THE BROOKINGS INSTITUTION

SEIZING THE MOMENT -- THINKING BEYOND THE CRISIS: A CONVERSATION WITH THE IMF MANAGING DIRECTOR CHRISTINE LAGARDE

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P R O C E E D I N G S

MR. TALBOTT: Good morning everybody. I'm Strobe Talbott. It's my great pleasure to welcome all of you here to The Brookings Institution this morning. We have had the honor on several occasions over the years of having Christine Lagarde come and edify us on some of the most important issues of the day. But this is a double first. Xavier Giocanti, her husband, is with us today and it's his first visit to Brookings.

Xavier, thank you for being here. Thank you for the support that you've given not just to your wife, but to a cause and to now a great institution.

It is also the first time that Madam Lagarde has been here in her capacity as managing director of the IMF. She obviously knows the Fund very well. She knows its book of business. She knows this town very well, as well.

She was an exchange student at Holton-Arms up off of River Road once upon a time. We won't dwell on how long ago. And around that same time, she worked as an intern, I would guess, in the office of then Congressman Bill Cohen of Maine. And that was at the time of the Watergate and Nixon impeachment period, so that must have been quite a busy and exciting time to be in the Congress.

I might add Madam Lagarde also knows that this a tough town, and that even geoeconomics is sometimes a contact sport. I just hope the fact of it being a tough town is not connected with her limited mobility here today. She also knows, as do we all, that this a season in Washington that is distinguished by two things: cherry blossoms and the Fund bank meetings. So the latter of those is what she's going to talk to us about this morning. She's going to give us some insight into the activities and the meeting that will take place here during the week ahead.

She will be talking about the state of the global economy. She will be giving us some thoughts on what it will take to keep the recovery on track, what it will take to assure that there will be growth and indeed smart growth in the global economy.

And I suspect that the subject of Europe will also come up, which makes it particularly appropriate that Javier Solana, a distinguished fellow of The Brookings Institution and another great European, would be with us today to participate in this conversation. This event is sponsored and under the aegis of our Global Economy and Development Program. The director of that program, Kemal Dervis, knows all of these issues very well, among many other associations that make him the perfect person to enter into a conversation with Madam Lagarde after she finishes her remarks. He has been deeply involved in the G20 process. And then after a bit of back and forth between the two of them, Kemal will open the meeting up to all of you.

So Madam Lagarde, thank you so much for being with us today.

(Applause)

MS. LAGARDE: Thank you very much and good morning to all of you. I'm delighted to be here, and I can assure you that my slight disability has nothing to do with the hardship of working and living in Washington, D.C., which is a full town, certainly a very nice one to be in. I would like to thank The Brookings Institution, and especially you, Strobe Talbott, if I may say, as well as you, Kemal Dervis, for having invited me to speak here today.

This institution actually provides an ideal forum, in my view, to address the issue of global economic future and to look beyond the immediate imperative of dealing with the crisis. So expect me today to actually deal with the short-term issues that we are facing, but also try to look a little bit beyond that and have a slightly longer term view of what we are facing and how we should face it.

In fact, talking of the ideal forum, I think both Brookings and the IMF were formed by visionaries at the time of a big crisis, as well. Robert Brookings here, and John Maynard Keynes as well as Harry Dexter White at the Fund, took the opportunity, even in the midst of a crisis, to actually think about the future and think beyond the crisis. They seized the day to use a *carpe diem* that is probably known to most of you.

Now you, Strobe, and you, Kemal, are also characters who actually decided to embrace that spirit of seizing the day, seizing the moment, or *carpe diem*. You, Strobe, with the extraordinary work that you did at the time when the Soviet Union actually fell into pieces and you, Kemal, if I may say, as a courageous, very brave minister of economy and finance in Turkey when you implemented reforms that actually helped your country to be in a much better position following its crisis.

Now, that spirit of seizing the moment has also inspired the G20 leaders at the time when they all congregated back in Washington, D.C., in 2008, and later on in 2009 in London. And that was called at the time the London Moment. They all decided that collectively they should actually seize the moment, address the issues courageously, and look a little bit beyond what was the immediate urgencies. Now, I believe that we may be at another one of those moments, maybe not the London Moment, but possibly the Washington Moment. Because in recent months, important actions have been taken, particularly out of Europe.

Dear Javier; and thank you for being with us today. I'm so pleased that you're here.

And as a result, we have seen some improvements in the economic climate. But let's be under no illusion. The risks remain high and the situation fragile. Let me also identify that we probably have at the moment a little bit of breathing space. Not much, but a little bit of breathing space where we can actively pursue what still needs to be done. Who knows? Perhaps not the cherry blossoms, but the Spring Meetings might be an occasion for us to actually take a chance at that Washington Moment.

