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**EXPLORING THE SOURCES OF THE SUPPLEMENTARY PTT BUDGET**

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## **The Sources of the Supplementary PTT Budget**

When the law of 1923 that instated the PTT supplementary budget was voted in, it sustained a considerable number of reports and proposed laws that were intended to determine not only the most appropriate status for the PTT but also the position and role of the State in the management of industrial services. In his article from 1994, Pierre Musso<sup>1</sup> has shown that the origins of the PTT debate are far from recent: in 1884 the first PTT minister, Adolphe Cochery had already distinguished between the public service provided by the PTT that replied to fiscal concerns and public service with a more industrial and commercial character.<sup>2</sup> Musso also analyzes different parliamentary law proposals from 1884 to 1914 that suggested a different status and organizational plan for the PTT. We shall focus on the projects that arose in the aftermath of the First World War, notably those proposed by Clémentel, Loucheur, and Charlot, and we shall attempt to evaluate Fayol and Chardon's contribution. Our work is based on material in PTT archives (series F90),<sup>3</sup> reports and parliamentary proposals, and articles on the subject.

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<sup>1</sup> Pierre Musso, "Aux origines de "l'autonomie" des télécommunications françaises, la loi de 1923," in *Réseaux*, no. 66, 1994, pp. 99-117.

<sup>2</sup> Adolphe Cochery, *Rapport présenté à M. le Président de la République sur les opérations du service des Postes et Télégraphes*, 1884.

<sup>3</sup> AN, F90, 21162 to 21165.

In 1917 Etienne Clémentel,<sup>4</sup> assisted by Louis Pasquet, secretary general of the PTT administration, prepared a proposal for the first governmental law that would bring financial reform to the postal administration. This project was the object of a proposal submitted to the president of the Council in 1917.<sup>5</sup> Clémentel felt that the postal administration was stagnating and inciting complaints that were all too often warranted. It was the minister's opinion that the status quo was due to the lack of resources which did not allow the administration to foresee, plan, and accomplish "systematic, long-range programs"<sup>6</sup> (we think of course of the development of the telephone). He also felt that the scope of the PTT budgetary plan was incompatible with the costs of developing any significant program and the principles of industrial management. Three key points are evident from Clémentel's observations: first of all, it was impossible to ascertain if the entire operation was in the red or the black; as a result, it was also not possible to determine what rate changes could be brought about; thirdly, he criticized the inordinate delays in carrying out partial programs.<sup>7</sup> To remedy this situation, Clémentel submitted a new financial plan that would lead to full autonomy for the PTT, or else "a supplementary budget intended as a transitional step toward a more thorough reform" would be created.<sup>8</sup> It is clear that the future status of the PTT was yet to be determined and that the intention to industrialize the postal administration had come to the fore in this preliminary stage. Like Adolphe Cochery in 1884, and Théodore Steeg and Charles Dumont in 1910, the minister who was responsible for the PTT approved the transition from a fiscal to an industrial model. The concept of the unitary budget was far from absolute; for Clémentel "the Administration is [*sic*] in the position of a business that can and must become productive, but it will collapse without an injection of capital; in such a case its business manager would seek loans whose repayment would be guaranteed by future profits."<sup>9</sup> However, the enactment of a budget that implied the rejection of the unitary budget was generally opposed by the finance ministers. Léon Say<sup>10</sup> (1890), Maurice Rouvier (1892), or Raymond Poincaré all defended the principle of the unitary budget and refused any new proposals on the subject. The finance ministers were guided by two main reasons. First of all, before the war, the balance sheet of all PTT operations regularly showed a profit, and provided between forty and sixty millions francs to the Ministry of Finance in good and bad years. The second reason, related to the first, is that the State's unified budget vouched for the unity of public service. At that time, public service was assimilated to "public power and fiscal and budgetary unity."<sup>11</sup> At the time of the reintegration of the supplementary telephone budget into

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<sup>4</sup> Etienne Clémentel (1864-1936) departmental deputy of the Puy de Dôme de 1900 to 1919, and senator from the same department from 1920 to 1936, Minister of Commerce, Industry, Post and Telegraph from 1915 to 1919.

