Getting back to tangible growth

Challenges

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EDITORIAL FROM DENIS KESSLER

In corporate accounts, goodwill appears on the assets side of the balance sheet. Goodwill very often corresponds to the difference between a company’s acquisition value and the real, tangible values found in its financial statement prior to its acquisition. Since the beginning of the crisis, goodwill is generally no longer considered on the market for company valuations. This confirms the saying that people only believe what they see, or more specifically, what they can “touch”. Presumed values have now disappeared. At the same time, and conversely, all off-balance sheet transactions such as sureties, guarantees or promises of all kinds, that are not directly recorded in the liabilities section, must now be identified and presented to the market.

This line of thinking can be seen on a political level. Throughout recent years, marked by very low growth rates, people have not seen much happening. This is a stark contrast to some Asian or South American countries which boast high growth leading to major activity, building sites everywhere, ports, buildings, factories, etc. Investment dominates most private and public decisions in these countries. Their growth can be seen on every street corner and the countries are constantly undergoing far-reaching changes. Economic growth there is based on a sort of pact which triggers a virtuous circle in which households save and companies and the State invest. Wealth is clearly left to grow before being distributed, and the promise of an improved personal financial situation in time, for our generation or subsequent ones, is given more importance than the need for immediate improvement through public redistribution policies. Yet growth must be steady and tangible. At a rate wavering between -1 and 2% per year, nothing can be seen, apart from the deterioration of public and corporate resources that the scant available means can no longer maintain.

Such growth pacts have existed on occasion in France’s history, particularly in the second half of the 19th century and the thirty-year post-war boom period. Conversely, whether we like it or not, for the last forty years, distribution has been favoured above accumulation, consumption above investment and welfare transfers above direct wages. The policy to reduce the working week, an economic heresy specific to France, is a prime example of this excessive leaning towards redistribution. The political and
social sphere has been extended and the redistribution machine has been working overtime while at the same time France’s growth has slowed, reaching such a low level that its fruits are no longer visible.

Usually, after a few years of acute redistribution, a more orthodox approach is favoured, as the slowdown of growth becomes palpable, visible and tangible. Unfortunately, the traditional safeguards have not been used as the State has let the government and social security deficits stack up by contracting heavy debt. The problem is that this government debt, which is recorded in the country’s liabilities, has long been invisible to people. As a collective issue, debt is intangible. Moreover, the State has undertaken many implicit commitments which have inflated its off-balance sheet transactions and which bear even more heavily on its liabilities in excess of the amount of government debt. Whether explicit or implicit, people do not feel affected by this, contrary to the Ricardian assumption that a country’s citizens cannot be fooled as they always see that debt will have to be repaid sooner or later through tax increases. In reality, people are generally short-sighted and have continued to spend beyond their means as if they would never have to pay their loans back. It was in fact the alarm bells sent by the rating agencies that uncovered the extent of France’s liabilities and that its assets had not increased proportionally. If they had, there would not be a problem. Most of France’s debt does not have tangible counterpart entries, as it has been used for unproductive expenses and past consumption.

What a rude awakening. We are much more heavily in debt and we have far fewer assets than we had thought. Those who claim that we can maintain a model favouring unbridled redistribution, or even improve it by increasing fiscal pressure, penalising savings and discouraging investments, are further postponing the return of visible growth, which is a necessary condition for the emergence of a productive and competitive pact ... the only way to create the resources to put behind us a pitiful past and to prepare a happy future.