Cambridge University Press
978-1-108-41501-9 — Controlling Credit
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Introduction

The period from the end of World War II until the first oil shock of 1973 is known in France and in Western Europe more generally as a golden age, economically speaking. In France, the period is still referred to as the *Trente Glorieuses* – the "Thirty Glorious Years" – in recognition of Jean Fourastié's book of the same title (1979), even if recent historical work has shown that one should not take for granted the unity of this period, and even less should one downplay its negative aspects, notably its ecological consequences, colonial wars and the persistence of poverty (Pessis et al. 2013). If one limits this period to the twenty-five years between 1948 and 1973, France experienced the highest average growth rate in its history, relatively moderate inflation, low unemployment and a significant expansion of credit without banking crises.

The usual explanations of this achievement, which are not specific to France, give little attention to the role of the central bank and monetary policy. It is usually considered enough to note that they were guaranteed by "catch-up" growth and the stability of the Bretton Woods system, on the implicit assumption that these two factors were independent of the actions of monetary authorities. Equally widespread is the idea that moderate inflation and growth occurred despite the Banque de France's activity, which, it is believed, consisted primarily in inflationary government financing through direct advances to the Treasury and additional constraints on the banking and financial system.[1] As this period is seen as the apotheosis

[1] The generally admitted view that monetary policy during the three decades following World War II was passive and consisted in tracking budget deficits has been particularly well expressed by Pierre Siklos, in his reference book on the evolution of central banks' role after 1945:

> In an era where there was considerably more emphasis placed on the role of fiscal policy, monetary policy was viewed as passively supplying the ingredients required to guarantee aggregate economic

of what is sometimes called "financial repression," it is assumed that the expansion of credit was constrained by strict financial regulation and by low, government-mandated interest rates, that were needed to finance the public debt. This view, once again, attributes central banks a passive role, stuck in a relatively immobile financial system or pulled along by exogenous economic growth.

This vision, which is still the consensus view, of central banks' role during the three decades following World War II does not, however, resist closer scrutiny, as this book will show. But when one plunges into the archives, it quickly becomes apparent why it has persisted. During this period, central banks exhibited two traits, which are particularly evident in the case of the Banque de France, which made their policy difficult to grasp and surrounded their actions with a web of confusion. This difficulty is exacerbated when one views this period with assumptions shaped by the direction monetary policy took in the 1980s. The two traits are, first, that monetary policy belonged to a larger framework of "credit policy" and, second, that interest rates were not the leading policy instrument of the central bank.

MONETARY POLICY AND CREDIT POLICY

Monetary policy can be defined as the means that a central bank uses to affect variables of the short-term economic cycle such as inflation, production and employment. Monetary policy's goal is to act on price levels, exchange rates and the credit and money mass, but its primary goal is not to influence credit allocation or bank and non-bank assets. A credit policy, on the contrary, seeks to act on the way credit is allocated across

well-being. This was in large part due to the breakdown of the Gold Standard, the failure of international coordination among central banks, as well as the response of governments to the global slump triggered by the Great Depression of the 1930s. Nevertheless, with fiscal activism came inflation. (Siklos 2002, pp. 12–13)

This viewpoint also still prevails in French historiography on the French postwar economy. For example, a recent comprehensive book on the Vichy economy and postwar economic changes argues that the Banque de France after World War II had little power because it was reluctant to use the discount rate for monetary policy purpose and that, in a global Keynesian context, monetary authorities no longer gave priority to monetary stability (Grenard et al. 2017, p. 291). Chapter 4 of this book (based on Monnet [2014]) challenges the direction of such arguments and presents for the first time a quantitative analysis of the macroeconomic effects of Banque de France policy during this period, showing that the Banque was able to strongly influence inflation without using the discount rate.

