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What Christine Lagarde Brings to the ECB: Flexibility

The career of the next European Central Bank chief shows the institution is getting a diplomat and negotiator, not a technocrat or economist

By Josh Zumbrun and Bojan Pancevski
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For seven hours, European finance ministers in a windowless room argued over how to keep a government-debt crisis from infecting eurozone economies, and the meeting threatened to fall into disarray.

Then Christine Lagarde stood up to speak.

She read a proposed solution from notes she had jotted while the others were debating, said Thomas Wieser, a senior European civil servant who was there. "A group of ministers alternating between screaming and mumbling, some of them not necessarily well-informed, gradually went quiet."

The ministers, said Mr. Wieser and other participants, rallied to Ms. Lagarde's side.

That was May 2010 in Brussels, when Ms. Lagarde was French finance minister. The topic was how to prevent Greece's financial crisis from threatening the eurozone's survival. The brand of political compromise Ms. Lagarde displayed there would play out during her tenure as the International Monetary Fund's head from June 2011. This month, it helped her become the person tapped by European leaders to helm the European Central Bank, the most influential monetary-policy maker after the U.S. Federal Reserve.

A review of her career offers hints at what kind of ECB chief she would be. On numerous occasions, she has shown a politician's pragmatism to the point of pivoting sharply away from some of her own initial policy positions. In 2018, Ms. Lagarde, who once said Greek debt was "totally unsustainable," shifted her longstanding stance to cut a deal with European creditors that ignored the IMF demand to restructure Athens's enormous obligations.

The ECB, unlike the IMF, has always been run by a leading economist or central banker. Instead, the ECB is getting a political operator—a diplomat and negotiator, not a technocrat.

She is likely to need that pragmatism when she succeeds ECB President Mario Draghi in

Ms. Lagarde has shown a politician's pragmatism to the point of pivoting sharply away from some of her own initial policy positions. **PHOTO:** MOHD RASFAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

November. The goal of European integration is under strain. It will depend heavily on the central bank's contribution to bolstering the region's wobbly economic expansion—including further quantitative easing—in an era when many populists want the world's high financial institutions to do less, not more.

"It's a fiction to think that the ECB can be completely outside politics," said Giorgos Papakonstantinou, who was Greek finance minister at the height of the crisis and worked closely with Ms. Lagarde. "The fact that market reaction to her appointment was positive is telling: The markets are welcoming someone with a pragmatic stance and political agility."

Share prices in Europe and the U.S. rallied following Lagarde's nomination as ECB president, while borrowing costs dipped across the eurozone in expectation of continuity and renewed stimulus.

Her approach doesn't always succeed. Compromises she helped broker between the IMF, ECB and European Union helped prevent the eurozone from breaking up but left Greece's economy still struggling today and the broader eurozone expansion still sluggish.

Ms. Lagarde's reputation suffered when she supported a much-criticized decision in the 2013 bailout of Cyprus, said Nicolas Véron, a senior fellow with the Peterson Institute for International Economics in Washington, a think tank. She and EU officials agreed to a plan by the Cypriot government to inflict losses on bank depositors, effectively reneging on a deposit guarantee. The nation's parliament soon overturned the decision. "It was an inglorious episode in an otherwise admirable career," Mr. Véron said.

While many applaud her persuasive skills, some worry about giving the ECB helm to someone who appears likely to continue Mr. Draghi's expansive "whatever-it-takes" approach to policy—including a willingness to experiment and push through controversial change for the sake of holding the 19-member currency bloc together. His critics, particularly in Germany, say such efforts have hurt private banks and savers and could fuel financial instability.

'Subtle manner'

Those who know Ms. Lagarde, 63, say she can take control of a room and influence those in her circle—usually technocratic men, as she has noted—with personal charm. "Ms. Lagarde's subtle manner," Mr. Wieser said, "proved effective in dealing with older men who often tried to assert themselves personally instead of looking at the bigger picture."

