

Monetary Policy in France: Price Incentives and Quantitative Controls

Only rarely do countries launch extensive reforms of their systems of credit control, and it is still rarer for them to adopt radically different philosophies of monetary management. For this reason, the gradual revision of the methods of credit control in France during the late 1960s and 1970s — with the substitution of a market-oriented mode of control for the longstanding “dirigiste” system — is of considerable interest. Quite apart from providing a case study of particular relevance for countries which rely on direct controls and which might contemplate switching over to an incentive-based and market-oriented system, it gives us an excellent opportunity to evaluate the relative efficiency of an exceptionally broad range of monetary and credit policy tools in a relatively coherent institutional setting.

In this article an attempt will be made to assess the implications of the change in the philosophy of credit control and the ensuing modification of the instruments of monetary policy in France by examining the monetary developments of the last few years. The thesis to be considered is that it is inefficient to rely exclusively on market-oriented controls in an open economy with an oligopolistic banking sector and that, consequently, the authorities are well-advised to use occasionally credit expansion limits, which run counter to the new philosophy of monetary management, if they want their policy measures to have a rapid and perceptible impact on banking activity in the short run. In the longer run, it seems reasonable to expect an inversion in the effectiveness of direct controls and market-oriented tools because economic agents eventually find ways around administrative controls (i.e., the substitutability between various claims is higher in the long

run than in the short run) and because price incentives often work quite well, but only with considerable and sometimes variable lags.

It is unnecessary to describe the French financial system in detail, for there are a number of extensive and accurate accounts including the one by Donald Hodgman published in the December 1971 number of this Review.¹ Nevertheless, a cursory overview of the most striking features of the financial system will place the ensuing discussion of recent monetary policy in perspective.

The Institutional Setting

In few other large industrial countries of the west does the state play as important a role in the financial market as in France — a role which is so noteworthy that some commentators have drawn analogies between financial markets in France and similar markets in Socialist countries.

Although the involvement of the state can be traced to Napoleonic reforms which affected banking and financial affairs, the state assumed its present position in the immediate postwar years when a number of substantive institutional changes were made. At this time the *Banque de France* and the most important deposit banks were nationalized, new regulations were laid down for the Bank and the National Credit Council (*Conseil National du Crédit*) was established.

The position and operation of the *Banque de France* is somewhat different from that of other central banks, largely because of the importance of special, semi-public credit institutions and the Ministry of Finance under whose aegis they fall. The Governor of the *Banque de France* has considerable independence in running the Bank for he alone determines the rate of interest and can veto decisions of the General Council — the primary governing body of the Bank. However, the Ministry of Finance is the final policy arbiter and establishes the main lines of monetary and credit policy.

The National Credit Council is made up of over 40 representatives

¹ Other studies containing accounts of the institutional setting and the armoury of policy tools include the ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT MONETARY STUDIES SERIES, *Monetary Policy in France* and the EUROPEAN COMMUNITIES MONETARY COMMITTEE, *Monetary Policy in the Countries of the European Economic Community* as well as DIETERLEN and DURAND, "Monetary Policy in France".

of labour, business, agriculture and government. The Minister of Finance is Chairman, and the Governor of the *Banque de France* Vice-Chairman. At the time it was conceived, it was hoped that the Council would become an important instrument for formulating and implementing monetary and credit policy, and a number of powers were assigned to it. However, over the course of time, it has come to be more of a formal body.

Even though there are over 300 banks and a large number of near banks in France, the provision of financial services is quite concentrated. The three state-owned banks, *Banque Nationale de Paris* (established in 1966 through the merger of the *Comptoir National d'Escompte de Paris* and the *Banque Nationale pour le Commerce et l'Industrie*), *Crédit Lyonnais* (established 1863), and *Société Générale* (1864) account for about half of the bank loans advanced to the economy, and the six largest banking groups control 80 per cent of the aggregate banking balance sheet. There have been some attempts to increase competition in banking. For example in 1966 and 1967, when the new philosophy was waxing strong, the regulations preventing merchant banks (*banques d'affaires*) and deposit banks from operating in the same spheres were changed and in mid-1975 the savings banks (*caisses d'épargne*) were given the right to issue cheque books. Despite these moves, there can be little doubt of the relevance of the predictions of oligopoly theory for French banking. According to this type of thinking, a mature industry like banking in which technological innovation is important but diffuse will see competition concentrate on factors other than price. The absence of major changes in base rate behaviour after the abolition of the official minimum in 1966 is just one indication of the applicability of this mode of analysis.