the economy by favoring particular sectors and institutions. One of the postwar period's distinctive characteristics in France and many other countries is that credit policy encompassed monetary policy. When the term credit policy (*politique du crédit*) was used, it could, at times, be meant in the relatively limited sense of monetary policy, referring to measures a central bank takes to fight inflation or, on the contrary, to stimulate economic activity.[2] Yet, in most cases, the concept of "credit policy" had a much more extensive meaning, denoting the full array of interventions supported or elaborated by a central bank to encourage the development of credit and influence its allocation, thus replacing free-market mechanisms that were deemed insufficient, unfair or defective. The concept of credit control(s), whether in the singular or the plural, was also often used as a synonym for credit policy, in the restrictive as well as in the extensive sense.[3] Historians who undertake the task of studying central banks during this period thus encounter a multiplicity of uses, which are often a source of confusion, especially since certain national particularities can further complicate them, as we shall see in the case of France. Moreover, the goals of a policy of intervening in credit allocation were multiple, and uses of the term were, consequently, numerous and often vague and multivocal: it could be pursued for purposes of monetary policy (attempting to limit the credit level through better allocation), industrial or social policy (helping key economic sectors), budgetary policy (giving priority to government financing), trade policy (favoring credit for exporting sectors), capital controls (favoring domestic loans), financial stability (preventing an excess of credit that is potentially disconnected from real activity in particular sectors) and so on. The very nature of credit policy was thus to interact with many other policies by directing financing and rendering credit control's various tools consistent with the latter. The central bank was thus connected to many other institutions and bureaucracies involved in implementing government

2 This was the case of discussions in the Banque de France's Conseil Général. Such uses are also found, notably, in international literature: EEC (1962, 1972), Katz (1969), de Kock (1974) and Hodgman (1974).

3 This second sense is clearly evident, for instance, in the contributions, relating to France and abroad, of an issue of *Revue Economique* from 1951 (vol. 2, no. 5) and, as we shall see, in most of the French debates on the opportunity represented by state intervention in credit allocation. In international literature, one also finds this second usage – along with the term "credit control" – in numerous publications, often apposed with rather than substituting itself for the term "monetary policy." This is notably the case in Hodgman (1974) or in documents from the international community. See Chapter 7.

policy. Something that might resemble a relationship of dependence – and was subsequently often interpreted as such – can be seen, from a different point of view, as evidence of the bank's central role at the heart of the political and bureaucratic system.

A POLICY WITHOUT INTEREST RATES

Making monetary policy and credit policy compatible – acting on the level of credit as well as its allocation – was an essential question, and one crucial to central bank policy. In doing so, the same instruments and operating procedures were used to regulate the overall quantity of credit in the economy (since credit expansion was seen as necessary to economic expansion, but also as inflationary) and to act on its allocation. It could involve simple recommendations and incentives given to banks, as well as direct controls of the credit supply (such as credit ceilings), of bank liquidity (reserve or liquidity ratios) and of the access to central bank financing (rediscount ceilings, informal selection and the choice of various loan maturities).[4] Credit policy, in this way, combined quantitative and qualitative controls, direct constraints on credit expansion and indirect constraints aimed at the distribution of credit institutions' assets and liabilities and on the financing they received from the central bank. These various instruments could branch out into various sub-categories, making credit controls more precise, and evolve significantly over time to adapt to the banking system's characteristics. Of these multiple instruments, the central bank's interest rate generally played a minor and often merely psychological role, as was recognized at the Banque de France, where it was partially indexed on foreign rates (in particular the US Federal Reserve rate). The fact that the interest rate was not Banque de France's primary instrument of monetary policy did not mean that it was indifferent to interest rates: it intervened to keep treasury bond rates low, it cared about the spread with foreign rates, it participated in regulating debtor and creditor rates and so on. But the Banque de France's discount rate was

[4] Liquidity ratios were used so that credit creation would be lesser, beginning at a specific deposit level. The break with prewar practices was not absolute and the role of rediscounting notably goes back to the Banque de France's origins. Because different kinds of collateral were selected, the central bank practice of rediscounting already implied a degree of involvement in the allocation of credit. American economists described this practice as "credit policy" rather than "monetary policy" (Friedman 1969; Goodfriend & King 1988). Postwar practices took root in the discounting tradition, as we shall see, but they also introduced radical innovations, if only in the form of bank-specific rediscounting ceilings, and particularly rediscounting as a way of acting on the sectoral allocation of credit, and not simply as a way of managing risk and bank liquidity.