Now, what do I mean by that? We need to address three important issues and ask three important questions. First of all, what are the next steps needed to keep the crisis at bay? Second, what are the building blocks needed to achieve more lasting growth and stability, not to keep the crisis at bay, but to put the crisis behind us? And third, wouldn't strengthened cooperation, particularly a strengthened IMF, be of help to take advantage of the tectonic shifts that are taking place around the world? Obviously, those are the three questions that I would like to take in turn.

Actively pursuing what still has to be done to keep the crisis at bay. Let's backtrack a few months ago. Remember, we were staring into the abyss? But more recently, some data, particularly arising out of this country, are telling us that the United States are probably beginning to turn the corner. And some actions taken by the Europeans have also led to a little bit less stress on the financial markets. A little bit, because clearly, what has happened in the last few days tells us that turning the corner is not an easy thing to achieve. In the meantime, emerging and developing economies have been and should continue to be a relative source of strength. But, again, we must not let down our guard.

And as Nelson Mandela once said, the secret is that when you pass one hill, you suddenly realize that there are more hills to climb. And that's exactly where we are, more hills to climb. And clearly, the risk that looms largest on the horizon is that sovereign and financial stresses return with renewed force in Europe, not to talk about the increased price of oil.

The steps taken by the Europeans in recent months are a timely reminder of the power of policy resolve and action, and yet, as I said, there are still risks. The situation is still fragile and there are still hills to be climbed. Europe in particular must keep up and build on the efforts that it has undertaken: continued strong policies at country level -- we have good example of that, Italy, Spain most recently -- continued support from the European Central Bank, which has been critical in the last few months; continued efforts to build a healthier banking system; and continued steps towards more fiscal integration. The much-expected European decision made by the euro area partners to strengthen their firewall was indeed crucial. These actions will help, slowly but surely, to restore confidence, to restore stability, and to reduce vulnerabilities.

But we also need a broader approach, simply because our economies are interconnected. That broader approach means a stronger global firewall if we are not only to keep the crisis at bay, but push it back. In today's global economy with its dazzling array of instant interconnections, a stronger European firewall will be part of the solution, but part of the solution only. And in my view, we need something which is stronger in which the IMF can play a role.

Why is that? Because that stronger global firewall will help put a circle of protection around each and every country that needs it, and here the IMF can help. It can help because it is here for all its members, the entire membership, not just the euro zone, not just countries at the epicenter of the crisis, but also all those countries that are bystanders.

Now, we are, of course, constantly assessing and reassessing global risks, taking into account developments in the global economy, in the economic climate, on the markets, as well as all policy actions taken around the world, particularly out of Europe. And the needs today may not be quite as large as we had estimated earlier this year, if only because action was taken by those European institutions that I mentioned earlier. But let us make no mistake, the risks and the needs are still sizable, and it would be very imprudent to ignore that fact. In this context, I've been encouraged by the expression of support by many of our members to increase our resources. And I'm hopeful that during the Spring Meetings that are coming up next week, we will see development and we will make progress and we shall seize the moment.

And that brings me to my second point, and my main point. The opportunity we have to build a stronger foundation for growth and stability to put the crisis behind us, but to do that, it's not going to be just about short-termism, it's going to be about anchoring, medium-term, long-term, decisive, well-anchored actions that will restore confidence for all. The crisis has indeed shaken the foundation of our traditional economic framework. For too long, the benefits of growth have been shared by too few. Growing inequalities and weak financial markets left the world prone to instability and crisis.

In the nine months that I have been managing director of the IMF, I have traveled across our membership. That was one of my objectives, to see for myself, and in most places where there are advanced economies, developing economies, emerging markets, I've seen the same thing: the cost of instability, the face of unemployment, the hardship, the loss of dignity, the economic loss. It's the same in all countries to different degrees and we saw the painful collusion of social exclusion and high unemployment especially with young people, especially in countries that are full of hope would have liked to transition from the Arab Spring to a better future. In those countries, a generation is at grave risk of being lost in transition and it is imperative that reforms underway across their region succeed and it is imperative that all the people in the Middle East have the opportunity for a fairer and more prosperous future and it is imperative that we help them help themselves. Otherwise, not only would it be a lost transition, but it would be a lost promise.

Particular appropriate financial support will be critical to prevent the risk of near-term economic instability jeopardizing the future. The cost of inaction for that region would be much higher than the cost that is needed to help them help themselves. In the Middle East and elsewhere, the global economy must help deliver the right type of growth and the jobs that people need and it is not happening at the scale where it should. So, even as we grapple with the crisis, we must take the opportunity to rethink the framework and harness a new type of growth.

Now, what does that mean in practice? I wish I had the answer and some of the best economic minds in the world are struggling with this issue, including here at Brookings, including at the Fund.

Let me share with you some of our thinking and it's going to include policy action recommendations, it's going to include key factors that we see likely to produce that more stable, sustainable, and solid growth, and it's going to mix some short-term, needed actions, as well as medium and longer-term ones.

