

France's Plan and the Part of the Banking System in Its Drafting and Execution

The objective of French economic planning is the drawing up and subsequent execution of a « programme for modernizing plant and equipment ». This programme, limited at first solely to the basic sectors by the First Plan — known as the Monnet Plan — has been extended to the economy as a whole. Three series of successive decisions are involved in the planning: first, the choice of an overall rate of growth; then the fixing of individual rates for the various sectors; and finally the adjustments that are to ensure the coherence between sectoral growths which is necessary for a harmonious progress of the national economy.

The very importance of the investments to be made and the proper equilibrium to be established between them raise difficult financing problems that necessitate the co-ordination of decisions.

Under the system followed in France for more than 15 years past, it is by the active participation of the interested parties far more than by coercive measures that, through the carrying out of successive plans, an effort is made to identify and safeguard fundamental equilibria: adjustment of reserves and investments in goods and services, balancing of foreign accounts, adaptation of financing requirements and capacities. The solutions adopted for these problems ultimately have an influence on money and credit.

Moreover, Plan V, which covers the period 1966-70, is not, as were the four previous plans, based only on expansionary targets in terms of volume, but proposes programming in terms of value. This innovation is warranted mainly by the need to envisage price trends that differ according to the sectors of activity, and are adapted to the adjustment conditions of supplies and demands peculiar to each sector of the market; furthermore, as far as the economy as a whole is concerned, this innovation is motivated by the anxiety to prevent price rises that would represent a threat to the general equilibrium.

This is why, taking into account the essential role that falls to the central bank in defence of the currency, and the important part played by the banks in the distribution of credit and, more generally, in the creation and circulation of bank money, the Bank of France and representatives of the banking system are called upon to take part in all the consultations and steps necessary in our country to prepare and carry out the Plan.

The present article proposes to illustrate the importance of the participation of the Bank of France and the banks in French planning as a whole and how this participation takes place in two successive phases:

— in the preparatory and elaborative phase, devoted to defining the objective to be attained and to choosing the means necessary for this purpose, the central bank and representatives of the banking system co-operate in the work of the chief bodies that have to establish the general lines to be followed in planning;

— in the executive phase, where monetary policy and credit distribution must favour the achievement of the Plan's objectives, the central bank contributes to decisions of a monetary and financial character, both those that come within its specific authority and those that involve agreement with the bodies in whose activities it participates; in the various credit operations the banks follow the directives received from the monetary authorities and carry out a very important task in examining and granting medium-term loans for equipment.

Except where otherwise explicitly indicated, what now follows about planning methods refers more especially to Plan V.

I - Preparation and Drafting of the Plan

A - Organization and methods adopted in France

Each Plan is a plan of action based on a number of hypotheses, forecasts and objectives that relate to the main aspects of the economic and social life of the country, and which consequently involve at one and the same time deep preliminary reflection and decision-taking of a political character. During a period of about two years, rough progressive drafts are worked out and Parliament has twice

to give its opinion on these: first on the chief basic options and subsequently on the definitive Plan. Two main phases are therefore distinguishable, each lasting about the same time: the preparatory phase and the drafting phase; each phase is in its turn divided into two stages and ends with a vote by Parliament.

Preparatory phase

During the first stage, the services of the Commissariat Général of the Plan, the Forecasting Department (formerly the Economic and Financial Studies Division) of the Ministry of Finance, as well as the National Institute of Statistics and Economic Studies (I.N.S.E.E.) collaborate in carrying out their work with the object of preparing and presenting several overall schemes based on different rates of expansion, and each giving an economic picture of the Plan's final year.

The second stage is devoted to drafting a report on the main options, to serve as a basis for drawing up the Plan proper, and to this end the report establishes:

- the expansion rate of the economy;
- the distribution of the Gross Domestic Product between investment and consumption, for the public sector and the private sector;
- the desirable structure of final consumption;
- the orientation of social policy and regional policy. This work, based on a scheme more detailed than the previous ones, is mainly the task of the administrations mentioned above, but it also takes into account the observations made by the Modernization Commissions, about which more will be said later.

After the views of the Economic and Social Council have been exposed, and a debate in Parliament, the Report on the main options is approved by law.

