OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Ewald Nowotny
Governor
Oesterreichische Nationalbank

SPEECH

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Check against delivery!

44th Economics Conference of the OeNB
Opening Remarks

Ladies and gentlemen,

I am very pleased to welcome you to the 44th Economics Conference of the Oesterreichische Nationalbank here in Vienna.

Today, I want to invite you to take a break from our routine engagement in the daily workings of the financial system. Let us take a look at the future instead: what kind of institutions and markets will manage our financial wealth, our liabilities and our payments in 10 or 20 years?

To explore this issue, we have assembled a noteworthy list of distinguished speakers from different backgrounds in academia, policy making and the financial sector. I am sure they will provide us with intriguing food for thought during our two-day conference. I would like to thank all of them for coming to Vienna and for contributing to our endeavor. I would also like to take the opportunity to thank the staff members of the OeNB, and our friends at SUERF, for their effort in organizing this event.

We are very pleased to organize this year's Economic Conference jointly with SUERF – The European Money and Finance Forum. SUERF has been in existence since 1963 and has made countless contributions to research on money and finance matters over the past half century.

SUERF's central aim is to facilitate and promote dialogue between policy makers, financial firms and practitioners as well as academia on money and finance topics. Such a dialogue is definitely also key to shaping the "Financial System of the Future".

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The OeNB has had a very special and good relationship with SUERF for over a decade. The OeNB hosts SUERF's Secretariat, and a senior OeNB staff member acts as SUERF's Secretary General. We are very glad about this cooperation and would also like to encourage those among you who are not yet SUERF members to join this network.

I am very honored to welcome my colleague Erkki Liikanen, Governor of the Bank of Finland, who will give a lecture here tomorrow. Erkki Liikanen is not only a dear colleague of mine on the Governing Council of the European Central Bank, but he also heads the central bank of a country that is very advanced with respect to digitalization, which seems to be a major route for the future financial system to take all over Europe. He is therefore in a vanguard position to shed light on some of the challenges we are most likely to face on the road ahead.

Thank you very much for joining us today.

Ladies and gentlemen,

One of the key tasks central banks have is to ensure stability. Regardless of how stability is defined, it is inextricably linked with a longer-term orientation. Looking back at the 200-year history of our bank last year, we were reminded of the many unforeseen events that had unfolded during the past two centuries. And this will become manifest in an even broader perspective when we celebrate the centenary of the establishment of the Republic of Austria next year.

Times change, and time and again we realize how flawed our efforts are at predicting the future. Public institutions that are committed to maintaining stability are invaluable because, in a long-term perspective, uncertainty about the future seems to be one of the few constants in life.

Today, technological innovation is an ever-present factor, but we should be wary of drawing deterministic conclusions from it. Structural changes in our economic system have exhibited a remarkable tendency to prove unpredictable. It seems that the only thing we can be certain about is uncertainty. This applies both to the future path of innovation and the future sources of financial crises. Former U.S. Secretary of Defense Donald Rumsfeld is well remembered for his referral to "known knowns" as distinct from "known unknowns" and "unknown unknowns".[i] In economics, these distinctions are well known, although under different names – certainty, risk and uncertainty.

For a central bank, committed to representing an anchor of stability, the main orientation points which guide its behavior in an uncertain world are of a macroeconomic nature: economic growth prospects, population trends and the distribution of the fruits of growth.

With respect to growth, the recovery in the wake of the financial crisis has been modest by historical standards. Strong savings, modest investment activity and a continuing debt overhang have led some observers to expect a period of secular stagnation. I do not share this gloomy perspective, but I agree that we cannot expect a return of growth rates comparable to those seen in Europe during the two decades of reconstruction after the Second World War.