In the short-term, what is clearly needed is more confidence, more stability, more demand. The immediate focus of policies, therefore, should be to support growth where it is still weak. But let me be clear, in many countries, especially in the advanced economies, fiscal adjustment is essential, but the base of adjustment matters and it must be country-specific. So, the IMF is not saying it has to be demand, therefore, any policy that supports demand will be fine, neither is the IMF saying it has to be fiscal consolidation across the board without specificity. We're saying there is a pace to be had and it has to be country specific. Let me be clearer. Yes, some countries have no choice, but to adjust now sharply and quickly, but it's not true across the board. Other countries can actually let automatic stabilizers play their role. Let revenue reduce and public spending, especially if it's about safety nets, increase, and there are some countries, although a limited number, that can actually slow the pace of consolidation in order to let growth actually take root rather than harm growth. But that short-term portion that I've tried to articulate by identifying those that have to take the hard measures, those that can let the stabilizers work and those that can slow the pace, particularly this year, that should not be an excuse to delay efforts to restore sound public finances. Granting adjustment in medium-term plans, as is particularly needed for the United States and for Japan, for example, will not only help address fiscal concerns, but also reinforce confidence and growth. The expectations will be there.

Turning to monetary policy now, it can also support growth where inflation remains in check, which is pretty much the case in all advanced economies. For emerging economies, a bit more caution is required, especially if rising oil prices that are referred to earlier and extended credit booms begin to test the bands of inflations. Again, it has to be country-specific. Low-income countries must also strike the right balance, even as they're being hit by reduced aid flows and probably reduced remittances as well, they must guard again against current risks, especially those radiating out of Europe. They will have to rebuild the policy buffers that they had to use during the crisis. These kinds of policies will help to get growth restarted over the short term.

Now, over the longer term, we must also work towards growth that is more inclusive, more durable, and not just pay lip service to it, actually do it. Clearly, the rebalancing of the global economy from a drift in demand, from external deficit, to surplus countries is key, and this is something that the IMF has been advocating for a long time that went a little bit below the radar screen lately, but that is key if we want in the long term to address the imbalances.

We are seeing some promising signs in China, for instance, where the current account balances moved from a little over 10 percent to probably a little less than

3 percent. That's good, but it's only partial because when external factors abate, then it will hike again. So, more needs to be done. We also know based on IMF research that the more equitable distribution of income can help promote economic and financial stability and more lasting growth.

Let me take one example, the example of Brazil, which since the 1990s, has taken significant steps to transfer from the more privileged to the less privileged. Now, if other countries were to reduce inequality by as much as Brazil has done in the last two decades, our analysis shows that periods of uninterrupted high growth could be 50 percent longer than they might otherwise be. Analysis research, that actually can help and it sets standards. India and China, too, have made important inroads into reducing poverty; yet, high growth in those countries has also exacerbated inequality. So, those inequalities need more attention and the governments in those countries know it.

So, what will be the key factors that will help? I've gone through the policies, fiscal, monetary, short-term, anchoring, and the medium-term. What are the critical factors? I see three of them, amongst others, but I'll mention those three.

The first one, in our view, is a financial system that supports rather than destabilize the economy and that means repairing the financial system so that it can deliver credit, growth, jobs. This means better regulation and supervision and coordination across countries because some countries have made progress in their supervision system. They have, but the coordination between supervisors, that is not at its best and it has to happen. It means getting the financial sector to pay its fair share, as well, and you know their discussions on that particular matter. We dare not be complacent on financial sector reform. The mission has not yet been accomplished. The mission is to be accomplished. Steps have been taken, standards have been agreed, major pieces of legislation have been voted, but the implementation, the coordination is still vastly lacking.

Two, we must improve competitiveness and have better functioning labor markets. It can work in parallel. It's tough, indeed, but it can work in parallel, and if we take one example again of such policies, I would take the example of Ireland, that has actually focused on improving competitiveness, but has also made sure that those people who are unemployed are getting specific training to make them able to access the job market and has put in place measures actually engaging, incentivizing, if you will, employers to employ the unemployed.

Nobody should pretend that it is easy. Labor market reforms are difficult. In many cases, it involves lowering labor costs, but reform is essential for competitiveness and for creating greater job opportunities in the future, especially for younger workers. It needs to be done, but it needs to be done according to the specificities of the country, it needs to be done with care, and it needs to be done in a dialogue that is a solid dialogue with all the stakeholders.

Third, remember the financial sector that works, that serves the economy, the competitiveness, and the reform of the labor market, and finally, the appropriate safety net that will protect the less-privileged. This is necessary because the reforms that I've just mentioned actually stretch the chemistry of society and put them at risk, therefore, safety nets are clearly important, and, again, I will take the example of Kenya, for instance, with which we have worked hard, where the volume of transfers, cash transfers to the underprivileged has moved from concerning only 200 families to 33,000 in just 4 years, and that has clearly helped keep the texture of society together. And the IMF will continue to work closely with countries with that in mind: jobs, inclusive growth, sustainable growth.

