ECONOMY AND FINANCE • VOL. 13 • ISS. 2 • JUNE 2026 • DOI: 10.33908/EF.2026.2.2

THE PROCESS OF BANKARISATION AND FINANCIALISATION IN SOCIETY: THE CASE OF FRANCE FOLLOWING THE SECOND WORLD WAR

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ABSTRACT

In the wake of the 2008 global financial crisis, the issue of the bankarisation and financialisation of society has come increasingly to the focus of attention that is, the extent to which groups within society have been integrated into the financial and banking system, and the risks this entails for them. This paper examines the financialisation and bankarisation of society primarily from an economic history perspective, using the example of post-Second World War France. France was chosen because its banking system has developed in a relatively organic manner, and the relevant sources and data are readily available. Not to mention that the historical development of the French banking system itself is less well known in our country, compared to the Anglo-Saxon or German banking systems. However, in order to understand the processes between the banking system and society, we will first explain the concepts of financialisation and bankarisation, as well as their processes and characteristics in relation to the economy as a whole. We will then present the process of bankarisation and the associated (?) financialisation, which we will examine by analysing the asset and liability sides of the country's banking system. In our research, we seek primarily to answer whether the bankarisation of society is a prerequisite for financialisation, and what impact the social environment itself has had on the relationship between banks and society.

JEL codes: N230, N240, G21, G510

Keywords: bankarisation, financialisation, consumer loan, bank deposit

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1. THE CONCEPT AND PROCESS OF FINANCIALISATION AND BANKARISATION

Following the 2008 global financial crisis, numerous research studies (Sawyer, 2017; van der Zwan, 2014; Lapavitsas, 2011) examined the process of financialisation and its impact on the real economy. Research to date has primarily focused on the financialisation of the corporate sector, whilst the impact of the financial system on society and the process of society's financialisation have received less attention. However, according to the literature (Daumas, 2018; Effosse, 2014; Pulju, 2011), the financial system plays a decisive role in the emergence of consumer society, owing to the fact that, following the Second World War, retail lending began to develop and become institutionalised in a large number of developed Western countries, mortgage and consumer credit became widely available, leading to the `bankarisation' of the population. In this paper, we attempt to present, from a historical perspective, the process of the financialisation of society and the associated or preceding (?) process of bankarisation, and to find an answer to the hitherto less-explored question of whether the bankarisation of society is a prerequisite for financialisation, and what impact the social environment itself had on the relationship between banks and society. Furthermore, in our view, the presentation of post-Second World War developments in France can provide an interpretative framework for assessing the changes that have taken place in the countries of Central and Eastern Europe since the 1990s, as they embarked on a path of catch-up, financialisation and bankarisation.

1.1 Defining and periodising financialisation

However, before turning to the examination of the financialisation and bankarisation of society, it is worth defining these concepts and outlining their respective interpretations. Perhaps the most widely cited definition of financialisation comes from Epstein (2005), which refers to nothing other than *"the growing role of financial drivers, markets, actors and institutions in the life and processes of the domestic and international economy"*. However, Epstein's definition does not explain which factors actually facilitated financialisation. Van der Zwan (2014) outlines three approaches to financialisation, namely *"financialisation as a system of accumulation", "the financialisation of modern corporations" and "the financialisation of everyday life"* which, in his view, were brought about by the deregulation and liberalisation of financial systems. The concept of *"financialisation as a system of accumulation"* was first articulated by Aglietta (2000) in his 1979 book *"A Theory of Capitalist Regulation"*, which replaces the previously dominant Fordist system based on the balance between mass production and mass consumption. According to post-Keynesian economists, this system is characterised primarily by a decline in the profitability of non-financial corporations from real economic activities, accompanied by a parallel expansion of their financial activities. Linked to this is van der Zwan's (2014) second approach, the *"financialisation of modern corporations"*. According to this, the generation and maximisation of profits for shareholders becomes the main guiding principle and primary objective of companies, pushing all other corporate objectives and values into the background. Finally, by the financialisation of everyday life, van der Zwan (2014) means that members of the middle class, as well as those on lower incomes, are becoming participants in the financial markets through private pension funds, mortgage lending and other financial products accessible to the general public. To do so, however, individuals must learn new norms of risk-taking and develop new forms of subjectivity, such as that of investors or owners of financial instruments. In other words, finance becomes `governmentality' in the Foucauldian sense.

According to Lapavitsas (2011), financialisation represents a systemic transformation of advanced capitalist economies, comprising three fundamental elements:

1. the shift of large, non-financial companies towards financial markets, which reduced their dependence on bank loans;
2. banks have expanded their intermediary activities into the financial markets, whilst also launching lending activities for the general public;
3. households are increasingly participating in financial activities, both as debtors and as creditors (holders of financial instruments) [Lapavitsas, 2011:611–612].

We can gain a better understanding of the concept and process of financialisation by examining its eight characteristics, as outlined by Ashman–Fine (2013) and Laurin–Lamothe (2019):

1. Financialisation refers to the rapid spread of financial institutions and expansion of markets, which goes hand in hand with the rapid growth of financial instruments traded on financial markets.
2. Simultaneously, the gradual deregulation of financial markets is also taking place, which is linked, on the one hand, to the deregulation of domestic markets and, on the other, to the liberalisation of international capital movements. The end of the dollar's convertibility into gold played a major role here, as it led to the liberalisation of exchange rates. All this created new opportunities for financial market participants in the field of foreign exchange trading.
3. The expansion of financial markets and the easing of the regulatory framework led to the spread of existing financial instruments, services and techniques, as well as the emergence of new ones. Consequently, a range of new financial products, primarily derivatives, emerged, which concealed increas-

ingly complex and opaque financial transactions, thereby significantly increasing the risks inherent in the financial system.

4. The financial system became increasingly influential and dominant in comparison with the industrial sector. As a result, non-financial companies also became key players in the financial markets, and today a significant proportion of their profitability derives increasingly from financial activities rather than industrial production.
5. Financialisation has gone hand in hand with the rise of market mechanisms on a global scale and the prevalence of neoliberal principles at an international level.
6. Not only the corporate sector but also households have increasingly turned to the financial markets, and their consumption is now often financed through borrowing, which goes hand in hand with a rise in their debt levels.
7. The role and influence of the financial sector extend to all areas of the real economy and society, and are thus evident in the fields of housing, healthcare and the pension system as well. The emergence of private pension funds and the rapid expansion of private healthcare services also mean that households must take into account previously unknown risk factors, and their status is changing: they are becoming investors in or owners of financial instruments.
8. Finally, financialisation is also significantly altering the public's relationship with banks and other players in the financial sector, which ranges from glorification to outright hatred.

It is worth emphasising, however, that there is no consensus in the literature on when financialisation began (Allami–Ciblis, 2018), so whilst some (Lapavitsas, 2013) place it in the early 1970s, at the start of the transformation of the capitalist system, others (Sawyer, 2013) place it in the 1980s, and there are those (Vercelli, 2014; Fasianos, Guevara–Pierros, 2016) who argue that financialisation is a long-term process that is the legacy of the development of market relations. We take this latter approach as our starting point, since a fundamental prerequisite of capitalism is the existence of an efficient, innovative financial system capable of channelling financial resources to actors in the real economy through the appropriate channels. In this context, in the case of our case study country, France, we can speak of a '*first phase of financialisation*', which spans the long 19th century, whilst the second phase began in the 1970s with the neoliberal paradigm shift and reached its peak in the 1980s, manifesting itself primarily in deregulation measures. The period between these two phases of financialisation is regarded as a transitional phase; however, due to the `bankarisation' of society, it is by no means negligible.

Of course, the process of financialisation varies both over time and across regions [see, for example, the process of financialisation in the United States (Fasianos, Guevara–Pierros, 2016)], but there are typical channels through which the financial system's ability to influence the real economy can be described. Sawyer (2017) distinguishes between two channels: the so-called extrinsic channel, which primarily characterised the first stage of financialisation and influenced political or economic decision-makers mainly through lending. For example, even during mercantilism, banks played a systemically important role in the establishment of colonial empires and the corresponding trade networks. Meanwhile, during the Industrial Revolution, bank lending became one of the most important conditions for the financing of (the most innovative) industrial investments. According to Sawyer (2017), at the turn of the 19th century, the major investment banks played an increasingly significant role in shaping economic decisions and setting economic trends, and in many cases dictated the direction of economic development, as the industrial innovations were usually financed through them.

