The Banker's Comment - Jean-Pierre Patat

A former central banker looks at the news

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Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC ECONOMICS advisor, offers his own point of view, on the economic and financial views, with total editorial freedom.

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Eurozone debt: new questions.

Two full pages devoted to the "euro zone debt bomb" by a daily newspaper; a sampling of a panel of experts by an American periodical regarding the advisability of a partial cancellation of the zone's debts, met with approval from three-quarters of those asked (almost all American it should be said!). Are these alarms and this solicitude justified?

The euro zone is not the most indebted zone in the world, with 91.9% of GDP versus 100% for the USA and 226% for Japan. The total American debt could be as high as 269%, that of the Asiatic countries excluding Japan 205% - possibly more (though this does not show). The euro zone's total debt is 170%. What is more, the euro zone does not combine public deficit and external deficit as do the United States and the United Kingdom, its call upon global savings is therefore a lot slighter. Nearly all the zone's countries now have an external balance that is more or less balanced or in the black (except for Greece and France).

Among factors that weigh on the debt, academics who follow the euro zone's case finger growth, interest rate levels and inflation (deploring its inadequate level). With intellectual sleight of hand they view as normal, phenomena that, in economic history, have been mere hiccups which duped a large number of economic agents, and they have convinced the public at large of this normality. Some even wishing for a "shareholder euthanasia".

In conclusion, the euro zone's situation in terms of public debt is no more alarming than that of other great monetary zones with, what is more, a high level of attention being paid to the problem, with uneven success (an attention especially meritorious because interest rates levels invite crime), an attention which is clearly not the case in the USA and Japan.

Since its creation, it has been the zone's destiny to draw the solicitude of the many who show a hostile fascination towards it.

Figures of the month: a 17.9%, drop in Chinese imports over one year. This will hurt some.

Rumours of currency exchange rates manipulation.

An article in the magazine "The International Economy" challenges the widely held conviction (backed by Fred Bernstein) that China and Japan manipulate their currency rates. Since July 2005 the renminbi has appreciated by 30% against the dollar and 50% in real terms against its commercial partners' currencies. If there was manipulation in the past, there has probably been "de-manipulation" for some ten years. The study shows, furthermore, that there is no link between the deficit of current payments of the USA and the value of the Chinese currency, that deficit being strongly deepened since 2009 whilst the rate for the RMB went up 20%. Going against those who claim that Chinese manipulations have cost millions of jobs, the author of that article shows that these job losses are due to increased productivity. As for Japan, because the aggressive quantitative easing conducted by the central bank only bore upon buying domestic bonds, it is difficult to accuse it of manipulation. Naturally, those convinced of a "currency war" do not give in, arguing that there are other ways of manipulating exchange rates, through QE for example or interest rates. For our part, we are convinced that the great currencies like the dollar or the euro do not perform like orchestras and that, fundamentally, economies' growth differences and dynamism are the factors that influence currencies' various exchange rates.

The diabolical effects of obliging monetary policies.

While one of the two great global central banks is wondering when to increase its rates and the other is announcing that it will maintain its own at close to zero % for a considerable time, two highly placed individuals in an institute of economic studies finely dissect the effects of a policy that allowed giant businesses to multiply their take-over activities (sometimes taking risky gambles), rationalising production mechanisms and restoring their financial standing whilst adjusting to weak demand. The gains in earnings thus won, thanks to low borrowing costs, do not go to improving productive investment and growth, still less to salaries, but rather to shareholders. We know the ill effects, in the 1930s, of the monetary policies of various great central banks.

Name of the month: Centralbankomania.

It does not exist, a word invented by your author. The tendency to consider as deities those institutions seen after the war as "insignificant", even as being led with "total incompetence" (Galbraith) has gone up a notch with the indecision of the Fed. "An unbearable wait", "the Federal Reserve obliged to cut the Gordian knot which ties together all the global economies", are some of the howlers taken from the economic press, while we ask ourselves seriously what will "super Mario" do. It is a fact that the central banks have painted themselves into a corner with their policy of almost free money and that some of them are wondering how to get out of it. Is this a reason to so dramatize a decision that will in any case come about, and which will not revolutionise the global economy? This "centralbankomania" is not neutral as far as the egos of the interested parties are concerned. When we hear one ECB high-up say that the institution is capable of "protecting the euro zone from international shocks, be they from the financial markets and/or from the policies and growth of emerging countries", one is tempted to say "Is that all?" and wonder what governments are for. Because the gravest risk is to feed the feeling that political leaders are out of their depth, have power over nothing, are reluctant to take decisions that are electorally dangerous and are in the end quite happy to drop their responsibilities onto the shoulders of institutions that are, let us remember, non-democratic. This is clearly seen when one reads accounts of the crisis we have been in since 2007, in which governments are presented as having been paralysed whereas, in the euro zone, State financial involvement in the large banks, the Financial Stability Mechanism, the banking union, the handing of banking supervision to the ECB (which it did not ask for and which was opposed by a number of its managers) show that governments took a great part in responding to the crisis.