The interpenetration of the state in financial affairs is not reflected so much in the nationalization of the largest banks, which in fact act as privately-owned, oligopolistically competing firms, or in the role of the National Credit Council, as in the importance of the special credit institutions and the Treasury in the provision of finance, particularly medium and long term finance. The Treasury and the special credit institutions (including the national agricultural fund, *Caisse Nationale de Crédit Agricole*) supply nearly 40 per cent of the loans granted to the economy (cf., Table 1) and about two thirds of the medium and long term credit needs of the economy.

The Treasury in France is quite unlike its counterpart in most other countries because it acts independently of the central bank in managing government funds and exercises a considerable number of banking functions. It acts as a deposit bank in as much as it makes use of the money placed in postal cheque accounts, and as a sort of mortgage bank in as far as it grants credit for medium and long term projects through its Economic and Social Development Fund. The Treasury also exercises certain central bank functions. It can affect the liquidity of the banking system by selling or retiring Treasury bills or by encouraging deposits in the postal cheque accounts. Until 1963 Treasury bill rates were set by the Treasury, and this effectively prevented the *Banque de France* from conducting an independent interest rate policy.

In recent years the importance of the Treasury as a para-monetary institution has declined, largely as a result of the improved financial position of the government. The Treasury bill "floor", which required commercial banks to hold a certain percentage of their assets in Treasury bills, was abolished in 1967. This decline in the role of the Treasury has not led to an increase in the importance of the banks, but rather that of the semi-public credit institutions which for the most part are regulated by the Ministry of Finance and not by the *Banque de France*. It is this "parallel banking system" which gives French monetary policy its individual character and makes the central bank only one of the institutions of monetary and credit control.

TABLE I
BREAKDOWN OF CREDIT TO THE FRENCH ECONOMY¹
(end of 1973 1000 million francs)

	FF	Per cent
Banks	427.10	55.47
Banque de France (direct credits)	0.04	.0
Special credit institutions ²	228.73	29.71
Non-bank financial intermediaries	47.01	6.11
Medium and long term credits distributed by the national agricultural fund ³	67.02	8.71
Total	769.90	100.

¹ Loans to local authorities excluded.

² Including the Treasury.

³ Including only loans not eligible for rediscount or money market operations.

SOURCE: CONSEIL NATIONAL DU CREDIT, 28th Annual Report, 1973.

The single most important semi-public special credit institution is the state deposit fund (*Caisse des Dépôts et Consignations* or *CDC*) which does not exist on a similar scale in other industrialized countries of the west. The CDC finances local authorities and housing, and until 1967 was obliged to channel a part of its funds into the Treasury. It also places some of its resources in the money market, and as such could exercise a sort of "open market" policy of its own. In fact the CDC tries to obtain the highest return on its money, but there is no doubt that its importance in the call money market can at times make the central bank's open market operations more difficult than they would otherwise be. The CDC receives a substantial share of its funds from the semi-public savings institutions (*caisses d'épargne*) which also make loans, but only on a minor scale.

The CDC also advances funds to the mortgage fund (*Crédit Foncier*) and the industrial fund (*Crédit National*) which are two other semi-public credit institutions with specific purposes. They receive the bulk of their resources from the bond market. Finally there is the national agricultural fund (*Caisse Nationale de Crédit Agricole*) which, to the extent that it finances agricultural and related activities with funds obtained from regional savings offices and related sources, is classified as a special credit institution.

Instruments of Monetary and Credit Policy

The significance of different policy weapons depends critically on the philosophy with which they are wielded, and the emphasis given to monetary policy, which is designed to influence the level of economic activity, and credit policy, which is intended to affect the allocation of resources.

The adoption of a more market-oriented approach in the second half of the 1960s reflected a shift away from the conscious guidance of credit flows towards greater reliance on the price mechanism. With this change, more emphasis could be given to the attempt to influence the overall level of economic activity. The move towards the new approach entailed the abandonment of the traditional policy of keeping interest rates low and stable. This former policy was not based on the belief that high and rising rates of interest would exacerbate inflation by increasing the cost of housing — an

argument commonly heard in Scandinavia. Rather the reasoning was that a low discount rate would keep down industrial costs, encourage exports and stimulate investment. A low discount rate was seen to encourage banks to incur central bank debt so as to be able to expand their lending, either until the increase in the supply of funds caused their lending rate to fall to a 'normal profits' level or until the ceiling on central bank credit was reached. Of course the overall impact depends on how the central bank finances its advances to the banks. If an increase in credit is not financed by a rise in domestic saving or by the import of capital, there will be no real increase in the total amount of credit available to the economy.