It is important to emphasise, however, that the influence of the financial system only affected the implementation of individual decisions, not their substance. In contrast, during the second phase of the financialisation of the real economy, which began with the monetarist revolution of the 1970s and took shape in the subsequent Anglo-Saxon neoliberal economic policy solutions, the influence of the financial system became increasingly intrinsic (intrinsic channel), i.e., it also influenced the decisions of actors in the real economy, non-financial firms and households. Thus, according to Vercelli (2014), the second phase of the financialisation of the real economy differs from the first in that the logic of choice, in any area of life, is increasingly influenced, within a given time interval, by the financial paradigm of portfolio choice, which compels the decision-maker to limit the time horizon of their decision to be as short as is customary for individual financial decisions. Consequently, in every decision a cost-benefit analysis must be carried out, as a result of which cost-saving decisions and solutions that pay off in the longer term are sidelined in favour of seemingly effective decisions and measures that pay off in a short-term, whose long-term returns or impact, however, are questionable.

Another important difference between the two periods is that, whilst in the first period of the financialisation of the real economy the expansion of capitalism was directed primarily towards new geographical areas, in the second period, although the territorial nature of the expansion remained, the financial system came to play an increasingly significant role in areas that had previously been provided for either by the family or, later, by the social system established by the welfare state, such as healthcare, education and the pension system. In other words, what we are seeing here is no longer a geographical expansion, but rather a quasi-internal one.

Another important difference lies in the role of central banks, which, through their policies and decisions, are playing an increasingly active role in steering the real economy and, through their interest rate policies, in many cases undermine the profitability of industrial investment relative to financial investment. During the second wave of financialisation, central banks reacted immediately to any signs of inflation in the real economy with restrictive monetary policy, whilst failing to curb asset-price inflation. On the contrary, they tended to support it by generating significant liquidity whenever the upward trend in asset prices appeared to be waning. This so-called `asymmetric monetary policy' provides support for financial investments and speculation, whilst diverting liquidity away from industrial and real-economy investments (Orhangazi, 2007 and Cecchetti–Kharroubi, 2013).

Finally, according to Orléan (2009 and 2014), whilst the first phase of financialisation was bank-based, the second was market-based. Of course, this does not mean that banks no longer play a role in the second phase; on the contrary, they play a significant role in shaping financial markets, either directly or indirectly. The difference is that banks and non-financial enterprises exercise their influence in a less direct manner, whilst financial motivations become even more decisive in their decision-making.

1.2 The concept and periodisation of bancarisation

It is clear that whilst in the first phase of the financialisation of the real economy, actors in the financial sector and, amongst them, primarily banks, sought to establish links with the corporate sector and the state, in the second phase, however, there was a far more complex, holistic process, during which *`the financial system has found its way into almost every, if not all, nook and cranny of community life'* (Lee et al., 2009:727–728). During this second wave of financialisation, it is important to recognise that the general public not only comes into contact with financial processes but also actively participates in them on both the liability and asset sides. For this to happen, the financial services provided by banks must be accessible to all participants in the real economy, and, through their savings and lending services, exert an ever-greater influence on citizens' lives; this is also known as the `bankarisation' of society.[2]

2 https://www.alternatives-economiques.fr/dictionnaire/definition/96658
https://www.boursedescredits.com/lexique-definition-bancarisation-343.php

To avoid any misunderstanding, we must clarify that in our study we regard the definition of a bank used by Kohn (2007) as the guiding principle; that is, financial institutions that accept deposits and grant loans to retail and/or corporate customers are considered to be banks. Accordingly, we do not regard savings banks, for example, as banks; although they allocate the savings of the general public, they use these funds to acquire low-risk government securities. It should be noted, however, that savings deposited in savings banks represent the `first step' in financialisation, as the public is now placing its savings in a more liquid investment rather than in the real investments (land, property) of the past. In our view, `bankarisation' represents a move to a higher qualitative stage of financialisation, which gives an opportunity not only to diversify risks but also to increase returns on savings, thanks to the fact that the bank carries out a risk transformation. Unlike savings banks, which represent the first stage of financialisation, bankarisation offers investors the opportunity to diversify their investments by holding corporate and/or government bonds and mortgage-backed securities alongside fixed-term deposits. Although bankarisation may also increase risk, as banks become increasingly embedded in the financial markets, savers may hold increasingly risky products in their portfolios (shares, derivatives, etc.) about whose actual risks they are unaware, but which do offer the prospect of higher returns.

From an asset-side perspective, we do not regard as banks those financial institutions which only provide direct – consumer – loans to the general public, but do not take deposits. In this case, whilst there may not be `bankarisation', the process of `financialisation' does take place, as households increasingly finance their consumption through credit, while – ideally – also carrying out the necessary cost-benefit analysis.

Just as with financialisation, we shall illustrate the process of bankarisation using the example of France, where we can distinguish several stages of bankarisation (Feiertag, 2011; Bonin, 1989 and 1992). The first revolution in the banking system lasted from the 1750s to the mid-19th century, during which three key players deserve mention in relation to the development of the banking system:

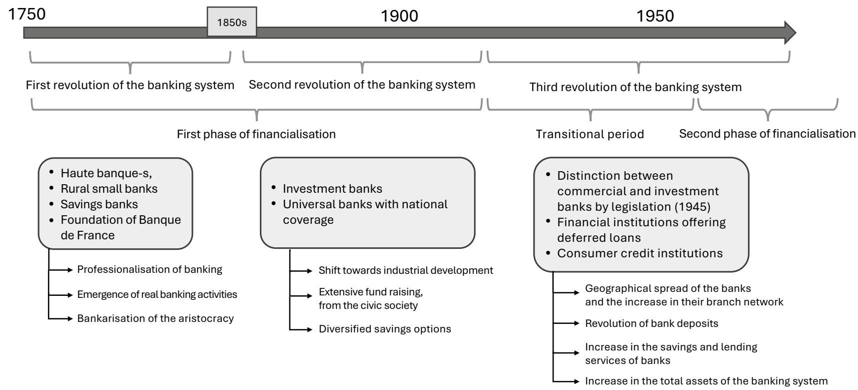
1. the emergence of Parisian banks, primarily engaged in private banking and investment activities (haute banque);
2. the emergence of provincial banks, primarily local or regional in nature;
3. and the establishment of the Bank of France.

During the first revolution in the banking system, professional banking houses had already taken the place of the Italian and Swiss money changers of the time, meaning that the banking system had embarked on the path towards professionalisation. There, it was no longer merely a matter of currency exchange, but genuine banking activity took place, in the form of deposit-taking, and the provision of working capital loans, whilst the clientele consisted primarily of the urban elite, the upper middle class, factory owners and the more modern-minded aristocracy.

It must be recognised, however, that the Second Industrial Revolution, which unfolded from the mid-19th century onwards, also brought about a second revolution in the French banking system; namely, neither the `haute banques' nor the local or regional banks were able to meet the demand for financial resources arising from the real economy. One of the catalysts of this revolution was the Crédit Mobilier bank, founded by the Pereire brothers in 1852, which not only provided loans to individual companies but also participated in the organisation and underwriting of share and bond issues, and acquired stakes in existing companies. Through all these activities, they laid the foundations for modern investment banks.

Although the Pereire brothers revolutionised the investment activities of banks, they eventually came up against limitations, namely that the bank did not have sufficient financial resources to meet the increasingly pressing financial demands coming from the corporate sector. Consequently, over time, the leading role was no longer played by them, but by the newly emerging universal banks, which catered to a wider section of the population and carried out both commercial and investment banking activities. According to Feiertag et al (2011), the mass bankarisation of French society began during the second revolution in the banking system, which started as early as the 19th century and lasted until the First World War. This was followed by a long, protracted cycle of bankarisation, which lasted from the 1920s right through to the 1980s. Although this was interrupted by the Great Depression of 1929–1933 and the Second World War, in the longer term we can observe a steady increase in the bankarisation of the population, which accelerated from the 1950s and 1960s onwards. We refer to this process, which began in the 1920s, was interrupted on several occasions, and then `exploded' from the 1960s onwards as the third revolution in the banking system, during which almost the entire population was brought into the banking system.