<sup>5</sup> *Report presented by Etienne Clémentel to the President of the Council on re-organizational measures prepared and effected by the Post, Telegraph, and Telephone Service*, Paris, Imprimerie nationale, 1919.

<sup>6</sup> *Report presented by Etienne Clémentel to the President of the Council on re-organizational measures prepared and effected by the Post, Telegraph, and Telephone Service*, Paris, Imprimerie nationale, *op.cit.*, p. 82

<sup>7</sup> *Ibid.*

<sup>8</sup> Pierre Musso, "Aux origines de "l'autonomie" des télécommunications françaises, la loi de 1923", *op. cit.*, p. 107.

<sup>9</sup> Report presented by Etienne Clémentel to the President of the Council on re-organizational measures prepared and effected by the Post, Telegraph, and Telephone Service, *op. cit.*, p. 84.

<sup>10</sup> Léon Say was hostile to the notion of supplementary budgets: "With such a system, each new administration will seek to preserve the benefits it receives from the Treasury to develop its services... this anomaly of ancillary budgets must be stopped in its tracks as soon as possible, whenever such a budget is not required by crucial circumstances." In Pierre Lavigne, "Histoire du budget annexe des P.T.T.", *Revue Française de Finances Publiques*, no.35, 1991, p. 2.

<sup>11</sup> Pierre Musso, "Aux origines de "l'autonomie" des télécommunications françaises, la loi de 1923", *op. cit.*, p. 103.

the general budget, Maurice Rouvier stated that “by this act of unification, we are affirming that the telephone is a public service.”<sup>12</sup> According to René Stourm, an author of financial law, the principle of the unitary budget was indispensable for controlling Parliament a priori. What would become of this control in the face of dispersed finances, special treasury funds, and a complicated set of reports? In fact, does the true spirit of democracy not correspond to the principle of control?

However, the situation was completely reversed when Clémentel wrote up a law proposal based on his report, which he presented to the Chamber in 1919. The PTT’s excess profits had become a deficit. In 1919 this deficit had risen to 557million francs. The result of this reversal of the profit trend from operations was such that not only did the PTT not receive further resources from the State but postal services also became a drag on the general budget; the finance minister could not ignore this new phenomenon. Furthermore, the evolving notion of public service itself was affirmed by State Council’s case laws and the work of Duguit, Jèze, and Hauriou who posited a distinction between industrial and commercial public service on the one hand and traditional public service on the other. Different reforms at the State level<sup>13</sup> were also being planned at this time, and State intervention, which had grown during wartime, was being reconsidered. Finally, the dominant notion of the unitary budget defended by the finance minister before the war was replaced by postwar industrialization and the supplementary budget. It was in the context of these events that Clémentel declared that “abandoning the notion of the unitary budget in regard to the PTT seems to be the logical consequence of the transformation of this service.”<sup>14</sup> The main aspects of the law he proposed involved the separate processing of revenue and expenses in a supplementary budget, the division of this budget into two sections – one for revenue and operational expenses, and the other for sources of borrowing, - the creation of a fund for material supplies, the issue of bonds that would be callable in 30 years, and finally the publication of documents that would report on annual business activity.<sup>15</sup> The proposed law was ultimately not discussed by the French Parliament, since it was submitted only shortly before the legislative elections of 1919. Nonetheless, it became the point of reference for subsequent projects with little variation.

From 1920 to 1923, multiple proposals were no longer concerned only with the PTT’s financial autonomy but also attempted to define the status of its services. During the discussion of collecting postal taxes, Loucheur, Calary, and Noblemaire (a radical leftist) presented an additional article recommending the creation of a national PTT office. The financial commission considered the proposal, but the commission on Public Works rejected it. In March 1920, the same parliamentarians, joined by several deputies, suggested an amendment specifying that the PTT would immediately be re-organized as an autonomous office under the name “National Office of Post and Telegraph.” With its civil image and financial autonomy, this office would be able to issue bonds backed by the State; it would also benefit from a supplementary budget attached to the general one. An administrative council consisting of representatives from various ministries, chambers of commerce, as well as technical and operational staff members would

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<sup>12</sup> *Ibid.*

<sup>13</sup> Cf. Vida Azimi, *La réforme de l’Etat à l’épreuve de la guerre. L’exemple de la première guerre mondiale*, IHTP Seminar led by Marc-Olivier Baruch, 24 March 1999, unpublished.

