

# *The French Banks, Inflation and the Economic Crisis, 1919-1939*

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In the notes given in Appendix the reader will find the sources and the documents used for this study. But I am particularly happy to have this opportunity of thanking the Secretariat of the *Conseil Général* of the Banque de France, whose help was quite priceless.

The present report represents an *essai d'approche*, a first attempt to study the relations between the banks and industry during the period under consideration.<sup>1</sup> Its very weakness reflects the current state of research in France, where access to the archives of the big banks and industrial firms is still very limited. Elements capable of throwing some light on the singular situation of the French banking system during the nineteen-thirties had therefore to be looked for in the economic and monetary context. Although the system had been weakened as compared with the pre-1914 period, it was but little affected by the economic crisis of the thirties, much less so than the banks of the other industrialized countries. It had been slightly retouched, but had suffered no reforms other than the purely juridical and political one of the Banque de France (July 1936).

<sup>1</sup> This report is a shortened version of a survey made at the *Institut d'Histoire économique et sociale* of Université de Paris I in 1978-1979 by Jean Bouvier, Jacques Rougerie and Patrick Verley. This survey is entitled "*Les banques commerciales et l'inflation en France, 1914-1976*" and was published in the Institute's Bulletins Nos. 5, 6 and 8 (mimeographed). It is due to be reprinted in *Revue Internationale d'Histoire de la Banque*, Éditeur: Professor D. De Marco, Naples).

## I THE COMMERCIAL BANKS AND THE CONSTRAINTS OF INFLATION

### A. Economic Difficulties between the Two Wars: Two Contrasting Decades

The year 1929 (or to be precise, sometimes also a little earlier, sometimes a little later, according to the particular economic variable to be considered) marks a watershed between two very different phases (the 'twenties and the 'thirties) in French economic history. The earlier of these phases was characterized both by postwar reconstruction and very rapid expansion (especially as far as industry was concerned), in analogy with what was later to happen between 1945 and 1973 ..... But this phase was very quickly followed by a "great depression" that lasted until 1939 and was distinguished from the experience of other countries by a peculiar feature: in France the crisis did not "come to an end" after the absolute contraction (investments, production, profits, prices, etc.) of the years 1930-1935. The road of growth was not resumed in 1936-1939. On the eve of the Second World War the overall level of the economy was well below what it had been in 1929-1930 and only barely matched the 1913 figures. A piston seizure, as it were, an engine that turns but does not pull, a lot of backfiring ..... When all is said and done, this is the context that was to determine also the banking deterioration characteristic of the period under consideration.

Let us briefly describe these two decades with the help of some figures that need only be glanced at to realize that they illustrate the passage from the fat years to the lean ones.

A comparison of the *structure of the active population* in 1913 and 1938 (see Table 1 below) shows that overall movements from one sector to another were taking place only very slowly during this period; indeed, these movements were to accelerate only after the Second World War, when they did so to the point of

Table 1. STRUCTURE OF THE ACTIVE POPULATION  
(in %)

	1913	1938
Agriculture	37.4	31.4
Industry	33.8	32.4
Services	28.8	36.3
	100.0	100.0

Source: CARRÉ, DUBOIS and MALINVAUD, *La croissance française* (Seuil, 1972), p. 126.

overwhelming French society. It is true that the interwar period witnessed an increase in the productivity of industrial labour, but with a marked slowdown during the 'thirties.

*Investments*, which represent a motor of growth, went up steeply to reach the peaks of 1930 and then contracted again. Nevertheless, as brought out by Table 2, one can note a very slight recovery after 1935, at least as far as plant and equipment is concerned.

Table 2. INVESTMENT PATTERNS 1913-1938  
(1913 = 100)

Year	Investments in plant and equipment	Investments in buildings and public works	Total investments	Investment rate (= total investments as % of GDP)
1913				16.8%
1922	102	65	79	13.9%
1930	184	135	153	20.8%
1935	114	85	96	14.7%
1938	123	75	93	13.4%

Source: CARRÉ, DUBOIS and MALINVAUD, *op. cit.*, p. 652.

It is particularly significant that the *investment rate*, i.e. total investment expressed as a percentage of the gross domestic product, was much smaller in 1938 than it had been in 1913.

The rate of industrial growth recorded during the nineteen-twenties simply represents an extension of the pace of growth achieved during the twenty old years preceding 1914, but this continuity was shattered from 1929 onwards (see Table 3).

Table 3. GROWTH RATES OF THE FRENCH ECONOMY 1896-1938  
(Average annual growths in %)

Period	Industry	All productive sectors	Productive sectors and nonproductive services
1896-1913	2.4	1.9	1.8
1913-1929	2.6	1.7	1.5
1929-1938	-1.1	-0.4	-0.3

Source: CARRÉ, DUBOIS and MALINVAUD, *op. cit.*, p. 32.

Industrial growth rates, of course, differ both in time and from one sector to another. As shown by Table 4, however, all of them clearly reflect the violent brake that was applied during the thirties.

Table 4. SOME EXAMPLES OF DIFFERENTIAL GROWTH RATES  
(Average annual growths in %)

	1913-1929	1929-1938
Textiles, clothing, leather	0.8	-1.4
Agricultural and food industries	2.1	0.3
Building and public works	1.4	-5.8
Chemical industry	7.5	0.9
Electricity, water	12.9	3.3
Engineering industries	4.4	-8.9

Source: CARRÉ, DUBOIS and MALINVAUD, *op. cit.*, pp. 45 and 48.

If we now turn our attention to *national income*, albeit only as reconstituted — for better or worse — by statisticians, we find (see Figure 1) that it provides a spectacular illustration of the bellow motion that the French economy underwent between the two periods of continuous growth before 1913 and after 1944.

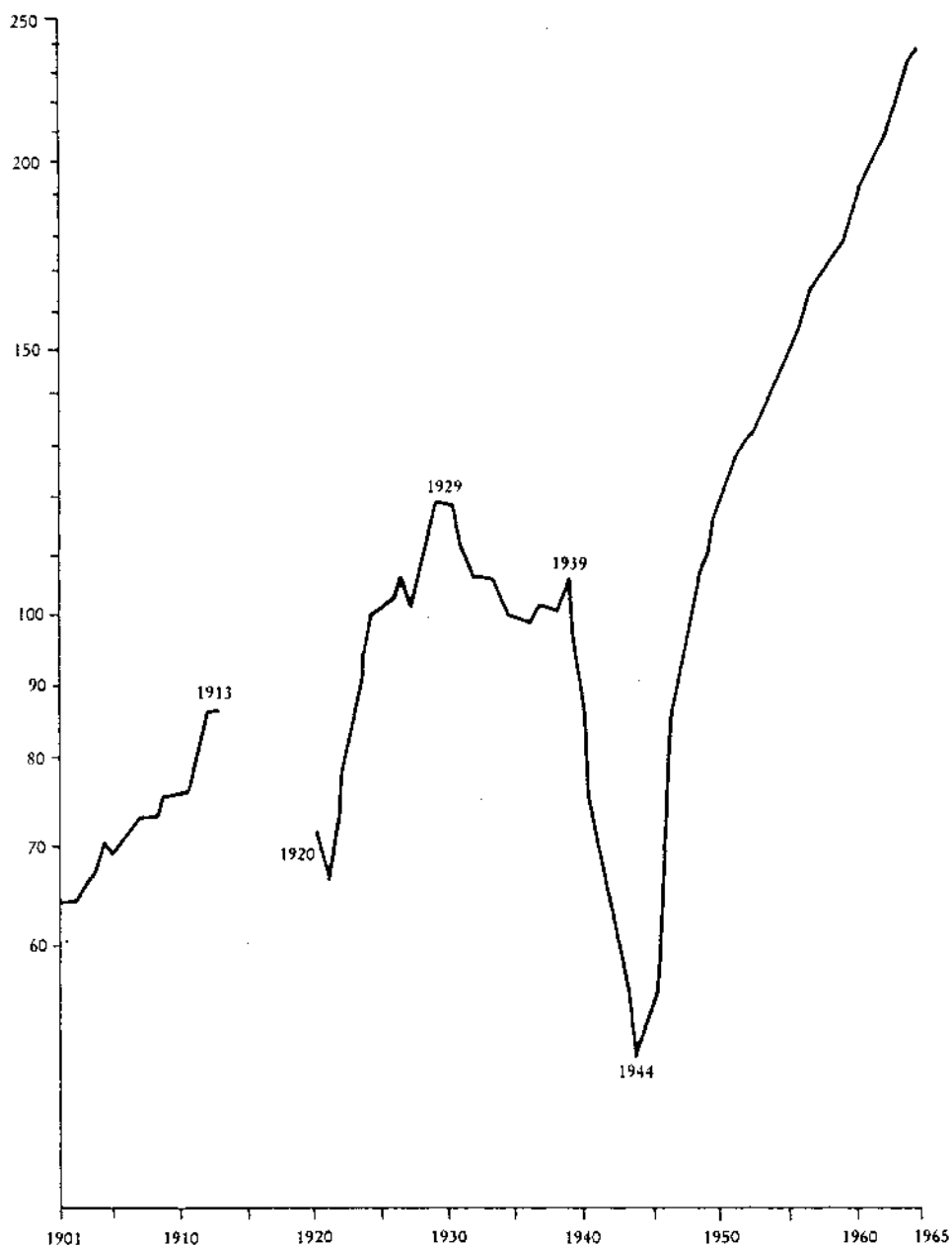
The *financial market*, of course, provides us with a record of both the speculation of the twenties and the discomfitures that followed, especially as far as “risk” capital was concerned:

Table 5. QUOTATIONS OF FRENCH STOCKS, 1913-1939  
(1938 = 100)

Year	QUOTATION OF	
	Ordinary shares	Fixed-interest stock
1922	57	97
1929	243	110
1935	89	108
1939	147	114

Source: *Annuaire Statistique de la France*, 1958.

Figure 1. FRENCH NATIONAL INCOME 1901-1965  
(In constant francs, 1938 = 100)



Sources: SAUVY Report to the Economic Council (March 1954) and "Reports on the national accounts", *Annuaire Statistique de la France*, 1966, p. 545.

*Inflation*, a child of the war years rather than the product of the increase in M1, was undoubtedly brought to a halt by the end of 1926 and subsequently even transformed into deflation during the crisis years from 1930 to 1935, but immediately afterwards it recommenced worse than before, as is well brought out by Table 6.

Table 6. WHOLESale PRICE INDEX OF "45 ARTICLES",  
1931 - AUGUST 1939  
(Annual averages, July 1914 = 100)

	1931	1934	January/ August 1938
45 articles	462	347	680
including			
29 national products	527	374	705
and			
16 imported products	344	299	637

Source: *Statistiques générales de la France* as quoted by ALFRED SAUVY in *Histoire économique de la France entre les deux guerres*, volume 2, (1967) pp. 494-495.

Inflation was the cause of the great debacle suffered by the *purchasing power of the franc*, a rout that the first monetary devaluation of 25 June 1928 acknowledged only after a considerable though not unintentional delay, for there had been great repugnance to admit monetary defeat after the military triumph.

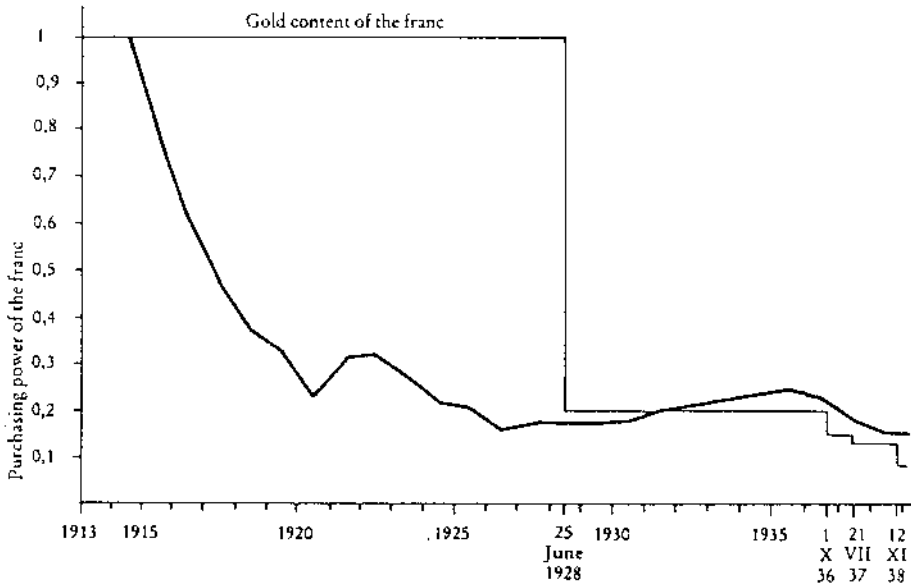
The deterioration of the structure of M1, which made itself felt both during the 'twenties (when it was driven ahead more strongly by notes and coin issued

Table 7. STRUCTURE OF M1 (in %), 1910-1939

	1910	1929	1939
Gold and silver	33	—	—
Notes and coin issued by the Banque de France	23	44.3	54
"Bank money"	44	55.7	46
	100	100.0	100

Source: I.N.S.E.E. monetary data.

Figure 2. GOLD CONTENT AND PURCHASING POWER OF THE FRANC, 1913-1938



by the Banque de France than by “bank money”) and in the 'thirties (which witnessed a relative recession of bank money for the first time since 1860, albeit with the exception of the war years 1914-1918), highlights and, when all is said and done, also clarifies the deterioration of banking during the period under consideration, an aspect we propose to analyse in greater detail a little further on.

Lastly, let us record a somewhat banal truth that was confirmed both by the 1914 war and the economic crisis of the nineteen-thirties, namely the fact that the state began its ever increasing “intervention” in the economy. The best way of bringing this out is to follow the evolution (see Table 8) of the *ratio* between expenditure and physical product, dividing the expenditure also into “connected expenditure” and “unconnected expenditure”, a distinction suggested by Louis Fontvieille.

Table 8. RATIO BETWEEN STATE EXPENDITURE AND  
PHYSICAL PRODUCT  
(in %), 1910-1938

Period	Total expenditure Physical product	"Connected" exp. Physical product (1)	"Unconnected" exp. Physical product (2)
1910-1913	14.1	7.0	7.1
1920-1924	29.2	13.9	15.3
1925-1929	15.1	8.8	6.3
1930-1934	30.8	15.9	14.9
1935-1938	35.9	17.9	18.0

(1) Expenditure directly connected with economic development: economic action, public works, interest paid on national debt, colonial expenditure, education, social action.

(2) National defence, general administration, foreign affairs, justice, police, prisons, religious expenditure, extraordinary expenditure.

Source: LOUIS FONTVEILLE, "Évolution et croissance de l'État français 1815-1969", in *Cahiers de P.I.S.M.E.A.*, Series A.F., No. 113, Volume X, Sept.-Dec. 1976.