Figure 1
The Process of Bankarisation and Financialisation in France



Source: edited by the author

When considering the periodisation, it should also be noted that the first phase of financialisation coincided with the first, but more notably the second, phase of bankarisation, during which banks were the driving force behind the process of financialisation. The second phase of financialisation, however, is preceded by the protracted third wave of banking penetration, during which the majority of the population established an active relationship with the banking system and even gained access to increasingly complex banking products and investment solutions. This facilitates the population's even more active participation, via the banks, in the second phase of financialisation that unfolded in the 1970s and 1980s.

1.3 Open questions

In this paper, we seek, on the one hand, to demonstrate that the process of `bankarisation' outlined for the case of France is valid; at the same time, we also aim to substantiate that without the bankarisation of society, the second phase of financialisation itself could not have taken place, since, as we have argued, bankarisation facilitates the transition to a higher qualitative stage of financialisation, and without the banks taking centre stage, household savings would not find their way into the financial markets. Consequently, we must examine the historical process of the bankarisation of the population, during which we will scrutinise the asset-side and liability-side financial products and services provided by banks to the public.

Examining the liability side is important because we operate on the assumption that, thanks to liability-side risk transformation, the large volume of secure deposits on the banks' books, and the banks' more sophisticated lending solutions, their entry into the retail credit market led to an increase in the aggregate supply of credit, and, in parallel with this, interest rates have also fallen.

Finally, according to our hypothesis, whilst there are clear signs of a slowdown in the process of financialisation, particularly with regard to the period between the 1930s and the 1970s, these years did not pass without leaving their mark, as it was during that period that the process of bankarisation began amongst the population, which laid the foundations for and facilitated the second wave of financialisation that unfolded in the 1970s. According to our hypothesis, however, all this took place precisely `under the guise' of state regulation; namely, decision-makers effectively paved the way for the process of the second wave of financialisation, as mobilising household savings and increasing the propensity to consume had simply become unavoidable in order to sustain growth and dynamise the corporate sector; in other words, it was precisely the state-supported financial policy that triggered the process of `bankarisation', which, over time, led to the liberalisation of the existing financial framework.

In order to answer the above questions, we will examine the asset and liability sides of the French banking system by analysing the available literature and data sets published in the official, digitised annual reports of the French National Credit Council (Conseil national du crédit - CNC). In the course of the analysis, we will, on the one hand, examine changes in the number of bank branches, which reflects the geographical expansion of banks, whilst in the liability-side analysis we will look at trends in retail bank accounts and deposit volumes, the growth of which implies an increase in banks' penetration of the retail market. On the asset side, we examine trends in retail lending, such as mortgage and consumer loans, focusing, within this framework, on the trends in per capita consumer loan stock and disbursed mortgage loans, as well as the role played in financing by individual banks, non-bank financial institutions and the state, based on the hypothesis that the financialisation of society occurred in tandem with the process of banking penetration.

2 AN ANALYSIS OF THE BANKING SYSTEM'S FUNDING SIDE

In order to gain a complete picture of how the financialisation and bankarisation of society unfolded, we must look back as far as the emergence of modern banks in France, that is, to the early 19th century. We begin our analysis by examining the funding side of the banking system - in the broader sense.

2.1 `Banking' in the 19th century: the emergence and role of savings banks and commercial banks

Until the 19th century, the overwhelming majority of French society was completely excluded from financial life, and the so-called `haute banques' served only the needs of the upper middle class and the aristocracy. However, with the spread of industrialisation, the emergence of the urban working class and the accompanying deterioration in living conditions, the need arose to improve the financial prospects of the poor, often destitute, working classes; the French aristocratic and industrial elite sought to address this by establishing savings banks. The first savings bank opened its doors in Paris in 1818. According to Bonin (1989), savings banks quickly became popular; whilst in 1835 they managed 122 savings books, by 1870 this figure had risen to 2 million and by 1910 to 8.2 million, and their penetration among the population also increased significantly: in 1840, barely 1.1 per cent of the population held a savings book, whereas by 1870 this figure had risen to 5.8 per cent and by 1910 to 21.1 per cent. According to contemporary accounts, the clientele of savings banks consisted primarily of better-off farmers and workers, craftsmen and the petty bourgeoisie; however, Villermé noted in 1840 that `*peasants and those living in the countryside refuse to place their money in savings banks*' (Feiertag et al, 2011, p. 152), as did those workers who moved from the countryside to the cities during the Industrial Revolution and preferred to invest their savings in a small plot of land, which represented a tangible asset to them as opposed to a bill of exchange issued by a savings bank. Furthermore, according to Christen (Feiertag et al, 2011), the proportion of workers and the lower middle class amongst savings bank customers declined steadily throughout the nineteenth century, whilst their share of the working population rose from 18.9 per cent to 21.2 per cent during that period. As regards the customer base of savings banks, members of the middle class increasingly took the place of the lower social groups (Feiertag et al, 2011).

It is worth noting, however, that savings banks were not regarded as banks and did not contribute to the development of the real economy through direct lending, but `merely' integrated a section of the population into the financial system (Gilormini, 2013).

2.2 The emergence of universal banks: the transformation of the banking system between 1850 and 1914

We have already touched upon the first revolution in the banking system – the emergence of the haute banques, regional banks and the central bank – in the preceding sections; in their case, it is more important to focus on the second half of the nineteenth century, namely the emergence of universal banks, which we refer to as the second revolution in banking. From the 1850s onwards, the French government gave its blessing to the establishment of universal banks, which pursued both commercial and investment banking activities (Bonin, 1992).

It is important to note that the majority of these banks were established by their founders in the spirit of the so-called Saint-Simonian ideology, as their aim was to promote the modernisation of the economy; to this end, however, they required access to a wide range of funding sources. Thus, at the end of the 19th century, the banks began to attract savings and began to build up their branch networks across the country. Until then, the population had deposited part of their savings either in savings banks or with local banks or had invested them in real assets. As part of their expansion, banks opened their very first branches primarily in market towns or in the centres of towns with railway stations, where the wealthier groups of the rural population deposited their savings. The figures from Société Générale also illustrate the banks' expansion well: whilst there were 345 branches in 1901, by 1914 this number had reached 1,097, of which 995 were located in rural areas; similar figures can also be seen at the other major bank of the era, Crédit Lyonnais. It is therefore no coincidence that the specialist literature refers to this period as the "first revolution in the branch network" (Bonin, 1992).

However, the revolution in bank branches also brought with it a "revolution in bank deposits". In 1870, French banks managed 15,000 deposits; by 1880, this figure had risen to 70,000; in 1881, it stood at 80,000; and by 1914, it reached 693,000. Exponential growth was evident not only in the number of deposits but also in the total amount of money held in them, as clearly illustrated by the figures for the deposit portfolios of the four largest universal banks: 426 million in 1869, 2,054 million (7.55 billion euros) by 1891, and by 1913, they held deposits totalling 5,661 million (18.36 billion euros) in old French francs. The banks invested the bulk of these savings in financial instruments, such as bonds and corporate (and banking) shares (Bonin, 1992).

It is therefore clear that, from the second half of the 19th century onwards, the banking system began to involve the wealthier groups of the population in the financial markets to a significant extent; in other words, in line with our hypothesis, it was through `bankarisation' that the bourgeoisie came into contact with the capital markets, and the process of financialisation began. It is important to note, however, that this process lasted until the First World War, as French banks subsequently experienced several major crises and neither the number of depositors nor the volume of assets under management increased significantly until the 1950s (Bonin, 1992).

2.3 The Debré–Haberer reform and its antecedents, and its impact on bank deposits

Under the laws of 1945, the state was given a greater role than ever before in the management of the financial system. The four largest banks were nationalised and the majority of lending came under state control, with the aim of promoting the modernisation of the economy and industry. The new legislation distinguished between commercial banks, investment banks and those providing so-called medium- and long-term loans, and imposed significant restrictions on them, for example in the area of deposit management. A state licence was required to open a bank branch, and territorial restrictions were in place.

In the mid-1960s, however, due to declining economic growth and the parallel rise in inflation, the government was forced to consider liberalisation reforms, which were embodied in the 1966 - 67 Debré–Haberer reforms of 1966-67, which bore the names of Finance Minister Michel Debré of de Gaulle and financial expert Jean-Yves Haberer. The watchword of the reform was "the mobilisation of savings", through which the government sought to improve the financing of investment and achieve a more efficient allocation of available savings.

