The Banker's Comment - Jean-Pierre Patat

A former central banker looks at the news

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Each month, Jean-Pierre Patat, Honorary Director-General of the Banque de France and a TAC ECONOMICS advisor, offers his own point of view, on the economic and financial views, with total editorial freedom.

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Figure of the month

4.8%: Irish growth in 2014; a fair reward for several years of most courageous effort, budget-wise in particular.

Greece: a sad unfolding of the show.

Yes, sad, because it did not take long for the Greek government, under a blustering outward appearance, to start dropping its hoped-for "alternative policy". This is not to say that the "alternative policy" had any chance of lasting and being successful. But the present Greek leaders believed it to be so when they were campaigning, including the arrogant Minister of the Economy who was viewed as a good economist. It is even clearer that the Greek people believed in it. Are all hopes gone? In 1983, when the socialist-led government in France took the road of rigour and maintenance of the EMS exchange mechanism, it had at least started to work on the most popular promises, notwithstanding what can be said about the medium-term impact of these measures on the country's economy. The hike in the basic wage remained unchallenged (somewhat eroded by inflation of course); the French were able to profit from the increase on their holiday period and a lowering of the retirement age.

We say here without hesitation that we hope the Greek government will be able to deliver some of its promises: increases for low wages, the restoration of health care rights. Were it not to be so, a cruel blow would be placed on the credibility of the politicians, and populist parties far worse that the team in power would profit from this.

That said, we must ask ourselves why talented economists in all countries, including France, are urging policies of that sort. No doubt we should recall, to realise that it is no longer valid, a teaching that we received in our youth, which is that "the macro-economy is not the micro-economy" and that a micro-economic agent (a household for example) cannot sustainably permit itself to spend more than it earns, whilst a State, a major macro-economic agent, can allow itself to do so. However, the globalisation of trade and finance has reduced States to the status of micro-economic agents. It benefits countries which had nothing in the past and affects, sometimes enduringly, those which had everything and which now suffer both the consequences of this rebalancing and of the careful surveillance of the "markets". There was one way to evade that sad outcome: manage the budget wisely and not let debt explode. It is too late now.

Deflation: comical observations.

Growth recovery in the euro zone is beginning and is mainly due to a firming up of household confidence and consumption, especially in France and Germany. This is a welcome change across the Rhine where demand was strongly unbalanced in favour of exports, but less satisfactory for France where the manufacturing sector is chronically unable to satisfy a sustained internal demand and where the growth drivers ought rather to be exports and investments. The main reason for this pick-up in household demand? Just imagine – a zero even negative inflation, a windfall for purchasing power that those who live with their eyes on the rear mirror with the scenarios of the 30s did not wish to see. But where things become incomprehensible and, frankly, worrying, is when we hear the president of the ECB promising to get the rate of inflation back to 2% between now and next year!

The Chinese Yuan a global currency?

It's not for tomorrow. Certainly bond issues in Chinese currency are expanding, while remaining insignificant compared with those issued in dollars or euros. In fact, it is not the inconvertibility, which could be removed, that handicaps the yuan. Rather it is the absence of investment securities in that currency. Decades of defective budgeting created a debt market in the USA which gives the American currency the main characteristic and the main privilege of a global currency: the function of a reserve currency.

Fall of the euro: enthusiasm diminishes.

Having received the drop in the euro's exchange rate with delight, economists and analysts are doing their maths. Increased cost of imports, a drop of value mostly against the US dollar, the capacities of our manufacturing sector. In view of all that and despite the drop in oil prices and the near-zero rates of interest, the increase in growth for the French economy is said to be 0.2% with, even so, a fall of almost 25% by the euro against the dollar. We are far from the 0.4% that Ministry of Finance research forecasted with a drop of 10% in the European currency.

Name of the month: Jean-Claude Trichet.

This name has not appeared in the media, but it is clear that praises addressed to Mario Draghi are so many arrows aimed at him. "Under (the management of J-C Trichet) the ECB had its eyes exclusively fixed upon inflation" declared one economist who is usually better inspired. It's quite true as at that time price increases had reached 2.8% and in the holdings of the ECB were almost 300 billion euros in government debt bonds from States that were not the best rated in the euro zone. Above all, this man who they said had his "eyes exclusively fixed on inflation" saved the banking systems of the zone by unblocking an interbank market that was mortally paralysed, a rescue that demanded far more than words.

Euro zone: budgetary deficits decreasing significantly.

In 2015, deficits for public administrations ought to get back to below 3% of GDP in almost all countries in the euro zone; excepting Portugal (3.3%), Spain (4.6%) and France (4.1%). "France and Spain, European deficits champions" was the headline in one paper. Except that, from one year to the next, the Spanish deficit should go down the equivalent of 1 point of GDP, whereas that of France will reduce by only 0.3 of a point. We need to ask ourselves why we cannot in our country get anywhere near results reached by others, notably Italy (2.7% of GDP), Portugal (a drop of 1.6 points of GDP from one year to the next) and plenty of others; and this without a counterbalance of any notable economic growth.