

Opening Remarks

Glenn Stevens

On behalf of the Reserve Bank of Australia and on behalf of Martin Parkinson, my colleague from the Australian Treasury, I'd like to welcome you all to this G-20 Workshop on Demography and Financial Markets.

This is the third of three G-20 workshops for the year. We've had one very ably hosted by our Japanese colleagues in Tokyo early in the year on the Bretton Woods reform, and one hosted in Banff a month or so back by our Canadian colleagues – I note that the Sydney winter weather is rather akin to the summer Canadian weather. The demographic theme continues quite a long thread of work within the G-20, stretching back over several years now to the German chair who introduced this in 2004. It was continued last year under the chairmanship of our Chinese colleagues and we are seeking to add to the stock of knowledge by trying to introduce a financial market theme to the demographic issue this year.

Our feeling is that while there has been a lot of discussion on the fiscal impacts of population ageing, and a lot of discussion on things like immigration and its role, great or small, in confronting the problems of ageing, there will also be financial market counterparts that ought to be explored. So that's what we'd like to do at this workshop. I think the G-20 – given its composition of 19 countries plus the EU and the International Financial Institutions, and the seniority of representation that's available at the higher-level meetings – is a key group in trying to address some of these problems and issues which are common to many countries. For today and tomorrow I'd identify four key sets of questions that I think we ought to address if we can.

The first of those is: what will be the effect of demographic change on saving and investment patterns and on rates of return as private agents and governments respond to this phenomenon? How much do we know about this from theory and history and how do we find out more if we don't know enough? That's the first set of questions.

The second set of questions is: how will all of that be affected by international capital mobility, given that all countries face demographic change but at different times and at different speeds? To what extent is it plausible to think that capital flows across borders will assist in addressing the issues that come with demographic change?

Thirdly, are there existing market mechanisms which will allow private agents to manage the risks that they face appropriately – assuming, that is, that they recognise the risks that they face? I am mindful here that in many countries risks that are associated with longevity are increasingly being transferred to households and away from large corporations, who once upon a time took on those risks through defined-benefit pension plans. So the question I think is whether market mechanisms exist to help those households, or to allow them to manage those risks, or whether it is the case that there are missing markets and missing instruments. If there are market

failures, what useful role could public policy play in addressing these problems of market incompleteness? And if the policy response involves governments taking on certain risks themselves, how will they go about managing those risks?

A fourth set of issues that I think will probably be increasingly important over time relates to the question of what resource cost is being incurred in the management of people's savings. That is, just how efficient is the intermediation process? Are the fees being charged by the intermediaries, the fund managers and so on, good value for money or not, and are there any public policy implications that come from that?

To my mind these questions are certainly important ones. Hopefully we can address them during the next day and a half. It's not necessarily an exhaustive list and no doubt there are other questions which will arise.

What we are seeking to do is address these and other questions in a way that ultimately will allow us to shape a useful discussion of demography and financial markets at the next G-20 Deputies meeting in October and ultimately shape a good discussion for our Ministers and Governors when they meet in Melbourne in November. I think it is key to keep in mind that we are seeking to shape useful discussions for policy-makers, not just to have an academic debate. As interesting and important as that would be, we're going to be trying to extract from our discussions some useful themes that policy-makers will be able to take up and perhaps do something about when they meet.

That's all I would like to say before I hand over to Chris to chair the first session. Martin, anything you'd like to add?

Martin Parkinson

Colleagues, let me join with Glenn in welcoming you to Sydney. I'm not going to say anything more now. I'll speak during the course of the sessions but I hope that we're all able to leave here tomorrow feeling that we have actually helped to better define some of the key policy challenges in front of us and, if we can do that, then I think we will have made a good contribution. Good luck, thanks.