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"*Tout l'art de la politique est de se servir des conjonctures.*" Louis XIV

Too much money chasing too few deals

By Sameer K Sharma (cont. pg 2)

The Achilles heel of any private equity deal has always been characterized by too much money chasing too few deals. There are fewer good funds out there with good track records than there is money available to invest in them. This eventually creates problems in the private equity space as other lesser quality fund managers crop up and direct this excess liquidity towards lesser quality projects. We then get large endowment and pension funds that get stuck with bad projects in their portfolios.

Mauritius is an economy that shares a lot of characteristics with the money problem in the private equity industry. The tiny island nation suffers from chronic excess liquidity in the money market. One of the main reasons why this is so is that there is too much money chasing too few good deals.

Rationally in such an environment, a bank must have a comfortable spread on top of the equivalent maturity risk free Government bond that incorporates various risk premiums. The probability of default in the risk neutral world at least can be estimated by taking this spread (excluding the spread due to non credit risk factors) and dividing it by the loss given default or LGD.

Policy makers must encourage greater financial education

We often hear that policy makers want banks to increase lending and to lower the spread but seldom hear about how they come up with this idea. The proper way to make such a point would be to showcase that a large chunk of this spread is attributable to non credit risk factors. Furthermore that portion of the total nominal rate that is not attributable to credit risk factors will also include such things as liquidity risk and inflation risk and maturity risk factors which cannot be ignored in a country like Mauritius.

Policy makers must in sum showcase quantitatively the amount within the spread that is due to some oligopolistic tendencies of banks. If we then simply define the nominal rate charged as equal to the default risk premium plus inflation risk premium plus liquidity risk premium plus maturity risk premium plus a real interest charged, one must clearly showcase that the real interest rate is too high or that the other risk factors are being exaggerated. In this country, this will be very difficult because the risks are genuine.

Currently, there is a lot of money in the system but fewer good projects that can qualify. In fact some companies have found it hard to get financing in large enough amounts from banks and have started to tap the individual investor with convertible bond issuances. In theory, greater competition is supposed to help. A closer analysis of some of these companies and projects however would cause much a concern. The comical part of all of this is that in many cases, the yield that is being offered to investors (in terms of the spread above the equivalent maturity Government bond) is too low when one considers the risks, the company fundamentals and the simple fact that a junior bond holder would be lower on the balance sheet than the senior bond holders (and hence require more in terms of yield).

Junior bond holders need to charge more in terms of interest than senior bond holders but here it is not the market that drives the yield but those who wish to emit bonds because there is too much money chasing too few deals. Equity holders need even higher returns because they take on more risk and are at the bottom of the balance sheet rank should a default occur but how often do we hear so called experts talking about how equity is cheaper than borrowing from a bank here?

In Mauritius some companies are issuing such things as debentures and convertible bonds because they cannot obtain financing in adequate amounts from banks. Or those banks are not willing to extend further loans which are very different from lending to a company that has a good project in the pipeline. Financial education remains low which means that you can get away with it. In sum the spread that we see from those issuances are many a time too low in an environment where regulations need more fine tuning and policy makers must exercise caution and more importantly must encourage greater financial education even within the industry itself.

Taking on leverage in an unproductive economy can be very dangerous

When there is too much money chasing too few deals, standards get lowered and markets behave in a haphazard fashion. Furthermore, as we try to put increasing pressure on banks to lower spreads, we risk forcing them to take on more leverage to generate returns which at the end of the day are what companies need to do for shareholders. Taking on leverage in an unproductive economy that has a host of ongoing bad projects can be very dangerous.



If I were a banker today, I would not be lending much because I see uncertainties in my main export markets; I see an unproductive economy that lacks human capital in large enough amounts to take this country to the next level; and more importantly I see many speeches and plans in terms of taking Mauritius forward but few specifics on how we will actually get there. We talk about getting the infamous 2 million a year tourist target over the next decade but today I can tell you that the supply of planes is already a problem where many tourists this month could barely

get tickets; that many a shopping mall feasibility study has taken those optimistic figures seriously; and the list goes on! Will this tour operator model we follow even allow us to get to those optimistic targets? I think not. Do we even realize how bad things will get for Europe over the next five years?

If you are looking for examples of bad projects, you need not look any further than towards the commercial real estate sector and its latest fad shopping malls. I have got the chance to analyze these projects carefully: if there is one forecast I would be willing to make, it is that many of these projects will end up badly because the feasibility studies were based on dreams and not reality. There are too many malls. It is a classic case of too much money chasing too few viable deals. This excess liquidity sometimes gets directed towards the worst of projects at the worst of times.

Let excess liquidity be in the banking system rather than in bad projects

Yes there is an element of excessive fees by local banks. Since they cannot maintain the kind of credit growth rates we have seen in the recent past, they now try to squeeze profits from other activities and through higher fees which do not necessarily come with better or faster and more efficient service. These are areas where policy makers have legitimate concerns that need to be addressed and nor do I believe that banks can go on increasing fees forever at such rates. This is not a sustainable model. So what do we do to drive this economy forward?

First, we revamp the way we think about monetary policy itself. The Bank of Mauritius must build the right team internally and come up with an inflation target over a 2 year period once enough time has been given for transitory shocks to subside. This can be done via the timing of the closure of the output gap. The BoM should be neutral on the economy and propose realistic inflation targets to the market and then in a gradual fashion lower them over a ten year period.

Today the bidding behavior at the long end of the curve is what it is because inflationary expectations at the longer end are loosely anchored. Loose anchoring exists because the BoM has not been great at providing a low and stable inflation environment over a 2 year period if you look back in history. There have been brief periods of success mainly because of external factors but nothing has been sustained.

The first step at lowering the nominal rate that banks charge to borrowers then involves reducing that inflation risk premium! In terms of shorter term liquidity controls in the money market, the BoM must continue to be aggressive with the CRR and must look at setting both repo and reverse repo rates versus maintaining a fixed repo corridor that is often breached along with its credibility.

My big concern is that right now much of our excess liquidity is held with banks and we see this in the money market. If we try to force banks to lend this money in an economy that still faces many difficulties we risk seeing even more bad projects crop up.

Too much money chasing too few deals

By Sameer K Sharma (Cont. from Pg 1)

As long as the economy does not innovate, does not become more dynamic, and new industries do not crop up, I would rather have this excess liquidity in the banking system than more of it move to bad projects.

