

**Before he became
tabloid fodder,
Dominique Strauss-Kahn
steered the International
Monetary Fund through
an epic financial crisis,
even as questions mounted
about his private behavior.**

Did the fund



look the other way?

By Sheelah Kolhatkar

It is not immediately obvious, upon laying eyes on Dominique Strauss-Kahn, what the source of his attraction to women is. White-haired and burly, with hooded eyes and a face often set in a sort of glowering smirk, he speaks English with a heavy French accent that gives him an almost retiring air. And yet when it came to women he was interested in, he could be unnervingly direct. While head of the International Monetary Fund, Strauss-Kahn pursued a female colleague with whom he later had an affair by repeatedly calling her into his office with the same query, as if he hadn't listened to the answer the first time, according to a person familiar with her version of events. He proffered dinner invitations and suggestive comments along the lines of, "I don't know why, but I like you..." She eventually gave in but came to regret it, and later wrote to a lawyer investigating the matter: "I fear that he is a man with a problem that may make him ill-equipped to lead an institution where women work under his command."

Strauss-Kahn's reputation as a seducer has long been an important part of his mystique, one of the layers of complexity that elevated him above the status of a mere academic and turned him into an intellectual celebrity. He seemed to lavish attention on brainy, accomplished women, integrating his affairs into his image and his professional life, making his womanizing work for him. His indiscretions were an open secret as he climbed to the highest levels of the French political establishment and international finance. From his perch as the managing director of the International Monetary Fund he was expected to swoop in to unseat Nicolas Sarkozy to become the next President of France. Now, after charges that he sexually assaulted a maid on May 14 at the New York City Sofitel, the people and institutions that indulged his lothario persona seem like enablers of increasingly questionable behavior. Strauss-Kahn has denied the charges against him. (Attempts to obtain comment from Strauss-Kahn for this story were unsuccessful.)

Whatever transpired in Room 2806, he was already known to have a self-destructive streak. As head of the IMF he was able to competently—some say brilliantly—steer the fund through a global

economic crisis, all while conducting himself with women in a manner that even his colleagues found unseemly, with little consequence. For years he was seen as a politician and statesman too valuable to restrain.

"The problem of his chasing skirts was well-known," says Edwin M. Truman, a senior fellow with the Peterson Institute for International Economics. "The issue that came up when he was at the fund was stupid, if I may put it that way. It's one thing to chase skirts, it's another to chase skirts among your subordinates."

Strauss-Kahn was perceived as someone who intermingled the personal and the professional. One day in 2002, during his seven-year run as an economics professor at Sciences Po, one of France's elite universities, in Paris, Strauss-Kahn experienced some difficulties getting his

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Power Point presentation working, according to a student who was present. The large lecture hall was packed, and his teaching assistant, a pretty, dark-haired economics PhD student who accompanied the then-53-year-old professor everywhere, got down on her hands and knees, trying to resolve the technical glitch. The room became electric, according to the student, and the audience erupted in snickering and laughter. But the students weren't cracking up in a derisive way—rather, their response to the suggestive scene in front of them was almost an expression of admiration.

Strauss-Kahn remained an academic until the fall of 2007, when he was named head of the International Monetary Fund, which seemed the perfect venue for plotting a leap from academia to politics. Running the Washington-based global lending organization offered the chance to make wide-reaching policy decisions, plenty of face time with world leaders, and photo opportunities galore. Strauss-Kahn, who was regarded as a talented economist, with a doctorate from the University of Paris, made the most of it. One longtime observer of the fund pointed out that he'd never before seen a managing director who made such an effort to be publicly visi-

ble; another suggested that Strauss-Kahn always had one eye trained on the flashbulbs in France. Even if he was working partly for himself, some of the glitter he attracted rubbed off on the institution, which took on a new relevance—a wonky glamour—under his command. As his successor, Christine Lagarde, put it at a July 26 appearance at the Council on Foreign Relations in New York: "Dominique Strauss-Kahn did a good job of reestablishing the IMF as a credible partner, as a source of intellectual capital of the highest level."

His reputation at that point was largely built on his time as French Finance Minister, when Strauss-Kahn presided over a robust economic period, from 1997-1999. He was the unanimous choice of Europe's largest countries, as well as the U.S., to run the IMF; his challenger for the position, the former Prime Minister of the Czech Republic, Josef Tosovsky, failed to win even the vote of his own country. "I voted for Strauss-Kahn not only because my constituency asked me to do this but also because I saw him as in a far better

position than his rival to deal with policymakers and chiefs of states and governments," says Hector Torres, a former executive director for Argentina who now works for the World Trade Organization. "He had a standing, a leadership that you saw. It transpired all the time." U.S. Treasury Secretary Henry Paulson met with the Frenchman during the vetting process and was also impressed, according to a former Treasury official. "The crux of it," says Truman of the Peterson Institute, "is that on his professional side he was the right person in the right place at the right time."

