Global Economic Challenges & Solutions: A Conversation With Christine Lagarde

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JANE HARMAN: I am Jane Harman, director, president and CEO of the Wilson Center and we are honored today as you know to host Christine Lagarde the new chief of the International Monetary Fund for her first public speech in Washington, D.C. I'm also pleased to recognize many of my former congressional colleagues who joined director Lagarde at breakfast at the Wilson Center earlier this morning. Some of them are here, some of them had to go back to congress hopefully to a productive congress that will solve this economic crisis, but they are or were, Senators Susan Collins of Maine, Kirsten Gillibrand of New York, Kay Bailey Hutchison of Texas, Barbara Mikulski of Maryland, Congresswomen Judy Biggert or Illinois, Shelley Moore Capito of West Virginia, Diana DeGette of Colorado, Barbara Lee of California, and Nita Lowey of New York. We are also joined by some of the Wilson Center board members and I want to recognize our chairman Joe Gildenhorn and by a number of ambassadors, Yusef Otaiba a good friend of mine from the United Arab Emirates, Cornelius Smith of the Bahamas, Louis Herald Joseph of Haiti, Thieta Mitufu [assumed spelling] of the Democratic Republic of Congo and Ambassador Samir Sumaidaie of Iraq. Welcome to all of you. It's a pleasure for me as the first president of the Wilson Center who happens to be a woman, to host the first woman to lead the IMF in its 66 year history. This is not the first glass ceiling Christine Lagarde has shattered. Prior to becoming the IMF's managing director, she served as France's Minister of Finance, the first woman ever to become finance minister of a large industrial country. She was head of the European arm of the international law firm Baker and McKenzie, eventually becoming its first female chair. She is also, to my knowledge, the first person ever to be on the cover of Forbes Magazine and featured in Vogue in the first, in the same month. [laughter] That was funny. [laughter] Director Lagarde took the helm of the IMF during the greatest shock to hit the global economy in our lifetimes. The series of economic aftershocks combined with ongoing post-earthquake misery in Japan, political turmoil in the Middle East and the deeply worrying Euro crisis has heeled a worldwide slow-down. As a recovering politician myself, I am well aware that while counties with deeply interconnected financial systems grapple with unique, yet shared problems they're embattled leaders often find themselves with few tools left in the box. Caught in a spiral of political fear and forces determined to prevent them from doing what really needs to be done. What in the world could I be talking about? The United States has been no exception. In my view, our country has a rare second chance to lead as congress begins to debate the American Jobs Act and the deficit super committee begins its work. We must summon the courage and bipartisanship to reach beyond elections in 2012 and make short and long-terms decisions that are in the interest of our country and the global economy. There's no great mystery surrounding what congress must do nor need we, or they, start from scratch. We have Simpson-Bowles, we have Domenici-Rivlin-- and by the way Alice Rivlin I think is still here, right there in the front row-- and the Gang of Six Plans. We must tackle the deficit, future entitlements and public spending. We must take bipartisan measures to promote growth including streamlining the tax code, something that I, I am heartened to hear is again under discussion while lowering rates across the board. And we should seriously consider, among other things, a national infrastructure bank which makes sense from every angle in terms of quickly building American jobs. We must do so quickly in a bipartisan manner that gives the country, the markets, and the world renewed confidence in our stewardship. Next week the IMF will meet here in Washington for its annual meeting. This is yet another chance to address these problems head on and with urgency. True global leadership balanced with deep insight into and understanding of individual, national problems, will be critically important next week. And in Christine Lagarde we are seeing that true global leadership, clear, positive and responsible, and obviously this morning we are all anxious to hear more. So please join me in welcoming the managing director of the IMF, a woman who has shattered all ceilings, Christine Lagarde, to make her first public speech in Washington, D.C. [applause]