Drafting phase

A first stage is constituted by the detailed drafting of the Plan in accordance with directives given by the Prime Minister. These take up the conclusions reached by the Report mentioned above and bring to them some clarifications and additions. The authors of the

Plan are particularly asked "to study all the measures necessary to ensure the financing of productive investment at the level desired and on conditions compatible with the needs of monetary equilibrium".

A leading part in this work is taken by the Modernization Commissions, which constitute the outstanding characteristic of the French system. Their general features must be indicated before describing their activities. They fall into two distinct categories: those in one category, termed "vertical", devote themselves to a determined sector, either of economic production (for example, iron and steel, agriculture) or of collective or social equipment (for example, urban, scholastic, university and sporting equipment); the second category, termed "horizontal", embraces the commissions that have a synthetical function regarding the study of problems of common interest also to the various vertical commissions, and at the same time the widest powers in seeking fundamental equilibria, for example, as regards employment (manpower commission) or foreign trade, saving and investment (general economy and financing commission).

The essential advantage of the commissions is that they bring together representatives of the various activities and all the experts, who are both concerned with drafting the Plan. The implementation of the Plan is thus rendered easier, since this previous comparison of the different points of view is intended to facilitate their further convergence when the time comes for action.

This composition of the commissions explains their efficiency. Each of them comprises three great categories of members: heads of firms and representatives of the business sectors, representatives of all the great trade union organizations, and officials of the public administrations concerned. When necessary, a fourth category is added to the former — experts and representatives of the users and consumers. This means that altogether each commission has from 30 to 70 members, appointed by the Government on the proposal of the Plan's Commissariat, and giving gratuitous collaboration.

The composition of the commissions is not rigidly fixed as regards the apportionment of tendencies. Their working, too, rules out any formalism, since their normal task is to seek agreement between the various tendencies and not major decisions. In its turn every commission can entrust particular studies to working groups, with which other persons are called upon to collaborate.

The number of commissions has progressively increased and has reached 32 for Plan V, i.e. 26 vertical and six horizontal commissions. All told, several thousand people, including the members of the working groups, will in the end have contributed to the drafting of the Plan, while the permanent staff of the Plan's Commissariat barely exceeds 100.

The particular task of the vertical commissions is to draw up a report on each of the sectors entrusted to them, both in economic activities (18 sectors) and in collective and social equipment (8 sectors).

The commissions likewise take part in joint work on the Plan, first by providing, during the preparatory phase, a report based on a questionnaire designed to supply clarifications to the Economic and Social Council and Parliament, and then, in the drafting phase, a specific report in accordance with their respective tasks.

An important part of the studies of the horizontal commissions is based on the work of the vertical commissions, but they carry out also on their own account analyses the results of which enable a fruitful comparison to be made with the conclusions reached by the other commissions. Their intervention, which in a general way aims at preserving the fundamental equilibria in the phase of expansion, can be more clearly indicated by their individual tasks. Thus the manpower commission occupies itself with a synthesis of various problems concerning the working population; the social security commission deals with studies and proposals that ensure a graduation of these services according to the scale indicated by the Government. The tasks of the two commissions for scientific research and for productivity are sufficiently clear from the names they bear. Wider tasks and a greater sphere of action are attributed to the remaining two commissions. The National Commission for Territorial Settlement is the main body that deals with the "regionalization" of the Plan; it is distinguished from the others in many respects, primarily by its permanent character. The General Economy and Financing Commission has a primary function in the drafting of the Plan and in its final synthesis: it must investigate whether the investments forecast do not constitute an excessive burden on the economy; it must adjust investment and saving, public receipts and expenditures, the inflow and outflow of foreign exchange.

To ensure that there is agreement between the work of the various commissions, exchanges of views take place between the Chairman or the general Rapporteurs, and joint working groups are set up when necessary. In this way the most serious differences between the reports submitted by the commissions are eliminated.

In the second stage of this drafting phase, the final synthesis is done by the services of the Plan's Commissariat, which take over the definitive drawing up of the Plan. This must be handed to the Government, then presented to the Economic and Social Council for its opinion, and finally submitted to Parliament for its approval.

