

Competition among Banks in France and the Fixing of their Rates

I. - The fixing of banking conditions in 1925.

Under a competitive system the banks, in order to increase their deposits, tend to allow their customers high rates of interest and consequently operate under not very remunerative conditions. Moreover, the leading banks which, for reasons of prestige, are the last to raise the rates paid on deposits, run the risk of seeing their customers take their accounts elsewhere (1).

(1) Under a competitive system the rate applied will depend on three factors: the official discount rate, the standing of the bank and the bank's cash position.

(a) It is an accepted fact that one of the elements which determine the structure of bank interest rates is the discount rate of the Central Bank. This is indeed so well recognised that the discount rate charged by the banks to their customers is not fixed, but is based on that of the Bank of France. Thus, a bank will write to inform its customer that it will discount his bills at the Bank of France discount rate plus $\frac{1}{2}\%$ (or, to use the usual abbreviation: T.B. + $\frac{1}{2}\%$). Debit interest rate is based on the rate charged by the Bank of France for advances. One talks, for example, of the charge for an overdraft being T.A.B. + 1%. In the same way, before 1925, when there was no ceiling for the rate of interest on deposits, it was fixed by reference to the official rates. It might be, for instance, T. B. - 3%.

When, in the period between 1920 and 1925, certain bankers were considering the question of a maximum rate for deposits, they expressed the opinion that they could not go above the discount rate of the Central Bank « because », they said, « if you offer a higher rate of interest you are showing the customer that you have no more bills to discount at the Bank of France; for if you had, you would present them there instead of taking in money at a higher rate ». It should be explained that at that period discounting was not « rationed » except for a small number of banks — those of the lowest standing in the banking system.

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

(c) The third factor is related to the bank's cash position. It may be that the bank desires to strengthen its cash position,

In France the year 1925 was marked by a period of great monetary scarcity. The official discount rate was lowered from 7% to 6%. The banks offered depositors higher and higher rates of interest, which eventually reached 5 to 6%. In order to stop this rise, the « *Union Syndicale des Banquiers* » (2), which was under the influence of the large credit institutions and the chief « *banques d'affaires* », decided in October 1925 to fix credit interest rates and to introduce certain charges in the form of commission.

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

either because it is handicapped by having tied up too much of its funds in the past, or because it is not in a sufficiently strong position to undertake the operations which it has now in view. In 1921 a regional bank whose credit standing was beyond question lost double the amount of its capital in unfortunate operations. This bank had large secret reserves, but these would not have enabled it to survive had it not been able to maintain its credit intact. The public were unaware of these losses. The bank increased its deposits by offering a rate of interest very slightly above that allowed by its fellow-banks, was thus able to develop its activities and, within a few years, during which it maintained its dividend unchanged, and built up its reserves again, it had wiped out all its previous losses. From then onwards it showed itself much less generous in the matter of credit interest rates.

(2) Founded in 1871 under the title of « *Conférence des Banquiers du Commerce de Paris et de la Province* ». It was dissolved on 1st October 1941 under the banking law of 13th June 1941 and was replaced by the « *Association Professionnelle des Banques* ».

These conditions applied to accounts at notice of up to one month. Above this period the banks were free to fix the rates at their discretion (3).

This control was established with a view to putting a stop to competition from the medium-sized and small banks which, by reason of the high rates they offered, were a thorn in the flesh of the large credit institutions. There was no compulsion, however, on banks to adhere to the « *Union Syndicale des Banquiers* », which was a private institution; and, in fact, certain regional banks did not do so. However, in order that the measures it proposed should be applied by all banks, the committee of the *Union* decided that institutions which remained outside should be charged customer rates and not inter-bank rates in respect of inter-bank transactions. This decision rendered banking business impossible for the institutions outside the *Union* and they were thus obliged to adhere to it.

Apart from the above-mentioned conditions, a commission of $1/4\%$ was introduced on the turnover on current accounts (excluding cheque accounts and deposit accounts), and a small commission on bills of exchange for amounts not exceeding 1,000 francs. The agreement of October 1925 fixed minimum charges for acceptances ($1/4\%$ for one month, $3/8\%$ for two months, $1/2\%$ for three months) and laid it down that the rate of interest on overdraft and advances could not be less than the rate for Bank of France advances.

If a banker failed to observe these prescriptions, nothing more than a moral « sanction » could be imposed: the President of the

(3) Competition affects time deposits more often than sight deposits. Banks prefer, in fact, to adjust the rates for time deposits rather than those for sight deposits, since the former represent a more stable element than the latter and, therefore, can more justifiably be allowed high rates. Before the outbreak of war in 1939 a large bank, as soon as it was in need of funds, offered rates slightly higher than those allowed by its competitors for fixed deposits. It succeeded in this way in doubling the total of these accounts within a few months. Many leading banks, when their cash resources were abundant, offered ridiculously low rates for fixed deposits. On the other hand, when they were short of funds, their representatives showed great alacrity in offering depositors more favourable rates.