Banks need to get closer together and share more information

Liquidity risk is a complex issue because banks operate in a small economy that lacks innovative capital. While money is plentiful, a rational behavior of the lowering of the liquidity risk premium may increase other risks as there are few good deals that can be sold (read liquidity) at a good price in a short enough time span to cover any potential change in feasibility!

The stock market is an alternative route for companies to obtain financing (at a higher required rate of return of course) but to encourage further participation and a more liquid market, the commission charged per trade must be lowered by a substantial amount. Today the Stock Exchange of Mauritius, the Financial Services Commission and the Central Depository & Settlement Company combine account for 50 basis points of the 1.2% commission per trade! Those who are there to encourage greater liquidity for greater price discovery and efficiency must lead the way by lowering fees to international standards.

Finally, the default risk premium is a tough cookie to crack as long as the economy does not become more dynamic and innovative (read creation of new industries and for that, education is key as human capital is too low) but better quantitative credit risk management can help. Banks need to get closer together and share more information in terms of the characteristics of their credit portfolios. From a large population of loans, random sampling can be done. Then the next step would be to run logistic regressions on various risk factors obtained from the collected data for probability of default estimation.

Models can be refined, especially at the left tails of the distribution, and the final model with its risk factors can be used by banks to better assess loan applications. For example potential borrower z's characteristics A, B, C, D etc can be imputed in a logistic credit risk model that would give out a certain probability of default. This can be used to qualify or reject the application efficiently. This can be combined with the already strong qualitative analysis that is done by local banks to lend to good projects or to those who have the ability to pay.

We need much more data today to gauge the behaviour of consumers and borrowers as is done elsewhere. The Bank of Mauritius must quite simply take the lead in that department. More data will create more awareness about the risks and lead to a better and more confident lending environment.

Policy makers must be careful as they push financial institutions to make other use of ample liquidity, for risks cannot possibly be ignored. Remember the liquidity may be held mostly in the banking system, but once it gets directed towards projects x, y and z, the latter may no longer be liquid itself. We do not want to get stuck! Concentrate on improving the economic environment, spend more on education and talk more about specifics. If we get our act together, a small country like Mauritius can be transformed over a 10 year period and living standards can improve.

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The banking sector remains vigilant

By Ravin Dajee

The financial crisis and the Euro crisis are among the issues that have marked 2010 from a banker's perspective and those which will clearly impact the year 2011 and beyond. It is our considered view that the Mauritian banking sector has emerged relatively unscathed from the financial crisis that unfolded worldwide in 2008 and 2009.

During and in the aftermath of the financial crisis, the domestic banking sector was rightly praised for its prudent lending behaviour while banking institutions of the more advanced economies were vilified for having engaged in risky lending and risky investments. This state of affairs brought a near collapse of the global financial system, necessitating heavy bail-out of financial institutions by the concerned countries' treasuries and central banks.

None of this happened in Mauritius. The Mauritian banking sector neither failed its depositors nor its shareholders. Neither did it need Government support. On the contrary, it willingly assisted the authorities in the various efforts to steer the crisis-affected sectors away from doom and contributed substantially to the public finances through an additional levy on its profits and turnover. This, by the way, has been extended for another 2 years...

Downtrend in profitability and in credit demand

The outlook, however, for the next two years are less optimistic. The effect of the present Euro crisis on the domestic economy is far from being resolved. We have seen recently yet another country, namely Ireland, in the throes of the same predicament as Greece, and Portugal is not far behind. This unfolding crisis in Europe will have far-reaching consequences for the various sectors of the Mauritian economy and thus indirectly impact the banking sector as well.

Recently published financial statements from some of the main banking institutions in Mauritius clearly show a downtrend in profitability. We believe that this will certainly be the case for all our banking institutions in this and the next financial year. Operational efficiency has, however, so far mitigated the loss of revenue and, consequently, of profits.

If the real sectors continue to feel the brunt of reduced demand from our main and traditional export markets, investment opportunities by private sector operators may well continue to dwindle, thereby accentuating the fall in demand for credit.



The consequence on the financial sector will be two-fold. The first is excess liquidity, and the second a reduction in the banking sector's ability to generate those surpluses which, in spite of all that has been said, have served our economy well where other sectors were unable to.

We take a very strong view on the fact that excess liquidity in the system is unmistakably a result of this reduced credit demand and can, in no way, be imputed to a desire from banks not to lend. What we have to remember is that banks are not only in the business of providing credit but are also competing fiercely with one another and with other non-banking credit lending institutions for a small domestic market with few operators and a scarcity of viable projects.

The recent Budget Speech has, however, chartered a new course with more focus on the emerging markets of the East and, as bankers, we remain confident that the economy will respond to firm and decisive actions taken collectively by the authorities and in consultation with private sector operators. The recent stance of the Monetary Policy Committee to reduce the Key Repo Rate by 100 basis points is such a step in the right direction. It has certainly boosted investors' confidence and helped relieve indebted companies and enabled them to re-structure and de-leverage.

Credit proposals are subject to tighter scrutiny

Developments on the international regulatory scene will also create major challenges for banks and other financial institutions. Enhanced regulatory standards will be a test on bankers' ability to extend credit as they would have wished to. It is worth mentioning that, since the adoption of Basle II in 2008 and in the wake of the financial crisis, prudent lending and stringent control mechanisms have been even more strongly advocated worldwide. The good side of this is that the ratio of non-performing loans of all banks has improved considerably. The less appealing resultant is that credit proposals are subject to tighter scrutiny and capital requirements from banks are high.

The forthcoming Basel III standards recently adopted at the level of the G20 aim at making the global banking industry safer and at protecting economies from future financial disasters. Basel III, however, advocate a tripling of the amount of top-quality capital to be held in reserves by banks and places a heavy strain on trade finance, specially for the emerging economies, through a 100% credit conversion factor for what before used to be considered as risk-free. We believe that, if unaddressed and un-rectified, this particular proposal will further push banks towards adopting less risky business strategies and hamper exports from these countries.

We are thus of the view that, in this ever-changing and increasingly unpredictable international context, the domestic banking sector will have to remain as vigilant and resourceful as ever. Both our domestic and international banks will have to, on the one hand, continue to abide to international norms and standards and, on the other hand, keep on playing its role as a provider of sound credit to the economy. We will do both.

