

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



Figure of the month: 70% of GDP, the weight of the total of real estate investments in China. In Japan this figure never went beyond 35%.

Is today's technical progress a means for growth and human development?

Over a two-century time period, all the waves of invention and technical progress born of human talent have been factors for development. The motor facilitated communications and meant that tools of production were no longer dependent on the obviously limited strength of human beings. Electricity pushed back limits to research and human production at the same time as it was seen to be a factor for motorisation and communication. Mastery of hertzian waves, right up to television, despite the inanity it can carry, has allowed the growth of knowledge, information and thought - as can data processing, with its almost limitless capacity (to be able to access the Harvard library is really something!). All these great inventions, though, had such great effect because those who benefitted (humans) knew how to use them to advance, to create, to multiply the more fruitful uses (including for warfare, questionable of course but also a prodigious source of inventiveness). Present-day technical progress, numeric - the "E-conomy", is that able to bring the same leaps forward? Without necessarily making the link with the risk of secular stagnation (latest depressing fantasy of our economists and media) we may, even so, speculate. For sure there are domains - medicine, surgery - where the contributions are unquestionable and promising. But 3D? Apps that allow everyone to believe himself able to run a hotel, a restaurant, an industry? Will these apps not destroy thousands of jobs in activities that respect norms and pay taxes? When we see nearly everybody in a subway car or some other public place leaning over their tablet (usually over "games") we might ask ourselves what it will bring to human talent, what factor of creativity, what source for surpassing oneself, or for seeking new horizons? Let us go further. We may even envisage that it is leading to a regression of cognitive and intellectual capabilities for those for whom these technologies have become the sole horizon of activity and "reflection" - something that would certainly be harmful for growth.

We learn that a "Commission" exists, dedicated to financial aid for video games. The person who has just been nominated to the presidency of this entity, which seems almost to be considered a public service, declared that when a video game interests him, he can spend 12 continuous hours a day on it. It is reassuring to find such professionalism!

A wholly reactionary platform of course!

Name of the month: Jacques de la Rosière.

A former general manager of the IMF and a former governor of the Bank of France who is breaking a consensus on the present action of the great central banks. Oh! Not making a racket, though. Rather with pure central banker language: "the massive repurchasing of public debts raises questions". The danger is that "created liquidity could lead to the forming of bubbles". And, "present monetary policies plunge me into the deepest of doubts". Finally (of central banks), "have they not fallen into a different form of dependence, this time vis-à-vis the markets?" Could this authoritative voice counterbalance that of the markets, always addicted to the central bank drug?

"To be and not to be".

Passing through Europe, President Obama vigorously and publicly pleaded for the United Kingdom's remaining in the European Union, bringing out the anger of the Brexit partisans who accused him of meddling in other people's business. We will not go that far. We like President Obama, we respect him. However, we know that his solicitude does not arise from a disinterested love for Europe, but from the obvious interest on the part of the USA for Britain's keeping that position of being there without being there. It is the guarantee that the European Union will never really oppose the United States, that the European market will remain open to American products whatever the non-reciprocity of the USA for access to their markets. It is also the guarantee of a safe political "relay" (as we saw with the Iraq war).

Africa, that accursed income from raw materials.

African growth is said to be 3% in 2015 against 7% earlier. The reasons for this strong slowdown? The drop in growth for those countries with resources of raw materials, prices for which have slumped (oil firstly, but also copper, zinc, manganese). Nigeria, Congo, Gabon, Angola, Zambia. But growth has remained vigorous in those countries without such resources, Ethiopia and in particular the Ivory Coast which is about to become once again the economic lighthouse of West Africa, that it was before the serious political problems that it suffered. They pretend to be discovering what everyone knew and pretended not to, because fruitful investments were being made in those countries: 1) that those States well-endowed by nature did nothing, or next to nothing, to build a solid base for growth - notably in respect of infrastructures and education (Africa's share in global industrial production is said to be only 2% now versus 3% thirty years ago); 2) that the financial manna produced by the high rates for underground resources benefitted only very small minorities; 3) that nothing or little was done to plan for the time when these resources would be exhausted (it seems that Angola created a sovereign fund dedicated to that end but nobody knows what happened to it); and finally, 4) that the spiral of indebtedness, and not at user-friendly rates, is beginning to materialise in certain States whose external accounts have gone into the red. You will say that your chronicler tends to harp on about these topics, but disappointment is always keener when it arises from those whom one loves.

Outcry against Europe.

This poor Europe has done everything wrong, and in all spheres; incapable of generosity faced with the refugee problem, for which some are so masochist as to hold Europe responsible! And then there is the economy. No common budgetary policy! No fiscal harmonisation! No shared investment projects! "Do something", clamour those who seem not to know that the EU has 27 members. Yes, we could do plenty by reverting to the initial spirit, the one that united countries whom everything (history, economy, culture, even wars) had brought into intimacy. That is to say by reverting to the Europe of six that we should never have widened under identical conditions; first with the United Kingdom and then with a multitude of countries that we could have received in concentric circles with varying degrees of integration. But, "we could not leave Plato outside Europe"! Not to mention the disastrous Treaty of Nice. Or the ill-considered extension of the Eurozone. Will there be a strong Franco-German initiative of the kind that would permit the creation of a decisive push and the cry "let he who loves me follow"?