Considerations on the management of Banks with numerous branches in the Common Market Countries

Variations on the theme of productivity

The last thing a writer finds when composing a work, says Pascal, is what to put at the beginning of it. That is, if he ever finds it. It is not certain that the present article's sub-title faithfully reflects its contents. The origin of the present study is to be sought in a superficial observation, which is that, if the number of staff in the large banks of different countries is divided by total balances or deposits, the quotient will vary from one bank to another, and, even more, from the banks in one country to those in the others (1).

The very fact of choosing this criterion implies that the volume of balances or deposits symbolizes banking operations. But it would be absurd to jump from the suggestion that the ratio staff/deposits may be regarded as an indication of the productivity of labour to the conclusion that we can formulate a judgment, however summary, on the efficiency of a bank. However, we need not feel debarred from using this approach to try to evolve a general concept of productivity in banking. For productivity is not a moral value; it is a reality, determined not only by the way work is organized, but also by the nature of the work, and this in turn is conditioned by the economic framework. The fact that the index under consideration is not the same in all cases does not necessarily mean that there are differences in the capacity for organization and keenness on work, but more probably that the assignments carried out by the staff are not identical, though the volume of deposits is. At a pinch, it could be argued that these assignments are so similar that all we need do is to compare the work of the supervisor in one

(1) From this point of view, French banks appear to come off worst of all.

particular section in one bank with that of his counterpart in another. But from one bank to the other, and *a fortiori* from the banks in one country to those in another, the actual proportions between the various sections differ greatly. Taking the inequality in the indices as our starting point, we might therefore, in this study, measure (or attempt to measure) the influence of these differences and gain clearer realization of the divergences in habits created by the various nations' economic and monetary history, and, rising above the arid plains of administrative techniques, explain institutions by reference to the nation's way of life. Thus broadened, however, the subject should still be examined in the light of a certain concept of productivity, which is both objective and nuancé, and must be more sharply defined once the field of our research is marked out. An analytic method may be deduced from it at a later stage.

This study is based on the data for the financial year 1959 for the major banks with large numbers of branches in Federal Germany, Belgium, France, Italy and the Netherlands. This involves a total of some twelve to fifteen banking houses which are not, as we will see, similar in all respects, but which, in their respective countries, play a quasi-public role and hold about 20 per cent of the public's deposits (of all maturities) reported in the census taken on these countries (including savings deposits). And they all carry out, for a very numerous clientele recruited from all social levels, the complete range of traditional operations, in other words, those showing the greatest similarities as between the various countries' banking systems.

In view of their varying structure, these banks were far from being able to answer equally fully the same questions. When they succeeded in satisfying the curiosity of the investigators — with a most laudable patience and good will — it did not cross their minds (for obvious reasons of professional discretion) that the data assembled thanks to their cooperation would be treated in any other way than that of a national average. Hence, and we apologize for this absence of precise references, this article contains no actual names of banks. We have tried to make use of the documentation in accordance with the dictates of intellectual honesty, but the reader must be warned that he will not be offered peremptory conclusions

(2) This is therefore an old study, but, as a result of the substitution of indices for absolute figures, the method eliminates contingencies linked to a particular moment, so that, at least it seems so to us, the results still offer a certain interest.

drawn from unassailable premises. It has not, for example, been possible to avoid the risk of making generalizations on the basis of fragmentary observations. The national series were not complete in all countries and for all fields, especially in the Netherlands. When national statistics were not available, a certain amount of information was obtained by random sampling from branches or groups of branches where the census results were relatively accessible (3).

The method used was that of counting the operations characteristic of the main traditional departments of a bank and, to the extent that this was possible, the number of employees by department; then, in order to be able to compare results between countries, to relate these numbers to the deposits of all maturities *of the clientele*, and excluding interbank deposits. In fact, it was possible to establish the number of operations and sometimes the number of employees for a sum of deposits made by the clientele amounting in all cases to one hundred million old francs (4), or the equivalent thereof in the various currencies. (In order to save space, we propose to designate this uniform quantity of deposits as "Unit of Clientele's Deposits", and from now on to refer to it by the abbreviation UDC). How can we justify this procedure?

