



THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: \$81.84: price of a barrel of WTI oil despite the Middle-East situation.

To hell with the debt!

We all agree in viewing this alarmist frenzy which has seized the media as ridiculous, just because the total of the French national debt has gone above 2,000 bn Euros. As though that additional euro which carried us over that crucial barrier were to have dramatically worsened our situation. However, this is not a reason, as some would have us suppose, to question the legitimacy of this indebtedness and spout the assertions and suggestions of another century.

It is heard that a State is not a household and is not prone, as is the latter, to rules of "good management". Perhaps it was true in Keynes' time, when economies were self-contained and a unit of public expenditure profited mainly the national economy. But this is not so today with the commercial and financial openness and the pitiless judgements of the "markets".

Another assertion: there are "illegitimate" debts, those that fund bad expenditure (profiting the rich for example) and which we can consequently not honour, as though the lenders were responsible for the poor management of their debtors. Ah! What a pity that the "market" has taken over the obligation for the banks to underwrite Treasury bonds as well as the injunction for the central bank to cover the State's financial needs!

In general, one is struck by the scorn meted out to the creditor, a creditor accused of being a "rentier" to better stigmatise him, whereas more than 90% of the public debt of major countries is carried by funds which manage the investments of millions of small savers and, above all, the long term safety of retirement plans for tens of millions of workers. A scorn which disturbingly recalls the customs of the days of royalty, an un-destroyable part of French national genes.

"England publishes its budget transparently and pays its creditors on the nail; France cultivates opacity for public accounts and regularly plays the bankrupt." It was Necker (1732-1804) who, in his day, made this disillusioned statement.

Name of the month : Jean Tirole, of course.

It's true that in a climate that is so detestable, this attribution of the Nobel Prize in economics is encouraging. "Two fingers in the air to 'French bashing'", said the French Prime Minister. Really? Our brilliant laureate himself, though, joins in this French bashing, he who views our labour market as "catastrophic", and so do his six colleagues, French economists nominated among the best in the world, but who (all) have studied in US universities (like Tirole himself by the way) and who, what is more, all live and work abroad.

The scandalous recourse to the Karlsruhe court.

Asked to judge the conformity to the German constitution of possible purchases of public State debts in the euro zone, the Karlsruhe court sent the dossier to the European Union Court of Justice, which will not give a decision until mid-2015. The taking hostage of other countries in the zone by a few anti-euro compulsives, the nullity of the argument equalling purchases in secondary markets to direct assistance to treasuries - all this is scandalous. In fact, in the present scheme of things, such purchases are impossible: first in practice - from which States would the bonds be bought? And second in law - since such operations must imperatively be preceded by a request for aid from the concerned country to the European Solidarity Fund, something no government is considering. Nonetheless. Decisions should be made to ensure that the zone countries' leaders can avoid being exposed to the vagaries of one State alone.

"Watch out for currency war".

We all know that our economists and media adore that expression. This war is supposed to be on again because of declarations made by American parliamentarians worried by the increased strength of the greenback. For now, US monetary authorities are staying phlegmatic and nothing indicates that they may question their steady withdrawal from purchasing public debts or contradict the prospects (not for tomorrow but inevitable) of a raise in American interest rates.

In any case, the euro zone can no longer be accused of being the dupe in this supposed war. The euro's value has dropped 10% in a few weeks. 10%! A drop that a study by the Ministry of Finance quoted, a few months back, as sufficient to win growth of 0.4%. Need it be said that the condition of our industrial sector makes us somewhat sceptical regarding the plausibility of this diagnosis (which for the time being has not been taken into account in economic forecasts), a diagnosis which would imply a vigorous upswing in our exports?

Weird deflation.

The French price index increased in August by a modest 0.5% over one year. Details in the index show that the great majority of expenditure categories therein had seen a price increase, sometimes a considerable one: building works and renovation, by 3.9%; vehicle repairs, 2.4%; insurance, 2.3%; restaurants and cafes, 2.9%; newspapers, 4.4%; clothing and footwear, 1.8% and 1.7%. The low global increase in the index is mainly due to a 3.2% decrease in the price of fuel (due to lower oil prices) and to the spectacular fall in the price of all kinds of electronic goods (-7%) - in deflation for years but this in no way slows down demand for these items.

Conclusion: low inflation, far from handicapping growth as is claimed, has undoubtedly assisted it via the gain in purchasing power that it provided to the consumer.