And that takes me to, actually, my final and third point. The need for us to coalesce around and take advantage of the major shifts in global economy because my worry is that the lingering risk of instability may actually pull policymakers apart and inwards rather than together and outwards, looking at their own self-interests and not the benefit of the whole, which will indeed serve their self-interest. My belief is that through a collaborative approach, we have a better chance of success.

Now, what kind of shifts are we seeing? We have seen the rise and fall and rise of the emerging markets, and I think we can actually say that they're no longer emerging markets, they have emerged. We have also seen historic progress in reducing poverty in low-income countries. During the past two decades, emerging and developing countries have accounted for 50 percent of global growth and in the same time span, more than 600 million people have been taken out of poverty.

Third shift, there's important players I was talking about, emerging markets permanently want to play a bigger role in the international scene, and that’s perfectly legitimate. They must play an increasingly important part in our global governance structure. They have played this significant role at the G-20 level. And at the IMF we see it on a daily basis; they want to play a bigger role. Fair enough.

They are bigger players on the international scene and they have new ideas and they experiment and certainly our 2010 quota and reform is going to deliver a better representation and I consistently urge, and I still do today, all our membership to vote the quota reform, to ratify it, to make sure that there is appropriate representation.

It is better for the global economy, it is better for the membership, it is better for the IMF to continue to be relevant because our relevancy is going to be a factor of whether or not we properly represent our membership, both in terms of quota and in terms of governance.

What else do we see that is a bit of a shift? We see more and different methods of collaboration. Just look at what's happening on the European scene. The Euro Group, there was nobody allowed close, there was no particular institution to deal on a cross-border basis with some of the key institutions.

The role of the ECB was particularly strict and limited. That is changing. New type of cooperation.

Let us look at Asia. With regional arrangement like, for instance, the Yang-Mai arrangement or the swap agreements between central banks, those are new arrangements as well. And the latest cooperation agreements between the BRICs including last week in India is also another way of cooperation that is innovative, that is testament to the fact that cooperation is better than working in isolation.

The IMF recognizes this too and we are at the very intersection of an increasingly global world where to stay relevant the IMF must, as I said, constantly reflect its membership, serve all its members, and help them manage the economic changes that they're going through.

Again, take the countries of the Arab Spring. We can support them, we can support them with the unique contribution of the IMF, which is a combination of advice, macroeconomic advice, indeed, technical assistance, financial support, and the combination of the three can be of help because we're committed to support their home program, to respond to their needs with their local, political support. We're doing this, importantly, working closely with those governments, with the countries around them, and also with the Deauville Partnership.

That's one example of sort of this cross cooperation within the institution of the IMF, but also with other partners that are at the table to support that movement.

I'll give you another example. You know, recently the IMF sold some gold and in the process made some capital gains. Countries had their choice to either keep it for themselves or reinvest in a common pot that would be used for concessional use. And you know what? Two-thirds of those who have so far decided to reinvest in the common pot are African countries.

Of course, you'll say, concessional use will be for them, but they had the choice. They could have kept it for themselves. They decided to put it in a common pot for concessional use. That's another example that could inspire us. They seized the moment.

To conclude, clearly the crisis is not over, but thanks to collective efforts, we have an opportunity, a small breathing moment, possibly, to reassess the challenge and to reassess how to best respond to the challenges.

We have the opportunity to push on and take the further actions that are certainly needed to keep the crisis at bay and to finally put the crisis behind us -- short-term action, long-term action, fiscal consolidation and growth, monetary action where possible, and longer-term decisions.

Now, three principles in my view should preside over these combined policies. First of all, act quickly, seize the moment. We have that window of opportunity now. Number two, act together, united if possible. And number three, act with confidence, because these actions will not be needed just for the short term but for the much longer term.

And I will finish with a quote by Alexander Graham Bell, which I quite like. He once said, "When one door closes, another opens, but we often look so long and so regretfully upon the closed door that we do not see the one which has just opened for us." So, maybe a door has opened and we can seize the moment. Thank you.

(Applause.)

MR. DERVIS: Well, thank you very much. This was a wonderful, comprehensive presentation. You balanced the short run with the longer-term; you balanced stability with growth, fiscal rectitude with the social safety net requirements. It's a tall order, of course, but let me ask you, you know, you stressed at the end togetherness. To what extent do we really live in an interdependent global economy?

We saw some figures in the U.S., for example, some weeks and months ago, which you referred to, saying the U.S. is taking off the recoveries much stronger despite Europe. We had the debates in the past years on decoupling of the emerging markets.

So, to what degree are regions kind of autonomous in their growth dynamics, which could lead to fragmentation and international cooperation? Or to what extent are we really much more interdependent than perhaps one realizes?

I know the Fund is doing research on that. It's a complicated question, but do we really live in a world economy?

