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An Inside View of the IMF's Massive Global Influence

Money Is Power

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Three years ago, the International Monetary Fund was irrelevant, an object of derision for all opponents of globalization. Under director Dominique Strauss-Kahn and as a result of the global economic crisis, the IMF has since become more influential -- governing like a global financial authority. It is also putting Europe under pressure to reform.

The building that houses the headquarters of the global economy is a heavily guarded, 12-story beige structure in downtown Washington with a large glass atrium and water bubbling in fountains. The flags of the 187 member states are lined up in tight formation.

Visitors walking into the office building find the cafeteria on the right, where many meetings are held. There, experts in their shirtsleeves, their jackets draped over the backs of chairs, drink lattes out of paper cups and talk countries into crises or upturns. A little farther down the hallway is the Terrace, the IMF building's upscale restaurant where the director receives official guests.

On a Tuesday afternoon in late September, as the first leaves are falling from trees outside, the director, wearing a blue suit and a blue tie, is sitting on a blue couch high up in his office at the headquarters of the International Monetary Fund (IMF), outlining his idea of a new world. Some of it already exists, in the form of a new world order established in September 2008 to replace the one that was collapsing at the time. The result wasn't half bad -- but it is robust?

'The Money Is The Medicine'

These are important times for humanity. The crisis has forced everyone to see many things from a new perspective. Now the IMF is preparing for its annual meeting on Oct. 8. Can it live up to expectations, and can it police the new global economic order and keep global banks in check?

"You have to imagine the IMF as a doctor," says Dominique Strauss-Kahn, the 61-year-old director of the International Monetary Fund. "The money is the medicine. But the countries -- the patients -- have to change their habits if they want to recover. It doesn't work any other way." He smiles benevolently as he says these things, his eyes disappearing behind small cushions of wrinkled skin.

The IMF, says Strauss-Kahn, warned the world about the collapse and about the American real estate bubble and its consequences, but "politicians don't want to hear bad news." And when the crisis arrived in the fall of 2008, as predicted, it took the old world -- Europe, which always takes six months to make a decision -- too long to react.

That was the time when the world was laying the foundation for a new order.

The New World Order

There are two telephones to Strauss-Kahn's left and two to his right. The room has high ceilings, beige carpet and white curtains. An old clock and books about Mexican painting stand on the bookshelf. The IMF's director is sometimes referred to as DSK, which makes Strauss-Kahn sound like a three-letter brand like IMF or USA, and yet he speaks English with a soft French accent.

DSK leans back in his chair, weighing his words, glancing at the audio recorder and smiling. The new world order? Well, let's talk about it, he says.

Countries like China and India are becoming important, countries with rising markets that have long been stable and are clearly powerful. Whenever he is in China or other parts of Asia, says Strauss-Kahn, the leaders there tell him that they have written off Europe for now. "They say they want a strong Europe, but there is always one part of the world that is lagging behind. They say that in the past it was them, and now it is Europe. It's a shame, but the world can live without Europe."

The new world could be a frightening place. The IMF director says: "The Europeans still believe they are the center of the world, but in reality this is not clear any longer. Currently, the question is whether Europe will remain a participant in a game with many players -- that is not necessarily a given."

The Rise of the G-20

The United Nations will probably become less important; the organization is far too slow-moving and sluggish. And, if one understands DSK correctly on this point, the importance of the United States -- that egomaniacal country which is incapable of action -- will also decline. Of course, Strauss-Kahn would never speak in such terms, but he does point out that it was the United States that reacted to the 2008 crisis, not with a long-term view, but bank by bank. "They tried to solve Bear Stearns first, and then Fannie and Freddie, and really believed that each hurdle was the last one," he says.

What will become important, however, is the G-20, that coalition of the strongest economies, the center of power in a new world. The G-20 gave the IMF $850 billion (€620 billion) and the mission to solve the crisis. What followed, says, Strauss-Kahn, was "the biggest global coordination ever."

Does this mean that the IMF became the first post-crisis world government?

Strauss-Kahn stretches when he hears the question, and pauses for 20 seconds before responding. He is an elegant man, a white-haired Parisian with three deep furrows in his brow, who smiles slyly and flirtatiously. He is a ladies' man, not particularly tall and even a little stooped.

Solving Global Problems

Sitting in his cool office, a room that smells of fresh flowers, he says: "No, no, the government has to consist of elected people, and that's more like the G-20. But the reality is the G20 -- or any other grouping -- doesn't operate like a government. Their willingness to work together was very strong during the crisis, but frankly I think it's fair to say that it's decreasing. The more leaders and finance ministers believe that the crisis is over -- even if they are mistaken -- the more they are concerned about their own problems and less so about coordination and consensus."

