A former central banker looks at the news

The Banker's Comment

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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

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Is a major financial crisis coming?

This is being claimed by a number of economists as they list factors that could provoke this new catastrophe; such factors include the US administration's wish to renege on the Dodd-Frank law on banking regulation, household indebtedness reaching considerable amounts, and leveraged buy-out (LBO) operations fostered by the abundance of liquidity. Some even go as far as to suggest a new weak link in the euro zone – Italy, affected by obvious banking weaknesses and anemic growth. History, we know, does not repeat itself, but rather it stutters, with the stuttering becoming dangerous at times. One might object that it is not obvious that the American government will really undo the Dodd-Frank law, which did not really try to tackle one of the main causes of dysfunctionalities in US finance - the multiplicity of banking control bodies. One might also suggest that the rise in household indebtedness results above all from consumption credits and student loans, both of which are far less explosive that real estate credits. As for Italy (and here we give a personal reaction), if its problems are truly real, sounding the crisis alarm springs from a speculative maneuver because Italy is a country whose solvability cannot be doubted, unlike Greece in its day. Even so, there are risk factors about which nothing will be done: high-frequency trading with its avatars in the "flash crashes", a fatal outcome of continuous quotation (yes, your chronicler still misses the fixing), the abundance of liquidity and the zero or miserable interest rates which push investors to seek higher risk investments on offer from investment funds (mostly speculative) that dominate markets as never before. This situation is one… for which the largest central banks are accountable!

Don't expect too much from a spurt in German consumer demand.

We are asking the Germans to do their share in relaunching growth in the euro zone; these so-unhappy Germans, with their jobs at 450 euros and their part-time positions (who apparently do not realize they are unhappy since a recent survey shows that 80% of Germans believe their country is doing well, whilst 75% of the French think that theirs is doing badly). An illusion. Salaries henceforth are rising pretty noticeably across the Rhine, and spending needs principally

Figure of the month

7, a year-date number reputed to be malevolent for stock markets (1987, 1997, 2007). A load of hogwash to deceive suckers.

concern collective infrastructures. As far as German domestic demand is concerned, it is not big enough to delight the manufacturing sector of the zone's 340 million other citizens. Plus, it is necessary to have something to sell to them, and this is not evident either. It is remarkable to note that the country which is asking with the most insistence for this relaunch (France, in fact) is the one that would least profit from it. This is shown by the permanent challenge for France of its external payments, while the prices for imported raw materials have never been so low and rates for the euro remain fairly favorable.

Paris, Frankfurt, or counting chickens before they are hatched.

Paris and Frankfurt are fighting over the expected remains of London's financial position following Brexit. Despite its attractiveness in aesthetic, historic and environmental terms, the French city starts with the handicaps of taxation and rules on labor contracts – domains all judged as more attractive in Frankfurt (the presence of the ECB seems not to be a determinant as it has no direct relationships with banks and financial commercial institutions). At the risk of playing the moaner, we wonder whether Paris would benefit from receiving massive contingents of "golden boys" and others who would push up real estate prices that are already sky high. Perhaps that is not what is at stake, though. Do we imagine that London will allow itself to be thus stripped? London's finance is not an activity that grew there by chance and which could easily shift elsewhere. It is the outcome of several hundred years of experience and international standing with, in the 17th and 18th centuries, the creation of the Bank of England and the introduction of public debt securities that were perfectly fungible and negotiable in an efficient market (the Navy Bills) at a time when France's Versailles was issuing life annuities, was cultivating budgetary opacity and went into periodic bankruptcy. Suffice to say that this heritage will not disappear at a stroke in London, nor will it re-appear by magic on this side of the Channel.

Anniversary of the financial crisis. To each his own tune.

On the occasion of the tenth anniversary of the financial crisis, the then President of the French Republic is reminiscing. Nobody will contest that he was, in those circumstances, particularly reactive and efficient, especially with the institutionalization of the G20, and that he displayed an energy level which brought the other European stunned leaders on board. Nonetheless, does this justify putting down the actions of others? "The ECB hesitant and powerless … its president out of his depth". Really? The institution's leaders literally saved a European banking system on the edge of asphyxia, with interbank markets blocked because banks were no longer willing to lend to each other. Moreover, they conceived and polished a great part of the "non-conventional "intervention packages which their successors, including the present president (adored by the markets), implemented. So there!!!

Name of the month: Google.

The French government is waging a ferocious battle against tax evasion by the major finance and digital companies. It had just succeeded beautifully with a fine of almost 1.2 billion euros inflicted on Google which does not declare in France one tenth of the revenues it generates here. On appeal, though, the tribunal ruled in favor of the company – one which does its best, and successfully, to keep its thousands of paid employees in this country in a situation where they would have no autonomy of decision. Superbly cunning! Of course, the authorities will not stop there, but success is far from certain. Fundamentally, it is a change of operational and fiscal practices in certain European countries (Ireland and the Netherlands in particular) that needs to be reached - an urgent dossier; perhaps even more urgent than that of the European budget.