The use of a "common denominator" for the statistics issued by banks of unequal size and operating with different currencies was unavoidable if comparisons were to be made between them. No doubt it would have been better, since we are dealing with the measurement of work, to choose as the denominator a certain magnitude of work (5), and the use of deposits as a point of reference is therefore only a second best solution.

(3) Data of a fragmentary nature are therefore indicated as such in the course of the article by an asterisk, and, when they are little more than a hypothesis, by two asterisks.

(4) It should be remembered that the study dealt with operations in the financial year 1959, at a time, that is, when the monetary unit was still the old franc.

(5) What bank inspector, when trying to determine whether the personnel of a branch is in line with the volume of operations, does not, more or less explicitly, more or less empirically, adopt the following approach? Knowing from experience that, in each of the types of usual operations, the operational unit normally requires fractions a, b, c etc of an employee, and knowing the number of operations of the branch in categories x, y, z, etc. he concludes that the optimum staffing is $ax + by + cz$ etc. This fomula would give both the necessary number of staff and the objective (or pseudo-objective) measurement of the branch's work. If there were an all-purpose international formula of this kind, it would have provided the ideal common denominator.

Lacking as we do, a common denominator indicating the duration of the work, which is evidently an impossibility, there is nothing to prevent us from looking elsewhere for an answer in a situation where the comparison is to be affected between huge groups, all with large numbers of branches and employees, with an extensive clientele, handling all the usual operations, and using a sufficiently uniform system of accountancy for these operations. Given all these conditions, the size of the clients' deposits is a fairly characteristic indication of the size of one group relatively to that of the others, always provided that *we regard the findings as a rough approximation and that we constantly check back on the methods by which these figures are calculated*. It might have been possible to have recourse to other points of reference, for example, to total balances or to the general total of deposits, i.e., both clients' and interbank deposits (incidentally the attempts carried out on these alternative bases suggest that the conclusions would not have been radically different). But the total of balances seemed more likely to be affected by divergences in accounting methods than the total of deposits, particularly because of the presence or absence of certain contra-accounts in this or that bank. As for interbank deposits, they may sometimes constitute a volume of investible funds, which it would therefore be regrettable to disregard, but, generally speaking, it is too difficult to distinguish them from advances from the Central Bank and correspondents' accounts which have an entirely different meaning. Lastly, it was impossible to ignore a very practical consideration. As has already been observed, a number of statistical data can only be obtained by random sampling from a branch, or preferably from a group of branches. At this level, neither the total of balances nor interbank deposits would have had any meaning, whereas the total of clients' deposits would still be an objective indication. These are the reasons why we have avoided adopting too broad a criterion (balances, for example), while we have rejected a more restrictive one, eg. clients' sight deposits, although the inclusion of clients' savings deposits or time deposits is a major cause of comparisons of productivity indices being out of balance. But for one thing, time deposits and savings deposits form a fraction of the banks' resources which there is no convincing reason for separating from funds originating from other deposits, and, for another, it occasionally happens that the existence

of regulations regarding sight deposits artificially alters the line of demarcation between sight deposits and time deposits.

The overall index of productivity, as thus defined, can be worked out, using the UDC, as follows:

		Relatively to France (6)	
Germany	1.76 employees	– 1.25	– 41%
Belgium	2.06	– 0.95	– 31%
France	3.01	—	—
Italy	1.53	– 1.48	– 49%
The Netherlands	2.19	– 0.82	– 27%

Before commenting on these figures, to the extent that they call for analysis, we should like to express a view on the process of "rationalization" in the administration of the banks under comparison. On looking into the matter, we felt that this was a very secondary cause of the differences between the indices. But it is not possible to pass over this factor in silence.

All these banks had at that time (1959) attained a high degree of organization and mechanization in accountancy. From this point of view, they are all more or less on the same footing, apart from some minor aspects, of which only the more visible will be dealt with here. Germany, to take one instance, made much less use of perforated card machines than the other countries. In Germany and Belgium too, the clientele was given a daily statement of its operations which involved a permanent check by the person holding the account thus reducing the need for internal checks. In France and Italy, on the contrary, the client received only a monthly or six-monthly statement, which threw a heavy load on two accounting sections, each of which checked the other (current balance and past operations) (7). One observation is called for about the situation at

(6) French banks occupy an extreme position in the field under study.