In Strauss-Kahn's view, the IMF should become an administrative unit of sorts for the G-20, an agency that "tries to find solutions for global and national problems," and comes up with plans and create values. "In the end we aim at much more than just the right financial and economic policies. The ultimate goal, of course, is world peace through economic stability." This is the way Strauss-Kahn views his organization, and the astonishing thing is that hardly anyone, with the exception of a lone professor in Boston, disagrees with him anymore.

The IMF, of all organizations?

From Capitalist Mean Machine to Think Tank

It has become increasingly clear in recent years that multilateralism doesn't work. It's a failure because the UN has a bland secretary-general and is always showing up in the wrong place and at the wrong time; and because not even climate conferences can achieve the desired objectives, even though only the most pig-headed still have doubts about climate change.

For a long time, the IMF seemed the least capable of doing everything differently and more effectively. It had been damaged since the Asian crisis in the 1990s. Some 400 were let go, and they were paid one month's salary in compensation for each year of service. By the time Brazil had repaid the last of its loans, only very small borrowing countries remained. The fund had become irrelevant.

DSK came to Washington in 2007, after having been nominated by French President Nicolas Sarkozy. The two men had been rivals, but now France was strengthened and Strauss-Kahn disposed of -- a diabolical plan on Sarkozy's part, as it seemed.

In 2007, the IMF had only $2 billion in lending commitments on its books -- an amount best described by the word "peanuts." Today that number has jumped to $195 billion. At the 2008 annual meeting of the World Economic Forum in Davos, Strauss-Kahn called for a global stimulus plan. It was a shocking idea, given the IMF's history of reacting after a crisis and never taking preventive action. Now the IMF had about $900 billion at its disposal -- up from $250 billion before the crisis -- enabling it to intervene quickly anywhere in the world.

The central question could be whether the IMF has what it takes to serve as a global economic government. There are some indications that it does. They include the collective experience of 122 banking crises Strauss-Kahn has counted since the establishment of the Fund, as well as the fact that there is no other institution that understands the sometimes productive and often destructive interactions between real economies and their tax laws, on the one hand, and modern Wall Street, with its investment banking, on the other, as well as the IMF and its staff of technocrats do.

Writing the Rules

The organization has changed. "We have learned that in order to be really effective, we need the people of the country we're engaged with to understand what we are doing," says Strauss-Kahn. The IMF, once a capitalist mean machine, has turned into a think tank that employs what Fund staffers call "soft power."

Is this enough? The IMF has hardly any sanction powers. And what happens after the crisis? Should the IMF simply receive more authority? How would it be legitimized? The United States, which wrote the rules in 1944 and had the representatives of other countries sign their names to a document some didn't even understand, has veto power on key decisions. Will poor countries fall by the wayside if the IMF coordinates global financial policy in a way that suits the G-20?

SPIEGEL's journey of discovery into the world of the IMF lasted 10 weeks. It began in Washington, and then led to Hungary, Greece, Oslo, Brussels, Boston, New York City and back to Washington, where the Fund is headquartered, on the corner of H Street and Pennsylvania Avenue.

In the beginning, the IMF didn't even bother to refuse interview requests. The organization doesn't simply open itself up to visitors; it has been criticized too much in the past. Then, Strauss-Kahn decided to open the doors, and from that point on there were no more barriers or taboos. The only rule was that most interviews were to be conducted off the record, and quotes had to be submitted for authorization. The IMF isn't cowardly: During the course of the 10 weeks of research, only one quote was retracted by an interview partner.

Members of an Exclusive Club

The IMF headquarters building is a labyrinthine world of fluorescent light, potted plants and identical floor lamps, a world of numbers focused on computers, and that generates relatively little paper. Each department decides how its members should dress. The German office requires suits, while a shirt with no tie is sufficient in the team of adviser Olivier Blanchard. IMF employees get to work early, at about 7 a.m., and go home late, and they keep their BlackBerrys next to their beds, with the sound muted. The IMF never rests. "We will feel the effects of the last crisis until the next one begins," says Strauss-Kahn.

IMF salaries range from $40,000 (for entry-level employees) to $400,000 (for Strauss-Kahn). Non-US citizens pay no income taxes, which makes the IMF an attractive employer. Few people leave their IMF jobs. They feel like members of a club that divides itself up into smaller sub-units during the few hours of leisure time, clubs of soccer players, photographers and cooks. When IMF people are asked why they are still there, after all the failed missions and all the malice that has been directed at them, they say: "Because we have real impact."

John Lipsky, an American citizen, is the second-most powerful man at the fund, the first deputy managing director. He says that one can "think the unthinkable here. This is an organization where real pioneers were at work. As long ago as 1944. In the seventies. And again today. What we have to do at the moment is without parallel." It is considered an achievement by DSK's team that the Frenchman defines the fund as being "subtly independent" and doesn't see the American with the twirled moustache as a minder sent by the US central bank, the Fed, but as an equal-ranking, or at least almost equal-ranking, thinker.

