Competition among Banks in France and the Fixing of their Rates

In France the year 1925 was marked by a period of great monetary scarcity. The official discount rate was lowered from 7% to 6%. The banks offered depositors higher and higher rates of interest, which eventually reached 5% to 6%. In order to stop this rise, the Union Syndicale des Banquiers, which was under the influence of the large credit institutions and the chief banques d'affaires, decided in October 1925 to fix credit interest rates and to introduce certain charges in the form of commission.

As regards credit interest rates, the banks were divided into three categories: those in the first category could not allow more than 3 1/2% interest, those in the second not more than 3 3/4% and those in the third not more than 4%. Subsequently these maxima were revised according to the state of the money market and the Union authorized the société anonyme, which had an office in Paris only, and came within the third category, to allow 1 1/4% more to their depositors, but only on amounts in excess of 200,000 francs.

In other words, the bank was handicapped by having to pay up too much of its funds in the par, or because it is not the strength and interest, which now is in view. In 1925 a group of banks whose credit standing was beyond question lost the ability to control in order to avoid overdebt or advances. The agreement of October 1925 fixed minimum charges for acceptance (1 1/4% for one month, 3 3/8% for two months, 3 1/2% for three months) and laid down that the rate of interest on overdraft and advances could not be less than the rate for Bank of France advances.

A banker failed to observe these prescriptions, nothing more than a moral sanction could be imposed: the President of the "Union Syndicale" would call him in and tell him what he thought about him. Theoretically, the President might exclude him from the Union, but in fact no such step was ever taken.

II. Banking competition under the system of controlled credit interest rates.

The rates allowed by the banks to their depositors could no longer, therefore, vary except within circumscribed limits, which latter on tended to become even narrower. The plentiful flow of money to which the stabilization of the franc, in 1926, led, caused the Union Syndicale des Banquiers to lower the rate to 1 1/2%, or 3 1/4% or 7 7/8% according to the category of the bank. It is obvious from this that competition in rates was almost dead, the more so as many banks simply allowed the maximum authorized rate to all their customers. It is true that the agreement was often ill-observed, that some banks did not hesitate to supplement the interest in the form of "bols de soupe," but that others offered to accept deposits at so many days' notice or fixed for more than one month, giving the customers to understand that in case of need the bank would release the sums required on demand. In all these breaches of the agreement, it was not a question of large amounts.

Competition had thus to be transferred to other fields:

1. Material conditions and standards of banking services. — The banks have made great efforts to raise the level of efficiency of their counter staffs, to improve the general service, etc., with the result that the public has generally found that the bank service is now better than in the old days. It should be explained that at that period discounting was not a natural custom for a small number of banks — those of the lowest standing in the banking system.

2. A high standing prevents a bank from offering a high rate of interest, for if it did so the customers would lose interest and the bank's credit would suffer accordingly. If the rate were too high, this would create the impression that the bank needed funds at any price and that its position was not satisfactory, or, on the other hand, that it was able to employ its funds at a high rate, which in general means at fairly considerable risk.

3. A high rate is related to the bank's cash position. It may be that the banks desire to strengthen in cash position, either because it is handicapped by having to pay up too much of its funds in the par, or because it is not the strength and interest, which now is in view. In 1925 a group of banks whose credit standing was beyond question lost the ability to control in order to avoid overdebt or advances. The agreement of October 1925 fixed minimum charges for acceptance (1 1/4% for one month, 3 3/8% for two months, 3 1/2% for three months) and laid down that the rate of interest on overdraft and advances could not be less than the rate for Bank of France advances.

4. In the troubled period between October 1926 and December 1935 — a period during which the public exhibited a pronounced demand for cash — some of the banks did not hesitate to endeavor to acquire customers by lowering down in the minds of the persons they visited to the standards of the competing banks.

The French guild is peculiarly sensitive to some cause campaign directed against banks. In my article, Le carte fiduciaire, published in "Revue de la Banque," 1924, Nos. 7 and 8, I mentioned (p. 555) various cases in which there had been considerable withdrawals of deposits as a result of suspicions and inaccurate rumours that had been circulated about the institutions in question.
presentability of the personnel and premises, to speed up operations and to simplify the presentation of the accounts. Relationships between the banks and their customers have become more human.

2. Expectation of credit facilities. — In many cases, before opening an account with a bank, business customers wish to have an assurance that in the event of the situation arising in which they need funds, the bank will be prepared to grant them discount or overdraft facilities. The giving of such an assurance may well decide the customer to open the account.

