

**Statement by Dominique Strauss-Kahn to IMF Executive Board**

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**Mr. Dominique Strauss-Kahn, a candidate for the position of the Managing Director of the International Monetary Fund (IMF), issued the following statement to the IMF Executive Board on September 20, 2007:**

Ladies and gentlemen, members of the Board,

First, let me thank you, Mr. Dean and Directors, for having invited me to give formal consideration to my candidacy. Since our last informal meeting I have made public declarations and, more recently, I published an article in the Wall Street Journal, in which I summarized my key ideas. I would like to come back in a more detailed and comprehensive way on some points.

Following the decision of the Board to allow a long period of candidacy with a view to having an open and transparent process of selection based on merits and regardless of nationality, I decided to visit as many members as possible. I tried to focus on emerging, developing and less developed countries in order to collect information, complaints and wishes about the future of the IMF. After a 60,000-mile long journey, I was struck by the realization of the extent to which the institution is at a crossroads. Indeed, what might be at stake today is the very existence of the IMF as the major institution providing financial stability to the world, a global public good. In sum, the two main issues are relevance and legitimacy.

Let's start with relevance.

The IMF's mandate has not changed much since the 1940s. Its mission, as always, is to facilitate growth and to promote employment by ensuring the world's financial stability. But the context has changed, and at a time of rapid globalization such as ours, its role is more essential than ever. The IMF was founded to deal with current account crises, in which exchange rate problems appeared to play a crucial role. Since the 1990s, however, a new kind of crisis emerged, linked to capital account weaknesses. Nowadays, exchange rates still have a considerable impact on financial stability but this impact is much more complex and any attempts to ensure financial stability cannot be considered in isolation from other essential factors, such as the role of investment flows, emerging new actors or new structured products. In our world, financial stability and macroeconomic stability are closely interlinked, as they also are a key determinant of the broad concept of security. All of this means that the IMF should retain a central role in a context that is completely different from the one which prevailed when it was created.

A lot has already been done in the last years to reform and adapt the Fund. Still, the task of the next MD is to go on rebuilding the credibility and the efficiency of the Fund.

Surveillance first (i). Some progress has been achieved to enhance the effectiveness of the Fund's surveillance on sustainability of balance of payments positions and on disruptive exchange rate movements. The revision of the 1977 decision rightly adapts the framework of surveillance to a world of diversified exchange rate regimes and narrow integration of domestic and international stability, and we have to implement it in a consensual and fair manner.

Beyond balance of payments positions and exchange rates, the whole notion of financial risks has to be reconsidered, including their nature, distribution and backing. Some progress can be highlighted in that domain too: standards and codes initiative, international code of good practices, etc.. But this is not enough.

We need to make strides on the work initiated within the Medium-Term Strategy to increase synergies among all kinds of surveillance activities and include where relevant, at the heart of the Article IV, an analysis of financial sector stability and of the impact of financial sector stability on macro performance. We also need to place greater focus on our multilateral surveillance of financial sector issues and of the spillovers of market instability episodes among countries. To achieve this, generalizing the FSAP is certainly a first step. Beyond that, we need to pursue current initiatives to better integrate multilateral and bilateral surveillance, namely by taking into account the balance sheet linkages. This, consequently, leads us to consolidate the recent merger of the monetary and capital markets departments in order to strengthen the MCM department.

The different lending instruments (ii) the IMF uses when needed have to be modernized and the crucial question of conditionality, which has been at the center of many polemics, needs to be reconsidered focusing on what is really relevant for the success of a program. In this respect, the RAL appears to be an interesting instrument to be looked at.



As a Frenchman, I will not surprise you by saying that the Fund should remain committed in low-income countries. By LICs, I mean of course Africa, but also other parts of the world, including in Latin America and in Asia. Obviously, poverty is a complex phenomenon and the Fund alone cannot address this issue. That is why more than ever, the Fund needs to work very closely with other partners, and especially the World Bank. This is the condition of the Fund's relevance vis-a-vis the poorest countries: a focused expertise and targeted tools to deal with the specific challenges in LICs. In particular, I was struck in my meetings with representatives from developing countries by their request for technical assistance which they do appreciate, even though some improvements are always possible, especially in connection with the World Bank.

At least point (i) and to a certain extent point (ii) imply a better connection of the IMF with countries of systemic importance. In the coming years, financial stability may depend as much on what is done in those countries (including industrialized countries) as on imbalances in the rest of the world.

Last but not least, the staff, which is obviously the Fund's main asset, has to adapt to the changing world. I would like to share a few questions for your consideration: can we continue to have a staff that spends its whole career in the Fund? Or should we promote a more diverse career for the staff by encouraging mobility outside of the headquarters and enhancing the program of hiring of mid-career professionals, including those with market and policy-making experiences? We should also look at the question of those regions that are largely underrepresented in the staff. This of course cannot be done at the expense of the quality of staff.