« *Union Syndicale* » would call him in and tell him what he thought about him! Theoretically, the President might exclude him from the *Union*, but in fact no such step was ever taken.

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

The rates allowed by the banks to their depositors could no longer, therefore, vary except within circumscribed limits, which latter on tended to become even narrower. The plentiful flow of money to which the stabilisation of the franc, in 1927, led, caused the « *Union Syndicale des Banquiers* » to lower the rate to $1/2\%$, or $3/4\%$ or $7/8\%$ according to the category of the bank. It is obvious from this that competition in rates was almost dead, the more so as many banks simply allowed the maximum authorised rate to all their customers. It is true that the agreement was often ill-observed, that some banks did not hesitate to supplement the interest in the form of hand to hand bonus, and that others offered to accept deposits at so many days' notice or fixed for more than one month, giving the customers to understand that in case of need the bank would release the sums required on demand. In all these breaches of the agreement, it was not a question of large amounts (4).

Competition had thus to be transferred to other fields:

I. *Material conditions and standard of banking services.* — The banks have made great efforts to raise the level of efficiency of their counter staffs, to improve the general

(4) In the troubled period between October 1930 and December 1931 — a period during which the public exhibited a pronounced distrust in banks — some of the banks did not hesitate to endeavour to acquire customers by sowing doubts in the minds of the persons they visited as to the soundness of the competing banks.

The French public is particularly sensitive to rumour campaigns directed against banks. In my article, *La presse financière française*, published in « *Revue de la Banque* », 1954, Nos. 7 and 8, I mentioned (p. 535) various cases in which there had been considerable withdrawals of deposits as a result of tendentious and inaccurate rumours that had been circulated about the institutions in question.

presentability of the personnel and premises, to speed up operations and to simplify the presentation of the accounts. Relationships between the banks and their customers have become more « human ».

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

3. *Personal relationships.* — Other psychological factors also play a part, particularly those based on personal or business relationships. As I have said in another article (5), if the « *haute banque* » in France still maintains its position as well as it does, this is because the owners of the banks hold directorships in numerous business firms which, by reason of this connection, feel obliged to do at least some part of their banking business with those banks. The higher officials or outside representatives of a bank usually manage to build up a personal clientele which follows them if they transfer to the service of another bank. In this connection, it not infrequently happens that a bank endeavours to lure away from another bank an official who is known to have good business connections.

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

(5) *La Haute Banque Française*, in « *Revue de la Banque* », 1954, N° 1.

(6) The two following instances may be cited to illustrate this point:

After the last war a large credit institution which had been obliged to close down a sub-branch in Paris transferred the accounts of this sub-branch to the nearest branch; sixty per cent of the customers who had held credit accounts with the

During the period with which we are here concerned, that is to say from 1925 to 1939, the money market experienced passing phases of plentiful money. This temporary abundance, due to fortuitous circumstances, has often disguised a defect of the French banking system, namely shortage of deposits (and it is precisely this shortage which tends to make competition between the banks so relentless and dangerous). The volume of bank money in France was ridiculously small compared with that which existed in other countries. In Britain the note circulation was only one-sixteenth of total bank deposits, whereas in France the note circulation was double the amount of such deposits. A single British bank (the Midland Bank) had more deposits than all the French banks put together. France was a country in which the credit system had reached only a low stage of evolution, and in which the resources of the banks remained at very low levels. This situation was beginning to worry the boards of the large banks and most of the bank reports published in 1939 reflected these apprehensions (7).

The 1925 agreement did not deal solely with the question of credit interest rates. It also fixed minimum rates for acceptance commission and for interest on overdrafts. These minimum rates in no way modified the structure of debit interest rates and forms of banking competition, for they had intentionally been fixed very low, at rates which were only applied, exceptionally, in the case of very large business firms.

sub-branch thereupon transferred their accounts to other banks in the immediate vicinity.

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

(7) « Deposits with the French banks have increased to a very unsatisfactory extent. Valued in terms of gold they showed, at the end of 1938, a reduction of 44% in comparison with the period before the war ». (*Crédit Lyonnais*).

« The building up of deposits, which is handicapped in more ways than one, is proceeding much too slowly, and in this respect the French banking system is far outdistanced by that of the Anglo-Saxon countries ». (*Société Générale*).

