



THE BANKER'S COMMENT - JEAN-PIERRE PATAT

A former central banker looks at the news

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Figure of the month: 2.08%, rate for French government bonds over ten years as of November 13th. Long may it last.

Greek theatre regarding France competitiveness.

Greek theatre because in this argument nobody is altogether right and nobody is altogether wrong. The government is correct in saying that the cost of labour is not the only problem for the French productive sector's competitiveness. It is wrong in believing that the other problems stem entirely from that sector. It is wrong in treating the problem of cost through an unwieldy tax credit system. It is correct in turning to VAT rather than CSG, because in a low demand context a hike in VAT taxation has every chance of being absorbed by distributors. Businesses are right in insisting on the cost of labour, but wrong in making it the alpha and omega of their problems, problems in which they clearly have their own share of responsibility.

Because - we really should be asking ourselves why French external trade figures, in surplus from 1993 to 1999 during the policy period known as "the strong franc", have plunged into deficit from 2000 on, bringing this state of decline at a time when the euro has been extremely weak versus the dollar. Because - we need to ask ourselves if a growth model resting almost solely on consumption is not inappropriate, given the productive sector's capacities.

Because - we should ask ourselves if, obviously, public policy might not have a part of responsibility in this decline (for example, by really questioning the 35 hour working week).

But also because we must ask ourselves whether the "strong franc" might not have acted as a prod for the productive sector, making it rationalise production networks and lower costs, and whether the currency's weakening at the start of this century might not, on the contrary, have encouraged an irreversible softening of the previously respected discipline. Between 2000 and 2011 French unit labor costs rose 13%, while those of Germany went down in the same proportion. This not only damaged the efficiency of the productive sector, it has encouraged an excess of consumption by those who have the luck to hold down a good job.

Quotes of the moment: "the recovery is on its way, it's a matter of cycle", "we shall have to hold our breath for at least five years".

Nothing illustrates better than these two phrases (the first from the French President, the second from the German Chancellor) the gap developing between an outlook that focuses on the lightening of constraints via the economic cycle and the other which views salvation as coming only via reforms and painful effort. Some will see Merkel's viewpoint as proof of the "Machiavelism" denounced by a sociologist (German) who used the term "Merkielism"! In any case, we can be sure that this direct attack, moreover from one of her own countrymen, will delight the crowd (especially numerous in France) for whom being in debt is a virtue and correct management of one's affairs is proof of egoism and arrogance.

The tough nut of European supervision.

By deciding to confide responsibility for European banking supervision to the European Central Bank, Heads of State and of Government took an excellent initiative, but they created a tremendous headache at the same time. Apart from the fact that, even in the euro zone, supervision is not assured everywhere by the central bank, and apart from the fact that some countries will claim that parts of their banking system are outside this unified supervision since this supervision has nothing to do with monetary policy, the responsibility will not be that of the Eurosystem or of the Board of Governors of the ECB, but rather that of a body in which all EU members will be players (all of whom are part of the ECB's wider board) including those who have opted out of the monetary union and who will not be the last to raise difficulties.

Psychodrama surrounding the management of the European Central Bank.

The European Parliament has just responded negatively to the nomination of Yves Mersch, Governor of the Luxemburg Central Bank, to the management of the ECB on the motif that the board of this institution no longer had a woman member. Over and above this gender problem, not a slim one, two observations might be made.

First, we see the hand of the Germans behind Mr Mersch's candidature. By opposing the candidature for management of a Spaniard to replace a Spaniard, the Germans broke the tacit understanding which systematically gave such a position to candidates from the euro zone's four "large" countries (which provides them with two votes at board level). In thus manoeuvring and by pushing Mr Mersch's candidature they wished to reduce the number of board members from the "southern" countries and increase those of the "north" so as to build coalitions big enough to break any consensus on policies of which they disapprove. This behaviour shows ignorance of the spirit in which the Board operates.

But we should also admit that Mr Mersch's candidature is unacceptable ethically. He is from a country, Luxemburg, whose activities and wealth rest mainly on the fiscal advantages offered by its financial system to non-residents. And, it entered the spotlight by opposing the reinforced cooperation accepted by 11 of the 17 countries in the euro zone for taxation on financial transactions.

Quite false.

A political bigwig remarked that a 3% deficit at a time of growth is not the same as 3% during recession. No! At times of growth the target should be 0% so that 3% is not too hard to attain during hard times. By taking the 3% figure not as a top limit but as a "minimum", allowable at any time, the French have still to understand the spirit of the Stability and Growth Pact. We recall the burlesque episode of the "petty cash". Just think what our financial situation might have been if, at the start of this century, following a wonderful period of growth, our budgetary balance had been at zero instead of close to 3%.