(7) Besides, this is perhaps not just a matter of administrative technique. We are tempted to relate it to the fact that, of the five countries in question, France is the one where the cheque is most used and the transfer least. Only a short time elapses between the issue of a transfer and its entry on the« daily statement », whereas it is easier for the client to verify whether a cheque has been paid from a comprehensive statement covering a long period of time.

the time. It was in France that, under the pressure of special circumstances, the Stock exchange sections were the most advanced and mechanized — by a long chalk.

But all this, it would seem, is of relatively secondary importance in the perspective of the present study, and is therefore touched on lightly. The divergences in administration between equally well run banks can hardly explain more than a small proportion of the differences between the productivity indices which are as high as a hundred per cent. The basic cause must be sought elsewhere.

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One of the first causes, and a very important one, of these differences seems to us to be linked to the holding of stable deposits, whether in the form of savings accounts at sight or of time deposits, and to their investment in stable assets (term loans or securities). Productivity, as we have defined it varies considerably on whether this kind of operations is relatively undeveloped or whether it is employed on a large scale. The ratio in question is one where the denominator includes time deposits. The numerator represents the labour units, and it does not require anything like the same amount of labour to keep a set of commercial current accounts involving numerous entries and the balances of which are used for mobile operations, as it does to keep a number of savings deposits with relatively infrequent payments and withdrawals, and the proceeds of which are legitimately invested in securities which are easy to handle or in long term loans.

To bring out the difference and to measure its consequences, let us take the case of France. There, the big commercial banks receive very little of their funds from savings deposits and only a little from time deposits, and finance hardly any fixed term loans (8), whereas the savings banks do not carry out any banking operations and are compelled to hand over the administration of their assets to the "Caisse des dépôts et consignations" which merely pays them a constant rate of interest (9).

(8) Medium term credit for industry is in fact handled by the banks in France, but it is financed by the rediscounting of drafts by the central institutes. These drafts hardly show in the banks' balances.

(9) An historical digression may be of some interest on the origin of the different roles played by the savings banks in France and Belgium on the one hand, and in Germany and Italy on the other, and, reciprocally on the part played by the banks in the field of savings.

In all countries, the savings banks were created between 1820 and 1860, and they smacked somewhat of charity. The people who promoted the banks wished to provide the poorer classes with a means of keeping their savings which would be safe and give them a good rate of interest. It was not foreseen at the time that these savings banks would end up by disposing of vast sums of capital, and these founders, having done an act of charity, were not anxious to assume the responsibility for a complex job of administration. In France, they handed over the funds to the State Treasury, or bought State Bonds. It must not be thought that, at that time, the French Treasury was eager to obtain these funds. On the contrary, it felt that holding them was an embarrassing and onerous administrative chore, and was glad to get rid of them in 1837 by passing them on to the "Caisse des dépôts et consignations". And even then, the Caisse only intervened at its discretion until 1895. Up to that year, a French savings bank could have administered its assets itself, but it saw no point in so doing, and was afraid of the risks involved, a tendency which was encouraged by the premature centralization of the country (in politics, currency, public finances, and the financial market). When, relatively late in the day it was realized what a potentially large autonomous financial capacity the savings banks possessed, the State was set in its habits, and from then on was keenly interested in administering the savings funds.

In the countries which were not unified till about 1860-70, on the contrary, the savings banks, founded as elsewhere from 1820 on, functioned for half a century in a strictly local framework and were forced to find a use for their resources on the spot, in principalities which were often very small, each of them with its own currency and without a financial market. Willy-nilly, they had to invest their funds themselves and, after having engaged mainly in mortgage operations, to try their hand at banking. There too, fifty years of independent administration created certain habits, a tendency which was carried further as time went on.

In these circumstances, it is not astonishing that the French savings banks use 0.24 of an employee per UDC (or twelve times less than the French banks) (10).