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not modified to fight inflation or, on the contrary, to increase demand and production. It could remain relatively disconnected from other central bank instruments, as financial and bank markets were highly regulated and thus segmented. Debtor and creditor rates were themselves regulated for much of this period. Thus, it was possible that a credit restriction would not result in a general increase in the various interest rates that banks applied. Monetary policy was, consequently, transmitted by quantities rather by prices. The Banque de France, like other European central banks, embraced this disconnection between its quantitative tools and interest rates in order to affirm the autonomy of its monetary policy vis-à-vis other countries and to favor the financing of the public debt in periods when credit was restricted. Often, the interest rate level provided no information making it possible to determine whether domestic monetary policy was expansive or restrictive, except when it was deemed necessary to send a "psychological" signal. Not all these characteristics were fixed; they could evolve over time, in conjunction with changes in the banking system or the views of the central bank's decision-makers.[5]

This brief description of instruments and objectives suggests why it is so difficult to understand a central bank's policies during this period. This is all the more true given that we have become accustomed to the idea that monetary policy is pursued through interest rates or control of the money supply, that these variables are sufficient for expressing the central bank's goals and that monetary policy can be disconnected from credit allocation.[6]

[5] Chapters 3 and 4 will emphasize these issues.

[6] A concept regularly used to refer to the French economy of this period is that of "overdraft economy." A number of theories relating to this concept developed in France beginning in the late 1970s, notably at the Banque de France (hence the occasional reference to a "Banque de France school"). Its history has been told by Goux (1990), Loriaux (1991) and Feiertag (2006a, 2006b). We did not want to take this categorization for granted, for two reasons. First, the term has been used very politically and circumstantially: it reflects, in this way, the state of the debate in France in the early 1980s more than it tells us retrospectively about the policies of the *Trente Glorieuses.* Furthermore, it is a rather imprecise concept that, based on thinking about the connection between the central bank and other banks, was ultimately used to characterize the financial system as a whole. Its relevance for analyzing the French economy has been challenged (Cobham & Serre 2002). It is not my intent to join the debate, but I have observed that theories of the "overdraft economy" were inadequate for fully and precisely explaining the mechanisms of French monetary policy before the mid-1970s, particularly in a context in which interest rates did not play a role and in which various ratios for controlling liquidity and credit succeeded one another. It strikes me as more fair to speak of "credit policy" when one wants to characterize in general terms the role of the Banque de France during this period, while using more precise concepts when one considers more fine-grained levels of analysis, whether one is speaking about control of bank liquidity or credit allocation across the economy.

Chapter 4 will show that if one measures the Banque de France's monetary policy stance in terms of its interest rate, as standard economic works on monetary policy would suggest, one would mistakenly conclude that the latter had no effect. By elaborating, however, a way of measuring the direction of monetary policy that takes into account the range of instruments used by the Banque de France as well as its goals, I find that it had an important effect on credit, money, prices and production, explaining nearly half of these variables' volatility during the period being studied.

FOR A COMMON HISTORY OF CREDIT POLICY AND CENTRAL BANKING

The primary task for an economic history of the Banque de France during the *Trente Glorieuses* is thus to reach a comprehensive understanding of the various facets of credit policy – its medium- and long-term goals as they pertain to credit development and allocation, as well as its role in specific circumstances and its short-term effects on inflation and the economic cycle. This also requires institutional reflection on the way authorities perceived credit and the bases of legitimate state intervention in credit allocation, which, in Part I, I will call the "institutionalization of credit." Credit policy cannot exist unless credit is thought of as a political problem.[7]

7 A study of this kind was begun by Olivier Feiertag in his biography of the Banque de France governor, Wilfried Baumgartner. On numerous points, the current book follows this framework, while expanding the period and sources under consideration and, most importantly, by adding, on the one hand, an institutional analysis of policy and, on the other, quantitative analyses, an engagement with various contemporary and later economic theories and a detailed study of the various instruments used by central banks. Unlike Feiertag, we leave aside the history of the Banque de France as a company. This was done incidentally by Vincent Duchaussoy (2013). Before Feiertag's book, the now quite old work of Guillaumont-Jeanneney (1968, 1991), Koch (1983), Andrieu (1984) and Mélitz (1991) examined different aspects of the Banque de France's policy after World War II, though without undertaking a quantitative analysis of the impact of monetary policy and credit policy. Guillaumont-Jeanneney's and Mélitz's analyses are not based on archival work. Koch's book (1983) was a testimonial by a former Banque de France official presenting the main decisions relating to monetary policy through 1958. Andrieu (1984) only used the archives of the Conseil National du Crédit in the 1950s, and thus did not address short-term policy for controlling the currency and prices. In the case of France, Andrieu (1984) was the first to mention the ambiguity of the concept of credit policy and his pioneering analysis remains a reference point for political history. Margairaz's (1991) and Quenouëlle-Corre's (2000) dissertations on the Finance Ministry also address the Banque de France's policy during this period and will be used on several occasions in the following pages.