To rebuild the Fund along these lines implies to renew the income model of the Fund. In my view, most of what has been recommended by the Crockett report is sensible, it means changes on the income side. Two of the Committee's recommendations could by themselves help us deal with the Fund's income challenge in a sustainable way, while taking into account its renewed role as provider of global public goods : the proposal to invest part of the quotas and the proceeds of a limited part of gold assets of the Fund.

Increase in revenue cannot obviously be the only solution; the remedy to current difficulties in the Fund will equally rely on a more efficient budgetary system ensuring that we have a better control of expenditures.

Of course, these recommendations must be discussed carefully by the Board. If I am selected, this is the kind of decision that I will take in full partnership. I will need all your support and consent. Let me tell you that it is my intention to lead the institution as a consensus builder with full respect of the Board. All these changes cannot happen overnight. Part of this has already been undertaken, a lot remains to be done. But regaining a role of leadership in providing financial stability to the world in a context in which the risks are totally new, adapting our lending tools and programs to a changing world taking into account the new balance of power, improving our technical assistance, and putting the staff in a better position to be fully able to do its duty, are the conditions for the IMF not only to thrive but even to survive.

Relevance is obviously necessary, so is legitimacy.

At his first meeting to the Fund, Keynes called the Bretton Woods twins, Master Fund and Miss Bank. He said they would receive three gifts the first of which was a many-colored coat "as a perpetual reminder that they belong to the whole world".

Most emerging, developing and less developed countries do question the legitimacy of the Fund. Part of the problem is the highly debated question of quotas. But solving the quota question, even if absolutely necessary, will not solve the whole question of representation. Who can believe that a change in some percentage points will be enough to rebuild the legitimacy of the Fund? In no way should this argument be used to delay reform. But reform cannot stop with a change in quotas. Voice and representation of most countries in a changing world have to be better taken into account by the Board, but also by the Staff - the diversity of which has to improve, as well as by Management.

I have given the example of a double majority system (quotas and chairs) as a way to better ensure that key decisions command the appropriate level of consensus. While I don't think any institutional change is mandatory, I can nevertheless make a commitment to consider that any decision not likely to obtain the support of a qualified majority of chairs should be delayed by the MD.

The question of legitimacy is at the core of the different proposals of regional institutions. I am convinced that the key to understanding the economic and financial debates which currently dominate the news is that we must find a multilateral approach to our problems. This renewed approach towards multilateralism does not mean that other approaches are to be turned down, and indeed, as an unflinching instigator of the euro, I welcome the various initiatives aimed at promoting regional integration. But these initiatives will be even more successful if they maintain a strong link with the IMF itself, which remains a central institution regarding crisis prevention and

resolution, even if much can be improved, such as enhancing the cooperation of the Fund with other multilateral institutions.

The last point with legitimacy is the legitimacy of the MD.

I have said that all these changes cannot take place overnight. It is a fascinating task to give the Fund its right place. This task needs at least a five-year term to which I commit myself.

The MD is the voice of the organization and needs to represent organization as a whole. Everybody here is aware of the debate on the so-called agreement between the US and Europe. This agreement is probably less and less defensible and the MD has to be chosen on merits without any reference to his or her nationality, as you pointed out in July. From this point of view, isn't it ironic that both candidates today are Europeans? It is because the next MD has to be backed by the whole organization that I decided to travel around, visiting a lot of members, listening to them and learning from them. This is also the reason why I am asking for broad support from the Board. I don't want to be the candidate from the North against the South or from the wealthy against the poor. First of all because it is not what I believe in. And second, and more important, because the Fund would be doomed to fail.

Let me say clearly to conclude, that if you select me as the next Managing Director, I intend to fulfill the three key duties of the MD: to chair the Board and ensure that the MD is a consensus builder, to work with the staff and to lead it, and to represent the institution as best I can.

In a nutshell, the decades to come will bring numerous new financial risks. I believe in multilateralism and I think that to help the world to benefit from globalization we need a more influential IMF not a less influential one.

Such an institution may provide the public good of a dispassionate and independent analysis of the spill-over effects of one country's policies on others. As countries are reluctant to cede any control over their economic policies, the IMF must have as instruments the power of analysis and persuasion, and, in Keynes' own words, ruthless truth-telling.

It will be a hard task for all of us to rebuild both the relevance and the legitimacy of this organization. But I am prepared to do that and I ask you to be prepared as well. An institution like the IMF is priceless. It would probably be impossible to create such an institution today. The IMF is a gift of the past; let's make the IMF a promise for the future.

IMF EXTERNAL RELATIONS DEPARTMENT