



Strauss-Kahn Takes Over as New IMF Head

This article is an excerpt from the IMF Survey Online article and Dominique Strauss-Kahn's statement to the IMF Executive Board, outlining his vision and strategy for the future.

Former French Finance Minister Dominique Strauss-Kahn began his job as the new IMF Managing Director on November 1 determined to put fresh vigor into reform of the 185-member institution that oversees the global economy.

He was welcomed with a handshake at the front door of the IMF by outgoing Managing Director Rodrigo de Rato, who had announced his resignation last June.

Strauss-Kahn says that he will press ahead with reforms initiated by de Rato, particularly changes to give a stronger voice within the institution to major emerging market and low-income countries.

He takes over amid worries about

the impact on the global economy of fallout from the meltdown of the subprime mortgage market in the United States and continued con-



Strauss-Kahn (left) welcomed to IMF headquarters by de Rato on new Managing Director's arrival for first day of work as IMF head.

cern about the possibility of the rapid unwinding of global imbalances and the effect on major currencies.

The latest IMF-World Bank An-

nual Meetings, held last month, coincided with a watershed in global economic growth. Three major emerging markets—China, India, and Russia—now account for more than half of world growth, according to the just released IMF *World Economic Outlook*. This development puts into sharp focus the intended reform to give emerging markets a bigger say at the IMF, where representation, as with many international institutions, still largely reflects a post-World War II balance of power.

Managing Director for reform

Strauss-Kahn, who has declared his intention to be a reforming managing director, underscores

that the IMF faces questions about its own relevance and legitimacy. In an interview, he said that some countries were questioning the usefulness of the Fund, given that they have enough foreign exchange reserves not to have to be dependent on the IMF.

As for legitimacy, he stressed that “the institution has to be owned by its 185 member countries, but “as

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The Bretton Woods Committee is a nonpartisan group of distinguished citizens dedicated to increasing understanding of the World Bank, IMF, WTO and the regional development banks (the so-called Bretton Woods institutions) and efforts to spur economic growth, alleviate poverty and improve financial stability.

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**Strauss-Kahn Takes Over
from cover**

everybody knows, some countries and some parts of the world feel themselves not well enough represented.”

A process to give emerging market countries and developing nations a louder voice in the running of the Fund is already under way as part of an overall reform strategy approved in 2005 to modernize the work of the multilateral institution. After an initial round of ad hoc increases announced at the Annual Meetings in Singapore in 2006 to enhance the voice of four dynamic economies that were clearly underrepresented (China, Korea, Mexico, and Turkey), the IMF has now embarked on the second and more far-reaching phase of the reform process, with completion envisaged by fall 2008.

But Strauss-Kahn said legitimacy went beyond the issue of representation, known as quota and voice. “It’s a question of diversity of staff, and of how much emerging market and low-income countries are taken into account when important decisions are made.”

IMF as stabilizer

Strauss-Kahn, a former member of the French National Assembly and Professor of Economics at the Institut d’Etudes Politiques de Paris, said the IMF needed to be involved in helping to ensure that globalization worked in the interests of people around the world.

“I won’t say that globalization is good for everybody because there’s always people who will suffer from inequality and poverty,” he said. “But at least we can try to make globalization better for everybody.”

This would be important in helping to maintain international stability and security, he stated.

Income and expenditure

Strauss-Kahn said that he would make solving the IMF’s income and expenditure problems a priority. The IMF has traditionally paid for its operations from interest earned on its lending. But, as financial crises diminished in the first half of the decade and borrowers repaid the Fund the large loans they had earlier taken out, the IMF began to look for a new income model that would make it less dependent on revenue from lending to run the institution of 2,700 employees based in Washington, D.C.

The IMF Executive Board is now considering an alternative income model for the Fund. But Strauss-Kahn said that examining expenditure would also be important.

He was determined, he said, to restore a strong role for the IMF. “That’s why I’m really excited to work with you in the coming days and the coming weeks to give the Fund the role it deserves in globalization,” he added.

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Dominique Strauss-Kahn's statement to the IMF Executive Board

Relevance

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

ferent 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 unflagging 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.

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.

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 dif-

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.

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. **BWC**

For the full article and complete speech transcript, please refer to <http://www.imf.org/external/pubs/ft/survey/so/2007/NEW111A.htm> and <http://www.imf.org/external/np/sec/pr/2007/pr07197.htm>

Government spending legislation is caught in a partisan tug of war between the Republican White House and the Democratic Congress. Five weeks after the start of 2008 fiscal year, not a single appropriation bill has been sent to the President for signature. The President has issued veto threats against eight of the twelve FY-08 spending bills, charging excessive spending and too many pork barrel projects. Congress' Democratic leadership is attempting to craft individual bills into packages that will force the President to sign legislation incorporating their priorities. The outlook is uncertain to say the least.