Ravin Dajee, Managing Director of Barclays Bank, Mauritius, is the Chairman of the Mauritian Bankers' Association.

The Euro and market uncertainties in 2011

By Antony R. Withers



The Euro area financial problems are no where near being resolved yet. In one sense the problems are only just beginning. Two countries are insolvent: Ireland and Greece, and they need to be nursed back to financial health. Spain has to refinance debt of the order of Euro 300 billion in 2011, which may prove beyond the markets' capacity to absorb given the recent sharp rise in Spanish Government 10 year bond spreads to the 5.45% level. Peripheral Euro zone area economies are contracting and unemployment is rising as deflation takes effect.

The near doubling of the capital base of the European Central Bank (ECB) announced recently, from Euro 5.76 billion to Euro 10.76 billion gives some idea of the direct action that may become necessary to support not just Greece and Ireland but also the Spanish debt markets. There is also the risk of further market contagion, first to Portugal and then to Italy. Germany, led by Chancellor Angela Merkel, has stated clearly that it has no wish to bail out what it sees as profligate countries.

The ECB has, though, so far bought approximately Euro 71 billion of Irish, Greek and Portuguese government bonds in an effort to prevent bond yields from rising. The Bundesbank in Germany is thought to have objected strongly to these purchases and they may also be in breach of EU Treaty law. In effect the ECB is creating for itself the reputation of acting as a "bad bank" for the illiquid peripheral EU states' government bonds. Not only could the ECB face "mark to market" losses on these bond purchases but it also has extended short term loans of the level of Euro 335 billion which it has provided to Greek, Irish, Portuguese and Spanish banks, albeit these are collateralized by residential mortgages. The most recent data show that Irish banks have borrowed Euro 136 billion from the ECB. Add to this the US\$ 760 billion of Spanish debt securities held by EMU countries (of which France holds US\$ 252 billion, Germany US\$ 212 billion, Luxembourg US\$ 77 billion, the UK US\$ 69 billion, Netherlands and Ireland US\$ 60 billion each and the outlines of the problem become clearer.

In Brussels the EU's 27 national leaders decided at a summit on 16 December 2010 to set up a permanent safety net for Euro zone governments from 2013 onwards. They also vowed to do "whatever is required to ensure the stability of the euro area as a whole" – a message that, no matter how vaguely worded, confirms that even more far-reaching measures are likely after the new year to address Europe's unfolding debt crisis.

The Euro 440 billion European Financial Stability Facility (EFSF), set up in May 2010 as a mechanism to resolve financial crises in Europe, was an attempt to address a solvency problem through providing additional liquidity – with initial liquidity facilities for Greece and Ireland. But both of these countries are technically insolvent – in that the bond markets are demanding premium yields to finance these countries at levels which indicate either potential default or impossible burdens on their domestic budgets.

It is envisaged that the EFSF will evolve into the European Stability Mechanism (ESM) – but this, at Germany's insistence, will contain provisions for bondholder haircuts and will require amendment to existing Euro treaties in March 2011 and ratification by parliaments thereafter. The reaction of the bond markets has been predictable – with yields continuing to rise but it hardly engenders confidence that the refinancing of existing bonds, let alone new debt issuance for the problem countries, can be achieved – thus putting more pressure on the reserves of the ECB particularly in the run-up to 2013.

The stress tests were far too lax

It strikes me that two features are likely to prolong the uncertainty currently prevailing in the markets. The first is the difficulty many governments have in "balancing the books" or at least restrict their budget deficits to the level of 3% of GDP (this Euro Stability and Growth pact target budget deficit level has rarely been achieved by any member country since the Euro was introduced). In the absence of strong GDP growth, governments have had little choice but to cut spending plans and/or raise taxes – neither of them popular with voters. Bond markets are understandably sceptical about any government's ability to deliver on their promises.

The second is the health of banks in the Euro zone – as defined in two ways: capital to total risk assets alongside loan to deposit ratios. The long timetable announced by Basel regulators for increasing the level of bank capital has not only aroused the suspicions of the bond markets but there are also deeper suspicions that many banks will trim their loan assets rather than raise new capital in order to comply with the new capital regulations – which hardly bodes well for supporting GDP growth. The stress tests carried out by the EU on leading European banks last July were, with hindsight, far too lax.

There are many European banks that today still extend loans well in excess of their deposits (which is not the case, it should be said, for banks here in Mauritius) and so rely on the wholesale money markets and debt capital markets for funding. This risky business model was ruthlessly exposed in the aftermath of the Lehman's bankruptcy in late 2008 when the debt capital and wholesale money markets ceased to function and central banks had to step in and recapitalize banks as well as recycle liquidity so as to restore order in financial markets.

The ECB therefore may have a huge, and some believe a perhaps impossible job, in front of it with some commentators believing that the securities purchase programme of the ECB may need to be extended from a volume of

Euro 70 billion to as much as Euro 1,000 billion if the bond markets and wholesale money markets dry up. What is also not being mentioned in official circles is, of course, the "great unmentionable" – can the Euro survive in its current form? Within the confine of the single currency, devaluation is not an option. It is hard also to see Euro zone member country bond defaults as option either – despite Germany's plans for post 2013 bondholder haircuts. Economic contraction and rising unemployment in Greece, Ireland, Portugal, Spain and Italy are already bringing back memories of the 1930's depression.

Germany never abolished the Deutschmark

It would seem in 2011 we will be much nearer to finding out whether the "deflation therapy" being increasingly imposed by Brussels on these countries within the confines of the Euro with its internal fixed exchange rate will be acceptable to their electorates, or whether a return to individual currencies and fiscal sovereignty will be required to get unemployment down. It should perhaps be remembered that, alone of the Euro zone countries that joined the Euro just over ten years ago, Germany never abolished the Deutschmark, but merely suspended it – storing all the notes and coins. It would certainly be a huge logistical exercise to reintroduce the currency – but not one beyond legendary Teutonic efficiency. Certainly the departure of Germany from the Euro zone – with the implication of a fall in value for the residual Euro – might be what is required eventually to get Europe back to work.