3. Personal relationships. — Other psychological factors also play a part, particularly those based on personal or business relationships. As I have said in another article (9), if the «banque en masse» in France still maintains its position as well as it does, this is because the owners of the banks hold directorships in numerous business firms which, by reason of this connection, feel obliged to at least some part of their banking business with those banks. The higher officials or outside representatives of a bank usually manage to build up a personal clientele which follows them if they transfer to the service of another bank. In this connection, it is not infrequently happens that a bank endeavours to lure away from another bank an official who is known to have good business connections.

4. Proximity of the bank. — In the case of strictly credit accounts, this is a factor which counts a great deal. A customer who does not need to borrow money will tend to go to the bank which is nearest to his residence or place of business. It is for this reason that the large banks have been obliged to open so many sub-branches (6).

During the period with which we are here concerned, that is to say from 1925 to 1939, the money market experienced passing phases of plentiful money. This temporary abundance, due to fortuitous circumstances, has often disguised a defect of the French banking system, namely shortage of deposits (and it is precisely this shortage which tends to make competition between the banks so relentless and dangerous). The volume of bank money in France was ridiculously small compared with that which existed in other countries. In Britain the note circulation was only one-sixteenth of total bank deposits, whereas in France the note circulation was double the amount of such deposits. A single British bank (the Midland Bank) had more deposits than all the French banks put together. France was a country in which the credit system had reached only a low stage of evolution, and in which the resources of the banks remained at very low levels. This situation was beginning to worry the boards of the large banks and most of the bank reports published in 1939 reflected these apprehensions, which was true.

The 1925 agreement did not deal solely with the question of credit interest rates. It also fixed minimum rates for acceptance commission and for interest on overdrafts. These minimum rates regulated the structure of debt interest rates and forms of banking competition, for they had intentionally been fixed very low, at rates which were only applied, exceptionally, in the case of very large business firms.

Banking competition was therefore limited, and this limited competition was performed through a system of long-term loans at a low rate of interest. The 1925 agreement was in effect a form of cartel, which was considered to be normal and was accepted by the banks.

3. Public and semi-public credit institutions in competition with the banks.

Apart from inter-bank competition the banks were obliged to defend themselves against the public and semi-public credit institutions, a necessity about which they complained bitterly. Among the institutions which harassed them most in this respect were the Crédit Populaire and the Crédit Agricole, which had the advantage of government subsidies and tax exemptions. On the money market the banks were up against competition from the savings banks and the municipal credit institutions which, thanks to the advantage accorded to them by the State, were able to offer attractive interest rates. As regards the savings banks, it should be remarked that upper limits were imposed for deposits and that the withdrawal procedure was somewhat complicated. The Bank of France granted advances against securities to private customers and discounts to trade and industrial firms at the same rates as those at which it rediscounted bills for the banks. The banks also complained of competition from the Treasury Agents, of the opening of deposit accounts by the trésoriers généraux and, above all, of the competition represented by the postal cheque system.

All these grievances, more or less justified, if perhaps often exaggerated, were set forth by the Union Syndicale des Banquiers in its report for the year 1936, and also by the banks in their yearly reports. These protests were inevitably vain, for the government was not disposed to modify the institutional structure of its credit organisations in order to make life easier for the banks and, even if it had been so disposed, there would be powerful interests which would have intervened to thwart it.

IV. Law of 12th June 1941 and banking conditions.

The question had already arisen before the war of providing by legislative measures that automatic credit control which had been lacking since the abolition of the gold standard throughout the world. After the armistice the tendency in France was to «organise» the various professions. Accordingly, the banking profession was organised by the law of 13th June 1941. This law — the work of bankers and professional economists — had the merit of being a good piece of work. Having been drafted by the parties who were to come under it, the law could not fail to treat them benevolently. After the Liberation, the law of 17th June 1941 was amended by that of 2nd December 1945. This new law had features which were the exact antithesis of those of the preceding law. It was drafted by people who were not specialists in banking questions and who had a certain bias against the banks — a bias which manifested itself in the nationalisation of the most important banks (8). The new law thus contained a number of incongruities and obscurities and seriously restricted the banks' freedom of action.

Banking conditions are, in practice, worked out by region by the «Association Professionnelle des Banques», which then submits its report to the Conseil National du Crédit for decision. This latter body, however, can also itself fix banking conditions after consultation with the «Association Professionnelle» if the Association is in the minimum rate of interest must be approved by the Ministry of Finance — a situation which has occurred several times in the past few years.

This method of determining banking conditions differs from that instituted in 1925 by the «Union Syndicale des Banquiers», in the following respects:

1) The conditions are not fixed by the organisation which represents the banking profession, but by a council composed of men...


(6) The following illustrations may be cited to illustrate this point.