The foreign assistance spending bill is caught up in this maelstrom. The Foreign Operations Appropriations bills passed in the House and Senate both incorporate

almost all of a \$3 billion spending increase sought by the Bush Administration. However the two Houses have yet to meet formally to reconcile differences, and there are reportedly no plans to move forward on a formal conference committee now.

Most experts think that in coming day Congress will enact another continuing resolution to keep the government running through mid-December and that a final, comprehensive, year-end omnibus appropriations bill containing remaining spending measures will be fashioned before Christmas. Foreign assistance spending is sure to be in this package, and there is some concern that pressure to reduce spending could lead Congress to cut foreign assistance funding in the end. **BWC**

FY 2008 INTERNATIONAL AFFAIRS SUMMARY

(\$ in millions)	FY 2007	FY 2008 Request*	House Passed	Senate Approps. Comm.
Debt Restructuring	64	207	200	200
Global Environment Facility	79	107	107	107
International Development Association	941	1,060	950	1,000
Multilateral Investment Guarantee Agency	0	1	0	0
Asian Development Fund	99	134	115	90
Asian Development Bank	0	0	0	0
African Development Fund	134	141	136	105
African Development Bank	4	2	2	2
European Bank for Reconstruction and Development	0	0	0	0
Enterprise for the Americas Multilateral Investment Fund	2	29	25	25
Inter-American Investment Corporation	0	7	0	0
International Fund for Agricultural Development	15	18	18	18

* The President's request, as re-estimated by CBO

On October 20-22, the World Bank and the IMF held their Annual Meetings in Washington, DC. Leading up to the meetings, World Bank President Robert Zoellick outlined his strategic priorities and emphasized the need for more inclusive and sustainable globalization. IMF Managing Director Rodrigo de Rato covered issues surrounding the recent financial turbulence. Some key points that emerged during the meetings included:

IMF

- The Fund projected that tightened credit conditions and market turmoil will continue to impact markets for some time. Although the IMF does not expect negative growth in the coming months, further slowdown may continue to affect the global economy.
- Role of developing countries will be increased in the IMF's decision-making process. The IMF will continue to increase its total quota with at least a doubling of basic votes to allow increased vote share for emerging and developing countries.
- Representation of dynamic economies will be enhanced as their weight and role in the global economy continues to increase.

World Bank

- Treasury Secretary Paulson endorsed the World Bank as a valuable institution for addressing and combating global poverty. However, he called for a decrease in funding to middle income countries, notably China and India.
- The Global Emerging Markets Local Currency Bond Fund (GEMLOC) was created to invest \$5 billion in emerging economies' local currency bond markets. Initial investments will target 15-20 countries.
- Developed countries were encouraged to reform their agricultural policies to aid developing economies.

WTO

- WTO Director-General Pascal Lamy warned its members that few weeks remain in the ongoing Doha Round of trade talks. He encouraged working towards a breakthrough measure in the negotiations. **BWC**

From the World Bank and IMF Annual Meetings 2007



IMF/World Bank Opening Plenary Session at the DAR Constitution Hall on October 22, 2007 in Washington, DC.



Agustín Carstens and Robert Zoellick congratulating Rodrigo de Rato at the end of the Development Committee press conference before Rodrigo de Rato steps down as IMF Managing Director.

The World Bank

World Bank's Pledge towards IDA 15 & Reduction of Loan Costs

World Bank President Robert Zoellick announced sizable World Bank contribution to the 15th replenishment of the International Development Association (IDA 15) and a new measure to simplify and reduce loan costs for middle income countries.

Zoellick said, "By boosting its IDA pledge by over 100 percent, the World Bank Group is putting its money where its mouth is. This should help us gain momentum as we urge donor countries to increase their commitment to help the 81 poorest countries especially in Africa, through an ambitious IDA 15 replenishment."

The World Bank Group will contribute a record \$3.5 billion from its income towards IDA 15 in an effort to provide grants and credits for the world's poorest countries. This pledge is double the \$1.5 billion pledged by the World Bank Group to IDA 14 in 2005. Furthermore, the amount pledged is funded equally by the income of the International Finance Corporation (IFC), the private sector wing of the World Bank Group and the International Bank for Reconstruction and Development (IBRD), which lends at market rates to 19 creditworthy low and middle income countries.

In an effort to expand private sector investments in developing countries, the World Bank Group hopes to deepen the connection between the IFC and IDA. Some areas of cooperation include public-private partnerships in infrastructure finance particularly surrounding energy, water, agriculture, transportation and telecommunications in developing countries.

In addition to the IDA 15 pledge, the Board of the World Bank approved the biggest simplification and reduction in loan charges in nine years for the clients of the IBRD. This important step fulfills a commitment made at the 2006 World Bank/IMF Annual Meeting in Singapore, where the World Bank management promised to review IBRD loan pricing at the request



of borrowing countries.

