

Ardian Fullani: Needed – a new way of thinking, a new approach to economic policy

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the 6th South-Eastern European Economic Research Workshop, organized by the Bank of Albania, Tirana, 19 November 2012.

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Dear workshop participants,

Dear central banks colleagues,

I am very happy to be here today, in this 6th South-Eastern European Economic Research Workshop. This Workshop is an annual event that Bank of Albania organizes, aiming to successfully bring together researchers and their work from the region and beyond. We are very glad for your personal contribution and your institutions' commitment to this activity. The participation map extends every year and we take this development as a sign of recognition. This activity takes place as Albania celebrates its 100 anniversary of independence, which happened on 28 November 1912; we are, therefore, very happy to welcome you on the occasion of this very important event.

The South-Eastern European Economic Research Workshop provides a platform to discuss and, most importantly, improve our work. It also provides a platform that contributes to the extension of regional cooperation in the area of research, making an additional contribution to the cooperation in other important areas of Central Banking in the region.

As I have previously mentioned, countries of the SEE region are similar in many aspects including the state of economic problems and economic research. We are focusing on finding the problems in the existing models. However, the actual economic conditions, the state of policy variables and level of policy instruments represent tails events rather than normal behaviour. Therefore, our empiric understanding lies outside the set of solutions offered by models, which are built and tested in normal times. Above all, the biggest challenge is adopting a new philosophy and a new way of thinking into policy design and implementation.

Central banks are perfect environments for these new ideas to emerge and develop. They bring together distinguished analysts and the research community with a demanding set of problems that need solutions. Its network is available to researchers while financial, technological, statistical and intellectual support for research is practically limitless. Moreover, the research community in central banks has the opportunity to directly influence policy design and implementation. This particular characteristic endows central bank researchers with the opportunity to implement their findings and practically test their conclusions in practice.

In this respect your conclusions have far reaching impact on people's welfare and economic outcome. Therefore, you have an immense responsibility to adopt the best practices of academic methods and writing and make your research available to scrupulous critique at the bank and outside it as well as for the research community. Always be reminded that when your research and analysis have potential effects on other people's lives.

I sincerely invite you to adopt this spirit of cooperation during the proceedings of this workshop, as you have always done in the previous workshops.

I would also like to remind you of the relatively long journey that you have taken together with the Bank. The quantity and quality of your work has increased and improved throughout this journey. Therefore, I would like to challenge you to reach beyond this particular event and present your work more frequently in similar activities in the region or in the EU. I would like to encourage you to spend more time and efforts to disseminate and implement your research findings within the institution.

Results and conclusions should not be your last station. Organize activities that focus on explaining and disseminating results and research techniques to the rest of the bank. Raise the awareness on research developments and extend your cooperation with your colleagues within the bank. I invite you to extend cooperation beyond borders. Benefit from this wonderful network that we have created and extend the spirit of cooperation beyond workshop participation by engaging in joint research projects with national and regional focus. You will be amazed by how much you can learn.

Finally, I would also like to encourage the others economists of the bank to crush the monotony of repeated dull analysis and frequent reliance on untested hypothesis. Enrich your work with results of recent research, engage in research work yourself. Devote more efforts and energy to the study of economic phenomena and the way they affect your work.

Research is not and should not be an exclusive monopoly of monetary policy and financial stability. It takes many forms, and should extend across all areas of central banking. Few of the materials that will be discussed today and tomorrow illustrate this initiative very well. I hope there will be more similar examples in future workshops.

The presentations and discussions today and tomorrow address a wide range of issues, reflecting the nature of problems that our economies are facing.

I understand from the programme that our guests' focus of research is similar to the one at the Bank of Albania. During the past year, we have focused on financial stability and monetary policy, trade integration and trade relations, and the modelling of stochastic economic process. But above all, the crisis, its implications, the channels of transmission, and policy response have become the focus of empiric and theoretic research in the central banks and academia during the last 4 years. The results of this research and analysis have taken central banks and their monetary and regulatory policies beyond what was considered sacred limits of monetary policy. However, this has not proven very helpful for the economy.

It is now five years since the crisis began and the more authorities deal with short-term problems of growth and unemployment, the more they reveal long-term imbalances and structural problems of national and global scale. In the meantime, we still cannot fully define, understand and model the economy in its true stochastic form.

Typically, long and deep economic and social crisis have become the breeding ground of new philosophies of economic thinking, which, in turn, have encouraged significant policy changes and opened the road to economic prosperity. Adam Smith, John Keynes, Milton Friedman, and their economic thinking have emerged in the dusk of big crisis. Unfortunately, we are still waiting for a new philosophy; so the question arises: where is our philosopher? We clearly need a new way of thinking, a new approach to economic policy, a lot of new ideas.

These new ideas are not easily discovered. They do not pop up themselves; they hide in the layers of economic and financial data, history of economic developments and economic thought, and philosophy of social interaction in the macro and microeconomic scale. It is not surprising that economists and politicians have started to challenge some beliefs that are regarded as universal economic truths. For example, GDP and growth are challenged as the best measure of happiness and prosperity, globalization is challenged for its externalities in the labour market and inequality, inequality itself is under investigation as a potential culprit of economic slowdown. Economic research must broaden its scope to consider all these areas in their work. Research must be designed like an increasing spiral, where the newly gained knowledge in philosophy, economic history, empiric research and application of mathematic and statistical models must return to the starting point to confront the set of all new and old problems, prove the generality of its application, and evaluate the set of potential externalities.

As I mentioned at the beginning, this is the 100th jubilee of Albania's independence and our annual conference this year focused on the development of monetary policy during the last

100 years and paid particular attention to the impact that domestic and international political and economic events have had on the nature of the central bank and its monetary policy. Addressing the mixture of historic and economic developments, the large variety of monetary regimes, abrupt swings in economic, political and philosophy systems, and modern economics was amazingly refreshing, interesting, and thought-provoking. It certainly deserves more attention.

Our traditional approach to research has largely contributed to our understanding of monetary and financial stability issues and models with a large set of parameters, forecasts and shock analysis. It has enriched the envelope of models and methodologies that are available in the process of policy design and implementation and has increased our confidence. However, it is time to go deeper in the understanding the fundamental of economic behaviour as an individual and social phenomenon. This understanding requires, among others, proficient research in economic history and economic behaviour and economic welfare. I reiterate you do not have to do this alone and isolated.

International scientific collaboration allows for increased access to research resources and infrastructure. Teaming up with professionals with complementary skills, benefitting from knowledge generated beyond boundaries is a modern and effective endeavour. We hope this Workshop as well as other conferences and activities we are hosting throughout the year will contribute to this end.

I wish you great success during the Workshop proceedings and in your everyday efforts. It is my hope that getting to know each other's work will lay the foundations for further future cooperation.

Thank you!