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

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

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

IV. - Law of 13th June 1941 and banking conditions.

The question had already arisen before the war of providing by legislative measures that automatic credit control which had been lacking since the abolition of the gold standard

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

Banking conditions are, in practice, worked out region by region by the « *Association Professionnelle des Banques* », which then submits its recommendations to the « *Conseil National du Crédit* » for decision. This latter body, however, can also itself fix banking conditions after consultation with the « *Association Professionnelle* »; if the Association is not in agreement, the proposed conditions must be approved by the Ministry of Finance — a situation which has occurred several times in the past few years.

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

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

(8) The title of this law is: « Law relating to the Nationalisation of the Bank of France and of the Large Banks and to the Organisation of Credit ». The law of 2nd December 1945 abolished the « *Comité permanent d'Organisation professionnelle* » and transferred its functions to the « *Conseil National du Crédit* », which exercises them through the medium of the Bank of France. Above the « *Association Professionnelle des Banques* » and the « *Conseil National du Crédit* » there is a third organism, the « *Commission de Contrôle des Banques* », to which, to quote M. Bloch Lainé, « the public Treasury has delegated some of its powers so as not itself to be in direct contact with the banking profession ».

who can impose conditions which the bankers had rejected.

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

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

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

5) Finally, which was not the case before the law of 1941, penalties are provided for against banks which do not observe the conditions laid down in the agreements. In principle, only the « *Commission de Contrôle* » has the power to impose such penalties, among which are the following: warning; censure; prohibition of certain operations, and the im-

(9) See on this subject my book: *La pratique de la Banque*, 1943, p. 51.

position of any other limitations on the offender in the exercise of his profession; suspension of the responsible managerial officials, with or without nomination of a provisional administrator; striking the offender off the list of banks. The « *Commission de Contrôle* » decided, on 19th January 1944, to delegate its disciplinary powers in regard to the non-observance of banking conditions to the « *Association Professionnelle des Banques* », with the exception of the power to suspend responsible managerial officials and the power to strike offenders off the list of banks.

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

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

As regards conditions applicable to discounts and overdrafts, the fixing of minimum rates caused little inconvenience to the banks, first, because the standing of most of the business customers justified the application of higher rates than the minima fixed by the banking agreements, and, secondly, because in the case of the larger businesses, the credit was made available through a syndicate or consortium. The business firm's main bank — which, in cases where the firm is more or less controlled by a bank, is that particular bank — acts as the leader of the syndicate or consortium and discusses the credit conditions with the firm. Once the conditions have been fixed, the leading bank allocates the total credit among the various banks concerned. In all these discussions the firm takes either no part at all, or very little. It is difficult for it to change its bank, or to favour one particular bank without causing an outcry all

round. « Acquired rights » and « precedents » are supreme in this system. This does not mean that the system is absolutely inflexible and does not admit of exceptions: there are exceptions, but they are rare. By adopting this system the banks have banished competition and have shared « big business » among themselves on the basis of spheres of influence. It should be added that this system does not apply in general to credit accounts, particularly fixed accounts, although obviously a bank which has a given business enterprise in its sphere of influence will take good care that the greater part of that enterprise's deposits are entrusted to it.

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

It is well to bear in mind that, for an account to be profitable, it must be of a certain minimum size, which is at present put at 125,000 francs. It is true that if the account falls below this figure, profitable for the bank, it can still be useful if the account-holder does other business with the bank, as for example dealings in securities or the discounting of bills. Nevertheless, many banks refuse to accept deposits of less than a certain size (10). Certain banks only allow interest on large accounts, while others (very few, it is true) charge debit interest if the account falls below a certain figure.

(10) The question has often been discussed as to whether the nationalised banks have this right, but the discussions have so far led to no precise conclusion.

I have already mentioned (paragraph II) that between the two wars the French banking system was poor in deposits (11). It remained in that condition despite all the efforts of the Vichy government to foster their formation. The measures taken were the following: exemption from cheque stamp duty; abolition of the obligation of the banks to notify the fiscal authorities of the opening of new deposit accounts and other credit accounts (this obligation was reimposed in 1945); increased penalties for the issue of invalid cheques; compulsory domiciling of drafts (abolished after the Liberation); obligation on trades-people to maintain a bank account; obligation to make all payments over a certain amount by cheque. It has to be admitted that all these measures have not produced the anticipated effects. A recent inquiry showed that the French distrusted cheques and preferred to be paid in cash; also that 65% of the population did not possess a bank account. The result of this inquiry shows the ignorance of the general public, even including actual account-holders, on the subject of banking services.