After the war a large credit institution which had been obliged to close down a sub-branch had to re-open it in order to keep in touch with the margins of the bank. The bank itself, which had opened the account at the sub-branch, had it closed and transferred the accounts of this sub-branch to a nearby branch; ninety per cent. of the customers who had held credit accounts with the sub-branch transferred their accounts to other banks in the immediate vicinity.

A commercial bank which provided its customers with discount and overdraft facilities lost three-quarters of its clientele during the occupation. The reason was that, having no further need for credit facilities, the customers had opened credit accounts with banks nearer to their place of business. When the bank's representatives called on the debtors, they told him quite candidly that they had always been most satisfied with the bank's service and that they would certainly return to it as soon as they were in need of money again.

(7) «Dépot» with the French banks have increased to a very unsatisfactory extent. Valued in terms of gold they showed, at the end of 1930, a reduction of 41% in comparison with the previous year.

The building up of deposits, which is handicapped in many ways by this reduction, is clearly shown by the figures given in this respect the French banking system is far conditioned by that of the Anglo-Saxon countries. (Joseph Glendinning).
who can impose conditions which the bankers had rejected.

2. The range of the conditions has been widened. Tariffs have been fixed for all banking operations. This was not the case before the war when, as we have seen, only certain operations were covered. The system has been gradually developed: thus, as regards discounting, there are about a dozen categories of bills, with a different rate for each category (9). As regards overdrafts and advances, the conditions vary according to the nature of the guarantee. It should also be mentioned that the charges applicable to foreign trade operations are lower than those applied in internal trade.

3. Certain conditions have become uniform and compulsory, in some cases for the whole of France, in others for the region covered by the particular agreement. This is the case for the collection of cheques and coupons; safe custody charges for securities; charges on the turnover on accounts; discounting of acceptance of the Crédit National and the Crédit Foncier des Marchés. The desire of the banking authorities has been to offer the public a single tariff for all operations which do not necessitate an assessment of credit standing of the customer; on the other hand, when such assessment is essential for determining the charge applicable to a particular operation, there is a variable tariff with a certain minimum charge.

4. Claims made by customers have been admitted in cases where the conditions fixed by the agreements have not been observed by the banks, and it has been expressly stated that a customer must be compensated for any damage suffered by him in such cases.

5. Finally, which was not the case before the law of 1941, penalties are provided against banks which do not observe the conditions laid down in the agreements. In principle, only the Commission de Contrôle des Banques has the power to impose such penalties, among which are the following: warning; censure; prohibition of certain operations, and the imposition of any other limitations on the offender in the exercise of his profession; suspension of the responsible managerial officials, with or without nomination of a provisional administrator; striking the offender off the list of banks. The Commission de Contrôle de l’Industrie decided, on 17th January 1944, to delegate its disciplinary powers in regard to the non-observance of banking conditions to the Association Professionnelle des Banques, with the exception of the power to suspend the individual’s membership. However, the power to strike offenders off the list of banks.

V. - Banking competition since 1945. Non-observance of banking conditions.

This new control over banking conditions exercised an influence over the structure of banking rates and reduced the banks’ competitive capacity. The spread of credit account rates was completely closed. Also the rate of interest payable on time deposits for periods of up to two years was fixed and the opening of such accounts was entirely suspended. The Association Professionnelle des Banques, to which the banks were required to send a copy of every letter opening an account for a fixed period.

As regards conditions applicable to discounts and overdrafts, the fixing of minimum rates caused little inconvenience to the banks, first, because the standing of most of the business customers justified the application of higher rates than the minima fixed by the banking agreement and, secondly, because, in the case of the larger businesses, the credit was made available through a syndicate or consortium. The business firm’s main bank — which, in cases where the firm is more or less controlled by a bank, is that particular bank — acts as the leader of the syndicate or consortium and discusses the credit conditions with the firm. Once the conditions have been fixed, the leading bank allocates the total credit among the various banks concerned. In these discussions, the firm takes either no part at all, or very little. It is difficult for it to change its bank, or to favour one particular bank without causing an outcry all round. «Acquired rights» and «precedents» are supreme in this system. This does not mean that the system is absolutely inflexible and does not admit of exceptions: there are exceptions, but they are rare. By adopting this system the banks have banned competition and have shared «big business» among themselves on the basis of spheres of influence. It should be added that this system does not apply in general to credit accounts, particularly fixed accounts, although obviously a bank which has a given business enterprise in its sphere of influence will take good care that the greater part of that enterprise’s deposits are entrusted to it.

To revert to the question of deposits, which is not crucial in question, the banks, in order to attract funds previously held with other banks or to compete with the government and semi-government sector, were obliged to rely on the quality of the service they could offer as indeed they had already begun to do before the war. I have referred in paragraph II to their efforts in this direction. They are persevering with those efforts, each endeavouring to provide its customers with better services than the others. Thus, one of the banks in the “popular” sector whose business had fallen to a rather low ebb, made a remarkable recovery solely by improving the quality of its services and, in particular, by not closing during the lunch hour. A few years later, in October 1954, all banks followed its example in this latter respect.

