CONTROLLING CREDIT

It is common wisdom that central banks in the postwar (1945–1970) period were passive bureaucracies constrained by fixed exchange rates and inflationist fiscal policies. This view is mostly retrospective and informed by US and UK experiences. This book tells a different story. Eric Monnet shows that the Banque de France was at the heart of the postwar financial system and economic planning, and contributed to economic growth by both stabilizing inflation and fostering direct lending to priority economic activities. Credit was institutionalized as a social and economic objective. Monetary policy and credit controls were conflated. He then broadens his analysis to other European countries and sheds light on the evolution of central banks and credit policy before the monetary union. This new understanding has important ramifications for today, since many emerging markets have central bank policies that are similar to Western Europe's in the decades of high growth.

Eric Monnet is a senior economist at the Banque de France, a professor in economic history at the Paris School of Economics and a research affiliate at the Centre for Economic Policy Research (CEPR). This book, combining archival-based institutionalist perspective and quantitative economic analysis, extends his PhD dissertation, which received the Gerschenkron prize from the Economic History Association and the twentieth-century prize from the International Economic History Association.

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Controlling Credit

Central Banking and the Planned Economy in Postwar France, 1948–1973

ERIC MONNET

Banque de France and Paris School of Economics

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À *Sophie et Noé*

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Preface

The project of this book was born nearly a decade ago, several months before the greatest financial and economic crisis since the 1930s struck. It was a context characterized by confident optimism in financial markets and the stabilizing role of central banks. Many publications in the field of economics and economic history celebrated a return to a level of financial openness and development comparable to that of the period before World War I. Even more traced the success of central banks, which had achieved independence and could confine themselves to focusing on price stability, through no other form of economic intervention than targeted announcements and gradual modifications of key interest rates. Central banks, like a discreet and skilled conductor, could step back from debates on broader economic policy and concentrate on inflation targets, leaving it to the market to determine the optimal level and allocation of credit and risk in the economy. Having come across these accounts during my study of economics, I decided to consider, from a historians' perspective, the period that preceded the emergence of such policies and offered a countermodel to them. The little historical work on central banks from the 1950s to the 1970s compared to those on the nineteenth century and the interwar years justifies an approach that is limited to a single country and a relatively brief period. My intention is not to rehabilitate past political virtues, but to consider the past without relying on economic and political frameworks that would not become dominant until a later period, to attempt to understand the postwar period in a manner that is free of the assumptions that gradually began to emerge in the 1980s. From the outset, I embraced the well-established conviction that the task of economic history should be to dispense with teleological and monolithic discourses about paths to economic development – a goal that requires radical empiricism and extensive use of a variety of sources, as well as methodological pluralism.

If this initial economic and political context provided crucial motivation for this book, my research was also deeply affected by the way in which this context rapidly evolved. The financial crisis not only altered public and political discourse – though perhaps to a lesser degree than many might have expected, based on historical experience – but also the discourse of economists. After more than a decade of a burgeoning literature on the positive consequences of credit expansion for growth and the detrimental burden of credit restrictions, analyses began to appear (often using the same methods and data as the previous studies) on credit's potentially negative consequences for the economy and the importance of knowing how to rein in its expansion. The growth of so-called "emerging" economies, which had not gone hand-in-hand with financial liberalization and a withdrawal of the state of the kind seen in Europe and the United States, also modified earlier discourses about paths to financial development and growth. The idea that there might be different kinds of capitalism resurfaced. The rupture was even sharper as it related to central banks. The latter returned to the center of the political and financial game. The extent of their intervention in the economy mushroomed and their policies were discussed not only from the standpoint of their macroeconomic effects but also from the perspective of their distributive effects on the economy and their impact on budget policies and inequality. They were given new legal powers to intervene in the banking and financial sector. The ways they intervened in the economy changed so abruptly that they spawned new words ("non-conventional," "macroprudential," "quantitative," and so on), which were invented to describe economic policies and tools that, all things considered, strongly resembled those that had prevailed in a vast majority of countries in the decades prior to the 1980s and were the subject of the historical studies I had undertaken. In the discourse of central banks as well as economists, it was now accepted that interest rates could not be the only monetary instrument and that "controlling credit" was necessary for financial stability and a legitimate goal for central banks. What I had begun studying and describing as a historical practice – and a heresy for contemporary central banks – had, in a sense, returned to center stage. This abrupt and unexpected change forced me to grapple with new questions in my history work and made it necessary, in particular, to explain the difference between credit policies of the 1950s and 1960s and those of the 2010s – questions to which this book's conclusion will return. Just as, several years earlier, it had struck me as ill-advised to use history to justify the teleological advent of a form of *fin de siècle* central banking, it appeared just as debatable to see new central bank policies as a return to older practices. The current conceptions of credit, the purpose of controlling it and the state's role in the economy in France and in Europe have little in common with the aftermath of World War II. Clinging to technical similarities erases the historical and ideological stakes of radically different projects and political choices.

