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. Email: jppatat@taceconomics.com

Figure of the month: 97.4 billion dollars, dividends from the Fed to the federal State and to regional Feds. Long live Q.E.!

Central Banks: spectacular about-changes in appreciating their action.

Will there soon be only the actors in the markets, the speculators even, who are satisfied with the actions of the great central banks? The fact is that alarms are multiplying concerning risks that their policy could shake global financial stability. Alarms that, in some cases, are emanating from economists who in their time applauded the central banks' action, even if they did not deplore that they did not do more or that they had not acted earlier. One of these economists, always loquacious, even talks of the "madness of the central banks", of "pyromaniac firefighters", and suggests nothing less than reversing their independence vis-à-vis political power. All the evils of quantitative easing, real or potential, are indicated; colossal global liquidities which benefit exchanges and stockholders; the balance sheet of central banks which have become carriers of enormous potential losses; zero (or close to) rates which affect banks' profitability and penalise institutions that manage deposits and try to make do via account charges that scandalise users; penalisation of the savings of middle-classes who have neither the means nor the ability to seek investments more sophisticated than savings books. Let us add the temptation for States to limit their budgetary efforts and to profit from this indebtedness that costs almost nothing.

One item still finds consensus though; the absurd so-called objective of inflation at 2% - unattainable given the cost of commodities and, even without that, with the ultra-competitive world market for manufactured products. This too is a target that penalises the middle classes and those with small incomes.

The economist of whom we are talking ends with a pirouette, suggesting a nominal GDP target, whilst another one – of international fame – suggests fixing the target at 4%! It is tempting to laugh at such antics, but what is in play is the credibility of institutions upon which this inestimable public good, financial stability, depends.

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Crazy stock markets.

Weakening Chinese growth, Chinese stock markets in free fall, oil prices slumping, doubts about US growth, recession in some big emerging countries – the picture looks apocalyptic, but each of those factors needs to be put into perspective. China is not in recession; 90% of Chinese shares are held by residents; in relative terms the price of oil has been lower in the past (end of the 1980s) and that led to strong growth in the industrialised countries. Not all emerging countries are in recession. But here it is! An over-abundance of liquidities (multiplied by 6 in 20 years), pre-eminence of manipulating actors in the markets, a sheep-like and short term mentality on the part of others, continuous quotations, high frequency trading – all these things contribute to ensure that events that could make waves in fact provoke typhoons. The misadventures of Renault are a ridiculous example of this. It is not because this constructor's vehicles surpass antipollution norms (as in fact do many other constructors') that Renault will collapse. What then is to be done? Go back to fixing or at least outlaw high frequency trading? Put a stop to speculative funds? You must be joking!

China : too big to be wrong!

The yuan's depreciation brings a few worries. To now it is modest (at -5.5% in a year versus the dollar, the Chinese currency has only slightly cut into the growth seen since 2008). As we all know, it is not because of the exchange rate that China is gaining its greatest business advantages. As far as Europe is concerned a more serious danger is shaping up – that of having, within a year, to requalify Chinese products as coming from a market economy. This would ipso facto bring about a strong hike in customs duties on imports from China. It is evident that China, where many prices, wages and the exchange rate in particular are administered, is not a market economy. But, as with the inclusion of the yuan in the SDR basket (in no way justified in terms of the criteria that govern that reserve instrument but which will be made official just the same) it is to be feared that what is in play is the paralysis that strikes the international organisations and still more the Europeans when faced with a China that considers that its size endows it with all rights. Europeans, unlike the Americans, have hesitated or not dared to act in providing an efficient anti-dumping law, and as a result we have already lost tens of thousands of jobs in industry.

Name of the month: De Soto (Hernando).

No, not a highly distinguished name this month, but your chronicler (who has just discovered his existence) wanted to share his pleasure with a few readers. A Peruvian economist, he dares to claim that we will not drag 5 million of earth's inhabitants out of poverty by redistributing the wealth of the other million, but by allowing the poor to become less poor. His recipe? Eliminate bureaucracies, simplify administrative norms, have land ownership maps, register properties; in short wipe out all that helps develop the informal sector and turn money away from productive investments. No need to tell you, then, that De Soto is the pet hate of the devotees of the omnivorous State for which all the ills of the world arise from the fact that there are people who are too rich.

Inventive Swiss.

In Switzerland a vote is to be organised on a project that has already gathered over 110,000 signatures. It proposes concentrating all money creation on the central bank, eliminating commercial banks from credit and savings circuits. Why not, after all? It is the increased powers of central banks and their privilege to issue bank notes which has obliged commercial banks, which existed long before central banks, to develop a parallel currency (a scriptural one). Except that, even in Switzerland, such an operation – which would multiply by 20 or 30 the central bank's balance sheet, which would put the distribution of credits to the economy and monetary policy into the same hands, which what is more could submit the institution to prudential rules – would create an unmanageable monster (a "gosbank"?). From this incident let us remember, though, that it is not bad to find more than 110,000 citizens in a small country pondering monetary questions and that the Swiss, viewed as conformists, show proof of great creativity in financial matters.