It is quite true that all these different yardsticks only describe a situation without explaining it. Nevertheless, for the moment we can accept them simply as a kind of backcloth that will help us to see the subsequent monetary and banking "chronicle" in its proper setting.

#### B. Deterioration of Banking and Monetary Conditions

The inflation of the first part of the twentieth century, between one world war and the other, constituted an essential element in the deterioration of the working conditions of the French banks as compared with their "belle époque" about twenty years before the 1914 war. Inflation exerts a negative influence on banking operations whenever the balance sheet figures (on both the asset and the liability side) grow *more slowly* than the rate of inflation. This is what happened in France between 1914 and 1926 (inclusive), and also between 1936 and 1939 (inclusive). One thus notes a growth in the value of bank balance sheets, but these *values* are swollen by inflation and represent a contraction, a levelling out or a stabilization of the real *volumes*. Consequences: 1) During the inter-war period the volumes of bank assets (uses) in the form of credits, security issues and investments are either *below* what they were in 1913, and this was the case for the greater part of the time, or only *slightly above* their 1913 level. 2) During the same period the ratio between the value of bank balance sheets and national income, i.e. (bank data/national income), was generally smaller than it had been before 1914. These two phenomena are illustrated by Figures 3 and 4.

The interwar period thus produced a loosening of the links between the commercial banks and the economy, and this led to a reduction of the economic effectiveness of the French banks. The process of control being assumed by the banks (or *bancarisation* as we would say in France today) thus came to a halt in French society. This phenomenon, which was bound up with inflation, was accompanied by grave deteriorations in the functioning of the monetary mechanisms and that of the "agents" responsible for distributing money. We shall do no more than list these very briefly: 1) Deterioration of the structure of M1, characterized by a continuous increase (in both absolute and relative terms) of the notes issued by the central bank and relative stagnation of bank or "written" money. Between 1913 and 1939, indeed, bank notes issued by the Banque de France passed from 21% to 54%, while bank money receded from 45.0% to 43.4%. 2) Growth, acceleration and running amuck of all the sophisticated forms of foreign currency speculation. 3) Deterioration in the structure of the uses to which the central bank put its assets. The credits to the economy became less important (as a percentage of the total assets) than before 1914. In 1913 the loans made by the Banque de France to banks and companies ("discount") and to individuals ("advances against securities") represented 32.8% of the assets, but by 1938 they had shrunk to no more than 8.9%. Their maximum share during the interwar period amounted to no more than 17.9% (in 1924). 4) Alteration in the relationship between the commercial banks and the economy, and this not only as a result of the two mechanisms described above, but also because:

a. A considerable part of bank credit took the form of purchases of Treasury bills, and this accounted for a far larger proportion of the "portfolio" transactions than had been the case before 1914.

b. Discount credit to industrialists and traders increased much faster than credit in current account; but it is this latter that measures the degree of specifically industrial commitment of the banks.

c. The cash balance or reserves (*l'encaisse*) of the banks, a sterile use of funds, became far more substantial than before 1914, especially during the thirties, so that the "liquidity ratio" increased. In the case of the three largest commercial banks (Crédit Lyonnais, Société Générale, Comptoir d'Escompte), indeed, this ratio, which between 1900 and 1913 had fluctuated between 7 and 9%, never fell below 20% between the two wars and reached a record value of 38% in 1932, when the economic crisis was at its very height.<sup>2</sup>

<sup>2</sup> The liquidity ratio is defined as

$$\frac{\text{Cash reserves}}{\text{Non-overdrawn current accounts} + \text{"on call" deposits}}$$

Figure 3. DEPOSIT BANKS, 1913-1943  
RATIO: CREDIT/NATIONAL INCOME

Base: 1913 = 100

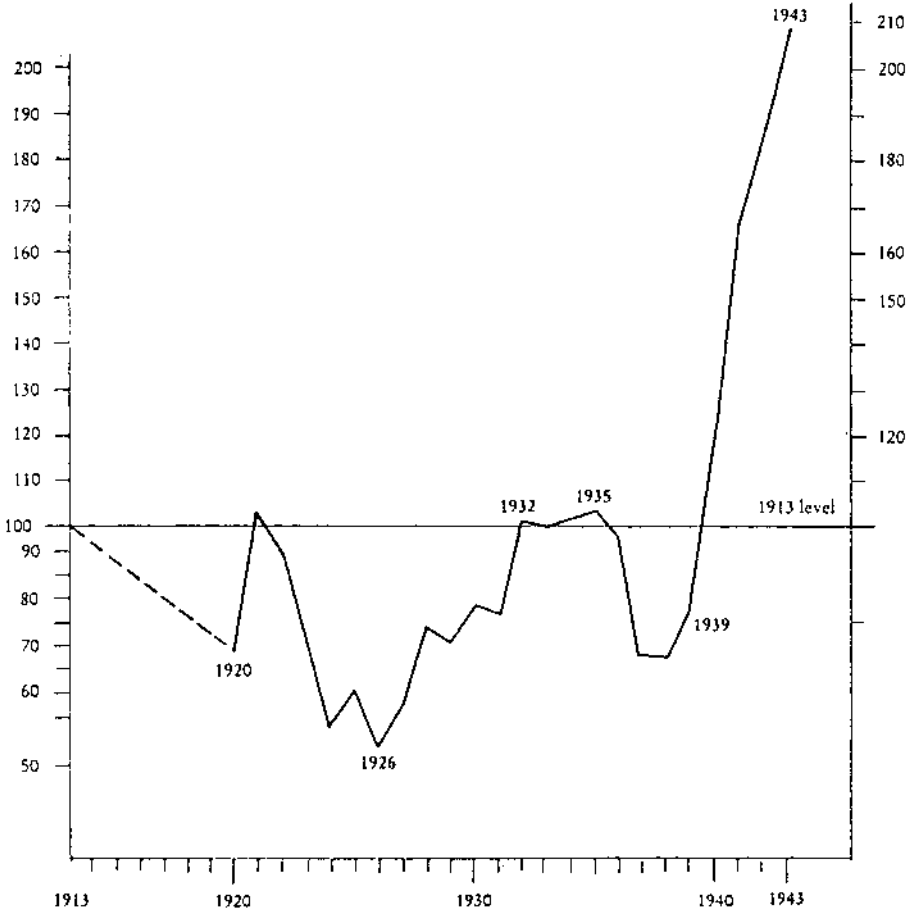
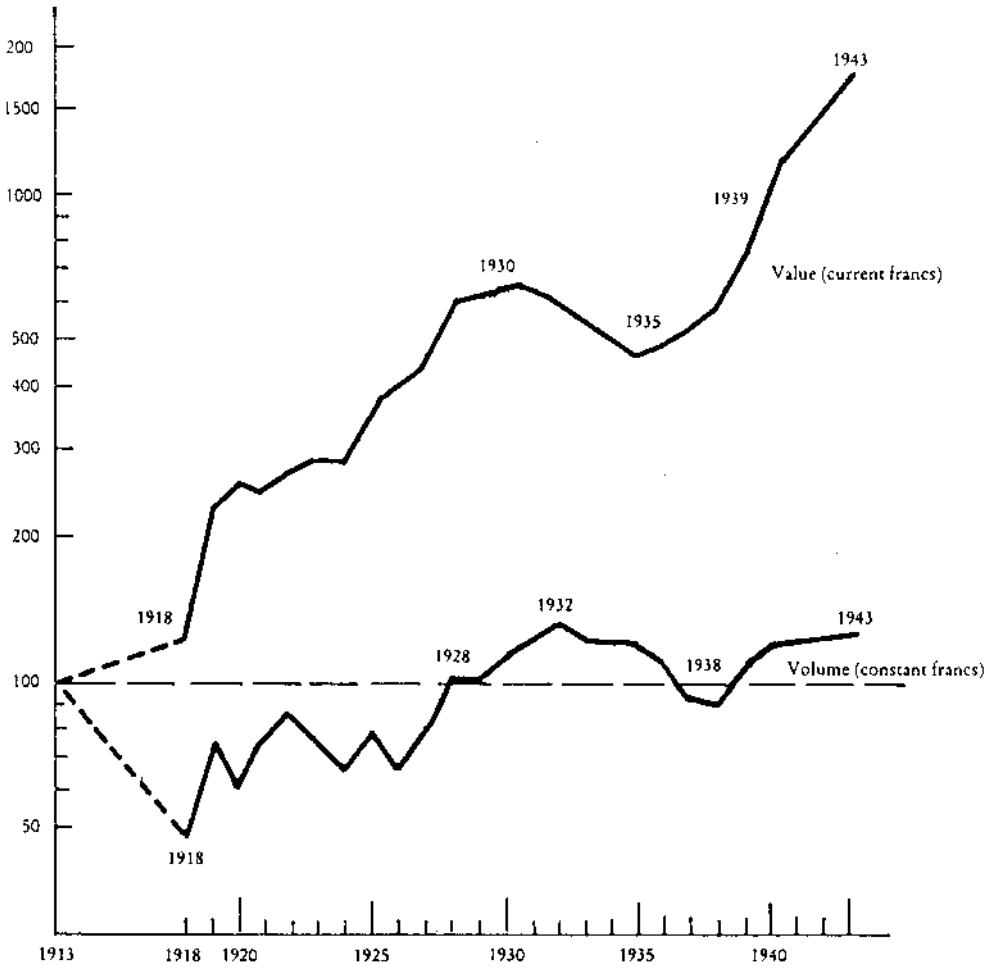


Figure 4. BALANCE SHEETS OF THE SIX BIG DEPOSIT BANKS 1913-1943

1913 = 100



d. The banks became more and more engaged in short term interbank lending and borrowing (*jour le jour*) in the national and international money market. The item "banks and correspondents", which to some extent reflects the trend of speculation in foreign currencies became far more important (in relative as well as absolute terms) on both the asset and the liability side of bank balance sheets than it had been before 1914. In the case of the "business banks" (Banque de Paris et des Pays-Bas, Banque de l'Union Parisienne), for example, this item had accounted for 3.8% of the assets in 1913, but rose to 8.5% in 1923, 20% in 1926-1930, and 23.5% in 1939.

e. Deterioration of the relations between the Banque de France and the big commercial banks. The central bank played a very poor part as "lender of last resort". On the one hand, as we have already seen, its discounts constituted only a very small part of its assets before 1914. But between the two wars the Banque de France expanded its "direct discounts" to commerce and industry. Its direct customers passed from 127,963 on 31 december 1913 to 344,500 on 31 December 1929. By December 1939 they amounted to about 400,000. In this field, therefore, the Banque began to compete more and more with the commercial banks. The latter complained publicly about this. But the bone of contention between the central bank and the big commercial banks kept growing. As regards "rediscounting" (*vis-à-vis* banks and bankers), where the "lender of last resort" plays his part to the full, this occupied only a very modest place in the discount portfolio of the Banque de France even during the crisis years 1930-1935. The Banque played this part more frequently for the regional and local banks, and at some moments even the business banks turned to it. But it played this part only to a *very small extent* and this, indeed, was a tradition as far as the big deposit banks were concerned. One notes that the latter preserved very considerable liquid reserves between 1930 and 1935 and therefore did not need the central bank. But the Banque de France during this period acted as *both* banker of last resort and as a commercial bank.

*Social Mechanism.* How can one explain, when all is said and done, this weakening of the links between the banks and the economy? If bank resources did not succeed in following the progress of inflation, this was also due to the fact that throughout this period some deeply rooted social behaviour patterns were acting to the detriment of banks and bank money. Although the use of bank instruments had made considerable progress during the last quarter of the nineteenth century, the real breakthrough that was to turn them into part and parcel of the daily practice of individuals proved slow and difficult, and even numerous small and medium-sized firms (especially in commerce) were loth to avail themselves of these facilities. The popular classes, the petite bourgeoisie, small enterprises, teachers, etc., made only very sparing use of bank instru-

ments. The banks became the victims of a veritable social allergy. The bank graft had not yet taken. People distrusted the banks. They could be dangerous, and in 1930-1932 had proved to be so. For centuries past, moreover, the "money handlers" had not enjoyed the esteem of a nation of peasants, artisans, and small shopkeepers. People were always afraid of the power that one "lent" them. The savings of the popular and lower middle classes therefore found their way into the saving banks (*caisses d'épargnes*). Especially during the crisis of the thirties. At that time the saving banks collected twice as much money as all the deposits of the four big banks. The big enterprises undoubtedly made use of the procedures and services of the banks. But they were *fully successful* in defending their independence, their freedom of decision, and it was a tradition for them to make use of very intense and effective self-financing. They thus grew as a result of accumulating their own capital. More generally, one may say that throughout the interwar period France was dominated by social values and ideologies that did not greatly favour rapid progress and penetration of the banks. The anticapitalism of the "right" and the anticapitalism of the "left" converged in execrating bankers. The greater part of public opinion was far removed from thinking that the interests of the banking enterprises coincided with "the general interest".

In their attempts to augment their resources in order to compensate the continuous erosion of their funds due to inflation, therefore, the French commercial banks, large or small, came face to face with obstacles that were essentially social, but also of ideological origin.

These are the facts, both old and new, and the general conditions that enable us to understand why the relations between the banks and industry suffered a period of deterioration between the two wars. In all truth, inflation had a far greater impact on the banks than the crisis of the thirties, for the former lasted far longer than the latter.

## II. *THE VICISSITUDES OF THE BANQUE DE FRANCE ASSETS*

### A. *Banking "Innovations" between the Two Wars*

The French banking system did not suffer a crisis as a result of the worldwide depression anywhere near as severe as the banking crises that shook the United States, Germany and Italy at the beginning of the thirties. This circumstance fully explains why the institutional changes and the reform decisions regarding banks and monetary policy in France were very limited in extent and introduced only very late, namely just before the Second World War. And yet

the substantial changes in the situation of prices and money, the existence of chronic monetary crises and tensions that shook the franc during the periods 1924-1928 and 1935-1939, the growing internationalization of banking operations during the twenties, the acuity of the problems of public finance and the State Treasury (reconstruction during the twenties, rearmament from 1935-1936 onwards), the more and more ambiguous relations between the Banque de France and the big commercial banks, the derouting of the operations of the commercial banks towards maintenance of the floating public debt and their relative aloofness as regards the financing of industry, the obscurity (from the research point of view) that still enshrouds the relations between banks and industry, the ups and downs (*coups d'accordéon*) in the structure of the assets of the Banque de France and the enormous weight (as compared with pre-1914) that came to be assumed by its gold reserves (during the thirties), its reserves in foreign currencies at the time of the Gold Exchange Standard (1927-1931) and its advances to the State (1918-1927 and 1936-1939), all these were novelties (if not innovations) as compared with the "belle époque" of the nineties and the first decade of the twentieth century.

We shall analyse these problems only to the extent to which they seem to us to be particularly relevant to our theme. First among them, however, let us examine the policy of the central bank.

### B. *The Upheavals in the Threefold Use of the Banque de France Assets*<sup>3</sup>

These are measured and brought out by Table 9 and Figure 5.