Evidence on the desire of the authorities to encourage investment through a low and stable rate of interest before the mid-1960s should not be sought in the level and movements of the official discount rate, because this rate has never been of much significance in France. Before the mid-1960s the existence of preferential rates for discounting paper issued to finance activities which the authorities wished to see favoured robbed it of much of its significance. After the Bank began to encourage the banks to meet their liquidity needs by turning to the money market, the discount rate became even less important. In 1971 the "open market rate" was allowed to fall below the discount rate and became the major determinant of the cost of short-term liquidity. In order to forestall reswitching to discount window financing in the event that the discount rate should drop below the money market rate, the *Banque de France* suspended the automatic rediscount facility from the beginning of 1972. The Bank continues to rediscount, but only at its discretion. Export bills financing exports to countries outside the Common Market are currently the most important type of paper rediscounted. The rate is highly preferential (4.5 per cent) and is a vestige from the time when greater emphasis was given to credit policy. This scheme is, however, considered to have little meaning for the price competitiveness of French exports.²

Deposit rates have long been regulated by the National Credit Council or the Ministry of Finance. Until 1965 the authorities tended to follow a policy designed to encourage the flow of funds into the "parallel financial market" or Treasury circuit.

² Cf., MARJOLIN, SADRIN and WORMSER, *Rapport sur le marché monétaire et les conditions du crédit*.

The purpose of this bias was to help to finance state expenditure and high priority projects and to ensure an adequate return for small savers who might not otherwise be able to obtain a satisfactory yield on their funds. In the second half of the 1960s, the authorities tried to stimulate saving by raising interest rates and removing some of the disparities between interest earnings on accounts which were virtually identical. In 1967 the ceilings on rates paid on term deposits of more than FF 250,000 or on deposits with a term of more than two years were abolished. Subsequently deposits in excess of FF 100,000 or with a term of one year or more were exempted from interest rate regulation. At this time the banks also ceased to pay interest on demand deposits which led to a substantial portfolio shift towards time deposits. In 1966 about 59 per cent of the liabilities of the banks consisted of demand deposits but by 1973 the share of demand deposits had fallen to about one third. The general rise in the interest rate no doubt also contributed to the spread of the banking habit which has only recently caught on in France. In the 1950s currency frequently accounted for about half of the money supply compared with a fifth to a quarter in the United States and the United Kingdom. By 1974 the share in France had fallen to about a quarter.

The importance of the bond market as a source of funds for some of the semi-public special credit institutions means that the rate of interest in this market is a matter of concern for the authorities. The Ministry of Finance regulated the rate of issue on bonds for a long time, but the *Banque de France* was given a central role in determining the effective yield in the beginning of 1973 when it began to operate in this market to exercise its monetary policy. This has led of course to a greater integration of the long and short term markets.

Portfolio Requirements

The role of portfolio requirements depends greatly on the relative emphasis given to monetary and credit policy. In conditions where an attempt is made to guide credit flows, regulations governing the composition of portfolios are primarily used to ensure that finance goes in the desired direction, but when the stress is placed on the management of the level of economic activity, portfolio require-

ments primarily serve as a means for backing up operations designed to affect bank liquidity. The monetary authorities then use them to increase or decrease bank multiplier "leakages" which influence the ultimate impact of open market or analogous operations on the quantity of bank credit.

When credit policy was given pride of place in France, portfolio requirements were numerous and all-encompassing. For example, between 1948 and 1967 there was a floor on Treasury bill holdings of the commercial banks. By requiring the banks to hold such bills, the authorities created demand for this type of paper and thus kept the cost of financing government debt down. Other portfolio requirements included the liquidity ratio (*ratio de liquidité*), the liquidity coefficient (*coefficient de trésorerie*) and the retention coefficient (*coefficient de retenue*), all of which were designed to encourage either directly or indirectly the allocation of credit in specific directions.

