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The Creation of a World Central Bank? The Early Years of the Bank for International Settlements

The Bank for International Settlements had two purposes, which its founders may have intended to be complementary, but which proved instead to be quite contradictory. On the one hand, the Bank was supposed to end the politicization of the reparations issue, which had plagued the international financial system of the 1920s, and provide a neutral, “market” solution. On the other hand, the Bank would act as an instrument of central bank cooperation, making the international capital markets less volatile. It would institutionalize the informal central bank cooperation that had developed under the tutelage of Montagu Norman (Governor of the Bank of England) and Benjamin Strong (Governor of the Federal Reserve Bank of New York) in the mid-1920s, and make it less dependent on individual personalities. Norman was deeply aware of the financial destabilization that followed from the death of Strong in October 1928. In effect, as a central bankers’ central bank, the BIS was intended as a sort of world central bank.

The fact that this was a “Reparations Bank” in practice ensured that France and Britain would be locked in conflict as to the role and function of the Bank. Norman, more than the British Foreign Office, regarded reparations as pernicious and saw the Bank as being a valuable instrument in demonstrating the absurdity of the entire concept. France, and the Banque de France shared this sentiment, saw the Bank as a means to guarantee the continuation of German payments for French reconstruction until the date, 1988, established in the Young Plan adopted by the international conferences in The Hague. A consequence of this conflict was to poison Franco-British discussions of monetary policy, and more generally – and with very long-lasting effects – bring about an intellectual bankruptcy in discussions of monetary policy. For a long time, central banks and central bank cooperation were associated with the terrible failures of the depression era. This “lesson” of the depression influenced the design of the Bretton Woods order; and it was only in the 1980s and especially in the 1990s that an assertion of the value of independent central banks reappeared generally (Germany and the Bundesbank played a role of a model in this discussion).

The Goals of the Bank

The Young Plan replaced the previous mechanism for the transfer of reparation payments through an Agent-General, whose responsibility it was to convert the Marks paid by the German Government into foreign exchange, and to make a judgment as to whether the foreign exchange market would allow such a large transaction. Instead, Germany was to pay her reparations Marks to a new institution, the Bank for International Settlements (BIS). The BIS replaced the transfer protection mechanism of the Dawes Plan through its discretionary power to reinvest reparation payments in German securities, and thus to remove pressure from the exchange rate. The Bank also acted as the Fiscal Agent for the Dawes and Young Loans, as well as other international loans (the 1930 International Loan of Austria).

The BIS, however, was intended as rather more than merely a reparations bank. Its founders saw it as a way of mending the international order: stabilizing money, and providing depoliticized solutions to economic problems. Sir Charles Addis, a member of the Organization Committee established at The Hague conference to design the new bank, wrote: "It was hoped by this plan to fulfill the dream of Genoa by the gradual development of the BIS into a cooperative society of Central Banks, the governors of which would regularly meet together in concert in order to exchange information, and to devise means for promoting economy in the use of gold and for preventing by a common policy undue fluctuations in its value."¹ Later the objects of the Bank were described as collaboration to "evolve a common body of monetary doctrine" and to "smooth out the business cycle, and to contribute toward a greater equilibrium in the general level of economic activity"².

Montagu Norman formulated a very ambitious program as a way of implementing these objectives. He saw the prime task of the bank as lying in the "centralization of international monetary relations". It would prevent excessive credit leading to "overproduction when prices are artificially maintained (rubber etc.)". There was thus, initially, a restrictive or negative approach to credit creation. (Norman was thinking of the abortive Stevenson scheme, which had made rubber exports dependent on the price, had briefly raised rubber prices, and then led to over-planting and a catastrophic price collapse during the depression years.) The Bank could thus act to improve the international circulation of capital, and provide an answer to the excessive amount of short-term capital moving internationally. One common diagnosis of the ills of the 1920s contrasted the long-term nature of pre-war international capital movements with the volatile short-term flows of the 1920s (a debate reminiscent of some analyses of the ills of the 1990s). "To attract short-term capital to long-term markets is another task which can only be

¹ Bank of England Archive (BoE) G1/1, 28 July 1929 Addis to Leith-Ross (British Treasury).