CHRISTINE LAGARDE: Thank you very much for having me and thank you very much for caring to listen to my remarks this morning. I would like to first of all thank the Wilson Center for their kind invitation and I would like to especially recognize and thank, and give my really deep appreciation to Jane Harman. In her long and distinguished career, Jane has worked in the executive branch, academia, law, we even share the privilege of having been -- both of us chairman of law firms-- which is, I can tell you a good training for managing egos. [laughter] And of course congress where she has served nine terms in the House of Representatives where we know there are no egos. [laughter] She has been and continues to be a devoted public servant. Thank you very much Jane for everything that you do, for having me this morning of course as well. There shouldn't be, there couldn't be a more appropriate venue for my first speech in Washington as IMF managing director. More than anyone else, it was President Woodrow Wilson who championed the calls of multilateralism and global fraternity. The seeds that he planted took a little bit more time than he thought to actually bear fruit, but in the post war era he was able to actually steel this extraordinary belief that is still the objective of the IMF to make sure that corporation [inaudible] not only economic stability, but a better future for all. And this is at the very heart of what the IMF, one of these [inaudible] institution has to do and has to keep doing no matter what the circumstances are. And the idea has never been more important. This is what I have been advocating for the last few weeks. Collective, bold, decisive, courageous action is needed and it will not only be in the interest of those that conduct such actions and for their countries, it will be for the good of the world. That's a very Wilsonian approach to economic stability. Now we're certainly living through very troubled time at the moment with great economic anxiety. Exactly three years ago after the collapse of Lehman Brothers, the economic skies today, they look troubled, they look turbulent as global activity slows and downside risks increase. And we have entered into a dangerous phase of the crisis, and without this collective resolve that President Wilson was advocating, the confidence that the world so badly needs will not return. And as we all know, at the heart of economic development, at the heart of growth, lies confidence-- confidence in ourselves, confidence in what the others can do as well. Woodrow Wilson once cautioned that, and I will quote him, the thing to do is to supply light and not heat. I believe that the IMF's job is to see and show the light when the picture seems so dark and when there is light and shine the light on core economic problems, but now and again it doesn't hurt to turn on a little bit, the heat. Even though you take the hit back, whether it's heat or hit is to be debated. Now with that in mind, let me offer the following: despite the very gloomy picture that we have at the moment, I believe that there's a path to recovery. It's indeed a narrow one and it is certainly narrower than it was three years ago because the volume and the amount of ammunition is different, lower. But there is a path and it will require strong political will across the world, not just in one country but in many countries, and it will require decisive action on the part of some central banks which they seem to be showing to us including this morning. It will require leadership over [inaudible] corporation over competition, action over reaction. And all three components are difficult because they have to be demonstrated, implemented by political leaders who may have to put aside for a little while, not just their ego, we all have one, but also their partisan interests, and they will have to extend their agenda to beyond the next election. Let's have a quick look at the global situation as it is and I'll really apologize for how brief that is going to be because I want to get into a quick analysis of what the problems are as we see them and more importantly what kind of solutions there are. If we look at the global economic outlook at the moment, and I'm not going to be specific on numbers because our revised outlook will be published next week when we have our annual shareholders meeting, so I will be general and not overly specific. But overall, growth is continuing to slow down. The advanced economies in particular are facing an anemic and bumpy recovery with unacceptably high levels of unemployment. The Euro area debt crisis has worsened. Financial strains are rising, and again, without collective bold action, there is a risk that the major economies slip back instead of moving forward. And while many advanced economies are facing those cold headwinds, many emerging markets are facing the risk of overheating with what comes with it -- that is, inflation, inflation pressure, strong credit growth, and rising unbalanced current accounts. If we now turn to the low income countries, they have experienced in the [inaudible] more reasonable growth but they remain highly vulnerable to economic dislocation from elsewhere in the world because of their degree of dependency on flows of capital and support from other countries. They've suffered as well from the commodity price volatility which comes with heavy social costs, and that has an impact on their public finances as well because many of those countries have to put in place subsidies and grants program to support their most underprivileged population. Now, this is a bit of an aside, and yet it's a big problem. I would like to simply draw your attention to the human suffering that is taking place in the Horn of Africa as result of the drought. It's a devastating catastrophe. It's one where, again, aide is available. There are programs in place. For instance, the IMF stands ready to help as well as indeed other international institutions, and it's a matter yet again in that part of the world or political determination and ability to set aside political ambitions or drive to allow for the support to be sent to where it should be. Now this is all very dark and gloomy and I would like to simply just, you know, indicate that there is always hope and I have to say that when I was Saturday in Marseille in the South of France for that Deauville Partnership meeting that brought together the finance ministers of the G8 countries plus the head of international institutions, and the finance ministers of countries is like Tunisia, Egypt, Libya, but also Jordan and Morocco, there was hope in the room. There was warmth. There was determination to actually move ahead with the development and put in place a strategy and reach out to those populations and those governments that have the courage to take their destiny in their hands. There again, there is a time for developing a strategy. There is a time for implementing a strategy, and my hope is that we will be able to continue to work together and to support those countries. It's not just a political issue that I'm not dealing with, it's an economic issue, it's a matter of development and it's a matter of organizing, on a regional basis, exchanges and demonstrating that market access can actually help the development of countries that decide to move on and to develop economically for the good of their population. Now turning to the, the roots of the problems or some of the roots as we analyze them because I'm supposed to deal with global challenges and global solutions, I see three distinct roots for the problems that we're facing at the moment. Number one, the balance sheet pressures that sap growth at the moment. Number two, the instability in the core of the global economic system. And number three, social tensions that are a little bit below the radar screen in corners of the world, but in others that are really popping up. First of all, a key short-term issue in advanced economy is that balance sheet pressures are knocking the wind out of the recovery. There is still too much debt in the system. Uncertainty weighs over sovereign across advanced economies, banks in Europe, households in the United States. Weak growth and weak balance sheets of government, financial institutions, households, are feeding negatively on each other fueling a crisis of confidence and holding back demand, holding back investments and job creation. This vicious cycle is gaining momentum and frankly it has been exacerbated by policy uncertainty and political lack of resolve and collective determination. That's for the first part. The second one, which is more of a long-term issue, has to do with the risk