Credit policy, understood in the broad sense of state intervention in credit allocation (or "Credit Activism in Interventionist States," to use Loriaux [1997]'s particularly explicit title) has been the subject of several major studies by American political scientists, in the wake of Zysman's seminal work (1983) dealing with France. These studies focused primarily on the end of these policies and the reasons for the retreat from state intervention. Loriaux (1991) notably studied financial liberalization and the end of industrial policies in France by linking these transformations to the end of the Bretton Woods system, which led him to describe French credit policy from the 1950s on, including the role played by the central bank. These analyses, which followed the theoretical framework known among political sciences as "international political economy" (IPO), were based on secondary sources and concentrated on the moral hazard induced by credit policy and the possibility of autonomous public policy in a period of increasing globalization (see, more generally, the essays gathered in Loriaux et al. 1997), rather than on a detailed analysis of political decision-making and its economic effects. As Michael Loriaux (1997, p. 7) also recognizes, the literature on financial liberalization is voluminous, "though the literature on credit activism in interventionist states is not extensive in English." Regrettably, almost the same statement can be made twenty years later, despite the fact that archives have since become available. Most importantly, these pioneering studies gave relatively little attention to central banks, and even less to the instruments through which they intervened, whether to fight inflation or to allocate credit. The fact that credit controls were used to contain inflation and limit balance of payment deficits – even before devaluations – has never been the subject of in-depth analysis. It follows that the consequences for central banks of the end of credit policy in the 1980s have never been fully considered and, as a result, that international scholarly literature on the history of central banking has remained on the sidelines of political science literature on interventionist credit policies. Thus, the main synthetic works on the history of central banks in the second half of the twentieth century (Siklos 2002; Singleton 2011) make no mention of this literature or of central banks' role in credit policy.[8] Nor in his history of European monetary integration from the 1970s to the 1990s does Harold James (2012) discuss the importance of the end of credit policy

8 Recent monographs on the Federal Reserve (Meltzer 2010) and the Bank of England (Capie 2010) take stock of the credit control instruments, notably those used to fight inflation and favor public debt, but do not study central banks through the prism of their credit policy.

for central banks that gradually joined the Eurosystem, even though the conversations he cites between central bank governors in the early 1970s explicitly use the term "credit policy" in a way that is different from "monetary policy" (James 2012, pp. 78–79, 127).

One of this book's goals is thus to reactivate and to incorporate, based on the French example, the main insights provided by political science on "activist credit policies" into the history of central banks and their effects on the economic cycle and, more generally, in the longer history of financial intermediation and credit regulation. Chapter 7 will show how credit policy was not specifically French, even if the ways of conducting it differed from country to country, and will discuss its consequences for the history of European monetary integration.[9]

Integrating credit policy into the history of central banks makes it necessary to combine a historical approach based on the study of new qualitative and quantitative primary sources, on the one hand, and a macroeconomic perspective on the other, while resorting, when necessary, to economic theory and econometrics to study the central bank's political and economic role in the economy. Such an approach will guide the historical study of the Banque de France's policy. I also blend into this approach an institutionalist perspective, in order to shed light on the emergence and evolution of credit policy and the ways in which this policy was embedded in a distinct social, ideological and legal context that it influenced, in turn.

AN INSTITUTIONALIST APPROACH TO CREDIT POLICY

The institutionalist perspective does not consist solely in "contextualizing" the Banque de France's postwar policy. It also makes it possible to understand the various elements on which this policy was based. In particular, the production of statistics and a new legal arsenal allowed bank regulations to be used to achieve short-term and sectoral policy goals. These legal aspects have not been studied in previous historical accounts of the Banque de France. Most importantly, the institutionalist perspective helps us to understand why the fight against inflation was, by the late 1940s, seen as a condition of possibility and of the stability of interventionist policies in credit allocation. Excessively high inflation, by reviving memories of 1947–1948, would render state interventionism illegitimate for business leaders as well as employees, as unions are always suspicious that moments of high inflation will lead to a decline in real salaries. Thus, there are no grounds for