² Fifth Annual Report, also quoted in *Barry Eichengreen, Golden Fetters: The Gold Standard and the Great Depression* (New York 1992) 263.

accomplished by identifying the policies of the Central banks, by coordinating the movements of their discount rates, by increasing the control of each in its own market.”³

France agreed about some of these goals. The French expert Pierre Quesnay saw a desirability of centralizing the statistical work of the various central banks in order to know more about the problems raised by international capital flows. But French thinking went much further and proposed that the BIS should adopt a new gold currency (*grammar*) as a unit of account. The idea, characteristically French, goes back intellectually to the proposals of Napoleon III for a world monetary standard at the 1867 International Monetary Conference. Stripped of the gold element, however, it also looks forward to Keynes’s discussion of an artificial international currency, *bancor*, in the negotiations preceding Bretton Woods. The result would be that the defense of a currency in the case of a speculative attack would not require the sale of another currency (and hence the likelihood of transmitting the attack elsewhere)⁴. There were enormous hopes. The BIS, in fact, was the last great attempt to establish international economic cooperation before the Second World War.

Its statutes laid down the Bank’s responsibility as “to promote the cooperation of Central Banks and to provide additional facilities for international financial operations”. It began operations on 17 May 1930 with an initial capital of 500 m. gold francs suisses, subscribed by Central Banks or (in the case of Japan and USA) banking groups⁵. (To give some idea of the contrast in size with other institutions: the capitalization of the BIS amounted to 0.107% of 1930 U.S. GNP; the capital of the IMF was 4.019% of U.S. GNP in 1945.)

Its constitution, however, represented a rather political sort of compromise. The Paris experts, the Hague conferences, and the Organization Committee left the BIS in the words of one of its Directors “vague, obscure, badly arranged and sometimes inconsistent”⁶. In the first place, its membership betrayed clearly its origins as a reparations bank: it excluded all of South and Central America, Africa, the British overseas dominions, and Asia, with the exception of Japan, which owed its inclusion to its status as a (very small) reparations creditor. In Europe, Spain was left out. The USA, however, was brought in, though the representation was inevitably unofficial in that the Federal Reserve System was forbidden to participate (because of the risk of involving the United States officially in the reparations quagmire). As a consequence, the BIS held its dollar deposits at two leading private New York banks.

The Bank was not located in any major financial center: the choice of site initially lay between the small countries of Europe, Belgium, the Netherlands and Switzerland, with France strongly advocating a Belgian location and Britain and

³ BoE OV5/1, 24 April 1930 Conversation between Quesnay and Norman.

⁴ BoE G1/1, 16 October 1929 Addis to Norman. See also *Neue Zürcher Zeitung*, 185, 30 January 1930, “Bank für internationalen Zahlungsausgleich”.

⁵ R. Auboin, *The Bank for International Settlements 1930–1955* (Princeton 1955).

⁶ BoE G1/1, (no date) Otto Niemeyer memorandum.

Germany equally militantly opposed. In Switzerland, the eventual choice, Zürich was rejected because although a major financial center, it was too German; Geneva involved too much of an entanglement with the League; and thus the choice fell on Basle. Norman had actually urged an even more peculiar Swiss choice, Bern, which had "the advantage of being a diplomatic, university and scientific center and less of a money-making atmosphere"⁷: the intention of maintaining the club-like atmosphere of 1920s in a rarified air was clear. Basle also had the advantage in the railway age of being at the intersection of the major European routes, London-Hoek van Holland-Rome, Paris-Vienna, Berlin-Madrid.

The staffing took place in accordance with the principle of national representation. The first President of the Bank, Gates McGarrah, was an American; but the General Manager in charge of the actual operation of policy was an extremely talented young Banque de France official, Pierre Quesnay, entirely dedicated to French national interests. German protests (especially from the Reichsbank President, Hjalmar Schacht) that he had been the figure responsible for organizing a speculative attack on the Mark in the spring of 1929 were ignored. Quesnay in fact had a powerful claim to his new position. Owen Young, the architect of the new reparations plan, hailed the 36 year old economist as the principal author of both the Young Plan and the Bank⁸. In order to conciliate Germany, Quesnay's Deputy was a German, Ernst Hülse from the Berlin Reichsbank. He proved a blinkered and unimaginative bureaucrat, more intent on warding off invasions of his administrative turf than on rescuing the international financial system⁹. The result would have been a complete deadlock or a descent into routine and trivial business had Quesnay not possessed rather more imagination and initiative than Hülse.