During the deregulation reform, all restrictions on opening new branches were lifted. The growth in the number of branches is clearly illustrated by the fact that, whilst in 1969 there was one branch for every 3,000 inhabitants on average, by 1980 this figure had fallen to one for every 2,100. Thanks to the deregulation processes, the number of people with bank accounts also increased significantly: whilst 35 per cent of the population had a bank account prior to the reform, by 1980 this figure had risen to nearly 90 per cent. Banks were given a free hand in marketing, so from the late 1960s onwards they launched increasingly aggressive advertising campaigns to convince as many customers as possible of the benefits of banking services. The range of banking services also expanded, as the reform led to the gradual dismantling of barriers between different types of banks, enabling them to offer customers an almost comprehensive range of banking services. In addition, geographical restrictions were lifted, whilst new savings products appeared on the market: interest-bearing demand deposit accounts were introduced; the `home savings scheme' was launched; the purchase of savings bonds and investment in investment funds became available; the creation of personalised securities portfolios; and securities advisory services. Moreover, from the 1980s onwards, citizens were able to invest directly in the stock markets, with banks providing them with access (Trumbull, 2014).

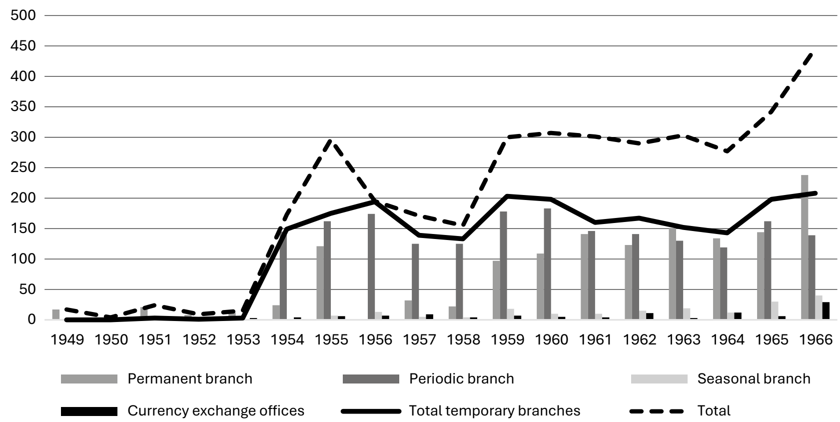
From the late 1960s onwards, therefore, banks offered the public the opportunity to diversify their savings portfolios and spread their risks. However, this also meant that households had to take into account risk factors previously unknown to them in relation to their savings, and their status also changed: they became investors in or owners of financial instruments. Meanwhile, thanks to their expansion and competition for customers, banks were able to draw an ever-wider section of the population into the banking system, thereby paving the way for financialisation.

2.4 Other factors contributing to bankarisation

The bankarisation of French society clearly accelerated as a result of the Debré–Haberer reform of 1966–67, but according to the literature, this was not the only reason why people turned to banks. According to Feiertag et al (2011), a number of other pieces of legislation contributed to the general public establishing a relationship with banks. On the one hand, the legislation of 13 July 1965, reforming the institution of marriage, allowed women to open bank accounts without their husbands' written consent. However, the growth in the use of banking services by the general public was most significantly facilitated by the agreement concluded on 10 July 1970 between the National Council of French Employers and the main trade unions. The parties agreed that, following a two-year transitional period, monthly wage payments would be extended to everyone. Consequently, whilst in 1969 only 10 per cent of employees received their wages on a monthly basis, by 1972 this figure rose to 75 per cent. The legislation was significant because, even under the Vichy regime, it had been stipulated that any sum exceeding 3,000 French francs could only be paid by bank transfer or cheque. This legislation was still in force as late as 1970, while French workers' monthly earnings exceeded 3,000 French francs, so they were forced to open bank accounts in order to receive their wages.

It was not only legislation but also social trends that pointed towards increasing bankarisation. As can be clearly seen from *Figure 1,* the number of bank branches began to rise as early as the mid-1950s. Thus, according to Feiertag et al. (2011), French society had already begun to turn towards the banking system from the 1950s onwards, which is no coincidence: on the one hand, the state sought to promote the modernisation of the economy through its lending policy; on the other hand, structural changes in society also forced the banks to adapt. The growth of the workforce on permanent wages following the Second World War represented a potential customer base for them.

Figure 2
Trends in the number of newly established bank branches by branch type



Source: Based on CNC annual reports

Furthermore, although the post-World War II regulations contained fairly strict restrictions, they did leave some loopholes. It is clearly evident that the number of branches began to rise from the early 1950s, reaching 3,464 by 1955, and, apart from a temporary economic downturn in the first half of the 1950s, began to rise again from 1958 onwards. This was due to the fact that the banks succeeded in persuading the authorities to raise the quota for the maximum number of permanent branches, whilst also finding a loophole in the regulations. In addition to branches with fixed opening hours, the banks established non-permanent branches with variable opening hours, for which no official licence was required. Three types of such branches can be distinguished: branches with periodic opening hours, which were open for at least two days a week; branches with seasonal opening hours, i.e. seasonal branches, which were open for a maximum of four months of the year; and finally, currency exchange branches, which provided cash payment services but did not accept deposits. *Figure 1* clearly shows that the number of such atypical branches grew rapidly right up until the reform of 1966–67.

However, in connection with the growth in the number of branches up to 1966, it must also be borne in mind that changes in the so-called spatial distribution of society necessitated the opening of new branches. Until the mid-20th century, banks still had the geographical branch network structure that had emerged at the end of the 19th century, during the second wave of bankarisation, which were typically located in city centres. Due to urbanisation and state housing programmes, suburban and agglomeration areas gained in importance. Consequently, in order to expand their customer base, banks were compelled to extend their networks into these new areas whilst operating within the existing strict regulatory framework.

3 AN ANALYSIS OF THE ASSET SIDE OF THE BANKING SYSTEM

As already indicated in the introduction, the relationship between bankarisation and financialisation must be examined not only from the liability side but also from the asset side. In the field of retail lending, our study considers it worthwhile to present two types of loan: property loans taken out for the purpose of purchasing or renovating property, and consumer loans designed to meet the consumption needs of the general public.

3.1 The history of retail property lending in France

The roots of property lending date back to the early 19th century, when the Industrial Revolution and the accompanying trend towards urbanisation necessitated an improvement in the living conditions of the growing population. Property investors operating on the basis of capitalist principles who emerged during the 19th century relied heavily on property investment loans provided by the haute banques, the Crédit foncier and, later, the universal banks. However, following the Franco-Prussian War and then the financial crisis of 1880, the banks were faced with increasingly lower rates of return in the field of property finance, so they largely withdrew from the market and left the field almost entirely to state-supervised financial institutions, such as Crédit foncier or the Sous-Comptoir. In other words, from the end of the 19th century onwards, property lending was largely in the hands of state actors. The situation was exacerbated by the fact that, following the outbreak of the First World War, the government brought rents for flats built before 1914 under state regulation. All this led to a decline in the rate of return on property investments, whilst productivity in the construction industry lagged behind that of other sectors of the economy (Lescure, 1982). This created such a sharp divide between the cost price and the market value of buildings that it largely prevented property purchases made for investment purposes. The situation was exacerbated by the fact that institutional loans taken out from Crédit foncier and the Sous-Comptoir covered only 25-30 per cent of the construction costs of investments during periods of inflation, whilst the market value of the buildings, which also served as collateral, depreciated significantly during the crisis of the 1930s, thus representing only a small fraction of the loan's value. As a result, Crédit Foncier also turned its back on property lending, as the proportion of non-performing investment loans rose between the two world wars (Effosse, 2013).

A severe housing crisis developed in the 1930s; however, due to the prevailing liberal economic policy approach, the implementation of counter-cyclical economic policy was still not a priority, in contrast to, for example, the United States and the United Kingdom, where a boom in the construction industry was seen as one solution to the crisis (Ferguson, 2021). Although in France, towards the end of the 1930s, the state attempted to promote property lending through interest rate subsidies, this was swept away by the Second World War. Along with state initiatives, a new form of private financing for households emerged in France in the early 1930s: so-called deferred lending (crédit différé), whose origins date back to the start of the First Industrial Revolution, when the so-called building societies were established in England at the end of the 18th century (Effosse, 2013). Two forms became widespread in Europe:

1. one being the more modern, regulated institutions, which could be described as quasi-housing funds - that operate by raising external capital and engage in deposit-taking and mortgage lending;
2. the other is a more archaic arrangement, which is generally less regulated or not regulated at all; in many cases, the creditor and the borrower are one and the same, and the capital accumulated by savers is usually lent on to members in the form of interest-free loans, whilst the term is not fixed. In France, this latter model emerged in the early 1930s.