1. *Gold and Foreign Currency Reserve.* The variations of the reserve depended on two main factors, namely the situation of the balance of payments and the ups and downs in the amounts that the Banque de France advanced to the State. Very clear phenomena of substitution between reserves and advances to the State can be observed between 1913 and 1939. Advances constituted the main item of the central bank's employment of funds during the period 1918-1926. One could almost say that at that time the Banque de France acted as banker only to the State or, in the last resort, as the bank of postwar reconstruction, which was essentially financed by the different forms of public indebtedness. Advances to the State diminished sharply from 1927 onwards, and even the financing of rearmament (1935-1939) did not bring them back to their earlier

<sup>3</sup> Original title: *Les bouleversements dans les emplois tripartites de la Banque de France.* The term *emplois tripartites*, common to all the Romance tongues, is not easy to translate into English (it is here circumscribed rather than translated) and it is used with considerable ambiguity even in the original languages. So much so that the author at this point added the following note: *emplois* means assets. According to the present version of the Banque de France's internal vocabulary, the term refers exclusively to the use made of the Banque's own resource".

Table 9. STRUCTURE OF BANQUE DE FRANCE ASSETS, 1913-1939  
(in % of total assets)

	Gold and currency reserves %	Credit to enter- prises and indi- viduals % (1)	Advances to the State % (2)
1913	59,4	32,5	5,9
1918	16,9	9,5	61,8
1919	13,8	7,8	70,3
1920	12,8	13,1	69,2
1921	13,6	10,8	69,3
1922	14,1	10,6	69,2
1923	13,6	13,6	66,0
1924	12,8	17,9	61,3
1925	10,3	10,7	71,4
1926	9,6	10,8	68,4
1927	39,9	5,5	44,3
1928	77,3	8,0	11,0
1929	74,8	12,1	3,6
1930	77,2	10,9	3,2
1931	77,2	8,4	2,8
1932	79,7	5,2	3,0
1933	78,1	7,0	3,3
1934	79,5	6,6	3,1
1935	70,8	13,5	3,4
1936	58,8	12,0	18,3
1937	52,6	11,7	26,5
1938	61,3	8,9	21,4
1939	58,0	6,2	25,2

(1) Excluding "30-day advances" (1935-1939) and the "open market" (1938 and 1939), both of insignificant proportions.

(2) The balance needed to make up to 100% represents 30-day advances, the "open market", real estate, and "sundry" other items.

level. Reserves, on the other hand, made an enormous leap forward (1927-1928) and thereafter maintained a very high relative level right through to the breakout of war.

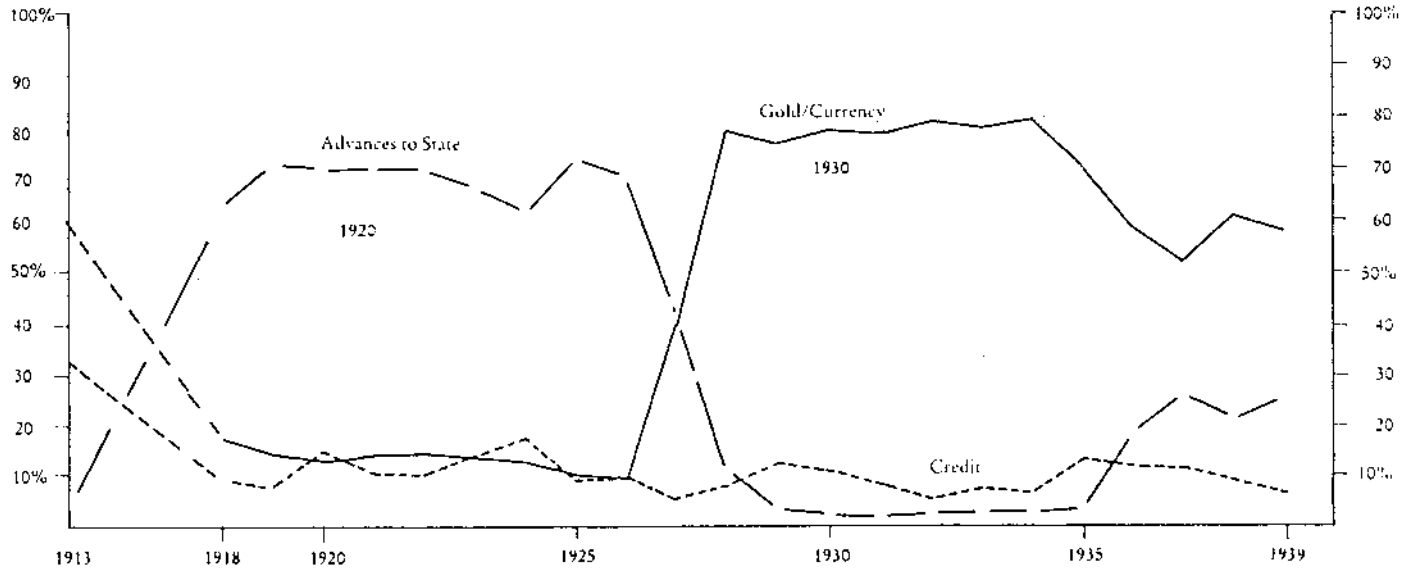
But the reserve also underwent a remarkable qualitative change. Between 1927 and 1931 the Banque de France was in a *Gold-Exchange Standard* regime, and this was a time when the stabilized franc (25 June 1928) attracted foreign capital to France, a process that was accompanied by the re-entry of domestic capital exported between 1921 and August 1926. The reserve was therefore of a hermaphrodite nature and consisted of gold and foreign currencies *as good as gold* that the Banque de France had bought on a massive scale in order to prevent an excessive revaluation of the franc: in 1928, for example, the gold reserve represented 38.1% of the assets of the central bank, and the foreign currency reserve (sterling and dollars) 39.2%. Reserves thus amounted to 77.3% of the total assets! But in 1932 (after the devaluation of the pound sterling) the foreign currency reserve dropped to 3.8% of the assets, while the gold reserve rose to 75.9%. Subsequently foreign currency completely disappeared from the reserve, which remained a snug "gold hoard" right through to the war, and this notwithstanding the fact that the outflow of capital resumed between the spring of 1935 and the autumn of 1938.

We shall do no more than recall four types of problems in connection with these contrasting variations of the reserves between one war and the next:

a) If the reserves are in some way related with the balance of payments, they are no less affected by the vicissitudes of speculation *against* the franc (1921-summer 1926; 1935-1938) and *for* the franc (summer 1926-spring 1928). Banks, companies and "rich capitalists" participated in this game, which was suggested to them either by expectations of a high rate of profit or by reactions of political "confidence" (under the government of Poincaré in 1926-1929) or of real social fear (1936-1937: the "Popular Front"). It is impossible to reconstitute the real history of foreign currency speculation (unrecorded operations), nor is it likely that this will prove possible in future. We shall therefore limit ourselves, by way of example, to quoting a single document in a footnote: the comments made by Emile Moreau, Governor of the Banque de France, to the meeting of shareholders in January 1929.<sup>4</sup>

<sup>4</sup> The following extract from the speech made by Governor Moreau to the A.G.M. in January 1929 may be quoted as a classic and reminds us that, in the short term at least (August 1926-June 1928), the devaluation of the franc and its return to gold convertibility (Bullion Standard) on 25 June 1928 were bound up with bullish speculation on the franc, which counted on its maximum revaluation: "The public powers (during the first half of 1928) found themselves face to face with the following ineluctable dilemma: they could surrender to the bullish speculation involving the franc and suppress or shift the barrier that our interventions in the exchange market since 23 December

Figure 5. STRUCTURE OF BANQUE DE FRANCE ASSETS, 1913-1939  
(in % of total assets)



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b) We shall not here endeavour to analyse the bitter quarrel that divided the Banque de France and the Bank of England between 1927 and 1932, a quarrel that is well brought out in Emile Moreau's *Souvenirs*,<sup>5</sup> at least as regards the years 1927 and 1928. When in the spring of 1928 the sterling holdings of the Banque de France were more or less equal to the gold reserves of the Bank of England, the former, as its Governor wrote quite rightly, "disposed of power that was far too great to be used". At the time of the sterling crisis in the summer of 1931, indeed, the Banque de France still had at its disposal the greater part of its sterling holdings. It had not liquidated its position by presenting its sterling in London for conversion into gold because, as Moreau declared before the *Conseil général* of the Banque, "it would not have been right for us to do so".<sup>6</sup>

c) The entries relating to gold and currency reserves in the balance sheets of the Banque de France become intelligible only after the devaluation of the franc (25 June 1928). Before that time the balance sheets made no distinction between gold and foreign currencies. Between February 1932 and May 1935, moreover, the Banque de France kept part of its gold reserve hidden from the public. The gold reserves not included in the figures published in the balance sheet reached a maximum of 3.7 billion francs in September 1933 (when the balance sheet amounted to 82 billion).<sup>7</sup>

d) The foreign currency possessed by the Banque de France between the end of 1926 and the beginning of 1932 was, of course, kept abroad in the form of bank deposits or used in the money market (discounts, Treasury bills; bank

1926 had opposed to these speculative attempts or, putting this into other words, allow speculation to obtain substantial profits at the expense of the country and thus to encourage it to keep on with its game in the hope of a continual and accentuated revaluation of our currency. Alternately, they could stop this speculation by legally fixing the value of the franc at more or less the exchange rate that it had maintained for the last eighteen months and re-establishing — as a result of the suppression of the forced circulation of notes — the regulatory function of imports and exports of gold. The first solution ran headlong into almost insurmountable difficulties and would have had the effect of dragging the country into an adventure whose full economic and social repercussions could not even be foreseen". One has to add here that "speculation" had been able to get off the leash, as it were, because the French authorities, together with business circles, economists, politicians and public opinion, hesitated to take this step for more than eighteen months: devaluation had been considered as a defeat and a dishonour.

<sup>5</sup> *Souvenirs d'un Gouverneur de la Banque de France; histoire de la stabilisation du franc, 1926-1928*, Paris, Génin, 1954.

<sup>6</sup> *Délibérations du Conseil général*, meeting of 22 September 1931 (Archives of the Banque de France). The devaluation of the pound sterling caused a loss of more than 2 million francs to the Banque de France, although the Treasury agreed to bear it.

<sup>7</sup> According to Maurice Neuter's (unpublished) work entitled "*Histoire de la Banque de France de 1919 à 1939*" (Ten typewritten fascicles, Paris, in possession of the author). The purpose was to smoothe out fluctuations in the reserves, but the form of this accountancy deception was rather curious: the Banque de France simply "entered" some *fictitious* gold sales to two big Paris banks.

acceptances), for the most part in London and New York. On 25 June 1928 (the only situation that is accurately known)<sup>8</sup> the total reserves amounted to 45.9 billion francs and of this total 23.7% were in gold, 42% in sterling, and 34.3% in dollars.

2. The *advances to the State* sustained public needs, first for reconstruction and later for rearmament. But these advances were really doubled by *indirect* loans, because the commercial banks, between 1919 and the end of the twenties and again between the beginning of 1935 and the outbreak of war, discounted Treasury bills on a massive scale and then had them rediscounted by the Banque de France. The Banque's classical attitude to money thus became tarnished. Undoubtedly, as the Governor reminded the shareholders in January 1932, "more than ever before, we must now ensure metallic backing for the franc, because this is the only basis that can support a currency .... Gold convertibility is a necessary discipline and not merely an outdated servitude". The "backing" was effectively assured by a comfortable reserve. But the State was far more heavily indebted vis-à-vis the *Banque* than was suggested by the mere (published) figures of the Banque's advances, and the reason for this was the mechanism of the Treasury bills, a mechanism operated by the central bank, the commercial banks and the State in perfect harmony and connivance.

3. *Credit to the economy*. This use of the Banque's funds was sacrificed. The "lender of last resort" had thus become less effective than before 1914. Between 1918 and 1939 there were only two occasions (in 1935 and 1936) when the *volume* of credit to the economy (rediscounts, direct discounts, and advances against securities) exceeded its 1913 level (see Figure 6). Matters were wholly analogous as far as the commercial banks were concerned.

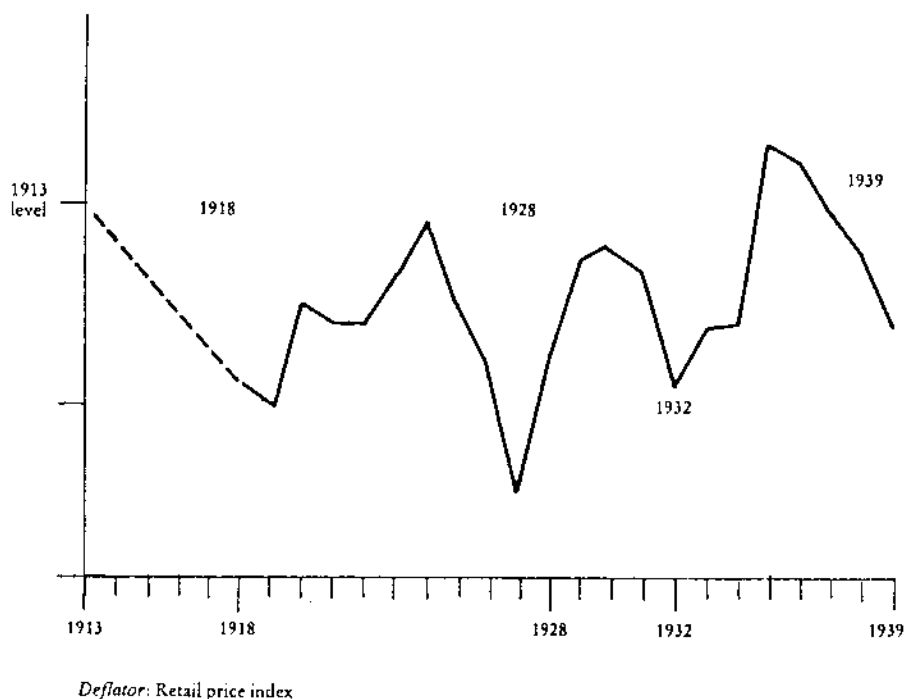
The loosening of the links between the economy and current credit business thus involved the credit institutes as a whole. This profound change as compared with the years 1890-1913 was the expression of an evolution that had become thoroughly unhealthy.

Table 10, although based only on a few leading figures, provides a good illustration of the structure of the credit that the Banque de France extended to the French economy between the two wars.

