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Jean-Claude TRICHET

John, you have the floor.

John LIPSKY

Thank you, Jean-Claude. Perhaps predictably, I find myself in the position that pretty much everything has been said by now regarding our session's subject matter, but not everyone has said it. As a result, I will try to differentiate my remarks, but my main points already have been mentioned. I will add one comment on European banking, however. One of the side effects of the new, post-crisis European regulation has been a *de facto* ceding of much of the international capital market business, and of high-end investment banking business, to non-European -- essentially American -- banks. I do not think that was intentional, but it certainly has been the case.

I hope that Akinari is correct in his optimism about the outlook. As the new managing director of the IMF pointed out in her inaugural speech last week -- and as the IMF gets ready to issue its forecasts of the world economic outlook -- they find that economies representing about 90% of world GDP are slowing. Of course, Japan has been at what looks like full employment for some time. The US has been the principal large economy growing above trend on an extended basis, if we use the metric of falling unemployment rates. The US unemployment rate, as you probably saw, has fallen to 50-year lows, even though participation rates are not as high as they were prior to the 2008/09 crisis.

The IMF's claim suggests that they consider that EU growth is slowing, and all the major emerging economies are suffering at this time from a slowdown in growth. It is worth asking, what could be the cause? Is there a common thread connecting these perceived growth slowdowns? In fact, there appear to be at least a few. The principal one is weakness in fixed investment in capital goods, equipment and software. That tendency seems to be occurring in virtually all economies, especially the advanced economies. It is worth asking why this is occurring in a time in which monetary policy is aggressively accommodative and bond yields generally are at or near historic lows.

This lack of investment, despite relatively good consumer demand growth in many advanced economies, suggests deep uncertainty. Akinari already pointed out that a substantial portion of the most important sovereign bond markets currently are trading at negative yields. This is something that none of us ever anticipated could occur on a sustained basis. I do not think we completely understand as yet it's causes and implications, but certainly it also reflects the degree of uncertainty among investors about the outlook.

Sustained low inflation and low inflation expectations are likely to be simultaneously a cause and a reflection of this uncertainty. For one thing, the consensus outlook for only modest growth point to weak energy and commodity prices. Thus, it is hard to see why inflation expectations are going to change substantially in the near term. They could even potentially work lower. As a result, there is every reason to think that this very unanticipated and abnormal situation with regard to sovereign bond yields will continue.

Switching to the policy side, there also are a series of policy challenges that seem to be heightening the uncertainty. For example, inequality is perceived widely as an increasingly important problem for economic policy. Recently, growing concern has been expressed about aspects such as regional differences in growth rates within economies that have come to be viewed as adding to inequality. Also, there is an awareness that gender concerns and gender inequality also undermine economic growth. Of course, there are always present the overarching concerns about the potential impact of climate change. I consider that the prominence accorded these concerns have been heightened significantly by the sluggishness of overall economic growth. If growth were perceived as more robust, these policy challenges presumably would create less uncertainty about economic prospects.

With regard to the process of international policymaking, I was happy to hear mention of the G20 Leaders process. The initial G20 meeting at the Leaders' Summit level in November 2008 focused on four principal agenda items. First was to restore global growth. Second was to repair and reform the financial system. Third was to avoid new trade protectionism and promote new trade liberalization and fourth was to reform the international financial institutions. I would say that if we were teachers grading their G20 pupils, we would award a mark of "incomplete" on every single one of them.

A key question, therefore, is whether a reasonable possibility exists for new policy initiatives to produce an important improvement in economic performance – and an accompanying reduction in uncertainty? I think that it would be very difficult. First, there is growing agreement that the extraordinary monetary policy moves of recent years more or less have run their course. There is an increasing sense among monetary authorities that they have been, as Jean-Claude said, the only game in town, but that the game is ending.

Everyone remembers Mario Draghi's remarks in London in August 2012, when he said, 'We will do whatever it takes.' He was referring to saving the euro, and he went on to say, 'And believe me, it will be enough.' However, not that many people paid such close attention when he spoke at Jackson Hole two years later. With regard to improving the performance of the European economy, he said, and I paraphrase, 'We will do whatever we can, and believe me, it will not be enough.'

President Draghi stated then that new European fiscal and structural policy initiatives were needed, but are those kinds of actions likely in short order and in force? Probably not. At a global level, the key international financial institutions -- including the Bretton Woods institutions – remain relevant. Moreover, they have been augmented by regional finance arrangements, but is it possible to conclude that the post-financial crisis version of the international safety net and the current institutional framework adequate to reduce the current heightened uncertainty and to spur stronger growth? I would say that this remains to be demonstrated. Bottom line: Today's sources of uncertainty likely will be with us for some time longer, without clear resolution.

Jean-Claude TRICHET

What you said is very stimulating, regarding your summing up of the programme after the crisis and the poor results. At least we avoided the equivalent of the '30s in the 20th century, and this was extremely likely. What we did at the time and since then corresponds to an underlying set of problems, in the advanced economy in particular, which is totally dramatic. It is very difficult to understand the monetary policies of the central bank if we do not realize that we are in an extraordinary demanding environment in the advanced economies. Let us not forget that it was a crisis of the advanced economies.