Entire Nations at Stake

Crises can be addictive. Roger Nord, senior adviser for Africa, came to the Fund in 1983. He spent time in Hungary, the former Czechoslovakia and Nepal, was there during the Asian financial crisis, and now wants to save Africa at a time when the Fund is chiefly concerned about Europe and the United States. Poul Thomsen, a blonde native of Copenhagen, started working for the IMF in 1982, on the day Mexico went bankrupt. In 1987 Thomsen went to Eastern Europe, where he witnessed the borders coming down. He later rescued Iceland, before he was sent to Greece to reeducate an entire nation to live a life without corruption and tax evasion.

These are the kinds of dimensions that the IMF works with. Entire nations, continents, millions of people and billions of dollars are at stake. In the end, all it takes to change the world is a few strokes of a pen or adjustments to the limited number of instruments that economists recognize: monetary and interest rate policy, the tax system and employment, government borrowing and foreign trade, national products and price trends.

No one knows how all of these things are interconnected. There are scientific certainties, but not many, and then there are probabilities, assumptions, opinions and trends. The IMF has to turn these concepts into programs, commit itself to figures and percentages, and to instructions to governments. In doing so, it resembles a circus artist juggling balls and frying pans and chairs and teacups, all at the same time. If everything remains suspended in the air, the outcome is a perfect state. If pans or teacups crash to the floor, the result can be civil war -- or at least a need to rethink strategies.

Instant Flows of Cash

Some 2,400 people work for the Fund, most of them in Washington, but there are also small offices around the world, with three or four people working in each country. If Iceland becomes insolvent, it can apply for a loan, for hard currency and for a subsidized interest rate that can be as low as 5 percent. Things have to happen quickly, too. The field team, as it's called, submits reports, a team in Washington writes a rescue plan, and Iceland approves it. The IMF's Board of Governors confers on the issue and decides whether the plan will work. With the press of a button, $168 million is sent to Reykjavik, arriving there seconds later. This is what distinguishes IMF decisions from many multilateral decisions: the immediate flow of cash.

Then a team from Washington follows the money to Reykjavik, where it advises and keeps a close eye on the Icelanders. This goes on for months, because the new emergency program, known as the "Flexible Credit Line" -- money provided with no strings attached -- increases the risk for the Fund. Will this money ever be repaid?

'I Had to Look Up Terms on Wikipedia'

Olivier Blanchard is considered to be the brain of the organization. A slim, soft-spoken man, he is sitting in his office, room number 10-700 H, with the top two buttons of his shirt undone. Blanchard is a macroeconomist and one of DSK's top advisers. A Frenchman like Strauss-Kahn, Blanchard is not a politician but a product of the University of Cambridge. He has two positions at the Fund: economic adviser and director of the research department.

He talks about how, at the beginning of the economic crisis, they sat in their offices, speechless with amazement, and tried to understand what tricks Lehman Brothers and others had employed to bring about their own demise. "It was a fulltime job. In the beginning I had to look up terms like 'CDO squared' on Wikipedia," he says with a chuckle.

Then the crisis escalated, and it gradually became clear that Africa, Iceland and many others needed help. "That's when we became part of the game," says Blanchard, "and what I may have been able to add was a widening of understanding of what was happening: This is not a standard recession. These are very complicated developments that are asking for complex solutions, and broad thinking."

Blanchard is an astute academic who admires Strauss-Kahn for qualities he probably prefers not to find in himself: "The Machiavellian side. Without the darkness. He is Machiavelli without the shadow, do you know what I mean?"

How the Americans Got Their Own Way

If anyone ought to know what has truly changed at the Fund, it is James Boughton. An elderly man, he sits in his office, surrounded by his books, off a deserted hallway lined with empty offices on the fifth floor.

Boughton talks about 1944 and the establishment of the World Bank and the IMF in Bretton Woods, New Hampshire, when the images of the war were still omnipresent. The idea was that free trade would prevent new wars from breaking out, and the Fund was intended to "facilitate the expansion and balanced growth of international trade," as the IMF's articles of agreement put it.

But there was more to it, of course. The British wanted the organization to be headquartered in New York, but the Americans, who preferred to keep it closer to their seat of government, got their way. The Fed, the major Wall Street banks and the White House treated the Fund as a tool of American policy. During the Cold War, IMF loans were contingent on compliance with Washington's political agenda. For decades, neoliberal economic theory was the only true theory, and it preached raising taxes, reducing subsidies and liberalizing markets.

Dominique Strauss-Kahn is publicly portrayed as the man who transformed the Fund. But inside the Fund they say that it was Reza Moghadam, who experienced the street rioting during the Asian crisis, who truly transformed the organization.