The graphs in the following page give a picture of the movement in bank deposits since 1948. The first graph is for time deposits (*comptes à échéance*), cheque accounts (*comptes de chèques*), and current accounts (*comptes courants créditeurs*).

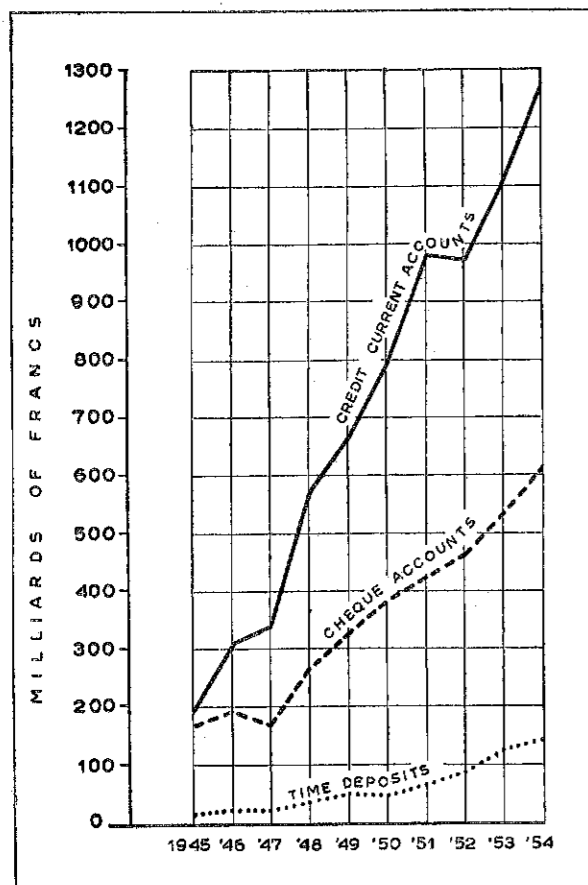
The second relates to bills rediscounted by the banks (*effets réescomptés*) bills in portfolio (*portefeuille effets*), bank deposits (*dépôts*) and the note circulation (*circulation fiduciaire*).

The decision of the Bank of France, in September 1948, to fix *discount ceilings* for all banks was a severe blow for the large banks, whose discounts at the Central Bank had not previously been subject to any limitation, only the small and medium-sized banks having had a ceiling to their discounts. This unlimited possibility of recourse to the Bank of France had in fact enabled the large banks to procure all the funds they needed when

(11) A British review gave in 1950 a list of the 73 largest banks in the world, in the order of the amount of their total assets, calculated in sterling. Not a single French bank figured in this list, though a Spanish bank was No. 22. In 1926, in a similar list, a French bank occupied the 26th place.

their deposits were insufficient. Subsequently the Bank of France authorised the overstepping of the discounting ceilings in numerous cases and the « *Commission de Contrôle* » ceased to insist that the banks should have the compulsory minimum of public securities in their portfolios (the *plancher*). In November 1951 the Governor of the Bank of France

GRAPH I

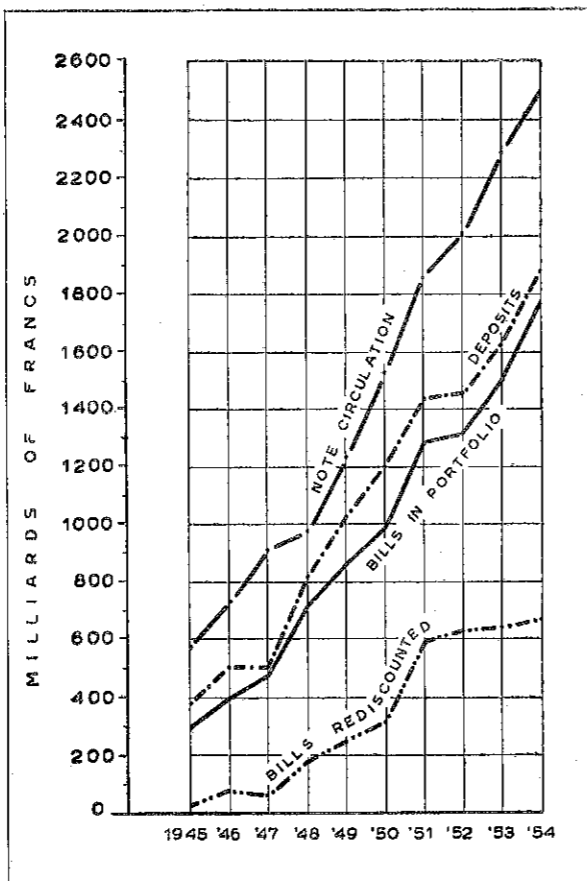


decided that these relaxations must cease; he had new and higher ceilings fixed, abolished all existing exceptions and ordered that thereafter the banks should maintain the prescribed *plancher* of public securities in their portfolios.