MS. LAGARDE: I think the answer to that question is, yes. And the research that is conducted at the Fund, particularly based on the spillover research that has been conducted for the last few years, clearly indicates that there is a very high degree of interconnectedness between the economies. And that interconnectedness is particularly evident through the financial circuits, the financial sectors, if you will, where the contagion can be propagated much faster than through any other channels.

We thought initially that maybe trade would be a contagion channel. We thought foreign direct investment might be one. But clearly the one that is most connecting, in a way, is that of the financial sectors -- totally integrated, and organizing links and binds between our economies.

Now, is that to say that, you know, there cannot be regional constructions, regional structures, regional architecture that can actually help protect or help better regulate those institutions? No. But I think in doing so and in building these infrastructures or this new architecture, those regions, those countries, have to be totally convinced of the interconnectedness of our economies and, you know, that's a little bit my fear, my personal fear is that we lose sight of that and some countries, you know, would rather retire and withdraw in the vast territory that they have under their control and do not pay attention, sufficiently, to what happens in the rest of the world. Because what happens in the rest of the world is going to either have a negative or a positive effect on them and while, you know, clearly when we look at Europe, for instance, and the Euro Zone, we see clearly that there could be very significant spillover effects right around the Euro Zone in, you know, Central and Eastern Europe, but also in other places of the world.

MR. DERVIS: The U.S. even.

MS. LAGARDE: Absolutely. Yeah.

MR. DERVIS: And if I understand correctly, there will be a spillover report that you bring out in the next few days that will be an integrated analysis of these interdependencies.

MS. LAGARDE: Correct.

MR. DERVIS: Thank you very much. I think we'll open it to the floor now and we will take, not questions one by one, but I'll try to group them by two or three, and then I think we'll gain some time.

In the back there. Please identify yourself when you ask the question.

MR. SCHNEIDER: Sure. It's Howard Schneider with *The Washington Post*. Two things on the table, quickly, could you say a little more about -- elaborate a little more on China and whether -- this drop in the current account deficit and your expectation that it will pop back up as soon as growth rekindles around the world. And, secondly, you imply that you're scaling back your request for more resources. Could you tell us what your new number is?

MR. DERVIS: Larry?

MR. MACDONALD: Thank you, Kemal, and thank you for your wonderful remarks. I'm Lawrence MacDonald, Center for Global Development.

When you talked about a new form of growth that's more inclusive and durable, I was expecting you to then address the nature of the energy economy and the need to shift to clean and renewable resources and that, although it's not normally the IMF's purview, certainly public policy in terms of taxation can play a role in accelerating that, and I'd welcome your views on that. Thank you.

MR. DERVIS: Maybe we'll take these two because they were quite comprehensive and may make it.

MS. LAGARDE: They sure are. On, I think it was -- you asked me on the question about the China current account. What we have seen is clearly a significant reduction of the surplus of China's current account moving from over 10 percent to a little less than 3 percent from the latest numbers that we've heard. And in and of itself, it's a great result, but what's important is to see exactly what the rebalancing is about and what it is comprised of and, you know, subject to further consideration and additional research, because this is a deep topic to look into, it's clearly composed of various components.

One is obviously an external factor, the fact that demand has been lower than in, you know, prior years has certainly had a direct effect, but there has also been, you know, a portion of that reduction of the current account that is attributable to a shift, you know, moving from less export to more domestic growth, unfortunately probably a bit more related to investment than consumption.

So, it's a combination of all that. Our sort of initial research indicates that, you know, it will move up again. We don't know exactly to what level, but we have in mind something in between 4 and 5 percent, which is still less than, you know, the number we had before and it's progress. We believe that there is still more work to be done for the rebalancing to take place, but it's in the right direction.

In terms of scaling back, what I have said very clearly is that we need to constantly assess and reassess the risks and as we progress in 2012, some of the dramas that were envisaged at the end of 2011 or very beginning of 2012, not only have not materialized, but some good news have actually restored a little bit the confidence, restored a little bit some stability on the financial market -- not perfect stability and not necessarily enduring stability either.

So, we need to cautiously reassess, and, yes, we are reassessing to a lower number in terms of risk, which will bring me to probably reassess a lower number of additional resources needed.

I'm not fixated on any particular number yet, and, you know, as motto says, "The merrier, the many-er, the more, the better", so we'll see how we end up, first of all, at the spring meeting, and then further on, because it's clearly a path that we embark upon and that will probably take a little bit of time. But I hope to make some real progress at the time of the spring meeting.

In terms of moving to clean energy, that's obviously a component of a growth strategy. And while there has been a lot said, written about on the green growth, it's clearly a chapter that needs to be better explored and better implemented and developed. And you know, I wouldn't want to please myself with words and I'm convinced that a component of clean energy in the energy mix is absolutely necessary and it's a component that will go increasing over time as innovation takes root and develops. But it's certainly not one that is going to overnight substitute and replace the existing fossil energy that our society has been used to, which is why we are quite concerned about the issue of the price of oil.