It should be added that ever since the penultimate Plan (the IVth), ever increasing concern has been apparent to take into account, during the preparation and execution of the Plan, the fact that the country is divided into large regions. During the preparatory phase it is the National Commission for Territorial Settlement (a horizontal commission of a particular type) that plays the chief part in drawing up the studies needed for the Report on the great options. When the drafting phase is reached, participation of provincial authorities involves the drawing up by each "Préfet Régional" of a Report which is afterwards examined by a regional conference of officials and then presented for their opinion to a commission composed of 20 to 50 leading representatives of major economic and social categories of the region. These reports are used by the vertical or horizontal Modernization Commissions.

In addition, once the Plan has been voted by Parliament and become definitive, the details for each region are drawn up. This task falls to the regional prefects who, having been notified by the Ministries of the equipment work forecast for their areas during the life of the Plan and of the amount of the corresponding credits, draft out the details with the assistance of the consultative commissions already mentioned.

B - Function of the Bank of France and the Banks in the Plan's drafting

Since the Bank of France, owing to its functions, is directly concerned in the Plan's financial and monetary implications, it has been called upon to take part in the Plan's drafting within the General Economy and Financing Commission, with which the Bank collaborates in two ways. It participates in the actual activities of the

Commission, primarily through its Deputy Governors or their representatives; and in addition it provides the assistance of its services in the preparation of the Commission's work. The composition and organization of this Commission must now be described.

The Commission is composed of a Chairman (at present the Commissaire-Général of the Plan) and 68 members appointed individually by a decree of the Prime Minister. These members include 10 representatives of public or semi-public establishments (among them the two Deputy Governors of the Bank of France, the Governor of Crédit Foncier, the Chairman of Crédit National, etc.), the delegate-general of the Bankers' Association (*Association Professionnelle des Banques*) and seven bank managers, five of whom from the private sector (deposit banks and commercial banks) and two from the nationalized deposit banks.

In addition, 20 officials or public personages, designated by reason of their tasks, take part as of right in the Commission's work, among them the "Directeur Général des Etudes et du Crédit" of the Bank of France and the Secretary General of the Conseil National du Crédit.

As regards the organization of its work, the Commission entrusts basic studies to six working groups, which in addition to the commissioners include a certain number of persons chosen because of their specific qualifications. These groups also include, of course, representatives of the banks, who are thus in a position to illustrate the views of their sector and bring to the work of the groups the benefit of their experience in credit matters. The various tasks are divided among the working groups as follows:

The "local finances" group is charged with the study of how the local governments (Communes-Départements) can make their contribution to financing the collective equipment envisaged by the Plan. The main task of the "taxation" group is to examine, within the general framework of the obligations deriving from the Treaty of Rome, various fiscal reforms (affecting companies and real estate, turnover tax, exemptions). The "foreign trade" group (presided over by a Deputy Governor of the Bank of France) carries out researches connected with the trend of the balance of payments and its components, and ways of improving it.

The other three groups are specially important as regards problems that directly interest the banking system in the widest sense of the word. The "statistics" group, in fact, has to continue the

work of harmonizing and perfecting statistical information already begun for previous Plans, especially in the monetary and financial statistics sector, where progress made depends more on co-operation by the banks with the Bank of France and the public credit institutions than on the financial resources employed.

The "savings and financing" group studies the conditions affecting savings formation and the mechanism suitable for ensuring the financing of investment in the various sectors without causing inflationary pressure. The Bank of France and the banks in general make a particularly active contribution to the work of this group.

Finally, the "equilibrium" group, presided over by the Director-General of the I.N.S.E.E. (National Institute of Statistics and Economic Studies), draws up the general synthesis of growth conditions for production and demand, with the object of ensuring, in the most satisfactory circumstances, the fundamental equilibria of the economy up to the final year of the Plan. In this way the group plays a decisive role in the reaching of conclusive choices of a global character, while the work of the other groups is more analytical or more technical.

The work of these various groups calls for a synthesis that must be approved by the whole of the General Economy and Financing Commission, a fact that provides confirmation of the importance of the representation within the Commission of the banking system and the monetary authorities. Moreover, the Foreign Trade working group, which deals with one of the economy's fundamental equilibria (that of the balance of payments) which regulates supplies indispensable to the country's industry, is presided over, as was said, by a Deputy Governor of the Bank of France. It is an understood thing that the Deputy Governors are fully entitled to attend the sittings of the other four working groups, and that the Bank of France can, for all purposes, delegate to their sittings, according to the importance of the subjects under discussion, either a representative qualified to express the Bank's ideas, or an observer.