Boughton says that neither assessment is correct, and that the process of transformation began under Horst Köhler, the former German director who would later become the country's president. "Horst Köhler asked for a more cooperative way of approaching officials in borrowing countries. The shift to more narrowly focused and less intrusive conditions for credits began under Köhler," says Boughton.

Shedding Its Image as the Headquarters of Hardcore Neoliberalism

An IMF director leads a glamorous life. There is only one photo hanging on the wall in Strauss-Kahn's office in Washington. It depicts Strauss-Kahn and US President Barack Obama, smiling congenially like two boys in the same sports club.

Now Strauss-Kahn is sitting in seat 4F, a window seat, on an Air France flight from Paris to Oslo, on his way to one of those conferences with interchangeable names. The title of today's meeting is: "The Challenges of Growth, Employment and Social Cohesion." Strauss-Kahn falls asleep as the plane taxis toward the runway. He is a weary globetrotter, a man whose life consists largely of trips and flights from one time zone to the next, a brutal life that only someone who believes in himself can endure.

The IMF is hosting the Oslo conference jointly with the United Nations' International Labor Organization (ILO). This pairing is significant, because the IMF and the ILO are natural enemies, "like dogs and chickens in one room," says Strauss-Kahn. The Fund pushes through reforms against social opposition. While the ILO is on the side of those who organize the protests at the World Social Forum, the Fund has consistently been the target of the greatest amount of popular rage. It has repeatedly been described as an evil, anonymous power that does its utmost to prevent a different world from taking shape.

'We Need New Fuel'

At 10 p.m., Strauss-Kahn asks the SPIEGEL reporter to come into the lobby for a brief conversation. He looks cleaned up, almost fatherly, speaking in a pleasant voice that's part of his capital, along with his wrinkled face and the bags under his darting eyes.

He emphasizes the importance of the conference with the ILO, and says that it shows that the IMF isn't merely concerned about macroeconomics, but also about social issues. The crisis, says Strauss-Kahn, isn't over yet. "We need new fuel to get out of the crisis," he adds, pointing out that growth isn't the only key element. "Growth without jobs will be no good," he says, and insists that "jobless growth" must be avoided. This explains the meeting with the ILO. "We have changed. The unions have changed. Of course, we still don't necessarily love each other, but we're talking with each other and we're learning from one another."

Never before has an IMF director spoken this frankly. Before Strauss-Kahn, the IMF was a factory that spat out blueprints which national governments were forced to implement, without objection, if they hoped to receive IMF loans. A country that refused to fulfill the conditions, even if it did so because it feared the social repercussions, was thrown off the credit merry-go-round. The Asian countries, in particular, turned away. The crises in Central and South America remained unresolved for a long time, and anyone who wanted to malign the IMF simply had to mention the word "Argentina." Before the 2008 crash, the Fund had both an image and an identity problem. Many people asked whether the organization even served a purpose anymore.

As of late, DSK has been publicly thinking about making the social consequences and costs of reforms a part of the IMF's programs. This has already become a reality in the case of El Salvador. Under Strauss-Kahn, the IMF, which has always been criticized for pursuing a one-size-fits-all policy and ignoring the unique aspects of individual countries, is beginning to embrace the complexity of globalization. "Some have some fiscal and monetary room to maneuver, others don't. Every country is different, every situation is unique," says Strauss-Kahn.

Transforming the IMF

This is the IMF director's program: He wants to transform the organization, which used to structure its reform programs with a rigid view toward interest rates, taxes and currencies, into a task force that can offer advice, analysis and money to countries in trouble. The IMF wants to shed its image as the headquarters of hardcore neoliberalism.

Blanchard laughs, perhaps a little artificially, when he is asked about these plans. He says that they do not exist, and that the IMF develops as a result of its everyday activities. "What you're saying sounds almost like a conspiracy," he adds. He is standing on the 35th floor of the Radisson Plaza in Oslo, holding a plate of finger food in his hand. "Of course there is a new line," he says. "We want to be open, honest and skeptical."

When he speaks French and not, as is so often the case, English, he seems even more sincere than he already is. Blanchard is not adept in the use of political rhetoric, and of the clichéd sort of language the French call "langue de bois," or "wooden speech." He also doesn't shy away from addressing the Greek problem. A few days after the Oslo conference, an IMF team will leave for Athens to get a first-hand look at how the Greeks are managing their crisis. Greek Prime Minister Georgios Papandreou is also in Oslo. He looks older. He talks about Greek pessimism, which he says is "fundamental" for the crisis. What would happen if the IMF team returned from Athens to report that Greece is a lost cause?

Blanchard could say something superficial, but he addresses the question directly instead. "We certainly wouldn't simply release that information to the public," he says. "We would have to reconsider and negotiate with everyone involved to find a passable solution."

The Fund cannot afford a failure of the Greek bailout. Through Greece, it has gained a foot in the door of the First World, and if the IMF hopes to become the new world organization for economic policy, a thinking army to implement G-20 decisions, then now is the time. If Greece defaults, it could turn into another Argentina for the IMF.