One country that will be very interesting to watch in terms of substitution and how quickly they manage to substitute is Japan. You know, with its implied decision to significantly reduce the source of nuclear energy by a combination of yet some fossil energy and renewable energy, and that will be a very interesting sort of pilot experimentation of substitution and how quickly it can happen.

MR. DERVIS: Yes, the lady there.

SPEAKER: My name is (inaudible), I'm writing for China's Credit Journal. I have two questions. The first one is, the G-8 meeting is happening a few blocks away and yesterday the Secretary of State Hillary Clinton says the G-8 is an essential forum for global economic development. Would you please tell us from the IMF's perspective how you compare to G-20? This is the first question.

The second question is I covered the G-20 London summit. The London moment has been very successful and the IMF, the first priority was to increase China's voting rights and it has been executed. So what's the next priority for the Washington moment?

Thank you.

MR. DERVIS: The gentleman behind, yeah.

SPEAKER: (Inaudible), I'm a journalist from Greece.

The question to you is about Greece. It's an everyday thing the last two years, as you know. We hear only bad, negative things about Greece and about Greek people. Because you are a very honest person and you always speak your mind, can you tell us if you see any positives in Greece and Greek people? (Laughter)

MR. DERVIS: Yeah, there was a gentleman who wanted to ask -- yeah.

MR. TRINKLE: Thank you very much. Garth Trinkle, Department of Commerce. I appreciated your talking about inequality in the world, that's helpful coming from the IMF. And I appreciated your referring to the IMF research on Kenya with the cash transfers and Brazil on inequality.

Chapter 3 of the Outlook talks about debt restructuring, and I was wondering do you have the familiarity -- is this a time where there could be some debt restructuring within the older OECD countries to add to aggregate demand in the U.S.? And could this expand beyond just foreclosures, so that there could be that the financial sector has had a boost, so that the middle class in the OECD could have its own boost?

Thank you.

MR. DERVIS: All right, take these three. I think the restructuring was also internal restructuring, right?

MS. LAGARDE: Yeah. I don't really want to compare the G-8 and the G-20. I think they have different memberships, they serve different purposes. But I can tell you, you know, my very clear recollection of a decisive moment in 2008 -- Fall, 2008. Autumn, others would say.

When the question arose, should it be the G-8? Should it be somebody else? Should it be the UN? Who is going to be able to deal with a global crisis of that nature where financial interconnections actually brought the entire economy to the brink? And it was obvious that it had to be the G-20. It was obvious because it had to have as many economies around the table and as much of the GDP, so that they could be as good and as solid and as heavy a solution when the decision was made to organize stimulus packages.

So I see high virtues in the G-20, or any institution actually encompasses a large membership. Solutions can no longer be dictated by a narrow number of members, which doesn't mean that it is irrelevant. It has other topics to discuss. But for what concerns the entire world, the entire global economy -- as I said, the larger the table, the better.

Now, you've asked me about China, and you're right that the 2010 quota reform actually organizes transfers of quota and voice to China, which was clearly underrepresented. But there are other ways to make sure that everybody has a say, and I'll just remind you that I was the first one to appoint a deputy managing director who is a Chinese national, Zhu Min, who is a terrific addition to the management team. And I just recently appointed the secretary of the board who is also a Chinese national. So you know, the voices are not just a factor of the institution, the governance. It's also how you open up, reach out, and make room at the head table. That's what I will continue to do.

All right, Greece. (Laughter) There have been many negative things, you're right. But you know, I think that the courage of the Greek people in the first place is a very strong positive, and I think it must be recognized. They are very brave and courageous. Greek civil servants, Greek workers, Greek people that face the obligation but pay their tax, that bear the sacrifice of cut pensions and cut wages.

I would say that any progress that is made in tax and revenue collection is also a great positive for the country, and I would say that a coalition of the political party to actually endorse, back up, lead in a difficult exercise that the country has to face is also positive. And I have to say for having worked with him that Mr. Papademos is clearly on that page, and I applaud his efforts.

Now -- gosh, vast questions about inequalities. And there was a subset of your questions that had to do with debt restructuring and sort of internal debt restructuring by way of addressing the housing problem in the U.S. This is something that the IMF has, you know, had a longstanding position of. The housing problem is something that needs to be addressed as a matter of urgency, and measures have been taken. There were proposals made by the administration. The big boys and girls, Fannie and Freddie, have to be part of the equation because clearly, you know, the American households have to be able to unload a bit just in the way, you know, we've encouraged banks to lend. Well, the households have to be helped to borrow so that consumption and appropriate indebtedness can be reinitiated. That's our position.

MR. DERVIS: Yes.

MS. JACKLIN: Hi, I'm Nancy Jacklin, former U.S. executive director at the IMF and now at Johns Hopkins SAIS.

MS. LAGARDE: You're a fan of me, then.