A picture of the leadership style Ms. Lagarde brings to the ECB emerges from interviews with finance ministers, a former premier, top civil servants, central bankers, government advisers, and IMF staff and leadership. She declined to be interviewed.

Born in Paris and educated as a lawyer, Ms. Lagarde rose through the international law firm Baker McKenzie, working on labor, antitrust, and mergers and acquisitions—areas involving contentious negotiations. In 1999, she became the first female chairman of its global executive committee. In 2005, she joined the French government, rising to finance minister at the dawn of the global financial crisis.

The euro crisis began when Greece lost access to bond markets after a collapse of fiscal discipline, triggering investor stampedes out of eurozone countries with financial imbalances and shaking investors' faith Europe's common currency would hold together. Germany had initially brought the IMF into the matter to press debtor countries to overhaul their economies.

Ms. Lagarde was the first finance minister to openly propose a bailout for Greece in 2010, a move until then opposed by countries including Germany. Later, she and Poul Thomsen, head of the IMF's European department, pressured European creditors to restructure bailout loans to Greece with easier repayment terms and debt relief.

Ms. Lagarde won the affection of Wolfgang Schäuble, the cantankerous German finance minister at the time. Ms. Lagarde is known in Berlin as one of the few with whom Mr. Schäuble, a French speaker, uses the familiar form of address that exists in German and French.

The warm relationship continued after Ms. Lagarde took the IMF helm and led it in rethinking its tough bailout approach. She commissioned critical internal reviews of how the IMF became involved in the initial Greek bailout that was failing. Creditors' demands for budget austerity including spending cuts and tax increases had caused an economic contraction so severe it made debt repayment less likely and fueled the rise of populist politicians.

Berlin grew increasingly irritated by the IMF's pressure on European creditors to restructure Greece's debt. But she and Mr. Schäuble maintained cordial relations.

Ms. Lagarde, then French finance minister, with French President Nicolas Sarkozy, left, and other government officials in 2010 discuss Europe's rescue package for Greece. PHOTO: THIBAULT CAMUS/ASSOCIATED PRESS

German Chancellor Angela Merkel took an immediate liking to Ms. Lagarde's straightforward manner early in their acquaintance, said a person familiar with the relationship, and was impressed at how Ms. Lagarde established herself in the male-dominated top echelons of politics.

In 2015, when Greece's new left-wing government tried to overthrow creditors' austerity measures, Ms. Merkel worked closely with Ms. Lagarde to avoid a Greek exit from the eurozone. They met at a crucial meeting in Berlin in June, along with presidents of France, the ECB and the European Commission, to hammer out the basis of a bailout plan that proved acceptable to Germany and allowed Greece to muddle through.

Ms. Lagarde figured out the key to changing IMF economic policies was identifying topics that, in IMF jargon, have "macro-criticality"—ones that can bring broader overall economic results. She is widely known for speeches on topics of gender inclusion, economic inequality, climate change and fighting corruption. Less known is that she successfully built the case that these topics bring broader results and must be incorporated into bailout programs and the IMF's economic reviews.

Ms. Lagarde proved adept at operating in rooms of besuited men. A G-7 meeting in 2016. PHOTO: TOMOHIRO OHSUMI/BLOOMBERG NEWS

While it was IMF economists who calculated that excluding women from the labor market reduced potential GDP as much as 30% in some countries, it was Ms. Lagarde who spoke out against these practices as an "insidious conspiracy" and successfully pushed the IMF to formally integrate metrics such as women's labor-force participation into economic reviews.

She may not have come up with the data or idea for a policy, but she recognized its importance, said Sean Hagan, former IMF general counsel. "It's always the case with effective leaders that they're not always the ones that do the initial calculation," he said, "but they're the ones who understand that this particular strand of thinking can be given priority. She was able to do it very effectively."

She used her network like a politician. She answered to the IMF executive board, representatives of 189 member countries. But if someone on the board was skeptical of her initiatives, say former directors, she had the relationships to go over their heads and speak to finance ministers or heads of state.