It was difficult after the deliberations of the Organization Committee to avoid the conclusion drawn by a later British Director of the Bank, Sir Otto Niemeyer: "No one who started out to construct a Super Bank for world cooperative purposes could conceivably have hit on the constitution proposed for the BIS."¹⁰ The capital of the Bank came from the participating banks of issue. When the BIS began operations, its resources were so limited that the banking policy soon ran into a dead end: within months, by August 1930, the BIS approached complete illiquidity at the same time as the signs of world deflation and depression had become quite obvious¹¹. In the first year of its activity, the BIS had 1800 m. Swiss francs in deposits, of which 300 m. were reinvested in Germany, 650 m. were short-term deposits by the reparations creditors who had not yet transferred their annuities, and 800 m. represented other central bank deposits. Its only business that fitted in with Norman's vision was a stabilization credit for the Spanish Peseta

⁷ BoE G1/1, 19 October 1929 Norman to Addis.

⁸ Neue Zürcher Zeitung 185, 30 January 1930, "Bank für internationalen Zahlungsausgleich".

⁹ e.g. BoE G1/4, 2 September 1931 Rodd to Siepmann.

¹⁰ BoE G1/1, Otto Niemeyer memorandum.

¹¹ BoE G1/2, 12 August 1930 Siepmann memorandum on phone conversation with Rodd (BIS).

of £3 m. in April 1931, which was designed to allow Spain to return to the gold standard (in fact the world financial crisis intervened).

The Bank was not permitted to make medium or long term investments (outside Germany) of the kind that might have been needed in drawing up stabilization packages. One of its staff now came to the conclusion that: "If things continue to take their present course, the Bank will be in a completely frozen position within a month and unable to meet its liabilities without borrowing."¹²

The Kindersley-Norman Proposals

The urgent need for medium term credits arose out of the world depression which immobilized many bank loans: this was where a lender of last resort might have played a powerful role in freeing the world from the incubus of frozen debt and illiquid banks. A Sub-Committee of the BIS in autumn 1930 started an inquiry into how the Bank might make up the shortfall caused by the growing bank problems of Central Europe:

The [commercial] banks ... are no longer prepared to continue this custom [the Central European tradition of making long term credits to commercial and above all industrial borrowers], which, from the point of view of rigid banking principles might be called an abuse, as, owing to the post-war economic depression these credits have become frozen almost everywhere, with the result that the banks are no longer prepared to invest money in companies with which they have already invested large sums not to mention the further fact that this freezing of credits has transformed a considerable portion of the liquid funds of the banks into fixed investments¹³.

The sub-committee recommended that a sum equivalent to the BIS's capital, in addition to some permanent deposits, should be placed in medium term bills bought from banks in order to thaw Central European credit. A more ambitious variant of the scheme appeared in February 1931 from the Bank of England and became known as the Kindersley scheme (Sir Robert Kindersley was a Director of the Bank of England and of the BIS). It aimed to overcome the failure of international bond markets, where – because of the collapse in security prices – new issues had become practically impossible. Kindersley and Norman recommended the creation of an international corporation with a capital of £25–50 m., which might issue bonds up to three times its capital to "foreign governments, municipalities, mortgage banks, harbour boards, railways and public utility companies". "At a period like the present, when the capitalist system is largely under the microscope and is being attacked from many sides, it is of the greatest importance

¹² BoE G1/2, 10 August 1930 HAS(Siepmann) Note on telephone conversation with Mr. Rodd.