Dropping €250 Billion over Europe

Klaus Stein, the IMF's German executive director, who occupies room 13-516 in the Washington headquarters, is the enforcer in a game that is becoming more and more fastpaced. A serious and cautious man, he sits a little stiffly in his chair, his white hair combed back and his glasses tucked into his jacket pocket.

Stein is a lawyer, not an economist. He worked in the budget division at the German Finance Ministry, where he ran former Finance Minister Hans Eichel's cabinet department. He has also worked at the UN in New York, but none of his assignments has been as exciting as his last three years at the IMF.

That included September 2008, when Lehman collapsed. And everything that followed.

Stein has a stellar reputation at the IMF, where those who work with him call him "reliable and straight as an arrow." But, like everyone else, Stein is maneuvering in a minefield, which in his case has four corners. One corner is the world in which he lives, where colleagues trust one another and, after a time, come to see themselves more as IMFers than as envoys of their respective countries. But there are three other corners that Stein has to address early in the morning, via e-mail and phone. German Chancellor Angela Merkel, with her changing views, wants influence; German Finance Minister Wolfgang Schäuble is sometimes a supporter of the IMF; and Axel Weber, the chairman of Germany's central bank, the Bundesbank, feels that what Strauss-Kahn is doing goes much too far.

Shifting the Foundations

Stein doesn't mention any of this. Instead, he says: "It hasn't been easy for Germany in the last few months. Germany wanted to be fiscally conservative." What has shifted is nothing less than the Fund's very foundations. In the past, the IMF intervened when countries were heavily indebted and became insolvent as a result of the devaluation of their currency. In the end, the IMF's actions were based on the idea that national crises had to do with liquidity shortfalls, to be resolved with cash and austerity measures. Credit was extended in return for conditions, and those conditions were stringent.

In the case of Greece, this past policy prompted the Germans to argue in Washington that the country wasn't facing a foreign exchange crisis, but a homemade budget problem coupled with corruption. Besides, the Germans pointed out, the IMF should not intervene because Greece, as part of the euro zone, was part of the EU's balance of payments.

This was all true. Nevertheless, Stein says Strauss-Kahn didn't want to "wait for the victims to go over the cliff before we were allowed to catch them." And in the end Merkel, and eventually the Bundesbank, did support the bailout package. The Greek crisis also introduced a new element: the concept of the "joint venture," or cooperation with other institutions, most notably the EU. The IMF dropped €250 billion over Europe, most of it coming from Asian contributions. The former Third World was coming to the aid of the old First World. It was undoubtedly a sign of a new world order.

Only the hierarchies and structures within the Fund have remained in place, for the most part, which is more pleasing to the Europeans than to anyone else. The executive board of the IMF meets on the 13th floor, at 10 a.m. on Mondays, Wednesdays and Fridays. Suits and ties are required when the 24 members of the board meet around an oval conference table, with a second row of assistants sitting behind them. At the meetings, which are conducted in English, the board discusses the IMF's projects, country by country and mission by mission. The Europeans coordinate their opinions in advance, and to save time each member distributes his or her statement to the others before the meetings. At the end, the group waits for Klaus Stein's statement, and Stein calls for "responsible action."

The executive board consists of 24 directors. Most are elected and represent groups. The Brazilian director speaks and votes on behalf of Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago and, of course, Brazil. Together, the group holds 2.41 percent of all votes.

Nine of the 24 directors are still Europeans, and five of the 24 are permanent representatives, appointed by their governments and not elected by anyone. The US director holds 16.74 percent of all votes, the Japanese director holds 6.01 percent, Stein holds 5.87 percent, and the French and British directors each hold 4.85 percent.

They constitute the top tier, with no potential for any of them to leave the board or be replaced by new members. Is it fair? IMF employees give a friendly smile when they are asked about fairness. Then they glance at their BlackBerrys.

An Open-Door Policy

The managing director, who chairs the executive board meetings, comes from Europe, and his first deputy director is from the United States. This is the arrangement that applied in 1950, and it continues to apply in 2010. There are 30 so-called senior officials at the IMF, and they are the organization's key decision-makers. Strauss-Kahn's inner circle includes his adviser Blanchard, Reza Moghadam, a British citizen of Iranian descent who is head of the strategy department and who was voted the most handsome man at the Fund by the IMF's female employees, the Chinese special advisor Min Zhu and Caroline Atkinson, director of the Fund's external relations department and its chief spokesperson. There is an open-door policy on the 13th floor, and DSK has an ad hoc management style. In the morning, members of his inner circle eat croissants together and discuss the state of the world.