By 1937, financial institutions of this type in France had 2,000 members and held assets of more than 77.5 million French francs. However, the lack of regulation also gave rise to abuses, leading to calls for their prohibition; yet the war overshadowed these plans (Effosse, 2013).

3.2 Property lending following the Second World War

During the war, two million residential properties were damaged, representing 15 per cent of the housing stock in 1939. Furthermore, two-thirds of the residential properties damaged in the war were located primarily in urbanised areas, where housing conditions had already been poor prior to the war. In order to renew 40 per cent of the 1946 housing stock within ten years, it would have been necessary to build approximately 475,000-585,000 homes annually, at a cost of between 285 and 351 billion French francs. However, this required a significant injection of capital, which could not have been achieved without state involvement. Thus, from 1950 onwards, a state-regulated housing loan policy was established, comprising a housing construction subsidy and a related special housing loan that could be settled with the central bank. State-subsidised housing loans were disbursed not through the banks, but via Crédit foncier. In order to restore the profitability of property investment, in 1948 the government authorised rents for newly built properties to be set at market rates. For existing properties, it planned the gradual phasing out of the state-regulated rent policy then in force (Effosse, 2013).

Thanks to the revitalised rental market and property loans supplemented by state subsidies and eligible for central bank discounting, rapid but financially risky successes were achieved. It became clear to the government from the outset that state support would place a growing burden on the budget, whilst mortgage lending eligible for discounting would exert significant inflationary pressure. Consequently, in order to encourage housing savings, a housing savings account was introduced in 1953; however, these could only be opened with state-run institutions, not with banks (Effose, 2013).

3.3 Deferred lending and its regulation following the Second World War

State-sponsored housing loans, however, did not provide a solution for everyone; consequently, the state's housing policy, namely, the restriction of property loans, drove a section of the population wishing to own their own property towards alternative market solutions, thus bringing the institution of deferred lending back into the spotlight, although it continued to operate on the fringes of legality. It was not prohibited, but there were no regulations in force governing it either. The government first attempted to clarify its legal status in 1952, but was unable to eliminate the risky business model of the institutions dealing with deferred lending; consequently, in 1953, it introduced even stricter regulations based on the following principles:

1. instead of open-ended lending, only fixed-term loan agreements were permitted;
2. under the 1952 regulations, institutions were required to continually attract new customers in order to fulfil existing loan agreements, as, in the absence of deposits collected from the households, new members had to pre-finance the loans of existing customers; however, in order to avoid this constant race to attract customers and to prepare for a possible decline in the customer base, it became possible to draw on external (bank) sources, which provided financial guarantees or support to the institutions ultimately granting deferred loans;

3. as the funds provided by this external 'assistance' were not infinite either, it was necessary to regulate the aggregate amount of deferred loans that could be granted by individual institutions;
4. in cases where, taking demand into account, the waiting period might be longer than expected, the customer had to be given the option of taking out a loan in advance, i.e. to pre-finance the investment project, which, however, had to be provided by an external banking partner.

Based on this new operating principle, institutions offering deferred loans were able to offer several new loan products, including both the traditional deferred loan and the pre-financed deferred loan. The new loan structure, particularly the pre-financed loan, succeeded in attracting a new customer base, with 62 per cent of the loans being taken out by private individuals. This type of loan was primarily in demand among the self-employed and retailers, who were often excluded from state loan programmes. From our perspective, what is important is that, albeit as external partners and indirectly, the banks also became involved in property lending (Effosse, 2013).

3.4 Criticisms about the state housing policy

By the mid-1950s, the country's financial situation had become increasingly unsustainable, as not only housing loans but also development loans granted to the industrial sector were being written off by the central bank. However, all this was accompanied by an ever-widening budget deficit and rising inflation. Although successive governments attempted to curb the acceleration of price rises through price controls and wage bargains, changes in the international (economic) policy environment quickly undermined the existing economic policy system and highlighted its shortcomings. Ultimately, Paris was forced to seek assistance from the IMF in 1957 (Loriaux, 1991).

According to the IMF, the problem was caused by the high proportion of non-performing loans. The proportion of medium-term housing loans eligible for discounting at the central bank within the total property loan portfolio stood at 58 per cent in 1955, whilst in 1956 it was around 50 per cent; in other words, the majority of loans for property purposes were backed by state support. Consequently, under pressure from the IMF, France was forced to take steps to restrict the supply of credit (Effosse, 2013). It fell to the decision-makers of the newly established Fifth Republic, led by President Charles de Gaulle, to implement the necessary reforms. De Gaulle wanted to put not only politics but also the economy on a new footing, so he commissioned the liberal Jacques Rueff to prepare the necessary reforms. Rueff, too, believed that one of the system's Achilles' heels was the central bank's rediscounting policy; he therefore proposed abandoning it and instead envisaged the development of a housing policy based on market savings. However, the change of direction outlined by Rueff would have exacted a significant toll on state-directed investment funding, which could not be implemented due to the social and political tensions prevailing at the dawn of the Fifth Republic. Thus, instead of a U-turn in monetary policy, the newly formed government opted to continue with the existing approach, whilst recognising that the involvement of market mechanisms would eventually be necessary. The first step in this direction was the authorisation in 1958 of 'contractual property investment companies' (`société immobilière conventionnée'), which, in addition to playing a role in financing, also built and operated the newly constructed residential buildings in exchange for rent. The first property investment company of this type was set up by BNP Paribas, followed by a further nine of the kind. However, by the early 1960s, the companies established in this way had delivered only 5,800 flats.

In 1959, the scope of financial institutions providing deferred credit was also expanded, with the aim of promoting this type of saving and facilitating the entry of new players into the market. Firstly, part of the interest received on savings paid in advance under deferred credit schemes was made tax-free; subsequently, the 1961 decree allowed for the term of deferred loans to be reduced. All these changes also attracted the interest of further banks, and several new players entered the market, whilst deferred lending became increasingly popular amongst the general public (Effosse, 2013).

3.5 The 1960s: the marketisation of property lending

However, from 1962 onwards, the government came under increasing pressure as those repatriated from Algeria and members of the baby-boom generation began to enter the housing market. The government tried to keep pace with the emerging demand, and by the end of the decade the number of newly completed flats had risen from 330,000 to 480,000 per year. However, this required the state to raise significant financial resources: from 16 billion French francs in 1963 to 40 billion by 1969. This coincided with a renewed acceleration in inflation, whilst the approaching deadline of 1 July 1968 for the introduction of the customs union also put pressure on decision-makers. Reform became inevitable.

The first step, taken in 1963, was the transformation of the state housing loan system, with the main focus on personalising it and placing it on a social footing. In parallel with this, the inflationary impact arising from medium-term loans was eliminated, that is, the central bank's discounting practices were regulated. Another set of reforms only came into force during the Debré–Haberer reforms of 1966-67; these were primarily aimed at the marketisation of housing lending loans- that is, the involvement of banks and other financial institutions in the mortgage market - and at promoting savings for housing purposes (Effosse, 2013).

In the 1960s, a number of reports (the Sandrin and Benet report) were produced on the market of housing loans, which highlighted that interest rates on French property loans were significantly higher (11 per cent) than in Germany (8 per cent) or the United Kingdom (7 per cent). In other words, not only did the existing system exert inflationary pressure, but interest rate conditions also lagged behind those of Western competitors. Despite this, policymakers were reluctant to fully liberalise the market of housing loans, that is, to end the moribund state of the mortgage market. Reviving the mortgage market was not a new idea, as it had already been suggested during the Vichy regime, but there were fears regarding Crédit Foncier's quasi-monopoly in the mortgage market. However, the Benet Report, based on a comparative analysis from 1961, highlighted that the problem could be explained primarily by the valuation of mortgages and Crédit foncier's monopoly position. Specifically, two-thirds of mortgage loans were provided by Crédit Foncier under a special housing loan scheme, whilst mortgage loans provided by private lenders accounted for barely one-sixth of the total mortgage loan portfolio, with the remainder financed by property funds. Further problems that arose were:

1. the lack of security in investments in mortgage-backed securities, meaning that creditors faced difficulties when they had to recover debts from borrowers in the event of default;
2. the slowness of the mortgage loan approval process (an approval time of approximately 9 months) and the high costs involved;
3. the lack of a market for trading non-performing loans, which can be attributed to the absence of appropriate legal frameworks, an organised market and market participants providing sufficient performance guarantees;
4. even when a mortgage bond was issued, its trading was so heavily regulated that it made trading virtually impossible (Effosse, 2013).