The World Bank announced that the loan charge reduction and transfer to IDA "reflected the need to leverage the financial strength of the World Bank Group as a whole to overcome poverty and build inclusive and sustainable growth," and to "make the most effective use possible of the World Bank Group's strong capital position to address the needs of our partner countries." **BW**

The WTO

Service Industry Back in Focus as Pascal Lamy Urges Acceleration of Negotiations

In a recent speech at the London School of Economics WTO Director General Pascal Lamy underscored the need for greater market access by services industries and described a modern services infrastructure as critical to development. Service industry issues are small but very important part of the Doha discussions. “The negotiating reality of the Doha Round is that agricultural subsidies, agriculture tariffs and industrial tariffs are the gateway issues to the rest of the Doha Round package.

Lamy presented three main perspectives:

1. Services are the fast speed highways for trade: Modern enterprise depends on telecommunications, legal, accounting, computing and other services.
2. Travel and transport services are key to international economic integration: Successful trade depends on efficient and expedient travel and transport services.

As technology has given way for rapid advances in digital and communications technology, *Lamy described this era as the “age of services revolution.”* This progress has reduced the obstacles of time and geography and helped pave the way for a new global services economy.

Without settling these we simply cannot progress to the final stage of the Doha Round. This does not mean that the services negotiations are not equally crucial, not least because until everything is agreed, nothing is agreed.”

As technology has given way for rapid advances in digital and communications technology, Lamy described this era as the “age of services revolution.” This progress has reduced the obstacles of time and geography and helped pave the way for a new global services economy. Lamy reports that in 2006 world exports of services totaled nearly \$2.8 trillion, an estimate which does not account for additional services outside of the purview of international trade statistics as defined by the GATS. Today, the WTO estimates more than half of foreign direct investment flows are in services.

3. An inefficient and costly services infrastructure hampers overall economic growth: Most industries, from agriculture to manufacturing, depend on access to efficient and cost-effective services.

In comments directed at service industry representatives, Lamy lamented the lack of political attention by governments to the services negotiations. He urged services companies to use their influence to achieve a breakthrough. “You, as representatives of the services industry, can play a key role in mobilizing the political energy to resolve this problem. We cannot allow ourselves to be distracted at this critical moment and must maintain our focus fully on substance, accelerating the pace of work in the days and weeks ahead,” he said. **BWC**

The IMF

Global Financial Leaders Call for Strengthening of Multilateral Institutions and IMF Reform

Against a backdrop of recent market turbulence Finance Ministers and Central Bank Governors from around the world called for a strengthening of the IMF and its governance structure at their recent Annual Meetings. Global financial leaders expressed concern about the fallout from the U.S. subprime mortgage meltdown, which the former IMF Managing Director Rodrigo de Rato dubbed as “an earthquake in the credit markets.” Delegates also focused on the remarkable strength of the three major emerging markets – China, India and Russia – which account for more than half of current world growth and on the question of increasing emerging markets’ representation in the IMF.

Discussions centered on what lessons could be drawn from the recent turbulence; the global economic and financial outlook; and the agenda for the IMF going forward. The policy guiding committee of the IMF, the International Monetary and Financial Committee (IMFC), proposed five main areas to be addressed:

1. Risk management practices related to complex structured products;

2. Valuation and accounting for off-balance sheet instruments;
3. Clarifying the treatment of complex products by rating agencies;
4. Addressing basic principles of prudential oversight for regulated financial entities; and
5. Liquidity management.

The IMFC encouraged the IMF to increase its financial expertise to identify and to effectively address future market and financial issues. The Committee also focused on IMF’s two year program on quota reform, voicing concern over the likelihood of the change taking place in the near future. However, an agreement was reached on the need for the shift in voting shares towards emerging and developing countries; the quota reform would entail a 10% increase and at least a doubling of basic votes for low-income countries. A final consensus on the reform is expected for the fall Annual Meetings in 2008. **BWC**



African Finance Ministers Christina Duarte of Cape Verde (far left), Abou-Baker Traore of Mali (second left), Shamsuddeen Usman of Nigeria (second right) and Zakia Meghji of Tanzania (far right) speaking during a press conference on October 20, 2007.



16th meeting of the International Monetary and Financial Committee (IMFC) on October 20, 2007 at IMF Headquarters in Washington, DC.

International Council 2007

Luncheon for Global Financial Leaders, Washington, DC

On October 22, The Bretton Woods Committee held its Annual International Council *Luncheon for Global Financial Leaders* at The Stephen Decatur House Museum in conjunction with the World Bank/IMF Annual Meetings. Key luncheon speakers included: President of the European Central Bank Jean-Claude Trichet, Managing Director of the World Bank Graeme Wheeler and First Deputy Managing Director of the IMF John Lipsky. The luncheon hosted around eighty international leaders and some distinguished U.S. citizens including Paul Volcker and James Wolfensohn.