Besides taking part in the activity of the General Economy and Financing Commission, the Bank makes its contribution to preparing the work of both the Commission and the working groups. The Bank's services have therefore prepared a number of studies or reports for which they were asked (for example, on the general problem of the different rates of interest ruling in France and abroad) for information of the members who attend those meetings.

In some cases the Bank has been asked to collaborate in preliminary work, for instance, by providing analyses of forecasts which can be used for evaluating, at a future date and according to different hypotheses, the total amount that monetary resources might reach, and for making a decision on the methods to finance the Treasury deficit at that date.

In the field of credit techniques in general, on each occasion that the studies requested for drafting the Plan have shown that it would be useful, in the case of some economic sectors, to review their methods of financing, the Bank has helped to prepare the relative schemes and stated the position it would take up, as a rediscounting bank, in connection with the mobilization of credits resulting from the new or modified types of financing. This happened in the case of the schemes relating to building construction credit.

As regards, finally, the regional aspect of the Plan, the National Commission for Territorial Settlement includes among its members the Governor of the Bank of France. Moreover, on the regional level, the managers of the Bank of France's branches may be called upon by the regional prefects to give, within specified limits, their opinion.

II - The part of the banking system in the execution of the Plan

The peculiar features that mark the process of drawing up the French Plan have a decisive influence on the instruments through which it is carried out. Without going into the merits of the arguments sparked off by these instruments both from the doctrinal point of view (concerning whether planning should have an imperative or an indicative character) and from the practical point of view (are the means used by the public powers sufficient?), it may be well to recapitulate briefly the various factors that contribute to the realization of the Plan.

Some of these factors are psychological in nature. As experience has shown, all those who have collaborated in preparing the Plan — within the Commissions or the groups — contribute the more willingly to its execution.

Other factors depend on the structure of the economy. It is easier to formulate forecasts in the so-called basic sectors (for in-

stance, energy, metallurgy) in which investment is heavier and needs a longer period before results are forthcoming; likewise, the carrying out of expansionary programmes in those sectors gives more decisive results and is, besides, especially facilitated by the degree of concentration that exists within them, as also in very large enterprises of other sectors.

Furthermore, the Government has at its disposal an essential instrument in the form of direct financing of investment with public funds, by drawing either on the Budget or on the Treasury (within the framework of the Economic and Social Development Fund, which is a body that both administers finance and takes decisions).

Added to this effective contribution of the State is, finally, all the influence that the public powers exercise more or less directly on investment programmes and, more generally, on the development of the economy as a whole, by means of the policy they adopt in the credit, taxation and price-regulation fields.

In the field of money and credit, the Bank of France and the banks are called upon to make their contribution to the execution of the Plan.

Before describing in detail the ways in which they intervene, we must make clear how these are justified. First and foremost, the public powers are at pains to associate with the execution of the Plan the institutions that have a public character or interest and carry on financial activities. Moreover, the Bank of France — an old-established institution, the powers of which have been widened and progressively adjusted — holds a pre-eminent position within the entire banking system which enables it to play, together with the Conseil National du Crédit set up in 1945, an essential part in safeguarding the national currency and in directing the other banks, the role of which will be defined later.

As regards the Bank of France, when the Commissions meet to decide on State grants of financial assistance or facilities to private firms which undertake investments that conform with what is laid down in the Plan (subventions, loans, premiums, etc.), the Bank is in a position to furnish motivated evaluations based on the information in its possession relating to those firms. In turn, it has the opportunity of completing its documentation in this sphere.

When it grants medium-term rediscountable credits, with a maximum maturity date of five years, the Bank of France pledges

itself to finance eventually the carrying out of equipment programmes, while agreeing to the rediscounting of these credits: by agreeing to enter a certain volume of these loans among its asset items, for a relatively long period, the Bank to some extent transfers control over its issues, with reservation of possible action offered to it by the restrictive system of the so-called "coefficient de trésorerie". This explains the close watch that the Bank keeps on the terms for the granting of medium-term rediscountable credits, and also on the quota of these credits in relation to overall financial resources.