Every other Thursday, the elegant Caroline Atkinson steps in front of a blue wall in a small, cool room on the ground floor to tell the world how it is being saved. Atkinson's press conference is a trip around the world in 15 minutes, in which she employs the official language of the Fund to recount a tale of progress and inform the press about the program's "promising developments."

Moghadam's job is to make sure that everything remains structured and yet constantly in flux to suit the crisis of the day. Moghadam is a sort of secretary general for the Fund. He introduces internal and external reforms and proposes new groups and strategies. In 2008, the IMF's key decision-makers simulated the crisis before it even began, and spent an entire day examining the hypothetical rescue of an Eastern European country, including press releases. Moghadam says: "At the center was the rule of structure conditionality which we had until recently -- if you didn't meet a performance criterion the way that the Fund programs work, financing stopped automatically, and nothing could change that. We abolished that and provided what we call structural benchmarks, which is more of a goal the state sets for itself. It's not a showstopper."

But what happens if a country still doesn't stand up to the pressure of reforms, or if a government faces the prospect of losing its citizens? What happens if, after years of hardship, the social fabric begins to fray? This was the experience in Indonesia, Argentina and Hungary. The Hungarians know very well how the IMF influences the countries it is supposed to rescue.

'The End of Begging'

Hungary has a long history of borrowing from the IMF, but in July negotiations over future credit lines fell apart in Budapest. The country's new prime minister, Viktor Orbán, slammed the door in the IMF's face and was celebrated for his actions. There was talk of a "struggle for economic freedom" and of the "end of begging." To understand what happened in Budapest, it helps to know that local elections were set to take place in Hungary three months later. That was all part of the game. The IMF is rich, powerful and far away, which makes it the ideal scapegoat. But that wasn't the only reason for the falling out.

Hungary has been an IMF member since 1982. The country embarked on economic reforms early on, and to do so it needed IMF loans -- to the tune of $520 million in the first year of its accession to the Fund. Hungary, a model student when it came to developing a market economy, relaxed its import policies in 1984. Subsidies were cut and the Hungarian forint was devalued, all at the request, urging or instruction of the IMF.

The country received six more loans by 1996, one for $365 million, another for $480 million, and in 1991 the Fund approved a loan worth $1.6 billion. In all those years, Hungary was reinventing itself. The banking system was restructured to satisfy free-market requirements, and a value-added tax was introduced. In 1990, the government passed laws to allow foreign investment, removed customs barriers, reduced government bureaucracy and lifted controls on prices and wages.

A Decline in Wages and Cuts in Pensions

But there was a dark side to the policies, even though they pleased Washington, attracted investors and were rewarded by the financial markets. The real wages of Hungarians -- those who even had a job -- declined by 22 percent between 1989 and 1996. When the Berlin Wall fell and the country opened up to global markets, Hungarian industrial production declined by more than a third, unemployment rose and inflation reached 30 percent. In other words, workers, retirees and the overwhelming majority of Hungarians had less in their pockets from one year to the next, they had to work longer for a pension that was smaller than expected, and when they became welfare cases, the state no longer felt responsible for them -- because the very nature of the state had changed.

Hungary's accession to the EU in 2004 brought a new round of so-called adjustments. And then came the global economic crisis. By 2008 Hungary was on the verge of default. To avert a disaster, the IMF, the World Bank and the EU joined forces to provide Budapest with $25 billion. The IMF, which put up $15.7 billion of the total, dictated the conditions: pension cuts and a freeze on civil servants' salaries. It was back to square one for Hungary.

Anyone who traveled through Hungary in the early 1990s witnessed a blossoming country with its capital, Budapest, transformed into a colorful, vibrant metropolis that was on the way to becoming a global city. Today, less than 20 years later, Budapest is a tired city of cracked, garbage-lined streets. It has become a gray city once again, a construction site in which most people have seen their quality of life decline.

In Budapest, Strauss-Kahn's new IMF still resembles the old IMF: inflexible, schematic and cold. Prime Minister Viktor Orbán, a conservative, broke off negotiations with the IMF over the question of new budget goals. Perhaps he planned the coup, and if he did, he certainly had good reason to do so.

Oddly enough, the value of the forint rose after the July altercation.

'A Greek Bankruptcy Is Unavoidable'

Periods of crisis are good times for Kenneth Rogoff, who served as the IMF's chief economist from 2001 to 2003, under then-Managing Director Horst Köhler. Rogoff and Carmen Reinhart recently published their book "This Time Is Different: Eight Centuries of Financial Folly," a global history of financial crises. The book, seven years in the making, has attracted the attention of economists, financial managers and politicians.

Rogoff, who lives in Boston, is extremely near-sighted. With his bald head and wire-rimmed glasses, he bears a passing resemblance to a character in a Woody Allen film. He has the biography of a misfit -- a chess genius who lost himself in the game. Rogoff won the New York State Open at 14, and at 15 he played simultaneously against 26 opponents with his eyes blindfolded. He won the title of a grand master at 25, but then he stopped playing chess, like an alcoholic going cold turkey. He hasn't touched a chess piece in 30 years. It's "too dangerous," he says.