By the time Strauss-Kahn arrived at the IMF the institution was a mess. The fund had been criticized for its handling of the Asian meltdown in 1998 and the currency crisis in Argentina in 2001, prompting debate about its relevance. Then, years went by without any economic collapses worthy of its attention. In 2006, only \$4.8 billion in loan commitments were approved, down from \$37.5 billion lent in 2002, and two managing directors in a row, Rodrigo de Rato

of Spain and Germany's Horst Köhler, left before their terms were finished. By 2007, according to Jack Boorman, a former special adviser to the managing director, "the place was in turmoil, and morale was awful."

One of Strauss-Kahn's first steps was a major thinning of the fund's ranks, which had been started before he arrived. He ultimately reduced the 2,900-person staff by 500. "He was very humanitarian about it, he wanted the downsizing to be on a volunteer basis," says Marlene Thorn, a human resources executive who advised the IMF from 1984 to 2010. "He directed the HR staff to ensure we did everything we could to get these people jobs, we had an outplacement office ... the whole thing was handled so fairly." Others are less charitable. "He comes in and fosters all this debate and open dialogue, but then he has to take the hatchet," Boorman says. "That's when a lot of people started to feel the way I do. The process was done exactly backwards." Since much of the firing was voluntary, some of



Strauss-Kahn and European Central Bank President Jean-Claude Trichet deciding the fate of Portugal



the fund's best people, who had other options, had incentives to take severance packages and move on.

In July of 2007 two Bear Stearns hedge funds blew up after making disastrous investments in securities tied to the subprime mortgage market. By that fall, cracks in the housing market were becoming apparent, although the global economy wouldn't crash for several months. In the midst of it, Strauss-Kahn became fixated on an IMF economist named Piro-ska Nagy. She was in many ways just the sort of woman he was known for going after: an attractive, blond 50-year-old with a Master's degree in macroeconomics and finance from the University of Budapest who had also done graduate work at Georgetown. She had been with the IMF for 20 years and was an expert on Africa.

According to the person familiar with Nagy's version of events, she and Strauss-Kahn first met shortly after he arrived at the fund, when he asked all the heads of departments to make presentations about their areas of expertise. One of the presentations was about Ghana, and it was given by Nagy. From that point on, according to the same person, Strauss-Kahn began calling her frequently and summoning her to his office to ask questions about Ghana, even though the country was not a high priority. He gave Nagy a password to communicate by e-mail with him over his secure IMF-issued BlackBerry, and the messages were described as increasingly explicit.

At the World Economic Forum in Davos in January 2008, Strauss-Kahn joined the crowd of experts issuing warnings about the possibility of a global recession. In a speech delivered against a backdrop of plummeting stock markets, he garnered international media attention with his prediction of a "serious slowdown" in the U.S. economy and urged a global fiscal stimulus program to try to prevent the problems from spreading. Nagy attended the Forum with her husband, the Argentine economist Mario Blejer. During the trip she and Strauss-Kahn have since acknowledged that they slept together. According to the person familiar with Nagy's account, Nagy's husband, who had grown suspicious, confronted her and she confessed the affair. After Davos ended, Nagy told Strauss-Kahn that her husband had found out about their relationship and that it had to

Strauss-Kahn's wife, Anne Sinclair, kept a low profile in Washington



"Geithner, I talk to him on the telephone every week," Strauss-Kahn once said

end. The managing director summoned Blejer to his office to apologize. Strauss-Kahn said that he was sorry and acknowledged that his behavior had been "inappropriate," according to a person familiar with the conversation. "It's too bad," Strauss-Kahn said, "because we could have been friends."

For a time, Strauss-Kahn managed to keep the affair a secret at the fund, where spirits had improved in spite of the layoffs. Strauss-Kahn was known for not necessarily engaging with employees whom he viewed as too far beneath his station, but he compensated in other ways. "He had a big personality. The staff would say the energy he brought to the fund was good," says Susan Schadler, who spent over 30 years at the IMF and is now a visiting fellow at the Center for International Governance Innovation in Canada. "But no matter who had been there, when Lehman collapsed, it was clear that the fund was going to play a pretty good role."