It is well to bear in mind that, for an account to be profitable, it must be of a certain minimum value. The spread of credit accounts is at present put at 250,000 francs. It is true that if the account falls below this figure, profitable for the bank, it can still be useful if the account-holder does other business with the bank, as for example dealings in securities or the discounting of bills. Nevertheless, many banks refuse to accept deposits of less than a certain size (10). Certain banks only allow interest on large accounts, while others (very few, it is true) charge debit interest if the account falls below a certain figure.

V. - banking competition since 1945. non-observance of banking conditions.

I have already mentioned (paragraph II) that between the two wars the French banking system was poor in deposits (11). It remained in that condition despite all the efforts of the Vichy government to foster their formation. The measures taken were the following: exemption from cheque stamp duty; abolition of the obligation of the banks to notify the fiscal authorities of the opening of new deposit accounts and other credit accounts (this obligation was reimposed in 1949); increased penalties for the issue of invalid cheques; compulsory domiciliation of drafts (abolished after the Liberation); obligation on trades-people to maintain a bank account; obligation to make all payments over a certain amount by cheque. It has to be admitted that all these measures have not produced the anticipated effects. A recent inquiry showed that the French distrusted cheques and preferred to be paid in cash; also that 60% of the population did not possess a bank account. This report shows the ignorance of the general public, even including actual account-holders, on the subject of banking services.

The graphs in the following page give a picture of the movement in bank deposits since 1948. The first graph is for time deposits (comptes à échéance), cheque accounts (comptes de chèques), and current accounts (comptes courants écrivains). The second relates to bills discounted by the banks (effets rachetés) bills in portfolio (porte-feuille effets), bank deposits (dépôts) and the note circulation (circulation fiduciare).

The decision of the Bank of France, in September 1949, to fix discount charges for all banks was for all the large banks, whose discounts at the Central Bank had not previously been subject to any limitation, only the small and medium-sized banks having a ceiling to their discounts. This unlimited possibility of recourse to the Bank of France had in fact enabled the large banks to procure all the funds they needed when (11) A British reviewer wrote in 1950 a list of the 70 largest banks in the world, in order of the amount of their total assets, calculated in sterling. This a single French bank figured in this list, though a Spanish bank was No. 21, in 1948, in a similar list, a French bank occupied the 50th place.
their deposits were insufficient. Subsequently the Bank of France sold the credit to the overstepping of the discounting ceilings in numerous cases and the «Commission de Contrôle» ceased to insist that the banks should have the compulsory minimum of public securities in their portfolios (the plancher). In November 1931 the Governor of the Bank of France decided that these relaxations must cease; he had new and higher ceilings fixed, abolished all existing exceptions and ordered that thereafter the banks must maintain the prescribed plancher of public securities in their portfolios.

This was another hard blow for the banks, which immediately began casting around for deposits, offering rates well above the authorized maxima. The payment of the excess interest was to be effected in an indirect manner so that the banks would still appear to be respecting the official banking conditions. A controversy has arisen as to which were the banks which began to float the decision of the «Conseil National du Crédit». Some say that certain nationalised credit institutions were the first offenders; others that the Rubicon was first crossed by certain members of the «banque banque». It matters little, however, who it was, for in both cases the heads of these banking houses were leading figures in the «Association Professionnelle des Banques», delegated by the «Commission de Contrôle des Banques» to see that the banks respected the banking conditions and to express infraction by the penalties which I have already mentioned. There were no «sanctions», and the «Commission de Contrôle des Banques» did not call on the «Association Professionnelle des Banques» to impose any. It was quite obvious that the monetary authorities were closing their eyes to all these shortcomings. They had long desired to see an increase in bank deposits; and moreover they did not wish to embarrass the banks which they had just mulcted by suppressing the concessions they had previously granted in the matter of ceilings and plancher; on the contrary, they provided other safety-valves by semi-officially dropping the stipulations regarding credit-account conditions.

Certainly, many scrupulous minds would have preferred—it if were necessary, in order to safeguard the equilibrium of the banking system to go back to a completely competitive regime in the quest for deposits—that this change of policy should have been «official», that is to say, that the «Conseil National du Crédit» should have announced that the maximum rates fixed by it for deposits had been withdrawn. That would have been the more correct and normal procedure, for tolerance of the non-observation of certain banking conditions encouraged the banks to ignore other conditions, and indeed—human nature being what it is—to float banking regulations in general; it was also, in a way, tantamount to casting discredit on the monetary authorities. These authorities, in fact, appreciated all the disadvantages of such a situation, but they considered that an official return to freedom of rates would have even greater disadvantages; doubtless they desired to reserve to themselves the possibility of an easy return to the control of rates by merely dropping the tolerance they had shown when they considered the monetary situation necessitated it. It is evident that to re-introduce limitation of rates after having officially abolished it would also have had its disadvantages. It is, however, interesting to note that the regulations regarding credit interest rates had been fully observed from 1925 to 1931, when they had been imposed on the banks by their own central organisation, whereas they were violated when they were prescribed by law.

