Transcript of IMF podcast:

Kristalina Georgieva Talks Inequality with Oxfam

Bruce Edwards:

Hello, and welcome to another episode of the International Monetary Fund podcast. I'm Bruce Edwards. Today, we hear the work of a podcast from another organization.

Max Lawson:

Hello everyone and welcome back to a brand new season of EQUALS, which is really exciting. I'm Max and today I'm joined by my cohost Nadia.

Nadia Daar:

Hi guys. For those of you joining us for the first time, welcome to our-

Bruce Edwards:

The EQUALS podcast was created by Oxfam International and focuses on inequality, a topic that the IMF is also working hard to better understand.

Kristalina Georgieva:

Every single pandemic that we have experienced over the last years from SARS, to H1N1 to Zika, they all lead to an increase in inequality that was sustained years after the pandemic was over.

Bruce Edwards:

Max Lawson and Nadia Daar's recent interview with IMF Managing Director Kristalina Georgieva, delves into her own views on inequality and the role of the IMF in stabilizing economies amid the pandemic. But you also get a glimpse into her own experiences growing up in the Eastern Bloc.

Kristalina Georgieva:

I remember very vividly getting up at four o'clock in the morning, queuing to buy milk for my daughter. I remember vividly my mother losing her lifelong savings to hyperinflation.

Bruce Edwards:
You can listen to the full episode of the EQUALS Podcast on Apple Podcasts or on many of the same apps you use to listen to these IMF podcasts. But for now, here's Max and Nadia's interview with Kristalina Georgieva.

Nadia Daar:

Managing director, thank you so much for taking the time out of your busy schedule to join us, or if I may call you Kristalina, it's such a pleasure to have you.

Kristalina Georgieva:

Nadia, of course you can call me Kristalina. I actually prefer that and thank you very much for inviting me to join you for this conversation.

Nadia Daar:

Kristalina, as we were doing the background research for this interview, probably one of the most interesting and fun facts that we discovered is that you studied at the Karl Marx Higher Institute in Sofia, Bulgaria. And now you're the head of the IMF. I'm just imagining Karl Marx rolling in his grave. I wonder if you can just give us an idea of the kinds of economic ideas that you grew up with and studied and tell us do any of those ideas still resonate with you today?

Kristalina Georgieva:

What I grew up with was a centrally planned economy that artificially pushed us into scarcity of almost anything I can think of, and the country disrespecting any rational allocation based on demand in markets ended up going bankrupt in the early 90s. And I remember very vividly getting up at four o'clock in the morning queuing to buy milk for my daughter. I remember vividly my mother losing her lifelong savings to hyperinflation. I also, of course, had the luxury of studying political economy. I was very concentrated on the history of economic thoughts and political economy of capitalism. And that came very handy and is very handy in my current job, because while I learned firsthand the high cost of bad policies and that we need to have signals from markets on how to allocate resources, I also learned that the markets are not perfect, that they need to be corrected.

Kristalina Georgieva:

If markets are left on their own, and we know that from many, many studies, they might actually create a harm on people. One very clear example of that is pollution. If we are not regulating what companies will do, they have no incentive to protect the health of people by reducing pollution coming from their production. And I also must stress that we, in this day I grew up in, have seen how a competition between a socialist system and a capitalist system in Europe has influenced positively Western Europe to embrace social programs and investment in education and health. So very useful life experience for the job I have today.

Max Lawson:

That's really fascinating, Kristalina, and it's something I've always suspected, but obviously didn't have firsthand experience of growing up in the UK. But it was always my impression that the threat of a different model, particularly on education and health and the universal health coverage that we saw in the Eastern Bloc, did make a difference. So you really think it influenced Western leaders to be more progressive than they would have been.

