



THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figures of the month: 2.5% and 0.5%, the estimates by a research centre for the potential growth of Spain and France respectively.

A rebound for the British economy, rather upsetting for some.

Following on several bleak years, the British economy rebounded with an expected GDP growth of 1.5% in 2013 and at least 2% for 2014 - performances well above those of the French economy. Performances, too, that surprise lots of our analysts, convinced that the UK no longer has industries and is living on financial services, dodgy ones at that; convinced above all that the cure of budgetary austerity inflicted by the government on the country could only bring the economy to its knees.

We could, of course, cite the activity of the Bank of England and its massive repurchasing of debt bonds, destined to lower long term rates. But French interest rates are now lower.

The "Ricardians" will claim that it is precisely the spectacular reduction of the budgetary deficit (still very high at 6.3% but down by half over two years) that explains these changes because it has helped clear the air for those in the economy. Two factors, though, seem in any case to have been decisive in these favourable evolutions.

First is the restoration of confidence. Without necessarily invoking Ricardo, it is a fact that in the exemplary British democracy, once a majority is elected they can apply their programme without multiple confrontations and blockages that attempt to sway it. Having a compass that works is an important element in raising a signposted vision of the future, even if it is one that is not wholly shared.

However, a decisive element is the direction of an economic policy that clearly favours manufacturing possibilities. Households have paid dearly for the budgetary adjustment whereas business taxation is becoming lighter. The recovery rests therefore on investments and exports. Those here in France with eyes riveted on household consumption will call this an unbalanced recovery. The English, though, have understood that when a country has a recurring external deficit it means that household demand, far from being insufficient, is excessive.

The Spanish situation seems to be sending the same scornful message to those for whom budgetary adjustment is a synonym for recession.

Japan. What if the "Abenomics" had got it all wrong?

The current diagnosis for Japan is simple: two "lost decades" resulting from a banking crisis at the start and deadly deflation. A study by the Peterson Institute runs against these (received?) ideas. Firstly, the deflation was no more than a simple series of occasional price declines which did not stop the Japanese economy from growing between 2000 and 2012. Sure, it was weaker growth than that of other industrialised countries, but due to a catastrophic demographic situation (low birth-rate, near-zero immigration) and with an active population which stagnated over the period while that of the USA grew by 25%. During those years, Japanese production per unit of work rose by 14%, more than for France and Germany. A conclusion which has the merit of bringing to mind a sensible truth - production results from a combination of labour force and investment, factor of productivity. The route should therefore be marked out for the Japanese authorities: increase the labour force by favouring immigration in particular, and a more rapid insertion of women into the labour market. These initiatives seem not to figure on the "Abenomics" programme, one of whose flagship ideas is to attempt to create inflation. This is an absurd direction to take, a harmful one even if the American study is correct, with the hike in interest rates which would follow and in a country whose public debt is colossal.

The Fed and the ECB facing the crisis, with the ECB in deeper waters.

Balance sheets for the two central banks show changes that might surprise those who feel that the ECB has been more timid than its American counterpart. Between December 2008 and the end of 2012, the total of assets bought for monetary policy went from 2,043 to 3,047 bn euros at the ECB, representing 32% of GDP in 2012 versus 22% five years earlier. For the Fed, the corresponding figures are from 2,241 to 2,832 bn dollars, i.e. a clearly weaker increase. However, the use of the assets was different: at the end of 2012, the ECB, a multinational institution, had only acquired 280 bn in necessarily widely different sovereign bonds and had supplied 1,600 bn in medium term liquidities to banks, whereas the Fed had acquired 2,580 bn in Federal Treasuries. We see, what is more, that Fed assets diminished between 2011 and 2012 whilst those of the ECB grew by 12%, reflecting the lasting crisis in the euro zone.

Expression of the month: Strategist State.

This expression recurs often among French movers and shakers, with the creation of the French Strategy Commissariat and with the "34 industrial projects for the future". We have sympathy for these echoes of French-style planning, except that in an arch-competitive and arch-globalised world, disappointments must be foreseen. Experiments such as the Minitel and Bull did not prevent France from missing out on the numeric industrial revolution. So, is it not better to have a "facilitator" State? By making teaching more efficient, by muscling up research, by simplifying and lightening businesses' legal, administrative and fiscal environment, by reducing labour costs and by reconciling SMEs with banks. All areas where the State can act to encourage businesses, because it is they who are best equipped to figure out the right way to go.

Unreasonable market demands.

Yes, you read right: demands. That in any case seems to be the markets' state of mind once the ECB president hinted that the institution would maintain low interest rates for a considerable time to come. From these common sense comments, in view of the current economic climate, some have deduced that the ECB was lining up with Fed practices; so they now want to know from the ECB at what level of unemployment rates will be raised. Also they want the publication of the minutes of Board of Governors meetings. All this would be farcical had these "demands" come from traditional investors, retirement funds and savings schemes; however, they come from speculative funds for whom a signposted future, with the behaviour of other investors predictable, would allow the launch of opposing operations, brief but fruitful ones.