However, this is conjecture. What we know and would observe is that many countries in Europe are confronted with unsustainable fiscal deficits and rising sovereign debt levels, rigid labour markets, continuing high levels of unemployment, a fixed internal exchange rate within the eurozone and the relatively high Euro exchange rate against the US dollar. Little relief can be expected from the US as the Federal Reserve pursues a course of monetary expansion and the US Congress pursues a lax fiscal policy to solve the US' own unemployment problem.

All this can be expected to result in slow and low levels of eurozone GDP growth, and when this is accompanied by a slow recapitalisation of European banks against the backdrop of sceptical international bond markets and continuing austerity packages – the most likely outcome will be growing political unease and pressure to pursue a different course of action. Continuing international sovereign bond and foreign exchange market uncertainty in 2011 is thus to be expected. Mauritius is indeed fortunate not to be part of a wider currency union.

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Economic Freedom, Mauritius' launching pad

By Jean-François Minardi and Eric Ng Ping Cheun

Year after year, the worst economic performers in the *Economic Freedom of the World Annual Report* are developing nations and the top performers are developed countries. This year's report, however, provides a glimmer of hope as there are now two developing countries in the top ten nations: Chile and Mauritius (1).

For the very first time a Sub-Saharan African country is now the ninth freest economy in the world. Mauritius is a remarkable example of economic development induced by an increasing level of economic freedom over the last three decades. The country's economic freedom rating was 5.16 in 1980 and it is now 7.61 (Gwartney, Hall, and Lawson 2010: 106). When we consider the five components (2) of the economic freedom index since the 1970s, it is clear that Mauritius has improved its economic freedom essentially by reducing the size of its government (from a rating of 6.8 in 1970 to 8.4 in 2008) and by increasing its freedom to trade internationally (from a rating of 4 in 1970 to 7.4 in 2008) (Free the World.com 2010). This has allowed the small Indian Ocean Island to grow much faster than other developing nations. According to the World Bank's 2009 Country Classification, Mauritius is now considered an upper-middle-income economy – the last step before entering the exclusive, developed countries' club.

Why is economic freedom good for development?

The low level of economic freedom (3) in developing countries is a problem because numerous studies have shown that countries with more economic freedom grow more rapidly, and achieve higher levels of per capita income than those that are less free (Norton and Gwartney, 2008: 27). Economic freedom not only drives economic growth and prosperity, but also contributes to the emergence of civil liberties and political freedom, both of which are essential to human rights and liberal democracy (4) (Gwartney and Lawson, 2009: 22), (Al Ismaily et al., 2008: 13).

Although, as mentioned by Easterly (2006: 33), economic freedom seems well established as a path to prosperity, people like Dr. Jeffrey Sachs, the author of *The End of Poverty*, who played a key role in the UN Millennium Project (5), still argue for a significant increase in foreign aid (6) to help poor countries escape the "poverty trap" that he believes prevents poor nations from experiencing economic growth (Easterly, 2006: 33).

However, as Dr. William Easterly, Co-Director of the Development Research Institute, an independent and non-partisan organization doing research on the economic development and growth of poor countries, notes, Africa has received \$568 billion in aid over the past four decades, and the results have been far from impressive in terms of poverty reduction and economic development (2006: 34). As China has demonstrated over the past two decades – during which time 300 million Chinese people rose out of extreme poverty – raising economic growth by increasing economic freedom is a more efficient and successful way to reduce poverty in developing countries (Norton and Gwartney, 2008: 33).

This is why a higher level of economic freedom in developing countries that liberates people from dependence on government and allows them to make their own economic and political choices is so important.

A brief history of the Mauritian economy

Since its independence in 1968, Mauritius has developed from a low-income, agrarian economy dependent on sugar cane, to an upper-middle-income country that has carved out niches in the

textile industry, in tourism, and in financial services (Ng Ping Cheun, 2007: 1). This success can be attributed mainly to the strategies undertaken by successive governments over the past four decades to bring about economic diversification (7).

The development of an outward-looking export-oriented strategy in the 1970s, which was spearheaded by textiles and clothing manufacturing, has been a driving force in the take-off of the Mauritian economy (Dabee and Greenaway, 2001). Foreign investors were attracted by the provision of generous incentives such as tax holidays and duty-free imports of raw materials and equipment; free repatriation of capital (8); the availability of a cheap and docile workforce; a relatively stable political and social climate; and by the preferential trade access to European Union markets (9). In parallel to the development of the industrial Export Processing Zone (EPZ) (10), the national airline Air Mauritius expanded into new non-stop destinations in Europe, which contributed to boost the tourism industry in the 1980s (Mauritius 2010) (11).

In fact, much of the Mauritian economic growth has been driven by export performance. Exports, which totaled only Rs 1.8 billion in 1976, increased tenfold to Rs 18.1 billion in 1990. Annual real Gross Domestic Product (GDP) growth averaged 5.4% between 1976 and 1990, the main contributor being the EPZ sector, which grew at an average annual rate of 16% between 1976 and 1990, with a peak of 35% in 1986 (Mauritius b) (12).

The diversification strategy was expanded in the 1990s with the consolidation of the financial services sector into commercial banking, insurance and global business, and in the 2000s with the information and communication technology becoming a new economic sector. Over the period 1991 to 2010, the economy enjoyed an average annual real growth of 4.9% (13).

What explains the Mauritian success?

Because it lacks natural resources, Mauritius' prosperity is dependent on its people. James Meade, the 1977 Nobel Memorial Prize in Economic Sciences winner, lamented the island's ethnic diversity as a curse in 1961. However, it turns out that this very diversity creates useful linkages of international trade as well as important networks of foreign direct investment with the former colonial powers and with the countries of origin (Subramanian, 2009).

Mauritius has been a liberal democracy with a sophisticated and impartial legal system since its independence. Both the rule of law and respect for private property play a positive role in making the island an attractive investment location. Instead of nationalizing the sugar sector, guaranteeing the rights of the sugar owners who make up the economic elite has well served the Mauritian economy and contributed to its rapid expansion and diversification. Equally, a free and vibrant press and participatory politics ensure confrontation of ideas, warning of emerging problems and feedback on official decisions, thus bringing out the best in all stakeholders. All these institutions, along with the fillip of preferential trade agreements, have shaped Mauritius' economic performance (Subramanian and Roy, 2001).