Gerry Rice, the IMF's communications director, acknowledged that Ms. Largarde had relationships with top politicians, but said she preferred to make the case on its merits and find common ground.

And Ms. Lagarde proved adept at operating in rooms of besuited men. When the IMF's executive board first interviewed her for the top job eight years ago, the only female director on the 24-person board was absent, leaving her in front of 23 men. In group photos at G-20 summits and IMF meetings, it is often Ms. Lagarde standing out in a dark sea of suits.

"There is a lot that is attributable to personality and part of my personality, of course, is being a woman," she told The Wall Street Journal in 2015. "It may be, because people tend to be territorial, men tend to be a little more territorial, so to the extent that I'm not really a physical threat, because men don't have to show off to me, because a man-woman relationship is of a different nature, that helps."

'There is a lot that is attributable to personality and part of my personality, of course, is being a woman,' says Ms. Lagarde, here with world leaders at the June G-20 summit. PHOTO: BRENDAN SMIALOWSKI/AGENCE FRANCE-PRESSE/GETTY IMAGES

She honed the art of taming unruly groups. When she chaired meetings, she tended not to cut people off. To keep meetings moving on the IMF's board, she allotted each director four minutes to speak. Once they went over time, said former board members, Ms. Lagarde began gradually tapping her microphone until they stopped, rather than interrupting.

German sensitivities

German sensitivities will likely remain Ms. Lagarde's greatest challenge. Germany is the eurozone's largest economy. Its political establishment and public have been largely hostile to eurozone bailouts and stimulus policies under Mr. Draghi. Jens Weidmann, the German Bundesbank president, has often voted against Mr. Draghi's policies. Ms. Merkel's designated successor, Annegret Kramp-Karrenbauer, said in June that ECB policies were hurting German savers.

Alexander Stubb, Finland's former premier and its finance minister during the eurozone crisis, said the balancing act between German sensitivities and the eurozone's demands is where Ms. Lagarde's political astuteness will prove more relevant than central-banking experience.

Ms. Lagarde may depart further from the traditional view that the ECB should pursue monetary policy independently of European political leaders who manage tax, budget, labor and other economic policies, said Olli Rehn, Finland's central-bank governor, who sits on the ECB board.

"But independence doesn't mean loneliness. We need both fiscal policy and structural reforms to support stronger growth and job-creation."

Jörg Asmussen, deputy to Germany's Mr. Schäuble during the euro crisis and now senior executive with New York bank Lazard Ltd. , agreed. "She may not be a monetary economist, but she is a monetary diplomat," he said. "She is extremely charming and that is part of her style of politics. She would hand out French pralines at 3 a.m. during frantic ministerial meetings."

A senior EU official said there were concerns that, in putting a politician in charge of the continent's monetary policy, technocratic consensus could be replaced with political calculus. The official noted the ECB's new vice president, Spain's Luis de Guindos, was also a politician.

One hint of how Ms. Lagarde may defuse such concern comes from how she drew on her own technocratic deputies during her IMF tenure. Mr. Thomsen, the IMF's Europe director and an economist, represented her in key European meetings that required detailed technical expertise.

Officials at the IMF, the ECB and in several European capitals said that in her new job she will likely rely on Philip Lane, the ECB chief economist, as she relied on Mr. Thomsen.

Mr. Asmussen, who served on the ECB executive board, said Ms. Lagarde will be able to fall back on Mr. Lane for technical expertise. The ability to provide continuity with Mr. Draghi's policies—he publicly vowed to do "whatever it takes"—was key, he added.

“The question whether the new ECB chief would do whatever it takes is now answered,” he said. “Yes, she will.”

—Marcus Walker, Tom Fairless and Ian Talley contributed to this article.

Write to Josh Zumbrun at Josh.Zumbrun@wsj.com and Bojan Pancevski at bojan.pancevski@wsj.com