On the basis of these two guidemarks (banks 14 per cent of savings or time deposits, index 3.01; savings banks 100 per cent of short term deposits, index 0.24), we shall put forward a hypothesis which is contestable in the absolute, but acceptable as a rough approximation. This is that the staff is a diminishing linear function of the percentage of stable deposits related to the total deposits of the clients for all maturities. This gives a formula which can only be legitimately used however if there is in the balance, as in the case of the savings banks, a mass of easily administered investments (securities and long term loans) at least equivalent to the stable

(10) These savings banks which are called « ordinary » ones employ approximately 3,800 people to which must be added only 60 for the "Caisse des dépôts et consignations" for the administration of their assets, invested in securities quoted on the Stock Exchange or in loans to building and construction firms, etc. The National Savings Bank administered by the Post Office on the same principle was omitted from calculation, but, if it were possible to separate the post office employees used to supervise this work, it is extremely probable that we would obtain a similar index.

deposits. This will in fact always be the case because of the natural tendency to invest stable resources in this way, a tendency accentuated by the regulations which to an increasing degree govern the monetary "reserves" and wich multiply the holdings of Treasury bills and bonds. That being so, we can now try to determine, with a certain degree of plausibility, the productivity index of French banks if it is supposed that they have in turn the same structures for their balances and the same percentages of stable deposits and assets as the German, Belgian, Italian and Dutch banks.

Here are the results of these two calculations:

	French banks		Real index for foreign banks	
	% stable dep. (1)	Corresponding index (2)	Real index (3)	Difference (2) - (3)
% French	14	3.01	3.01	—
Belgian	24	2.67	2.06	0.61
Italian	30	2.48	1.53	0.95
Dutch	35	2.32	2.19	0.13
German	57	1.62	1.76	−0.14

It will be seen that, in all the Common Market countries without exception, the big banks receive a much higher proportion of time and savings deposits than in France, and the difference appears to explain the gap between productivity in the French banks and those in the other countries in the following proportion:

	Real gap A	Rectified gap B	A - B	A - B / A
French and Belgian banks	0.95	0.61	0.34	35%
French and Italian banks	1.48	0.95	0.53	35%
French and Dutch banks	0.82	0.13	0.69	84%
French and German banks	1.25	−0.14	1.39	111%

As it is not certain that the nature of the time deposits' items is the same everywhere in view of the tendencies resulting from the

regulations as regards sight deposits, here is another table similar to the last one, but where we have dealt only with the effects of the percentage differences as regards the savings deposits, which deposits, it seems, are more truly stated than the time deposits:

	Real gap A	Rectified gap B	A - B	A - B / A
French and Belgian banks	0.95	0.58	0.37	39%
French and Italian banks	1.48	1.19	0.29	19%
French and Dutch banks	0.82	0.73	0.09	11%
French and German banks	1.25	0.69	0.56	44%

The size of the stable deposits therefore seems to account for a very high proportion of the differences in productivity.

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Another reason for these differences seems to lie in the varying number of permanent branches (11) per UDC:

		Difference with France
France	0.093 Branch	—
Germany	0.039	− 0.054
Belgium	0.181	+ 0.088
Italy	0.04	− 0.053
The Netherlands	0.082	− 0.011

The same amount of deposits is obtained by about the same number of branches in France and the Netherlands, by double the number in Belgium, and by about half fewer in Germany and Italy. Are these differences due to the wisdom of the German and Italian banks, or the consequence of the bans imposed by the regulations? To what extent does the density of population also exert an

(11) The branches in certain countries which operate intermittently once or twice a month, or once or twice a week, for example, are omitted from this calculation.

influence? In France, Germany and Italy, the average area covered by branch is about the same, but with a different density of population (and hence of clients). But this attempt at justifying the facts is invalidated by the case of Belgium.

However that may be, we have tried to measure the effect on productivity of the number of branches. A not very profound but serious survey of French banks suggests that a large bank with numerous branches could cut its staff by about 10 per cent (12) if it closed down the less important half of them and continued to handle the same volume of business as before with the remaining fifty per cent. Extrapolations on this basis would give the following productivity indices, assuming that the French banks have the same number of branches as the banks in the other countries:

French banks	Hypothetical indices	Real indices of foreign banks	Difference
Number of:			
French branches	3.01	3.01	—
Belgian branches	3.57	2.06	1.51
Dutch branches	2.93	2.19	0.74
Italian branches	2.66	1.53	1.13
German branches	2.66	1.76	0.90

These calculations, if combined with the real differences in productivity between France and the other countries, give the following table:

between France	Real difference in index A	Rectified difference B	A - B	$\frac{A - B}{A}$
and Belgium	0.95	1.51	- 0.56	- 37%
and the Netherlands	0.82	0.74	+ 0.08	+ 10%
and Italy	1.48	1.13	+ 0.35	+ 23%
and Germany	1.25	0.90	+ 0.35	+ 28%

(12) This estimate is more likely to be a maximum. The saving in wages and overheads would be greater, for the staff of the small branches includes a fairly high proportion of highly qualified personnel.