The situation deteriorated further from 1965 onwards, as the number of construction projects began to decline, even though the majority of the baby-boom generation were only just reaching adulthood, whilst migration accelerated alongside the return of French nationals from Algeria. Whilst the construction sector grew by 13.7 per cent in 1964, by 1965 its output had risen by only 3.5 per cent, and by 1966 it had actually fallen by 4.5 per cent. This was primarily due to the 1963 reform of the state's housing policy, which prioritised social needs; many people were excluded from preferential loans, whilst deferred credit was the only other option available. Consequently, the government was forced to introduce reforms.

Firstly, in 1966, the housing savings scheme was introduced, which was made available to all financial institutions. In the very first year, 200,000 such savings accounts were opened, whilst the total savings deposited in them reached 1.14 billion, and by 1967 this had risen to 4.47 billion French francs, exceeding the amount of retail savings held in building societies, which stood at around 1.67 and 2.25 billion French francs respectively.

In addition, the government also intended to extend the terms of mortgage loans, thereby reducing the amount of the own contribution required. This was necessary primarily to make mortgage lending accessible to less affluent residents as well, since a lower deposit requirement increases the creditworthiness of customers with smaller savings. Thus, the new decree, which came into force in 1966, allowed the term of medium-term loans to be extended to seven years or more, instead of the previous five years. The extension of the term was particularly important for banks specialising in deferred lending, as the extended term of more than seven years enabled them to offer more favourable lending conditions to customers; the popularity of this type of loan consequently increased significantly: whilst in 1964 they accounted for 5.6 per cent of bank loans, by 1966 this figure had risen to 10.3 per cent.

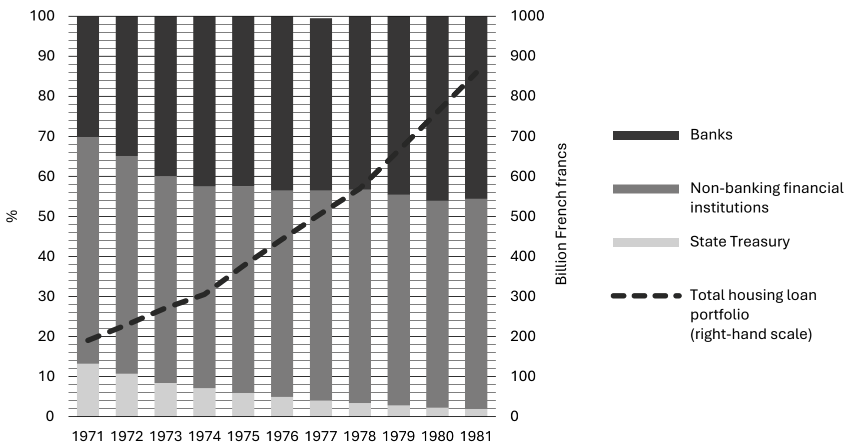
3.6 The liberalisation of the mortgage market

The new mortgage market system was launched in 1966. In light of this, the French mortgage market became a market accessible exclusively to financial market participants, such as banks, financial institutions, people's banks, building societies, Crédit Agricole, Crédit Mutuel, insurance companies, pension funds and investment companies. The legislation at the time distinguished between two types of market participant: the issuer and the purchaser. Crédit Foncier was responsible for regulating the market and ensuring its ultimate liquidity.

For a loan to be eligible for trading on the mortgage market, the only conditions that had to be met were that it be used to purchase a private property and that the security be, in all cases, a mortgage. The loan term was set at a minimum of 10 years, whilst the interest rate applied was determined either by adding 2.5 percentage points to the rate applied by Crédit Foncier for loans of a similar term, or by adding 3 percentage points to the rates prevailing on the market for eligible mortgage loans of the same term at the time of lending. When the market opened, interest rates ranged between 11.04 per cent and 11.58 per cent depending on the term, before falling to between 9 and 10 per cent, thereby achieving one of the mortgage market's key objectives: a reduction in mortgage interest rates.

Although the mortgage market had already been launched in the autumn of 1966, it only became truly popular from the second half of 1967 onwards. The complete reorganisation of the mortgage market was accompanied by a significant surge in mortgage lending and, more generally, in bank housing loans. Thus, whilst in 1963 loans granted by banks accounted for only 18 per cent of housing loans, by 1971 banks held 31 per cent of the total housing loan portfolio, and indeed their share continued to grow throughout the 1970s, reaching 45.6 per cent by the early 1980s (Figure 3).

Figure 3
Breakdown of housing loans financed by banks, non-bank institutions and the State Treasury (%, left-hand scale), and growth in the total property loan portfolio between 1971 and 1981 (billion French francs, right-hand scale)



Source: Based on CNC annual reports

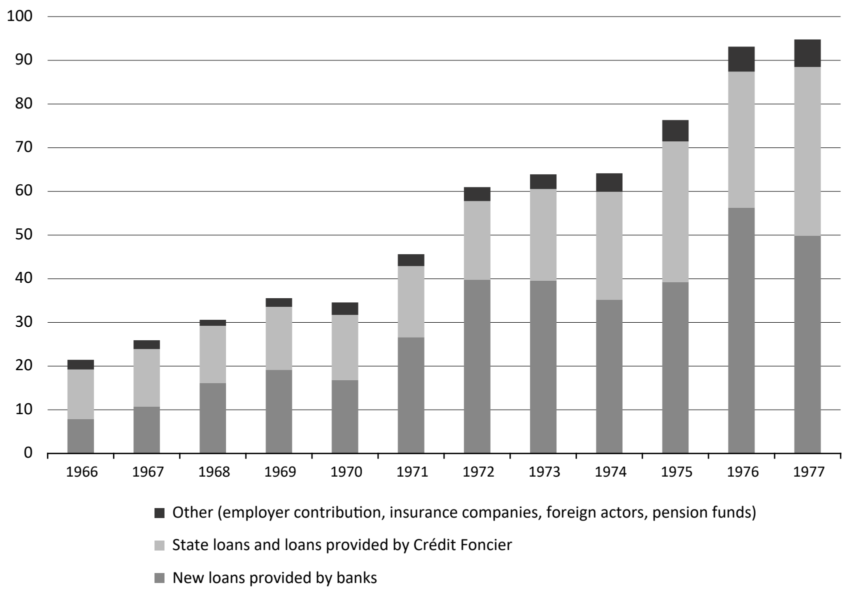
It should also be noted, however, that in parallel with the increase in the share of bank lending, the aggregate value of the housing loan stock itself rose from 190.3 billion French francs to as much as 859.1 billion French francs, i.e. it more than quadrupled. Bank lending thus increased not only in relative terms but also in absolute terms: whilst in 1971 banks managed 58.99 billion French francs' worth of housing loans, by 1981 this figure had risen to 386.6 billion.

The development of the mortgage market and the scaling back of state-subsidised housing loans did not lead to a decline in mortgage lending; on the contrary, people turned to the mortgage loans offered by banks, and so bank lending led to an expansion in the supply of credit; in other words, the emergence of the mortgage market brought with it a deepening of the population's use of banking services. In

1967, loans of this type accounted for barely 2 per cent of the total loan portfolio; by the mid-1970s, however, they had risen to around 18 per cent and stabilised at around 17 per cent.

The increasingly significant role played by banks in property lending is also clearly illustrated by the fact that the proportion of loans financed by credit institutions within the total volume of newly approved housing loans has been steadily rising. Accordingly, whilst in 1966 36.8 per cent of new housing loans were financed by banks and 53 per cent by Crédit foncier and other state-owned credit institutions, by 1971, banks were financing 58.3 per cent of new housing loans, whilst state-owned credit institutions were financing 35.7 per cent (*Figure 4)*.