Finally, the Bank ensures the working of credit policy not only because it is a rediscount bank but also as executive organ of the Conseil National du Crédit. In this capacity the Bank adjusts itself to the orientations of general economic policy, and especially to the directives of the Plan, and consequently regulates the distribution of bank credits of all kinds, short- or medium-term, relying on the discipline of the banks, though, on the other hand, it has at its disposal effective instruments to make its directives respected.

As to the commercial banks — banks of the private sector or large nationalized credit institutions — they are subject to the above mentioned action of the monetary authorities owing to their activity as creators of bank money. It is true that they have no part in the decisions granting financial contributions made by the State, the handling of which is mainly done by special institutions, but they play an important and growing part in the distribution and financing of medium-term rediscountable credits. Finally, the banks are responsible for applying, in their transactions with industrial or commercial enterprises, the measures or directives approved or decided on by the Conseil National du Crédit.

The various ways in which the banking system contributes to the execution of the Plan are illustrated below under three subdivisions, within which they are subsequently analysed:

— the function of the Bank of France in the Management Committee of the Economic and Social Development Fund;

— the various functions of the Bank of France, of the special institutions and of the banks in the granting and handling of medium-term rediscountable credits;

— the function of the Conseil National du Crédit as regards the orientation of bank credits.

I. *The Bank of France's participation in the Executive Council of the Economic and Social Development Fund (F.D.E.S.)*

The attributions of the Executive Council of the Economic and Social Development Fund are of two types:

(a) First, according to a narrow interpretation of its attributions, the Fund's task is to administer the special account of loans opened in the Treasury's books and entitled "Loans of the Economic and Social Development Fund".

Created by Article 87 of the 1960 finance law, this account is maintained by annual budget disbursements; it registers:

— *on the expenditures side*, payment of loans granted to institutions, firms or social communities which carry out equipment projects for plants that are to pursue the objectives envisaged by the modernization and equipment plans as well as to undertake specific activities, particularly in the fields of productivity, conversion and decentralization;

— *on the receipts side*, capital repayments made by beneficiaries of the loans.

The sums lent are, according to each particular case, placed at the disposal of the beneficiaries either directly by the Treasury services (especially where nationalized undertakings are concerned) or through special credit institutions, such as the *Crédit National* or the *Caisse Centrale de Crédit Hôtelier, Commercial et Industriel*.

These institutions are authorized to act as intermediaries and intervene in two ways:

(1) by means of advances made to them on the special account they may grant loans at their own risk (Article 1) and at the interest rate and on the amortization conditions specifically envisaged in the legislative or normative provisions in force or in their statutory regulations;

(2) by means of sums placed at their disposal they may grant loans, on behalf of and at the risk of the Treasury (Article 4), at the interest rate and on the duration conditions established by the Minister of Finance and Economic Affairs, after hearing the opinion of the Management Committee of the Economic and Social Development Fund.

(b) In addition, the Management Committee of the latter Fund is competent to give an opinion on a certain number of financial operations of the State which are not carried out through the channel of the special loans account.

The Committee is thus called upon:

— to examine the equipment programmes of the public administrations financed by the general budget, those of public undertakings and also those for the execution of which private firms ask for State assistance;

— to give its opinion on individual requests made by firms for the purpose of obtaining State assistance in the form of subventions, premiums, guarantees or tax reductions.

In actual fact, the Committee reserves to itself examination of the most important problems and delegates to a certain number of special committees the task of expressing an opinion on individual demands; but this authority lapses if the special committee does not give a unanimous opinion.

It is of interest to underline the essential function exercised by the Plan's *Commissariat Général* within the whole of this highly flexible organization which enables the work to be divided to the greatest advantage; the *Commissaire Général*, either personally or through a nominee, takes over the chairmanship of the various groups, and in that case the services of the *Commissariat* carry out the functions of a secretariat; in addition, the *Commissaire Général* is represented within all the groups, with the sole exception of Committee No. 12, which deals with highly specialized assistance to the cinematographic industry.