¹³ BoE OV4/84, 29 October 1930 Quesnay to Siepmann, attaching memorandum by Dr. Simon.

that capitalists as a whole should thus make an effort to find a remedy for at least one important difficulty which faces the money markets of the world today.”¹⁴

In fact the scheme, which attracted German support – since there the danger of financial collapse became ever more acute – found the French hostile and suspicious of an attempt to chip at the French power political advantage arising out of the strength of the French capital market. The Governor of the Banque de France, Clément Moret, argued that a BIS participation in the Kindersley scheme would be contrary to the Bank’s statutes. Moreover, it was French banks which were supposed to subscribe most of the bonds under the scheme, “without being given the means of controlling the use of the funds furnished”¹⁵. The debtor countries had only themselves to blame for the current weakness of international capital markets: “If a number of borrowers at the present time do not possess all the desirable facilities for procuring the capital of which they are reasonably in need, this is mainly because in the course of previous years too large a number of them have not strictly kept the engagements which they had undertaken with respect to their creditors.” There could be no point in relying on guarantees given by a borrowing state, since, “in practice the creditor is powerless before a defaulting State; he comes into conflict with the ‘sovereignty’ of his debtor, and the political evolution of the last few years seems to have strengthened the force of this conception. The security given has only a very relative value and generally no value at all (for example Mexico, Turkey ...).” The perils of sovereign lending became obvious to all during the depression.

Moret’s view in retrospect seems plausible. The first defaults came in Latin America. Bolivia had let its currency slip against gold in October 1930, and in January 1931 defaulted on its debt. Peru followed in March, Chile in July and Brazil and Colombia in October. There then came the Central European defaults: exchange control in Austria, Hungary and Germany in 1931, and defaults by Hungary, Yugoslavia and Greece in 1932 and Austria and Germany in 1933¹⁶. There was growing skepticism about sovereign loans. By the mid-1930s, the liberal Swedish economist Per Jacobsson, chief economist at the BIS, was writing: “Political influence in lending is, as a rule, very costly; when a government has to put its influence behind a loan, the likelihood is that there is something wrong with the security of the loan.”¹⁷ But Moret’s pessimistic analysis does not take into account the possibility that early action might have limited the extent of financial contagion.

It was not, however, merely French opposition that brought down the Norman-Kindersley scheme. The American financiers were not sympathetic to a

¹⁴ BoE OV4/84, 2 February 1931 memorandum “Kindersley scheme”.

¹⁵ BoE OV4/84, 27 February 1931 Moret to McGarrah.

¹⁶ See *B. Eichengreen, R. Portes, Debt and Default in the 1930s, Causes and Consequences* (London 1985) also in: *R. Portes, A. K. Swoboda* (eds.), *Threats to International Financial Stability* (Cambridge 1987). Also *J. T. Madden, America’s Experience as a Creditor Nation* (New York 1936) 111–13.

¹⁷ BoE OV50/6, May 1936 Jacobsson, “Problems of International Financing”.

large-scale rescue operation. BIS President McGarrah cabled to Morgan partners Lamont and Gilbert that the proposal was impractical and that it would have been much better to organize an investment trust through private banking channels. The Morgan bankers agreed with this assessment¹⁸. Thus the proposal disintegrated, and Governor Norman noted sadly: "The fact is that the BIS is already slipping to the bottom of a ditch and in that position seems likely to do no more than helpfully perform a number of routine and Central Banking operations."¹⁹

A more modest, but in some ways more interesting, proposal made by the middle term credit sub-committee under the chairmanship of the influential Belgian commercial (not Central) banker Emile Francqui, for the rediscounting by the BIS of commercial paper up to £10 m. in order to prepare the way for a semi-private corporation to be built up by the speculative Swedish financier Ivar Kreuger, fared little better. The idea was that rescue efforts involving central banks and official institutions alone would be doomed to failure. It was essential to "bail in" (to use more modern terminology) the private sector. But Francqui's initiative was not at all well received by the two hostile camps in BIS policy-making. On the one hand, the British and Germans at the BIS regarded the idea as inadequate and limited; on the other, Moret described it as "utopian", since "an issue of bonds at the present moment would, to say the least of it, be difficult"²⁰.