Kristalina Georgieva:

I'm certain that it did press Western leaders to be more mindful of social issues. And having seen the direction to travel in Europe, visit the other parts of the world, this proximity of the Eastern Bloc did play a positive role. So while in Eastern Europe, we would queue for everything you can think of. I mean, in my youth, I see a queue, I line up. Doesn't matter what they sell. We played a positive role by creating also this alternative for free education, free healthcare that led
to some conclusions on the side of the Western Europe, that even today we see them in this crisis playing a positive role. The health system for example, Germany has done really well in protecting the German people from the COVID crisis.

Max Lawson:

One of the things we've seen though, I suppose the flip side of what you're saying is with the decline of communism and the end of the Eastern Bloc, there isn't that same pressure on Western economies. We have seen what we thought would never happen, inequality starting to go up again in Western Europe, in the OECD, and a relaxation of taxation of the richest. Do you think that's in part because that competition is no longer there?

Kristalina Georgieva:

Well, the counterfactual is always very difficult to define. What I would say is that we should be concerned about the direction of inequality. We have seen over the last decade, prior to COVID, that inequality in many countries has gone up. So while, call it inequality between countries, has been reduced, in other words, developing countries have been catching up somewhat, inequality within countries has been going up. Why is this bad? It is bad because when we have parts of the population falling behind, especially in terms of education, in terms of the social strength, then that translates into loss of productivity. And it is bad, not only for the people that are affected by inequality, it is bad for society as a whole.

Nadia Daar:

Absolutely. And I think, some of the work that the IMF has done, it's really been a leading voice in raising attention to the crisis of inequality. But most recently, fascinating to see this connection between pandemics and inequality. And I wonder how concerned are you about a serious rise in inequality that could happen in the period to come?

Kristalina Georgieva:

I am very concerned because IMF research shows very clearly that every single pandemic that we have experienced over the last years from SARS to H1N1 to Zika, they all led to increase in inequality that was sustained years after the pandemic was over. And we are risking to see the same on a much larger scale because of COVID-19. And actually, early data already ringed the alarm bell in that regard. We also have a very unique situation with this crisis, with regard to education. We are seeing, massively, children dropping out of school and girls less likely to return in the future. We're also seeing kids that do not have access to the internet, basically losing a long time that translates into loss of their ability to be productive in the future. I'm also worried about the impact of the crisis has on gender inequality. Already, women are paying a higher price.

Nadia Georgieva:

They are more likely to be in contact-dependent sectors. So they are more affected by job losses and by the pandemic. They're seeing more need to increase their contribution through unpaid labor, and it was much higher than men to begin with, like two hours more a day. And then the base violence is going up. So we have to not just talk about it, we have to take very clear actions in policies to counter that risk, that we will come on the other side of this pandemic with more poverty, more inequality and loss of the gains we have achieved with hard work over the last decade.

Nadia Daar:

What kind of role can we see the IMF playing in shaping recovery policies in a positive way? And actually, just thinking about historically, there have been huge protests from people who are alarmed by the types of austerity measures that the IMF has promoted in the aftermath of previous crises. And I think there's a genuine concern at the moment that we might see the same thing, and would love to hear your take on that and how you can actually help countries spend
what they need to spend and make those who need to pay for the wealthy and corporations, pay their fair share.

Kristalina Georgieva:

First, the IMF has a very important role as the institution that holds its hand on the pulse of the economy through our Article IV consultations, to be well informed about the risks and the opportunities to address these risks, to do the analysis that would give policymakers sound foundation for what they do. Secondly, the IMF is financing countries in this emergency and in the packages of financing we provide, we establish what is good practice and how they can use the money most effectively. And I can tell you, I take pride. We turned on a dime in this crisis. We have extended already financial lifelines to 75 countries and we are asking only for two things, one, please use the money for your doctors, your nurses, your clinics, and for the most vulnerable people in parts of your economy. Two, keep the receipts. We want to know how the money was used. And in this focus on the most vulnerable, we are very clear to show what can be done to put the floor for social spending, to target money effectively.