of core instability. What we find in our economic studies at the fund is that the world is totally interconnected with major conduit of connections generally in the financial system. This is clearly the result of what we've done at the fund which are the spillover analysis and the combination of analysis of economies and the connections between them. There will be a lot more said next week at the the time of our, of our annual meeting. But in this interconnected world, economic tremors in one country can reverberate swiftly and powerfully across the globe especially if they originate, number one is the systemic economies, and number two are channeled and exacerbated by the financial circuits. Those linkages are key and they have to be addressed. The third issue relates to what I call the social tensions which is bubbling below the surface that we don't necessarily see very well in some advanced economies. Although if you look carefully at what's happening in Chile for instance, or in less advanced economies, there is clearly social tensions under the surface. And that is caused by a number of int- intertwined strands: entrenched high unemployment. This is the case in this country but it is the case in many, many countries, particularly the advanced economies. And that affects in particular the younger generation. There have been discussions of the, the lost generation. Well certainly we need to do our best to avoid that because with a lost decade of growth, we run the risk of a lost generation when it comes to job. Fiscal austerity that chips away social protections and what we call the automatic stabilizers. Perception of the unfairness where Wall Street is treated a little bit better than Main Street. And the legacies of growth in many countries that predominantly benefitted from a period of time to the higher echelon societies and that was particularly true in countries that have decided to take their destiny in their hands and for the future to actually operate and develop for the better of the entire community and not just the top 10%. Now in the face of all these problems, what are the solutions and are there solutions? I contend that there are solutions, and as I said, implementing those solutions will be a matter of collective drive and of political determination and willingness to address candidly the problems and their analysis. Because I'm a simple mind I like to start with being able to remember what I preach, and to me those solutions are my four R's. The first R is repair; there's quite a lot of work that needs to be done when it comes to repair the shop, and then maintain it. What do I mean by that? Before anything else we must relieve some of the balance sheet's pressures that risk smothering the recovery, on sovereign, on the households, and on banks. On sovereigns, advanced countries need credible medium term plans to stabilize and then lower their public debt ratios to GDP. That must come first and foremost. This is a pre-condition to anything else. The degree at which it is done is something that will vary on a country per country analysis, but it is a first condition. It is a first condition and yet, consolidating too quickly, too heavily exposes to the risk of reducing the little growth that there is currently in our economies. So the challenge really is to navigate between the two imperials of losing credibility and undermining growth. There is a way to do this. Credible measures that deliver and anchor savings in the medium term will create space in the very short term for accommodating growth. In other words we want to get out of the vicious circle that I was describing earlier on by entering into a virtuous path. And that goes through a slow pace of consolidation in the immediate short term for some countries-- not necessarily all-- and a much downloaded program that in the medium and long-term delivers the saving that will be needed to slow the debt, stabilize it, and then reduce it. Now of course the precise path is going to be different on a per country, per country basis. Some have no choice but to cut deficit now and they simply do not have the luxury of creating this path which begins low and finishes high. They just have to cut because they are under such market pressure that there is no option but to do that. Others should stick to their adjustment plans and many advanced economies have put together those, those plans so they have to stick to the plan but they have to be very, very attentive to the pace of growth at the moment and be prepared to relax a little bit and certainly to let the economic stabilizers work. And some countries, not many but some big ones, have the space to actually allow for those growth conducive measures and space in the forefront provided-- and that's critically important-- provided that there is an anchored way of actually reducing those deficits and stabilizing the debt to reduce it in the long run. It is not, by the way, what kind of adjustment there is, it is also how this adjustment is being produced, and I think that both in relation to the short-term measures that would allow that growth space and in relation to the medium and long-term measures that anchor this more virtuous approach to public finance, finances, the how is critically important and certainly now mind it goes through entitlement reform, it goes through the kind of tax reforms that broadens the base and that needs to happen in all advanced economies. It is happening in some. There are many countries for instance in in Europe that have taken the decision to completely revise their pension system so that the entitlement is is is stabilized in the medium and long-term. This is the kind of reform that we have in mind in terms of entitlement. Now policymakers should also deal not just with sovereigns, they should also deal with households and and bank balance sheets. Incidentally, in light of the job crisis in the United States, I certainly welcome President Obama's recent proposal to address growth unemployment, but at the same time it remains critical that this be associated with a parallel track that actually indicates and anchors those medium terms actions and decisions that are so needed to stabilize the debt and to redress for the better the the debt trajectory. Equally, in this country in particular, it will certainly be important to consider relieving overburdened households through actions like more aggressive principle reduction programs or helping homeowners that take advantage, or should be able to take advantage of lower interest rates. Now turning to Europe, the sovereigns must address firmly their financing problems through credible cons- fiscal consolidation; goes without saying. And to support growth with the risks that are lurking in the background, it is also critical in my view that banks be able to strengthen their capital by way of capital buffers for instance, with a view to avoiding the deleveraging that is the other natural tendency to actually strengthen the institutions. That is you know so much for repair having looked at sovereign, households, banks and always with a sort of balance sheet perspective. If we look now at the second R, reform. Reform is about the longer term. The repair was the fix, you know the fix immediate action that need to be taken followed by proper maintenance. It's not, you know it's one thing to repair but you have to keep maintaining what the repair has produced. The reform is about much longer term and it's about lying the foundations for a more stable economic future tomorrow. And in that particular section of reform, I see two critical areas that need attention, and the first one is the financial sector reform. There are some good news in that category. On the plus side, there have been, some will find long discussions about capital ratios, liquidity ratios, the stability of financial institutions. Well I would, I would just call your attention to the fact that although it has lasted a little over two years, it's been a lot faster that, than what had taken place in the previous discussions in Basel. Basel 2 took about eight years, Basel 3 which is the set of rules and regulations applying to the capital ratios, liquidity ratios and overall supervisory environment of banks, that has taken a lot less in in this Basel 3 phase and it is, and it is good. But, substantial gaps remain in areas like supervision and particularly cross border supervision in regards to international banking institutions. Cross border resolution which is still, you know, to be tackled on a global basis and with proper national and regional ramifications when it comes to the legal system. The too important to fail issue