Governor Moret's pessimism was not unjustified, since the BIS Board meeting at which he delivered the death blow to the Francqui as well as Kindersley plans took place one week after the collapse of the Vienna Creditanstalt. The Central European credit crisis now set in: the Viennese panic brought down banks in Amsterdam and Warsaw. In June and July the scare spread to Germany, and from there immediately to Latvia, Turkey, and Egypt; but within a few months to England and USA. Less than one year after he was supposed to devise a scheme that might rescue the Central Bankers and the Central European banks, Ivar Kreuger had killed himself in a Paris hotel room.

The Central European Credit Crisis

The major failure of the BIS was the mishandling of the Austrian crisis. Austria had been remarkably and surprisingly calm until the spring of 1931. There had been a few small failures in 1929, but the general consensus was that these had not been enough to purge Austrian banking. "In spite of recent failures", *The Banker* noted, "there are still too many banks in Vienna, expectations of whose develop-

¹⁸ FRBNY(Federal Reserve Bank of New York Archive) 797.3 BIS, 18 March 1931 McGarrah cable for Lamont and Gilbert.

¹⁹ BoE OV4/84, 3 March 1931 Norman to Harrison.

²⁰ BoE OV4/84, 7 May 1931 report of Francqui sub-committee; 22 April 1931 Mcgarrah to Norman; 18 May 1931 BIS Board meeting.

ment as an international financial centre have failed to materialize.”²¹ The announcement of a customs union between Germany and Austria, and then the French protest against this demarche, increased nervousness; but there do not appear to have been any significant withdrawals of foreign short term credits. The shock came suddenly: the Creditanstalt announced a delay in the publication of its accounts, and then, in the night of 11–12 May, revealed losses of 140 m.sch., which it attributed to the costly aftermath of the absorption of the Bodenkreditanstalt. Before 11 May, most foreign creditors had not realized what was occurring; but after this the affair became highly political. Depositors lost confidence in the Creditanstalt. By the end of May, the bank had lost 200 m. sch. in deposits. But only a quarter of this sum was deposited with other banks: the rest moved out over the exchange²². As a run on the schilling started, the Austrian exchange was threatened, and Austria appealed for help. An important part of the intrigue about who was to rescue Austria took place at the BIS in Basle.

Governor Norman staged a rescue operation that was specifically intended to stop the French using the Austrian position for foreign policy advantages. But Norman was also aware from the first of the dangerous international financial repercussions of the Creditanstalt case. “Nor must we forget”, he cabled to the New York Federal Reserve, “that a monetary breakdown in Austria might quickly produce a similar result in several other countries”²³. It took two weeks of tense negotiations to provide what was in the end a token amount, and which did nothing to restore confidence in Austria or in any other country.

The problem lay in the French response to Norman. The Governor of the Banque de France, Clément Moret, knew, on the basis of information supplied from Basle by Pierre Quesnay, in this matter quite assiduous in the pursuit of France’s national interest, that the London market was too weak to help Austria. The London Rothschilds could not afford to support the Creditanstalt: “It can thus be foreseen that the Austrian Government will sooner or later be obliged to sell its shares to a private group. In this respect it appears that the London Rothschild house will not be capable of acting. M. Quesnay announces the possibility that this offers to interested French banks.”²⁴

Norman’s initiative resulted in two central bank loans organized by the BIS, though in July Moret tried to block the second Austrian loan because he could now argue that the international capital market had been so destroyed that it would be impossible to float a bond issue to pay off the loan²⁵. But these loans were a classic case of “too little, too late”: the initial 100 m. sch (\$14 m.) loan did not even correspond to the first, grotesquely minimal, estimate of the Creditan-

²¹ *The Banker* 1929 82.

²² BoE OV 5/3, 9 July 1931 G.W.F. Bruins report.

²³ BoE OV32, 20 May 1931 Norman to Harrison.

²⁴ BdF (Banque de France Archive), Country File Austria, 15 May 1931 note.