Thus, the factor of the number of branches masked a part of the difference in productivity between France and Belgium. It hardly affects the position of the Netherlands relatively to France. It is responsible for about a quarter of the difference between France on the one hand and Germany and Italy on the other.

The cumulative influences of the two variables of savings accounts and number of branches on the gap in productivity between France and the other countries could then be represented as follows:

— with Belgium	+ 39%	— 37%	2%
— with the Netherlands	+ 11%	+ 10%	21%
— with Italy	+ 19%	+ 23%	42%
— with Germany	+ 44%	+ 28%	72%

The effects of the two factors considered would therefore cancel out in the case of Belgium, and would explain from 20 to 40 per cent of the difference between France and the Netherlands or Italy, and about two-thirds of the difference between France and Germany. The rest of the difference might be explained by the differences in techniques and customs which a more thorough analysis will demonstrate.

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The banks carry out the same operations more or less everywhere, covered in the main by these sections: Accountancy and keeping of clients' accounts, Handling of discount bills and cheques for collection, Foreign business, Securities administration and Stock Exchange business for customers. For each of these sections, we have tried to prepare indices in term of UDC, for the number of typical operations carried out in each section. In some cases, it has been impossible to obtain a common base for banks where the divergences of habits was too marked, and hence the differences between the indices are, for reasons which it is not easy to determine, obviously so dubious that we have decided not to make any use of them. But, on the whole, we did not consider it too imprudent to effect a rough measurement of the differences in the proportions as between one country and another in the relative importance of the various sections of the general banking structure.

A - *General accountancy and clients' accounts - By UDC:*

Number of:	Fr.	Ger.	It.	Bel.	Neth.
Clients' accounts (less savings accounts)	140	* 90	35	160	?
Savings accounts	—	* 95	80	?	?
	140	* 185	115	160	** 70
Of which professional accounts	35	?	35	10	
Annual entries	9,600	* 10,000	?	7,800	
Cheques debited **	5,900	2,300	1,900		
Transfers **	500	2,900	1,100		

Thus, the numbers of clients' accounts in France and Belgium are of the same order of magnitude, but the number of professional accounts is less in Belgium, as is the number of annual entries. The number of Italian accounts is markedly lower than that for the other countries. This number is higher in Germany, but with a predominance of non professional accounts, so that the number of entries is about the same as in France.

It would be risky to base a long commentary on the indices of staff employed in this section. There are 0.90 employee in France per UDC. Elsewhere, it would appear that the figure is a quarter less, but the distribution of the staff between the sections certainly varies from one bank to another. However, it is probable that the sections dealing with general accountancy and with clients' positions are more generously staffed in France than in the other countries. The table given above represents in any case merely an alternative approach to a finding that is common knowledge: there are practically no savings accounts in French banks. As against this, the current accounts clients are the most fragmented and the most extensive in France. Lastly, it is possible that German banks, whose figures for entries are closest to those of the French banks, derive certain advantages from the practice of the "daily statement".

B - *Foreign business section.*

Operations typical of this section could not be defined in such a way as to include too wide a range of customs. At most, the survey was able to gather fragmentary indications from which it

appears that this section is less fully staffed in French banks than in the others. This would be fairly well in line with what is known of the share of foreign trade in the national income. This consideration would tend to increase the French banks' "productivity".