Let me turn to population trends to illustrate that unforeseen events do not always imply a need for a downward revision of expectations, but can instead require an upward adjustment. A decade ago, Austria's demographic projections pointed toward stability, even decline.[ii] Yet, recent unforeseen developments have transformed perspectives. Largely due to migration, Austria's population is expected to grow by as much as 12% until 2040 according to the latest forecasts.[iii]

The impact of migration serves as a reminder that we live in an age of globalization. One reason for gloomy expectations in Europe is a widespread perception that we are about to be overtaken by strongly growing emerging economies. And indeed, the EU's share in global economic activity has been declining, namely from 26% in 2004 to 22% in 2015, and it is expected to fall below 20% by 2030. Similarly, the EU's share in world population, currently at 6%, will shrink to a mere 4% by 2060.[iv] But let us not lose sight of the fact that neither one of these shares in isolation is relevant for measuring our prosperity. What really counts is per capita income. Here, the EU – while still slightly lagging behind the U.S.A. – is still far ahead of any other economic region. And within the EU, Austria is among the top performers with respect to per capita income.

Perceiving the world economy as an endeavor where the expansion of one country results in a loss for the rest is a misperception that can become outright dangerous if it forms the basis of international policy making. Economic growth in emerging markets in recent decades went hand in hand with a growing world economy. In such an environment, a declining share in the world economy does not imply a welfare loss. After all, the global economy is not a zero-sum game.

Focusing on per capita income might undoubtedly mask huge asymmetries in the distribution of the gains from globalization within countries. But also in this respect, the European Union comprises the most equal societies in the world. Admittedly, it has not managed to escape the general trend of declining labor income shares that had started in the 1980s. As to household wealth, information collected in the Eurosystem's Household Finance and Consumption Survey points to disparities that are even more pronounced than inequalities in income. Income and wealth inequality may fuel social tension and harm economic growth, as pointed out by the IMF's recent World Economic Outlook. To tackle inequality, the IMF reminds us that we will have to envisage policies which strengthen the position of those at the bottom of the income and wealth distribution in the labor market, and more substantial redistributive measures.[v] Otherwise, we risk losing public support for policies which contribute to our prosperity. We should not forget that international cooperation and exchange remain the key to prosperity in an interconnected world economy.

Finally, I would like to come back to the role of technology.

Let me touch on a few implications for the banking sector. Whatever impact digitalization will have on the future shape of the financial sector, it is reasonable to expect a reduction of the current labor force in the banking sector. To some degree, such downsizing is already an ongoing process in the post-crisis landscape. In Austria, we see employment in the banking sector decline. And we must be prepared to see a continuation of this trend in the years to come.

The other important change that is likely to occur is the rising importance of market-based forms of finance, also in countries like Austria, i.e. countries which are traditionally characterized by a dominance of bank-based finance. The capital markets union pursued by the European Union will foster activity and cross-border integration in this domain, promoting the development of new forms to finance economic activity.

But the extent of economic activity to be undertaken and its financing needs will be shaped less by technology than by the macroeconomic parameters and policies I have already referred to above.

Having said that, framing technological evolution in a way that best adapts to macroeconomic circumstances and contributes to their favorable development is certainly an important endeavor in an era of rapid change. I hope our conference will help foster our understanding of emerging trends and their possible impact – with all due modesty, given our experience in attempting to forecast the future.

I wish all of us two days of lively and productive discussion, and I hope we will succeed in strengthening confidence in the future ahead of us.

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[i] David A. Graham (2014): Rumsfeld's Knowns and Unknowns: The Intellectual History of a Quip, https://www.theatlantic.com/politics/archive/2014/03/rumsfelds-knowns-and-unknowns-the-intellectual-history-of-a-quip/359719/

[ii] Scherbov et al. (2008): Probabilistic Population Projections for the 27 EU Member States Based on Eurostat Assumptions, http://www.oeaw.ac.at/fileadmin/subsites/Institute/VID/PDF/Publications/EDRP/edrp_2008_02.pdf

[iii] Statistics Austria (2017): Population Forecasts, https://www.statistik.at/web_en/statistics/PeopleSociety/population/demographic_forecasts/population_forecasts/index.html

[iv] Sources: European Commission (2017): White Paper on the Future of Europe. Reflections and scenarios for the EU27 by 2025, https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf; World Bank Database

[v] IMF (2017): World Economic Outlook, April, Chapter 3: Understanding the downward trend in labor income shares, p. 140, http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017