

Dominique Strauss-Kahn's Long Shadow in Washington

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It's some 250 miles from 2613 Dumbarton Street in a quiet corner of Georgetown to the cell blocks at Riker's Island in New York City, but the psychic distance is much greater. One of the stately Georgian mansions that provide unusual space and privacy in the wealthy Washington neighborhood, Dominique Strauss-Kahn's brick house, valued at \$3.8 million, has a large yard and a professionally tended garden. Nearby, tennis courts and parks provided even more peace for the high-powered head of the International Monetary Fund when he would return from the organization's office just off Pennsylvania Ave. Now, on Rikers Island, Strauss-Kahn finds himself in a 11 foot by 13 foot cell. At meal times, he relies on staples such as white bread and turkey burgers.

But it is not just material differences that produce the starkness of the DSK case. The true cognitive dissonance comes from the contrast between the baseness of the allegations against him and his stature in Washington. Because by all accounts, DSK is not merely the head of a powerful organization, he was its exceptionally talented leader who brought it from increasing irrelevance four years ago to a crucial position in the international system today.

Before the global financial crisis of 2008, the IMF was fading fast. There was talk inside the building of closing the European department — what need was there for Cold War-era macroeconomic oversight or safety nets in the age of the Euro and ever expanding wealth in western and central Europe?

When the financial crisis hit, DSK saw an opportunity to advance both the IMF's institutional relevance and his Keynesian economic outlook. And George W. Bush's decision to bring the crisis under the purview of the G-20 created DSK's first opportunity. The G-7 was always a small enough group with sufficiently common interests that it would sort out policy on its own. DSK saw that the G-20, with its representation of powerful emerging markets from Asia and Latin America, would need an interlocutor to help its members reach agreement, and he launched himself into that role.

DSK also moved the IMF away from the stricter monetarist approach that had tarnished its reputation in the Asian financial crisis to a more Keynesian outlook, advocating expansionary policies in response to the financial crisis. In doing so, he brought the institution, which is famously populated with rather dry and stubborn economists, with him.

A talented negotiator, well-educated economist and lawyer, and an experienced politician, DSK possessed the rare skill set necessary to pull it off. "He can talk the economic talk," says one person familiar with his work at the IMF, "He's a politician who gives the

impression that he knows he has something to say and is powerful. For a politician, he is unusually intellectually effective.”

DSK showed those skills last fall when he managed to convince the European members of the IMF to relinquish some of their share of the organization’s leadership positions to representative from emerging economies like China and India. One person familiar with the negotiations says DSK walked into the room for final negotiations over quotas and after 20 minutes, struck a deal that could have taken all day. “He was extremely efficient.” Not only did DSK extract concessions from the Europeans, but they got nothing in return beside increased credibility for the IMF.

He was also highly respected at the Treasury department. His regular point of contact was Lael Brainard, the undersecretary for international affairs, but he also spoke regularly with Tim Geithner throughout the crisis. “He’s excellent,” says a senior Treasury official, “He has great stature in Europe and is thoroughly conversant in the world of finance.”

DSK’s fall looks to some in France like the shocking and unfair humiliation of a man who had earned a level of protection from such indignities. The idea that someone of his stature, whatever his crime, could be treated as a common criminal is difficult for such famous defenders of the proletariat as Bernard Henri-Lévy, the self-described “public intellectual” and philosopher. Henri-Lévy, a longtime friend of Strauss-Kahn wrote angrily in *The Daily Beast* Monday, “I hold it against the American judge who, by delivering [Strauss-Kahn] to the crowd of photo hounds, pretended to take him for a subject of justice like any other.”

Of course, Americans aspire not to give preferential treatment to the powerful when they are accused of breaking the law. And the fact that in the U.S. system of justice, a “chambermaid” (as Henri-Lévy referred to her) has every right to accuse the powerful head of an international agency, and to have her accusations considered in court, is a point of pride for many Americans.

But despite some florid assertions that DSK’s downfall could ripple out through the international financial scene, officials in Washington generally play down the significance of the scandal. “The reality is he was leaving anyway,” says the Treasury official. Before Saturday’s arrest, the U.S. had assumed that DSK would leave in the fall to begin his campaign for the presidency of France, and the Treasury official says the U.S. had already held several internal discussions about who should succeed him.

The tradition is that Americans get to choose the head of the World Bank and Europeans select the IMF chief. Prior to the scandal, the U.S. had considered pushing someone from the developing world, for example from India, but decided that the French would likely retaliate by trying to replace Robert Zoellick, the current head of the World Bank whose term expires in 2012, with a non-American. Regardless, Geithner is pushing for an immediate replacement for DSK. Responding to a question Tuesday night in New York, the Treasury Secretary said Strauss-Kahn is “obviously not in the position to run the IMF.”

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