This was another hard blow for the banks, which immediately began casting around for deposits, offering rates well above the authorised maxima. (The payment of the excess interest was to be effected in an indirect manner so that the banks would still appear

to be respecting the official banking conditions). A controversy has arisen as to which were the banks which began to flout the decision of the « *Conseil National du Crédit* ». Some say that certain nationalised credit institutions were the first offenders; others that the Rubicon was first crossed by certain members of the « *haute banque* ». It matters little,

GRAPH II



however, who it was, for in both cases the heads of these banking houses were leading figures in the « *Association Professionnelle des Banques* », delegated by the « *Commission de Contrôle des Banques* » to see that the banks respected the banking conditions and to repress infractions by the penalties which I have already mentioned. There were no « sanctions », and the « *Commission de Contrôle des Banques* » did not call on the « *Association Professionnelle des Banques* » to impose any. It was quite obvious that the

monetary authorities were closing their eyes to all these shortcomings. They had long desired to see an increase in bank deposits; and moreover they did not wish to embarrass the banks which they had just muzzled by suppressing the concessions they had previously granted in the matter of *ceilings* and *plancher*; on the contrary, they provided other safety-valves by semi-officially dropping the stipulations regarding credit-account conditions.

Certainly, many scrupulous minds would have preferred — if it were necessary, in order to safeguard the equilibrium of the banking system to go back to a completely competitive regime in the quest for deposits — that this change of policy should have been « official », that is to say, that the « *Conseil National du Crédit* » should have announced that the maximum rates fixed by it for deposits had been withdrawn. That would have been the more correct and normal procedure, for tolerance of the non-observance of certain banking conditions encouraged the banks to ignore other conditions, and indeed — human nature being what it is — to flout banking regulations in general: it was also, in a way, tantamount to casting discredit on the monetary authorities. These authorities, in fact, appreciated all the disadvantages of such a situation, but they considered that an official return to freedom of rates would have even greater disadvantages; doubtless they desired to reserve to themselves the possibility of an easy return to the control of rates by merely dropping the tolerance they had shown when they considered the monetary situation necessitated it. It is evident that to reintroduce limitation of rates after having officially abolished it would also have had its disadvantages. It is, however, interesting to note that the regulations regarding credit interest rates had been fully observed from 1925 to 1941, when they had been imposed on the banks by their own central organisation, whereas they were violated when they were prescribed by law.

It is evident that higher rates were allowed in the case of large deposits (*i.e.*, those running into some tens of millions). The rates paid were high: from 4 to 5% for sight deposits at the end of 1954. A rate of 4% was quite common, although the discount

rate was 3%. A disparity of this size was an anomaly which would have been unthinkable even during the dear-money years, when credit interest rates did not in general exceed the official discount rate. On time deposits the rates were still higher; I know of one instance in which 6% was paid for money at 6 months' date. The main beneficiaries of these high rates were naturally those who possessed large monetary resources, that is to say, insurance companies and the shipping business.

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

One question arises which is the crux of the whole situation. Has the freeing of rates appreciably increased the volume of bank deposits? Has it polarized the large holders of capital? This is a question which it is difficult to answer, for the formation of bank deposits is conditioned by certain rather complex principles, the most important of which is that expressed in Hartley Withers' famous maxim: « Loans make deposits ». However this may be, here are the figures since 1951 for current accounts, cheque accounts and fixed deposits for the whole of the banks belonging to the « *Association Professionnelle des Banques* » (12).

(millions of francs)

	1951	1952	1953	1954
Current accounts	991,400	974,000	1,146,000	1,284,000
Cheque accounts	426,500	461,600	506,000	618,000
Fixed deposits	66,900	85,200	116,300	142,000

(12) These figures include those of the four large nationalised credit institutions, but not those of the Bank of France, the Banque de l'Algérie et de la Tunisie, the Crédit Foncier de France, the Crédit National, the Banque Française du Commerce Extérieur, the « banques populaires », the banks of the co-operative sector and agricultural credit institutions.

The movement on these accounts, expressed in percentages, was as follows:

Current accounts	+23.38%	- 1.07%	+17.65%	+12.04%
Cheque accounts	+11.53%	+ 8.23%	+ 9.62%	+22.13%
Fixed deposits	+35.97%	+27.35%	+36.5%	+22.09%

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

It should here be remarked that, since the rates were freed, the banks which normally used their discount facilities with the Bank of France up to the hilt and were not able of maintaining their prescribed *plancher* of public securities, have had less recourse to those facilities and have held more public securities than the regulation minimum. Here again, however, it is difficult to determine whether this reversal of the situation is due to the freeing of the rates, the more so as in the meantime, as I have already mentioned, the Bank of France had revised its discount policy vis-à-vis the banks by laying down strict, but higher ceilings instead of the pre-

vious practice of fixing lower limits, but allowing a great number of exceptions.