It is evident that higher rates were paid in the case of large deposits (i.e., those running into some tens of millions). The rates paid were: from 4% to 5% for sight deposits at the end of 1934. A rate of 4% was quite common, although the discount rate was 3.5%. A disparity of this size would have been unthinkable even during the dear-money years, when credit interest rates did not in general exceed the official discount rate. On time deposits the rates were still higher; I know of one instance in which 6% was paid for money at 6 months' date. The main beneficiaries of these high rates were naturally those who possessed large monetary resources, that is to say, insurance companies and the shipping business.

I have known banks linked with industrial groups which in order to fight the high rates offered by other credit institutions to the insurance companies, employed an original competitive procedure: they told the companies who did the insurance business of the industrial groups in question that, if they desired to keep these insurance contracts, they must themselves maintain a considerable balance on their accounts with those banks. The banks went even further and stipulated what the precise minimum balance should be.

One question arises which is the crux of the whole situation. Has the freeing of rates appreciably increased the volume of bank deposits? Has it polarized the large holders of capital? This is a question which it is difficult to answer, for the formation of bank deposits is conditioned by certain rather complex principles, the most important of which is that expressed in Hayek's famous maxim: «Loans make deposits». However this may be, here are the figures since 1925 for current accounts, cheque accounts and fixed deposits for the whole of the banks belonging to the «Association Professionnelle des Banques» (22).

(22) These figures include those of the four large nationalized credit institutions, but not those of the Bank of France, the Banque of Franche-Comté, the Crédit Foncier de France, the Crédit National, the Banque Française de Commerce Extérieur, the «banques populaires», the banks of the co-operative sector and agricultural credit institutions.

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*Graph 1*

[Graph showing data]

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*Graph 2*

[Graph showing data]
The movement on these accounts, expressed in percentages, was as follows:

<table>
<thead>
<tr>
<th>Current accounts</th>
<th>+23.7%</th>
<th>+1.7%</th>
<th>+1.9%</th>
<th>+1.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheque accounts</td>
<td>+8.3%</td>
<td>+7.9%</td>
<td>+8.3%</td>
<td>+8.3%</td>
</tr>
<tr>
<td>Fixed deposits</td>
<td>+12.5%</td>
<td>+29.3%</td>
<td>+12.5%</td>
<td>+12.5%</td>
</tr>
</tbody>
</table>

These figures are difficult to explain. The fact that the average balance on current accounts declined during the year 1952, whereas the total volume of credit placed at the disposal of the French economy increased by 20%, shows that during this period there was a leakage through which bank deposits flowed out, and that it was perhaps in order to stop up this leaking that the banks were obliged to free their credit interest rates. Subsequently, current accounts resumed their upward movement, a trend which has been proportionately more marked in the case of cheque accounts and fixed deposits. It may be — and, indeed, it is almost certain — that this rise in fixed deposits was due to competition among the banks in the field of interest rates, for that competition was particularly keen as regards fixed deposits. As far as the marks used in the above paragraph, according to the official definition, are accounts for private individuals, this cannot be attributed to competition in the rates for, in general, private individuals do not possess large bank balances and, as I have already said, this competition mainly concentrated on the quest for large deposits. In all these movements it is therefore difficult to determine to what extent they can be attributed to the freeing of rates.

It should be remarked that, since the rates were freed, the banks which normally used their discount facilities with the Bank of France up to the hilt and were not able to maintain their prescribed plancher of public securities, have had less recourse to those facilities and have had less public securities than the regulation minimum. Here again, however, it is difficult to determine whether this reversal of the situation is due to the freeing of the rates, the more so as in the meantime, I have already mentioned, the Bank of France had revised its discount policy via-vis the banks by laying down stricter, but higher ceilings instead of the previous practice of fixing lower limits, but allowing a great number of exceptions.

