

Mario Draghi: Interview in *The Guardian*

Interview with Mr Mario Draghi, President of the European Central Bank, in *The Guardian*, conducted by Mr Shiv Malik on 18 February 2016 and published on 11 March 2016.

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What does the ECB's own research on incomes and younger generations say?

During the great recession, the young (16 to 34) lost about 5 percent of household income in real terms. That was of course substantial and had a big impact on the personal plans of many young people. But the magnitude was not so different from the losses suffered by other generations, although of course the young do not have the same assets and savings to fall back on in tough economic times. Even more worrying was the sharp increase in youth unemployment in Europe.

Are you worried about the position of young adults in Europe and is this an increasingly urgent issue?

Youth unemployment is a tragedy and prevents people from playing a full and meaningful part in society. If every second young person is out of work – as is still the case in some countries in Europe – it seriously harms the economy, because people willing to work cannot work and skills are not developed. And it threatens social harmony. Unemployment can lead in the long run to increased social problems and ill-health.

Are you worried about future consumption levels of young adults, as this group – who have been especially “scarred” by the global recession – move into middle life?

Consumption within a society is determined partly by wealth distribution, but even more important is that the young generation can participate in the labour market in a fair way. In many countries the labour market is set up to protect older “insiders” – people with permanent, high paid contracts and shielded by strong labour laws. The side effect is that young people are stuck with lower-paid, temporary contracts and get fired first in crisis times. That also means that employers are reluctant to invest in young people, so the incomes of this generation stay lower over their lifetime.

What might be the forces at work here – demographics / changing workplaces / fiscal-monetary policy – that mean that young adults appear to be receiving little of the rewards of two and half decades of average economic growth?

Nobody stays young forever. The crucial question is whether a person can participate fully in the economy over his or her life-time – get a good education, find a job, buy a home for the family. Income and wealth follow. What makes me worry is that increasing inequality might prevent people from doing that. This is an issue all our societies need to look at carefully. The ECB's role in that is to maintain price stability, which prevents unfair redistribution. For example, our research shows that in the euro area too low inflation results in redistribution from younger, more indebted households to older households that are typically net creditors.

Current retirees are wealthier than ever. What opportunities does this bring to Europe?

In an ageing society, the fact that retirees are getting wealthier isn't necessarily abnormal – older people need to accumulate more wealth to finance living longer. As they spend their wealth during retirement, it passes back to the younger generations. So wealth creation isn't a zero sum game. What matters is that young people, as they move through life, have the opportunities to build up wealth, too.

Do you think younger adults today will have as good a standard of living as pensioners today when they come to retire?

That's our common choice. Our standard of living depends on the strength of our economy. We need a more open, flexible, innovative and business-friendly society. Much focus is put on the central bank to raise growth, and it can contribute through price stability and a stable financial system. But in the long run real growth is driven by what the economy can produce. That is much more about ideas, technology, flexibility, motivation, skills. It is up to elected governments to set a growth-friendly environment.

You often talk about the need for “structural reform” in employment. What do you mean by this?

There are lots of forms this can take. Just to give one example, the *Kurzarbeit* scheme in Germany allowed employers to adjust working time during the crisis without firing people. But there's no one-size-fits-all model. Every society has its challenges and preferences. The idea generally is to create a fair and flexible labour market where companies do not fear taking on staff when they need them and specific groups of people are not structurally disadvantaged at times when employers need to cut wage bills.

What can central banks/governments do to ease/resolve these issues?

Everyone has a vital interest in a prospering economy. So bringing down high levels of youth unemployment is a priority for everyone. As I said, the best contribution central banks can make here is to live up to their mandates. We can only encourage elected governments to take the necessary steps to create jobs and make their societies fairer. Over the longer-term, by far the most important thing for young people is investing in education and skills. Skills are a person's passport through life, and in a fast-changing digital economy, the premium paid for skills is only likely to rise. Equipping people for tomorrow's world is the best way to raise incomes and reduce inequality.