As it was easy to foresee, the toleration by the monetary authorities of the non-observance of the « official » credit interest rates encouraged the banks not to observe the other banking conditions, but in this field the competition was less keen than in the sector of credit interest rates for the reasons I mentioned at the beginning of the present section of this article. It was, in fact, difficult, in the case of « syndicate credits », to let it be known, even verbally, that the official conditions would not be observed and, so far as the holders of small and medium-sized clients were concerned, the risk factor prevented the banks from going below the official minimum rates.

It should, however, be noted that certain banks continued to apply the official banking conditions. This highly correct attitude was variously interpreted: some saw in it a sign of plentiful cash resources, others a lack of enterprise.

At the end of 1954 the Governor of the Bank of France (13) considered that this situation had lasted long enough and that it was time for a return to legality. He called in the representatives of the four nationalized credit institutions and of eight banks and asked them to prepare new agreements — agreements which, once discussed and adopted, must be respected, or otherwise he would take drastic action (14).

(13) The Governor of the Bank of France is at one and the same time President of the « *Commission de Contrôle des Banques* » and Vice-President of the « *Conseil National du Crédit* ». Actually, he performs the functions of president of this latter body also, for its president, the Minister of Finance, is never present at its meetings. The Governor is thus, by virtue of his triple functions, at the head of both the control of credit and the « *Contrôle des Banques* ».

(14) A similar situation developed in Italy in these post-war years.

In Italy too, debit (minimum) and credit (maximum) banking interest rates are fixed by the so-called « banking cartel ».

The first cartel agreement was signed in 1919 by the four leading Italian banks of that time. Later, under the « Banking Act of 1936 », the rates for the various transactions and the terms of banking services came under the control of the monetary authorities, which were empowered to establish maximum or minimum rates. In the early fifties official limits were being generally disregarded, and, with the toleration of the authorities, the competition among banks became very keen also in the field of rates. The rates paid on deposits rose to unusually high levels, especially for sizeable current

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

We have seen that competition among the banks did not in general result in a lowering of the debit interest rates below the official minima. On the contrary, the bank complained that the government, with a view to lowering industrial costs, had on several occasions intervened with a demand that the banks should lower their charges. Thus, on 6th November 1952, certain bank commissions were reduced by one-third or one-half. In September 1953 the Minister of Finance advocated a cheap-money policy by way of the revision of banking conditions and a reduction in interest rates; and on 17th September 1953 the « *Conseil National du Crédit* » responded to this invitation by reducing commissions charged for the opening of documentary credits and the amount of the different entries to the debit or the credit of customers' accounts. In September 1954 the Minister of Finance asked for a further reduction in bank charges. On 25th October 1954 the « *Conseil National du Crédit* » responded to this appeal by reducing by 0.20% the rates charged by the banks for medium-term equipment credits; the minimum for debit interest was reduced from 6¼% to 6% (15), and the maximum commission charged on overdrafts was lowered by two-thirds to half debit interest rates; in addition, also the exchange commission applied to payments to or from other countries was reduced. The Minister of Finance, when

accounts for which, in 1953, there was a tendency to exceed 4% per annum (as compared to an official ceiling of 0.50%).

At the end of 1953, the banks — which were feeling the adverse effects of excessive competition through rates of interest — signed a new voluntary agreement, rather complicated and favourable to large current accounts. The Agreement was renewed for 1955, with some changes (the 4% maximum rate can be granted only for current accounts held by special categories of depositors and showing an average annual balance of at least 500 million Lire. The same rate is also payable on deposits fixed for at least one year).

(15) A rate of 6% is still high compared with pre-war rates. Based on the rate charged by the Bank of France for advances, it is equivalent to T.A.B. + ½. Before the war the agreement of 1925 provided that the banks' minimum rate for advances should be the same as the rate for Bank of France advances.

announcing these reductions in the cost of money, added that complementary measures would shortly be taken which would be such that at the end of the eighteen-month expansion plan charges for equipment funds would be down to the level obtaining in countries comparable with France.