There are, however, some limits to the Mauritius model. We note the great social inequalities within the population and also the government's interventionism in the economy. The policy of protecting domestic markets while providing incentives for export enterprises strains public finances (14). Furthermore, there exist non-tariff barriers in the form of a large bureaucracy and import licences on numerous products like circuit breakers and weighing scales. The government is also heavily involved in private companies

through majority shareholding. It has a stake in banking, insurance, telecommunication, commercial aviation, housing, real estate, restaurants, and entertainment activities. It also wields a monopoly on public utilities and casinos, and has a long arm through its State Investment Corporation, which holds investments in about ninety companies out of a total of more than 5,000 across all economic sectors (State Investment Corporation Ltd, 2010).

Conclusion

Since their independence, many developing countries have suffered from bad economic and political governance. However, Mauritius has shown that there is an alternative path towards relative economic prosperity, poverty reduction, and liberal democracy. Other developing countries should try to replicate this experience in order to create an institutional and policy environment that is conducive to the smooth operation of markets, the realization of gains from trade and entrepreneurial activities, (Gwartney and Lawson, 2004: 28) and that will enable economic and political freedom to flourish for the benefit of their citizens.

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Notes:

(1) In this year's index, the top ten nations are Hong Kong, Singapore, New Zealand, Switzerland, Chile, United States, Canada, Australia, Mauritius and the United Kingdom. The bottom ten nations are the Zimbabwe, Myanmar, Angola, Venezuela, the Republic of Congo, the Democratic Republic of Congo, the Central African Republic, Guinea-Bissau, Burundi, and Algeria. Chile appeared for the first time in the top ten in the 2008 index and ranked fifth this year (Gwartney, James D., Joshua C. Hall, and Robert Lawson, 2010: v).

(2) In the Economic Freedom of the World Report, economic freedom is measured in five areas: (1) size of government; (2) legal structure and security of property rights; (3) access to sound money; (4) freedom to trade internationally; and (5) regulation of credit, labour, and business. Economic freedom is measured on a scale of zero to 10 where a higher value indicates a higher level of economic freedom.

(3) According to James Gwartney and Robert Lawson (2009: 3), authors of the 2010 *Economic Freedom of the World* report, the key ingredients of economic freedom are personal choice, voluntary exchange coordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others. The report measures economic freedom in five areas: 1). size of government, 2) legal structure and security of property rights, 3) access to sound money, 4) freedom to trade internationally, and 5) regulation of credit, labour, and business. Economic freedom is measured on a scale of zero to ten where a higher value indicates a higher level of economic freedom.

(4) For Freedom House (2008): "Political rights enable people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state." Academic research has shown that economic freedom is a necessary, though not sufficient, condition for liberal democracy

(Berger, 1992: 11).

(5) The UN Millennium Project has been commissioned by the United Nations Secretary-General in 2002 to develop a concrete action plan to end poverty hunger and disease in the world.

(6) A system in which wealthy nations subsidize poor ones.

(7) The first attempt at economic diversification started in the 1960s with the implementation of an import-substitution strategy, an inward-looking strategy espousing the orthodoxy that prevailed at that time in African developing economies.

(8) Investors could freely repatriate their capital without being taxed on their gains or subject to capital control.

(9) Mauritius was allowed to sell an agreed quota of its sugar production to the EU at guaranteed prices under the Sugar Protocol, a trade instrument forming part of the Lomé Convention, and it benefited duty free and quota free access for its textile products to the EU and to the US markets under the Multi-Fibre Agreement.

(10) EPZ was a tax regime particular to a qualified group of exporting activities such as textile, clothing and jewellery. The qualified firms did not necessarily group themselves into a geographic zone but were scattered all over the island. They benefited from various fiscal and tax incentives contrary to domestic-oriented manufacturers. But since 2006 there is a single and uniform tax regime for the whole manufacturing sector.

(11) Tourist arrivals jumped from 115,080 in 1980 to 291,500 in 1990, representing an average annual growth of 10% and gross tourism earnings, which amounted to only Rs 0.36 billion in 1980, multiplied tenfold to Rs 3.5 billion in 1990.

(12) Mauritius Employers' Federation (1998)

(13) <http://www.gov.mu/portal/goc/cso/ei861/nat-acc.pdf>

(14) The State Trading Corporation, the state-owned commodity importer, controls imports of rice, flour, petroleum products and cement, and it even now purchases foreign exchange directly from the central bank rather than from commercial banks. For its part, the Agricultural Marketing Board controls imports of potatoes, onions, corn and some spices that compete with locally-grown produce.

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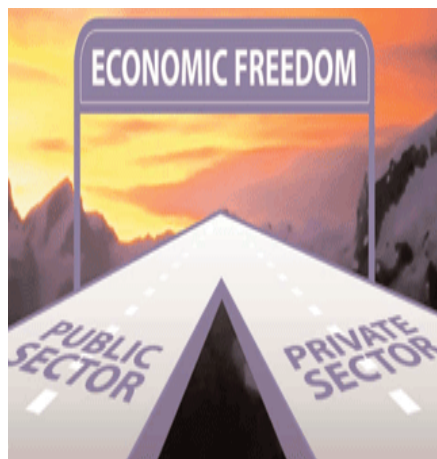
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Note: This article was published in the November-December 2010 issue of *Fraser Forum* and was written before the presentation of Mauritius' 2011 National Budget released on 19 November 2010. Some new fiscal measures that might be of concern with respect to economic freedom are: a) an individual with aggregate income of at least Rs 2 million is liable to a 10% tax on bank interest and dividends, b) capital gains from the sale of land and other immovable property are taxed at 15%.



Comment argumenter sur l'or

Par Valentin Petkantchin
(cont pg 6)

En dépit de la montée du prix de l'or depuis une dizaine d'années, son rôle économique est encore souvent mal compris et balayé du revers de la main. Lénine commettait déjà cette erreur lorsqu'il affirmait que « le jour viendrait où l'or couvrirait les murs et le sol des toilettes publiques ». Cette erreur consiste à ignorer que l'or possède intrinsèquement des qualités monétaires qui seront d'autant plus valorisées que les politiques monétaires actuelles mettent en danger les monnaies papier officielles. Au lieu d'être une relique, il est en réalité un précieux garde-fou contre le « barbarisme » des autorités monétaires !



