



THE BANKER'S COMMENT BY JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 140 billion euros; almost Portugal's GDP, the bonuses paid to the Wall Street bank staff.

Inflation. Should we dream of it?

Inflation is back we are told. Let's put things into proper perspective. In the so-called developed countries, following 2009, a year during which we neared deflation, it is not surprising that, with the help of the recovery, monthly figures should subsequently be higher than those of the previous year. All the more so as what statisticians call the "base effect" (the importance of the preceding year's figure in calculating the trend over 12 months) sometimes swells the published result artificially. Some, quaintly, distinguish between "good" and "bad" inflation. According to them we suffer the "bad inflation" that is provoked by hikes in commodities prices, whilst we enjoy the "good inflation" that arises from demand, accompanied by wages indexation. Permit us to draw exactly the opposite conclusion, since the supposed "good" inflation is (and the past proves this) the one that is most likely to bolt and get out of control. To us, inflation through costs seems unlikely to reach troubling levels in developed countries, especially bearing in mind the strength of competition pressures and the somewhat weakened suspense arising from central banks' decisions. We have already stated that from our point of view the emphasis for these institutions in coming years is to achieve financial stability rather than price stability. For this reason we believe (and of course without the least "ad hominem" reserve) that the "Bundesbank culture" seems ill-adapted to the presidency of the ECB. Let us not overlook the fact that in the past this European institution has several times tolerated countries going beyond the by-no-means sacred level of 2%.

The problem is quite dissimilar in developing countries and even more so in poor ones. In the former, inflation resulting from demand is already being seen (and often concealed to some extent in official figures, as in China). Bearing in mind the size of the part of basic products in individual budgets, price hikes in raw commodities risk provoking an inflation that is hard to control in emerging countries, and a situation that is socially and politically explosive in deprived ones. In such a context, a relatively strong currency can be an advantage rather than a problem. In any case, these situations cause us to put back into proportion the analysts' serious questions about possible future decisions by the Bank of England or the ECB.

Expression of the month: G20.

Not original, but unavoidable. What ambitions? Today's international financial "community" comprises over 150 countries instead of the few dozen founding members of the IMF, all of which were industrialised and protecting themselves at that time by restrictions on movements of capital which no longer exist. To talk of a new Bretton Wood is, then, no more than a pleasant dream. Even so, the G20 could result in an outcome - if not regulatory guidelines, at least the elaboration of dependable indicators of imbalance (not as easy as all that) and agreements as to good conduct and cooperation in which the IMF would play a facilitator role. What is more, and this is not a mere nothing, this widened forum could make one realise that the monetary policies of the powerful countries have effects beyond the G7 (for example, the very low interest rate policies and the carry trade, especially damaging to emerging countries).

Africa: the snares of the average.

Sub-Saharan Africa which experienced a catastrophic end of century seems to be on a better path these last ten years. Furthermore, she withstood the crisis better than the rest of the planet. Another source of satisfaction is that, even though the oil-rich countries stay at the top of the table, many countries with no remarkable natural resources (Mali, Burkina Faso, Uganda ...) are achieving good results. The chief engines for this have been improvements in governance, management and macro-economic policies. Huge insufficiencies remain however in education and basic infrastructures. Above all, the lovely GDP growth figures, which are only mean averages, are misleading and in most of these countries they do not reflect improvements in living conditions for the majority of their people. Yet, it is that very factor that makes for sustainable growth.

Competitiveness, alas! Even so, is the German "model" the one to (attempt to) follow?

France's extremely poor external trade figures excite their host of lamentations about our productive sector's low competitiveness. Recovery requires a considerable injection of investment in key sectors (maybe the French Government's "major Borrowing for the future" will do it, but the outcome is not for tomorrow) or an attempt to hold down costs that is difficult to get accepted. Keep in mind that the only period since the war in which France enjoyed a substantial surplus was during the so-called "strong franc" policy which forced businesses to make real efforts to improve their competitiveness in all sectors. That said; let us not be dazzled by the German "model", which cannot endure. Anglo-Saxon analysts believe; 1) that Germany's industry's outlets in Europe have collapsed with the crisis and are not about to be restored with the tight budget policies; 2) that Germany is turning towards China but that this cannot last, because China is buying high technology products so as to stock them; and 3) that stimulating internal demand is finding its limits in an aging country with declining demographics. Well then? Would it not be better to concentrate on the two key parameters in any production function: labour (with education and training), and research and development?

Global imbalances: restoring IMF's original purpose.

The matter of massive and structural imbalances in balance of payments is on the G20 agenda. Let us state it clearly; though the excesses of certain countries arise from a thought-out policy, they could scarcely endure if they were not met by excessive demand and consumption in other countries. When this is fed by debts which incite financial institutions to all and any excesses, we get the crisis that we have just lived through. The Americans had suggested making a 4% of GDP ceiling on imbalances. The timing and the figure chosen had led people to think that the measure concerned only countries with surpluses. But the idea, being built into a regulatory mechanism entrusted to the IMF in accordance with its main mission at the time of its creation, could usefully be retained. In any case, the Fund's governance should be heavily revised to give it freedom for conception, for decisions, for recommendations, for warnings, even for sanctions - a freedom which it presently lacks, since today a single country has the voting rights needed to block any decision. Not one of the reforms undertaken to date has tackled this question.