<sup>14</sup> Pierre Musso, “Aux origines de ‘l’autonomie’ des télécommunications françaises, la loi de 1923,” *op. cit.*, p. 108.

<sup>15</sup> *Ibid.*

manage the office. But a majority of parliamentarians deemed these measures excessive and the amendment was rejected. The opposition was focused in particular on the composition of the administrative council and its members' responsibility. As Pierre Robert, the reporter from the finance commission, inquired - were they going to entrust a council with the management of a sum well over 1,500 million francs, without explaining in advance how its members would be held responsible for the management and implementation of the budget?<sup>16</sup>

More liberal minded, the deputy Charlot recommended the creation of a "National PTT Company" in March 1922 to which all PTT operational services would be confided for a period of forty years. Established according to the regulations for private companies, the capital of this "national company" was set at 100 million francs, divided into 200,000 shares of stock valued at 500 francs each (50% of which would be insured by the State), 20% by local bodies, 20% by chambers of commerce and agriculture and 10% by large credit companies.<sup>17</sup> The "National PTT Company" would be run by an administrative council of 25 PTT, local bodies, chambers of commerce and the co-operative personnel group. Confronted by these proposals that encouraged disengagement on the part of the State and a true industrialization of PTT services, the postal federation CGT recommended the administrative and financial autonomy of the PTT. For the CGT, autonomy was merely a step toward a nationalization that was the opposite of State control. As L. Digat stated in an article in the *Voix du Peuple*: "The principles that form the foundation for nationalizing the PTT must be deeply instilled, for they bring with them an upheaval of administrative traditions. They deal a death blow to the prejudicial role of officialism."<sup>18</sup> In fact, the reformist-minded CGT Postal Federation did adopt the program of cooperative management defined by Bernard Lavergne in the context of the Economic Council on Work in 1920.<sup>19</sup> Such a program allowed them to 'avoid the state-controlled national office model, by allowing unions and customers' representatives the possibility of participating in social capital.'<sup>20</sup> The government had to seek a consensus between the doctrine of absolute autonomy and industrialized nationalization. There was even more immediate urgency, since the debate had gone beyond the bounds of the PTT, having extended itself to the broader debate over the role of the State in relation to economic activity. Henri Fayol and Henri Chardon's opinions help us elucidate the importance of these debates.

Taking up the example of the PTT, Henri Fayol denounced the poor management on the part of the State. In his report on "The industrial incapacity of the State: the case of the PTT,"<sup>21</sup> submitted to Louis Deschamps, Fayol listed the administrative flaws that handicapped, in his opinion, the governmental PTT enterprise: first of all, it was directed by an erratic and incompetent state under-secretary; there was no long-term plan of action nor regular assessment or evaluation; there was, however, excessive and abusive intervention by parliamentarians; no reward for effort and no compensation for services rendered. In short, there was a marked

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<sup>16</sup> Opinion presented by Pierre Robert representing the Financial Commission, Chamber of Deputies, no. 1499, supplement to the report on the second meeting, 31 July 1920, p. 33.

<sup>17</sup> *Ibid.*, p. 33.

<sup>18</sup> Quoted by Pierre Musso, "Aux origines de "l'autonomie" des télécommunications françaises, la loi de 1923, *op. cit.*, p. 111.

<sup>19</sup> Cf. Jeanne Siwek-Pouydesseau, "Les syndicats et la réforme des PTT", *Bulletin de l'IREPP*, May 91, pp. 48-49.

<sup>20</sup> *Ibid.*, p. 49.

