



JEAN-PIERRE PATAT'S MONTHLY CHRONICLE

A former central banker looks at the news

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Figure of the month: 63,400 new unemployed in March, in silence and dignity; they held nobody captive, they burned no tyres, they smashed nothing, and so they will get little mention in the media.

Recovery for the global economy: does it depend on getting shot of "toxic assets"?

It has become an obsessing refrain and the IMF is not the last to chant it: let us eliminate the toxic assets virus, and credit will flow again. The recent American plan hopes to resolve the problem by associating speculative funds with the taxpayers in a vast operation of buy-out from banks of these toxic assets. May we put forward at least two questions?

First question: Is not the value of these assets already close to zero? This would render any purchase heavily overvalued and would ruin in advance plans of that sort (purchases and re-sales at prices approaching "normality"). The Fitch agency, which studied a sample of these shares, came to the conclusion that almost all of them were based on dossiers that were at best badly conceived and incomplete, at worst actually fraudulent. Well then, is it necessary to spend billions of dollars to acquire assets which aren't worth even one dollar and which have no chance of gaining value, even in the distant future? It is by no means sure that hedge funds will be fooled; rather they will abandon to the State the totality of an operation that can only delay the inevitable acknowledgement of the losses.

Second question: Is this the solution to the lack of credit? Diverse matters compose the cork that blocks the waste pipes of a sink, say those who believe this to be the case. Dissolve this cork and the liquid (credit) will flow. But what is the point of destroying the cork which blocks the elbow in the pipes if there is an obstacle of quite another size at their exit, i.e. the absence of willingness among players in the economy to resort to credit? This might well be temporary for businesses but for households, the mainstay of American banks, the situation is dramatic. Millions have been ruined, they have lost their homes, they have seen the value of their portfolios go into free-fall, the remainder is frozen in fear. In fact, households are at present - and this may well be long lasting - in a state of mind where they refuse to return to the behaviors which started the crisis and to which they are being pushed to return.

Accountancy norms: a needed but most complex reform.

Everyone seems convinced of the harm wreaked by the widespread use of "fair value" (market value) in appraising assets, a usage that has assigned peanut values to many assets that were not all "rotten" and has destabilised several financial institutions. Should we, however, return to accounting on the basis of past values? The recent example provided by Citigroup, which has surprisingly just moved back into profit, shows the need for care. A great part of these profits arises from the approval for American banks to henceforward re-appraise assets viewed as "long term" on the basis of their historic values. Therefore, simplification is to be avoided in all cases. This is yet another reason for not leaving this dossier (which is not only about accountancy but is also about the economy, finance, and even politics) in the hands of accountants alone.

Expression of the month: Special drawing rights.

A little before the G20 summit, the Chinese leadership put forward the idea that an international exchange script, the SDR, based on a basket of currencies, hence something that would guarantee a certain level of stability, should replace reserve currencies (implying the dollar) as the international currency. This proposal was curtly refuted by Obama himself and, at the G20 consideration was given to increasing each country's endowments in SDRs, but without enhancing their intrinsic role which will remain limited, whereas this is the most intelligent formula for international liquidities. It is true that such a change of statutes would require a decision from the IMF, where one country (and guess which) holds enough voting rights to put up a minority blockage.

Crisis: imitation still de rigueur.

This mimicry is felt in several domains. Firstly in forecasting: no institute would dare give projections that are anything but coal black. Should it do so, it would at once be called to order with, as heavyweight counter-argument, the latest truly apocalyptic forecasts by the IMF which, nevertheless, in publishing new figures every two months gains little in credibility. Another area of imitation concerns judgements about European re-launch plans, all seen as insufficient. It is the number of billions rather than the content that counts. One "economist", demonstrating a somewhat sketchy grasp of Keynesianism, confided to a newspaper that he "was worried at the idea that the (French) State, facing already high deficits (6.1% of GDP, insignificant) might hesitate to pursue its expansionist policy!" A third area of imitation, this one rather Franco-French because we love our well-ordered gardens, is seen in the deploring of the absence of a "European re-launch plan". A European re-launch plan for which, to date, nobody has given the slightest indication of what this might consist. Certainly it is not the case that everyone should do just the same thing! More concretely, let us hope that the actions of one country are not to the detriment of others and that they may even benefit them. Is this not, in part, the case of the French and German plans, with the former being directed at reconstructing a degraded competitiveness and the latter preferring to stimulate an anaemic consumption?

Monetary aggregates: an explosion in the Anglo-Saxon countries, a slow-down in the euro zone.

Between summer 2008 and March 2009, the movement of M4 in England went from 11% to 19%. In the USA, the M2 moved from 6% to 10.5%. In the euro zone, M3 growth declined from 9% to 5.9%. As for the monetary base (central money issues), it tripled in the USA and grew by "only" 50% in the euro zone. Some are bound to conclude that the ECB policy is leading towards deflation. Even so, a monetary expansion of 6% at a time when economic growth is negative and price increases are barely above 1% is not exactly nothing. The changes seen in the euro zone reflect the slowing of the progression of the main counterpart to monetary mass: banking credits went from 9% to 4% in nine months. This is a movement that has not been over-compensated, as in the UK and the USA, by their central banks' "unconventional" activities: purchasing business bonds, minting the public debt - activities which do not appear to have softened the recession process. In any case, this swampland of liquidities must be mopped up in the not-too-distant future if one is not to stoke, not inflation perhaps in view of the production sector's gaping capacities, but renewed speculation in raw materials, for instance, whose prices are so attractive at this time.