Instead, he threw himself into a much bigger game: the global economy. How can the complexity of the world be mastered? How effective are models, and on what basis do institutions like the IMF make their decisions?

In his book, Rogoff suggests that many of the theories currently in circulation cannot be correct. "Wall Street," says Rogoff, by which he means all stock markets, "ultimately believes in a simple calculation: If prices fall by 4 percent today, they will eventually rise by 8 percent. We have demonstrated that this isn't true. It's more complicated than that. And much of this we don't understand."

Rogoff and Reinhart show that the Lehman case was a symptom for the biggest recession since the 1930s, which was fed by many factors. Most of all, the two authors show that financial crises like the current crisis always lead to national debt crises, no matter what remedies governments take. Unemployment and bailouts cause public deficits to explode, leading to panicked cost-cutting programs, which in turn lead to new recessions. This vicious cycle is what is happening today, a cycle Rogoff and Reinhart described before Greece's troubles began. Anyone who reads their book can discover what is likely to happen next.

'A Certain Number of Countries Will Go Bankrupt'

Sitting in his bare office at Harvard University with the shades drawn, Rogoff says, coolly and soberly: "A Greek bankruptcy is unavoidable. There is a 95 percent chance that Spain will go bankrupt. Hungary is on the brink. Things will get much worse in Eastern Europe. We will have a certain number of countries that will go bankrupt. We will have a number of euro zone countries that would be well advised to take a sabbatical from the euro for a year. The situation in the United States is very worrisome. The markets will refuse to tolerate this level of debt." The worst of it is that it sounds as if he were expressing unavoidable facts.

"What we need is radical change," Rogoff says, but he doesn't seem to believe that it's possible. Not too long ago, he says, the US government asked him to comment on a draft bill on the regulation of the financial sector. "The draft had 2,000 pages," says Rogoff. "I don't know what to say to that. I suspect that those 2,000 pages are filled with enough loopholes that Wall Street will discover and exploit to come up with new business models."

Is he implying that there is no way out? "There are many ways to skin this cat," he says. A real reform of the banking and finance sector would have to drastically shrink the system to a business volume that existed 30 years ago. Rogoff says: "The financial market, with all of its products, adds up to $200 trillion, $120 trillion of which represents trading in debt securities. I remember a speech given by Angela Merkel. She said that the Americans make the profits while distributing the risks, with all those debt securities, worldwide. That's true. This could be curbed."

Rogoff says that he never understood why banks are allowed to inflate their capital with loans. Why can they do business with many times more capital than is available to them? "I don't know," says Rogoff. "There's no reasonable explanation." According to Rogoff, new regulatory institutions would have to be created that were on a par with the financial industry and that had drastic sanctioning powers.

He can't understand why the IMF and many governments are patting themselves on the back for their crisis management efforts. "We are fundamentally too quick with bailout packages and too hesitant with default," he says. Rogoff believes that the G-20 and the IMF, with their protective mechanisms, have already pre-programmed future misconduct. Experts call this a "moral hazard," the notion that bailout packages, instead of preventing crises, simply create new ones. "It boils down to the banks ultimately speculating with taxpayer money," says Rogoff.

But that's human nature, which Rogoff has studied in various ways: on the chessboard, in life and on the basis of the numbers he is constantly producing. He has concluded that the notion of "normalcy" constantly reinvents itself. France has been bankrupt before, Greece has been bankrupt five times in 200 years, and the German Reich was both insolvent and bankrupt. Crises, says Rogoff, are crises, not the end of the world.

Europe's Euro Challenge

It is a Tuesday in late September, the day after Strauss-Kahn addressed the United Nations in New York to advocate workplace measures and then, in a statement to the press, praised the unions once again. It looked like a campaign. He spoke earnestly about the global situation, the hardships of workers. He seemed determined; DSK does what he does with grim determination.

But what will he do? Will he leave the IMF before reaching his goal? Will he lead the French Socialists to challenge President Sarkozy in the 2012 election year? Strauss-Kahn has enough political astuteness to know the answer by heart: "I have to worry about people who do not have jobs," he says. "I'm lucky I have one." Some of his detractors in the IMF say that Strauss-Kahn's closeness to the unions is nothing but calculation on the part of a politician and economic expert.

If Strauss-Kahn runs for president, he can expect to face a smear campaign. His affair with a Hungarian IMF employee, which triggered an investigation, will be a thorn in his side, as will his reputation as a man who is now on his third marriage but who has loved many women. When asked about the internal investigation, he says: "It was a mistake. A waste of time. The price for mistakes is the waste of time."