The period following the 2008 crisis was no longer simply an existential crisis for central banks and a reconsideration of standard economic models. It also gave rise to renewed interest in economic history, and particularly for the history of credit and various forms of capital. Some even spoke of a reemergence of the concept of capitalism in economic history. This reappropriation of the history of credit by historians also informed the thinking in this book, even if the latter appeared in another context and using different methods. Thus, one will find in these pages the idea that the development of forms of credit in an economy – and their possible regulation – is deeply embedded in social structures and a particular ideological and legal framework. But unlike several studies that are symptomatic of this historiographical revival that study the history of financial capitalism and the ideology underlying credit expansion within a private market framework, particularly in the United States, this book presents the development – followed by the disappearance – of a conception of credit expansion and control in a framework characterized by ubiquitous state intervention in the financial system. The policies I have studied start with the principle that market mechanisms were incapable both of promoting sufficient credit growth to finance investment and of controlling credit growth to avoid overly high inflation and banking crises. The state, conceived as the framework for coordinating different economic interests and sectors, was thus responsible for controlling credit. In France, as in many other countries (the United States and United Kingdom being partly an exception), the heart of the system of control over credit and investment was the central bank. While it did not ignore the existence of private markets or limit itself to targeted policies, the state nevertheless intervened on all fronts, at different levels, thus erasing the boundary between public and private credit. While continuing to situate itself in a capitalist economic framework, French postwar monetary, industrial and financial policies rested on an institutional basis that was known, at the time, as "the nationalization of credit." Money and credit were seen as two sides of the same economic process. Monetary policy and credit policy were conflated. Most of the time, moreover, central bankers used the two terms synonymously.

Though new questions sprung up in the course of writing this book, its initial goal remained the same: to understand, on the one hand, the political and economic specificity of the postwar period and particularly the factors that made it possible, while, on the other, studying how the effects of central bank policies depend on the nature of its (political and economic) interactions with the banking and financial system. The attention it devotes to ideas, as well as to decision-making processes and the way they evolved, is not isolated from the analysis of economic mechanisms and effects. There is often a tendency, when talking about money and credit, to see it as an almost virtual realm, as a series of games played with words and symbols – a sphere of speculation and immaterial bonds of trust, disconnected from its opposite, the real economy. Most economic models, especially at present, prefer, consequently, to do away with money, which is still often seen as a veil. It is only quite recently that sociology and anthropology have fully considered the materiality of money as a phenomenon and of practices associated with credit relationships. Thus, one can always be struck by what often appears as a form of dualism, as if the sphere of "reality" and the monetary sphere coexisted independently and their interactions remained beyond our reach. Recalling what the philosopher Daniel Dennett said about Cartesian mind-body dualism, one senses, in relation to money, the paradox of Casper the Friendly Ghost, who can pass through walls yet still manages to hold objects ("How can Casper both glide through walls and grab a falling towel?"). Money is replete with symbols, credit is only ever a promise, "but anything that can move a physical thing is itself a physical thing (although perhaps a strange and heretofore unstudied kind of physical thing)" (Daniel Dennett, *Consciousness Explained*, 1991, p. 35).

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Eric Monnet
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More Information

Abbreviations

BIS	Bank of International Settlements
CCB	Commission de contrôle des banques (Banking regulation committee)
CDC	Caisse des dépôts et consignations
CES	Conseil Economique et Social (Economic and Social Council)
CGP	Commissariat général du Plan (Planning office or General Planning Commissariat)
CNC	Conseil National du Crédit (National Credit Council)
CNR	Conseil National de la Résistance (National Resistance Council)
DASM	Direction des analyses statistiques et monétaires (Directorate of Statistical and Monetary Analysis)
DGC	Direction générale du crédit (General Directorate of Credit)
EC	European Communities
EEC	European Economic Community
FDES	Fonds de Développement Économique et Social (Economic and Social Development Fund)
IMF	International Monetary Fund
INSEE	Institut national de la statistique et des études économiques (National Institute for Statistics and Economic Studies)
OECD	(Organisation for Economic Co-operation and Development)
PVCG	Procès verbaux du Conseil Général (minutes of the General Council of the Banque)
SCR	Service central des risques (Central Risk Service)