As it was easy to foresee, the toleration by the monetary authorities of the non-observance of the official credit interest rates was bound to result in a lowering of the debt interest rates below the official minima. On the contrary, the banks complained that the government, with a view to lowering industrial costs, had on several occasions intervened with a demand that the banks should lower their charges. Thus, on 6th November 1952, certain bank commissions were reduced by one-third or one-half. In September 1953 the Minister of Finance advocated a cheap-money policy by way of the revision of banking conditions and a reduction in interest rates; and on 17th September 1953 the « Conseil National du Crédit » responded to this invitation by reducing commissions charged for the opening of documentary credits and the amount of the different entries to the debt or the credit of customers’ accounts. In September 1953 the Minister of Finance was asked for a further reduction in bank charges. On 26th October 1954 the « Conseil National du Crédit » responded to this appeal by reducing by 0.20% the rates charged by the banks for medium-term credit arrangements; the minimum for debt interest was reduced from 6% to 5%, and the maximum commission charged on overdrafts was lowered by twofold to half debt interest rates; in addition, the exchange commission applied to payments to or from other countries was reduced. The Minister of Finance, when announcing these reductions in the cost of money, added that complementary measures would shortly be taken which would be such that at the end of the eighteen-month expansion plan charges for equipment funds would be lower, in fact, than in countries comparable with France.

I must beg the reader to excuse this long recital of facts, but it was the only way of showing the influence exercised by the government over debenture interest rates. It may be inferred that there is only a minimum rate that is fixed and that, consequently, above this minimum, which the banks regard as rather low, the banks are free to fix their own terms and competition can operate — the margin between the rates charged to a customer and the minimum rates being determined by the standing of the customer. This is true only where the customers are small firms; the larger ones will ask their banks to apply the maximum rates, and the banks will do so. The same will happen also in the case of the many minor and minor transactions. In any case, the analysis, therefore, is in fact the government which determines the structure of debt interest rates.

VI. - The structure of debt interest charges depends on the public authorities.

We have seen that competition among the banks did not in general result in a lowering of the debt interest rates below the official minima. On the contrary, the banks complained that the government, with a view to lowering industrial costs, had on several occasions intervened with a demand that the banks should lower their charges. Thus, on 6th November 1952, certain bank commissions were reduced by one-third or one-half. In September 1953 the Minister of Finance advocated a cheap-money policy by way of the revision of banking conditions and a reduction in interest rates; and on 17th September 1953 the « Conseil National du Crédit » responded to this invitation by reducing commissions charged for the opening of documentary credits and the amount of the different entries to the debt or the credit of customers’ accounts. In September 1953 the Minister of Finance was asked for a further reduction in bank charges. On 26th October 1954 the « Conseil National du Crédit » responded to this appeal by reducing by 0.20% the rates charged by the banks for medium-term credit arrangements; the minimum for debt interest was reduced from 6% to 5%, and the maximum commission charged on overdrafts was lowered by twofold to half debt interest rates; in addition, the exchange commission applied to payments to or from other countries was reduced. The Minister of Finance, when announcing these reductions in the cost of money, added that complementary measures would shortly be taken which would be such that at the end of the eighteen-month expansion plan charges for equipment funds would be lower, in fact, than in countries comparable with France.

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(16) It may be noted, however, that for certain discount operations, even though they are « high » at the Bank of France, the rates are at present so high that they cannot be said to bear any relationship whatsoever to the official rate. Thus, in the case of investment rule credits, the most favourable rates were for the a 15%, the 4% credit, 9%, and there are cases in which the rate varied from 40% to 50%. In the case of credits granted to public officials, which credits are not mobilisable at the Bank of France, a judgement given by the Tribunal de Nancy in May 1953 declared that a rate of 40% to 50% was a normal rate.

It was in order to put an end to such abuses in connection with consumer credit that, in December 1954, the « Crédit Social » — insured exclusively for wage-earners — was insuré with the participation of the « Crédit Agricole ». All businesses which allow to the « Crédit Social », wage-earners who have had three years’ service, will be able to demand that the bank archives to an amount not exceeding three months’ wages for the acquisition of semi-perishable consumer goods. The businesses will undertake to pay a commission of 2% on the capital of the credit granted to their employees.

To put an end to the exploitation of which public officials have been the victims in the past, the « Crédit Municipal du Paris » or, in other words the « Crédit Foncier », has created a special department which is to allow public officials to advance sums of money already existing in the case of the « Crédit Municipal du Paris ». It has been decided to reduce the amount of two months’ emoluments, including bonuses and family allowances, and will be repayable in twelve
VII. - The structure of debt interest charges and the cost of banking operations.