Council Chair **Richard Debs** welcomed International Council members and introduced the speakers. **Paul Volcker** spoke of the increasing challenges facing multilateral institutions. He emphasized the importance and continued relevance of these institutions and the need for stronger U.S. and international support.

John Lipsky reviewed the IMF's Mid-Term Strategy Reform and its principal elements: strengthening multilateral and bilateral surveillance; renovating approaches to crisis prevention; and reforming the income model of the IMF to reflect the changes taking place globally.

Graeme Wheeler reported on the great optimism prevalent within the World Bank and the positive momentum that has taken place under the new leadership of President Robert Zoellick. Wheeler presented the current theme for the World Bank: Inclusive and Sustainable Globalization and discussed the primary challenges in the way of meeting this goal. He noted that there are a billion people excluded from the economic equation, often living in landlocked countries with unstable countries as their neighbors. He said the globalization process is passing these countries by, and this is particularly so in sub-Saharan African countries.

Jean-Claude Trichet spoke of the importance of maintaining strong multilateral institutions and the need for a stronger institutional framework. He disagreed with arguments

questioning the relevance of the IMF and argued that the IMF continued to be an important global financial institution. He also emphasized the need for continued American support for these institutions. He concluded by underscoring what he sees as the importance of organizations like The Bretton Woods Committee and initiatives such as the International Council in help garnering support for these efforts. **BWC**



More Photos from the International Council 2007



Dominique Strauss-Kahn Selected as the New Head of IMF

On September 28, Dominique Strauss-Kahn, a former French Socialist finance minister, was confirmed as the new head of IMF. Strauss-Kahn's only formal competition was Russia's nominee, Josef Tosovsky, former Czech prime minister and central bank governor. Henry Paulson, the US Treasury Secretary, endorsed Strauss-Kahn's candidacy stating that he would "lead a strong and relevant Fund into the future" and make the necessary reforms at the institution.

Since the announcement of his upcoming tenure, Strauss-Kahn has expressed his desire to continue the effort to ensure the legitimacy and relevancy of the IMF in an increasingly globalized economy. He stated in a meeting with French President Nicolas Sarkozy: "We don't need less multilateralism, we need more multilateralism. We don't need less IMF, we need more IMF." In addition, he



emphasized the need for IMF reform and a greater representation of poorer and underrepresented countries as crucial preconditions to the institutions survival.

He pledged to provide support for a greater representation of these developing countries in the IMF's shareholding structure, stating, "I defined myself as the candidate for reform. Now I am the managing director for reform." He also expressed his desire to work more closely and cooperatively with other multilateral institutions, such as the World Bank, WTO and the UNDP, making the IMF take greater ownership for its member

countries' long-term development.

Strauss-Kahn replaced Rodrigo de Rato on November 1 and will serve a five-year term as IMF's managing director. **BWC**

Dr. Ngozi Okonjo-Iweala Appointed as Managing Director of the World Bank

On October 4, World Bank President Robert Zoellick announced his appointment of Ngozi Okonjo-Iweala as the third Managing Director of the World Bank. Okonjo-Iweala joins Managing Directors Juan Jose Daboub and Graeme Wheeler.

Accepting the appointment Okonjo-Iweala said: "I am delighted to be coming back, and I welcome the opportunity to work through this great institution to make a difference in the lives of our youth, and our hardworking men and women in the developing world. I particularly look forward to working with President Zoellick as he maps out exciting new paths for the World Bank Group."

As a Nigerian national, Okonjo-Iweala founded the NOI-Gallup polls, an indigenous opinion research organization. She also co-founded the Makeda Fund, a fund which invests in African women entrepreneurs. Her



previous appointments include positions in the Nigerian government: Finance Minister and Minister of Foreign Affairs of Nigeria and positions within the World Bank: Vice President and Corporate Secretary, Director of Operations in the Middle East and North Africa region and Country Director for the South East Asia and Mongolia Country unit. She is currently a distinguished Fellow at the Brookings Institution. Her appointment as a World Bank Managing Director is effective December 1. In her new position, Okonjo-Iweala will have responsibility for the World Bank's Africa, South Asia, and Europe and Central Asia Regions. She will also take oversight responsibility for Human Resources.

Okonjo-Iweala graduated with an A.B. magna cum laude in Economics from Harvard University, and holds a PhD in Regional Economics and Development from the Massachusetts Institute of Technology. **BWC**



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The Committee continues to update and improve its website. We have been recording most of the 2007 Committee events and meetings making audio and video recordings available online. This feature will be particularly useful for Committee members residing outside of the metro D.C. area. The audio files are available as MP3 (Podcast) compatible format.

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