There was nothing like catastrophe to restore the IMF's sense of itself as savior to the world. Suddenly, Strauss-Kahn didn't have to work very hard to

prove the fund's value, and everyone there was filled with a new feeling of purpose. As the financial crisis continued to worsen, Strauss-Kahn went on making changes. In addition to the staff reductions and cost-cutting, that April the institution's board of governors agreed to alter the way member countries vote, giving faster-growing emerging economies such as China and India more influence—a position Strauss-Kahn championed.

During their time in Washington, Strauss-Kahn and his wife, Anne Sinclair, lived in the \$4 million house they'd purchased in Georgetown, although they didn't socialize there much. Over the course of the summer of 2008 news of the relationship between Strauss-Kahn and his staff member began to circulate the halls of the IMF and was brought to

Strauss-Kahn began calling Nagy (below) frequently to ask questions about Ghana. He gave her a password to his IMF-issued BlackBerry



the attention of the Executive Board. At first the board attempted to launch its own internal investigation, but Nagy, who did not want the affair to become public knowledge, refused to cooperate. Then, on Sept. 2, the board, following the advice of its internal legal counsel, retained the Washington law firm Morgan, Lewis & Bockius to look into the question of whether Strauss-Kahn had abused his office or misused fund resources in pursuit of the relationship.

According to one former member of the board, the brewing scandal was a terrible distraction at a time when the financial crisis required all the fund members' energy and focus. That same month the U.S. nationalized the insurance conglomerate AIG and took over the mortgage financing agencies Fannie Mae and Freddie Mac; Merrill Lynch was swallowed by Bank of America; and Lehman Brothers filed for Chapter 11. In October, Iceland, bankrupted by its overly aggressive banks, accepted a \$2 billion IMF-orchestrated loan. All the while, Morgan Lewis lawyers were conducting 28 interviews and reviewing "an extensive number of hard copy and electronic documents," as the

report they later produced put it, pertaining to Strauss-Kahn's romantic life.

With both his job and the global economy in jeopardy, Strauss-Kahn held meetings all over the world, trying to position the IMF as a critical player in the response to the crisis, making statements about how it should be addressed: European banks should prepare for the worst; systemic crises called for systemic solutions; the global financial system was in need of total overhaul. In short, he argued to world leaders, the IMF deserved more authority. "The time when it was thought that the market was enough to regulate financial activity is over," he said in *Le Journal du Dimanche*, a French newspaper. "The ideology of self-regulation has been demolished by the facts."

Morgan Lewis released its report on the Strauss-Kahn-Nagy affair to the Executive Board of the IMF on Oct. 25, a week after news of the investigation had leaked to the press. Nagy, by this point, had taken a severance package and started a job in London at the European Bank for Reconstruction and Development. The law firm found that Strauss-Kahn's relationship with her did not constitute sexual harassment or an abuse of authority, in spite of the fact that he had initiated the relationship and was Nagy's boss. It concluded that he did not encourage her to leave the fund or show any favoritism. As a side note, the report also mentioned that Strauss-Kahn had intervened to secure an internship at the fund for a "female family friend," but deemed the actions above board. The report also said that, during the investigation, "independent counsel reviewed other allegations involving the [managing director] raised by witnesses during the investigation" but did not

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find any evidence to support allegations of improper conduct.

Omitted entirely from the law firm's document was any reference to the letter dated Oct. 20 that Nagy sent to the lawyer leading the inquiry, Robert J. Smith, in which she expressed displeasure about the way the investigation was being conducted and objected to the characterization of her relationship with Strauss-Kahn as "consensual." "I believe that Mr. Strauss-Kahn abused his position in the manner in which he got to me," Nagy wrote. "Despite my long professional life, I was unprepared for advances by the Managing Director of the IMF. I did not know how to handle this; as I told you I felt that I was 'damned if I did and damned if I didn't.' After a period I made the serious mistake of letting myself get sucked into a very short affair. But it is, in my view, incontestable that Mr. Strauss-Kahn made use of his position to obtain access to me."

The day the report was released, the IMF board held a conference call, in which the dean of the Executive Board, A. Shakour Shaalan, said: "There is a number of staff, particularly the female members, who are not at all happy and do not approve of the managing director's behavior. The managing director ... has expressed his regrets, and I don't think we can ask him to do more at this time other than publishing the statement that we have published." Strauss-Kahn later apologized to the staff in a town hall meeting, according to a person who was there. But not everyone in the IMF community was satisfied with the way the matter was handled. One former high-level IMF executive says the damage done by Strauss-Kahn was irreparable, especially for an organization that goes around the world lecturing governments about austerity measures and fiscal belt-tightening. The integrity and reputation of the fund's leadership was critical-and no one on the board had the courage to say that what he'd done was wrong.

