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THE BANKER'S COMMENT BY JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 1.9 billion euros: Bordeaux wine exports. They have tripled in 15 years. Luckily there are still a few "fundamentals" that work well.

What kind of "growth strategy" for France?

We all know that the 1981 growth strategy put in place in France by the new leftwing majority failed because stimulated internal demand got an insufficient response from a production sector that had been seriously weakened by higher energy costs and the actions of the preceding government, which had made businesses bear the brunt of the adjustment while sparing households. Imports and the trade deficit had exploded (not to mention the budgetary deficit).

Today, unfortunately, the production sector has not seen improvements; our external deficit reflects this. The difference between now and the 1981 situation is that France might well, it seems, not be alone in taking such action, and thoughts are turning to a vast European programme of "public works". Ah! The Roosevelt dream of a "public works programme". It's a dream that won't die, even though all the economists know full well that the New Deal, an inarguable advance for social rights, was powerless in favouring a real upturn of activity and a fall in unemployment. In the present case, a European programme (whose geographic share-out would not be clear-cut in a multi-national ensemble with each State wishing, naturally, to be the main beneficiary) would above all be a source of additional indebtedness. Furthermore, its effects on growth stimulation are far from proven.

This is not to say that such investments should be banished. However, they should be one element in a broader programme aiming to reinforce the productive offer, an offer that is very weak in Europe and the euro zone because the main variables within production (labour, capital and innovation) are not dynamic enough. As far as the workforce is concerned, an open, co-ordinated and constructive policy on immigration on a continental scale is necessary. For the other variables, it is the business environment that must most crucially be improved; via improved labor skills and enhanced infrastructure of course, but also and especially via an environment favouring innovation, with rules fully protecting patents and copyrights. In sum, via research and development.

We always come back to it, "the Lisbon strategy" - the fundamental base (neglected, sadly) of the continent's future; far more so than a hazy "Marshall plan".

Eurex, a nasty stroke against French debt?

That, in any case, is what a number of French politicians have said about the creation, in Frankfurt, of this contract which allows the purchase of the French 10-year sovereign debt, with a fixed surrender date and at a price agreed in advance. We agree that this indignation has some foundation. First because of the timing; a few days before the presidential election, is this not an imminent storm warning for the French debt? Second, because (as, sadly, with all futures contracts) it is not necessary to own French sovereign bonds to buy this "insurance" instrument which is also clearly speculative. The civil servants in the French treasury who manage the French debt are, it is said, quite happy with this initiative, which is supposed to create liquidity (a familiar old chestnut!). They can scarcely say otherwise, unlike politicians who can let themselves go on the subject.

There are, though, reasons not to take this creation as wholly tragic. Such a market already exists for the German debt and it only drains off insignificant amounts of capital. The German debt, though, is not the French one!

Above all, other far more dangerous and efficient instruments exist for speculation against sovereign bonds, in particular the notorious credit default swaps. French leaders have often said that these should be forbidden. Why don't they forbid it? Impossible for a country to do it alone, they say. Let's try anyway, and we'll see!

Banks, shameless profiteers from the ECB's low interest rates?

The banks borrow at 1% from the ECB and underwrite public debts at 3, 4, and 5%. This is a scandal for those who recommend direct financing of public debts and at 1% of course, by the ECB. We shall not keep hammering on about the very serious risk of moral hazard and encouragement to bad management. In that respect, we may wonder though why businesses, whose debts are infinitely more productive than those of States, should not benefit from such favourable treatment. On the other hand, let us remember that the ECB lends in the short term and that banks are buying ten-year bonds.

Those who denounce these "wrong doings" do not find any issue when agreeing to pay for services at prices considerably (the adverb is weak) higher than the "raw material" cost: their espresso in a cafe, for example, their bottle of mineral water in any restaurant, maintenance work of all kinds, and plenty of other cases which do not appear to worry these "indignados"...

Expression of the month: "the regulators' fault".

That is what the CEO of a large French bank let slip, having had a few hiccups with market operations - a result, said he, of the lack of tighter regulation of such operations. But, he feels obliged to continue with them so as not to lose out to competitors. There is no limit to their cheek. This banker has no hesitation in adding his voice to the cohort of those who, at the moment a measure is evoked, assertively set out to demonstrate that the regulation is at best inefficient, if not potentially harmful. In the same breath, and perceiving no contradiction to his own first comments, he attacks the Basle III dispositions -a proper regulation this one- accusing it of pulling French and European banks to their knees.

A Greek exit from the euro zone? Some talk out of the back of their heads.

Assumptions and rumours about an exit by Greece from the euro zone are all over and said to being now considered in Brussels. We hope this is merely soothsaying by persons of no responsibility (or/and of irresponsibility). First, such an outcome would be monstrous at the moral and ethical levels. To admit Greece into the euro was perhaps an error, but now she is a family member. Can we conceive of a couple adopting a child and then throwing him out on the grounds that his behaviour did not match their expectations? Let us, however, leave aside morality, which some might consider a secondary issue, and look at the political and economic consequences; not for Greece, this is easily imagined, but for the zone itself. What a disastrous signal to have sent to all who fear the euro zone's break-up. And what encouragement for those, the Soros and other hedge funds, who secretly or openly hope for its explosion. The exit of this small State would represent water beginning to flood the steamboat navigating a hostile ocean.

Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC advisor, offers his own point of view on the economic and financial news, with total editorial freedom. Email : jppatat@tac-financial.com
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