

# 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. Email: jppatat@taceconomics.com*

## Blasted austerity budgets!

Everywhere in Europe (but the G8 also alluded to it, discretely) we are seeing calls for an end to austerity budgets. Bear in mind that what we call austerity is not a balancing of accounts but rather a maximum deficit that is somewhat hefty (3% of GDP) together with a heavy public debt (60% of GDP). And within Europe it is of course those countries whose public finances are in the worst state that are calling to go further.

The IMF is adding to these bad habits. It may, say its experts, have under-estimated the multiplier of public expenditure and consequently impacts of austerity on growth. Remember that the multiplier of public expenditure is supposed to indicate the volume of growth of the GDP caused by a given amount of public expenditure. A keystone of Keynesian theory, the multiplier was a dogma up to the early 70s, when it was relativized with the theory of precautionary reactions, a theory which takes into account protective responses on the part of economic agents facing a slide in public finances that might be harmful to growth.

Because, this multiplier must be strongly put into perspective. At the time of Keynesian policies this figure was assessed as able to rise to 5 (with a household savings rate of 20% of their incomes). Today the IMF assesses it, after upward revision, as between 0.9 and 1.9, that is to say 5 times less. The main reasons? The opening up to the exterior of economies incomparably stronger than 50 years ago, plus the fact that a sizeable share of public expenditure is used for debt servicing, and that for the benefit of non-residents.

However, there are also factors that the multiplier cannot take into account - market reactions; deplorable yes, but that we must put up with. Did you notice that after the caution given by the French executive following calls for budgetary relaxation in the "countries of the south", the ten-year OAT (gov't bond) rate, although remaining very low, moved from 0.18 to 0.38?

And then, without becoming pedantic about such precautionary reactions, the topic of the debt has become eminently frightening because the economic agents seem to be more reflective in this matter than do their leaders.

Taking into account the unforeseen reaction shocks that debts can cause, it is worth avoiding a budgetary slide whose possible positive impact is not easily assessed (Japan in this respect is an acknowledged counter-example).

**Figure of the month:** 52. France's "positivity level"; less than Germany's (62) but more than Italy's (41).

## Growth, employment.

"Employment in the USA in trouble". That's on the front page of a daily which explains that the markets, of course, are reacting badly. Seized with anguish we go straight to the article. There we read that while 180,000 new jobs were expected there were only 150,000! Two weeks later, the president of the European Central Bank, during a press conference, declares that there is absolutely no need for additional measures favouring growth and employment. Great! The markets are delighted. So, in a fortnight we have gone from total depression to euphoria about an economic situation which, clearly, did not change in that short time.

More seriously, is there a problem in world growth? Quite a few experts including some at the IMF are getting worried about it. For sure some emerging countries are standing still, are even slipping back, having enjoyed strong growth - mainly as a benefit of high prices for raw materials without having really established an economic policy able to lay the bases for sustainable growth. In respect of advanced countries, however, your chronicler thinks modestly that the real problem is not growth but rather the inequalities of incomes that have reached intolerable levels and that are counter-productive for growth. To reduce these inequalities is a necessity that is moral, political (we should stop listening to the propagators of the communist prayer book) and economics.

## Global trade: the temptation of trade barriers.

The French government has asked that the on-going discussions on the Transatlantic Treaty be stopped. It is unsure if France has a blocking veto on that score. In any case, the president of the Commission has retained for the end of the month the meeting planned for this treaty with the European leaders. The French most certainly do have special interests (brands, place names - Champagne, Roquefort) to defend. The European leaders have promised to be inflexible with these kinds of dossiers. It's a fact that the Americans are hard negotiators. What is more, declarations from the two US presidential candidates (with Trump steadfastly opposed and Hillary Clinton only slightly less so) could support the French attitude. All of that is regrettable. Everywhere, great commercial zones are formed or are being created, in Asia and in Africa. The advanced countries, European and American, would weaken themselves in remaining "everyone for himself". Like the example of "the Polish plumber", the "chlorinated chicken" has become a near-certain threat which encourages protectionist movements. Freedom of trade, as long as it obeys good rules, is always good for growth and progress. History shows it to be so. On the other hand, history has also shown, not so long ago, and tragically, that isolationism can have dire consequences.

## Name of the month: Jean-Claude Juncker.

We say "bravo" for the fine inflicted on Apple which had got into cahoots with the Irish government to reduce its fiscal charges to next to nothing. Naturally, those who always fear an American frown disapprove. As do the Europhobes who see in it a new example of Brussels' intolerable interference in national affairs. All the same, it is strange that they find normal what seems to be a "sting" against a club, contrived with the active complicity of a member of that club. Let us hope that Juncker remains firm on what the boss of Apple is elegantly calling a "political cock-up".

## Japan: a perseverance that does not pay off.

Disappointing GDP growth for the second quarter (+0.2%), consumption stagnating. The miracle promised by the Prime Minister and his abenomics has not occurred. But is this perhaps because the so-called "arrow" measures are no more than old bow-strings (budgetary deficit and cash out-pouring by the central bank to reach the mythical inflation rate of 2% which will solve nothing)? Your chronicler goes on about this topic, but he is not alone in being certain that what has been undermining Japanese growth for the last 30 years is the demographic deficit and the resulting labour shortage. A problem that the government seems not ready to attack. Women are still few in the workplace and the refusal to immigration remains in place.