”

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