

FINANCIAL TIMES

December 19, 2011 10:12 am

Strauss-Kahn sees 'growth crisis' in Europe

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By Simon Rabinovitch in Beijing

Dominique Strauss-Kahn, the former head of the International Monetary Fund, made a defiant return to public life on Monday, warning European leaders that they were in denial about the Continent's economic crisis and have only weeks to come up with real solutions.

As the keynote speaker at a conference in Beijing, it was Mr Strauss-Kahn's first formal address since facing a charge, which was later dropped, of the attempted rape of a hotel chamber maid in May that led to his resignation as head of the IMF.

Mr Strauss-Kahn made no comments about his personal ordeal. Instead, he spoke for nearly an hour about the problems plaguing the global economy. He sounded as on top of matters as when he was IMF chief, but dispensed with diplomatic niceties in diagnosing Europe's woes.

"It appears today as a debt crisis. More than that, it is a growth crisis. Behind the growth crisis is a leadership crisis," he said.

He singled out Germany and France, saying that the history of the European Union proved the two countries needed to co-operate closely if there was to be any progress, but that the current leaders were not on the same page.

"The problem is that they don't have exactly the same view and I'm not quite sure that [Angela] Merkel and [Nicolas] Sarkozy clearly understand each other," he said.

He said that European leaders had consistently underestimated the severity of the financial crisis and made repeated mistakes in focusing on cutting debt at the expense of growth.

"The problem is that they are still in denial," he said.

Mr Strauss-Kahn was dismissive of the European summit in Brussels earlier this month, saying it was "another of the kind bleeding away, day by day, the remaining confidence investors may have in politicians".

He said leaders had failed to undertake any of the fundamental reforms needed to put the eurozone back on track – there was no fiscal union, no lender of last resort, no expansion of monetary policy and no changes in structural policy.

The stability pact that was agreed at the summit “may be good news for German domestic politics, but it is bad news for the European population.”

What's more, Mr Strauss-Kahn said the firewall to staunch the spread of the crisis “doesn't really exist”. The €500bn European Stability Mechanism would only be operational in months when “the question is a question of weeks. The question is not a question of months.” And he was sceptical about whether the IMF would be able to raise an extra \$200bn in funding when the US did not want to contribute more.

Mr Strauss-Kahn received warm applause from the audience of about 500 at the economics conference hosted by NetEase, a top Chinese web portal. After his speech, he sat on a panel in which a series of Chinese speakers said how grateful they were for his efforts in strengthening China's role within the IMF.

The only mention of the scandal that derailed Mr Strauss-Kahn's political career came when Li Daokui, an academic adviser to China's central bank, asked how he would respond if it was revealed that it all had been a massive conspiracy.

“I'm afraid I can't make any comment about this,” Mr Strauss-Kahn replied.

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