The discounts went to the benefit of enterprises, while the advances were made primarily to individuals. The available documentation does not permit one to distinguish the relative shares of direct discounting (which tended to increase) and rediscounting. But an explanation can be given as regards the cause of the fluctuation in the discount figures. When the Governor explained the variations in the discount totals on the occasion of the annual general

<sup>8</sup> *Ibid.*

Figure 6. VOLUME OF CREDIT TO THE ECONOMY DISTRIBUTED BY THE BANQUE DE FRANCE BETWEEN 1918 AND 1939 (in constant 1913 francs)



meeting of the shareholders, he was naturally led to put the stress on elements of the particular economic situation that seemed to be in contradiction with the fluctuation of the Banque's credits to the economy or affected the total either more or less intensely from one year to the next. As regards 1920, for example, the Governor explained that the increase in discounts (and in advances against securities and ingots) *at a time of crisis* was due to "the liberal policy" of the Banque. But at a *time of recovery* (the year 1922) he said that the increase in credit "bore witness to the economic take-off". In 1923, similarly, the further increase in credit was attributed "to a large extent ... to higher domestic prices and a greater volume of business". And the same in 1924, when "the upward trend in credit demand" continued to play its part. But bad times returned, and the increase of the discount portfolio in November and December 1930 was explained by "the influence of the (..bank..) crisis". This was undoubtedly an allusion to the growth of rediscounting. In 1932, when the portfolio of commercial bills shrunk again, this was said to be "due only to the crisis" and not to

Table 10. STRUCTURE OF BANQUE DE FRANCE CREDIT  
TO THE FRENCH ECONOMY, 1913-1938  
(in % of total assets)

	Discounts and rediscounts	Loans against inogots and securities	TOTAL
1913	21.7	11.0	32.8
1924 *	11.5	6.4	17.9
1929	9.4	2.7	12.1
1934	3.6	3.0	6.6
1938	6.4	2.5	8.9

\* Record year between the two wars.

“any restrictive measures” taken by the Banque. Credit demand on the Banque had been less heavy as a result of the build-up of business and “the extreme abundance of liquidity that characterized the market”. It was said quite clearly that the banks, in full “monetary ease”, “well funded as a result of abundant deposits” (and a downturn in discountable paper), had massively reduced their recourse to rediscounting by the central bank. This was essentially the reason why the Banque’s credit to the economy dropped in 1932, when the Banque “temporarily lost control of the market”. Nevertheless, direct discounting “diminished only very slightly”. The same situation continued in 1933, but we find the Governor making the following very informative remark: “Bank presentations for rediscounting are slowing down and provide a measure of market needs”.<sup>9</sup>

But the persistence of the crisis in France and widespread fears that the franc’s convertibility into gold might not be maintained<sup>10</sup> brought another mechanism into play between the end of 1933 and the end of 1938: the double effect of the build-up of reserves (in gold and bank notes) and the outflow of capital (including the withdrawal of foreign capital) brought in its wake a chronic state of “monetary tightness”; consequently, there was an upturn in

<sup>9</sup> Annual general meetings of shareholders.

<sup>10</sup> Following its devaluation in June 1928, the franc was once again convertible into gold (Gold Bullion Standard). It was to be declared inconvertible (as it had been between 1914 and June 1928) on the occasion of its second devaluation on 1 October 1936.

discount credit, but "unfortunately this did not correspond to an increase in economic activity".<sup>11</sup>

This provides some idea of the complexity of the elements that enable one to explain the ups and downs in the Banque de France's credit to the economy. The "portfolio" figures, moreover, also include a part in Treasury bills, but their total value is not known. All we do know is that on 26 June 1936, when the bill portfolio amounted to 21.2 billion francs, Treasury bills accounted for 13.8 billion, a figure that cannot be deduced from the published balance sheet.<sup>12</sup>

### C. *The Central Bank, the Economic Crisis and "Monetary Control"*

The Minutes of the General Council (*Délibérations du Conseil général*) permit one to get a better view of the trend of the Banque's credits to the economy during the crisis years, especially in 1930-1932.

It is a fact in any case that between November 1930 and March 1931 the Banque increased the help it gave to commercial banks and to its direct customers. Indeed, the *Délibérations* contain numerous indications of the opening of new credits, examples being those in favour of the Société Générale (31 July 1931), the Nancéienne de Crédit (4 December 1930), and the Banque Privée (11 December 1930); and those extended to *Worms et Cie* (ship chartering and outfitting), Humbert de Wendel (21 May 1931), Union financière pour l'industrie électrique ("Groupe Messine", 2 July 1931), Mines d'Anzin (30 July 1931), and the Paris diamond merchants (27 November 1930).<sup>13</sup> But also numerous loans in favour of medium-sized firms (the Paris cloth merchants, for example). In the autumn of 1931, when the overall crisis and the banking crisis were gaining new momentum, there was a clear increase in the *admissions en compte-courant*. The following indication is found against the date 5 October 1931: "The regional banks are urging more and more substantial discount facilities". This was a time when the Banque could sift the good wheat from the chaff. From 10 November 1931 onwards a new heading appeared in our source: "Extension of credits".<sup>14</sup> Here, therefore, the Banque de France was playing its part as "lender of last resort" through the increase in its rediscounting.

The first and only "photography" (in March 1932) of the "portfolios of Paris and the branch offices",<sup>15</sup> a long study of the "commercial" commitments

<sup>11</sup> The Governors's address to the shareholder, January 1935.

<sup>12</sup> *Ibid.*, January 1937.

<sup>13</sup> The diamond merchants issued paper for a total of 650 million francs, of which the Banque absorbed as much as 150 million.

<sup>14</sup> The well-known firm Chocolat Menier saw its credit increase from 1.2 to 10 million francs (17 December 1931).

<sup>15</sup> *Rapport sur l'examen des portefeuilles* by Félix Vernes, one of the Banque's régents (*Délibérations*, 17 March 1932, pp. 192-228).

of the bank of issue at that date, was due to the persistence of the economic crisis and the dearth of business. On 1 March 1932 the - so-called "commercial portfolio" of the Banque (4.2 billion) was below its level of 1 October 1930, on the eve of the first banking crisis (4.685 billion); this was due to both the selectivity with which the Banque granted its credit and aid, and the general lack of "discountable material". The 4.2 billion were made up as follows: 1.083 came from operations of the Paris headquarters, 0.389 from other offices of Paris and the Seine department, and 2.728 from provincial branch offices.

It should be noted that in the *very short term* (counting in weeks) the two waves of the banking crisis (October 1930-January 1931, and September 1931) had brought in their wake a sharp increase of the portfolio. But each time the reflux of Banque de France credits had been rapid and no less ample. The 2.5 billion increase of the portfolio in September 1931 (from 4.198 to 6.724 billion) had been caused to a large extent by a 1 billion "growth in the commitments of the Banque Nationale de Crédit" (the Vincent Group).

The Felix Vernes Report attributed the return of the portfolio (in March 1932) to a level lower than that of October 1930 to a variety of mechanisms: selective and restrictive discount policy of the commercial banks themselves,<sup>16</sup> failure of banks that were big discount customers, e.g. the Banque d'Alsace-Lorraine, the Banque Privée and the Comptoir Lyon-Alemand, and the (remarkable) retreat of the "principal credit companies", who were no longer anxious to rediscount<sup>17</sup> as a result of the recession of their own credit operations (crisis of transactions, and restrictive policy of these banks) and therefore maintained very substantial deposits at the Banque in current account, which excluded all utilization of rediscount". Finally, last mechanism, "acceptance paper was in marked regression":<sup>18</sup> end of the hopes, dating back to 1928-1929 but perhaps a little unreasonable, of seeing Paris overtake London as a great international monetary market.<sup>19</sup>

It seems that in 1930-1932 the commercial portfolio had not receded further thanks to "the intensified rediscounting of the regional and local banks" and "the constant growth of direct discounting" in the provinces. If we have not

<sup>16</sup> The banks applied "restrictions" to the "acceptance of bills whose commercial character was not clearly established, and this as regards both "papiers financier" and "papier des filiales". But it was pointed out that certain branches (cotton spinning, diamond merchants) enjoyed the benefit of "renewed bills being kept in circulation".

<sup>17</sup> Their highest rediscounting figure reached "more than 2 billion" in 1929; by March 1932 this figure had reduced to 15.7 million francs.

<sup>18</sup> 127 million francs on 1 March 1932 as compared with 969 million at the end of December 1929.

<sup>19</sup> At that time the Banque had joined the big Paris banking houses in setting up the Banque Française d'Acceptations.

committed any mistakes in our reading of the report or become confused in some respects, direct discounts accounted for 1.4 billion in March 1932 out of a total portfolio of 4.2 billion, i.e. one third. This considerable proportion suggests that there was some reason for the irritation that the big credit establishments felt vis-à-vis the Banque de France, their eminent competitor. Out of this total of 1.4 billion as much as 1.083 billion came from the provincial branch offices of the Banque. This included a substantial (but not quantifiable) part in the form of agricultural paper, especially *crédits d'embouche* ("Farmers consider it a point of honour to settle their commitments very punctually").<sup>20</sup>

Vis-à-vis the regional and local banks, which were badly affected by the autumn of 1931 (especially in South-East France), the Banque "accorded the most liberal help to all the houses whose situation was healthy".<sup>21</sup> But some ancient and renowned houses (Veuve Guérin at Lyon, Charpenay at Grenoble, etc.) were classed among the irrecuperable ones. The "imprudent management" of the latter prevented the Banque from going beyond the 13.5 million of "mobilizations of overdrafts" that it had accorded for 1931. On 1 March 1932 the provincial discounts represented 1.2 billion out of a total of 2.7 billion of credits opened by the branches.

One must also note the heterogeneous nature of the "paper" contained in the Banque's "portfolio". The purely "commercial" papers constituted 45% of the total of the Paris Headquarters, but 65% of that of the provincial offices. In Paris the money was supplied by bank acceptances, by *papier de campagne*, by *papier de mobilisation*, by *papier diamantaire*, and in the provinces by *papier d'embouche*, by *papier de campagne*, by *mobilisations de banque*. Headings such as this could be used to accommodate veritable "sleeping partner" processes, although the procedure of simply renewing commercial discounts at the time of their expiry (another long-standing practice in France) could have taken their place. But the Banque de France (and also the banks) were really anxious to find this type of investment during the thirties.

The situation of the best known Paris banks vis-à-vis the Banque highlights the withdrawal of the big deposit banks, all blessed with considerable "liquidity", but also the extensive recourse that certain business banks (experiencing difficulties in this field) were having to rediscounting. At the Headquarters of the Banque de France, for example, the Crédit Lyonnais was a debtor for no more than 277,000 francs, the Société générale for 37,000 francs, altogether insignificant sums. At that time, however, the Banque de Paris et des Pays Bas owed 2,900,000 francs, the Banque des Pays du Nord 9,871,000 francs (the

<sup>20</sup> *Délibérations*, 17 March 1932, p. 202.

<sup>21</sup> *Délibérations*, 17 March 1932.

highest figure), Worms et Cie 7,222,000 francs, etc. But even these figures seem small as compared with the 257 million of the Banque Nationale de Crédit, or the 391 million of the Banque de l'Union Parisienne.

But we must not forget that these figures refer only to one specific day, namely 1 March 1932. They therefore represent a "snapshot" of a particular moment.

The economic crisis and the peculiar situation of the four big deposit banks (which at that time centralized more than 50% of the total bank money) made the Banque de France realize that it had to play its part as "guardian of the currency" in a new manner. In January 1929 Governor Moreau had said to his shareholders that "monetary control was one of the essential duties of the Banque de France". As it had been understood in the classical manner, this "control" meant no more than that the *Banque* could exert an effective influence on interest rates thanks to variations of its own discount rate. But the effectiveness of "bank rate" policy (a policy that all the central banks had learnt from the Bank of England during the nineteenth century) had diminished in 1928-1929 and this process was to become even more pronounced once the crisis had assumed its full dimensions. As we have already seen, the big deposit banks at that time found themselves in a situation of superliquidity and had no difficulty in refinancing themselves in the market *hors Banque*,<sup>22</sup> i.e. the domestic and international money market: it was easy to do this until 1932 as a result of the return and entry of capital, and continued to be easy between 1932 and 1936 in view of the slowdown of business in France and the downturn (in absolute terms) of the credit accorded by the commercial banks. And therefore Moreau declared to the shareholders: "The Banque de France is losing control of the market" (January 1929).

Moreover, the Banque's will to guide the distribution of credit to the economy only through variations of its own discount rates clashed with the fact that the big commercial banks to all effective purposes constituted a cartel. On at least two occasions (in 1925 and in 1939), according to Maurice Netter's work, there had been an "understanding" between the commercial banks, who forsook the spirit of competition and fixed *minimum* interest rates to be charged to their customers. If the Banque de France lowered its own interest rates, the commercial banks simply did not grant a corresponding decrease to their own customers. This was their answer to the activities of the Banque de France in the field of direct discounting. But, if we may quote the words Governor Fourier used during a meeting of the *Conseil général* of the Banque de France in

<sup>22</sup> That is to say, *hors Banque de France*.

1937, the central bank did not want to abandon its "privileged position in the matter of interest rates".<sup>23</sup>

The positions of the Banque de France and the big commercial banks thus remained conflictual and adjustment proved difficult. The problem of a reform of the distribution and the conditions of credit had reared its head. But it did not prove possible to carry out this reform before the outbreak of the Second World War.

### III. WHY REFORM OF CREDIT POLICY PROVED IMPOSSIBLE DURING THE NINETEEN-THIRTIES

#### A. Banks and Industry During the Crisis

It is quite easy to dissert about the relations between banks and industry when one is concerned with political economy rather than with the history of the enterprises themselves, for by far the greater part of the archives of the French commercial banks relating to the interwar period is still beyond the reach of the historian. Moreover, we are here concerned not so much with mechanisms as with contacts, liaisons and powers that link the two types of enterprises, and these vary greatly from one case to another, they are not easy to grasp in their reality, and even their form and intensity tends to vary according to the particular economic situation. Further, banking logic does not readily adjust to industrial logic, and the two types of enterprises can therefore pass quite rapidly from understanding to confrontation, from solidarity to breaking point. In connection with these introductory remarks let us also recall

- that among French industrialists the desire (and indeed the effective will) to be independent of the banks represented a tradition and a constant feature, and further;
- that inflation, as we have already seen, had weakened the banks' capacity for industrial intervention, especially as it had offered them new opportunities of non-industrial operations (the State's floating debt, and the international money market).

For this, too, formed part of the overall context.

#### 1. A Mild Banking Crisis

The situation of the banking system was undoubtedly far from good during the thirties. But the system was never really in danger. The fact is that even

<sup>23</sup> *Délibérations*, meeting of 2 September 1937.

