


European Interview

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“The Euro does not exist politically there will have to be a political authority to represent it.”

from **Jean-Paul Betbèze**

Professor of Economy at the University

Paris II- Panthéon-Assas, Chief

Economist for the Crédit Agricole SA.

1. Just days before the G20 Summit in Seoul what, in your opinion, apart from the official agenda (definition of a framework for balanced sustainable growth, the enhancement of the international financial regulation system, the modernisation of the international financial institutions etc ...) are the key issues underlying this meeting. Do you think that the G20 can become the world's "main forum" with regard to economic and financial issues? How might it do so?

Generally we can say that the recovery is starting to take shape but obviously the scars of its passing remain in the most affected countries. In other words the BRIC continue to progress, indeed they barely felt the crisis – but the USA is showing weak signs of recovery – notably it has a high unemployment rate and there is a danger of deflation – and so they are turning everything to account. They have a massive budgetary deficit, to the extent that their Central Bank (Fed) is buying public securities and housing finance securities for ever increasing amounts: 1,200 billion, with 500 more in the pipeline. We shall see. This dynamic is weakening the dollar and the euro is rising. Hence Europe finds itself in a complicated situation with spontaneous growth of around 1.5%, which is weaker than the American rate, it has to stabilise its public accounts, support some of its members who are struggling (Greece, Ireland) and also witness the rise of the euro.

On the menu at the "world forum" is, first and foremost, the coordination of recovery solutions to avoid a protectionist war, which has been achieved in the main – trade wars, which still has not been achieved – and the weakening of the major central banks. The situation is worrying.

Apart from that the world's financial architecture has to be strengthened and the conditions for sustainable growth, which implies finance and ecology of course, but above all the means to promote trade and innovation and to enhance growth everywhere. This means that the emerging countries will have to be attributed new rights and new responsibilities.

2. Recently voices have been raised in Europe in support of a reform of the international monetary system that could be built on three key elements: the enhancement of crisis management mechanisms, the challenge made to the pre-eminence of the dollar over the international monetary system; and a better coordination of economic and monetary policies. What do you think are the points on which it will be possible to move forwards? If there are any how might it be done?

Voices are not just being "raised" in Europe for changes in a system that was created after the Second World War: the emerging countries obviously want to have their say in the decisions that are made and about the means attributed. This firstly means that greater focus will have to be given to signs international tension on the one hand, whether these are deficits or bubbles, but also to evidence of weakening growth rates, employment and competitiveness on the other. With regard to international currencies the issue of the SDR's [1] is possibly rather more political than real because in reality it means converting the Yuan in the best conditions. The SDR issue for the Chinese is possibly a means for them to gain time and to harass the Americans. Who knows?

1. The SDR (Special Drawing Rights) is an international reserve asset created in 1969 by the IMF to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies: the dollar, the euro, the pound sterling and the yen.

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3. The volatility of the euro and its overvaluation in the face of the Chinese currency in particular is bad for European external trade since the competitiveness of its export countries and the ability of investors to make their forecasts are both affected. And yet Europe seems incapable of having any influence over these issues. In this context can the European Union (in the euro area at least) afford not to have a joint external economic representation within the major international organisations such as the IMF, the World Bank and the G20 of course?

First of all even if we don't like it we have to admit that we are a realignment currency used in an American attempt to bring the dollar down and the Yuan up. Since this attempt failed or at any rate it struggled to become a reality given the inflexible position of the Chinese authorities the other currencies have been rising: the Japanese Yen – which seriously handicaps its recovery, the Swiss Franc, the Sterling Pound and of course the Euro. Misfortune would have it that the euro has no political existence, since its status is not as clear as in the USA where it is an issue for the Treasury and therefore it is political. A decision has to be taken with regard to defining relative responsibilities and a political authority will have to speak on behalf of the euro. Why a political authority? Because the main mandate of the ECB is price stability at present: the euro concerns it indirectly and also in dissymmetrical manner. Indirectly, because for example if the euro is considered to be too weak there is a danger of inflation. This is when dissymmetry steps in since the ECB's concern will be rather over an overly weak euro rather than the opposite - since a strong euro is seen to counter inflation even though this counts in growth because it also influences salaries, prices and employment of course – but this is less of a problem from this point of view. We should add that the euro affects countries in various ways: Germany with its sophisticated products can live with a strong euro – but this is not true for everyone!

