



## JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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**Figure of the month: 93%.** The nose-dive taken by shares in Citigroup bank over one year. The losses today stand equal to the market capitalization.

### American monetary policy: Same old story?

In lowering its interest rate to 1%, and in implying that if necessary this figure could descend even further, the Fed is demonstrating a questionable "reactivity".

First of all, let us note that bank credit rates remain little touched by the drops in the central bank's rates. This, it will be argued, is only temporary, and conditions in the interbank market will eventually relax, so allowing the Fed's rate fall to fulfill its beneficial outcomes.

Beneficial outcomes? A rather late commonsense consensus deems that it was the extended period of too-easy money in the USA that created the root cause of the excesses which led to the crisis. That may be so, will be the response, but it is now a case of facing up to an emergency situation and rates will go up again when necessary. However, in an economy where households have credits that are almost all at variable rates, the effects of excessive rate movements, from the overly euphoric to the outright murderous, are clearly evident. We might, then, be forgiven for questioning the coherence and pertinence of a policy which, under the pretext of re-starting the machine, brilliantly contrives to recreate the very conditions that provoked the disaster.

Inflation, of course, is no longer the priority. Even so, with true rates that are henceforth negative to the tune of a level approaching 4%, should we be giving this impression of panic? Surely the Japanese example should serve to show how the "zero level" of monetary policy, in its proper and figurative sense, is not the best way to restore confidence.

Unless, that is, the central bank is above all seeking to allow the banks themselves to reconstitute their profit margins, and the New York financial market to regain a crucial attractiveness, so that the servicing of a colossal external debt (which is not about to disappear) may be maintained. We know how close the Fed's management is to that of the banking sector (a proximity which makes Ben Bernanke's presence a welcome exception). The ECB's management is spared such proximity.

### A French sovereign fund?

Twenty billion euros: a tiny sum compared with the hundreds of billions in the Norwegian or the Arab peninsula funds. Alright! But the French fund is not "sovereign" - neither in origin nor in purpose. The idea is not to use surpluses from present incomes (everyone knows there are none) in order to buy minority shares capable of creating revenues for future generations when incomes have dried up; rather it is to be able to offer pinpointed funding to potentially successful businesses that the crisis might threaten. This fund could be the worst or the best of things. The worst if its aim is to protect against inputs of foreign capital, which are often welcome. The best if this fund, which is "strategic" in the main, is used in a targeted and opportune way. There is no shortage of instances of innovative medium sized companies whose growth could be stifled by the crisis and for whom help from this fund could be all important.

### Expression of the month: New Deal.

That's what we expect from the US President elect. It is difficult, though, to have a clear idea of the efficiency of Rooseveltian policies, since, in our own blessed country, the prism of ideology deforms all judgments. What is resurrection for some is total disaster for others! It seems that the direct effect of those policies on the boosting of growth and the decrease of unemployment may not have come up to the expectations of their times and may not deserve today's praises. Not until 1940, with Lend Lease and the war effort, did we see a real upswing. But there is the other aspect: the creation and development of social cover, at that time very modest. In addition to the redistributing and social justice effect, those measures (by introducing the beginnings of "automatic stabilisers") most certainly softened the damage. Nevertheless, work remains to be done in that domain, as Hillary Clinton's defeat over medical insurance demonstrates. That is where Obama could achieve something.

### G20. Let's not be picky.

It is hard to get a precise idea of the dependability of results from the last G20 if one relies on the French media alone. Just where are we? Evidently, the welcome affirmation that rejects protectionism will annoy quite a few, persuaded as they are that circumstances are ripe for a return to the 1930s. Equally, there is the prospect of improved global governance with a greater place for "emerging countries". Fine, just as long as Europe is not left holding the thin end of the wedge! However, for me the most important aspect lies in the directives set out (with obligations) for Ministers of Finance to return to the summit in April 2009 with concrete suggestions in respect of five domains. These are the registration and surveillance of appraisal agencies; regulation (which must now become compulsory for all financial institutions); the revision of accounting norms; the handling of financial places that are currently unregulated and, finally; the income of financial directors. There lies a work programme that tackles the real problems, even though there are plenty of obstacles. One might almost come to wish that things do not improve between now and April, since fear is a powerful prod to make certain people agree to what they have always refused out of principle. The handling of "off shore places" is not easy. In this domain, we might well show an example - could not France already seriously clean up her relationships with Andorra and Monaco?

### The United Kingdom in the Euro zone?

The UK's very poor situation - being compared by some to that of Iceland, even, because of the importance in the economy of the banking sector - induces some analysts to reflect on its entry into the Euro zone. The Financial Times writer Martin Wolff, a first class analyst, but one who has difficulties in realizing that England is no longer at the centre of the world, vigorously rejects this eventuality by asserting that the solution is to devalue the already seriously weakened pound sterling even more so as to boost exports. Is this really the answer for a country with a services sector of 80% and in which industry no longer has many leading products? Of course, the United Kingdom would benefit highly from entering the Euro zone, so profiting from the exchange rate shield and long term rates that it might need badly in the near future. But, in truth, it is the zone's member countries, and in particular the larger ones, who most definitely do not want (even if official statements say otherwise) to be joined by a country that is so beyond the norms and whose community spirit has more than once proved to be somewhat lukewarm.