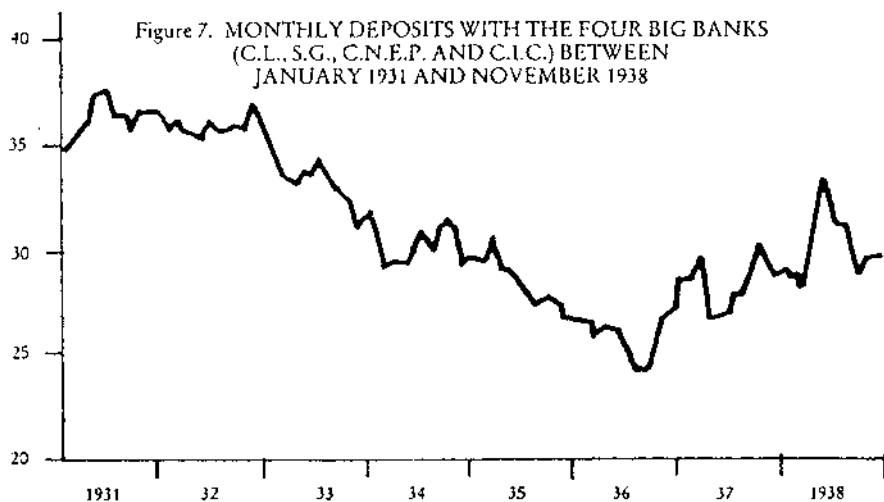
though the banking crisis of 1930-32 was violent when compared with those of the nineteenth century (1848, 1867, 1882, and 1891), it remained far milder than those experienced by the other great capitalist countries during the world crisis. Hence there was less need for and also less consciousness of reforms and necessary public interventions to safeguard the system. The two peaks of the banking crisis (end of 1930, end of 1931) never imperilled the oldest and the biggest of the banking establishments (the four *établissements de crédit* and the Banque de Paris et des Pays-Bas). Only one important bank, the Banque Nationale de Crédit (the outsider of the nineteen-twenties and the sixth-largest according to the value of the annual balance sheet), disappeared after two runs of its depositors. Its leading spirit, Vincent, had built up a financial group that was not in itself a structure founded on sand (it combined banks and industrial companies, including the old and honourable Acéries de Firminy). The B.N.C. closed its doors after a classical immobilization process had swallowed its liquid funds (the deposits payable on demand), which had passed along the chain of the group's associated companies. There was also one important regional bank, the Banque d'Alsace-Lorraine, that disappeared. In these two cases the State spent several billion francs in reimbursing the depositors, this in keeping with a very new style of "socialization of losses" in which links between people and political considerations played a prominent part. The second-largest of the business banks, the Banque de l'Union Parisienne, suffered some very serious losses as a result of its industrial and banking interest in the Danube countries (especially Hungary) and the monetary and banking crises of this particularly sensitive part of Europe. It vacillated for a time, but then got on its feet again (albeit only after having changed its team of executives). The 276 failures (and liquidations ordered by the courts) of joint-stock banks and the far more numerous disappearances of bankers (in "personal partnerships") affected the mass of small professional bankers in the provinces and just a few local and regional houses of long standing that had preserved a certain reputation: the Banque Adam at Boulogne-sur-Mer, the Banque Renauld at Nancy, Charpenay at Grenoble, and Veuve Guérin at Lyon.

But the banking structure as a whole emerged from the crisis in a "healthier" and more concentrated state. What was really called into question was its "brand" image. The crisis had weakened the reliability of the system, and at the level of public opinion it had become vulnerable to the sharp criticisms that were forthcoming, especially from industrial and commercial circles, criticisms that were to make it *even* easier to push through the reform of the Banque de France in 1936, and subsequently the nationalizations of 1945.

The figures contained in the graphs and tables here reproduced (Figure 7 and Tables 11 and 12) illustrate the dimension of the crisis in terms of deposits,

principal lending categories, and rates of interest received. In all cases it can be seen that by 1938 the banks had not yet recovered their 1929 position (not even in nominal terms).<sup>24</sup>

What was the relative solidity of the big banks due to? In the absence of historical studies based on bank archives one can only formulate hypotheses. There was undoubtedly a striking difference between the position of the banks in France and in other West European countries at the beginning of the thirties: between mid-1926 and the first half of 1933 the *hot money* tended to flow towards Paris, towards the stable franc, towards a country where the economic crisis was relatively limited (as compared with elsewhere). The gold reserve of the Banque de France, as we know, fattened as a result of the successive crises of other leading currencies. This was undoubtedly the bulwark of resistance that hid from the eyes of contemporaries (and still hides from those of historians) the early beginnings of the domestic economic difficulties, which date back to 1929. When one looks at the graphs of the deposits of the four big banks, one is struck by their stability in 1931 and 1932. Their level of January 1931 (34.8 billion) kept rising until June (37.7 billion). For the next ten months it fluctuated above 35 billion. The downward slide did not really commence until December 1932 and then continued until the nadir of August 1936 (24.2 billion).<sup>25</sup> Among the



Source: Crédit Lyonnais, Financial Research Dept.

<sup>24</sup> JEAN BOUVIER, "Les banques françaises dans l'entre deux guerres", in F. BRAUDEL and E. LABROUSSE, *Histoire économique et sociale de la France*, PUF, Paris, 1980, Tome IV, Volume 2, pp. 711-713.

<sup>25</sup> According to a survey made by Crédit Lyonnais and reported in J. BOUVIER, "Dépôts d'épargne et monnaie de banque en France de 1931 à 1938", *Rivista Internazionale di Storia della Banca*, No.3, 1970 (Droz, Geneva), pp. 351-356.

Table 11. PRINCIPAL ASSETS OF THE BIG COMMERCIAL BANKS  
(DEPOSIT AND BUSINESS BANKS) BETWEEN 1920 AND 1938  
(in billions of current francs)

	Portfolio of private and public bills	Overdrawn current accounts	Secured loans and contango loans	Total
1920	12.6	4.5	1.4	18.5
1929	27.5	13.5	3.3	44.3
1935	19.6	9.6	1.8	31.0
1938	27.6	8.3	1.6	37.5

Source: Teneul.

Table 12. THE BANKS IN EASY AND DIFFICULT TIMES:  
AVERAGE RATES OF INTEREST EARNED BY THE  
ASSETS OF THE BANQUE DE PARIS ET DES  
PAYS-BAS BETWEEN 1924 AND 1934

	1924	1925	1926	1927
Commercial portfolio- Authorized overdrafts and advances	6.77	7.15	6.75	5.34
Contango loans and similar	7.52	7.37	9.89	9.22
	5.75	5.30	8.80	4.06
	1928	1929	1930	1931
Commercial portfolio Authorized overdrafts and advances	3.27	4.16	3.69	2.87
Contango loans and similar	5.40	6.54	4.81	5.00
	5.50	4.55	2.00	0.33
	1932	1933	1934	
Commercial portfolio Authorized overdrafts and advances	3.61	2.96	3.35	
Contango loans and similar	4.60	3.49	5.50	
	2.11	1.29	2.20	

Source: Data kindly supplied to the author by the Banque de Paris et des Pays-Bas.

causes of this drop of deposits were the poor balance of payments, the reflux of foreign capital, the flight of certain national capitals, private hoarding (of gold and bank notes of large denomination), a gradually growing lack of confidence in the franc, and fears of a new devaluation. But the slide was slow, the anemia insidious and gradual. There was no drama, no whirlwind.

Furthermore, one might say that the crisis resistance of the big banks was proportional to their relative disengagement from operations in commerce and, above all perhaps, in industry. Here again there is a lack of far-reaching historic research based on internal documents. The remarks that follow should therefore be considered as mere hypotheses, as probabilities rather than hard documented fact.

When the bankers of the period and the economists praised the "prudence", the "wisdom" of the policies of the big banks in France, they were alluding to a whole complex of traditions, habits and behaviour patterns that all tended in the same direction of maximum precautions in the matter of "immobilizations". Henri Germain, undisputed master of the *Crédit Lyonnais* from 1863 to 1904, had — as it were — codified the behaviour of the perfect deposit banker into a single phrase: no loans of more than three months. Even the "business banks" had been increasing their "current operations" ever since the early years of the century and were thus participating in this strategy. The global data of the tables 13 and 14 illustrate this trend in very broad terms.<sup>26</sup>

One can undoubtedly note a difference between *deposit banks* and *business banks*. The former (Table 13) dedicated a greater proportion of their assets to credits than the latter; this, in turn, means that the business banks attributed greater importance to the "share portfolio", which reflected their holdings (control or otherwise) in other companies. But the gradual reduction of credit (when expressed as a percentage of total assets) by both types of banks between 1925/29 and 1937/39 indicates a common trend and evolution: growing importance of the reserves, and increase of interbank operations (to which we have already drawn attention in Part I). Pointing in the same direction (i.e. a certain retreat from active economic operations); the data of Table 6 show that, as compared with the prewar period and in the case of both types of banks, the classical "commercial" operations (greatly enhanced, it is true, by the discounting of short-term bills of the public debt) gained ground, while current accounts and advances (which reflect "overdraft" credits to enterprises and bank commitments that tend to produce medium-term immobilizations) suffered a corresponding decrease.

<sup>26</sup> See the S.D.N. publications *Monnaie et Banque*.

Table 13. CREDIT AND ASSETS OF THE COMMERCIAL BANKS  
BETWEEN 1913 AND 1942:  
TOTAL CREDITS AS PERCENTAGE OF BANK ASSETS<sup>a</sup>

	1913	1919/24	1925/30	1931/36	1937/39	1940/42
Deposit banks	78.4	83.8	79.7	76.4	76.0	84.5
Business banks	66.2	69.0	64.8	54.2	50.7	84.5

<sup>a</sup> Annual average for each period. Credit = "commercial" portfolio + overdawn current accounts + secured loans.

Source: S.D.N., *Monnaie et Banque*.

Table 14. CREDIT AND ASSETS OF THE COMMERCIAL  
BANKS BETWEEN 1913 AND 1942:  
RELATIVE MAGNITUDE OF THE TWO TYPES OF CREDIT,  
BOTH EXPRESSED AS PERCENTAGE OF ASSETS

	1913	1919/24	1925/30	1931/36	1937/39	1940/42
<i>Deposit banks:</i>						
Discounting of bills <sup>a</sup>	46.8	60.8	54.9	50.8	55.7	72.7
Current account and other advances <sup>b</sup>	31.6	23.0	24.8	25.6	20.3	11.8
<i>Business banks:</i>						
Discounting of bills <sup>a</sup>	22.5	36.7	25.1	28.0	33.2	65.7
Current account and other advances <sup>b</sup>	43.7	32.3	39.7	26.2	17.5	8.8

<sup>a</sup> Commercial paper + Treasury bills.

<sup>b</sup> Credit "by overdraft", against various guarantees (securities, avals, stocks of merchandise), and in the form of contango loans.

Source: S.D.N., *Monnaie et Banque*.

The phenomenon is undoubtedly accentuated by the place that National Defence Bonds and Treasury bills occupied in the portfolios (falsely described as "commercial") of both types of banks. Apart from the qualitative remarks

that the banks repeated on the occasion of their annual general meetings of shareholders between 1919 and 1928, there exist no published data regarding this matter. Not even the Minister of Finance succeeded in knowing the exact level of this type of bank lending, and this notwithstanding his repeated questions.<sup>27</sup> In 1921-1923 it represented around 80% of the discount portfolio of the deposit banks. Subsequently the percentage diminished slightly, but remained at a high level until 1926 (stabilization of the floating debt). Another high point was reached after 1932 (resumption of the issue of bills) and from 1935-1936 onwards. Two documentary supports may be mentioned in this connection. Firstly, the considerable part that interest on state funds and bills played in the gross profits of the banks in the year 1921:<sup>28</sup> 42.9% as far as the nine big deposit and business banks were concerned. Secondly, the structure of the discount portfolio of the Banque de Paris et des Pays-Bas between December 1929 and December 1938, which is reproduced in Table 15.<sup>29</sup>

The disengagement of the banks from classical commercial credit during the interwar period was therefore the counterpart of their increased commitment in public financing. Put in other words, one can say that ever since 1914-1918 bank profits had been greatly conditioned by business with the State. This undoubtedly constituted a security pledge.

As regards the industrial policy of the big banks (long-term credits, participation in share capital, etc.), we have only very vague or excessively minute information. In any case, nothing indicates an upheaval as compared with the situation that existed during the period 1900-1914, years during which the deposit banks confirmed and extended their "non-industrial" vocation. Certainly, they (together with the business banks) sold their "services" to the great industrial companies (placing their shares), discounted their paper, and offered them "overdrafts". But this constituted neither a real commitment nor a true industrial strategy, a fact that is fully confirmed by historical research based on the archives of some of the major industrial undertakings. Neither Pont-à-Musson (cast iron pipes),<sup>30</sup> nor Louis Renault,<sup>31</sup> nor André Citroën<sup>32</sup> nor

<sup>27</sup> J.C. DEBEIR, "Inflation et stabilisation en France, 1919-1928", in *Revue économique*, July 1980.

<sup>28</sup> *Ibid.* Data published by "Fonds Clémentel", Carton 67, Departmental Archives of Puy-de-Dôme, Clermont-Ferrand.

<sup>29</sup> Data kindly supplied by this bank to the author.

<sup>30</sup> ALAIN BAUDANT, *Pont-à-Musson de 1919 à 1939*, Thèse d'Etat, Université de Paris-I, 1979, Publications de la Sorbonne, 1980.

<sup>31</sup> PATRICK FRIDENSON, *Histoire des Usines Renault, 1898-1939*, Paris, Seuil, 1972.

<sup>32</sup> J.A. LOUBET, *La Société d'André Citroën, 1924-1938*, Thèse de 3<sup>e</sup> cycle, Université de Paris-X, 1979.

Table 15. RELATIVE SHARES OF COMMERCIAL BILLS AND TREASURY BILLS (AND SIMILAR) IN THE ASSETS OF THE BANQUE DE PARIS ET DES PAYS-BAS, 1929-1938  
(in % of the total portfolio)

	Commercial portfolio <sup>a</sup>	Treasury bills and similar <sup>b</sup>	Total
End of 1929	99.6	0.4	100
End of 1930	99.2	0.8	
End of 1931	94.9	5.1	
End of 1932	83.1	16.9	
End of 1933	93.7	6.3	
End of 1934	55.7	44.3	
End of 1935	74.2	25.8	
End of 1936	83.9	16.1	
End of 1937	87.2	12.8	
End of 1938	49.4	50.6	

<sup>a</sup> Domestic portfolio + foreign portfolio.

<sup>b</sup> National Defence Bonds, Treasury bills, and bills issued by the French Railways (S.N.C.F.) in 1937 and 1938.

Schneider were even remotely dependent on their banks and bankers. "Financial capital"<sup>33</sup> (in the Marxist sense of the term) seemed to continue only a very slow upward movement in France during the interwar years. It even suffered some setbacks: in 1925 there was a divorce between the Schneider Group<sup>33</sup> and the Banque de l'Union Parisienne, which had been closely associated for nearly twenty years.<sup>34</sup>

The two big business banks undoubtedly had (or tried to have) an industrial strategy vis-à-vis oil (where they were in fierce competition throughout the twenties), electricity, the metallurgical and chemical industries, and public works. But nothing is known about their volume of business, their behaviour or their vicissitudes, except in the case of the B.U.P. The Banque de Paris et des Pays-Bas does not want to give away information. But the research carried out

<sup>33</sup> Work still being written by C. Baud.