Il est généralement reconnu que les sociétés actuelles sont basées sur une division du travail et une spécialisation poussées. Ce qu'on oublie, c'est que dans une telle économie mondialisée, les besoins monétaires des ménages et des entreprises – à savoir le fait de disposer d'un intermédiaire des échanges et d'une réserve de valeur stables – y occupent une place cruciale.

La montée du prix de l'or est directement liée au fait que pour répondre à ces besoins, le système monétaire et financier actuel, basé sur des monnaies papier, est largement défaillant. D'une part, en matière d'intermédiaire des échanges. Imposé initialement en 1944 par les accords de Bretton Woods, le système monétaire international a donné une place centrale au dollar. Celui-ci était en effet considéré « aussi bon que l'or » parce qu'il était la seule devise à garder un lien avec le métal jaune. L'or jouait ainsi toujours le rôle de « valve de sécurité » contre l'abus de création monétaire inflationniste par les autorités américaines.

Cependant, quand ces dernières firent tourner la « planche à billets » au cours des années 1960 pour financer la guerre au Vietnam et leurs programmes sociaux, le président des États-Unis, Richard Nixon, finit par annoncer en 1971 la suppression de la convertibilité en or du dollar. Au lieu d'arrêter la création inflationniste et de faire face à ses conséquences économiques (la devise américaine a perdu depuis près de 82% de son pouvoir d'achat !), les autorités américaines ont alors préféré à l'époque supprimer la seule « valve de sécurité » qui subsistait encore dans le système monétaire international !

Le système monétaire international est depuis exposé à la création inflationniste américaine et aussi aux différentes manipulations par les États de leur monnaie papier, à l'image de la Chine ces dernières années. Contrairement à la situation internationale sous l'étalon-or, ayant connu une stabilité monétaire au 19ème siècle, les acteurs économiques actuels doivent faire face à un risque important de taux de change entre les différents monnaies papier qui continuent pour le moment encore – du fait de l'intervention des États assurant leur cours légal – à servir d'intermédiaire d'échange, en dépit de leur perte continue de pouvoir d'achat.

Cette perte de valeur a, en revanche, rendu les monnaies papier complètement impropres à satisfaire les besoins de réserve de valeur des

Comment argumenter sur l'or

Par Valentin Petkantchin

(cont from pg 5)

ménages et des entreprises. Ceux-ci ont été *de facto* contraints par l'inflation et la perte du pouvoir d'achat de leur argent à recourir aux marchés financiers pour préserver leur patrimoine.

L'or est redevenu une valeur refuge

Cependant, comme l'expliquent les économistes de l'école autrichienne d'économie dans la lignée de Ludwig von Mises, Friedrich von Hayek et Murray Rothbard, l'inflation monétaire est aussi la cause des cycles de booms-krachs boursiers. Dans un tel environnement de bulles successives où la valorisation des différents actifs financiers est également distordue par l'inflation, l'or est naturellement redevenu une valeur refuge.

À chaque bulle, les autorités monétaires dans une véritable « fuite en avant » créent davantage d'inflation qui risque à terme de détruire le « capital-confiance » sur lequel repose l'existence-même des monnaies papier. À l'heure actuelle, cette création monétaire inflationniste porte le nom jargonnel de « quantitative easing », c'est-à-dire la création électronique à partir de rien de trillions de dollars par les banques centrales – la Fed en tête – pour financer la dette publique des États.

L'inflation – confondue généralement à tort avec l'augmentation des prix à la consommation – est ainsi *in fine* à l'origine de la montée du prix de l'or. Celle-ci est principalement liée à la capacité du métal jaune de préserver la valeur mieux que les monnaies papier et, notamment depuis le début des années 2000, les autres actifs financiers.

Mais si les autorités monétaires continuent dans cette même logique inflationniste, leurs politiques monétaires finiront tôt ou tard par mettre à mort l'existence même des monnaies papier, incapables alors de servir d'intermédiaire des échanges. Il y aura alors un besoin immense pour leur trouver un substitut. Il est fort à parier que l'or retrouvera spontanément, comme il l'a régulièrement fait dans l'histoire de la civilisation humaine, un rôle monétaire à jouer.

C'est alors que son prix en termes de monnaie papier sera véritablement propulsé dans la stratosphère, car venant satisfaire des besoins monétaires urgents à l'échelle mondiale. Au lieu de couvrir les murs des toilettes publiques, l'or est le garde-fou ultime contre les politiques monétaires « barbares » des États !

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L'avenir de l'euro se joue à Berlin

Par Jacques Garelo

L'avenir de l'euro ne s'est pas joué à Dublin, même si les États européens adhérents à la monnaie unique ont arrêté mardi les modalités de l'aide apportée aux Irlandais. En fait, Dublin n'aura été qu'une étape dans un processus de désagrégation de l'Union monétaire. D'autres sont à prévoir, parce que l'accumulation d'une dette publique insoutenable, effet et cause des déficits budgétaires, a mis une bonne moitié de l'Euroland dans l'obligation de trouver des fonds à des taux supportables.



La première idée avait été d'emprunter auprès de la Banque Centrale Européenne à un taux avantageux, au lieu de s'adresser au marché financier international, qui n'est pas tendre pour les mendiants ; par exemple l'Agence du Trésor Français est déjà priée de verser plus de 3% pour les emprunts qu'elle émet chaque jour. Mais la Banque Centrale n'a ni le droit ni les moyens financiers de porter secours aux États en détresse. Le droit, on s'en accommode, et Jean Claude Trichet a été pressé de violer les statuts de la BCE en sacrifiant la stabilité monétaire sur l'autel de la solidarité européenne.

Les moyens sont peu de choses, sauf à procéder à une inondation monétaire européenne qui balaierait l'euro de la scène monétaire mondiale. Quant au petit trésor de réserve constitué par le Fonds Européen de Stabilité Financière, voici ses 450 milliards déjà bien entamés après le sauvetage de l'Irlande, dont la dette est pourtant peu de chose par rapport à celle d'autres grands pays. Car le problème est bien celui des autres « grands pays ».

Je participais le week-end dernier à une réunion d'économistes et de financiers européens sur le sujet de l'avenir de l'euro, et j'en suis revenu presque certain d'une chose : c'est Berlin qui tient l'avenir de l'euro dans ses mains.

