The IMF Leadership Struggle, Part Two

Arvind Subramanian says Christine Lagarde is the frontrunner but that she needs to reassure the developing world that she won't be soft on Europe.


Steve Weisman: Who will lead the IMF after Dominique Strauss-Kahn? Arvind Subramanian, senior fellow at the Peterson Institute for International Economics, here to answer that question. This is Steve Weisman at the Institute. Arvind, two candidates have emerged -- Christine Lagarde of France and Augustin Carstens from Mexico. The so called BRICS countries, Brazil, Russian, India, China, South Africa want someone from the developing world. How do you handicap things right now?

Arvind Subramanian: I think, Steve, the odds still have to favor Christine Lagarde quite heavily. Just [look at] the simple arithmetic of it. She already has roughly 30 percent. She needs another 20 percent. Whereas Augustin Carstens, since he's probably one and a half percent, needs to get another 48 percent. He has a bigger hill to climb.

Steve Weisman: The BRICS countries say they want somebody from the developing world but you can't run an abstraction.

Arvind Subramanian: Exactly, Steve, and that's the problem. I think that if they could converge on a common candidate -- and it's really a big if -- then I think it will be a more even battle.

Steve Weisman: Why can't they?

Arvind Subramanian: I think there are complicated historic reasons for this.

Steve Weisman: They distrust each other for one thing...

Arvind Subramanian: Yes, exactly. You know this is where the politics comes in. Are Brazilians happy supporting a Mexican? Or would they rather live with the Europeans? Similarly, can the Indians and the Chinese live with someone from the other country or are they actually de facto and in a very quiet way happier with the European or American? I think all this is playing out in a way that I think is still a bit unclear. It seems to me that we still haven't had a candidate from Asia come forward. And I think that's still a wild card.

Steve Weisman: Isn't that strange?

Arvind Subramanian: It is very strange. You know I would have thought that if any Asian candidate is to be plausible, it has to be the finance director from Singapore, Tharman Shanmugaratnam. He's from Singapore, so it would be acceptable to all the Asian countries. He's highly regraded. He's already the head of the IMFC [International Monetary and Finance Committee of the IMF].
Steve Weisman: So he's widely mentioned. Why hasn't he thrown himself in?

Arvind Subramanian: He's just been promoted internally. He's become the Deputy Prime Minister [of Singapore] so I don't know whether it's a personal reason that his national ambitions are more important than becoming the next [managing director]. Or is it simply because the agents haven't caucused together or have not been able to agree on a common candidate?

Steve Weisman: You worked at the IMF and know the DNA over there. If you were advising Christine Lagarde, what should be saying to win the support of these countries?

Arvind Subramanian: First and foremost, I think she has to reassure the other countries. And this is a really important substantive point. She has to reassure the other countries that when it comes to solving Europe's problems, she will not succumb too easily to political pressures or the politics of Europe. The reason I think is really important. Look ahead and think of a bad case scenario where the IMF has to lend a lot more money to Europe, because Ireland needs more, Greece needs more, maybe Portugal and Spain will need money. In which case it's a lot of international tax payer money -- you know, the Brazilian tax payer, the Indian tax -- which will be at stake. Poor country tax payer money might create moral hazard in the rich world. They need to make sure that the money comes back, which means that you have to have sensible policies that will get Europe back into shape.

Steve Weisman: Are you concerned that there might be a double standard by the IMF toward Europe versus Asian and Latin American countries bailed out in the past?

Arvind Subramanian: There already has been a double standard. If you look at the Latvia program, for example, for any other country the IMF would have recommended a devaluation. Whereas Latvia got away without a devaluation.

Steve Weisman: But a huge deflationary austerity program, right?

Arvind Subramanian: Right. But the point is that if you're talking about how the IMF would have behaved in comparable situations, it didn't. The IMF didn't. Whether it turned out good or bad is another issue. Similarly in the case of Europe the big question is, is this debt sustainable for Greece and other countries? Should debt restructuring be on the table if you have to have any realistic chance of this money being repaid and of Greece growing its way out? I think it's a strong European view now that no way, no restructuring. You know it's going to be more austerity, some financing, and effectively Greece might end up becoming a ward of the European state. So coming back to your question, she needs to reassure the world and other countries that are going to put up the money that this will be a disinterested decision, which doesn't overly bend over to accommodate European politics.

Steve Weisman: Is there anything else she you can do for the Asian countries or Latin American countries in terms of staff or the way she structures the IMF?

Arvind Subramanian: I think if she becomes managing director -- there is a developing country person who's a deputy managing director -- there will be pressure to hand over another deputy
managing director slot to either China or Brazil or Mexico or India or whatever. I think that will be part of any deal that she and Europe cut with the developing world.

Steve Weisman: The United States has always liked to have the deputy managing director be an American.

Arvind Subramanian: Yes. The US might still [want] that deputy managing director [to be from the US]. The question is whether that person will be the First Deputy Managing Director, primus inter parus, as it were, among all the deputy managing directors. But I think the whole process, if it works out in favor of Christine Lagarde, the US comes out of it not too badly. If the US were to be forced to take sides, especially against Europe, there would be greater pressure on the US to have to give up its own monopoly over the managing director slot over the World Bank.

Steve Weisman: The presidency.

Arvind Subramanian: The presidency, if this thing works itself out in the way that it is.

Steve Weisman: Arvind, thank you.

Arvind Subramanian: You’re welcome Steve.