



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: 27 billion euros: the turnover in the global trafficking of human beings, children in particular.

Crisis: a spectacular evolution in the job description of central banks.

In principal, central banks are organisations whose sole clients are banks; their loan operations are carried out in their own currency, the only one that they can coin, and their job it is to fill any global treasury imbalances in the inter-bank market without such actions interfering in the management of banks.

Yet, what have we been seeing over the past year?

We see central banks intervening in the inter-banking market, not as last-resort global lenders but in the transactions themselves, in order to satisfy bilaterally individual needs for funds.

The Fed central bank is setting up special loans to banks intended to finance their purchasing of commercial papers issued by businesses that are no longer able to find takers in this climate of mistrust.

Central banks are giving themselves loans in their own currencies so as to supply their banks with the foreign currencies they need for their branches' funds.

The Fed central bank has provided credits to a non-banking business (AIG). It has now been authorised to make direct purchases of commercial papers from companies that issue them. This innovation, perhaps the most important, is not only about principle. Whilst monetary policy operations create central money that circulates only between banks, loans to non-banking agencies create money that can be used on the service and commodities markets, so modifying the implementation of monetary policy, a modification that has nothing to do with the problem needing treatment.

Over the last year, the total of the Fed's assets went from 900 billion dollars to \$1,550 billion. At the same time, the Euro system's total moved from \$ 1,200 billion to \$ 1,850 billion. Thus, in their operations, central banks are being led to accept as guarantee papers whose value is falling.

One can only rejoice for this creative imagination that so contrasts with the "stupefying incompetence" (Galbraith) that the central banks demonstrated in the 1930s. An imagination that, we hope, will not lead to a lasting deviation from their essential mission.

The French recipe for guaranteeing inter-bank loans.

Guaranteeing inter-bank loans (one of the measures adopted by European countries collectively) is a striking idea and implementation is simple. For a fee, a public body guarantees borrowings on the market that a bank has to make from other banks and that those banks are reluctant to advance. What the heck, then, incited the French administration to set up a pumping station that will not guarantee loans between banks but will directly refinance banks that have spread credits to the economy? A complex and costlier mechanism, the guarantee was intended only be applied in exceptional circumstances, while in the French system disbursements are almost automatic. In any case, we are seeing that this substitution of an administrative body for inter-banking relationships (because that is what is happening) has up to now had no lessening effect on Parisian inter-bank market rates.

Word of the month: Keynes.

"Keynesianism is back" a number of analysts and politicians are saying and writing, with ill-disguised glee. It's a fair bet that most of them have never read the "General Theory". We willingly forgive them, since the work is so stodgy. Keynesian? Alan Greenspan's monetary policy was just that, with the outcomes we are seeing today. Was growth in public spending Keynesian? Yes, but most certainly not in order to pay civil servants. Above all, though, that budgetary boost operated - at the time of the Master - in economies little open to the exterior (post-crisis protectionism had come). It is a fact that in Keynes' treatise, the outside world does not carry the same constraints as it does today. Nor did it carry the same weight during the famous "glorious thirties" of the French economy, so often presented as illustrative of "Keynesian" policy - that blessed time during which we were warmly sheltering behind exchange controls and customs barriers; but even so, that failed to protect us from having periodically to devalue our currency.

Transparency and regulation for all: this should be the axiom for reforming international finance.

A simple, evident, heuristic principle. At the end of the last century, when a serious financial crisis arose as a result of deficient macroeconomic management, the IMF had imposed "standards" of good governance and transparency on all governments in matters of management (budget, banking regulations, exchange reserves, etc.). Governments obeyed and one risk factor, even if it did not vanish, was seriously diminished. It is amazing to know that at that time, all suggestion made requiring organisations (whose activities affect the financial situation of hundreds of millions of people) to play by the same constraints as did states were rejected and labeled as demonstrating an incurable Gallic bias for regulation. It is now time to return to this, and seriously. In debating "off-shore" centres, the focus is on the "fiscal paradise" aspect. This phenomenon is of course irritating and scandalous - yet, any country (ours for instance) can suffer competition from less severe tax regimes on its very borders. Above all, though, these off-shore centres are havens where thousands of financial organisations (hedge funds in particular) are able to operate opaquely and beyond any regulation. There, for us, is the nub of the problem.

The Maastricht criteria binned?

That in any case is what a certain number of analysts, economists, reporters and politicians seemed to have gathered from the conclusions of the Euro-group summit meeting. In fact, a recent reform of the Stability and Growth Pact has increased the chances of invoking "exceptional circumstances" to provisionally shake off the rules. Nobody will deny that circumstances are truly "exceptional"; nevertheless it would be crazy to initiate "budgetary boost measures" whose uselessness is already known. More simply, let us allow the "automatic stabilisers" to come into play without attempting to compensate for the tax losses induced by weak growth; and let us put up with the debt increase (hopefully temporary) caused by help given to the financial sector. This will at least be a start. Even though...? If all countries had respected the spirit of the Pact, i.e. squirreling away surpluses during periods of high growth and thus storing nuts for harder times, we would not be in this position. Just think. At the dawn of this century our country, which had just experienced years of magnificent growth, still had a deficit of almost 2%!