A priori it would seem that the structure of banking conditions must be based on the cost to the bank of its various banking operations. This logical assumption does not, however, hold good in a sphere in which pragmatism predominates. The reasons for this are numerous. In the first place, the cost of bank operations is difficult to determine, notwithstanding the many ingenious studies that many experts on banking technique have devoted to this subject (17). Secondly, the rates applied to credit operations include a risk-insurance premium which, normally should be treated as part of the cost of the banks' operations and which it is impossible to calculate by any formula capable of general application. Finally, there are certain ancillary operations which banks are obliged to undertake even if they lose money on them, since they originate other operations which are profitable. Thus, as I have already said, an account which does not show a regular balance of at least 125,000 francs costs a bank money, but this does not deter certain banks from opening accounts for amounts of less than this figure and, as a general rule, no bank closes accounts whose average balance does not reach this minimum.

The cost to the banks of certain security transactions has been calculated with a fair degree of precision. It is so high that if it were taken as the basis of calculation of the banks' commission charges, banks who did so would lose their customers (18). The banks have, therefore, to resign themselves to losing money on these operations, since in this way they retain a clientele with whom they can do other profitable transactions. The banks have, in fact, made a great effort to compress this cost, but so far, unfortunately, it does not appear possible to reduce it further unless the existing company law and the stock exchange rules are radically revised and, above all, unless there is a complete change in the habits of the general public, which at present tends to spread its savings in trifling amount over a variety of investments. One might observe that in certain cases, the structure of the charges applied to discount operations and overdrafts is based essentially on costs — for these charges are based on the Central Bank rate for discounts or advances and, in the case of discounts, this rate is a cost factor since it is an essential element of the sum which the bank must pay if it is obliged to discount its paper at the Bank of Issue. This reasoning may be regarded as valid, subject to the reservation that this rate is not the only element in costs, for account has to be taken also of operational expenses, a share of general expenses, etc.


The majority of the « Cairais d'Épargne » savings books show balances of less than 120,000 francs, the figure which has been suggested as the minimum at which a deposit account begins to be profitable for the bank. Moreover, the rule was that deposits could not exceed 500,000 francs in the case of a private individual (20). The formalities connected with withdrawals are an obstacle which keep many holders of bank accounts away from the « Cairais ». The competition coming from the Crédits municipaux (ou Monts de Piété) appears to be more real, but the amounts here concerned are not very large. On the other hand, the postal cheque offices hold deposits totalling something of the order of the deposits of the banks, and, in the matter of deposit interest, are subject to the same rules as the banks.

VIII. - Competition by government and semi-government institutions since 1945.

During the occupation the government took certain measures to tone down competition directed against the banks by the government or semi-government sector (19). As regards the « Cairais d'Épargne », the government introduced certain rather complicated modifications, the intention of which was that the interest allowed to those institutions' depositors should not be attractive unless the latter's accounts showed little fluctuation. It cancelled part of the fiscal privileges previously enjoyed by the « crédit populaire » and the « crédit agricole ».

Fundamentally, the main criticism levelled against the government and semi-government institutions is that they tend to attract deposits by offering more favourable terms than the banks can grant, or by offering other advantages. This is what a provincial banker recently termed « unfair competition », and he added that it was in order to fight this competition that the banks, large as well as small, had been obliged to cease to respect the savings credit regulations — a situation which, he remarked, had brought about a dangerous rise in rates. This view of the origin of the disarray of banking regulations relating to credit interest rates differs from that to which I have referred above; it is also contested by other banks, who support the first-mentioned explanation.

I must frankly say that the seriousness of the competition by certain of these institutions seems to me to have been exaggerated. The majority of the « Cairais d'Épargne » savings books show balances of less than 120,000 francs, the figure which has been suggested as the minimum at which a deposit account begins to be profitable for the bank. Moreover, the rule was that deposits could not exceed 500,000 francs in the case of a private individual (20). The formalities connected

(17) Mention may be made, in particular, of studies published in various issues of the Revue de l'Economie, in 1950 and 1957, under the title: « Vers une évaluation plus objective des coûts des services bancaires » par M. Goyens.

(18) The Commission for the auditing of the accounts of public enterprises, and which therefore audits the accounts of the Bank of France and credit institutions, stated in its report, submitted in 1954, that « the multiplicity of the operations of the Banque Nationale de Lavoro and the Crédit agricole » is not considered. It is not considered that the Banque Nationale de Lavoro and the Crédit agricole could be considered to be a major source of profit for the public banks. However, the commission noted that since 1945 the banks have been able to earn a profit from the deposit of balances, which is not the case for the public banks.

(19) The four large nationalized credit institutions are not considered to be a major source of profit for the public banks. However, the commission noted that since 1945 the banks have been able to earn a profit from the deposit of balances, which is not the case for the public banks.

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The banks also complain of the competition they have to meet at the hands of the insurance companies in the matter of security, but, on the other hand, they no longer encounter competition, as they did before the outbreak of war in 1939, from either the Bank of France or the *Consolidazione del Tiro». The problem of competition between the banks and the government or semi-government institutions exists in most countries in which the activity of those institutions, thanks to the advantages assured to them by the State, hinders the development of the banks. At the last meeting of the International Banking Summer School, a Belgian delegate expressed the hope that «banking associations would by every means at their disposal endeavour to bring about a more satisfactory state of affairs».

