



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: -16.2%, -7.8%, -7.3%: the drops in exports of wine from Burgundy, Champagne and Bordeaux in 2007.

The illusion of “non-conventional actions” by central banks.

Having exhausted all the ammunition which it normally holds, in lowering its rates to a level close to zero, the Fed has let it be well known that it would not hesitate to act even in a “non-conventional” way to square up to the situation. How reassuring! Alan Greenspan had once been called the “magician” by the markets, with the end result that we know. And now, his successor is telling us that he too has the magic potion. What is it really all about? Quite simply, financing the economy in place of the banks. The Fed has already started down this path by buying commercial paper directly from businesses. With what result? At the economic level, none. Even the ECB President is joining in, assuring us that all measures must be considered. But are we to believe that the best way to convince banks to at last do their job of lending to businesses is by removing their responsibilities and taking over from them? For heaven's sake, Mr Trichet, act like yourself!

But there is more. We spoke of this in the preceding chronicle - the direct purchase by central banks of loan securities issued by States, whereas normally, in the context of their monetary policy operations, they buy them on secondary markets or take them in pawn from banks. These are useless operations, and dangerous both technically and politically. Useless, because although banks are reluctant to lend to businesses and individuals they are not backward in buying treasury bonds which are still very safe assets. Technically risky because, in thus acting, the central bank creates currency, (and central currency at that), complicating the management of the interbank market. Politically risky because this transforms central banks into governmental agencies - all in a good cause, it will be said. But no! Because all these deviancies will provide no positive result and will end up putting into question what remains an important step forward - the independence of central banks. So, let us leave these wild practices for governments whose signatures have lost credibility, but do not let us adopt such practices here.

Tally-ho on dividends.

Suppress or limit the dividends! Everyone, the President of the Republic included, is joining in this outcry against those awful people who instead of contributing their work contribute their pesky money. Few would deny that it is logical and decent to refrain from spoiling the shareholders at times when social planning puts workers onto the street. But alas! Businesses need money as much as they need hands. And that is provided less by nasty investors crouching over their hoards than it is by institutional stockholders. Some of these are undoubtedly shady (hedge funds), but there are also the SICAVs - pension funds that strive to safeguard the savings and pensions of their customers. Let us add that over half of these investors live in other countries and understand little of our archeo-sovietic ranting.

Expression of the month: “so what?”

A young, brilliant economist, replying to a journalist who objected that the massive boost to consumption that he was arguing for would possibly upset even more the already degraded external trade balance, uttered these admirable words: “So what? Do we not conduct over 60% of our commerce within the euro zone?” Oh, but of course. Within the euro zone there is no question of deficit. No sanction in terms of losing exchange reserves or of currency depreciation. True. However, try telling the worker whose factory has just closed for lack of competitiveness that it is not really serious because the competitor responsible for his sacking is German, not Chinese. He is sure to understand!

Economic revival and deficits: institutional Europe in a real mess.

Having displayed a stunning lack of initiative or even ideas on the best strategy for boosting European growth and having been content to pile up relaunch plans, the European Commission decided to get back in charge ... by instituting proceedings against excessive deficits! Rather like a policeman ordering a driver to cover 50 kilometers of motorway in a quarter of an hour, and then ticketing him for speeding. “It must be done” said the Commissioner of Economic Affairs. This is not to say that an increase of deficits is to be applauded, but perhaps there are better things to do than making wild gestures if we are to encourage a return to contexts favourable for their reduction. We might add that it is understandable that some countries that have been rather lax (including France) should be caught out. However, what ought we to say about Spain's being shown up, despite the fact that its management of public finances has been exemplary and its (slight) exceeding of the 3% limit is due entirely to the reversal of the economic environment?

Will the euro be destabilized by the central and eastern European countries?

With a global GDP just 10% of that of the euro zone, these countries could weaken the European currency (something about which few will complain today), but this probably will not put it into danger. Of course, the imbalances in these countries are not of today's making; here are a few figures for the current deficit (in % of GDP) in 2007, and so before the crisis: Poland 4.6%, Hungary 6% (worsened by a 5% deficit in public finances), Rumania 13%, and Bulgaria ... 22%! Add to this their banking systems, whose solidity was much appreciated during their EU admission procedures when appraised by criteria that were more political than objective. It is hard in these circumstances to claim that one is surprised. Especially as TAC's tools had correctly diagnosed the zone's difficulties over 18 months ago!

Will the euro zone suffer more than the USA?

We might well believe so, looking at GDP growth figures for a fourth quarter that are less catastrophic over the pond than here in Europe. When, though, we reflect that US consumers have already benefitted from a revival plan nudging 200 billion dollars initiated by the Bush administration, the 1% drop in GDP can be viewed as especially disappointing. What is more, the euro zone figures are pulled down by very poor German outcomes. On the other hand, many European countries have better results than the USA. It is best, therefore, not to succumb to the temptation of these short term anxiety-raising comparisons.