and the development of the shadow banking systems. The fact that in the last three years, some progress has been made but not enough to actually be able to say in the face of the depositors, the people who put their saving in those institutions, we've done the job I think is a question that needs to be addressed urgently. We also need in that regard to develop and fine-tune macro prudential tools to guard against financial risks. I'm thinking here of policies like having banks hold more capital in good times so that they do have those capital buffers, those counter cyclical policies that will actually help them in the tough time, or implementing maximum loan to value ratios to guard against housing prices bubbles for instance. Progress has been made, there's no doubt about it, but it needs to be reinforced and it needs to be leveled because we need, institutions need, and more importantly the general interests need that level playing field where there is as little regulatory arbitrage as possible. Now under the reform banner I would also include the social dimension. Employment must be central; it's at the core. The economy grows, but if jobs are not created, it's not a waste, but it's a massive human waste. And it is especially important amongst the young people who risk, you know, this lost generation syndrome that we should by all means try to avoid. The third R is rebalance, rebalancing. Now one might argue that, you know, this is really a a general principle and it's not an immediate concern. I would argue that it is a critical point and when I, what I mean by rebalancing is it's this dual rebalancing that needs to take place where we move from public support to private investment and that hasn't really yet taken place. The second rebalancing that is equally important is this rebalancing where the deficit economies operate differently and the surplus economies operate differently, and that goes through various measures because in some countries the rebalancing is just held back by excessively protective regulations or by the lack of appreciation of exchange rate. So that rebalancing is very important. Put it very simply, it's a question for those countries that have a massive deficit to actually be able to operate differently to save more and for those countries that have a massive surplus, to actually consume a bit more domestically and not just by way of investment or massive infrastructure projects, but by domestic consumption. And to that end clearly letting appreciation happen when it comes to currency is very important. And this lack of rebalancing hurts everyone. In our interconnected world that I referred to, the thought that one country or a set of countries, because they're emerging for instance, could be decoupled by the rest of the world, is an illusion-- total illusion. In the advanced economy, if the advanced economies were to succumb to recession, the emerging market economies will not escape. When you're a big supplier of goods, you need clients around the planet and it's as simple and as basic as that. So rebalancing is in the global interest and it's also in the interest of each and every economy of each and every country. I think Woodrow Wilson would have appreciated that, Jane. That would be in his mantra. Now my fourth and final R is rebuild and here I'm mainly thinking of the low income countries that need to rebuild their economic policy buffers including their fiscal positions. They had such buf- buffers for for many of them but they had to use them at the time of the financial crisis and in the last three years. There has to be some rebuilding so that they can protect themselves against future storms. And this will also help provide the space for growth enhancing public investment and social safety nets, for example allowing countries to deploy well targeted subsidies to protect the poor from commodity price swings with nom- with minimal damage to fiscal sustainability. Now having gone through my four R's, I can't resist mentioning a fifth one and I did say that was my last one but I will indulge, if you will allow me, and that is the Role of the IMF. What's the IMF in it-- what's the role of the IMF in all of this? Well it is a critical role. It's a critical role because number one, we can help country with appropriate national, regional, and global [inaudible]. I've been a minister of finance, I've been a minister of trade. There are things that you simply don't see for yourself because you're right in the middle of it and you're trying to row this boat but you don't necessarily have the distance and the impartiality to actually analyze exactly the strength and the weaknesses of your economy. So that work of surveying how things work, how they interconnect, what is the spillover effects of some of the decisions that are made in one country and that will affect the others with the degree of impartiality and academic skills and talent that is required and that I was very lucky to find when I joined the fund. That's number one. Number two, we have the ability to provide the level of technical assistance that will actually help countries, and I'm thinking for instance of the country in the Middle East and north Africa, to build their public finance sectors, to build a proper fiscal system, to develop their tax system, to organize the collection of tax, to build their monetary institutions. We can do that. In many corners of the world we do, and certainly those countries will be, will continue to be the recipient of technical assistance support. And finally the third arm of the fund is our lending capacity and ability to actually respond to moment of crisis, to current account end balances, and to situations where there is nobody else but the fund that can actually come to support by way of lending, not by way of subsidies, not just dumping money without consideration, but under programs that are well established with appropriate conditionalities. And let me say-- because everybody has a pitch--I have my pitch, and I'd like to share it with you. Let me say that the International Monetary Fund is actually critical for the world, but it's also critical for the United States of America. I know in hard times there is a tendency to trim around the edges and to think oh well, that's not really critical. Mission critical is something else. Three points: first of all, the International Monetary Fund is a disciplined, organized, I hope well managed, but that will have to be demonstrated and I will do my best for that institution. It was one of the Bretton Woods Institution and when I was asked whether I would be intimidated as a lawyer by background to operate with economists essentially, 2,500 or them more or less, I was a little bit. [laughter] Until I came to the fund, and I realized how disciplined, organized, rule-based it is, and how the principles actually matter over the arbitrary decisions and the discretion of doing as we please. It's an institution where my main shareholder is the United States of America with 17% of the quota rights and de facto veto right on all the key decisions. That's reason number one. Number two, because I've heard that, why should we invest our money? Might be a waste. Well any dollar, any Euro that is invested in the fund, goes back to the member. 187 members, they all get their money back, principle and interest. We're not in the business of subsidies, we're not in the business of giving grants, we lend. And we lend under very strict terms that are called the conditionalities of our programs. We lend with terms and we come to the country-- those are the missions that are sent on the ground-- and they check that the conditionalities are actually respected, that the reforms are taking place, that there is consideration for the special support that is being given. And if it is not the case, money is not paid on the next [inaudible] until there is completion of the commitments that were made. And third reason why the International Monetary Fund actually matters is that for the largest economic power in the world, the United States of America, it's actually very important that there is stability around the world, that there is stability in all corners, and that the international monetary system is without excessive volatility. Certainty is a key to fuel confidence. Confidence is a key to develop growth. Growth is key to create jobs. That's the reason why the International Monetary Fund I think is perfectly legitimate in being accountable to all its members for the money it receives, for the money that it lends and for the money that it pays back to its members. Thank you very much Jane for giving me also the chance to pitch.