The solution of this problem — if indeed there is a solution, for, whatever may be done, there will always be complaints unless, moreover, there is no alternative — is not altogether in question in the sense that, if the banks want to ignore the rules that had been laid down for them, they must do so in the context of a more satisfactory state of affairs.

The restoration of freedom in the matter of the fixing of banking conditions showed the advantages of entirely unrestricted competition in rates, a competition which, in France, no longer recognised even the technical limitations which I have referred to in section 1 above (Note 2), since interest rates exceeded, and often still exceed, the discount rate of the bank of issue. But I will conclude by expressing the opinion that despite these deviations, and despite the tendencies which have become apparent in France in certain economic and business cycles, in the absence of a return to a return to competition, the compellings forces which caused the banks to accept the fixing of rates have triumphed over the advantages of competition since, in France, there is a movement in the direction of a return to a new regulation, and in Italy an agreement among the banks has for some years past taken the place of the rules based on the law of 1935, even though those rules have never been reinserted.

**IX. Conclusions**

The problems raised by inter-bank competition and their rate structure are not peculiar to France. More or less identical problems arise in almost all countries, with certain nuances due to differences in national temperaments and in banking systems. The regulation of banking conditions was not due to governmental initiative, but to understandings among the banks. We have seen how this was the case in France but in other countries — in the United States, in Great Britain, in Holland and in Germany (21) — formal agreements have been concluded among the banks to regulate banking conditions. In the light of this tendency it may be asked how it is that, in certain countries — in France and Italy, for example — understandings with regard to banking conditions, which were first voluntarily entered into by the banks and subsequently established by law, have finally broken down. It would seem that this has been due to a combination of unfortunate circumstances, among which shortage of capital is probably the most important. In fact, the failure of the monetary authorities to take action to repress infringements of the legal banking conditions must lead to the conclusion that the reasons which induced the banks to ignore the rules that had been laid down for them were particularly serious.

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(21) Germany was the first country in which such agreements were concluded. It was in fact in 1923 that the a Simmel-Erbauvertrag (or Association of Berlin Banks and Bankers, decided, in order to put an end to a series of disorderly competition which was prejudicial to the banks — competition which was due principally to the opening of numerous sub-

The Second Enquiry into the Labour Force in Italy

1. In September 1952, for the first time in Italy, the Central Statistics Institute (ISTAT) conducted an enquiry into the labour force. The statistics were collected by means of the sample technique, applied to a group of 58,952 families containing 239,317 members, selected from 770 Italian Communes. The results of the enquiry proved of great value for interpreting other data brought to light by the Parliamentary Enquiry into Unemployment (1).

Nevertheless, the experiment was no more than a first, somewhat rough and ready attempt to determine the size, distribution and degree of employment of the labour force in Italy. For this, there were two main reasons:

(a) The essentially dynamic nature of the phenomenon of employment could obviously not be captured by statistics relating to one particular year. More specifically, the Enquiry made by ISTAT overlooked two fundamental aspects of the problem of unemployment in Italy — that of seasonal influences and that of under-employment, both of which can only be appraised by observation over a lengthy period (2).

(b) Certain of the criteria applied by the Institute for the classification of statistics lent themselves to a misleading interpretation of the data. In particular, the enquiry did not take account of the phenomenon of such magnitude in Italy, of huge categories of persons, mainly women, who, while not pursuing any economic activity in the true sense, nevertheless do casual work and so form an intermediate stratum between the active and inactive populations.

Moreover, from the very outset, ISTAT had recognised the need to collect statistics periodically and to improve the criteria applied. In May 1955, after an interval of two years, it made a second enquiry, and this was followed in May 1955 by a third. Enquiries into the labour force have thus come to form part of the regular statistical material collected in Italy.

ISTAT's second enquiry, the principal results of which have not been made known until a year after the event, was based on new criteria for the classification of data. In particular, to the three groups comprising the labour force in the first enquiry — employed persons, unemployed persons previously in employment and persons in search of employment — for the first time — has been added a fourth category, viz. persons performing casual work (for the most part, housewives who supplement the family income by intermittent work at home or part-time domestic service outside the home). As a result of this new classification, the ratio between the labour force and the inactive population has changed appreciably, thus prejudicing comparison between the first and second enquiries (See Table 1); but in any event comparison would have been rendered difficult by the difference in the timing of the two enquiries. Indeed, September, the month in which the first enquiry was carried out, falls in the period when seasonal employment is high, whereas May is