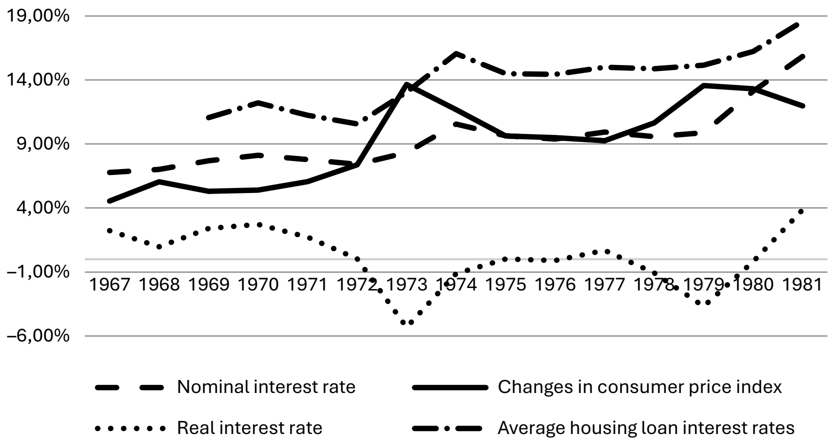
Figure 4
Breakdown of newly issued housing loans



Source: Based on CNC annual reports

Finally, it is worth noting that the total value of housing loans granted by banks managed to increase despite the fact that nominal long-term interest rates rose from the level of around 7 per cent seen in the 1960s to well over 10 per cent. This means that, even in a rising interest rate environment, the proportion of housing loans granted by banks continued to grow throughout the 1970s. Moreover, in connection with this growth, it should also be noted that it occurred in a rather unfavourable economic environment that was hit by two oil crises.

Figure 5
Changes in long-term nominal and real interest rates, average mortgage interest rates and the consumer price index between 1967 and 1981



Source: Macrohistory

4 CONSUMER LENDING IN FRANCE

On the asset side, banks may interact with the public not only in relation to mortgage loans but also through consumer lending. Our main question here, however, is how and to what extent banks played a role in the field of consumer lending. Were they catalysts, or did they merely follow social demands?

As background, it is important to note that in France prior to the World War, credit was primarily used to finance the purchase of motor cars, considered the most expensive consumer goods at the time. That financial product was offered not by banks but by specialised financial institutions set up by car manufacturers. In addition to car purchases, smaller consumer goods could also be bought on credit, for which the major French department stores developed a unique voucher system: over time, retailers also adopted this system and, to ensure its efficient operation, formed so-called economic unions (Effosse, 2014).

The option to purchase passenger cars on credit remained available after the war, as the development of the French car industry was given a prominent role in the first five-year plan drawn up by the French Planning Office. However, the government did not support the purchase of other goods for the following reasons:

1. consumer credit could lead to inflationary pressure;
2. it could also jeopardise the stability of the financial system, as it carries the risk that people who may not be able to meet the terms of repayment might take out loans;
3. promoting consumer credit may hamper economic growth, as it channels household savings towards the purchase of consumer goods and the repayment of loans, rather than making this capital available for investment in reconstruction and economic modernisation (Effosse, 2014).

In 1949, the authorities permitted the purchase on credit only of so-called `pledgeable' goods; the purchase of passenger cars was the only category that met this criterion, whilst the purchase of all other goods on credit was discouraged, though not prohibited. Thus, alongside car purchases, department stores operating in Paris and provincial towns, as well as retailers organised into economic unions, provided consumer credit following the Second World War, and from the early 1950s onwards the market became increasingly vibrant. Accordingly, the number of economic unions rose from 36 in 1948 to 52 by 1953, with their revenues ranging between 1 and 3 billion French francs, whilst the number of retailers affiliated to the various unions rose from 2,356 in 1948 to around 5,000 by 1954. The unions, however, operated in a legal grey area, as their activities were not regulated by any legislation, whilst their relatively high profit margins provided an ideal breeding ground for fraudsters. Their legal status was clarified in 1953: all organisations of this type were required to register with the central bank, whilst also having to meet official criteria. The most important condition was that economic unions could only be formed by traders, which made it very difficult for them to cooperate with manufacturers or external – banking – partners.

4.1 The consumer lending market: the land of promise

Following the Second World War, however, players in the industrial sector, such as the National Association of Furniture Manufacturers (NBE) and the Union of Electrical Appliance Manufacturers (EVU), began establishing new consumer credit institutions with the aim of boosting consumption. Jacques de Fourchier, president of the Union française de banques, saw great potential in collaborating with the EVU in the early 1950s, at the dawn of the French consumer society. In 1953, under Fourchier's leadership, the Credit Institution for Electronic Household Appliances, better known as Cetelem, was established and registered with the authorities. When developing Cetelem's business model, Fourchier, drawing on American examples, stopped credit notes and ceased assessing the creditworthiness of applicants; more precisely, he transferred this responsibility to the seller of the product (and thus the loan), who in return shared the risks in return for one per cent of the loan amount applied for. Finally, it made it compulsory to take out free life insurance (Effosse, 2014).

Once the business model had been developed, Fourchier had to convince the bank's shareholders to support the creation of this new, specialised consumer credit institution. On the one hand, he had to gain acceptance for the abandonment of the traditional lending model, particularly as this meant the abolition of the credit note; on the other hand, he had to overcome the prevailing psychological mind-set that French banks primarily lend to companies or the state. This was because, due to reputational risk, the banks were reluctant to grant consumer loans directly to retail customers; they were held back by negative social perceptions surrounding both so-called `agency sales' and debt collection. Fourchier resolved all these prejudices, rooted in mistrust and reputational risk, by ensuring that the bank did not provide loans directly, but merely provided capital to help the consumer credit institution get off the ground.

As well as the banks, Fourchier also had to convince the authorities of the benefits of consumer credit. The banker therefore lobbied the authorities, arguing that the aim was not to establish a consumer credit institution but one facilitating the purchase of household goods; this, he argued, meant it was no longer simply an institution financing consumer goods, but one financing household equipment, which improves the comfort of households, and thus the comfort of families, and helps to improve their standard of living, whilst also benefiting businesses by generating orders. Fourchier also demonstrated, using the example of the United States, that consumer credit does not have an inflationary effect. The authorities accepted his argument and gave the institution the green light, whilst also setting about drafting the regulations.

The law regulating consumer lending came into force on 28 July 1954: it capped the term of loans at 18 months; a maximum of 80 per cent of the price of a given product could be financed by credit; whilst the solvency ratio of individual institutions had to be at least 10 per cent. It is important to note that customers did not deal directly with the consumer credit institutions but arranged their loans through the sales staff at the relevant partner shop; in other words, so-called indirect loans were provided to the consumers. Competition was further intensified in 1959 when two major state-owned banks, Crédit Lyonnais and Société Générale, launched their new product, the personal loan, which, according to the definition used at the time, was simply a loan granted by a bank to a natural person for the purpose of immediately financing a sudden expense. The loan amount was determined on the basis of the applicant's income, and repayment was made monthly. This moment marked the entry of French banks into the retail credit market and clearly demonstrated that the banks had managed to overcome their fears arising from reputational risk. This was no coincidence, as the development of the single market and the narrowing of interest margins in corporate lending forced French banks to take action (Trumbull, 2014). However, it was not only international trends that encouraged banks to turn towards retail lending, but also the fact that they had an ever-increasing volume of retail deposits at their disposal. It therefore seemed an obvious move to lend out their existing deposit base to retail customers, not to mention the fact that interest margins proved to be much higher in the retail lending market than in the corporate sector. With the introduction of personal loans, the banks hoped to reach new customers - lower-income groups who had not previously used banking services - and, at the same time, increase the number of their depositors, as banks usually required such customers to open a deposit account in order to take out a loan (`loans make deposits'; Trumbull, 2014).