I must beg the reader to excuse this long recital of facts, but it was the only way of showing the influence exercised by the government over debit interest rates. It may be retorted that very often it is only a minimum rate that is fixed and that, consequently, above this minimum, which the banks regard as rather low, the banks are free to fix their own terms and competition can operate — the margin between the rates charged to a customer and the minimum rates being determined by the standing of the customer. This is true only where the customers are small firms; the larger ones will ask their banks to apply the minimum rates, and the banks will do so. The same will happen also even in the case of many medium-sized firms. In the last analysis, therefore, it is in fact the government which determines the structure of debit interest rates (16).

(16) It may be noted, however, that for certain discount operations, even though they are « eligible » at the Bank of Issue, the rates are at present so high that they cannot be said to bear any relationship whatever to the official rate. Thus, in the case of instalment sale credit, the most favourable rates are: for the 4 H.P. Renault, 18.55%, for wireless sets, 30.80%, and there are cases in which the rate varies from 40% to 50%. In the case of credits granted to public officials, which credits are not mobilisable at the Bank of France, a judgement given by the Tribunal of Nice in May 1952 declared that a rate of 28% to 30% was a normal rate.

It was in order to put an end to such abuses in connection with consumer credit that, in December 1954, the « *Crédit Social* » — intended exclusively for wage-earners — was instituted with the participation of the « *Caisse Centrale des Banques Populaires* ». In all businesses which adhere to the « *Crédit Social* », wage-earners who have had three years' service, will be able to apply to the « *banques populaires* » for a credit to an amount not exceeding three months' wages for the acquisition of semi-durable consumer goods. The businesses will undertake to guarantee, to the extent of 5%, repayment of the credit granted to their employees.

In order to put an end to the exploitation of which public officials have been the victims in the past, the « *Crédit Municipal de Paris* », or in other words the « *Mont de Piété* », has created a credit service for such officials. A service of this nature already existed in the case of the « *Crédits Municipaux* » of Algiers, Lille and Toulon. The credit may not exceed the amount of two months' emoluments, including bonuses and family allowances, and will be repayable in twelve

VII. - The structure of debit interest charges and the cost of banking operations.

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

The cost to the banks of certain security transactions has been calculated with a fair degree of precision. It is so high that if it were taken as the basis of calculation of the banks' commission charges, banks who did so would lose their customers (18). The banks

monthly instalments. It will not be granted other than for a « social » motive: removal from one house to another, or the purchase of household equipment and furniture. The rate will be 5.08%.

This provides yet another confirmation of the truth of what I have been asserting for twenty years, namely, that the state and semi-state financial institutions in France owe their development to the inadequacy of, and gaps in, the private banking system.

(17) Mention may be made, in particular, of studies published in various issues of the « Revue de la Banque » in 1946 and 1947, under the title: *Vers une fixation plus objective des conditions bancaires*, written by M. Georges Simon.

(18) The Commission for the auditing of the accounts of public enterprises, and which therefore audits the accounts of the four large nationalized credit institutions, states in its report, submitted in 1954, that « the multiplicity of the oper-

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

ations, many of which are for quite small sums, is one of the causes of the persistent heaviness of the general expenses of the large credit institutions. The average sum involved in stock exchange orders, in one of the four large banks, worked out in 1952 at only 40,000 francs, and the yield to the bank at 398 francs; in another of the banks, the average yield on such orders was 415 francs. It is necessary to add that the greater part of this amount goes in paying the broker's commission. As for coupons, in spite of the regrouping of securities and the payment of interest once a year only, their number still remains very considerable: 79 million coupons had to be handled by one bank in 1952 for the collection of interest amounting to 18 milliard francs ». The commission's conclusion is that it is necessary to persevere with the work of rationalisation and mechanisation which was begun a few years ago.

In its report for 1954, the Crédit Lyonnais had the following to say about its securities department: « In spite of the progress achieved thanks to the regrouping of securities and to rationalisation measures, the administration of the security deposits which have accumulated at our offices in the course of many years is still a very heavy task, for we have not been able — far from it — to raise our safe custody tariffs, transfer fees, etc., to the same proportion that the currency has depreciated. It is impossible to over-emphasize the adverse effect on the profit and loss account of a large credit institution of having to maintain so extensive a securities service, a service which is not governed by business considerations but rather, at the present time, by consideration of the public's convenience ».

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

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

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

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

(19) The four large nationalized credit institutions are not comprised in the State sector. They come under the « *Conseil National du Crédit* », like other banks, and, in the matter of deposit interest, are subject to the same rules as the banks.