Has he heard that Sarkozy is telling people in Paris that he warned Strauss-Kahn not to ride an elevator alone with a woman in the IMF building? No, he says. He isn't smiling any more.

Sitting in his office, surrounded by the scent of flowers, Strauss-Kahn prefers to talk about Europe's sad future. "The European institutions," he says, "were absolutely necessary and very useful for many reasons, but only in quiet times. ... The crisis exposed very clearly the way the EU is working. There is, in my view, too much concern about domestic safeguarding and domestic problems rather than concern about the EU itself. The result of that is that the recovery in Europe is lagging behind while the recovery in Asia, South America, the US and Africa is rather strong. I'm afraid that if the European countries don't take the bull by the horns, they will be the part of the world with sluggish recovery. After building the Union and creating the euro, the European Union now needs to take a third step, which is more economic policy coordination and more fiscal policy integration, and so more centralization. But the system moves very slowly."

He reaches toward the table, but there isn't any water there. Everyone at the IMF drinks too little water and too much coffee.

Then he says: "You can't have a monetary union without a reasonably coordinated fiscal policy. And you cannot make it work when neighbors make deals: If you're nice to me, I'll be nice to you -- just as France and Germany did when they exceeded the 3 percent deficit limit. Europe needs rules, surveillance and sanctions. Sanctions should not be the suspension of voting rights. Who cares about voting rights? They have to be financial sanctions -- payable not during a crisis, of course, but a few years later."

In the end, DSK raves about China, Asia, dynamism and speed.

'Europe Must Reform Itself, That's Clear'

A short time later, Min Zhu serves Chinese green tea in his office, which is number 12-200 C. He doesn't use teabags. "Don't swallow the leaves," he says. "You'll need them again, because the second cup is the best," he says with a smile.

Most of the offices at the Fund are sparsely decorated, but there is not a single picture in Min Zhu's orderly office, not even a photo. He wears rimless glasses and sports a ponytail, handing over his business card with both hands. The card reads "Special Advisor to the Managing Director." It's a new position, as new as China's influence at the Fund.

Min Zhu is the human face of the billions coming from China, and Min Zhu is here to explain Asia to his boss, Strauss-Kahn.

"I don't get paid by China," he says. "I think as an IMF man." These are the words of a diplomat, but in the world in which Min Zhu operates, no positions are filled without a nod to national interests.

When he talks about the new Fund, the changed Fund, Min Zhu says that the IMF today is "an international organization" that is supposed to "supervise and sustain global macro-stability, on both an economic and financial level." The Fund observes and analyzes, and its true strength stems from the fact that an insecure world is searching for economic competence, and that the IMF's competence is no longer questioned, the way it was after the Asian crisis in the 1990s.

What the World Could Learn from Asia

The IMF's purpose is to interpret and admonish. It may have a better understanding of crises than others, but it has little power to impose sanctions. It is constantly dependent on the instructions of those it is intended to monitor.

Min Zhu is proud of the Fund's new tools. One of them is the Financial Sector Assessment Program (FASP), which the IMF's detectives can use to monitor the global financial market and its complex instruments, those with complicated names like credit default swaps. The new IMF, says Min Zhu, is a beacon in the lunacy of the crisis. He likes it when IMF staffers are referred to as "global citizens who present global issues and developments in a neutral way."

Min Zhu says that the rest of the world could learn a thing or two from Asia's emerging markets, which he says have "a stronger heartbeat and better macro-economic conditions" than European countries, which leads to "greater political reserves." Deficits are lower, he says, and so is foreign debt, and many of the emerging markets are holding foreign exchange reserves, as well as having reached "reasonable inflation rates." Also, he adds, the Chinese and Indian markets understood, much earlier than the Americans, for example, that real estate has been the "most unstable market worldwide over the last 50 years." As a result, they have already introduced careful monitoring.

Is he predicting the fall of Europe and the rise of Asia? Min Zhu isn't that quick to make such assessments. He knows that China, outside its major cities, is still poor, and he knows that Europe has its strengths. "Yes, it sometimes takes a while to get decisions through all the parliaments, but Europe is taking steps, solid and strong steps in one direction," says Min Zhu.

But there are two things he finds amazing about Europe, an assessment he shares with his French boss. "There is the issue of social welfare, and demographic change. Everybody has longevity, so the cost for the pension and health insurance is very different today than, say, 20 years ago. The model, of course, does not fit today's needs. It would not survive tomorrow." Besides, he adds, Europe needs a growth strategy, an industrial strategy. Europe must invent new products and sectors that meet the demands of the world -- otherwise, with labor costs of $30 an hour, they won't prevail "against a country that pays $3." Reforms -- that's what it all boils down to, even at the new IMF, except that the target of the reforms has changed.

"Europe must reform itself, that's clear," says Min Zhu, the Chinese adviser at the International Monetary Fund. And then he adds, with a smile: "We'll be happy to help."