[Applause]

JANE HARMAN: Yes, I want to thank- on behalf of the Woodrow Wilson International Center for Scholars and on behalf of a very sophisticated and interested audience, I want to thank Director Lagarde. She said that last weekend at the G8, the G8 meeting in France there was hope in the room. Well I would observe that there is hope in this room under the disciplined and organized management of Christine Lagarde that the IMF will solve some of these problems. Now- [applause] we do have, that's why I came up on the stage, we do have about 17 minutes for questions and the Q and A session will be moderated by David Leonhardt, the Washington bureau chief of the New York Times who has just come up here. Mr. Leonhardt has been writing about economics for the Times since 2000. In 2003, he was part of a team of Times reporters whose coverage of corporate scandals was a finalist for the Pulitzer Prize. He won the Gerald Loeb Award for magazine writing in 2009 for the article Obamanomics and was a winner of the society of American business editors and writers best in business journalism contest for his New York Times column in 2009 and in 2007, and in 2010 he was a finalize for the Pulitzer Prize in commentary for his economic columns, a prize he won this year and then- congratulations [applause]. And this year also he was appointed chief of the Washington bureau of the Times. We have microphones around the room. Please ask, after he speaks and asks Director Lagarde a few questions, we're asking you to formulate your concise, precise question and to identify yourselves before you answer it, and it will obviously be be answered by Director Lagarde in a concise and precise fashion so that we can accommodate as many of you as possible. Please welcome David Leonhardt.