(20) On 28th January 1955, replying to a motion by a deputy that the *Assemblée Nationale* should raise the maximum for deposits with the « *Caisses d'épargne* » from 500,000 francs

with withdrawals are an obstacle which keep many holders of bank accounts away from the « *Caisses* ». The competition coming from the *Crédits municipaux* (or *Monts de Piété*) appears to be more real, but the amounts here concerned are not very large. On the other hand, the postal cheque offices hold deposits totalling some 500 milliard francs. The depositors, who receive no interest, use these accounts for making current payments. The procedure is rapid, the cost is small, and payments can be made in this way by a businessman to his customers in villages where there is no bank. The banks have complained that the postal cheque offices compete unfairly by charging unduly low rates, and that moreover, by so doing they work at a loss which the Treasury has to make good. To this accusation the defenders of the postal cheque system retort that if the Treasury allowed the postal cheque offices, on the funds which they hold with it, interest at a rate in line with market conditions, the system would be working not at a loss but at a profit.

As regards the « *Crédit populaire* » and the « *Crédit agricole* », the banks' complaint is that, apart from their freedom in the matter of rates, they have greater possibilities of opening new sub-agencies, and that they seek business in non-specialised sectors, particularly the « *Crédit populaire* » which, they say, has secured the banking business of large enterprises. One cannot, however, reproach these institutions for trying to offset their bad risks — and by « bad » I do not mean from the point of view of solvency, but from other aspects, such as long credit periods or the immobilisation of credits, and a low level of profitability — with good risks, when they are able to do so without thereby infringing their statutes.

to 750,000 francs, the minister said: « Since 1938 efforts have been made to maintain a certain relationship between the cost of living and the deposit ceiling of the « *Caisses d'épargne* ». The present limit of 500,000 francs is comparable, in this context, to that of 20,000 francs in 1938. If the proposed amendment were adopted, there might be a risk of modifying the essentially « popular » composition of the clientele of the « *Caisses d'épargne* »; it would disturb the equilibrium of the distribution of funds as between the banks and the « *Caisses d'épargne* ». Notwithstanding these pertinent remarks, the amendment was adopted.

The banks also complain of the competition they have to meet at the hands of the insurance companies in the matter of security, but, on the other hand, they no longer encounter competition, as they did before the outbreak of war in 1939, from either the Bank of France or the « *Comptabilité du Trésor* ».

The problem of competition between the banks and the government or semi-government institutions exists in most countries in which the activity of those institutions, thanks to the advantages assured to them by the State, hinders the development of the banks. At the last meeting of the International Banking Summer School, a Belgian delegate expressed the hope that « banking associations would by every means at their disposal endeavour to bring about a more satisfactory state of affairs ».

The solution of this problem — if indeed there is a solution, for, whatever may be done, there will always be complaints unless state and semi-state institutions disappear, which is out of the question — does not rest with the banking associations but with governments.

IX. - Conclusions.

The problems raised by inter-bank competition and by their rate structure are not peculiar to France. More or less identical problems arise in almost all countries, with certain nuances due to differences in national temperaments and in banking systems. The regulation of banking conditions was not due to governmental initiative, but to understandings between the banks. We have seen how this was the case in France but in other countries — in the United States, in Great Britain, in Holland and in Germany (21) — formal

(21) Germany was the first country in which such agreements were concluded. It was in fact in 1894 that the « *Stempelvereinigung* » or Association of Berlin Banks and Bankers, decided, in order to put an end to a state of disorderly competition which was prejudicial to the banks — competition which was due principally to the opening of numerous sub-

agreements have been concluded among the banks to regulate banking conditions.

In the light of this tendency it may be asked how it is that, in certain countries — in France and Italy, for example — understandings with regard to banking conditions, which were first voluntarily entered into by the banks and subsequently established by law, have finally broken down. It would seem that this has been due to a combination of unfortunate circumstances, among which shortage of capital is probably the most important. In fact, the failure of the monetary authorities to take action to repress infringements of the legal banking conditions must lead to the conclusion that the reasons which induced the banks to ignore the rules that had been laid down for them were particularly serious.

The restoration of freedom in the matter of the fixing of banking conditions showed the disadvantages of entirely unrestricted competition in rates, a competition which, in France, no longer recognised even the technical limitations which I have referred to in section I above (Note 1), since interest rates exceeded, and often still exceed, the discount rate of the bank of issue. But I will conclude by expressing the opinion that despite these deviations, and despite the tendencies which have become apparent in France in certain economic and business circles, in favour of a return to banking competition, the compelling forces which caused the banks to accept the fixing of rates have triumphed over unfettered competition since, in France, there is a movement in the direction of a return to a new regulation, and in Italy an agreement among the banks has for some years past taken the place of the rules based on the law of 1936, even though those rules have never been rescinded.

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offices and agencies — to conclude an agreement. This agreement related in the first place to the rates of interest to be allowed to depositors, and in the second place to the terms for advances to the banks' customers.