²⁵ BdF, Conseil Général Procès-Verbaux, 13 July 1931

stalt's losses. Charles Kindleberger's verdict is on the mark: "The niggardliness and the delay proved disastrous."²⁶

In mid-June, the bank's losses were calculated at around 500 m. sch., and the National Bank had 690 m. sch. worth of Creditanstalt paper. But even these figures under-estimated the extent of the losses, which only became apparent in the course of an audit: at the end of 1931 the losses were reckoned to be 923 m. sch. or 725 m. sch. more than the nominal capital and reserves *after* the government inspired May 1931 reorganization of the bank. The assets included frozen loans to Austrian and Central European industry. As the Dutchman van Hengel appointed by the creditors to supervise the affairs of the Creditanstalt wrote in his report to the creditors: "It must be understood that the Creditanstalt is not a bank. It still carries on a larger banking business than any other bank in Austria, but this, compared to its total business is relatively small and has contracted with the decrease in banking activity all the world over. The Creditanstalt is largely a holding company, most of whose holdings are industrial and in a very weak state."

The BIS intervention in the next stage of the Central European crisis, the German bank collapse, was not any more successful. On 20 June 1931, the Reichsbank received a \$100 m. credit organized by the BIS (to which the BIS contributed one quarter), but the new reserves were rapidly lost in the following run, and an appeal by the Reichsbank on 9 July for further BIS assistance produced no help. There were other bank consortia, similar to that in support of the Reichsbank, for assistance to Hungary, Yugoslavia and the Bank of Danzig.

The Intellectual Bankruptcy of the Concept of International Central Banking

The credit crisis of the summer of 1931 meant the end of discussions about how the role of the BIS might be extended, and also in practice the collapse of attempts at central bank cooperation. The central bankers themselves acknowledged their failure. "The BIS feel that the Central Banks and the politicians each having had their chance and missed it, the next thing to do is to have a really good Committee of private bankers on which only those countries would be represented which have either given large credits to Germany or would be in a position to give credits."²⁷ But when such a committee met, to negotiate the Standstill Agreement, it was essentially conducting a work-out. The hope that any new credits would be forthcoming proved quite vain. By 1932, the Bank of England concluded that the BIS could only be rescued by complete reorganization: most immediately the dismissal of Pierre Quesnay, the abandonment of the idea of national representation

²⁶ Charles P. Kindleberger, *The World in Depression* (Berkeley 1986) 147.

²⁷ BoE G1/459, 24 July 1931 telephone conversation with Mr. Fraser; OV 4/25, 8 July 1931 HAS Note of telephone conversation with Mr. Rodd.

in management, and a move to Brussels where the energetic Emile Francqui might be able to perform a dramatic resuscitation²⁸.

In practice, none of this happened, and the BIS transformed itself into an institution for economic analysis, in brilliantly conceived *Annual Reports* from the pen of Per Jacobsson, and for the collection of statistics about the world economy. None of this impressed Norman, who had a quite different concept of what was involved in central bank cooperation. He told the central bank governors that: "He was against statistics: he thought the figures were misleading and he believed that if central banks or currency Authorities worked on statistics, even the best statistics, they were more likely to be misled than anything else."²⁹

This collapse of the BIS into a center for merely routine operations was only part of a broader breakdown of the theory of Central Bank action. As the depression deepened, and as criticism mounted on all sides, central bankers more and more believed that their only mission lay in announcing loudly that they could do nothing: that monetary policy could not influence the development of the real economy. This was a complete break with the Central Bank activism of the mid-1920s. It was also of course theoretical nonsense, which arose out of the (forgivable) feeling that politicians' rather than central bankers' blunders had made the financial mess. If this was what was meant by a "common body of monetary doctrine", it was one that led away from giving central banks a great room in international financial matters.

In dealing with the League of Nations' Inquiry into the gold problem, the central bankers adopted the position that monetary policy was ineffective, and their view informed the majority report of June 1932 (a more far-ranging minority report signed by Sir Henry Strakosch as well as Sir Reginald Mant and Albert Janssen recommended concerted international action to raise commodity prices).

The modest recommendations centered around the restoration of freedom of exchange. Central banks should allow the automatism of the gold standard to operate: "gold movements must not be prevented from making their influence felt both in the country losing gold and in the country receiving gold."

