



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: 8.2%. The plunge, in November alone, of Japanese industrial production.

2008: Confirmation that anything, and above all the impossible, is possible.

The attacks of September 11th 2001 had shown that anything, including what had seemed impossible, was indeed possible. 2008 brought the manifestation of this in full with: the global banking system on the edge of meltdown; the disappearance of secular establishments; a central bank transforming to a guarantee fund and all-directional lender to all-comers; nationalisation of banks in countries who were strong believers in the market economy; unbelievable blindness and incompetence on the part of market supervisory institutions; fraud as bewildering as it is gigantic, simplistic enough to have been uncovered within three months - and yet lasted for ten years; Chinese factories suddenly empty; oil at under 40 dollars whereas in the summer "experts" had predicted 200 dollars by the end of the year; a ton of copper at 3,500 dollars as opposed to almost 10,000 at the start of the year.

Evidently, all the financial disorders were foreseeable. Evidently, in international bodies, some - and above all, let it be said, the French (to whom nobody listened) and in the US, to be fair, the economist Nouriel Roubini, who was viewed as crazy - had been denouncing for several years the easy money, the debt pyramid, the widespread short termism, the financial practices that were bizarre at the very least; an entire chain functioning with the blessing of monetary authorities who were predicting that this system held the key to a final end of inflation, to continued increases of productivity and global wealth. In short, happiness guaranteed forever, though not necessarily for all. Yes, some did worry, but they anticipated a crisis, even a crash, not a nuclear explosion revealing that the dysfunctions, the abuses, the piracy, were a thousand times worse than we had ever imagined.

In this confused background, where those nostalgic for inter-class warfare think they are seeing the grounds for a return to collectivism, one institution, the ECB, stands out as a symbol against everything that provoked this disaster. Is it coincidence that, in a somewhat bizarre opinion poll, the French viewed the ECB as belonging alongside reassuring names such as the Livret-A savings scheme? Let us pray that the ECB remains true to itself and does not give way to the silly pressures that thrust it towards degree zero of monetary policy already tested in Japan, with the felicitous outcomes we now know, and to which the Fed has just succumbed.

Oil at 40 dollars is not good news. And this for various reasons. First of course is the incentive to waste; but there is also the confirmed role of speculation which, having carried the price of crude to astronomic levels, brings it into the abyss, well below the balanced price. Another reason is the proof that all attempts at regulation are fruitless for the time being, as demonstrated by the inefficacy of OPEC's actions, be they verbal or physical. Finally, but by no means the least serious, is the temptation to neglect investments in the sector and in research for alternative energies whilst this price is no more than a digression from a trend that is basically upwards, with the potential growing demands from emerging countries.

Expression of the month: the Great Depression.

"We must take care that the recession does not turn into the Great Depression" (complete with capitalization, we note). Such is the alarm cry raised by the IMF's chief economist, Olivier Blanchard. One Frenchman among the international economists. No complaints about this. At the beginnings of the euro, O.B., a Harvard professor, violently reproached the project and could not find hard enough criticisms for European monetary policies. Today, figures that appear to be most alarming circulate about the noticeable drops in the main countries' GDPs. So what? Shall we really be so unhappy if our national wealth is brought down, perhaps, to the level of the previous year? So unhappy, whilst at the same time the poor countries risk suffering tragically from this crisis, born in and because of the rich countries. It seems evident that the West and the large emerging countries seem right now to worry not one jot about those poor ones.

Plans for a kick start. Must we bid up in the hundreds of billions?

At 200 billion euros, the European re-launch plan looks mean next to the 800 billion dollars, and maybe more, promised by the American administration. As for the 26 billion euros of the French plan, it is little more than a comma which, they are already saying, will have no effect. However, convinced Keynesians should be aware that a budgetary boost can, according to the Master and by virtue of the "multiplier", have effects far beyond the billions initially spent. But above all, they should know that these astronomic figures cannot in themselves restore confidence and may even invoke an element of discomfort (one tenth of these sums could release millions of African children from chronic hunger). The "cheques" sent to American households by the administration, amounting to several hundred million dollars, are not slowing the month-by-month fall in consumption. In our countries, particularly in Europe where citizens enjoy social protection and where a large percentage of wage earners are in the public sector, the economic agencies must not expect all from the State and its billions, and above all we should take care not to let them relax with such a conviction. Businesses are there to invest, the banks to lend, those citizens who have regular incomes to consume. The outpourings, powerfully and repetitively pessimistic, from the various media are not, unfortunately, inciting them so to behave.

A return of the exchange crises?

A depreciation of about 20% in the pound versus the euro in a few short months. The Swedish and Norwegian crowns have lost 15-20% of their value; the Russian rouble 20%. Not to mention the currencies of Hungary, Poland and Iceland. Evolutions that recall those of the first frightful years of the 1990s, when we balanced a housing crisis, banking breakdowns, and speculative attacks against the EMS to capsize the single currency. Making us recall, too, the years 97, 98 (and the Russian crisis) and the aggressive strikes against the Hong Kong and Australian dollars by hedge funds. Drawn by the smell of blood, will these bodies try to regain their health through the exchange markets, from which they prudently withdrew following some drastic losses? Markets from which the euro has extracted the currencies most prone to attack in the past and where henceforth are now exposed the small fragile currencies. In such a context, the euro is again appreciating, with the European situation viewed as less catastrophic than that of other countries. And of course the usual lamentations are heard yet again. As though, in the present climate, having a currency that nose-dives (which means becoming collectively poorer) were the best way to restore confidence!