DAVID LEONHARDT: Thank you. [applause] Thank you very much. As the director just noted, I have not been in Vogue. [laughter] Before we get to a question from the floor, let me ask you one. You you've, you included some fairly stark talk. You said heat about some of the things that the world's policymakers have not done. Can you expand on that a little bit? What do you see as the things that, as a global economic system, that we have not done as well as we might've over the last two years, or three years, or you pick the timeframe in responding to this crisis?

CHRISTINE LAGARDE: I'm prepared to take some of the blame for that but I think that if I look at Europe for instance to begin with, because of the very circum- [inaudible] and cumbersome way in which decisions are implemented, and because it is based on 17 parliamentary processes, we have not signaled sufficiently well to the markets in particular, the degree of consolidation, the degree of fiscal responsibility, accountability, the European members, particularly those of the Eurozone were prepared to take, and it has been a slow process which was directionally right, but which was too slow and generally a little bit behind the curve to actually impress upon the markets that the European players in this monetary zone were prepared to actually shoulder the pain together. That's one example. Second example, I think that in many corners, austerity has been decided shortly after the stimulus packages were put in place and expanded. In in in two harsh a way and without distinguishing between the short-term gains of leaving a bit of space and the long-term loss of having really not, you know, killed growth but having reduced its possibility to expand.

DAVID LEONHARDT: Okay.

CHRISTINE LAGARDE: And are moving very, very brutally from the financial crisis, the stimulus, the austerity without letting growth, you know, take hold. I think that that was, that could've been better.

DAVID LEONHARDT: And this country?

CHRISTINE LAGARDE: It's, you know as I said it's in many advanced economies.

DAVID LEONHARDT: Okay, okay. Right here. Yes you.