C - *Handling of discounted bills and cheques for collection, by UDC:*

Number of:	Fr.	Germ.	It.	Bel.	Neth.
Bills discounted	2,600	* 250	1.120	175	** 1
Customary clients for bills for collection	* 13	?	* 4	2	** 0.1
Cheques and bills for collection	* 7,000	* 4,000(?)	* 2.500	650	** 700
Values in millions of Fr. francs of bills discounted	(13) 420	** 120	* 90	121	** 14

This table shows the exceptional role of the discount of commercial bills in French credit operations. In this respect, the country nearest France is Italy. At the opposite end of the scale, discounting is practically unknown in the Netherlands. The prejudices in favour of discounting, which is regarded by bankers as a form of credit with special guarantees and a more or less automatic control of the use to which the borrower puts the funds, have survived to a greater extent in France because of the country's recent monetary history and of the banks' need to have more frequent resort to the Central Bank's rediscount facilities. But there is no doubt that this custom is one of the main causes of the difference in productivity between French and other banks. It is quite a different matter, from the point of view of the administration involved, to open a credit account for a certain sum and to cover that sum by a number of drafts, coming one after the other, which are

(13) If account is taken of typical medium term bills in France, the value of the bills discounted would amount to 765 millions francs per UDC. The number of such drafts is very small and they represent very large sums. If included, they would distort the comparisons. As soon as they are accepted by the banks, they are rediscounted by the "Caisse des dépôts et consignations" or by the Banque de France. What is involved is more a mobilization procedure than a real discount operation.

entered in the accounts, recorded on the risk evidence card, diverted to the point at which they are recovered, and finally cashed and removed from all the documents on which they have been noted, or sent back by the same channels if they have not been paid. The number of bills discounted is more than twice as high in Italian banks than in French banks, ten times higher than in Germany, and fifteen times higher than in Belgium. This onerous habit, together with the greater number of cheques, calls for a good deal more handling. According to certain indications, on which we hardly dare put a figure, the staff is thrice as numerous as in Belgium, and no doubt also as in Germany and the Netherlands, and possibly even than in Italy. These sections appear to employ 0.45 employee per UDC in France. There are grounds for thinking that the figure could be reduced to 0.20 employee if discounting were less frequent.

D - *Securities administration and stock exchange business for customers - By UDC*:

Number of:	Fr.	Germ.	It.	Bel.	Neth.
Clients with securities deposits	45	* 30	7	40	** 30
Securities deposits (types of securities per client) . .	352	* 185	46	320	?
Stock exchange orders . .	210	* 170	80	175	
Personnel in section . . .	0,67	* 0,30	0.16	0.40	
Value in million French Francs of stock exchange orders	* 40	** 110	** 130	** 40	

This is one of the peculiarities of the French banks, and to a great extent of Belgian banks. Their clientele is largely recruited from modest circles in what might be called the middle class which in other countries forms the public patronizing the savings banks. Thus the French banks have spread the ownership of securities very widely. They are therefore obliged — and they are not, because of their tradition, opposed to such a course — to accept numerous deposits of securities, the unit value of which has declined as a result of wartime inflation. This distribution of movable property now seems to be evolving in a direction which has only been slowed down by the rise in stock exchange quotations between 1955 and 1960. The introduction of social insurance has contributed to changing the pattern of savings, and the depreciations of the currency, like the nationalizations of 1945, have diverted the public, especially the young people, from the stock exchange. Nevertheless, the customs of the past still survive, and offer certain advantages. These habits show the interest of the general public in private enterprise, but the fact remains that they impose on French banks a crushing burden, in spite of the laudable effort forward rationalization in this field (general mechanization, transfer of securities and so on).

We do not think it rash to conclude that French banks have about twice the number of employees per UDC, in their stock exchange section, than German, Italian or Dutch banks because of the nature of the work. There is no question but that this section always runs at a loss, and a serious and constant loss in French banks. This is probably also the case in the banks of the other countries too, except for a few years, but to a lesser degree.

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In short, the study of the indices seems to us to explain very fully the differences in productivity between the countries in question.

Admittedly, an American statistical specialist recently contributed an article to a famous review with the title: *Qui numerare incipit errare incipit.* We admit that the professor's Latin saying may, on occasions, apply to our study, and we would rather that the figures in it should not be too carefully memorized. The use of indices has allowed us to paint a broad picture which we hope will not seem to run counter to common sense.

In any case, it has not been our intention to indulge in criticism in the aggressive sense of the word. We should even like, if we may, by way of a tail-piece, to give two examples of reasonings which the previous do not warrant.