Thus, the opinion of the Plan's *Commissariat* must be taken into consideration by all these groups, since unanimity is called for. It has been stated that the Fund's management committee has appeared, because of its attributions and organization, to be at the same time a kind of "financial agency" of the economic and social development Plan.

The Bank of France is represented on the aforementioned committee by its Governor; he or the delegates he appoints take part in the work of various special committees, especially those that have to examine equipment programmes of industrial and commercial undertakings of the public or private sector.

The reasons for this participation of the central bank have already been mentioned, but it is worth making clear that the Bank pays particular attention to examining the investment programmes of the nationalized undertakings and the relative financing problems. The Bank watches carefully to see that those undertakings do not make a practice of adopting too often the easiest — or ultimate — solution represented by resort to medium-term rediscountable credits when the need to balance the budget makes it impossible to increase the Economic and Social Development Fund's endowment, and the possibilities of recourse to the capital market seem relatively limited. The management committee's meetings give the Bank's representatives the opportunity of making the Institute's position clear in this connection.

Similar difficulties arise also during the deliberations of Committee No. 3 (which deals with problems relating to the financing of residential building) in view of the importance, in this kind of financing, of the special building loans. These loans lead to the creation of rediscountable paper, renewable during a five-year period, and rediscountable in the last resort by the central bank. At the end of the five-year period these loans must either be funded by the Crédit Foncier de France, for a period that generally does not exceed 15 years, or, at the beneficiary's choice, definitely redeemed, a solution that is rarely adopted.

Nevertheless, while the Bank of France and, for that matter, the representatives of the banks are able to make known in the Development Fund committees their point of view on this sector of credit, the decisions concerning individual authorizations of medium-term credits require the intervention of other bodies according to other procedures, in which the Bank of France equally takes part.

2. *Participation of the Bank of France, the special institutions and the banks in the procedures relating to medium-term rediscountable credits*

Here we will confine ourselves to illustrating only the more important procedures relating to decisions on the granting of medium-term rediscountable credits.

(a) *First and foremost the special building loans* are granted under the Law of July 21, 1950. The amount of the credits out-

standing at the end of 1964, as reflected by the volume of new credits and the redemption or fundings effected, approached the maximum figure of 10 milliard francs which was laid down in a convention of March 3, 1964 between the Minister of Finance, the Bank of France and the Crédit Foncier.

The task of deciding on each of the demands presented for special loans is entrusted to a committee located at the Crédit Foncier de France, and comprising only representatives of this institute, of the *Comptoir des Entrepreneurs* and of the Treasury Office at the Ministry of Finance.

But this committee acts only within the limits of an overall authorization of loans which is agreed on each year between the Minister of Finance, the Governor of the Crédit Foncier de France and the Governor of the Bank of France. Before the above mentioned convention establishing this procedure was signed, an agreement had been reached, in practice, fixing the maximum annual amount of authorizations of rediscountable credits (the figure has been maintained at 2,850 million francs since 1962). The actual amounts used have always been slightly below the authorized total.

(b) In the second place, medium-term rediscountable credits intended to finance *equipment for industrial and commercial enterprises of the private sector* are granted by the banks after authorization by the Crédit National. In practice, this latter intervenes, as a rediscounting institute, to liquidize these credits before passing them for final rediscounting to the Bank of France.

The amount of the credits of this category outstanding at the end of 1964 reached 4,950,000,000 francs and then represented 61 per cent of the whole of the medium-term rediscountable credits granted for the financing of private firms' plant.

The firms apply to a bank of their own choice, which starts a file for each request for credit. All the files are examined by the Crédit National, together with the Bank of France, and decisions on them are taken by common agreement between the two institutes.

In the case, however, of files that relate to small sums and have certain defined objectives, a simplified procedure exists under which such files are not subject to examination by the Crédit National.

Files relating to large amounts (exceeding 500,000 francs), which represent the largest share of the total, are examined by a Committee consisting of:

- the Directeur Général and the Directeur de l'Escompte of the Bank of France;
- the Directeur of the Crédit National;
- a representative of the Direction des Relations Economiques Extérieures (D.R.E.E.) of the Ministry of Finance;
- a representative of the Commissariat Général of the Plan.