QUESTION 1: This is from TV Global Brazil, Madame Lagarde, it it seems as if as is, as if you're saying that the actions are a little knee-jerk. Are you implying that our political and economic leaderships are incompetent? [laughter]

DAVID LEONHARDT: That's the problem with concise questions, they get right to the point. [laughter]

CHRISTINE LAGARDE: No this is not what I'm saying, I'm saying that the times at the moment are su- are such that it requires the kind of collective drive that I witnessed in say early 2009 at the time of the G20 London meetings. There were, there was at the time the sense of urgency, the sense of collective fate and destiny and the ability of leaders to be a little bit both nimble and ambitious. But to do it together. That's the 1944 spirit as well. And I contend that this is what we need at the moment, and I'm certain that political leaders are capable of that. I was very, you know, very reassured to listen the feedback and the statement resulting from the conversation that President Sarkozy and Chancellor Merkel had with Prime

Minister Papandreou from Greece. This is the kind of focused, collective, [inaudible] that that is needed and I, I don't know what the Cannes G20 summit will give the world, but I I strongly hope that it will be that sort of collective drive. And the sentiment shared by all that whatever happens anywhere on the globe is going to have an impact back at home.

DAVID LEONHARDT: You're saying that reminds me, you often hear people asking have we learned the historical lesson of the depression, and tell me what you think of this framework. It seems that initially we did, that you saw incredibly aggressive action-- to focus on this country just for a second-- by the Bush administration in its final months, it was still in office. By the Federal Reserve, and by the Obama administration when it first took office. You also saw it around the world. And then the politics of this sort of crisis response which affects right and left around the world, it affects the governing parties, sometimes it affects both when it changes, to some extent overwhelmed the economic lessons and then our response became less aggressive and that has hampered us in the last two years. Do you think that's fair?

CHRISTINE LAGARDE: I would agree with that. I think that there was, there was a very strong momentum coming out of the crisis and I remember vividly the G20 Washington meeting under President George W. Bush and the next one under the new leadership in this country, in London, and there was a very strong momentum at the time. And you know there were other unbelievable decisions. Number one to, to tackle the regulator- you know the regulatory issues when it came to the financial sector, to provide for massive financing for the IMF to you know really make a statement that there was support and financial support around the globe for those countries that would be in dear need or in in in in urgent recovery situation. And that has slowed down and has been sort of overtaken by the fact that the economy was picking up. So, you know, business as usual could recover.

DAVID LEONHARDT: Yeah. And there's something inherently unpalatable about the sort of crisis measures that you have to take as well.

CHRISTINE LAGARDE: Yup.

DAVID LEONHARDT: Right here.

QUESTION 2: [Inaudible] do you think there are adequate systems in place for [inaudible]

DAVID LEONHARDT: I'll rephrase it-- okay you can.

QUESTION 2: Do you believe there are adequate systems in place for proper accountability of the Bretton Woods institutions, and if not, what needs to be done?

CHRISTINE LAGARDE: I cannot talk for the Bretton Woods institutions because the only one I know is the International Monetary Fund, but if I look at the way it is structured, the way in which twice a year we report back to our membership, we have open books when it comes to the degree of accountability that you referred to. We have structured programs that we cannot deviate from. We have ourselves conditions of operation that are quite strict and sometimes overly strict which is a bit of, you know a bit of an issue. I think there is enough in terms of ability to report and be accountable to the membership. It's not as if it was an organization that can operate without rule, without conditions and without reporting back to the membership.

QUESTION 3: Thank you very much, I'm Lawrence MacDonald from the Center for Global Development. Welcome to Washington.

CHRISTINE LAGARDE: Thank you.

QUESTION 3: Thank you for your remarks. You may have noticed today in the Washington Post that Fareed Zakaria put forward a very bold proposal that the IMF would seek $750 billion line of credit from the surplus countries, primarily China, and then use that to bail out Europe applying the very strict terms of lending that you so well described and for which the IMF is very, correctly, very highly regarded. He suggested that in exchange for that there would be an assurance that you would be the last non-Chinese head of the IMF. [laughter] I- if you'd like to comment on that, I'd be delighted but I tell that really to get your thoughtful response on the imbalances we see that go to the legitimacy of the IMF where the debtor countries are, continue to call the shots, and the creditor countries are in a relatively, in the minority position and to

DAVID LEONHARDT: Let me stop you there. . .

QUESTION 3: ask if you have plans for addressing that during your term in terms of the governance of the IMF itself.

