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Bonjour à tout le monde, good morning everyone. I am the rapporteur for the economics and finance group, which was chaired by Jean-Claude Trichet. We had an enlightening discussion under the guidance of our chair and I am tasked with the difficult job of trying to give a summary. I am going to try to do that in 15 minutes. In that group, there was a strong consensus that the growth rate of the world economy has been slowing. There is a lot of weakness in investment, which has been linked to deep uncertainty. Both are linked to the trade conflict between the US and China, but also to the very strange macroeconomic environment that we are currently experiencing.

Why is it a strange economic environment? It is because we are in a low-inflation environment. It was discussed as to whether this was likely to change, and there were some panelists thinking it was unlikely that inflation expectations will change in the short run. We are in an environment in which monetary policy has to deal with low real rates, and that has put some constraints on the central banks. It was mentioned several times by different panelists that there was a little bit of a feeling that the central banks were the only game in town and that some help by fiscal policy would be welcome. This was echoing some calls by some prominent central bankers recently, both Jay Powell and Mario Draghi, who both said that the macro policy mix could do with more active fiscal policy.

Something was also noted regarding the financial crisis and the G20 recommendations on growth, on repairing the financial system, on trade liberalization and the reform of international financial institutions. Following these, not so much had been achieved, so there was still a long way to go. In some areas, we have gone backwards, with trade protectionism in particular. One panelist was slightly more optimistic about growth than the rest of the panel, arguing that there would be a deal between the US and China and that the inventory cycle would turn. He said it would create more favorable conditions for growth.

Another panelist noted that there had been some progress following the G20 and the financial crisis. This was in particular on the side of macro-prudential policies, which had been implemented with some success in Asia. Much was said about trade and uncertainty, and about the erosion of multilateralism, echoing some of the sessions earlier. They noted a rise in populism in an environment of widespread inequality.

Several panelists made a comparison between the current period and the 1930s, arguing that one of the big issues is “the revolt of the masses”. There is the rise of inequality and there is desperation, with the feeling that the pools of wealth are largely undeserved. They are very unequally distributed in various regions of the world. Therefore, just like in the ‘30s, there was the feeling that international finance could be a target, like in the inter-war years. If there is no solution found by international organizations to induce more cooperation, then it could be feared that the vacuum would be filled by hostile authorities, which would be hostile to more globalization and international cooperation. Avoiding a repeat of the 1930s seems to be something that a lot of the panelists agreed to.

This real macro-economic environment translates into low real rates. There was some discussion about whether that would be a transitory state of affairs or a more permanent state of affairs. There, some of the panelists were more on the side of explaining the low real rate along the lines of the aftermath of a big financial crisis and the financial cycle. That would be more of an explanation along the lines of Ken Rogoff, who has argued that there are these big financial cycles, these boom-and-bust cycles linked to financial crisis and periods of deleveraging after a financial crisis. Deleveraging can be linked to low real rates, because this is an increase in savings compared to investment in the world economy.

There is an alternative view which is the Larry Summers view, which links low real rates to longer-term trends in demographics and productivity. Here, the opinions are probably still split, but there were several people on the panel who were more on the financial cycle side. This would suggest that indeed, fiscal policy would be a powerful way of getting out of this low-real-rate environment. The low real-rate environment comes not only with constraints on monetary policy. It comes with the increased likelihood of bubbles in financial markets, and also with threats to financial stability.

Many people expressed their fear of risk of further financial crisis, not only in the banking sector. It was noted that banks in Europe in particular had a very low market-to-book value. They were squeezed both by the low-rate environment and also possibly by regulation, and also the competition of fintech to their business model. It was considered to be particularly problematic in Europe, where three-quarters of the financing of the economy comes from the banking sector. However, the low real-rate environment is also problematic for asset managers and for pension funds, and more generally, there are some risks building up in the shadow-banking sector. These risks were noted by several panelists.