First, the productivity of the *big* German banks is higher than that of the *big* French banks. But can we make a more general deduction? If we pass from the study of only the big banks with numerous branches to a more integrated approach to the French and German banking systems taken in their entirety, both public

and private sectors, we feel we can establish that the staff employed in 1959 were as follows:

	Germany	France
Big banks	37,900	64,200
Other banks	35,400	49,000
Popular banks and Farmers' credit	39,700	16,900
Savings banks	81,400	4,000
Specialized institutes	24,700	4,000
Central bank	10,700	11,800
	229,800	149,900

It would seem therefore that in France there are only 65 per cent of the German banking personnel, whereas the ratio of population as well as of the gross national product is 88 per cent. Even if (and we have not tackled this point) a part of the employees of German mutual funds does not work full time, it is not at all improbable that the productivity of the French banking system, which is more centralized, is slightly better than that of the German system.

Secondly, still a propos of the big banks, we must not confuse the idea of productivity with that of profitability. No doubt the employment of a large number of staff entails expenditure, but there is an other side to every coin. The low level of time deposits in French banks, linked with the number of employees, is a consequence and at the same time a condition of the relative calm prevailing in the short term money market. There are no continental banks which pay their deposits so low a rate of interest as the French banks, and these factors probably offset one another.

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Will the bankers of the nations visited by us, in particular those of the countries which seem to be in the least favorable position, gradually begin to take account of the facts which this study perhaps helps to bring out? It is not impossible, at least in the case of France, to judge from certain recent measures.

In any case, we firmly believe, for our part, that a bank preserves and improves its productivity when it can or will:

— extend the search for time deposits and, parallel with this, cultivate long term credit;

— curtail the number of its branches without reducing — or at any rate without reducing excessively — its resources;

— restrict the practice of discounting and give preference to overdrafts;

— cut down its securities and stock exchange sections for customers.

To extend the search for time deposits involves certain risks if we cling to the orthodox classical principles which lay down that commercial banks must abstain from long term loans. And, as has been said, even from the point of view of productivity on the national scale, the concentration of the administration of savings accounts in countries which are by tradition centralized is not without certain advantages.

To diminish the number of branches, as the old banking hands know, is desirable, but such a proposal can be no more than a pious wish at the present time.

To restrict the practice of discounting does not mean to renounce discounting as a means of mobilizing credit. To mobilize a relatively sound credit, involving fairly large sums and covered by a fairly small number of negotiable drafts, may be conveniently achieved by discounting, without in any way affecting productivity. What we contest is the desirability of creating on every possible occasion a host of commercial bills and to make of these one of the main instruments of credit. Need we add that commercial discount often gives nothing but the illusion of security? When a banker grants an overdraft, he goes to the trouble of making a careful study of his client's situation. When he discounts a bill, the feeling that he is using a form of credit with a fixed maturity and endorsements, that he is using, in a way, a procedure nearer to real credit than to a personal one, all this inspires confidence which sometimes rests on a slender basis. Those who are familiar with banking collapses know that the most damaging crashes are the result of over easy discount transactions. It is certainly not through the trend towards industrial integration and the development of intergroup issues that this illusion and this peril will become less acute.

To cut down the securities section means modifying many a cherished belief. How many banks refuse to admit that these sections run at a loss? How many others, when they realize what a crushing weight they represent, insist all the same of keeping these sections going, since they are alleged to maintain the public's attachment to a form of investment which the banks feel it is desirable to preserve, or because they encourage the opening of deposit accounts? Yet in this field the future is already clearly discernible, as a result of the vicissitudes of the currency, of the modifications effected by social legislation in the forms of savings, and of the change in the mentality of the younger members of those who save. The need is to refrain from inhibiting this tendency and to canalize it. The development of investment trusts and of open end investment funds is worth stimulating as a means of attaining in the long run the necessary concentration of portfolios of securities where such concentration does not at present exist.

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But we would not wish what are basically personal conclusions should tire the reader's patience. Our object is to find a few subjects for reflection in the course of our journey through Europe and to throw a clearer light on the realities hidden below the surface of accountancy and administration.

Paris A. Roux