9 Initial steps into this direction were taken by Hodgman (1974) and Feiertag (2003).

opposing the "monetary" side of credit policy to its "interventionism" in credit allocation. One must, rather, understand why the sustained inflation of the 1970s – that the *dirigiste* system did not know how to contain – ultimately delegitimated and spelled the end of credit policy. The process of delegitimating credit policy over the 1970s and 1980s must be distinguished from the much more widely known and discussed way in which inflation challenged traditional Keynesian theories, notably the use of the Phillips curve over the same period. There is no reason for believing that it was only due to the stability of the international Bretton Woods system that interventionist policy was possible and could preserve its legitimacy. The structure of the international system was not exogenous to national policy, but resulted, on the contrary, from a partial convergence of national norms and practices. It is mainly on this crucial point that my argument concerning Banque de France policy differs from that of Michael Loriaux (1991), for whom the Bretton Woods system and frequent devaluations allowed the Banque de France to support credit policy in the 1950s and 1960s at no cost, leading to moral hazard. Loriaux (1991, pp. 38–39) thus believes that the Banque de France's monetary restrictions increased during the 1970s, following the end of Bretton Woods, when the limits on bank credits (*encadrement du credit*, or credit ceilings) became permanent. On the contrary, I show that the permanent use of credit controls in the 1970s was accompanied by an anti-inflationary policy that was far less restrictive than it was over the previous two decades and that this reveals a reconsideration of the earlier principles guiding how credit policy functioned. The mechanisms and policies that were supposed to ensure the institution's domestic stability through relative price stability had, in this way, changed, partly due to emerging institutional changes in the late 1960s (the intellectual reassessment of credit policy, the first attempts to establish an open market, the government's growing role in the Banque de France's decision-making processes and so on). We shall see that the transformations that occurred in the mid-1970s should no longer be seen as the culmination of the previously existing policy, but, on the contrary, as evidence that it was being undermined and was off course.[10]

The study of credit policy from an institutionalist perspective will be the subject of the first part of this book. I will borrow frequently from various institutionalist theories (including from legal history, economics and political science), but the general framework primarily bears the influence of

[10] It is also for this reason that I refrain from using the concept of "overdraft economy," which was forged during the 1970s.

Karl Polanyi. From Polanyi, I have drawn two key ideas. First, the economy is viewed as an instituted process: "The study of the shifting place occupied by the economy in society is therefore no other than the study of the manner in which the economic process is instituted at different times and places"(Polanyi 1957, p. 250). In contrast to many recent studies in the field of economics and political science (which are often described as neo-institutionalist), the concept of institution is not defined here as a set of rules that are exogenous to the market economy and actors' behavior, but as a process through which a set of rules, behaviors and economic practices is constructed.[11] This is why I speak of institutionalization as well as institution, and use the term "institutionalization of credit" in studying the history of credit policy. One consequence of this stance is that I will not, from the outset, oppose the realm of the market to the realm of state intervention. Chapter 6 in particular will examine the difficulty of establishing a boundary between the state and the market if one wants to understand investment in France during the *Trente Glorieuses*. Second, I follow Polanyi when he says that "the instituting of the economic process vests that process with unity and stability; it produces a structure with a definite function in society … A study of how empirical economies are instituted should start from the ways in which the economy acquires unity and stability, that is the interdependence and recurrence of its parts" (1957, pp. 249–250). Embracing this definition's implicit functionalism, Part I of this book will broadly examine how credit policy emerged, stabilized itself and was then challenged. Specifically, it will consider how economic thought, the legal framework and administrative and political adjustments contributed to this theory. It is from this perspective that one should understand the role of the fight against inflation, which is conceived as a safeguard for protecting the institution's stability. I will, consequently, speak of institutional coherence when describing the interdependence between the institution's different components. The unity of the institutionalization of credit can be grasped through the complexity and uniqueness of its distinctive political, economic and ideological interactions in the wake of World War II. This book is not able to propose a social history of credit, which would have required drawing on a much wider and more diverse body of sources, but it does try to show the political and social mechanisms – and not merely economic

[11] Neo-institutionalism in economics has developed in the wake of the work of Douglass North and Avner Greif. Applied to the study of central banks, this approach has mostly concerned itself with measuring how central bank independence affects the average inflation rate (see, for example, Acemoglu et al. 2008).