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THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 100 yen for one dollar; for reference it has averaged 105 since the start of the century; 135 en 2002.

The roads leading to the crisis.

A conference followed by debate was organised by the CNAM, a French public scientific and professional institution, on the following topic: "Why didn't economists see the crisis looming?" We should also allow interventions from those (and there were some) who felt the crisis coming but did not necessarily guess its dimensions – by those who were alarmed to see the incessant feeding of ground fertile for excesses of all kinds by the unrelenting laxity of the Fed's monetary policy during the early years of this century. A monetary policy feted by the ones (the majority) who conversely practised "ECB bashing", this oh-so timid central bank, "autistic" said one of its worst critics. The Fed's President, Alan Greenspan, darling of the markets, saw out his mandate covered with praise and then returned to the hedge funds which had blossomed under his policies.

«Endure…..» The bad film seems to be in the remake. The American central bank is flooding markets with its endless quantitative easing - a policy that seems to favour speculation rather than economic activity; the Dow Jones is above the pre-crisis and pre-internet bubble levels seen early this century. The Nikkei flies high even though Japan is undergoing a quasi-deflation and the government, like the Governor of its central bank, promises to get it even higher. Stock market performances are out of step with the present economic situation.

But what is worse, something that could arouse irony but which, in view of the risks being run, now makes one angry, is that once again those who were devotees of the Fed before the crisis are now falling back into the same ecstatic praises and of course falling back into the same criticisms of the oh-so timid oh-so unimaginative ECB's actions. In truth, European markets' performances, despite a nice leap, are far behind those across the pond. Luckily!

The Fed's Chairman, caught in a snare with no fathomable exit, a Chairman whose competence and care for the general interest one cannot challenge, half admits his worries; he assures us though that he is closely monitoring the situation and "the excessive risks being taken". It would be nice to know just what "anti-bubble" arsenal he has at his command.

Economists' errors? Let's put them into perspective.

Following upon the "error" when IMF officers minimised the multiplier for public expenditure in the euro zone (of which I spoke in a preceding chronicle), a second "error" has just pleased the lovers of public expenditure. This is the one seen in the work of Rogoff and Reinhart, according to whom there are grave consequences for growth when public debt levels exceed 90% of GDP. An error admitted by the two economists who nevertheless, but without insisting on the fatal number 90%, support the hypothesis of the study. That figure, 90%, is exactly the level of French public debt, a debt whose servicing (60 billion euros) reaches the limit of 3% of GDP for budgetary deficit. What is more, the credibility of those who contradict Rogoff and Reinhart might well be questioned, because they think they can show that, on the contrary, countries with a very high level of public debt have seen annual growth of 2% on average – growth that has barely been seen for ages in Italy, Belgium, and Portugal. But, they tell us, this is based on series going back to 1800! Is this serious? We wonder whether in this domain the critics of Rogoff and Reinhart, just like them, might not have been influenced by a political bias which is alas more and more common among economists.

Failure of the Financial Services Authority (FSA).

We might well laugh, it being so typical of the off-trackness of a doctrinal idea taken to extremes. In 1997 the British government granted independence to the Bank of England and, in exchange, withdrew from it banking supervision, which it entrusted to another organisation – the FSA, which is also responsible for supervising financial markets and insurance companies. This because, they explain, with financial globalisation everything is interlinked and inter-dependent. Banking supervision should not be the exclusive mission of a sole organisation because the organisation would then have no more than a partial view of things, especially in the case of a central bank which would be embroiled in conflicts of interest that handicap monetary policy. There followed a fashion for the concept, especially in emerging countries and even ... in Germany. Alas, the crisis has shown what sceptics dared not say aloud – in wanting to control everything, one controls nothing. The FSA was superbly surprised by the unravelling of Northern Rock bank and by the misfortunes of the Royal Bank of Scotland. Whereas the actions of central banks responsible for banking supervision have demonstrated their efficiency in that domain without the slightest conflict of interest occurring. Without flags, drums and fifes the FSA has just been eliminated and banking supervision returned to the Bank of England.

Name of the month: Jens Weidmann.

Him again! It must be said that the Bundesbank's President has been behaving for some time as though he were boss of an anti- central bank, against the Frankfurt one. Having criticised the project to assign banking supervision to the ECB, he has now gone to the German constitutional court regarding the ECB's purchase of public debt bonds. He announces in advance the institution's lowering of rates and hands out good and black marks to euro zone countries. Our country was his target recently. Weidmann the "francophile" suggests without actually saying it that France is de facto a member of the peripheral countries (he is kind enough not to use the label "Club Med country" that was introduced by one of his predecessors); he is also strongly critical of our budgetary leanings. Who gave him any kind of legitimacy?

Is the German model transferable?

No it is not, reply those who are against policies of rigour and improvements in competitiveness. They seem to have irrefutable arguments: mathematically, not all European countries can have an external excess, while internal demand, especially consumption, remains essential for growth. But is this not to reason as though Europe were a sealed-off world and to think that the demand of 400 million Europeans weighs more heavily than does that of 5.5 billion non-Europeans? Add to this that in France, and no doubt in other countries, internal demand is clearly excessive in view of production capabilities.

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