CHRISTINE LAGARDE: Well I look at it that way. I look at the membership and you know there are, you know, proper economic classifications between the advanced economies, the emerging economies and the low income countries. And at the moment there is no doubt that the advanced economies have more than a majority of the quotas and the voting rights, so I don't know what you're referred to as the, you know, the creditors and the and the beneficiaries but, the structure of the fund is as it is. There is clearly a drive by the emerging markets in particular but more generally by the less represented countries to be better represented, and it's an ongoing endless debate within the fund, not really one that I, I cherish myself because I think that the, the real value of the fund is to be outward looking rather than inward looking, but it has also to be inward looking because it has to reflect the state of the world. And it's very likely, given the trends that we see at the moment that the less represented countries that include the emerging markets will be more represented in the future because it's only fair that, you know, given the rise of their GDP, given the size of their country and their economy, they be adequately represented. Now how you base that representation, whether it's pure GDP, whether it's, you know, [inaudible] much more sophisticated way of measuring, we'll have huge debate about that because it's an open question at the fund. But I think, you know, that [pause] one of the virtues of the fund is that it is properly representing the entire global constitution of the world. It cannot be dominated by the founding fathers for instance, and to be accepted in all corners of the world including for its lending capacity, I'm thinking here of Asia in particular where there are still stigmas associated with the IMF and the way it was conducting programs in those days. I think it's necessary that there is appropriate representation.

DAVID LEONHARDT: We. . .

CHRISTINE LAGARDE: I'm not sure that I've dealt with all issues of your questions, in particular the financing by China but you know there are multiple ways to finance and to support those countries that are in in difficulties. Multilateral, bilateral. Multilateral works quite well.

DAVID LEONHARDT: We hear statements from Europe, including yesterday, that they will not let Greece fail essentially.

CHRISTINE LAGARDE: Um hum.

DAVID LEONHARDT: Yet there is no, there is no specific plan yet to prevent this from happening. And in fact many people think, that in the course that we're on, bad things will happen unless we do more. How can we have confidence in these general statements that Europe will not let anything bad happen given that there are very tough, politically unpalatable-- and I don't say that dismissively-- they are difficult decisions for Northern European taxpayers and politicians to make and accept. How should we have confidence that we're actually gonna get from here to there, from general statements to specific action?

CHRISTINE LAGARDE: I was personally very much reassured by the joint statement of Chancellor Merkel and President Sarkozy yesterday. It's a clear indication from them who are the two, you know, clear lea- leaders from an economic point of view in that Eurozone of 17 members, that the future of Greece is within the Eurozone. That seems to be very strongly entrenched as a view for both of them and I think it's very important. And it echoes a commitment that was made by members of the Eurozone in their July 21 meeting and then statements which is really their sort of guiding principles. And one of the guiding principles is, as long as a country in difficulty under a program performs its obligations, the members of the Eurozone will support it financially, without a cap, without a limitation. Now that's a very strong and bold statement. The difficulty we have, and you you're absolutely right, is that between the commitments that are made at the highest level of governments and the delivery of the legislative product at the end of the day, there is usually in the best case, three four months. In the worst case it can take longer than that because if for instance of more consolidated fiscal policy, more integration, the creation of crisis management instruments required treaty changes, that takes, you know in the best case again, 12 to 18 months. And there is a huge dichotomy between that timeframe, the timeframe of democracy, the timeframe of 17 parliaments coming together, and the timeframe that is expected from the markets, from the investors, and from the media because you just cannot, it's not as if it was you know the Napoleon days where, you know [laughter] I decide then it happens.

DAVID LEONHARDT: I think our time is up.

JANE HARMAN: I want to thank you both, Director Christine Lagarde and Washington bureau chief of the New York Times David Leonhardt and this educated audience for a wonderful conversation typical of the conversations we hold at the Woodrow Wilson International Center for Scholars which is nonpartisan and tries to bring light, not heat, to the most difficult subjects. I also want to thank the Ronald Reagan Building and International Trade Center for providing today's venue. The Reagan Building functions as the official World Trade Center of Washington, D.C., a non-political, non-profit global association that links global business leaders from around the world. And on a personal note, what a pleasure it is to see the new director of the IMF, who happens to be a woman, so gracefully and completely address these toughest issues that affects or world today. Thank you again very much.

[Applause]