<sup>34</sup> ERIC BUSSETTE, *Memoire de Maîtrise: La Banque de l'Union Parisienne 1919-1931* (mimeographed), Université de Paris-IV, 1979. An administrator of the B.U.P., writing to one of his colleagues in December 1924, put it as follows: "We do not and cannot have any direct influence with Schneider". One should also note that the Citroën company, after its failure in 1935, eventually fell into the orbit of the industrialist Michelin and not that of the banks.

by Mr. Eric Bussière as regards the Banque de l'Union Parisienne between 1919 and 1931 leaves one with the impression that the industrial strategy of this bank was a prudent one. Firstly, the weight of the share portfolio in the bank's assets (15.7% on average during the period under consideration) remained below its 1904-1913 level (20.5%). And yet this item contributed in increasing measure to the growth of the cash flow: it accounted for 35% of it in 1922, 66% in 1928, and 63% in 1930. "The prosperity of the B.U.P., writes the author, was closely linked with its *financial* activities". To be quite truthful, however, this means that the benefits from the share portfolio between 1919 and 1931 came *less and less* from dividends and interest, but more and more from profits obtained by reselling share packages on the Stock Exchange.<sup>35</sup> We are therefore far removed from an industrial policy in the proper sense of the term. And thus, with the arrival of falling stock exchange prices (from 1931 onwards), there was also a sudden reversal of results.

The share portfolio of the B.U.P., moreover, did not consist exclusively of *industrial* shares. Before 1914 and during the twenties these latter always represented something like 45% of the total, and they were also dispersed in seven different industrial sectors. It was thanks to its more concentrated shareholdings in banks and finance companies (33 to 35% of the portfolio) that the B.U.P. conducted its "grand policy" (E. Bussière): in Danubian Europe, in the French colonies and in France itself, with domination in these three areas of, respectively, oil and bank businesses, mines and plantations, and the armaments and heavy engineering industries (see Table 16).

The table brings out a redeployment (as compared with 1914) at the expense of the rest of the world and in favour of Continental Europe and the colonial empire that seems to have been a characteristic trend of all the commercial banks. But this "paper castle" in Central and Eastern Europe was to collapse during the thirties more as the result of economic crises than of Nazi expansion. It had been built by the two business banks and certain leading industrial groups in the immediate aftermath of 1918 and with the full support of the government. "The French government — as we are told by an internal note of the B.U.P. at the beginning of the twenties — encouraged French industrial and financial groupings to create solid positions for themselves not only in regions where a prolonged military occupation made it possible to establish useful contacts and relations,<sup>36</sup> but above all in countries where the traditional

<sup>35</sup> The share of interest and dividends in the income produced by the security portfolio passed from 60% in 1922 to 47% in 1930. The share deriving from stock exchange transactions, on the other hand, passed from 40% to 53%. The return of the portfolio reached a peak in 1928: 25% of the sums employed! The cash flow (22.2 million in 1922) attained a record level in 1928 (87.4 million). In 1929 it amounted to 84.5 million, rising to 87.1 million in 1930.

<sup>36</sup> An allusion to the Rhineland.

Table 16. GEOGRAPHICAL DISTRIBUTION OF THE SHARE PORTFOLIO OF THE BANQUE DE L'UNION PARISIENNE IN 1914 AND IN 1931  
(in percentage of the total portfolio)

	1914	1931
Domestic holdings	26.6	36.3
French colonial empire	4.3	16.5
Danubian Europe	11.3	25.2
South America	25.8	3.4
Miscellaneous foreign holdings	26.5	12.4
Other unclassified holdings	5.4	6.2
TOTAL	100.0	100.0

French influence and sympathy for her stood in need of being defended in years to come".

We would say that the industrial policy of the business banks preserved a certain flexibility. They could disengage from certain immobilizations by selling company shares in the market, by diversifying their shareholdings (both geographically and sectorally), and also by changing their industrial partners (i.e. redeployment").

It was only when such moves were no longer possible that the banks tied up with industry began to lose their capacity of disengagement and initiative. The banks paralyzed themselves by throwing a substantial part of their "on demand" reserves into the expanding cauldron of industrial investments (1927-1930).

When the industrial crisis began to take root (1930-1931) as a result of "over-equipment" and excessive productive capacities, the banks came close to the limits of their "transformation" possibilities. This was the pattern of the end of the Banque Nationale de Cr dit, which was to remain a classic of its kind. According to H. Bonin,<sup>37</sup> in 1931 as much as between 33 and 52% of the bank's debtors in current account (i.e. involving credit of the medium-term type) were represented by no more than fifteen industrial and commercial companies of the "Vincent Group",<sup>38</sup> named after its animator and leading spirit, who held the chairmanships of both the bank and all the leading companies of the group. The

<sup>37</sup> *La BNC 1913-1932*, Th se de 3<sup>e</sup> cycle, Universit  de Paris-X (mimeographed), 1978, p. 163.

<sup>38</sup> These firms form part of sectors that were expanding during the twenties: railway carriages, engines, turbines, machine tools, boilers, non-ferrous metals, alloys.

proportion of its total credits (discount and current account) that the bank granted to these fifteen companies varied between 25 and 38%, a very poor distribution of risk. And that was the Achilles heel of the group: "The B.N.C. was both the cornerstone of a solid industrial and banking group, and the keystone that held up an arch of temerarious financial constructions".<sup>39</sup> The group controlled some 40,000 employees and was centered around three interrelated poles, i.e. the bank, the Aciéries de Firminy (which had grown out of the *Entreprise Verdié* of the eighteen-fifties), and the *Comptoir Lyon-Alemand* (precious metals). When the B.N.C. began to use its funds to sustain the stock exchange quotations of the shares of the industrial companies in the Vincent Group, the final paralysis became inevitable. Here we are still following the "classical script" of a bank crisis. The massive discounts granted in 1930 and then also in 1931 by the *Banque de France* and the *Caisse des Dépôts et Consignations* were quite unable to put a halt to the "run" begun by the depositors of the B.N.C.

The succession of failures of local bankers and mediumsided regional banks in 1930-1931 was due solely to their concentration of risk in a small number of industrial business deals and an insufficient diversification of their main activities. Only the big banks managed to escape these shackles. Their very size ended up by protecting them, together with the extreme prudence of their executives.

## 2. Some Cases of Industrial Companies

Basing oneself on recent research work, it is possible to provide some information as regards the situation of some of France's large industrial companies vis-à-vis the banks.

a) *Pont-à-Mousson, or absolute independence.* This company had not yet become a multinational. In the hands of what might be described as family capitalism ever since 1860, it produced heavy and solid cast iron pipes in Lorraine within a very sophisticated cartel framework and used the banks only for meeting its cash needs in current account. According to the calculations of Alain Baudant,<sup>40</sup> the rate of self-finance was such that the company fully covered its own investment needs more than six times out of ten even at the height of the crisis between 1929 and 1938 (see Table 17).<sup>41</sup>

<sup>39</sup> *La BNC 1913-1932, op. cit.*, p. 159.

<sup>40</sup> *Op. cit.*, see Note 30.

<sup>41</sup> The self-finance rate is defined as

$$\frac{\text{Self-finance}}{\text{Immobilizations in fixed capital and securities}}$$

Table 17. SELF-FINANCE AND TOTAL ANNUAL  
IMMOBILIZATION (INVESTMENT) OF PONT-A-MOUSSON  
(in millions of gold francs)

	Self-finance	Immobilizations <sup>a</sup>
1929	74.8	83.6
1930	97	69.5
1931	76.3	80.1
1932	47.8	56.8
1933	59	39.2
1934	99.6	47.5
1935	32.8	17.9
1936	73.3	17.3
1937	65.5	129.4 <sup>b</sup>
1938	91.2	76.1

<sup>a</sup> New works (fixed capital) + purchase of securities.

<sup>b</sup> In 1937 the self-finance was supplemented by a capital increase amounting to 60 million francs.

b) *Louis Renault and his bankers.*<sup>42</sup> France's great motor car manufacturer always controlled his own capital. Between 1922 (transformation into a joint-stock company) and 1944 (death of L. Renault) he never had less than 81% of the shares in his personal possession and reached a maximum of 97% in October 1944, at the moment when the State confiscated the company.<sup>43</sup> "Louis Renault — as P. Fridenson puts it — used bankers as a simple technical means for covering his back against the vicissitudes of particular economic situations; he treated them as instruments, and not as allies or as partners; but he did not disdain them".<sup>44</sup> During the twenties and the thirties Renault at times used several bankers. But he passed from the services of the Haute Banque Parisienne to those of the big banks (both French and foreign). His original banker (Miraboud), frightened by Renault's audacious policy of expanding his factory at Boulogne-Billancourt (in the western suburbs of Paris,) abandoned him at the end of 1928. Renault then availed himself of the services of both Crédit Lyonnais and Morgan (New York) for placing bonds and debentures (exceptional), overdraft credits and "cash facilities". At such times he used his stocks of spare parts to guarantee the credits.

<sup>42</sup> See P. FRIDENSON, *op. cit.* (Note 31).

<sup>43</sup> General de Gaulle's provisional government took this action in view of Louis Renault's collaboration with the Wehrmacht.

<sup>44</sup> P. FRIDENSON, *op. cit.*, (Note 31).

c) *The banking displeasures of André Citroën.*<sup>45</sup> Having begun to construct automobiles as early as 1919 (factory at Quai de Javel, Paris), this dynamic manufacturer was to become a victim of his technical audacity and lack of prudence in financial management. It was the bankers who in 1934 insisted on his extromission. Before 1914 Citroën had been financed by his friends among the diamond merchants in Paris and Amsterdam, although at that time he limited himself to constructing gears. During the twenties, however, his financing needs became enormous, for the big factory at Quai de Javel sought to emulate Detroit. Citroën borrowed from Rosengart, and also from the Banque de France. But Governor Moreau made sure that his discounts in 1927 would not become transformed into a sleeping partnership. Subsequently, in 1927-1930, Citroën financed the enlargement and re-equipment of his factories by becoming closely tied to Lazard Frères, a powerful merchant banking house of Paris and New York. Three Lazard representatives obtained seats on the Board of Directors and transformed the management of the company. It seemed as if a fully developed "financial capital" structure had been attained. But Citroën could not put up with bank tutelage for a long time, and in 1930 he resumed full control of the Board.<sup>46</sup> But in February 1934, when the company found itself in grave cash difficulties, the bankers<sup>47</sup> cut off further credit and in December 1934 André Citroën was obliged to commence winding-up proceedings. He eventually left the Board of his own company, which was taken over by a group headed by Michelin, tyre makers of Clermont-Ferrand in Central France. Michelin have maintained their power in Citroën right through to our own day. In 1935 Lazard Frères were again represented on the Board of the new company (which retained the name Citroën), side by side with the Banque de Paris et des Pays-Bas. The latter possessed 6.8% of the Citroën capital in 1936, but in December 1938 the percentage had diminished to 0.66%. The motor car company thus remained under the control of industrialists, for in December 1938 Michelin owned 52.4% of the Citroën capital. By 1946 this had increased to 65%.

One can thus see how difficult it would be to apply a simple and uniform "model" of unchanging value to give an account of the relations between banks and industry. But it does seem confirmed that big French industry was not controlled by the banks. These latter seem to have pulled their chestnuts out of the fire as far as industrial immobilizations were concerned. Weakened first by inflation and then by the economic crisis, the big banks nevertheless showed remarkable resistance.

<sup>45</sup> See J.A. Loubet's thesis about Citroën, *op. cit.* (Note 32).

<sup>46</sup> Lazard Frères still have a shareholding in the Citroën company.

<sup>47</sup> The composition of the banking group that decided this surgical operation is not known, but it probably included Lazard Frères.

### B. Reform of the Central Bank (July 1936) and Non-Reform of Credit Policy

The *de facto* nationalization of the Banque de France in July 1936<sup>48</sup> represented primarily a socio-political decision that did not engender a credit policy suitable for the circumstances of the nineteen-thirties. In spite of veilities and growing awareness of problems, in spite of heart-searching and proposals (within the Banque de France itself, among economists, and in different political environments, socialists and "centrists", for example) the thirties seem to have been a decade of missed opportunities as far as banking is concerned.

Mention must be made (in view of their subsequent importance) of the debates and the projects that ripened (outside the Socialist Party) in *trade union* environments (C.G.T., Jouhaux, a non-communist) of bank employees from 1935 onward, and in 1937-1938 with men who later, in Vichy times, were to follow different roads, some tending towards Petainism and others finding their way into the Resistance. As early as 1935-1936, indeed, "planners", trade unionists and a few socialists had drawn up a bank policy that was extensively reformatory. One may mention, by way of example, the *Conférence internationale des Plans de travaux*, held at Geneva on 17-19 April 1936, where the nationalization of the credit system, was proposed. French participants included André Philip, Robert Lacoste, G. Cusin, G. Lefranc, R. Belin, L. Jouhaux, A. Dauphin-Meunier (under the pseudonym P. Ganivet), J. Duret, and L. Laurat. The other participants came from Great Britain (Cripps, Gaitskell, etc.), Belgium (Henri de Man), the Netherlands, Switzerland and Czechoslovakia. These projects assumed more definite form in 1937-1938 and, as we shall see, influenced the policy of Vincent Auriol (Finance Minister in the "Popular Front" government) in June 1937. The reviews "Finances Publiques" and "Banque et Bourse" were to become the vehicles of this school of thought. The banking reforms of the post-war period are their direct descendants. Be that as it may, the nineteen-thirties themselves did not produce public supervision of the commercial banks, a juridical definition of banks was not proposed, global control of credit was not achieved, nor was there any rectification of the practices of the bank of issue in the matter of discounting or any new reflection about the problematics of money and the economy. The chain (not very long to tell the truth) of minor changes made during this period was in any

<sup>48</sup> The law of 24 July 1936 suppressed the functions of the "régents" (bankers of the *Haute-banque*, big industrialists and merchants, some top officials of the Ministry of Finance, i.e. the Treasurers/Paymasters General) and ensured that the *Conseil Général* was henceforth to be dominated exclusively by the Governor (appointed by the government) and by the Minister of Finance. Juridically, however, the Banque was not nationalized: its share capital remained in private hands.

case due purely to the needs engendered by the situation of the moment. And the motives that induced the bank of issue, no matter how belatedly, to experiment (nothing more) certain innovations (essentially the "open market" in June 1938) included, not by any means least, its desire to increase its profit margin by extending its own circle of operations.

In this way we can add some supplementary strokes of the brush to the grey and dreary picture of the France of the thirties, a country whose economy did not succeed in leaving the "great crisis", whose social fabric seemed frozen in its structures, and whose political leaders let themselves be carried along by the waves rather than seeking to subdue them. The spirit of innovation and the capacity of rapid adaption seemed to be paralyzed.

