

Klaus Liebscher: Finance and modernisation

Welcome address by Dr Klaus Liebscher, Governor of the Austrian National Bank, at the Annual Conference of the European Association for Banking and Financial History (EABH), Vienna, 20 May 2005.

* * *

Ladies and Gentlemen,

It is a great pleasure for me to welcome you all on the occasion of the annual conference of the European Association for Banking and Financial History in Vienna. And let me add that I am highly honoured to have been elected to the Board of Management of your distinguished association this morning.

Vienna was chosen as this year's conference location and hosted by BA-CA, because Creditanstalt was founded 150 years ago. As you may know, we celebrate a number of other important anniversaries in 2005. We commemorate the end of World War II and the re-establishment of the Republic of Austria 60 years ago, the signing of the Austrian State Treaty 50 years ago and Austria's accession to the European Union 10 years ago. I am convinced that this year of commemoration is a good opportunity for historians to remind people of what history has to tell them. It is an old wisdom that we have to repeat history if we do not draw lessons from it. This is true for big politics, but equally true for the development of the various subsectors of society and of the economy.

Finance and banking are no exemptions to this experience, much to the contrary, but I would like to stress that ignoring the lessons of history is not the rule in the financial community. Let me mention two or three examples from the area of central banking policymaking.

In numerous cases, historical evidence has shown that a hasty liberalization of financial markets nearly always leads to financial crises, whose macro-economic costs are sometimes extremely high. Learning from the generalized mistakes of other countries, financial market liberalization in Austria followed a step-by-step approach and relied on the experience of others to set the "right" sequence of measures. Today Austria serves as a case in point of good practices in this respect, as a good historic example for other countries.

With respect to exchange rate and price stability, Austria learned its lessons from own mistakes made in the past as you will hear from two presentations on episodes of Austrian central banking history this afternoon. Therefore, I would like to point to the fact that after the breakdown of the Bretton Woods system the so-called "hard currency"-policy the Oesterreichische Nationalbank (OeNB) conducted more than 20 years became a success story not only because it was based on a well-founded conceptual framework. It became a success also because the central bank, the government and the social partners put their experience to work, i.e. that the achievement of the common goal of price stability requires contributions from all parties.

The OeNB as the independent central bank had to follow a credible monetary policy by pegging the schilling to the D-Mark as an exchange rate anchor. The government had to control budget deficits in order to avoid inflationary pressures. The trade unions accepted that wage rises had to be compatible with productivity increases. And the corporate sector realised that in order to remain competitive it had to increase productivity by improving its products and services, its organisational potentials, rationalisations - just to mention some of the measurements. As the Eurosystem continues the same stability-oriented policy, the "quasi Monetary Union" with the D-Mark was an ideal preparation for the participation of Austria in the European Monetary Union (EMU).

Let me recall that the main objective of the independent Eurosystem is to maintain price stability, i.e. safeguarding the value of the euro for currently more than 300 million people in the euro area. In so doing, the Eurosystem strives for the highest level of integrity, competence, efficiency and transparency. This anchoring of medium and long-term inflation expectations in the euro area, which reflects the credibility of the Governing Council of the ECB, is essential. It is this credibility which allows the Eurosystem to deliver price stability, in line with the mandate assigned to it by the Treaty, even when circumstances are very challenging. However, a credible monetary policy must be accompanied by a credible and sound fiscal policy and an appropriate set of structural reforms in order to support sustainable growth and job creation throughout the euro area.

History teaches us not to put credibility at risk for unsecure and short-lived gains with respect to other economic goals. However, what is needed in all areas of economic policy - on a national, European and international level - is a permanent reform process that contributes to further peaceful integration and a stable development of our societies.

Ladies and gentlemen,

I am convinced that your conference on "Finance and Modernisation" will deliver useful insights into today's challenges from a historical perspective. The statute of the European Association for Banking and Financial History points out that its conferences and symposia are "focusing on areas of historical research that have important practical implications for modern day banking and finance".

I am sure that you are going to achieve this goal and - as a recipient of your research - I would like to thank you for your valuable work. I wish you a fruitful discussion and a successful outcome for the benefit of all of us in the financial community and beyond.