In addition, portfolio requirements were also used to back up the quantitative controls in the pre-1967 regime. Since at this time certain types of paper could be discounted without limit, a way had to be found to prevent the effectiveness of the quantitative control of credit from being undermined. The inclusion of the exempt paper in the category of securities subject to the rediscounting ceiling would, of course, be one way, but in this case the paper in question would lose its favoured position, and the authorities desire to channel funds in a particular direction would be thwarted. The institution of portfolio requirements did not have such untoward consequences and thus helped the authorities to achieve the goals of both monetary and credit policy.

To facilitate the transition to a system of control through reserve requirements and money market operations, the National Credit Council introduced a medium term asset portfolio requirement which is frequently called the retention coefficient. Its purpose was to prevent the banks from rediscounting the claims which had previously been "frozen" by other portfolio requirements. It was not designed to be a tool of monetary policy in the sense that it would be varied to influence banking behaviour during various phases of the business cycle. However, this portfolio requirement was not phased out gradually as had been envisaged at the time that it was brought in. On the contrary, it was modified in 1972

so that bonds with a term of up to seven years could satisfy the requirement. The idea behind this extension in the term of acceptable paper was to create a direct link between the money and bond markets.

A Decree issued in January, 1967 gave the National Credit Council and the *Banque de France* the right to establish and set reserve requirements not only for the banks which traditionally fall under their control, but also for the special credit institutions which are generally supervised by the Ministry of Finance. The National Credit Council empowered the Bank to set the reserve ratio at any point under the maximum which was first placed at 10 per cent and subsequently raised to 25 per cent. The *Banque de France* has fixed the requirement as shown in Table II. This portfolio requirement was the first one designed primarily to affect the bank multiplier, and represented a clear step towards market-oriented monetary policy.

It is important to note that the *Banque de France* sets different ratios for different types of liabilities and different economic agents (cf., Table II). The rate is generally lower on fixed-term deposits than on sight deposits. By varying the two ratios, the Bank can indirectly encourage different types of deposits, and thus affect the liquidity of the banking system indirectly as well as directly. Since 1972 the Bank has called for different reserves on the accounts of residents and non-residents depending on whether it wished to encourage or discourage capital inflows. From March until October 1973, the Bank imposed a 100 per cent reserve requirement on increases in non-residents' accounts. Measures of this sort allow the Bank to pursue a policy which is more independent of interest rates abroad than it would otherwise be.

At the beginning of 1971 the Bank introduced reserve requirements on the growth of credits granted by the various financial institutions. It was felt that this measure would have a more direct impact on bank behaviour than changing the reserve requirements on deposits. The regulations were formulated so that reserves were required on credit in excess of a reference amount. The severity of this measure could thus be altered by changing either the reserve ratio or the reference amount (i.e., the reference date, the percentage of the credit outstanding on that date, or the definition of the credit on which reserve requirements are due). This reserve require-

TABLE 11

RESERVE REQUIREMENTS

Date of implementation	Demand deposits		Savings deposits		Foreign banks	
	Residents	Non residents	Residents	Non residents	Demand deposits	Savings deposits
1967 - 21 January . .						
21 April						
21 July						
21 October . . .						
1968 - 15 November ¹ .						
1969 - 21 June						
1970 - 21 January . .						
5 June						
10 July						
1971 - 1 April						
6 May						
21 May						
21 July						
5 August						
15 December . .						
21 December . .						
1972 - 21 March . . .						
21 July						
1973 - 21 March ² . .						
21 July						
21 October . . .						
1974 - 21 January . .						
21 June						
21 August . . .						
1975 - 21 January . .						
12 June						
4 September . .						

¹ From 10th July to 20th September the reserve requirement for foreign currency accounts was 10 per cent.

² The reserve requirement for accounts of non-residents was 100 per cent of any increase over the level of 4th January 1973.

SOURCE: OECD and Banque de France.

ment was quite moderate at first, but it was gradually made more burdensome until it was suspended in June, 1974 after it had been made somewhat superfluous by the introduction of supplementary reserves on advances.

These supplementary reserves on lending were required when the banks expanded their lending by more than the permitted amount. They were introduced in December, 1972, and they increase exponentially as bank lending rises above the warranted amount.³ The supplementary reserves on lending can be considered to be a new version of the credit expansion limits which the Bank imposed in 1958, 1963 and 1968.