4. If we continue to consider monetary issues what do you think of the proposal whereby the euro area could offer China and the other Asian

countries support for their currencies in a currency basket that would include not only the dollar but also the euro and the yen, the respective share of which would progressively rise against the dollar? Does it appear possible in your opinion to reduce global economic imbalance with this proposal? If so how and with what methods can progress be made in this direction?

The indexation of the Yuan in a currency basket is now occurring but we should take heed: if the dollar falls against the Yuan the Chinese will buy even more euros – which does not help. We are not achieving what we want i.e. that China re-balances its activity with greater domestic demand and less exports. In other words the problem is not just a monetary one. China has to launch policies to reduce saving rates: a retirement system, unemployment benefits, a healthcare system and treatment and care for the elderly. A China which saves too much is trying to protect itself. In the end this does not help it long term.

5. One of the points on the agenda of the Seoul meeting involves the possible creation of a tax on financial transactions. Does this idea which was supported by the EU during the European Council in June seem credible to you in a context where it only seems to raise a slight flicker of enthusiasm exterior to the EU?

If we tax we are not regulating but crises do not arise because of taxes, on the contrary – they arise because of a lack of regulation. If we want to sanction the banks that have committed errors it is undoubtedly late in the day since they are done with. If we want to avoid speculation, traders' salaries have to be regulated so that most of it is paid at later date after the quality of their choices has been checked. If we want to protect depositors and those saving, the loans made by the banks have to be monitored – and not only the big ones – under the pretext that they would be systemic – but also the small ones which tend to want to race ahead in other words apt to take more risks. Monitoring loans in general, the banking system and especially the securitization process – this would be more effective than a tax that makes loans more expensive in a time of slow recovery!

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6. In view of France’s Presidency of the G20 Nicolas Sarkozy announced that one of the main themes of this presidency would be the volatility of raw materials’ prices, notably in the areas of agriculture and energy (a point on which France is to make proposals in Seoul), since their rise has sometimes been spectacular over the last few years due to the increase and growing wealth of the world’s population (which is using more) and the gradual exhaustion of some natural resources for which the offer is intrinsically limited (such as oil for example). In a context like this which axes should be given priority in your opinion?

In effect the volatility of raw materials has to be watched – because they have a tendency toward inflation and because they weaken some countries or populations, notably the weakest. So I do believe that raw materials have to be taken into account. Even then there has to be financial markets for them which restricts the range somewhat and makes wheat the major focus of the proposals. It seems to me that our efforts have to focus on this and on rice – but the financial market is less developed because resources to hold the markets are not infinite – and then the process can be extended.

7. In fine, and even though this does not concern the G20 Summit, what do you think of the Franco-German initiative designed to change the budgetary rules of the euro area in the wake of the Greek crisis?

We cannot continue with an average budgetary situation like this in Europe with, to boot, such differences between countries and a lack of awareness of the measures that have to be taken. Firstly we should take steps, increase the warnings issued and help each other above all – this is vital – we shouldn’t just threaten and punish. The exit to the European crisis is more complex than any other because it is the most contrasted. It means better knowledge of everyone else’s situation, total transparency - it therefore means the reduction of public spending, more than taxes and support policies to boost companies and innovation, which we speak to little of and without linking these to stabilisation policies. The rules of the budgetary game enter into this and on a wider level into the strengthening of Europe in the new era which is beginning.

Author : Jean-Paul Betbèze

Professor of Economy at the University
Paris II- Panthéon-Assas, Chief Economist for
the Crédit Agricole SA, member of the Economic Analysis
Council for the Prime Minister and member of the Scientific
Committee for the Robert Schuman Foundation.

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