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The Current: How will Christine Lagarde lead the European Central Bank?

Thursday, July 4, 2019

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PITA: You're listening to "The Current," part of the Brookings Podcast Network. The European Council announced Tuesday that Christine Lagarde, current head of the International Monetary Fund, has been tapped as the next leader of the European Central Bank

With us today is Doug Rediker, a nonresident senior fellow in the Global Economy and Development program here at Brookings and is also the founding partner of International Capital Strategies. Doug, can you tell us why is the European Council looking to Christine Lagarde and what will her role be at the European Central Bank?

REDIKER: So, you have to put it into perspective that Mario Draghi, whose 8-year term ends in October of this year, has really elevated the role of the European Central Bank to being the one that really reflected the adults in the room during the European crisis, when a lot of national governments simply failed to step up and stem a lot of market and economic worries. Finding a successor to Mario Draghi was not just a routine selection of a central bank replacement, as might have been the case in another setting. This was a really important role. Of all the candidates who were being mentioned, none of them was really inspiring confidence. The selection of Christine Lagarde served a number of different purposes.

First of all, she's an adult. She's actually been an extraordinarily successful leader at the International Monetary Fund. She's raised the level of her stature and the stature of the IMF itself to heights that were never anticipated. She is truly a member, if not a leader, of the global elite that actually is taken seriously as a policymaker and a pragmatic politician as well.

In selecting Christine Lagarde, what the Europeans were saying was, "we take this position as the head of the ECB extremely seriously, not only as a policymaking position but as a political position." There's some that are going to criticize that, because central banks are supposed to be beyond and above politics, but the reality is that in Europe, nothing is above and beyond politics, certainly not the selection of the president of the ECB. By going to Christine Lagarde, they're effectively taking a proven leader who's both a safe pair of hands, trusted, and probably going to do a hell of a job in continuing the

legacy of Mario Draghi in providing the kind of confidence that markets and political actors and observers around the world are striving for.

PITA: Before we get to the challenges she's going to be facing at the ECB, maybe you can tell us a little bit more about her legacy at the IMF. She's been there since 2011. What are some of the major accomplishments that you started alluding to?

REDIKER: When Christine Lagarde took over, you have to put yourself back in 2011. The previous managing director, Dominique Strauss-Kahn, had been tarnished by allegations of sexual impropriety and the entire institution was in a state of disarray and confidence was lacking. That was taking place at a time when the IMF's role was crucial in the European crisis, which was really at the beginning of what became a fairly sizable, global systemic risk. So, an IMF that was seen as deeply important, but suddenly deeply undermined by the Dominique Strauss-Kahn incident, was really in need of a safe pair of hands, someone who could come in and restore its integrity, its credibility, and take it into a new direction. And Christine Lagarde succeeded beyond all expectations on all of those fronts.

What she did was – first of all, she managed the internal confidence of the institution. Those sound like little things, but actually, if an institution is functioning well, it performs better in its role. If internally, there's a lot of internal gossiping, sniping, and lack of confidence, it usually translates into poor performance on the world stage. Lagarde nailed that from almost day one. Then what she did was – she started managing the institution in the context of the crisis du jour, which was the European crisis. Greece and other countries as well, in a different way – in a much more structured, linear, logical way. Her predecessor, Dominique Strauss-Kahn, had aspirations to be the president of France, and whether overtly or tacitly, that trickled into his management of the IMF role.

Lagarde put a hard stop to that. The IMF's role -- some agreed with it, some didn't agree with it – was much more easily understood as being an independent organization that was trying to do what it believed was right for the world, for Europe, and for the target countries it was lending money to. Then what Lagarde did was really quite unexpected -- she took her own role as the managing director, and made it into a global, elite, superstar role. If one had said in 2011 that Christine Lagarde would be the person that opened all of the G20, G7, the other major elite global leaders' summits, and framed the agenda, you would've said that was a task that was well beyond the remit of a managing director of the International Monetary Fund. And yet, we now take it for granted that Christine Lagarde is going to be the one who frames the economic, and by extension, many of the political issues that the world's leaders will discuss when they get together at these annual meetings, and also at the finance minister meetings, which take place on a more regular basis. It is Christine Lagarde and the IMF that effectively is the anchor for all of these global institutional fora. Christine Lagarde, by force of personality, intellect, charm, and whatever other amazing skillsets she possesses, really took the role and made it into something that was unforeseen. And we will see who succeeds her, whether it can be continued on or whether she really is so personally responsible for that, that it goes with her.

In addition to Christine Lagarde really restoring the credibility and enhancing the stature of the IMF and the managing director role, what Christine Lagarde did was emphasize two points in particular that had not been policy imperatives for the IMF previously. One was the role of women as a driver of economic growth. It's one thing to pay lip service to the fact that equality was a good thing as a matter of human rights and morality, but what Christine Lagarde did in the context of the IMF's role as an economic institution, she pointed out and emphasized and made mandatory that countries need to be assessed on how well they integrate women into their workforce and their economies -- not only because it's the right thing to do, but because as an economic matter, if you're going to try to grow your economy, but you disenfranchise half of your workforce, that's a pretty counterproductive set of economic policy choices. So, Christine Lagarde really made women as a driver of economic growth a paramount consideration in IMF assessments of countries around the world.

The second thing she did was she added corruption to the set of basic assessments the IMF gives and makes for countries. So, it would seem obvious that corruption is an economically disadvantageous thing for the economy of a country to endure, but really, previously, corruption was seen as too politically sensitive for the IMF to wade into with any real appetite. Christine Lagarde basically pointed out that corruption is not only inherently wrong, but it's also economically compromising the performance of countries the IMF works with. By prioritizing corruption, she's not only taking on an uncomfortable issue, but she's really put the world on notice that it's not just a United Nations finger-wag that you get if you're a corrupt regime, you're actually going to be called out by the IMF for its economic consequences beyond the political and moral consequences. Those are two really important legacies that I hope when Christine Lagarde's successor takes office, that he or she continues because they really have been both meaningful and also hopefully long-lasting.

PITA: So, what will she be facing now at the ECB? The eurozone crisis is now no longer quite the crisis that it was back in the days of Mario Draghi. But there are still a great deal of trade tensions and political tensions within the EU.

REDIKER: Christine Lagarde going into the ECB is going to be confronted with a eurozone economy that is growing, but not the way people would like to see it grow. It is not reaching its inflation target, which has been a theme under Mario Draghi's leadership for the past eight years. And where central banking tools, in particular, but not limited to, Europe, are limited. There are very few rate cuts you can embrace when you're already in the zero interest rate realm. So, Christine Lagarde will be faced with carrying on the creativity of Mario Draghi into her term and figuring out how to use monetary policy when there are very few tools left in the toolkit to try and create the growth and the restoration of some inflation and inflation expectations that Europe sorely needs. It's not going to be an easy task.

In addition, what I think that Christine Lagarde will really focus on, above and beyond monetary policy, are going to be some of the financial stability issues. Based on her tenure at the IMF and her training as a lawyer, she understands that this continuing accumulation of debt -- whether it's at the

sovereign level, some countries that are borrowing too much, or whether it is at the corporate level, or the banks – that that build-up of extremely high and growing debt is not without consequence and is not without risk. Some of the non-monetary policy issues that a central bank like the ECB has to grapple with are going to become more important and more of a focus under Christine Lagarde than was the case under her predecessor, who was really dealing primarily with a monetary policy crisis.