Quantitative Controls

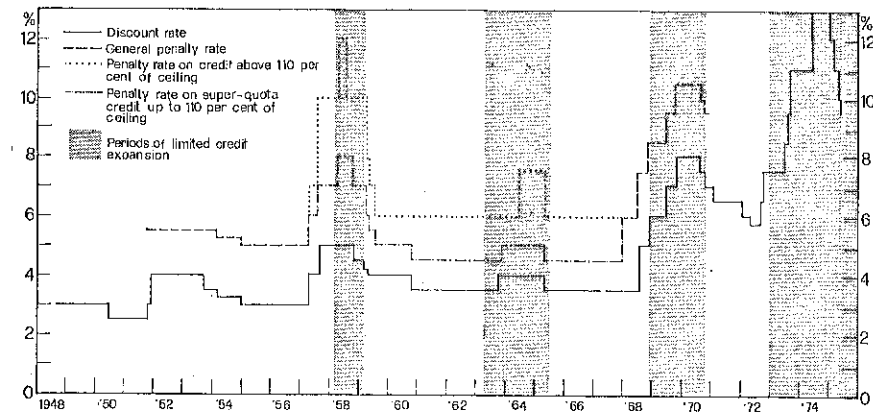
Quantitative controls are important in any system in which the price mechanism is not given free rein, and they may even have a role to play in a regime where monetary management is market-oriented. During the period when the primary mode of refinancing the banks was through central bank rediscounting, a ceiling was imposed on this type of credit in order to prevent the banks from expanding their lending excessively. The ceiling was necessary since the discount rate was so low and rigid that the banks experienced no disutility in going into debt to the Bank and would have increased their borrowing virtually without limit had there been no ceiling or analogous stop-gap. However, changes in the rediscount ceilings were not often used as a tool of active monetary policy because a very substantial share of the discounting took place outside of the normal rediscount ceiling. For example, in November 1968, about 72 per cent of the credit extended by the *Banque de France* at a fixed rate of interest was outside the ceiling. Export credit was not subject to quotas and certain long-term credits could be rediscounted outside the ceiling if the *Banque de France* had approved the loan prior to rediscounting. The rate of interest on these rediscounts was frequently lower, and

³ The formula for calculating supplementary reserves is
 $SR = (0.3\%N + 0.15\%N^2)C_t$
 where SR is supplementary reserves,
 C_t is the stock of credit at time t , and
 N is the indicator of credit expansion in excess of the permitted amount.
 See OECD, *op. cit.*

sometimes much lower, than the discount rate itself. The ceilings were therefore used in conjunction with changes in the penalty and discount rates and alterations in the definition of the paper which could be rediscounted outside the ceiling at normal or preferential rates of interest (see Chart I).

CHART I

DISCOUNT AND PENALTY RATES IN FRANCE



One quantitative measure which has been quite significant in France is the limitation of bank credit expansion. This weapon has not been used so much to "fine tune" the economy as to reinforce a restrictive policy when the more traditional tools of monetary policy have proven inadequate to the task (see Chart I). Bank credit expansion limits have been established four times: February 1958—February 1959, March 1963—June 1965, November 1968—October 1970 and December 1972 to the present. After taking into account of the anticipated contribution of the budget and the balance of payments to the liquidity of the economy, the authorities set credit expansion limits. Any bank which allows its lending to grow by more than the permitted amount encounters regulations which rapidly cut into its ability to lend more. In the pre-1967 system, any bank increasing its lending by more than the warranted amount witnessed a gradual reduction in its rediscount ceiling. With the conversion to control through the money market, the offending bank experiences sharply progressive rises in its supplementary reserve requirements (see p. 397).

There are a number of reasons why the authorities have turned to this device only temporarily and in the last instance. First, this measure has no impact if desired credit expansion is below the permitted level. Second, when this measure begins to bite, there is a gradual deterioration in its efficiency since economic agents soon find ways around it. The firms, often with the help of the banks, make face-to-face financial deals among themselves, extend trade credits and develop a temporary, though often highly effective, grey market for credit. Third, to the extent that the credit expansion limits are effective, they tend to sap any incentive for dynamic innovation from the banks and to prop up the less competitive institutions. Fourth, these limits injure firms which are dependent on bank finance more than those which rely on internally generated finance, and it is often the more dynamic firms which seek outside finance. Small firms are particularly hurt by credit expansion limits because they are among the first to be denied credit.

It might be thought that this latter drawback could be eliminated or at least reduced by placing limits on the expansion of credit granted to large firms. However, the recent Italian experience with this sort of measure suggests that it too has its limits.⁴ Although this selective approach may allow small firms to obtain bank credit more easily than in conditions where there is a general limit on credit expansion, it may well mean that they have little choice but to grant extensive trade credits. In this way the efficiency of the credit expansion limit may be undermined and the liquidity position of the small firms may deteriorate despite apparently favourable treatment.

