

Ewald Nowotny  
Governor  
Oesterreichische Nationalbank

## SPEECH

Vienna, June 02, 2016

Check against delivery!

### **“Central bank policies – past challenges and future perspectives”**

#### **OeNB 200<sup>th</sup> anniversary ceremony – Introduction (Barry Eichengreen and Charles Goodhart)**

I now have the pleasure to welcome two very distinguished international guests. Both have been active in academia as well as in policy making. There is hardly anyone who would be better suited to discuss both past challenges in central bank policies and the future of central banking going ahead.

#### **Barry Eichengreen**

As the first speaker, I would like to welcome Barry Eichengreen. Barry is Professor of Economics and Political Science at the University of California in Berkeley. Barry is a most prolific scholar, who has contributed to a wide range of questions in economic policy, but clearly some of his favorite topics have been the global financial system and the dynamics of international currencies. He also followed the winding path toward European unification, which led to the introduction of the euro in 1999. Barry has been a critical, yet friendly, observer and it has always been a pleasure to read his profound comments on European monetary policy and political issues more generally.

At the same time, Barry is an eminent historian of the Great Depression, as it manifested itself in the United States and in the world economy. Barry wrote a now standard account of how irrational adherence to the gold standard prevented countries from engaging in expansionary policies. When the financial crisis unfolded in 2008, the two strands of Barry’s interest converged: now the European project of a common currency was at the very center of a financial crisis whose severity and geographical scope quickly made everybody think of the crisis that had gripped the world so badly in the 1930s. Very early

on in the crisis, Barry had the ingenious idea to produce a series of simple figures that would compare the development of key economic indicators like industrial production, world trade and equity markets, month by month following the onset of the crises in 1929 and 2008, and he updated these figures regularly. They showed that the slump in 2008 tracked the slump after 1929 quite well (or badly?) and was even faster and deeper for trade and equity markets. But then economies recovered, not least due to the considerable efforts of central banks and governments.

While this response prevented the recurrence of a depression as deep and catastrophic as in the 1930s, recovery was slow and unemployment skyrocketed in both the U.S.A. and Europe. Even today, nine years after the onset of the crisis, GDP in the euro area is barely above the pre-crisis level and an intolerably large number of people, very often young people, are still out of work. In some countries we risk losing the hope of a generation. In his most recent and widely acclaimed book, entitled “Hall of Mirrors,” Barry asks the question why – given the knowledge we had about what had happened during the 1930s – we didn’t do better this time around. Part of the response is certainly that while we can try to draw lessons from history and indeed did so, the new challenges of the present might still have required a different policy response. As the crisis of 2008 now slowly moves into history itself, this might be the moment to reflect on how history can help us improve our policy making in the future. Barry has given his presentation the title “Economic crises and central banking: Does history rhyme?” – I am very much looking forward to it.

### **Charles Goodhart**

After Barry, we will have the chance to listen to Charles Goodhart, who will build a bridge between the past, the present and the future of central banking. Charles is Professor Emeritus from the London School of Economics but has also served as Advisor at the Bank of England and later was member of the Bank’s Monetary Policy Committee. So he knows monetary policy very well, both from the out- and the inside. Charles has published extensively on questions of inflation targeting, financial stability as well as banking regulation and its interplay with monetary policy. But he is also an acute observer of the long-run trends in central banking. Together with Forrest Capie, Stanley Fischer and Norbert Schnadt, Charles prepared the scholarly background for the Bank of England’s tercentenary in 1994. Entitled “The Future of Central Banking,” it also provides a systematic discussion of the development of central banking since the foundation of the Bank of England. Charles also wrote a book on the evolution of central banks.

Today, Charles will talk about the topic “Wither central banking,” i.e. where is central banking going. Since the onset of the financial crisis, this question has again attracted significant attention. During the years of the Great Moderation and until 2008, most

practitioners and observers agreed on the model of an independent central bank that uses interest rate policy to achieve its single or primary target of price stability. Debates centered on relative details, like the choice of a proper measure of price stability. 2008 put the consensus of the Great Moderation to a severe test. Price stability in itself was not enough to ensure financial stability. This raises the question whether financial stability concerns should be taken into account when deciding on the interest level, i.e. by standard monetary policy, or whether financial stability should be taken care of through additional instruments like macroprudential regulation, or both. The introduction of new instruments as we have seen them worldwide and also in the euro area, raises further questions on who should be in charge – central banks, governments, or new agencies? – and how policies should be coordinated.

Fortunately – or unfortunately? – periods of debate and uncertainty are not uncommon in the history of central banking. Today we already have heard about some of these shifts when looking at the history of the Austrian central bank. Barry will probably tell us that it took quite some time to say goodbye to the doctrines of the gold standard. We also lived through some years of uncertainty after the end of Bretton Woods until the focus on price stability emerged during the 1980s. I am therefore very interested in what Charles will tell us about the current challenges for central banking given his knowledge of the long-run evolution and previous shifts in our conceptions of central bank policy.

But first let us welcome Barry Eichengreen.