MS. JACKLIN: Yes, that's right. You've been working very hard to try to get support for increased IMF resources in part to help beef up the European firewall, but one problem is that when the IMF lends it can only impose conditionality on the borrowing countries. And obviously, the solution to the problems of Greece or Portugal or Spain or Italy are not only in the polices of those borrowing countries, but in the rest of the euro zone countries. How is Greece going to get unemployment down, in fact, if some Greeks can't find jobs elsewhere while that adjustment is going on?

So how do you see the IMF being able to have more authority and voice on economic conditionality, essentially, in the rest of Europe when the structure isn't quite fitting how you deal with currency needs?

MR. DERVIS: Thank you. Yes?

MR. MILA: Thank you. My name is Lorenzo Mila, I am from television of Spain. Can you please elaborate a little bit more on Spain? We've seen the pressure mounting on Spain but we are doing a very severe, as you know, and very profound cap on reforms.

You are a very straightforward person. Can you please send a clear message about Spain? Are we wrong? Are the markets wrong? What's going on here?

Thank you.

MR. DERVIS: Jill Murray?

MS. MURRAY: Thank you; and it's such an honor to have a woman at the head of the institution, finally. Thank you.

I have two quick questions. One is: I have concerns when we talk about labor competition because it seems that working people who can be the engines of growth through consumption are asked to cut wages and job security, and in the United States we see that taking the form of attacks on minimum wage and people can't survive. They're below the poverty line when they're on minimum wage. So, I am very cautious about your admonition to have job competition in that regard.

The second one was an issue you did not discuss, and that is the -- in terms of the spillover form the loose monetary policies in the United States and Europe. The very low interest rates and the harm they're doing to some countries, as the President of Brazil reminded Barack Obama the other day. But it's also; can't countries put up barriers instead of just short-term emergency capital controls? Why does capital have to have the absolute right to migrate but people can't?

MS. LAGARDE: Okay. I knew you were family because you ask a very pointed question, because you're right. When the IMF lends the IMF imposes or negotiates, rather, conditionalities and a program that is actually, you know, in synch with what the local authorities with as broad a political support as possible are prepared to endorse. And in doing so, we do so with the country, not with the region.

But let me just make three points. One is: enlarging the IMF resources is not intended for the euro zone. Enlarging the IMF resources is intended for the entire membership, and I'm particularly concerned not so much for the needs in the euro zone but also the needs outside the euro zone and the needs very far outside the euro zone, whether it's for, you know, precautionary purposes or by way of actual programs. We do know that there are people out there and countries out there that are looking into it and will be seeking support.

Point number two, whenever we've been involved in Europe, whether it was Hungary, Ireland, Portugal, Greece, it's always been jointly with the European Commission and jointly with the European Central Bank, and that's what is called the troika. So whenever we negotiate those programs we make sure that the troika is fully onboard, and we have never had, you know, any dissenting views. We've always managed to come to terms, which means that the European Commission also has to take into account what the other members of the currency zone can do.

But more to your point, we do not have institutionally a way to coalesce members of a currency zone around a particular program that we negotiate with a country, let alone the central bank of that currency zone. And we need to, you know, look deeply into that to see whether we should not revisit a bit the way in which we deal with such sections of a currency zone.

Now, Spain, who is right, who is wrong? I think Spain has done, is doing, and will have to continue to do significant efforts. And, you know, I don’t think that we can compare any of the three countries that I’ve mentioned with Spain, with any other country for that matter, because they are each very specific.

And to your question Kemal, there is that degree of interconnectiveness, and yet we cannot apply sort of one-size-fits-all solutions. The crisis in Spain, the difficulties it is facing have their own history; have to do with real estate booms; have to do with financial agents, financial banks, the financial sector that was not really in sync with the massive development of the real estate development, and those need to be addressed. And progress is underway, and what Spain has done is laudable; needs to be continued; needs to be done in cooperation, coordination, good understanding with the other members of the euro zone; good synchronization and communication with the European Commission steadily and over the right amount of time so that it does not strangle growth.

Okay, the next question was a mix of the labor issue as well as the effect of -- the spillover effects of quantitative easing measures, low interest rates, and all the rest of it. So, it was all that together.

I did not mean to encourage competition of labor. That's not the point. What I was trying to say is that one factor that is important to help sustainable and solid growth is the efficiency of the economy. What I mean is competitiveness of the economy. One of the factors is indeed labor. And what I said is that in many instances, labor cost -- be that the direct cost or the indirect cost -- has to be addressed and, in some instances, has to be lowered, which does not mean competition of labor. And I also indicated in that particular part of my speech that it needs to be done in a constant dialogue with all stakeholders. So, it's not something that can be imposed upon unilaterally, brutally, but it needs to be discussed in a constructive dialogue.