La plupart des commentateurs croient que Berlin, en la personne de Madame Angela Merkel, fait tout pour sauver l'euro. Il est vrai que, politiquement, la Chancelière sait que l'effondrement de l'euro sur le marché des changes signifierait aussi l'enterrement de l'Europe politique, dont elle demeure une fervente partisane. Elle a donc jusqu'à présent suivi ses partenaires, et notamment Nicolas Sarkozy, sur le thème de la solidarité entre Européens.

Mais, même sur ce terrain, elle a marqué sa différence, au point d'être accusée de mener une « politique d'austérité » de nature à compromettre ou retarder la reprise économique de l'Union. L'Allemagne était déjà allée moins loin que les autres dans la voie du « stimulus », et elle a restauré ses finances publiques un peu plus rapidement que la France. Elle est aujourd'hui rejointe par l'Angleterre qui met les bouchées doubles pour réformer profondément les mœurs sociales et financières du pays.

De nombreux observateurs pensent au contraire que, n'en déplaise à Angela Merkel, ou avec son approbation, Berlin fait tout pour sortir de l'euro. Avec l'Autriche, les Pays Scandinaves et la Hollande, l'Allemagne est le seul pays en mesure de payer ses dettes. N'a-t-elle pas intérêt à le faire, au lieu de s'épuiser à payer les dettes des autres ?

Un deutschemark sorti de l'euro laisserait la France, l'Espagne, l'Italie et les autres en devoir de se débrouiller avec leur dette, et de s'empêtrer dans des réformes de structure qui ne se font jamais. Les Allemands ne veulent pas être entraînés dans la chute des autres. A leurs yeux, l'Europe a été pendant trop longtemps un espace de redistribution, favorable aux gouvernements les plus irresponsables, dont ceux de la Grèce ont été exemplaires. Ils veulent en venir peut-être à une Europe de la responsabilité. Cela ferait plutôt du bien à tout le monde.

L'Allemagne quittera l'euro

Je peux vous assurer que l'affaire a mûri, et que l'an 2011 pourrait être celui de la disparition de l'Allemagne du paysage de l'Euroland. Je comprends bien la logique de Berlin. Mais quelle logique avons-nous à lui opposer ?

La flamme européenne est bien vacillante en France. Le nationalisme économique a fait une telle poussée que les relations avec Bruxelles se dégradent sans cesse. Le gouvernement français prend de l'Europe ce qui l'intéresse et ignore tout le reste. Ce mépris pour la démocratie européenne disqualifie la France pour plaider la solidarité en Europe. Je pense à la formule de Bastiat : « La fraternité ? Les avantages pour moi, et les charges pour les autres ». Ce qui est dans la logique française, c'est d'entraîner la Banque Centrale dans le refinancement des dettes souveraines, en clair c'est de proposer l'inflation comme moyen d'éteindre une grande partie de la dette.

C'est précisément ce dont Berlin ne voudra jamais. L'inflation, à juste titre, est une hantise pour les Allemands car, comme le rappelle Jean Yves Naudet, c'est toute l'histoire du IIIème Reich qui remonte à la surface. Ludwig Erhard a reconstruit l'économie allemande sur le socle de la stabilité monétaire. Les Allemands n'ont accepté Maastricht et l'Union monétaire qu'assortis de la rigueur monétaire et budgétaire, solennellement formulée dans le pacte de stabilisation et reprise dans le traité de Lisbonne. L'euro instrument de relance, l'euro déprécié pour éponger les dettes : ils n'en veulent pas.

Dans ces conditions, si aucune inflexion sensible ne se perçoit dans le comportement concret des gouvernements malades de la dette, y compris le gouvernement français, je suis persuadé que l'Allemagne quittera l'euro et reviendra au Deutschemark, qui sera la seule monnaie forte en Allemagne – car la monnaie forte n'effraie pas les Allemands, ils la préfèrent au contraire.

Cette éventualité peut-elle susciter une réaction salutaire notamment en France, en Espagne et en Italie ? La porte de la liberté et de la responsabilité est pour l'instant condamnée. Va-t-elle s'entrebâiller ?

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Spéculation sur la pluie et le beau temps

Par Jean-Yves Naudet

Faire la pluie et le beau temps, cela reste un rêve. Au sens figuré, car une vie est faite d'événements imprévus, mais aussi au sens propre : l'homme ne commande pas encore aux éléments. Or, dans la vie économique, les incertitudes climatiques peuvent compromettre les plus beaux projets. C'est dans cet esprit de protection contre les risques de mauvais temps que se développent actuellement les marchés à terme et, en particulier, des contrats à terme sur l'abondance des précipitations. Ce qui a priori pourrait passer pour une plaisanterie ou une futilité a en fait valeur pédagogique : nous pouvons mesurer tout ce que peut faire le marché, et l'utilité des procédures marchandes et de la spéculation, pourtant si décriées.

Le marché à terme : gestion des risques

Les marchés à terme existent depuis fort longtemps, essentiellement, au départ, sur les matières premières. Il semblerait qu'ils se soient développés à partir de Chicago, sur le prix du blé. L'incertitude sur l'évolution des prix est en effet un élément majeur, qui peut conduire une entreprise, ayant mal anticipé ces variations, à la faillite.

Certes la vie d'une entreprise comporte toujours de nombreux risques et beaucoup d'incertitudes. Leur gestion est l'affaire de l'entrepreneur et des actionnaires, même si le rôle essentiel du chef d'entreprise est l'innovation, et même si le profit n'est pas ni une prime de risque (comme l'a soutenu à tort Schumpeter) ni la rémunération du capital investi (comme le croyait Ricardo), mais bien la contrepartie d'un service spécifique, celui de repérer les besoins insatisfaits ou mal satisfaits et d'agir pour les combler.

C'est dans cette action que peuvent naître et l'erreur et l'incertitude. Il est donc normal que l'entreprise cherche à se protéger contre certains risques : c'est le principe même de l'assurance. Elle se protège contre le risque incendie, le risque d'accidents, de vol. C'est un problème classique d'assurance : les risques étant indépendants, les cotisations versées par de nombreux assurés permettant à un assureur d'indemniser celui qui a un sinistre.

En revanche, le risque de variation du prix, notamment des matières premières, est plus complexe à assurer, car si le prix monte, il monte pour tous, alors que toutes les usines ne brûlent pas en même temps. C'est pour protéger les entreprises contre le risque de variation des prix que l'on a inventé les marchés à terme ; ils n'ont donc pas été inventés par les spéculateurs, mais par les professionnels.