Kristalina Georgieva:

And I can tell you something that I was so pleased to see when I took over that. Now, in our engagement in countries, in 90% of the IMF programs with low income countries, we do include social spending floors, very, very important. And three, I'm sure you have heard people joking that IMF stands for, it is mostly fiscal. In that spirit, we have to have fiscal policies, taxation, and expenditures based on 21st century direction of the economy, structure of the economy. We have to recognize that governments are pouring huge amounts of money to support businesses.

Kristalina Georgieva:

Well, these businesses have a responsibility to help in the recovery to make it fair. And we have to look at what can be done in terms of reforms in taxation. The fund has been clear. We think that there is space for more progressive taxation that is not going to impact growth. There is a lot of space to eliminate loopholes. There is a lot that can be done to make sure that the structure of taxation reflects how the economy has evolved. We know that the digital economy is the big winner of this crisis. Well, we have to see how that helps long-term to make the right investments in human capital.

Max Lawson:

Kristalina, going back a second, that was music to my ears on progressive taxation. And just to be really specific, would you be very pleased if you saw a big uptick in the number of countries worldwide implementing greater taxation of wealth and high incomes in the years to come, so that we don't see the return to austerity or the release of the rich that we saw after the financial crisis?

Kristalina Georgieva:

It is important to recognize that above all today, what we worry about? We worry about two things. We worry about a durable end of the health crisis everywhere, and we worry about jobs. And so we have to be very thoughtful around how we make sure that firms retain their workers and those that cannot survive, or those that are benefiting from transformation driven by this crisis can hire workers. And when we think about taxation, it has to be done with this clear objective in mind, that we want the economy to return to growth and we want this growth to be job rich. Warren Buffet has been saying now, for quite some time, there has to be a recognition that we are not in a good place in terms of how we source revenues to make the necessary public expenditures. And at the time now is a moment of crisis when there is a much higher acceptance of change, and so let's make that change.

Nadia Daar:

I think that there is an opportunity and we hope that the IMF will really take that leadership.
Kristalina Georgieva:

It makes total sense to aim on the other side, to have a better economy that is also a fairer economy then what we came out from. That would take thoughtful rethinking of fiscal matters. We would do our part objectively, researching and demonstrating what can be a possible way forward. Countries have to make clearly a bigger investment in people, especially in skills and education. And they have to make a bigger investment in accelerating the transition to low carbon resilient economy. Investment in education is actually investment in resilience. If people are skilled, they are more agile and they can adapt to change much better.

Max Lawson:

I think you're absolutely right, Kristalina. I think one of the big problems that countries like Kenya are facing now is this huge and increasing debt crisis, which you've spoken eloquently about. And one of the ideas on the table, I have a long memory, I think put forward by Anne Krueger was some kind of debt workout mechanisms so that creditors take more of a hit. Do you see that coming back some way of having a bankruptcy court for nations? Because it seems to me that creditors are getting off very lightly once again, with this new debt crisis.

Kristalina Georgieva:

Well first, let me stress that both the IMF and the World Bank were very fast to advocate successfully for the debt service suspension initiative for poor countries.

Max Lawson:

You were very quick, but you're paying for yours, but the World Bank refuses to pay for theirs, I think.

Kristalina Georgieva:

We have been fortunate to have an instrument in our hands and to bring immediately our shareholders, our membership, on supporting ratcheting up these instruments so we can do more for our members.

Max Lawson:

Yes, definitely.

Kristalina Georgieva:

But that doesn't resolve something that we know is there, and it is we do have a problem with a private sector participation in this standstill and more broadly, we have a problem with a very different structure of debt today than it was 10 or 15 or 20 years ago. At this moment, I don't see big appetite to go towards bankruptcy, but there is appetite to significantly improve the international architecture for debt restructuring. We are putting forward a paper for discussion, a concept for discussion by the G20. We are very keen to see progress in this area of more coherent, more likely to succeed debt restructuring. There have been countries as you know, Ecuador and Argentina are recent examples, where there has been success achieved in debt restructuring.