There are various elements that can explain this situation as far as the banking world is concerned, but there is no scale for weighing their relative importance. At the bank of issue, at least until the summer of 1936, the *régents* were undoubtedly in favour of maintaining the traditions in all domains, none excluded. It was in any case only after 1936 that matters began to move. The big banks engaged in "business deals" without asking superfluous question, because from 1935 onwards — given the abundant liquidity accumulated during the first half of the decade and its safe investment in "public bills" (the floating debt) — they no longer needed to resort to the aid of the bank of issue. Both they and the Banque were completely attached to the gold standard. All the changes were therefore suffered by them, beginning with the reform of the Banque de France in 1936, prepared outside the Banque by Vincent Auriol's brains trust and which would never have seen the light of day — obviously — without the Popular Front coming into power (beginning of June 1936).

The leading circles of the banking profession seemed to be devoid of the capacity of inventing and proposing. The fact is that the banking reform of 1936, as also those of 1945-1946, were discussed, prepared and desired outside these circles.

### 1. *From the Viewpoint of the Banque de France before 1936*

According to M. Netter, there was "a long period of study, reflection and reticence" at the Banque de France in connection with what was then known as *monnaie dirigée*,<sup>49</sup> lasting ten years (from June 1928 to June 1938) to be precise. The problem, seemingly a technical one, was to decide how the Banque could maintain — if not complete mastery — at least a certain control of the money market and the conditions of credit (interest rate) without doing anything other

<sup>49</sup> MARCEL NETTER, *op. cit.*, Chapter 1, second part, p. 146.

than varying the discount rate. This problem came to a head in 1929-1933, when the growth of liquidity deriving from a favourable balance of payments and the flow of short-term capital made it possible for the big banks to obtain all the necessary refinance with ease from the market without having to have recourse to the Banque: the growing importance of the item *Banques et correspondants* in the balance sheets of the commercial banks bears witness to this. But the problem became anything but technical when the recovery of control of the market by the bank of issue brought in its wake the ways and means of the *open market*, that is to say, a permanent and deliberate series of interventions designed to influence the volume of monetary liquidity in either direction. *Passive* in a certain sense (for in rediscounting it only *responds* to the demand of the banks), the Banque de France at that point became *active*. That is what the *régents* had always refused to do in the name of the "automatism" of the gold standard. And it is also something that the technocrats of the Banque and the Public Treasury had long hesitated to do.

The problem had posed itself ever since June 1928, because from that date onwards the Banque had in its hands the means for intervening in the *national* money market. Already in August 1926, and again in February 1927 (at the suggestion of Strong of the Federal Reserve Bank of New York), Governor Moreau and his Deputy, the economist Charles Rist, were wondering whether the mass of francs created at the time of the foreign currency purchases ought not to be mopped up by the Banque negotiating (selling) in the market the "bills" it had received in respect of its advances to the State.<sup>50</sup> But nothing was done about it. Now, in June 1928, on the occasion of the devaluation of the franc, the Banque de France was given control over a *masse de manoeuvre* that also gave it the possibility of directly entering the market at a time when, albeit *on behalf of foreign banks of issue*, it was already effectively operating in it. This mass of manoeuvre was constituted by the *bons de caisse* (5.9 billion) that represented the wartime advances made by the French government to foreign governments (the Tsarist government, first and foremost), bills that the Caisse Autonome d'Amortissement (set up in 1926) took into its charge,<sup>51</sup> but which the Banque de France could at any time negotiate in the market, and subsequently buy back. Moreau's report to the shareholders in January 1929 agreed that this was "a particularly effective instrument in connection with the Banque's task of regulating the volume of francs in circulation". At the same time he

<sup>50</sup> Several annotations in EMILE MOREAU's, *Mémoires, op. cit.*, (on 23 and 31 August 1926, for example, p. 78 and p. 92).

<sup>51</sup> *Previously* they had been included in the assets of the Banque de France in the form of (non-negotiable) Treasury bills. From June 1928 onwards, however, they were indicated as *Bons de la Caisse d'Amortissements*.

informed his listeners that ever since June 1928 the Banque had purchased "short-term bills and securities" on behalf of foreign banks of issue.<sup>52</sup> This decision must be seen as part of the strategy at that time concerted between the Banque and the big Paris banks of aiming at the development of an international market of bank acceptances. The fact that the Banque thus had the possibility "of directly intervening ... in the free short-term capital market", said the Governor, would also facilitate "its monetary control, which was one of its essential tasks".

Was this the unconcealed entry of the Banque into the *open market*? Nothing eventually came of it. Certainly, the world crisis prevented the coming into play and the growth of service operations between the big banks of issue (after 1931) and the Paris market could not in actual practice be turned into an acceptance market. Above all, however, the few convinced partisans of *monnaie dirigée* at the Banque itself (or, rather, those among its top level administrators that did not envisage it as a scandalous possibility, but rather one that would henceforth be useful to the Banque's own development) could not make any headway with their views. Before the economic crisis, which in France first appeared in 1929 but only installed itself in 1930-1931, those responsible for monetary policy refused the Anglo-Saxon battle techniques, namely cheap money and "directed" or controlled money. It was therefore paradoxical that the Banque did not make use of the means (*de facto* and *de jure*) that it effectively had at its disposal ever since June 1928 and that, while refusing to take part in the Paris market *hors Banque*, it nevertheless participated actively in those of London and New York, where it modulated its investments in foreign currency between June 1928 and June 1931 by extending their maturity dates.<sup>53</sup> And this notwithstanding the fact that domestic monetary liquidity increased considerably as a result of the re-entry and entry of capital between 1928 and 1931. In the course of three years the total of the bank note circulation and the current-account deposits at the Banque increased from 71.5 billion to 100.6, bringing about "a veritable inflation of means of payment at the height of the period of recession".<sup>54</sup>

In the autumn of 1929 the question of an *open market* intervention had been raised at the Banque while the inflow of capital was at its height. The *Conseil général* had discussed the matter on 23 January 1930 and had authorized the

<sup>52</sup> Since the end of 1926, however, the Banque de France had been investing a part of its foreign currency holdings abroad, doing this through the intermediary of its fellow central banks in London and New York.

<sup>53</sup> At the request of the American monetary authorities, who were trying to fight stock exchange speculation by putting a brake on "on call" loans.

<sup>54</sup> M. NETTER, *op. cit.*, Chapter 4, first part, p. 55.

Governor to sell up to 2.5 billion of the "bons de caisse" of the Caisse d'Amortissements. This had caused the economist Gaston Jèze, writing in the "Journal des Finances", to express regret at the Banque's entry into the "directed money" game. But the intention was never translated into practice. The decision was annulled on 30 January.<sup>55</sup> When all was said and done, a substantial majority at the Banque did not think that the "national interest" was at stake.<sup>56</sup> Bearing in mind the peculiar features of French monetary practice as compared with London or New York, the Banque was convinced that the open market would not work in Paris: the bank cheque was far from dominant in France; the *direct* discounting practiced by the Banque gave it a certain influence over interest rates and the volume of credit; and the Caisse des Dépôts traditionally sustained State funds. More generally, all "interventionist" opinions in economic matters were condemned and banished. And this even more so in view of the fact that among the left (or, more precisely, in Socialist circles) the aspiration of economic intervention came to be associated with the slogan "reform of the Banque de France".

## 2. A 'De Facto' Nationalization but not a Reform

Many questions concerning credit and banking were taken up and discussed in 1936-1937 in connection with the *de facto* nationalization of the Banque de France (July 1936).

This reform suppressed the *Conseil de Régence*, which ever since the nineteenth century had been controlled by the *Haute Banque* and thus gave full powers to the Governor (designated exclusively by the Minister of Finance from 1806 onwards); it also opened the Annual General Meeting to all the shareholders (instead of limiting it to the 200 most important ones as had previously been the case) and assisted the Governor by placing at his side a *Conseil Général* in which neither banks nor bankers were represented the members being appointed by the State.

But the discussion was not followed by any innovating decisions. It seems that Vincent Auriol and his team, short of time, possibly inadequately informed and therefore hesitant in matters of credit control, were satisfied with having achieved so easily what for them was essential (the State in complete control of the institute of issue) and decided not to make any of the decisive choices in July, thus postponing all decisions in the matter of credit policy until a later date, this

<sup>55</sup> The reason given was of a fiscal nature. M. Netter thinks that an opposition of principle had made itself felt among the *régents* ever since the meeting of 23 January.

<sup>56</sup> M. NETTER, *op. cit.*, Chapter 4, first part, p. 60.

as regards both the Banque and the ordinary banks. The government contented itself with completing the policy begun in March 1935 with the thirty-day advances made to the banks by the Banque de France. In July 1936 the law reforming the Banque laid it down that "all bills of the floating debt maturing within three months were to be admitted without limitation to rediscounting by the Banque de France, except where the profit of the Public Treasury otherwise requires". This caused Maurice Netter to remark<sup>57</sup> that the word *rediscount* was hardly appropriate: it was really a simple sale to the Banque effected through the intermediary of a third party (banker or otherwise), who could in this way "mobilize" bill of the Treasury or National Defence Bonds. But it was a way of creating "a discount right"<sup>58</sup> that had no previous juridical existence. The measure, which facilitated bank immobilizations in paper of the floating debt, was of immediate interest to the Treasury in as much as it assured it of a "potential aid". But a ceiling of 20 billion had been fixed for these advances.

Certain proposals regarding problems that had come to a head were vainly submitted to the Chamber of Deputies at the time of the discussion of the reform of the Banque de France.<sup>59</sup> Ever since June Vincent Auriol had remained very vague as regard the "organization of credit".<sup>60</sup> Robert Schuman (a Christian Democratic deputy and future father of the European Coal and Steel Community) and Maurice Petoche (future Minister of Finance of the Fourth Republic) made proposals to the Finance Commission of the Chamber of Deputies in favour of a certain public control over credit distribution: transmission to the Banque of a detailed situation report twice a month by all the banks;<sup>61</sup> establishment of a central statistic of the big credits opened by the banks (this was not done until 1946); creation of a professional organization of the banks (which was eventually born in 1941); interdiction of "on demand" deposits as far as the business banks were concerned (it was only in 1946 that the law established a kind of "division of labour" between deposit banks and business banks); creation of two "bodies", one for each type of bank, to supervise the management of deposits and coordinate the division of the credit (here, once again; the

<sup>57</sup> *Ibid.*, Chapter, 5, p. 115.

<sup>58</sup> *Ibid.*, p. 122.

<sup>59</sup> Vincent Auriol originally wanted to undertake the reform of the institute of issue by means of a decree, that is to say, without passing through Parliament. He was obliged to change his tactics as a result of the protests. The reform commission was not a parliamentary one and brought together trade unionists (of the Jouhaux tendency), socialist economists, and some high officials. It had visualized *nationalization* of the Banque; but this solution was not eventually proposed to Parliament.

<sup>60</sup> M. NETTER, *op. cit.*, Chapter 5, p. 9.

<sup>61</sup> The Banque de France, for example, did not know the exact amount of short-term public bills that were held by the big banks.

proposed measures were not adopted until 1946). The problems of the "direct discounting" practiced by the Banque and its possible participation in the open market were also raised during the debate in Parliament.

One cannot but recognize that throughout the summer of 1936 a singular constraint hovered over all technical decisions in the matter of banks: between mid-June and the end of September the French government had been engaged in secret talks with London and Washington to prepare the devaluation of the franc.<sup>62</sup> Following the proclamation of this devaluation (1 October 1936), moreover, the Léon Blum government (albeit unwillingly) had to adopt a policy of abandoning all further reform in December, a policy that in February 1937 became known as "the pause".<sup>63</sup> A time-honoured means of interment was used in these circumstances: an enquiry by a parliamentary subcommission (under the chairmanship of the Socialist René Brunet) was set up in November 1936 and for several months continued to work on the problems of banks and the credit system.<sup>64</sup>

Ever since July 1936, moreover, Abel Gardey, the influential spokesman of the Senate's Finance Commission, had caused all decisions regarding the direct discounting by the Banque de France to be deferred. And only Joseph Caillaux, chairman of this commission (which was then throwing the last sparks of a difficult and fertile political life), continued to speak in favour of the *open market*, although he recognized that it represented "a very delicate policy" that required "very close" scrutiny by the two chambers. Although several deputies presented complaints about the Banque's direct discounting when the reform bill was being discussed, Vincent Auriol would not commit himself on this matter.

Nor did he put up a fight before the Senate Finance Commission, which refused the Finance Minister the right to use decrees to revise the texts that governed the discounting and the portfolio of the Banque de France. By the summer of 1936, therefore, even the possibility of a banking reform had already been discarded.

In June 1937 the Brunet Subcommission, rather than a report, published a simple *communiqué* in which it summarized the proposals that had been adopted after six months of hearings:<sup>65</sup> a "banking commission" set up within

<sup>62</sup> It was decided on October 1936. It had been preceded by the famous tripartite (France, England, United States) monetary declaration of 25 September 1936.

<sup>63</sup> It was heralded by a government loan that was indexed on gold; the consequence of this was the abandonment of all regulations governing the entry and exit of capital and gold.

<sup>64</sup> In 1927 the review *Banque et Bourse* published all the principal submissions (by bankers, economists, and trade unionists) that had been heard by the subcommission.

<sup>65</sup> M. NETTER, *op. cit.*, Chapter 5, p. 133.

the Banque de France and consisting of "a majority of state representatives" was to have the task of "organizing and controlling credit"; it was to be assisted by a "Bank Inspection Corps" responsible to the Minister of Finance; the technical points included interdiction of direct discounting by the Banque de France, centralization of information relating to banking risks, and standardized monthly balance sheets for the banks. Here one can recognize the essentials of the reforms introduced in 1945-1946. But at the time the President of the *Union syndicale des banques* protested against the proposals, which — in his opinion — tended to "enslave the banking organization" and, consequently, "the whole of economic activity", making them "subject to state directive".<sup>66</sup> It is true, however, that René Brunet's communiqué in 1937 said that "the new policy would translate itself into a complete revision of our public and semi-public credit distribution system, and into a serious control exercised by the institute of issue over the banking system".

It should be noted at this point that, according to a recently published and well documented work,<sup>67</sup> Vincent Auriol had entirely modified his policy in banking matters in June 1937. Like Léon Blum, at the very moment of their dramatic "full powers" request to the chambers, he had become converted to the reformatory theses that had been advocated by the group of trade unionists and "planners" ever since 1935. The "full powers" project contained a detailed reform of the credit system, that was to be applied by means of law decrees. The project followed wholly in the footsteps of the conclusions of the Brunet Subcommittee. But the Senate refused "full powers" to the government. This caused the government to resign, and that was the end of credit reform.

Although René Brunet was later appointed Undersecretary of State for Finances in the Chautemps cabinet, which replaced the Blum government at the end of June 1937, these formulas remained without any practical sequel. The entire "reform process" had been "spiked".<sup>68</sup> This was only logical in view of the marked manner in which the government's economic policy had returned to a "liberal" approach in 1937-1938. But as one looks at the thirties in retrospect, one cannot but note the striking contrast between the general awareness of reforms that were conceived as necessary and the incapacity of bringing them to maturity, translating them into practice. This was, as Monsieur de Lapallisse would have pointed out, because the forces of immobilism were undoubtedly dominant!

