

# 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](mailto:jppatat@taceconomics.com)



**Figure of the month:** 1.4%, the latest figure for annual progression of credits to the economy in the euro zone; a derisory figure given the tsunami of liquidity through quantitative easing.

## A reminder for those nostalgic for the franc.

In 1950, the occupying powers in Germany contributed to the creation of the Bundesbank and the introduction of the deutsche mark as the country's new currency. Following massive devaluations vis-à-vis the US dollar and the pound sterling in 1945, 1948 and 1949, 1 deutschemark (DM) equalled 0.83 francs. The next 40 years saw a giddy swing for the French currency. As early as 1969, 1 DM was already worth 1.23 francs. The oil shock in the seventies had an asymmetrical effect and in 1979 1 DM bought more than 2 francs. The years to follow did so in the framework of the European Monetary System, EMS, designed to stabilise, within relatively tight fluctuation margins, the exchange rates for several European countries. In fact this was the beginning of the Bundesbank's reign on European monetary policy, with the DM at once imposing itself as the reference currency. Parity "adjustments" (a discreet term for devaluations) followed in 1980, 1982, 1983, 1986, and at the end of that year 1 DM was worth 3.23 francs!

Could this tumble, going hand in hand with an inflation rate higher than our neighbours' up to the end of the 80s and which marks an enormous impoverishment for the French and a devaluation of our assets externally, have at least encouraged growth? This is barely evident. During the mythical "glorious thirty years" France certainly saw sustained growth, but it did no better than countries (Germany, the Netherlands) which managed their inflation better and whose currency gained value. As for external trade, it was in deficit almost the whole time. Apart from a short period in surplus at the start of the 1960s, external trade was indisputably positive ... during the years 1995/1999 - the time of the so-called strong franc policy, during which time the French currency exchange rate did indeed stay stable vis-à-vis that of the DM! The truth is that in response to those evolutions, the means of production did not feel it worthwhile to adapt to the constraints of a globalisation that one could see coming from the start of the 1970s.

So, for those who ignore the past, who close their eyes to market movements or who simply play upon peoples' credulity, your chronicler, even though he felt sorry when the franc disappeared, is glad to be in a situation which certainly has its faults and dysfunctions, but in which exchange problems no longer poison economic life. The country has stopped getting poorer, and we are allowed a voice in determining monetary policy.

## A sectarian economy Nobel Prize winner.

When an economy Nobel Prize winner speaks we need only to listen, or so we think. But no! The suggestions made by Mr Stiglitz about the euro zone show ignorance, prejudice, or possibly one-sidedness and a secret desire to see the break-up of the zone, by somebody who has in any case always been hostile to the idea. Naturally, in a country addicted to public expenditure, the man finds lenient interviews with those who do not imagine that his compassion for a euro zone, seemingly going so badly, is anything but innocent. Let us ignore his excuses for Argentina which caused its currency to fail, thumbed its nose at its creditors and has an inflation of over 100%. But to claim that the countries in the south of the zone have been victims of a system in which the northern countries showed egoism!!! Let it be remembered that the southern countries came into the euro with favourable rates of exchange and, above all, benefitted from the great advantage procured by aligning their long term rates with the lowest rates in the zone. Advantages that were wasted or poorly used. Of course, Stiglitz wants a softening of budgetary rules for countries already mainly in deficit, over-indebted and which put the whole zone in peril through their non-respect of the rules of the Growth and Stability Pact, an instrument of cohesion as efficient as a federal budget were it to be respected and that this Nobel Prize winner never even mentions. Finally, Mr Stiglitz takes up the refrain of Eurobonds - so easy to set up according to him, because it would be possible to find rules (which ones?) assuring their longevity - without asking himself the price at which such a mixture of fruits of such diverse quality might be issued.

## Central banks have become auxiliaries for impecunious States.

The extension of a situation where interest rates are at zero, negative even, could cause the collapse of all institutions living by credit, as well as pension funds and insurance companies. For banks, of course, earnings in capital on held debt bonds do compensate (but only for a while) for losses suffered by credit. Similarly, insurance companies, for lack of a return on capital, will use a "return of capital". But how long can this eminently unhealthy situation last? Despite that, the central banks, totally paralysed, do not dare to dismantle that extravagant construction; you need only to note the Fed's recent conduct. There are other things in play in a situation that lets Portugal borrow more cheaply than the USA. The European States are terrified at the prospect of ending a context that allows them - as is the case for France - to save several tens of billions on debt management. One cannot imagine for one second that this does not contribute to maintaining the central banks' lack of will ... and pleasing the stock markets.

## Names of the month: Pierre Cahuc and André Zylbeberg, authors of the book "Le Negationnisme économique".

Not that one agrees with all that is written therein, but because 1) recognising that the economy is an experimental science founded on a rigorous analysis of facts is a self-evident truth that the ideologues, in France especially, refuse to admit, and 2) one cannot help but rejoice at the kick up the backside given to the planet of economists where arrogance, political one-sidedness, blindness and about-turns without complex can all prosper quite freely. To realise the upsetting (hence salutary) nature of this work, you need only to see and hear the furious reactions elicited by this publication, a nice chance for some to come out of the obscurity in which their modest talent was holding them.

## Deutsche Bank.

The difficulties (a euphemism) for the Deutsche Bank, over and beyond the problem of its ability to recapitalise, inspire two commentaries: first the audacity of the United States which, having set fire to the planet with their sub-primes, now want to sanction those who commercialised them (could this be a reprisal following the European reaction and the fine inflicted on Apple?) and then, on the contrary, the virtues of the universal bank: the Deutsche Bank has abandoned its initial vocation to concentrate on market operations, financial investment operations, even speculative ones. The crisis showed it was just that kind of highly specialised organism (re. Lehman Brothers) that was the most fragile.

## Pound sterling.

The pound's dive will delight those who felt bad about the French GDP being downgraded to 6th position. A correction for economic journalists: the euro is assessed on the exchange market; so we ought to say 1 euro = £ 0.9, and not £ 1 = 1.1 euros.