



THE BANKER'S COMMENT - JEAN-PIERRE PATAT

An ex-central banker looks at what's happening

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Figures of the month: 220 - price index for housing in France, base 100 in 2000. In Germany 115.

Is America back?

This week, a magazine treating the economy replied to that question in the affirmative. Positive signs do not lack; GDP growth is around 2%; company profits are going up, industry is benefitting from the significant lowering of energy costs thanks to shale gas; the housing sector is picking up, and to crown it all the stock market sparkles again. Enough to arouse the deep envy of other developed countries, Europe and Japan.

Some will not fail to point out, to teach these Europeans who have got it all wrong a lesson, that the US economic practices are very different and that some practices are even in total opposition to those of the old continent. They point out the Americans' lackadaisical concerns regarding the considerable worsening of public finances over recent years, with an aggregate fiscal deficit still at 10.2% of GDP (4.1% for the euro zone) and a public debt standing at 102% (euro zone 83%), a monetary policy that still heavily feeds not aggregate money supply (as some persist in believing) but rather the banks' liquidity. They point out the disinterest in environmental issues in the shale gas production and laxity in the surveillance of genetically modified foods (with a recent law that is so permissive that it has been referred to as the 'Monsanto Bill').

The groaners will point out that the current account still shows a deficit of 3% of GDP, that public finances cannot continue to stay in that mode forever, that monetary policy in part feeds speculative operations (e.g. raw materials) rather than creating wealth. Above all, they will be unkind enough to claim that the US, who set fire to the planet through their monetary laxity (which they have succeeded in making the markets forget, as they now concentrate on 'poor practices' in the euro zone) are in the act of renewing those same errors in order to re-launch (durably, they hope) their economy: their banking clean-up is getting plenty of indulgence from their monetary authorities while European banks keep getting picked on. Above all, while wages remain under a tight rein, it is indebtedness that again is becoming the main driver of US activity. For how long?

Name of the month: Zhou Xiaochuan.

He is the President of the Chinese central bank. His mandate was extended though he was 65 years old. Successfully, he started on the Yuan's globalisation and opened the bank's valves to diminish the effects of the crisis. They call him China's Alan Greenspan. This is a compliment whose scope should be reconsidered. Let us remember that at the end of the 20th century and the start of the 21st, Greenspan was in effect the darling of the markets for his ultra-lax monetary policy. These markets, on the other hand, jibed at the prudent and less media-prone President of the ECB, the late Wim Duijens. It was Greenspan, he who moved into hedge funds after leaving the Fed, who was to a great extent responsible for the financial crisis, for which we are still paying the price.

Exchange rates: the great illusion.

We know the American obsession with disloyal competition from China because of the undervalued exchange rate of its currency, and this despite the Yuan's not inconsiderable increase vis-à-vis the dollar over several years. A book by R. McKinnon has just explained it all, and in terms clear enough for a second year student of economics. The United States' external deficit results from insufficient savings; exchange rates cannot compensate for this handicap. A quality economy journal, the 'International Economy', conducted a questionnaire among 16 American experts: professors, bankers and economists. It found only 4 who thought McKinnon's assertion was well-founded. One of those polled even claimed that it was out of the question to risk a recession by trying to increase savings! Clearly, when you have the dollar!

Is central bank independence a thing of the past?

In some countries, judging from the practices of political power, the reply is a definite yes. In Japan the Prime Minister has nominated as the head of a theoretically independent central bank a governor who promises, with a straight face, to create inflation, up to 2%. In Hungary, the Prime Minister is replacing the governor of the bank by a more pliant chap who is now cleaning out the institution's economists, whilst the government tries to increase the number of the bank's decision-makers so as to insert people loyal to him. In the US, in the UK, where governments do not challenge central banks' independence, these banks are tying their own hands by guaranteeing the long term maintenance of cosy policies.

The ECB seems to be avoiding such straying, quite simply because it does not have a political counterpart at the euro zone level, something it is the first to deplore. More generally, the priority henceforth given to financial stability places central banks in domains where they are unable to act alone. The Germans, the euro zone's permanent grumblers, understood that when they denounced the ECB's new mission on banking supervision (oh how welcome!) as an attack on independence.

Cyprus - and others in the euro zone.

The Cypriot psychodrama mainly showed that a good idea - one to which one was tempted to say 'bravo' (tax the dubious deposits that to date have never paid any taxes) - almost failed because of the thoughtlessness of the technocrats who imagined that they could treat equally huge deposits and those of average or modest households. However, one thing practically passed in silence: the anomaly (for want of a better word) of taking into the euro zone (this area of stability, of financial and banking resilience, of respect for democratic rules and for social justice) a country whose banks were well known for money-laundering and that lives almost uniquely on that activity. Alas, Cyprus is not alone. The magazine Forbes has classified 'tax havens' according to three criteria: degree of fiscal permissiveness, degree of transparency, and size of transactions, giving the opportunity for big operations. Forbes placed Luxemburg at the top of the classification! Sensing that something was up, that country's leaders are announcing increased transparency. We do not yet know the real effects of such an announcement, but suckers are rushing to hail it. Next comes Malta. Awful!