Several panelists talked about climate change, not only as an existential threat, but also as a further threat to financial stability. It was noted by one panelist that we needed a reset of capitalism, since capitalism does not spontaneously address inequality and climate change. It needs a push. There are currently some pressures coming from consumers and investors, and some rating agencies are starting to award some extra financial ratings, which have to do with ESG. However, there is a risk of greenwashing. We have to be very serious about how we meet ESG goals, in the corporate sector and in the private sector. Initiatives which could help on that front would be very much welcomed.

It was noted that it was possible for investors to choose more ESG compatible high-yield investments, particularly in emerging markets. This is rather than investments in advanced economy bonds which are currently negatively yielding. Finally, there were some worries expressed by several panelists about financial innovations and crypto-currencies. Libra is considered a huge challenge, with one panelist voicing the worry that central banks might lose control. This is the diagnostics. You see that it is a very rich discussion with very different points which have been made by several members of the panel.

Then there were some discussions about the points of action. What do we do, given this diagnostic that we have just been through? There is one point of action which most of the panel probably agrees with, but it was not unanimous. This was the use of fiscal policy, given that the current macro-policy mix may be too skewed towards activism by central banks. They do try to fulfil their mandates, but they fulfil their mandate given that the fiscal authorities are not very active. As a result, they are a little bit like the only game in town, and that is considered to be a problem.

However, fiscal policy is effective in a low rate environment. Again, I do not think it is a universal view by the panel, but it was commonly shared. There was also a panelist who mentioned that if low wages are the issue in the current environment, then we should consider thinking again about tax income policies which were discussed in the 1970s. Another panelist mentioned that we should put a higher emphasis on regional policies, in order to deal with inequality and people who are left behind. We have seen this as a prominent political issue in the Brexit vote and America's vote in favor of Donald Trump.

There was an agreement, and here I speak under the control of Jean-Claude, about the regulation of crypto-currencies, stable coins and digital currencies. There, the view is that if we think about crypto-currencies, things like bitcoins, which work with proof of work, there is an enormous amount of energy consumption. These bitcoins and other cryptos of the same kind do not solve any problems. They are bad media of exchange. They are bad stores of value. They are essentially speculative assets, and on top of that, they are a feature of the dark web. Since they do not solve any problems, they have negative social value and they are detrimental to the environment. They should be regulated out.

There are stable coins such as Facebook Libra, which does not exist and may not exist, but there may be other innovations like that. There, a distinction has to be made between the technology of transactions and the creation of private money. If the technology is good for cross-border payment, this technology should be considered for example by networks of central banks, to improve the efficiency there. This is very different from the creation of a currency by a private entity, which on the whole should probably be discouraged.

The creation of money by a public authority comes with public-good provision, it comes with monetary policy and it comes with financial stability, versus a private currency. We have seen that in year-round private banking, which does not provide the public good. Rather, it is rather geared at giving private-firm profitability, which might be incompatible with macro-economic policy stabilization as well as financial stability. In that light, Libra is particularly important because of the strength of the network of potential users. This is why the regulatory committee has to be very careful. Talking about digital currency, the creation of digital currency by a central bank is a totally different type of animal. It has nothing to do with stable coins nor with bitcoins.

Finally, the last point of action that was discussed by the panel was the issue of how to deal with climate change and investment. Since it is a low-rate environment, it makes sense to invest right now. Due to the existential threat to invest right now in climate change, both public investment and private-sector investment should be high. How do we achieve that? One way that was discussed by the panel was to introduce an independent carbon central bank, which would issue permits of CO_2 emissions. The mandate would be very transparent and would be compatible with the CO_2 volume of emission targets set by the authorities.

By doing some auctions of carbon permits, the Central Bank would hit the carbon price and set a path of carbon prices for the long horizon. These are not only the spot prices now, but also for the next 10-20 years. They would give an expected path. Following a deterministic path, which would increase carbon in the long horizon would give certainty to investors and to innovators in order to unleash investment. It is a very efficient way of trying to deal with climate change. It deals with distortion, because the carbon price is the same for everyone, so it is much better than any targeted volume restrictions or ad-hoc measures that could be taken. It should be accompanied by redistributive policies, to ease the burden on the most vulnerable categories of the population. After that discussion, that is more or less where we stopped. Thank you very much.