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THE BANKER'S COMMENT BY JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: an 11%, the fall in the yen's effective exchange rate over one week following the main central banks' concerted interventions.

Rates hike, the ECB makes its mark.

The calm with which the ECB's decision to raise rates by 25 base points was greeted is in striking contrast with the accusations which, not long ago, were flung at the institution at every opportunity. However, for now at least, the risk of inflation is not proven: there is a 2.6% increase in prices (above the 2% limit to be sure) but the Bank, which has a mid-term outlook, has accepted certain "overs" in the past. Above all, this inflation arises from costs that stem from raw commodity prices increases.

An inflation not proven, perhaps, but already being felt by households, for whom the preservation of purchasing power results directly from the ECB's mission to ensure price stability. For the Bank, wages moderation (critical for retaining competitiveness) goes hand in hand with low inflation.

Various reasons explain this general agreement with the Bank's action. First, maybe, is the awareness among those who reflect upon the abnormality of a prolonged situation where money costs almost nothing, that this situation seems more favorable to speculation in the commodities markets than to the provision of credit (nor, furthermore, does this situation favor an optimal functioning of the interbank market). Second, there is the feeling that this slight increase could help avoid more brutal ones later, and could limit or even avoid a jump in long-term rates – which would definitely stem from what would be considered a lack of anticipation. At last, no doubt, there is the tarnishing of the "Fed model" whose actions were for so long cited as an example for the ECB, though we realize now that it helped ignite the global crisis of 2008-09. The ECB's move, though, has significance. Far from the Bundesbank-style dogmatism and the Fed-style laxism, despite catastrophic prophesies about the euro, despite alarm calls emitted by some on a supposed falling apart of "central banking" following upon the non-conventional measures implemented by the institution, this signals that the euro zone has a pilot, a real one.

External deficit: competitiveness, alas.

Poor figures for the French external trade do not let up. Many analysts think that the slip in price competitiveness is not the main reason for these disastrous movements. Rather, they say, we are making the wrong choices on the export product mix, above all we do not have the network of innovative, dynamic small and medium enterprises (SMEs) which are making the fortune of Germany's external trade (not taking into account exchange rates, still mentioned by some, but less and less, since the bulk of our trade deficit is realized within the euro zone). They may be right, but these supposed weaknesses do not date from only yesterday; despite them, our country was not always in deficit. Between 1994 and the end of the century (when there were no more numerous innovative SMEs than we have today and when we were not necessarily making better commercial choices) we enjoyed a quite comfortable surplus, even though we were in a phase of so-called "strong franc" policy. Why these surpluses at that time? Compared with euro-zone countries, our competitiveness, measured by unit labor cost (the "true" measure, not the one that comes from a weaker currency) improved by over 10% during that period whereas since the start of this century it has decreased, by 8%.

Public deficits. Why hurry to reduce them?

Two-thirds of European countries would like to postpone from 2013 to 2015 the target-year for returning to a public deficit of 3% of GDP. In argument, they put forward the negative effect of this schedule for growth and employment. A forecasting body makes this point strongly; it calculates the cost for France of the fiscal tightening at home and in other countries as -1.5 points of GDP yearly with +1.5 points for the unemployment rate. This is pure Keynesian reasoning, which we fear may have been constructed on an "all things being equal" basis. What about the behavior of households in Europe, whose savings rate is extremely high? And what about market reactions, were we to do away so happily with a rule that we ourselves created? Not the reactions of the top layer of speculators – always easy to blame – but those of the managers of pension funds or investments, those managing retirement plans and for the savings of millions of people. An increase in long term rates would be as crippling in terms of growth for most European countries as a rates hike by the central bank.

Expression of the month: worn-out.

According to the Mediator of the French Republic that is what French society suffers from – a society that is "worn out" (sic), lacking confidence in its politicians. Frankly, this message borders on political, even moral, conmanship. Of course there are serious problems with excluded people - as in all countries, not least those taken as "models". Is that a reason to present the entire French society as a nightmare, supporting the crowd pleasing idea that politicians, contrary to all evidence, are not like those who elected them? This encourages populism and the very extremism that he pretends to denounce. Here are two figures: the Gini index, indicator of income inequalities (1 = absolute inequality, 0 = absolute equality) gives France a score between 0.2 and 0.3, among the lowest in the world. Next the index for human development, set up by the UN, a kind of national happiness thermometer. Here, France is in 5th position among 150 countries, only bettered by countries with very small populations.

"Are you ready to repay these debts to the British and the Dutch?" Of course not!

That is the question that, with exemplary demagogy, the Head of Government put to Icelanders by referendum, even though an agreement with creditors had already been approved by a two-thirds majority in their parliament. Of course the "no" won heavily. Why worry? The public is never wrong and is never responsible. The people had barely been taken aback by the flabbergasting change in an economy that had switched like lightning from fishing to banking, just as long as they profited greatly by it. Is it conceivable that we accept into the European Union a country that is such a barefaced bad loser?

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