The Governor of the Bank of France presides over the Committee only when decisions on the more important credits are to be taken. Since the files presented and the methods of financing proposed must receive the agreement of all those present, it can happen that the reasons for refusing a credit are based on the financial situation of the firm in question, but also on the observations made by the representative of the Plan's *Commissariat*. This can demand, and obtain without difficulty, either postponement of the file's examination to a later meeting or a pure and simple refusal of the credit, if it considers that the investment programme, or also the firm's financing scheme, does not conform to the Plan's directives.

The procedure for granting medium-term credits, which for the most part is supervised by the Bank of France, in this way provides the Plan's *Commissariat* with a most effective instrument for directing in the sense it considers preferable investments that are most important and most suitable for determining the future development of the economy.

(c) Finally, in other cases the prior approval of the Bank of France is requested for the granting of medium-term credits, particularly for the following categories:

- credits arranged with the contribution of the *Caisse Nationale des Marchés de l'Etat* for financing both investment programmes of nationalized enterprises and purchases of equipment items, as well as modernization work carried out by enterprises belonging to professional or inter-professional mutual guarantee societies;
- credits granted by the agrarian credit banks to finance agricultural undertakings and cooperatives;
- credits authorized by the *Crédit Foncier de France* and essentially intended for real estate operations, agricultural equipment and shipbuilding.

At the end of 1964 all the credits of these different categories reached the following amounts:

— nationalized enterprises	3,590,000,000 francs
— enterprises belonging to mutual guarantee societies	1,760,000,000 "
— Crédit Agricole	2,050,000,000 "
— Crédit Foncier de France (equipment)	830,000,000 "

As regards credits for financing public enterprises, they are resolved on by the Studies Committee of the *Caisse Nationale des Marchés de l'Etat*. Within this committee, which meets every week, the Bank of France is represented by its General Manager of the Discounting Service.

3. *The Conseil National du Crédit and the orientation of banking intervention*

It is important to remember the links envisaged by law between the Bank of France and the Conseil National du Crédit. On the one hand, the Governor of the Bank is, as of right, Deputy Chairman of the Conseil National du Crédit (Law of December 2, 1945, Article 12). On the other hand, the Conseil National du Crédit "exercises through the Bank of France all the functions of the Permanent Committee of the Bankers' Association..." which was dissolved at that time (the same Law, Article 13, paragraph 12).

The Bank of France's interventions, with which the present article deals, are based simultaneously on the aforementioned legal texts and on those which in 1941 had defined the powers of the previous organizational committee, empowering it to take decisions of a general or particular character in respect of members of banking and financial industry.

(a) *Execution of the general directives of the Conseil National du Crédit*

As is the case with the monetary authorities of other countries, the French Conseil National du Crédit is given the task of deter-

mining the conditions on which money can be created, so as to ensure that economic and monetary development conforms with the general interest and with the objectives laid down in the Plan.

For this reason the banks, as creators of bank money, receive directives from the Governor of the Bank of France through the Bankers' Association.

We will now give some examples of these directives, which are formulated sometimes in a negative and sometimes in a positive sense.

Where credits for agricultural produce are concerned, measures have been taken according to circumstances, i.e. in a restrictive sense (credits for the breeding of animals for slaughter, credits for stock-piling wine) or in a favourable sense (credits for stock-piling dairy produce).

Certain forms of credit particularly susceptible to changes in general economic conditions (financing of hire-purchase sales of automobiles, electrical domestic appliances, etc.) have been subject to different rules according to circumstances at the time.

Finally, directives of a far more general character have sometimes been given to the banks to indicate in what way the economic interests of the country warrant the need for their action regarding the expansion or curbing of their credits to follow a certain line, more especially when the needs of monetary policy and a continued successful execution of the Plan had to be made compatible. Now, the *Commissaire Général* of the Plan is a member of the Conseil National du Crédit; this enables him to make known directly to the Conseil his ideas or his recommendations regarding the achievement of the Plan's objectives and to communicate them particularly to the representatives of the banks who take part in that assembly.

During the sitting of May 12, 1963, the *Commissaire Général* in fact outlined how, in his opinion, recovery measures that had shown themselves to be necessary could best be employed; he stated that those measures ought, in the credit sector as in other sectors, "to meet two requirements which an effort must be made to reconcile: eliminate the causes of price rises, respect the essence of the Plan".