<sup>21</sup> Published in 1921 by Henri Fayol, *L'incapacité industrielle de l'Etat : les PTT*, Dunod, 1921, 118 p.

absence of responsibility.<sup>22</sup> He felt that no business could prosper with these administrative shortcomings: “these administrative shortcomings are not endemic to the PTT; they are present in most of our public services. It should come as no surprise then that we are headed for disaster.”<sup>23</sup> Although Fayol preferred that the State be separated from its industrial activities, he insisted that “business matters are badly conducted in the private sector as well as by the State. It is not enough to give the State an industrial monopoly in order to rest assured that it will produce excellent results.”<sup>24</sup> This is why Fayol proposed first of all a reform of the “industrial toolbox” in order to establish foresight, organization, a line of command, coordination and control - in other words, good administrative practices. In fact, Fayol was suggesting an initial managerial reform of the directorship, organization, and management of the PTT. The reform of the directorship of the PTT was essential as a passkey that would open the way to any new reworking of its organization. For this reason, Fayol was critical of the weakness of the reform projects suggested by the government that were only interested in budgetary aspects. He concluded that since the PTT were poorly managed by the State and that this body was incapable of effectively managing these services, private industry was in a much better position to do so under these conditions.<sup>25</sup> According to Fayol, even if the State improved its operational procedures, the results would always be inferior to what private industry could produce. If the State could not completely disengage itself from the workings of the PTT, its decision to confer its operations *strictu sensu* to a private industry that would assume all the responsibilities incumbent on the State would be a commendable one.<sup>26</sup> Fayol’s suggestions put him in the same league as liberal thinkers of the period like Leroy-Beaulieu and Colson.<sup>27</sup> According to Stéphane Rials, it seems that “Fayolism” was the strict extension of a turn-of-the-century liberalism that had more and more to do with organization on a deep level.<sup>28</sup> Henri Chardon opposed Fayol’s thesis of “the disengagement of the State,” insisting that the State itself could be industrialized without dispossessing it. Chardon was an organizational expert and experienced as a member of the Conseil d’Etat; he felt that an immediate reform of the methods of administrative management was necessary, without wasting time in theoretical discussions of what was and was not within the State’s power.<sup>29</sup> Thus Henri Chardon became the advocate for a reform that was simply limited to the “reorganization of all public bureaucracies.”<sup>30</sup> In his opinion, the rigidity, formalism, and dormancy of State administrations should give way to freedom, flexibility, and the ongoing activity of industrialized business concerns.<sup>31</sup> Chardon outlined the approach of organizers with a background in public service that may be construed in opposition to the agenda of industrialists from the private sector.<sup>32</sup> The basic difference between Fayol and Chardon’s views lies in their divergent interpretation of the industrial incapacity of the State: for Fayol, this

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<sup>22</sup> Henri Fayol, *L’incapacité industrielle de l’Etat: les PTT*, op. cit., p. 7

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> Henri Fayol, *L’incapacité industrielle de l’Etat : les PTT*, op. cit., p. 79.

<sup>26</sup> *Ibid.*

<sup>27</sup> See Stéphane Rials, *Administration et organisation. De l’organisation de la bataille à la bataille de l’organisation dans l’administration française*, Paris, Beauchesne, 1977, p. 129.

<sup>28</sup> *Ibid.*

<sup>29</sup> *Ibid.*, p. 120.

<sup>30</sup> François Burdeau, *Histoire de l’administration française. Du 18e au 20e siècle*, Paris, Montchrestien, 1994, p. 350.

<sup>31</sup> *Ibid.*

<sup>32</sup> Stéphane Rials, *Administration et organisation. De l’organisation de la bataille à la bataille de l’organisation dans l’administration française*, op. cit., p. 123.

incapacity was inherent and absolute when it concerned economic matters, but for Chardon it was historical and relative, and as such, susceptible to reform in the guise of industrialization.<sup>33</sup> Did these views have any tangible influence or effect on business and administrations? Guy Thuillier mentions the feeble popularity of Fayol's ideas in administrative circles.<sup>34</sup> We know that Fayol's opinions influenced Louis Deschamps' proposal of a law that ceding telephone service to a private company.<sup>35</sup> Although Fayol's report was relatively unknown to postal employees at the time, its frank re-examination of the postal system and administration was probably not well received. Several years later in his remarks on the creation of the supplementary budget, a PTT administrator would emphasize the pamphleteering aspect of Fayol's report.<sup>36</sup> Faced with the accretion of operational deficits, the PTT was forced to seek a rapid solution.