Oligopoly and the Efficiency of Various Instruments of Monetary Policy

It was suggested above that the oligopolistic nature of the French banking system affects the pattern and character of competition among the financial institutions. This feature should be kept in mind when evaluating the various instruments of monetary policy and the adoption of the new philosophy of credit control.

⁴ Cf., PADOA-SCHIOPPA, "Selective Credit Policy: Italy's Recent Experience".

By abolishing the multifarious special discounting facilities, the authorities tried to ensure that the banks would turn to the money market to satisfy their liquidity needs and thus that the cost of overnight funds would be market-determined. It was implicitly assumed that the banks would be deterred from expanding their lending if the rate on money market funds rose above the return on their loans. This proposition, which is completely reasonable in a highly competitive market, may lose its cogency when applied to short-term behaviour in an oligopolistic market. If, as might be expected, competition centres on expansion of market shares in a concentrated banking system, the banks will be highly solicitous of the needs of their major customers because the easiest way for them to increase their market shares is to attract a few important firms. Thus it may be in the banks' long-term interest to satisfy demand for credit from major customers even if this involves borrowing funds at a rate which involves a short-term loss. The banks can finance this sort of investment in expected future earnings out of reserves and charges on bank services. Alternatively one can view the welfare of the bank and its major customers as being so intimately intertwined that the bank acts so as to maximize a composite welfare function in which the individual preferences of the bank and its largest customers have different weights. Thirdly, it can be maintained that in a concentrated banking system multiplier effects are so great that banks actually profit by taking funds at a cost which is above their lending rate since the ensuing expansion of deposits and the lending based on it more than offset the cost. Finally, banks operating in an oligopolistic environment may feel no need to maximize profits since take-overs are difficult and barriers to entry are high (in France entry into nation-wide banking is limited by the law allowing the nationalization of any bank which becomes large enough to rival the state-owned banks). In these conditions, the banks may only aim at "normal" profits with the result that they experience no disutility in short-term borrowing at rates which involve a negative lending spread.

These four complementary explanations allow us to understand why the strict control of bank lending through the market mechanism may prove less than entirely successful in the short run in France's oligopolistic banking system. This may be one reason

why the authorities have found it necessary to refine their credit expansion limitations and use them more frequently than in the past.

Credit expansion limits, if used correctly and temporarily, can have an immediate impact on banking behaviour. However, it is important to recognize that reforms designed to improve the operation of the financial market tend to undercut their efficiency by making it easier for economic agents to circumvent them. If firms cannot obtain finance from the banking system because of administrative ceilings on credit expansion, they will turn to alternative sources of finance such as the bond market, semipublic credit institutions, other firms and foreign lenders. To the extent that the reforms have integrated the banking market with other markets for credit, they have increased the speed at which the efficiency of credit expansion limits deteriorates.

Monetary Policy and Exchange Rate Stability

It is somewhat ironic that the relaxation of exchange controls which was prompted in part by a desire to let the market mechanism play a greater role, has reduced the authorities' ability to use price incentives to regulate activity in the financial market. The fewer and more modest the barriers to capital movements are, the greater the sensitivity of the overall balance of payments is to interest rate differentials. Although there are some steps which a country can take to reduce this sensitivity (e.g., negative interest charges on deposits by foreigners), it is well nigh impossible to nullify it entirely if the country has committed itself to relatively free capital movements and some exchange rate target. This means that interest rates must be set with an eye to rates abroad with the result that the domestic rate may not be at the level dictated by purely domestic considerations. It is by no means a coincidence that the policy of low and stable interest rates was abandoned at the same time as exchange controls were liberalized. The authorities recognized that it would not be possible to regulate strictly interest rates once they allowed unimpeded capital flows. The recent tendency for countries to move through the business cycle in phase means that on the whole most countries will want to see

their policies move in the same direction at roughly the same time, but conditions abroad still constitute an important constraint on the conduct of monetary policy despite the collapse of the fixed parity exchange rate system.