The attention of the banks was drawn to the interest he had — particularly in the case of medium-term rediscountable credits — in orienting their activities towards the following objectives:

— assist the most dynamic firms working in foreign markets and allow the industrial sectors most heavily hit by world competition to modernize their plant;

— give preferential treatment to financing operations connected with rational reorganization of the technical, juridical and financial structures of production.

The *Commissaire Général's* observations were published in the Annexes to the Report of the Conseil National du Crédit for 1963 under the heading "Directives concerning the distribution of bank credits". Their text was enclosed with the letter addressed on September 12, 1963 by the Governor of the Bank of France, Deputy Chairman of the Conseil National du Crédit, to the President of the Bankers' Association. The Governor had, in fact, considered it useful to enclose with that letter the text of the observations in question.

Generally speaking, the effectiveness of the directives imparted by the central bank depends on the influence the latter exercises on the banks, and especially on the practical instruments of control or coercion it has at its disposal. In this connection the Bank has so far been in a position to bring to bear a sufficiently persuasive action on the banking system, more particularly as rediscounting retains in France an important function in regulating the activity of the money market.

(b) "Prior authorizations" (*Autorisations Préalables*)

The procedure known as "Prior authorizations" — introduced and perfected afterwards by the general decisions taken by the Conseil National du Crédit, the first of which dates back to January 9, 1947 — subjects to the prior approval of the Bank of France every grant of bank credit, in whatever form, which would bring the total credits allowed to any one firm up to a certain amount or beyond it. This amount has been altered several times and currently stands at 10 million francs.

By means of this procedure the Bank of France is in a position to carry out an examination a priori of the most important credits to make sure that the banks, when deciding on the contribution requested of them, have, in addition to taking the customary measures relating to safety and profitability, followed the criterion of economic utility. Put more precisely, they must give preference to

credits aimed at supporting activities regarded as indispensable as far as the Plan is concerned. This means that the criterion has varied considerably, from the period of scarcity which gave rise to it up to the present time when planning is oriented towards economic expansion and the improvement of the living conditions of the different social classes.

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As we have endeavoured to show in this article, the French banking system — in its different components, central bank, special institutes and banks as a whole — is widely associated with the drawing up and execution of the Plan.

The importance of the services that planning has succeeded in rendering to the French economy from the time it began on the morrow of the Second World War is no longer challenged. It should be recalled that its chief merit was to replace the long conservative and protectionist tradition, which in the past had inspired French economic policy, by an urge to expand methodically and vigorously. If "le Plan", to repeat the title commonly used, sometimes still arouses criticisms or reservations, this largely depends on an imperfect knowledge of its true nature.

Discarding at one and the same time the authoritarian planning of centralized economies and the pure liberal economy, the "Plan of the nation", as our *Commissaire Général* calls it, does not rule out either the State Plan within the sphere of its competence, or regulation of the economy through the market, a regulation whose task is to ensure, day by day, the equilibrium between supply and demand for goods and services which is in constant jeopardy.

The objective of economic and social policy, common to all modern States, no matter what their regime, is to maintain a steady expansion. The Plan combines all the elements of this policy: it provides the opportunity for comparing them, for periodically taking stock of them, as well as for their reciprocal clarification.

But to ensure a high rate of expansion it is indispensable to eliminate, in addition to the disequilibria still existing in the production system, all difficulties of financing investments that have been decided on. These difficulties become particularly prominent when the need to restore a currency already compromised and to safeguard reserves in foreign currencies makes it essential to main-

tain monetary stability and to relinquish every policy of looseness. Inflation, it must be recognized, served to facilitate investment by ensuring a premium to borrowers and causing the volume of consumption to decline. It is therefore not sufficient to eliminate inflation: some adequate substitute for its propulsive effects must also be devised. For this purpose it is necessary to detach from total national income quotas of voluntary real savings sufficient to cover the investments to be financed and to ensure an efficacious use of these savings.

There is reason to believe that in future the action of the banking system in this connection will assume ever greater importance, and that the execution of the Plan will depend to a great extent on the way this action is carried through.

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