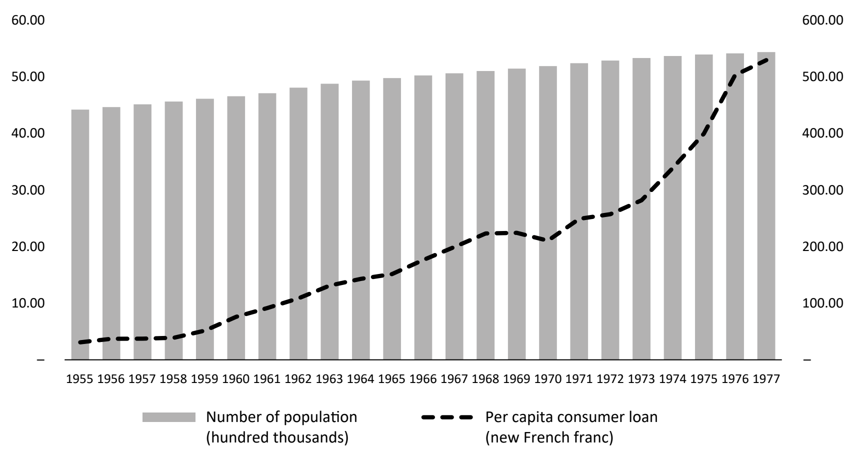
Personal loans were not covered by the 1954 Act, so their terms were much more favourable than those of consumer loans. For example, loans provided by Crédit Lyonnais could be taken out for terms of up to 24 months, with an interest rate of 10.1 per cent for a 12-month term and 10.6 per cent for a 24-month term. This was significantly more favourable than the average interest rate of 20 per cent charged on consumer loans. This was, of course, no coincidence, as whilst consumer credit institutions primarily financed loans from their own capital, banks lent out the deposits held with them. Moreover, personal loans could be used to finance almost anything that did not fall into the categories of products eligible for financing through professional or consumer loans (Trumbull, 2014).

However, credit institutions offering consumer loans lodged complaints with the regulatory authorities and demanded stricter regulation of personal loans. According to the authorities, however, personal loans brought new groups of society into the credit system: as they were taken out by those with higher social status, white-collar workers, the self-employed and entrepreneurs, in contrast to consumer loans, 70 per cent of which - according to data provided by Cetelem - were taken out by members of the working class. This is no coincidence, as applying for a personal loan necessarily involved visiting a bank branch and open an account, which was often already in place for higher-income employees, whereas among the working class and less educated groups, banking penetration remained moderate in the late 1950s. It is worth noting here, however, that whilst the level of banking penetration among workers was low, financialisation had already begun to take hold within this group as well, thanks to consumer credit, which effectively brought workers into the world of finance; that is households had to internalise risk factors previously unknown to them, and their agency also changed. This, however, also highlights that - contrary to our hypothesis - bankarisation is not necessarily a prerequisite for the financialisation of society; indeed, as the French example above demonstrates, due to expanding consumer demand, financialisation on the asset side began sooner among the working class than the process of bankarisation; this, however, is not solely the `fault' of blue-collar workers, but can also be attributed to the more conservative and closed business practices of French banks.

In light of the above, the authorities did not consider it necessary to subject the `institution' of personal loans to specific regulation. Indeed, they even expected it to have a modernising effect, as the new product might prompt consumer credit institutions to launch new credit products on the market, attract new customers and improve their operational efficiency. Indeed, these institutions did open up to new groups of society and drew them into the financial system, which thus became ever more deeply embedded in the fabric of society; there was scarcely any group that had not come into contact with the financial system through either banks or financial institutions providing consumer credit (Effosse, 2014).

This is also reflected in *Figure 6*, which shows the trend in per capita consumer loan against the changing size of the French population between 1955 and 1977. Although the French population grew by 23 per cent during the period under review, the per capita loan stock rose from 30 francs in 1955 to 400 francs by 1975 (a thirteen-fold increase) which confirms our assertion that the population turned to consumer loans, and thereby to the financial system, to an ever-greater extent.

Figure 6
Trends in per capita consumer loan (French francs, right-hand scale) relative to the total population (millions, left-hand scale) between 1955 and 1977



Source: CNC and Macrohistory

Such a high level of consumer credit penetration amongst the households is no coincidence, as consumer credit institutions have responded to the demand for personal loans through innovation, the diversification of their loan products, the promotion of customer loyalty and the modernisation of their organisations. For example, Cetelem entered the car and furniture loan markets. Indeed, in the case of car loans, it began offering finance not only for new cars but also for used cars - a segment less favoured by credit institutions - thereby seeking to attract less affluent consumers, primarily those in rural areas (Effosse, 2014). In order to boost customer loyalty, the credit institution introduced the concept of `direct' lending, which was considered revolutionary at the time; this simply meant that, as existing loan agreements were coming to an end, Cetelem offered preferential loan deals directly to customers for the purchase of cars or furniture, a scheme which was later extended to other electronic goods, effectively functioning as a personal loan. According to a 1961 survey, half of the direct loans granted for purposes other than car purchases were spent on furniture, 14 per cent on heating systems, 11 per cent on domestic appliances and 3 per cent on radios, even though the loan had theoretically been taken out for the purpose of buying furniture (Trumbull, 2014).

Initially, only reliable, existing customers could apply for direct loans, but over time they also became available to new customers. However, this required, on the one hand, direct interaction with the customer and, on the other, an understanding of their risk profile. Establishing a direct relationship with customers ushered in a new era in the relationship between customers and credit institutions (and banks). Until then, customers had visited banks to open deposit accounts, not to take out loans. However, as credit institutions had to sell their direct lending products (and banks their personal loan products), they had to break with the previously aristocratic (bank) branch culture and make them much more modern and consumer-friendly, whilst also opening branches in newly urbanised conurbations, thereby further expanding their customer base (Trumbull, 2014; Effosse, 2014).

4.2 The era of failures: commercial banks and consumer lending

However, although commercial banks launched their personal loan services, they were unable to compete with credit institutions specialising in consumer lending: in the 1970s, they withdrew from the consumer credit market. Then, in the mid-1980s, they made another attempt to conquer the market, prompted by the changing regulatory environment; following the end of state-regulated corporate lending, the banks' interest margins had fallen, forcing them to seek out new markets (Trumbull, 2014).

However, the banks were unable to establish a lasting foothold in the consumer credit market, for which, according to Trumbull (2014), there are two reasons:

1. Firstly, banks lacked the necessary expertise and technology, and did not seek to develop it, even though this was essential for success. This primarily refers to IT and data analysis skills, as well as a proper understanding of the consumer credit market - an area in which consumer credit institutions had more than thirty years of experience.
2. The other reason was that the banks believed they knew their customers well, as the vast majority of them had held bank accounts with them for years; they therefore assumed that the risk of default would also be low amongst that group. It was not the case. They operated with a much higher default rate than credit institutions specialising in consumer loans. To cover their losses, the banks considered attracting new customers to be the best solution; they therefore granted consumer loans almost indiscriminately, further exacerbating the rise in aggregate customer risk and, consequently, the risk of default.

By the early 1990s, it had become clear that French banks were unable to establish a leading position in the consumer credit sector on their own. Consequently, they resorted to what was arguably the simplest, yet presumably the most costly, solution: they acquired credit institutions that were successful in the consumer credit sector. All this indicates that French banks were not able to win over retail customers in this market; in other words, a significant proportion of households embarked on the path of financialisation than bankarisation.

5 CONCLUSIONS

In answering the questions posed at the beginning of this paper, it can be concluded that whilst, on the funding side, banks participated persistently – albeit with minor setbacks – in the bankarisation of society and, from the 1970s onwards, opened the way to the financial markets for the entire population, the situation on the asset side was more mixed. Whilst banks played an increasingly significant role in the field of property lending as state control was gradually phased out, their attempts to enter the consumer credit market with various products were largely unsuccessful, despite repeated efforts. In light of the banking relationships of the retail customers on both the asset and liability sides, we can only speak to a limited extent about the link between them, and consequently about the role of banks' money and credit creation capacity. Indeed, in consumer lending we observed a prominent role played by institutions not financed by deposit-based funds, whilst in mortgage lending both state-owned and non-bank financial institutions also played a significant role. Thus, whilst the processes on the liability side are consistent with the process of `bankarisation' we have outlined, on the asset side, financialisation had already begun before banks entered the mortgage or consumer credit markets. In the field of mortgage lending, state regulation typically restricted banks' entry into the market, whilst the banks themselves avoided the consumer credit market. On the one hand, state-coordinated corporate lending had for many years generated comfortable and virtually risk-free income for them; on the other hand, consumer lending entailed reputational risk and brought with it a form of market competition that was new and previously unknown to them.

It should be noted, however, that as soon as the banks entered this market, in line with our hypothesis, the large volume of secure deposits on their balance sheets and their more sophisticated lending solutions led to an increase in aggregate credit supply, primarily in the area of property lending, whilst interest rates fell at the same time.

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