The second point you raised is this issue of the spillover effects of monetary policies. You know, I don't have a magic stick or a crystal ball, but what my research teams are telling me is that whether you look at Q1 or Q2 from the U.S. perspective -- and they haven't yet done the work as far as the LTRO programs of the ACB are concerned -- is that the spillover effects are actually very, very moderate. And what we're seeing in terms of capital flows is essentially -- not exclusively but essentially -

- the result of the attraction that some of these emerging markets with a steady, high level of growth are producing on investors that clearly attract like a magnet the flow of capitals. So, of course the spillover effects have to be taken into account. That's the reason why we will continue to study them and aggregate them to be, you know, as able to communicate on them and to draw lessons and learnings from that. But I don't think that it can be, you know, black and white. It's not as if Q1, Q2, all the LTROs were actually producing the capital flows to emerging market economies. It's much more sophisticated and in-depth than that.

MR. DERVIS: I think we'll take two more questions, and then we'll end. Yes.

MR. TARASOL: Thank you. Derek Tarasol from the Bank of Tokyo.

The IMF and the World Bank will hold an annual conference in October in Japan for the first time since 1964, when I was born there. So, I was real excited about that. So, can you tell me if you have any particular ideas for the big event in Japan? Thank you.

MR. DERVIS: Yeah, and then the gentleman there in -- yeah.

Sorry, I -- okay, we will take three. One more. We'll add one more with Madame Lagarde's permission. Yes.

MR. MAZUR: Paul Mazur. I'm a German Marshall Fund congressional fellow with the House Financial Services Committee.

Ma'am, I have a quick question concerning the situation in Europe and particularly in your home country. We're facing a presidential election in France, and Mr. Sarkozy's challenger, Mr. Hollande, announced that he might renegotiate the fiscal compact that the Europeans agreed upon. Do you think, first of all, whether this is likely? And secondly, if it happens, whether this might consume some of that little time that we want in Europe? That would be great, and *merci beaucoup*. *Merci*. (Laughter)

MR. KRUPICKA: The managing director of the IMF has the right to be politically neutral, so. (Laughter)

MR. MAZUR: Thank you very much.

MR. DERVIS: Last question.

MR. ANDERSON: Thank you very much. Iain Anderson, Cicero Group. Very interested in your comments, Madame Lagarde, on the reforms of financial system and your specific comment that coordination across countries is "not at its best." Can you maybe expand a little bit more on that? And, once again, thank you for your address today.

MS. LAGARDE: Tokyo 2012, you're still a young man, eh? (Laughter) But it's about time that we returned to Tokyo, and the IMF is extremely pleased -- as I'm sure the World Bank is, but I can only speak for my institution -- it's extremely pleased to go to Tokyo. We're delighted to cooperate with the Japanese authorities. We have an excellent cooperation. It will be a challenge, because any, you know, any annual meeting of the IMF draws thousands and thousands of people, not just the ministers and the governors, but lots of researchers, academics, and people interested in economic thinking in consideration of both institutions. So, it will be a challenge to all get there together. But I know I can count on the Japanese authorities to make that meeting a real success.

And if I was to point out to, you know, various areas where I hope we can make progress, one is certainly, you know, this sort of framework for growth that we have to continuously work on and this rebalancing exercise that has always been on our radar screen and that has gone a little bit astray because of the most recent development of the crisis. I hope we can move on not just on paper, not just in academic research, not just without consideration, but with action by members of the institution. And, you know, I hope that by then we will have made significant progress to help those countries in the Middle East that are very keen to transition towards a better functioning economy. So, we will work hard in the meantime so that we can deliver something that will be comprehensive, I hope, in Tokyo.

You will allow me, *permettez-moi, monsieur*, maybe not to make any comment on that particular one, because I have to stay politically neutral. I'm very concerned that time is of the essence and should never, ever be wasted. As I said, I think we have a breathing moment, but not a long one.

Financial system coordination, what I meant is, you know, the appropriate level of coordination between regulators, between supervisors to make sure that we not only have good, solid standards that fly well on paper, but they need to be implemented. They need to be delivered upon. And whether you look at derivatives, whether you look at clearing, whether you look at even the Basel III standards both in terms of capital ratio and in terms of liquidity, it has to be developed into actual practices, into implementation in the fields across the board.

And if I may add one thing, it would be extremely helpful if supervisors were to willingly exchange data and information, which I'm not sure they do at the sufficient level.

MR. DERVIS: *Voilà*. Thank you very much.

Let me thank the managing director, Christine Lagarde, on behalf of Brookings, on behalf of all of us, all of you who came from Brookings and elsewhere for a really -- an impressive overview.

I just was thinking, you know, if we for a minute made the mental experiment that the IMF wasn't there, right, I think we would see that very few people -- I mean, maybe nobody -- could give this integrated view of the overall economic social and human challenges that the world faces. And in a way, the staff of the IMF, the traditions, the lessons it has learned over the past I think represent the rich gift to the international community and to cooperation in the world while respecting, as you did at every moment, the sovereignty of nation states, but also -- and my friend Javier Solana says it often, the need to share some of that sovereignty for the common good. And I think we're very, very luck to have Christine Lagarde at the helm of that institution. So, many, many thanks. (Applause)

MS. LAGARDE: Thank you.

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