



Christine Lagarde's Steep Learning Curve

Nicolas Véron assesses the diplomatic skills of Christine Lagarde, the newly chosen managing director of the International Monetary Fund.

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Steve Weisman: Christine Lagarde is the new Managing Director of the International Monetary Fund. Who better to appraise her career and prospects than our Visiting Fellow at the Peterson Institute, Nicolas Véron? Nicolas is also a Senior Fellow at Bruegel. This is Steve Weisman at the Institute. Nicolas, what qualities does Ms. Lagarde bring to the many challenges that she faces at the IMF?

Nicolas Véron: She's a negotiator. She's shown talent as an economic diplomat and as a consensus builder. Basically, this is what she has put forward in her candidacy and indeed qualities that she displayed in bringing the Europeans together very quickly to a consensus position on her name before the rest of the world. And I think this is what distinguishes her. She's not an economist. She doesn't pretend to be one. But she has been heading a medium-sized country finance ministry for a number of years now, so she will claim familiarity with at least some of the issues she will have to deal with. But I think clearly, there also will be a steep learning curve on a number of the dimensions of the job.

Steve Weisman: She certainly displayed political skills in not only uniting Europe behind her candidacy, but also winning over some of the developing or emerging economies -- in spite of their call for someone from their sector to serve as managing director. How did she do that?

Nicolas Véron: You know, I think she made deals. She's a negotiator. She's a former lawyer, actually a former labor lawyer, so she has a strong sense of what it means to make deals.

Steve Weisman: What do you think some of the deals were?

Nicolas Véron: I think she reassured the emerging countries that she would not spend her mandate fighting rear guard action on behalf of the Europeans on defending the quotas and the chairs and the different hands of senior management, and the different dimensions of the governments' reform, which is a paramount issue for some of these emerging countries. I don't think she won all of the emerging countries and not even probably all of the ones she visited. But she won a critical mass that made the difference in the board. There wasn't a stalemate after the first straw poll.

Steve Weisman: Once China went to her side was it almost inevitable that others would?

Nicolas Véron: Clearly it was an important factor. And I think important also is the fact that the U.S. has been very ambiguous in this whole discussion. On the one hand, the U.S. wants to accelerate the transition towards empowerment of the large emerging economies. On the other hand, the U.S. also has a status quo to defend with the World Bank position [being held by an American]. So I think the U.S. was torn throughout this discussion between a defensive position and a more proactive stance.

In a way, Christine Lagarde helped the U.S. stick to the defensive position by bringing this minimal consensus of emerging economies on her name. I do believe at the same time that some emerging economies still resent the way the whole process went, and she will have to do some follow-up work. I'm sure she's planning to do that to win their acceptance even after the fact that this was not just a European stitch-up, but actually something that may make sense, also for those jurisdictions that didn't vote for her in the first round.

Steve Weisman: What's her toughest thing that she's going to have to adjust to?

Nicolas Véron: Clearly Greece and the eurozone crisis. She does hit the ground running. She knows all the intricacies of this negotiation including the Fund's position. That's a big advantage. At the same time there is this big set of choices that the IMF will have to make in the next few weeks, months, if not days, on how tough a stance to take vis-a-vis Greece, how far the French can go in terms of continuing to commit itself to Greece if a number of milestones are not met in the course of the adjustment program.

And evidently there will be a suspicion from non-Europeans that she has a bias here as a European and as a former negotiator on behalf of one of the key negotiating countries. There may also be suspicion on behalf of the Europeans that she may have made a number of promises to emerging countries and, therefore, may be tempted then not to always defend the best interest of Europe when things are not aligned with the rest of the world. So you will have all these tensions building up in the next steps of this discussion.

Steve Weisman: Was she among the Europeans who had initially resisted an IMF role in the European sovereign debt crisis?

Nicolas Véron: I don't remember all the details of the discussion, but I think the short answer is no. As you know, there was a lot of back and forth on this issue in the spring of 2010. But I think it was mostly the ECB [European Central Bank] and Germany, more than the French government itself. And within the French government, a lot of the policy is set at the level of the president and his advisors. She always has played a role to widen the scope of policy options considered, but in the French system, the minister of finances is not the only player.

Steve Weisman: Do you think that as she switches from the European context to the global context of the IMF she's going to be A) more demanding of Greece in terms of its austerity steps or B) more demanding that -- as some in Europe have wanted -- the banks, especially French and German banks, participate in some kind of debt restructuring over time?

Nicolas Véron: As the situation in Greece worsens, I think the IMF has to be more demanding of everybody and that means the private sector -- the banks. but also the member states and perhaps even the ECB on some aspects.

Steve Weisman: Would the European Union help out with some fiscal transfers -- or is that heretical?

Nicolas Vernon: At this point the eurozone has been willing to reassure the IMF--especially in the last few steps of the Greek saga--that the IMF would be repaid whatever happens. So that's a big element of negotiation and will become I think even bigger in the next steps: For the

IMF to continue its commitment, it will seek assurances, not only in terms of execution of the domestic programs, but also guarantees including financial guarantees from the eurozone. So you may call that creeping fiscal federalism and it's probably very much what it is.

But I would argue the eurozone is more and more getting past this discussion because we have more and more explicit fiscal federalism. The question now is how to organize it in a politically sustainable way. Of course there are different aspects to the debate and we're not yet there. But I think this will be more and more of the big issue. And here the IMF has a constructive role to play in perhaps not always ruthless truth telling but certainly helping the Europeans face the real policy options that they have and have to choose them among.

Steve Weisman: We know in 2008, from not only books but even the movies, that Christine Lagarde was quite upset with then Treasury Secretary [Henry] Paulson for letting Lehman fail. Doesn't this tell us that she would be even more determined not to let Greece fail?

Nicolas Véron: The two situations are obviously different. But indeed what we know of the dialog between Christine Lagarde and Hank Paulson at that time let us think she was a strong defender of the bailout option. Now clearly the situation is different, and I think Mrs. Lagarde will also be very willing to listen to the positions of the staff in the Fund as the different steps of this series of developments going forward.

So I think she really was sincere when she said during her campaign that she would be the MD of the Fund and not the French MD or a European MD of the Fund, and this may lead her to take different positions on substance from the ones she has taken as French Finance Minister and that would not be shocking. She's not a career politician in France. It's not clear what her next step would be after her term at the IMF. I think she will be sincerely keen to defend the institution and embrace the interests of its different stakeholders now that she has been appointed.

Steve Weisman: Thank you, Nicolas.

Nicolas Véron: Thank you, Steve.