Strauss-Kahn never considered resigning, according to Shaalan's comments on the conference call.

At one point, the head of one of the IMF's foreign offices was warned by a member of HR not to leave Strauss-Kahn alone in a room with any women, according to a person who was briefed on the conversation. The IMF declined to comment. The fund did amend its code of conduct after the scandal, introducing a requirement that any close personal relationship between a supervisor and a subordinate be reported to the human resources department, among other things.

Despite DSK's tenure becoming a much more complicated proposition, the IMF, faced with a global recession, remained committed to keeping him. One executive at the IMF observed that, in hindsight, Strauss-Kahn had seemed especially reticent during the early part of the crisis-until after the Morgan Lewis investigation was over, when he became much more assertive. Because he was still new on the job, though, his lack of drive wasn't obvious at the time.

In an e-mailed apology, which was directed to the IMF staff, Nagy, and his wife, Sinclair, Strauss-Kahn said: "While this incident constituted an error of judgment on my part, for which I take full responsibility, I firmly believe that I have not abused my position." It was good enough for the International Monetary Fund.

Much of the rest of Strauss-Kahn's time in power was spent dealing with Europe, and it was there that his professional record became more controversial. In April 2009, at the Group of 20 meeting in London, he argued that the IMF's resources needed to be strengthened to deal with future crises, leading to a tripling of contributions from member countries to \$750 billion—a huge coup. "If there is one big winner from the wrenching financial crisis of the past year, and the scramble by shell-shocked governments to tackle the turmoil, it is the IMF," wrote Heather Stewart in the *London Observer*.

The newly engorged fund went on to negotiate a rescue package for Greece in May of 2010, as the country, €300 billion in debt, was unable to pay its bills. Strauss-Kahn was instrumental in crafting the €110 billion bailout by the IMF and the European Union, which came with heavy budget cuts and increas-



Diallo, the Sofitel maid



Strauss-Kahn awaiting arraignment on May 16, 2011

es in taxes and called for a dramatic shrinking of the government. "The authorities' program is designed with fairness in mind," Strauss-Kahn said at the time. The streets of Athens exploded in unrest, and there was outrage about why holders of Greece's sovereign debt, which include many French banks, were being spared any losses. "By dismissing the possibility of default and refusing to talk about it the way they did, they wasted a year," says Boorman. "It was pretty clear early on Greek society could not sustain or accept the kind of adjustments they were being asked to make, and the program itself was based on unrealistic assumptions."

The bailout of Ireland came the following November to the tune of €85 billion after the country's banks went on a mad real-estate financing binge. It wasn't until months later when—after many optimistic early projections about its progress—Greece once again seemed to be in need of massive international financial assistance that criticism of the initial bailout, by far Strauss-Kahn's biggest achievement as managing director, became fully explicit. He started battling rumors in the

press that the IMF was pushing to restructure Greece's debt.

A number of polls placed Strauss-Kahn firmly in the lead in a prospective matchup with Sarkozy for the presidency of France, and many inside the fund were expecting him to leave to enter the race that June. In April he made a speech to a packed auditorium at George Washington University, where he laid out an ambitious vision for a new approach to economic policy for the post-crisis world, called "Global Challenges, Global Solutions." It almost sounded like a campaign platform.

As someone whose dealings with women, no matter how controversial, had always been treated as a charming tic in the male-dominated power circles he traveled in, Strauss-Kahn could

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not have expected what would come next. On Friday, May 13, he left Washington around midday after a morning of meetings, to stop over for one night at New York's Sofitel. He was on his way to Germany to meet with Chancellor Angela Merkel and then with European finance ministers to discuss a second bailout for Greece and a rescue package for Portugal. Perhaps he was thinking about Spain and whether it was going to collapse next when he was visited by a girlfriend, described in news reports as a banker, whom investigators saw on the hotel surveillance tape entering his hotel room. Or he might have been consumed by the mini-scandal raging in France over a photograph circulating of himself and his wife driving a \$149,000 sports car, which was hardly deemed appropriate for a populist political hero. It was around 1 p.m. the next day, May 14, that a 32-year-old Guinea-born chambermaid named Nafissatou Diallo entered Strauss-Kahn's suite.

Minutes after the maid left his room, according to prosecutors, Strauss-Kahn sat down to a pleasant lunch with his daughter. ©