All the same, one must not forget certain ambiguities in the demand for

<sup>66</sup> *Idem.*

<sup>67</sup> J.P. CUVILLIER, *Vincent Auriol et les finances publiques*, Toulouse, 1978.

<sup>68</sup> Phrase coined by M. Netter, *ibid.*, p. 134.

reforms of the banking system. Apart from the fact that a monetary and credit policy becomes meaningful only in relation to the State that puts it into practice and the objectives of its general economic policy, there was the very important problem of deciding how the Banque de France (in the event of the suppression of its direct discounting) would continue to exercise a certain control over the interest rates payable in respect of credit. The reform had to be complete, or there could be no reform. Transforming the Banque de France into a pure "central bank" meant that it had to be given new means for controlling the banks. The executives of the Banque had always thought of their direct discounts as a means of guiding the discount rates the banks granted to their commercial and industrial customers. But on at least two occasions (in 1925 and 1939) the commercial banks, as we have already mentioned, arrived at "general understandings", the outcome of "local understandings"<sup>69</sup> that fixed *minimum* interest rates payable on their credits. This meant that a lowering of the discount rate of the Banque de France could also remain without repercussions as far as the customers of the commercial banks were concerned.<sup>70</sup> The heads of the big banks naturally viewed direct discounting with hostility. Baron Brincard, President of the Crédit Lyonnais, thus discussed the matter with Governor Moret on 22 January 1934.<sup>71</sup> In 1938-1939 the theme of direct discounting, linked as it was with control of credit conditions, caused Governor Pierre Fournier (basing himself on the attitude of his predecessor in 1936<sup>72</sup> to try to keep things ticking over on the basis of a kind of "give and take" policy. The Banque declared itself ready not to extend its direct discounting activities, always provided that it were granted a say in fixing interest rates and that the big banks would avail themselves of the extensive rediscounting facilities offered them. Fournier discussed this matter with the *Conseil Général* on 2 September 1937. The question (still unsettled) came up again within this body during the winter of 1938-1939, because the Banque had lowered its discount rate to 2% in January and the banks, basing themselves on their "understanding", had brought the minimum interest rates into play. Following numerous complaints

<sup>69</sup> M. NETTER, *op. cit.*, Chapter 3, first part, p. 186.

<sup>70</sup> Ever since before 1914 there had been an understanding between the big banks to the effect that they would not compete in the matter of remunerating deposits: another sign of the extension of the cartel process in the French economy of the twentieth century.

<sup>71</sup> M. NETTER, *op. cit.*, Chapter 3, first part, p. 188.

<sup>72</sup> In Chapter 6, p. 188, M. Netter quotes an extract from the minutes of the Permanent Committee of 19 November 1936, according to which Labeyrie envisaged "a change of policy" by the Banque in the matter of direct discounts; "in return" the banks would "accept control by the Banque over all credit operations". De Labeyrie, the Governor appointed by Vincent Auriol, was later to be rejected by his peers on account of his having presided over the suppression of the functions of the *régents* in July 1936.

by the customers and a forceful intervention of the Banque de France, these minimum rates were eventually suppressed. It was on this occasion that the Governor wrote a circular letter dated 2 March 1939 to all his branch managers in the following very significant terms quoted by Maurice Netter: "Your quality as representatives of the institute of issue gives you the right (and indeed imposes you the obligation) of supervising, controlling and if necessary even adjusting the conditions that govern the distribution of credit ... It is essential to make the banking houses understand that the position assumed by the Banque de France (as regards direct discounting) implies that — by way of consideration — they are to make an effort of understanding the needs of their customers ... If necessary, you should submit to the attention of the local directors of private banks all the particular operations that are brought to your knowledge and in which the imposed conditions do not seem to you to be justified ... reminding them of the need for maintaining their remunerations at a reasonable level".

### 3. *How the Banque de France Recoiled into the Open Market*

The only innovations that were introduced into the life of the commercial banks between 1936 and 1938 were:

- a. The granting of "30-day advances" against discounted Treasury bills by the Banque de France to the banks, and this can really be considered as a service to the Treasury.
- b. The discounting by the Banque of agricultural warrants or commercial paper ceded by the *banques populaires*<sup>73</sup> (summer 1936), this in the time-honoured Republican tradition of helping the "little ones".
- c. The launching of the open market procedures at the end of June 1938.

But at the end of December 1938 these three new activities accounted for no more than 2.83% of the assets of the Banque de France.

The application of the open market was due wholly to circumstances and in no way to theories. When the *Conseil Général* of the Banque de France met on 30 June 1938 to ratify the policy of the *open market*, Governor Fournier, responding to the fears expressed by many of his interlocutors (and especially by the industrialist Lemaigre-Dubreuil), was led to say that one ought not to be "excessively afraid of novelties".<sup>74</sup> The (short-term) reasons for this important decision (which was to prove more important for the future than for the present) seem to have been manifold and complex. In any case, both limits and brakes

<sup>73</sup> These operations were known as "Spinasse loans" and were named after the Minister of the Economy. The *banques populaires* with a cooperative constitution dated back to the end of the nineteenth century and had been reorganized in 1920, but were growing only very slowly.

<sup>74</sup> *Délibérations*, 30 June 1938, p. 607.

were at first imposed on the active interventions of the Banque in the money market. When all is said and done, the new mechanism instilled a little fear even in its own authors.

The Banque (according to a decree drafted on 17 June but not published in the "Journal Officiel" until 29 June, and also according to the application rules adopted by its *Conseil Général* on 7 July) was henceforth to be allowed to buy and sell both public<sup>75</sup> and private<sup>76</sup> bills, subject only to certain conditions regarding quantities and maturities.<sup>77</sup> But a "ceiling" had been fixed for the balance of these negotiations, which was not to exceed either 8% of the gold reserve or 50% of the bill portfolio. According to Maurice Netter's commentary, this meant that the new policy was far from considering gold as "a barbaric relic" (John Keynes) and that it aimed at "smoothing and regulating the short-term money market" but not at "taking the place of the traditional operations".<sup>78</sup> The reasons listed in the law decree also spoke of "making it possible for the discount policy to make itself felt more effectively in the money markets". The interventions were entrusted to the Banque's Exchange Service (since the money markets and the foreign currency markets were closely interwoven), and from 1 September 1938 onwards the so-called *en pension* operations<sup>79</sup> were added to the "firm" operations.

The running-in period of the new policy proved comfortable, because the Banque (as we saw earlier) had acquired experience in this field in 1926-1928; and one of the "bars" disappeared on 9 July 1939, namely the limit of 50% of the portfolio, which had by then proved a paralyzing restriction.

We know the medium-term technical antecedents (which date back to 1928) of the application of the open market in France.<sup>80</sup> But the short-term reasons are less easy to perceive. In 1938 it was not yet part of the intentions of the monetary authorities to really adopt the theses of "directed money". According to these theses, which were of Anglo-Saxon origin, the *open market* was "basically intended to correct the effects of international movements of gold and capital on domestic liquidity".<sup>81</sup> At that time, rather, the Banque execu-

<sup>75</sup> Treasury bills and National Defence Bonds; also promissory notes of the S.N.C.F. (French Railways).

<sup>76</sup> "Bank acceptances".

<sup>77</sup> As regards public bills: more than 100,000 francs and less than two years; as regards acceptances: more than 50,000 francs and less than ninety days.

<sup>78</sup> M. NETTER, *op. cit.*, Chapter 6, p. 177.

<sup>79</sup> *En pension*: purchase of a bill for cash, but subject to a forward resale agreement. This was "the most usual form of transaction handled by the money market, particularly as far as call money was concerned" (M. Netter, *op. cit.*, Chapter 6, p. 178).

<sup>80</sup> Since 1928: market interventions on behalf of foreign central banks; unused stock of the bills of the Caisse Autonome; the "thirty-day advances" since 1935.

<sup>81</sup> M. NETTER, *op. cit.*, Chapter 6, p. 166.

tives thought the *open market* to be useful because it represented a simple means of "regulating the money market".<sup>82</sup> The frontier between these two functions was undoubtedly rather subtle and very shaded. "It must not be thought that if the Banque had this faculty, the Governor told the *Conseil Général* on 3 March 1938, it would not use the open market for introducing funds into the market when this latter is short of resources".<sup>83</sup> "The market is at present bled dry: it would be logical to supply it with funds... The volume of Treasury bills available in the market is absolutely derisory... The government is of the opinion that one must not go to the point of saying that under no circumstances would the Banque de France grant facilities to the Treasury. The Governor would prefer enlarging the money market by rediscounts, even if the rediscounting of Treasury bills, rather than sustaining it by means of advances to the State".<sup>84</sup>

And thus during this month of March 1938, when the second Blum government failed to survive, in a situation of deficit in the balance of payments and with capital either in "flight" or on "strike",<sup>85</sup> it was the attitude of the Treasury that seems to have constituted the decisive factor. It was probably the most visible immediate cause of the choice in favour of the *open market*. Those members of the *Conseil général* who feared the inflationary process received the following answer from the Governor: "It is all a question of extent".<sup>86</sup> Above all, the problem was "not to force the Treasury to resort to advances from the Banque"<sup>86</sup>, and the market had therefore to be sustained to enable it to absorb the necessary bill issues: the rearmament effort was then at its height.<sup>87</sup> Such, then, was the immediate cause of the adoption of the new procedure.

Certainly, the decree of June 1938 said that "in no circumstances were these operations to be carried out for the profit of the public Treasury or of the issuing authorities". Directly, this was undoubtedly the case. Indirectly, obviously not. In a note written on 24 February 1938 Gaston Cusin (one of Léon Blum's advisers) spontaneously put the "adoption of the open market policy" in

<sup>82</sup> M. NETTER, *op. cit.*, Chapter 6, p. 167. The Governor was to speak to the *Conseil Général* in June 1938 about "regularizing the market by smoothing out the peaks" (Meeting of 30 June 1938, p. 304).

<sup>83</sup> *Délibérations*, 3 March 1938, pp. 348-350.

<sup>84</sup> *Ibid.*, p. 349.

<sup>85</sup> In the second half of June, given the aggravation of the economic crisis in the United States, there was to be a "general recoiling from money" (*Délibérations* of the *Conseil général*, 23 June 1938, pp. 580-581).

<sup>86</sup> *Délibérations*, 3 March 1938.

<sup>87</sup> The acuity of the problems of financing rearmament has been studied in a thesis by R. FRANKENSTEIN entitled *Le financement du réarmement français*, Université de Paris X, 1979.

relation with the "placing of loans".<sup>88</sup> Maurice Netter expresses the view that "the spirit of the open market of June 1938 undoubtedly aimed first and foremost at helping the Treasury".<sup>89</sup> Moreover, a new convention between the state and the Banque de France (14 June 1938) had raised the ceiling of the "temporary advances" of the Banque from 20 to 30 billion francs. The fact that the Banque, "thanks to its regulating interventions in the market", enabled the banks "to underwrite without risk of immobilization even public bills more than three months hence", clearly proved that the reassuring formula of the June decree "was practically without effect".<sup>90</sup>

A second circumstance seems to have played a certain part in the Banque de France's acceptance of the *open market*: the desire to assure its own profit margin. Bringing up this matter during the meeting of the Conseil on 23 June 1938 in connection with the results of the first six months (high operating costs, receipts of little elasticity), the Governor, among the solutions designed to "develop the activities of the Banque de France",<sup>91</sup> attributed a prominent place to the *open market*, which he said would lead to an increased volume of "productive" business. The *open market*, in causing the Banque to abandon its traditional and essentially "passive" role (according to the words of the Governor),<sup>92</sup> would enable it to enlarge its business, and therefore also its profits, without increasing its direct discounts, that is to say, without further aggravating the competitive tension with the commercial banks.

We can leave the final word of this note to Jacques Rueff, who at the time of these events was director of the Mouvement Général des Fonds and member of the *Conseil Général* of the Banque de France. Assuaging the fears of certain members of the *Conseil*, he made the following declaration at the meeting of 30 June 1938: "There is only a very slight and subtle difference between the discount policy and the policy of the *open market*. One can try to provide liquidity for the market, but it will not absorb it unless it can be put to use".<sup>93</sup> This underscored a basic truth that historians sometimes forget when they analyze economic policies. Great as it is, the power of the state is far from total. The efficiency of its decisions is not a function only of its own will. A

<sup>88</sup> Private papers of G. CUSTIN, kindly opened by their owner, who had played a great part in the reform of the Banque de France in 1936. It is true that in February-March 1938 Blum and his counsellors (George Boris, Pierre Mendès-France) went back on their practice of 1936-1937 and proposed exchange rate control as part of their new economic policy.

<sup>89</sup> M. NETTER, *op. cit.*, Chapter 6, p. 169.

<sup>90</sup> *Ibid.*, p. 170.

<sup>91</sup> *Délibérations*, Meeting of 23 June 1938, p. 592.

<sup>92</sup> *Ibid.*

<sup>93</sup> *Idem*, p. 620.

government only knows *after the event* what will be the effects of this or that reform, of this or that choice of innovating means. It is not easy, to use a time-honoured expression, to discipline "the free market forces".

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On the eve of the Second World War, therefore, the French banking system had been clearly weakened as compared with its situation at the beginning of the century. As a result of the pernicious influence of inflation it was less in step with economic developments and with the consequences of the economic crisis at beginning of the thirties. The destiny of the franc, which had been devalued on several occasions (1928-1939), was another expression of these phenomena. The relations between banks and industry had therefore slackened quite appreciably. The big industrial enterprises had preserved their traditional independence and the distinction between deposit banks and business banks had had been confirmed. And thus the period was not one of great changes in the matter of banking and credit. The modifications introduced during the thirties were primarily of a political nature (reform of the institute of issue) and, from a qualitative point of view, were characterized by the shallowness of the innovations. This seems to have been in keeping with the moderate nature of the French banking crisis, the customary behaviour patterns of the profession, and the influence exerted by the dominant "monetary theory".

But let us make it clear that all the really essential things were said and discussed between 1926 and 1938. The reforms of the credit system introduced after the Second World War all form part of the heart-searchings, the disputes and the proposals of the thirties. The same can be said of the measures concerning the banks introduced by the Vichy Government in June 1941: a distinction was made between *banques* and *établissements financiers* (i.e. finance companies using only their "own funds"), state control over the banking profession was established by means of compulsory registration and inclusion in a national list, and a minimum capital (5 million francs) was henceforth required; the new legislation also prohibited both mergers between banks and the unauthorized opening of new branches. Indeed, nothing ever comes into being *ex nibilo*. But the victory of the banks over the negative effects of inflation from the middle of the fifties onwards makes it seem as if the thirties, with all their hesitations and mediocre results, were an epoch far removed from our own day and age.