A prospective solution was found in the form of the finance law project of 1923: one article of the law proposed a new organization of financial branch of the PTT administration. In the presentation of the impetus for the legal proposal, the industrial and commercial goals of PTT service are clearly delineated: "the purely fiscal nature of its origin having gradually disappeared (...), we have become accustomed to think of the Post Office only as the service that is responsible for organizing and assisting social and economic relations. Postal, telegraph, and telephone service (PTT) are essentially different from financial corporations. Nor are they better compared to organs of general administration, since their relations with the public are entirely commercial."<sup>37</sup> In the discussion of the project, the principle of the unitary budget was defended for the last time by M. Bokanowski who declared himself completely against the creation of a supplementary budget: he felt it would suffice to publish a special table giving the operational result of a specific service; to do so would absolutely not require the rupture of a unified budget. Above all, the absence of an administrative dimension to the governmental project, which parliamentary commissions sought and whose importance was recognized by Fayol, came under heavy criticism. But the government had explicitly stated its position on the subject, stressing in its report reasons why its only objective was financial reform, and insisting that this reform, the necessity of which was universally agreed upon, must be brought about as soon as possible. Plainly their goal was to profit from the consensus reached on financial reform as the smallest common denominator. The law of 30 June 1923 that created the supplementary budget for the PTT (articles 69-80 of the financial law) had two different goals:

- to achieve transparent management, including the results of this management, especially the specialization of income and expenses (operations and first balance sheet);
- to procure the funds necessary to subsidize the expenses imposed by the second section of the supplementary budget (including the option of borrowing in the form of coupons or 30 year redeemable bonds issued by the finance minister within the annual limit determined by the financial law).

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<sup>33</sup> *Ibid.*, p. 127.

<sup>34</sup> Guy Thuillier, *Bureaucratie et bureaucrates en France au XIXe siècle*, Genève, Droz, 1980, p. 247, note 41.

<sup>35</sup> Legal proposal registered 4 November 1921 in the Chamber of Deputies.

<sup>36</sup> Pierre Goursolas, *Histoire de la Poste en France*, Paris, 1988, no pagination, unpublished.

<sup>37</sup> Cited in Pierre Musso, "Aux origines de "l'autonomie" des télécommunications françaises, la loi de 1923," *op. cit.*, p. 112.

Ultimately how should we evaluate the law of 1923 and its application? There is unanimous consensus that the 1923 reform made management practices more transparent but also that it did not give the responsible parties the freedom to do business effectively in a commercial and industrial management setting. The guardianship of the finance ministry was never refuted. Even with its separation from the general budget, the PTT supplementary budget was still subjected to traditional budgetary procedures. To a large extent, the budget for operations and investment was still a function of the general management of the budget. So the borrowing possibilities offered by the law to finance the development of the telephone network, for instance, were not completely exploited, except perhaps for the period 1924-1934 when a recovery plan was implemented.<sup>38</sup> It seems fair to say that the law of 1923 proposed a compromise between liberals who supported the privatization of the PTT and those (unions and leftists) who favored nationalization. We have not been able to examine all aspects of the issues surrounding the supplementary budget in the allowed time: one should also look at what was at stake in the conquest of a new technology (the telephone) for the entire PTT network as an instrument of communications. One could also analyze the situation in which no reference either to the CNE (the “Caisse nationale d’Épargne” or National Savings Bank) or the Postal Savings Bank (the Caisse d’épargne postale) arose during the parliamentary discussions of the supplementary PTT budget, before or after the law of 1923. The postal bank had been assisted by a supplementary budget since 1881, and only integrated the PTT supplementary budget in 1965.<sup>39</sup> At any rate, the balance that was achieved in 1923 shut and bolted the door on the debate over the role and status of the PTT until the law of 2 July 1990 put an end to the supplementary budget system by abolishing the unified administration of the PTT and creating two corporate bodies of public law (as autonomous operators of public law).

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<sup>38</sup> Cf. Pascal Griset, “Aspects financiers du développement des télécommunications en France dans les années cinquante,” in *La direction du Budget face aux grandes mutations des années cinquante, acteur...ou témoin?* Bercy Symposium, 10 January 1997, Paris, CHEFF, 1998, p. 668.

<sup>39</sup> According to Pierre Lavigne, this was because postal services in this context were considered necessary only for materially implementing the function of the Caisse nationale d’épargne. Cf. Pierre Lavigne, “Histoire du budget annexe des P.T.T.,” *op. cit.*, p. 9.