Une commande passée à l'avance, mais un contrat négociable

Prenons le cas d'un industriel qui a besoin d'une matière première (du chocolat ou du pétrole) pour des productions qu'il fera dans six mois ou un an, et pour fabriquer des produits (des chocolats fins par exemple ou un produit manufacturé nécessitant du pétrole) pour lesquels les clients (les centrales d'achat par exemple) lui passent commande des mois à l'avance : comment déterminer le prix, si on ignore le coût de la matière première au moment où l'on fabriquera ? Les entreprises peuvent alors acheter un contrat représentant une certaine quantité de matières premières

(chocolat ou pétrole), livrables à l'échéance voulue, auprès d'une bourse de marchandises. Pas question d'acheter le produit tout de suite (où le stocker, pourquoi immobiliser l'argent, que faire si le produit est périssable ?). Il suffit d'acheter un contrat : le prix est fixé sur-le-champ, la livraison théorique interviendra à la date voulue et la marchandise sera payée à ce moment, sur la base du prix fixé par le contrat.

Pourtant, le moment venu, on peut ne pas prendre livraison de la marchandise, pour diverses raisons (la marchandise ne correspond plus aux anticipations de l'entreprise). Alors on revendra le contrat et on se procurera la marchandise en l'achetant au comptant avec l'argent de la vente du contrat. Si le prix a monté, on paiera plus cher la marchandise, mais on vendra plus cher le contrat (puisque celui-ci reste lié au marché réel : on pourrait demander livraison) et la hausse du prix de vente du contrat compensera celle du produit au comptant. Si le prix baisse, on achètera moins cher le produit, mais on vendra moins cher le contrat : cela revient alors plus cher que si on n'avait pas acheté de contrat, mais c'est comme pour une assurance : si la maison ne brûle pas, on a perdu l'argent de la prime ; mais on s'assure au cas où elle brûlerait.

Le rôle du spéculateur

Les transactions sur les contrats à terme sont utiles à l'acheteur comme au vendeur. Ainsi des paysans américains vendent-ils du blé, du maïs, voire des œufs frais, à dix-huit mois, alors qu'ils n'ont pas encore planté ou que la poule n'est même pas née ! Cela permet aux agriculteurs de se libérer du souci du prix de vente, avec un procédé plus efficace et plus fiable que la garantie des prix agricoles par l'Etat ou quelque autorité publique (comme c'est le cas de la Politique Agricole Européenne), qui fera payer au contribuable la prime d'assurance. De même les pays exportateurs de matières premières ont-ils tout avantage à cette stabilisation par les marchés à terme.



Mais sur un marché il faut une contrepartie : si l'un achète, l'autre vend, et réciproquement. C'est là que l'on retrouve un personnage essentiel, mais décrié, qui assure le fonctionnement du marché en prenant à son compte le risque de variation des prix : c'est le spéculateur. Si un producteur veut se prémunir contre le risque de hausse des prix de ses fournitures, il le peut si un spéculateur fait le pari inverse du sien et espère une baisse du prix. Le spéculateur peut gagner ainsi beaucoup d'argent, s'il a bien anticipé, ou en perdre beaucoup, s'il s'est trompé. C'est ce qui m'avait conduit à affirmer que « soutenir que

les spéculateurs rendent un vrai service, ce n'est pas politiquement correct, mais c'est scientifiquement prouvé ». Cette formule avait été reprise sur une page de Wikilibéral à mon nom et elle m'est systématiquement ressortie, pour me la reprocher, dans toutes les rencontres avec des journalistes.

Elle est pourtant exacte. Les marchés à terme ne peuvent fonctionner que si certains assument le risque de variation des prix. Ils font cela parce qu'ils spéculent, c'est-à-dire, comme le disait Keynes, qu'il « savent mieux que le marché ce que réserve l'avenir ». Que peut-on leur reprocher ? Ils font cela pour gagner de l'argent ; mais votre assureur spéculé également sur le fait qu'il y ait plus ou moins d'événements fâcheux ; un épargnant spéculé sur la hausse future de ses actions ; un consommateur spéculé sur l'évolution des prix et il achète tout de suite s'il pense que ce sera plus cher demain. Dans la vie économique, nous sommes tous des spéculateurs, car la vie économique est faite d'incertitudes.

Qui paie l'assurance contre la pluie : le contribuable ou le spéculateur ?

On a donc étendu les marchés à terme à de nouveaux produits : les titres financiers, les monnaies (car elles flottent), mais aussi d'autres éléments. C'est ainsi qu'il y a déjà des contrats indexés sur les chutes de neige, le gel ou les ouragans, qui ne peuvent relever de l'assurance classique, puisqu'ils touchent tout le monde dans une région. Or c'est souvent essentiel : la saison d'une station de ski peut être gâchée par l'absence de chutes de neige.

D'où l'idée, qui n'est que le prolongement de ces contrats particuliers, de créer sur le Chicago Mercantile Exchange un marché à terme avec des contrats sur l'abondance des précipitations. Pour l'instant, il s'agit des chutes de pluies observées dans neuf villes américaines (New-York, Los Angeles, Chicago, Dallas, Des Moines, Detroit, Jacksonville, Portland et Raleigh-Durham). Plus il pleut, plus le contrat est cher. Ici encore, s'il y a spéculation, c'est pour résoudre des problèmes concrets : la pluie peut menacer un événement qui se déroule à l'extérieur, comme un concert géant, mais elle peut aussi avoir des répercussions sur les récoltes, les voyages, les chantiers de construction, la demande d'énergie. Avec le développement des éoliennes, pourquoi pas bientôt des contrats contre le vent ? Il s'agit donc pour des professionnels de se protéger aux moindres coûts contre une météo capricieuse, et la demande pour de tels contrats pourrait devenir forte.

Certains s'interrogent sur la moralité de ces opérations. Ils devraient se dire qu'elles évitent au contribuable d'avoir à payer la facture. Car la solution alternative est de se retourner vers l'Etat : est-il plus immoral de faire payer le contribuable ou le spéculateur et c'est leur droit le plus strict. En revanche, dans le cas de l'impôt, la marge de manœuvre est nulle : le contribuable doit payer ! Si un spéculateur veut bien assumer ce risque, qui s'en plaindrait ?

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