Kristalina Georgieva:

It is very likely there would be more countries to come because the level of debt has gone up even before this crisis, and now it is going up, up again. And to get that more principled approach with improvements in terms of collective action clauses that are applied in a thoughtful way, would help tremendously. If we see appetite among the membership to reopen discussion on bankruptcy courts, if you wish. Of course, we would like to encourage that, it was a good idea then. But we also are very pragmatic. We need solutions fast because the problem is knocking on the door. On a positive note, what we have seen in this crisis, and we don't talk enough about it
the door. On a positive note, what we have seen in this crisis, and we don’t talk enough about it, is incredibly synchronized response by central banks and by finance authorities and by the IMF and the World Bank to put the floor and then to address the issue of debt for the most vulnerable countries very quickly. And I want to sustain that momentum of working together, making sure that we have solutions that come fast enough to be meaningful.

Nadia Daar:

Kristalina, it's so interesting to hear, from your perspective, where things are going and what's needed, and thinking about another area that needs multilateral and global action debt is one of them, but climate is another. And you've spoken many times about the need for a green recovery. I saw as soon as you came on board as the managing director of the fund, that was an area that was clearly important to you. So I want to ask you, we're approaching the end of the interview, but I can't lose the chance to ask, hypothetically, if we were to take a middle income, coal dependent country, what can the IMF do concretely to make sure it's supporting that country to transition to a decarbonized economy?

Kristalina Georgieva:

So what the IMF is already doing, and we will be doing more of it, one, for countries that are either highly vulnerable to climate change or play a big role in terms of the necessary mitigation efforts, we are already doing quite a lot of analysis and we are bringing some of it in our Article IV consultations. We have done a number of climate impact assessments for highly vulnerable countries. We are using this to bring countries to a point of designing effective mitigation and adaptation strategies. Secondly, as we move forward in countries with programs, what we are discussing with them is this broader notion of resilient economies. And no more, resilience can be narrowly defined as what is happening in the financial sector. And the financial sector itself is not free of climate risks. So if we want to see countries growing and especially if you want to see a job rich recovery, the low carbon climate resilient investments can play a major role.

Kristalina Georgieva:

We can generate jobs in reforestation, dealing with land degradation, building insulation, renewable energy, these are all the jobs that we need now that some of the job rich sectors like tourism are shrinking. It's mostly fiscal, and we are working with countries to recognize, at the time when they need to raise more revenues that carbon price and the most effective way to do it is through carbon tax, are instruments they can use.

Max Lawson:

Yeah, I think we would support that. I think it's not just, it's mostly fiscal, it's mostly fairness. I think that's the key issue for us.

Kristalina Georgieva:

Agreed, agreed.

Max Lawson:

Hearing you today and listening to your reflections Kristalina, you've taken this job up at the time of the biggest economic crisis in a century. The history books are going to be written about these few months. How would you like you to be remembered, and the IMF's action at this crucial time, when the history books are written?

Kristalina Georgieva:

We acted swiftly and we targeted the most vulnerable, most vulnerable people, most vulnerable countries. We have stepped up in a way that has no historic precedent at the IMF. But above all, I want the history to say people in the IMF, poured their hearts, worked relentlessly so there can be relief from this once in a lifetime crisis.
Nadia Daar:

Kristalina, we are seeing that and we are so grateful for your taking the time to be with us today. Great pleasure.

Max Lawson:

Yes, that was fascinating. Thank you very much.

Kristalina Georgieva:

Thank you. Thank you, Max. Thank you, Nadia.

Bruce Edwards:

That was IMF Managing Director, Kristalina Georgieva, being interviewed on the EQUALS Podcast, a podcast about inequality created by Oxfam International. You can listen to the full episode on Spotify or Apple or wherever you get your podcasts, and don't forget to check out other IMF podcasts while you're there. Subscribe if you like what you're hearing and follow us on Twitter @IMF_Podcast. Thanks for listening.
