Race for leadership of IMF heats up
By John Paul Rathbone and Adam Thomson in Mexico City and James Lamont in New Delhi
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Agustin Carstens, the underdog candidate to head the International Monetary Fund, has accused European governments of trying to pre-empt the fund’s succession process and failing to tackle their own debt problems.

Mr Carstens, Mexico’s central bank governor, is battling Christine Lagarde, French finance minister, to lead the IMF.

Ms Lagarde, who has secured the support of several European countries, including the UK, is touring Asia this week to secure support from India and China. Indian leaders said they had given Ms Lagarde “no assurance” of their support.

Mr Carstens admitted that he faced “an uphill battle”, but argued that it was in emerging markets’ best interests to support his campaign. “If emerging markets don’t act in line with our aspirations, we will never get to where we want to be,” he told the Financial Times. “If we give in to the European church and treat it as business as usual, things will never change.”

Mr Carstens, a former IMF deputy managing director, called for the new managing director to be chosen in a fair and open process based on merit. “Europeans are not acting in that way,” he said. “Even before we have a final list of candidates, they have made up their minds.”

Some Europeans have suggested that Mr Carstens’ credentials from the Chicago school, famed for its orthodoxy, may count against him. But the former finance minister insisted that he was a pragmatist. “At Chicago, I didn’t learn a religion. I gained a series of analytical tools.”

He said Europe had not done enough to persuade financial markets that it could solve its debt problems and issued a stiff warning that failure to act now would only lead to more pain.

Mr Carstens said troubled European economies needed to adopt stronger fiscal measures and structural reforms sooner rather than later.

“Europe needs to try to get ahead of the curve,” he added when asked about the continent’s continuing debt crisis. “At the end of the day, what’s needed is for Europe to show that financial and fiscal stability is sustainable ... [Sovereign debt] restructuring is not a silver bullet. By itself, it will not do the trick. If other aspects are not fixed, economies will not reach a sustainable situation.”

According to Mr Carstens, stability in Europe would be achieved when troubled borrowers such as Greece could return to international capital markets: “Once you get there, you enter a virtuous circle ... Bond spreads fall, fiscal pressure drops and job creation rises. The benefits are huge and often larger than anticipated.”

He added that discussions over whether the region’s ailing economies should abandon the straitjacket of the single currency were a “tough call”, but ultimately
a distraction as they were part of a longer-term debate. 

“My perception is that the question of whether the eurozone is an optimal currency union is a question that does not have a place in the discussion now,” he said. To leave the euro “would be very very costly. But therefore more reform efforts have to take place.”

Ms Lagarde visited New Delhi on Tuesday on an international roadshow to promote her candidacy in the wake of the controversy surrounding Dominique Strauss-Kahn, the former IMF chief, in the US. She earlier visited Brazil and is due to visit China later in the week.

Later this week Mr Carstens will travel to India, where officials are seeking to build a global consensus on the IMF succession and avoid a standoff between developed and developing nations.

“India will want to extract two commitments from Lagarde,” said Eswar Prasad, a Cornell University professor and former IMF executive. “[These include] a more transparent process to determine the formula for setting countries’ voting shares at the IMF and continued momentum on reforms that give emerging markets more voting rights and greater representation.”

Formal nominations are due by June 10.