It can be and indeed sometimes is claimed that in a regime of floating rates, no country need be bound to a money supply growth rate or an interest rate level which it finds inappropriate. This proposition, which is perfectly valid in theory, fails to recognize that in practice there are costs to exchange rate variability — costs which are high enough to make a country endure money supply growth rates and interest rate levels which are far from the ones dictated by domestic considerations. The costs include increased riskiness of exporting and the cost-push pressures of higher import prices which, given the downward stickiness of prices and wages, are not offset completely by subsequent exchange rate movements in the opposite direction.

These costs, together with the difficulty of settling upon definitive monetary policy targets and the political problems often encountered when attempting to adhere to a particular intermediate target, explain why market-oriented monetary policy cannot be fully autonomous even in an exchange rate regime without fixed pegs. The relative stability of present trade-weighted exchange rates should be borne in mind when evaluating the various arguments in the debate over whether the money supply is demand determined in France or any country⁵ since it is axiomatic that the money supply cannot be controlled in the short run in an open economy with stable exchange rates.

The nature of oligopolistic competition in banking together with the constraints imposed by the need to avoid sharp fluctuations in exchange rates explain why the French authorities have made more active use of quantitative controls despite the adoption of a more market-oriented philosophy of monetary control. Even though the integration of short and long term financial markets has increased the efficiency of market instruments, it has also reduced the time it takes to circumvent quantitative measures. It is therefore more difficult than before to select a proper monetary policy mix of

⁵ Cf., DAVID, "Le comportement du système bancaire et l'évolution de la masse monétaire", MÉLITZ, "Une tentative d'explication de l'offre de monnaie en France" and FOURCANS, "Interest Rates, Bank Credit and Money in France".

market-oriented and administrative instruments. It can only be hoped that the alleged improvement in allocative efficiency makes up for the increased complexity of formulating monetary policy.

Helsinki

T. R. G. BINGHAM

REFERENCES

- BANQUE DE FRANCE, *Bulletins Trimestriels*, Paris.
- BANQUE DE FRANCE, *Comptes Rendus des Opérations*, Paris.
- BANQUE DE FRANCE, *Les instruments de la politique monétaire en France*, Paris, October 1968.
- BERGER, PIERRE, "Interest Rates in France", *Banca Nazionale del Lavoro Quarterly Review*, Vol. 17, No. 70, September, 1964.
- CONSEIL NATIONAL DU CRÉDIT, *Rapports annuels*, Paris.
- DAVID, JACQUES H., "Le comportement du système bancaire et l'évolution de la masse monétaire," *Bulletin Trimestriel de la Banque de France*, No. 1, November, 1971.
- DIETBERLEN, PIERRE and DURAND, HUGUETTE, "Monetary Policy in France", in HOLBIK, KAREL, *Monetary Policy in Twelve Industrial Countries*, Federal Reserve Bank of Boston, 1973.
- DONY, JEAN, GIOVANNETTI, ALAIN, and TIBI, BERNARD, *L'état et le financement des investissements privés*, Editions Berger-Levrault, Paris, 1969.
- EUROPEAN COMMUNITIES MONETARY COMMITTEE, *Monetary Policy in the Countries of the European Economic Community*, Luxembourg, 1972.
- EZEKIEL, HANNAN, "The Call Money Market in France", *IMF Staff Papers*, Vol. XII, No. 3, 1965.
- FOURCANS, ANDRÉ, *Interest Rates, Bank Credit and Money in France: A General Equilibrium Approach*, Paper presented at the 1974 European Meeting of the Econometric Society, Grenoble, 3-6 September, 1974.
- GUILLAUMONT-JEANNENEY, SYLVIANE, "Politique monétaire et croissance économique en France", Armand Colin, Paris, 1969.
- HODGMAN, DONALD R., "The French System of Monetary and Credit Controls", *Banca Nazionale del Lavoro Quarterly Review*, No. 99, December, 1971.
- MÉLITZ, JACQUES, "Une tentative d'explication de l'offre de monnaie en France", *Revue Economique*, Vol. 24, No. 5, September, 1973.
- MARJOLIN, ROBERT, SADRIN, JEAN, and WORMSER, OLIVIER, *Rapport sur le marché monétaire et les conditions du crédit*, Ministère de l'économie et des finances, Paris, June, 1969.
- ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT MONETARY STUDIES SERIES, *Monetary Policy in France*, Paris, 1974.
- PADOA-SCHIOPPA, TOMMASO, "Selective Credit Policy: Italy's Recent Experience", *Banca Nazionale del Lavoro Quarterly Review*, No. 112, March, 1975.