Governments were to take the burden of adjustment: accumulating budget surpluses and repaying debt in the deficit countries. "In each individual country the necessary steps should be taken to restore and to maintain equilibrium in the national economy. This means that the budgets of the State and other public bodies must be balanced on sound principles, and also that the national economic system as a whole, and especially costs of production and costs of living, should be adjusted to the international economic and financial position, so as to enable the country to restore or to maintain the equilibrium of its balance of international payments."³⁰

²⁸ BoE G1/417, 1 December 1932 memorandum.

²⁹ BoE OV5/6, 11 December 1932 BIS Governors' Meeting.

³⁰ Report of the League of Nations Gold Delegation, 24.

In private, the Central Bank view was stated even more explicitly:

We are quite unwilling to lend our authority to those who would exonerate politicians and businessmen from responsibility by explaining the terrible tragedy of the present world crisis as being due solely to a scarcity of gold ... But it was evident to the Delegation, as is clearly expressed in the Second Report, that the causes responsible for this maldistribution were mainly of a general economic, financial and political nature. As these causes were not primarily monetary, monetary policies could not be expected to cure the world of the resulting ills.

The Italian Finance Minister Guido Jung explained that "it would be disastrous to the reconstruction of the world if in a report of ours we were to give to people the impression that there exists a monetary witchcraft, which can, by its own force, work miracle and avoid the necessity of facing manly and solving the political and economic problems"³¹.

Part of the task of the 1933 London World Economic Conference lay in the discussion of the contribution of central banking policy to crisis, but the central bankers themselves resented the interference. The preliminary meeting of American economic experts held at the Federal Reserve Bank of New York was quite characteristic. In the presence of Hoover's Secretary of State (Henry Stimson) and the Secretary of the Treasury (Ogden Mills), Governor Harrison and the Chairman of the Board Eugene Meyer "emphasized the necessity of keeping off the agenda of a governmental conference purely central bank questions such as for example central bank credit and gold policies. They also pointed out that most of the monetary questions which could be placed on the agenda were of interest to central banks and that they thought it was of the utmost importance for the World Conference to avoid invading the central bank field or making any suggestions or giving any instructions to central banks which might prove embarrassing."³²

At an unofficial meeting of the BIS Governors in February 1933, the Belgian National Bank president urged against any Central Bank agreement before London because this "would give a catastrophic reinforcement to the erroneous idea that the monetary factor is a primary factor which plays a preponderant role in the world crisis". Norman agreed wholeheartedly. Eventually, the BIS Governors did produce a document to preempt London, entitled "Rules of the Gold Standard": it contained, perhaps it is needless to say, nothing but platitudes.

It began with a statement that "the restoration of the proper functioning of the gold standard depends to a large extent upon forces and influences which lie outside the field of monetary policy as entrusted to central banks", and argued that the most important measures would be the settlement of inter-governmental debts, a restoration of freedom in the general movement of goods and services, and of capital, the balancing of budgets and the "restoration and maintenance of

³¹ League of Nations Archive (LoN) R296.2, 12 January 1932 Bonn, Mlynarski and Chalendar to President of Gold Delegation; 8 January 1932 Jung to Trip.

³² FRBNY 797.41, 12 November 1931 Crane memorandum.

that sufficient degree of flexibility in the national economy without which an international standard cannot function properly”³³.

The Banque de France and the Federal Reserve Bank of New York wanted to reach a separate agreement, outside the framework of the conference, on currency stabilization: but they were unable to do this. The British and US governments were unwilling to stabilize, since they by now rejected the Central Bank message and held that “much of the improvement which we have had ... had been initiated by the hope of inflation”³⁴. The governments by now realized that money was too important to be left to the central bankers.

When attempts at international stabilization were made in the 1930s, they did not occur through the central banks, but through Finance Ministries or their Stabilization Funds (that is the significance of the otherwise rather modest 1936 Tripartite Pact). This anti-central bank sentiment influenced the design of the post-war order. The International Monetary Fund was to be owned by governments (in practice by Finance Ministries), rather than central banks. Central banks were thus deliberately left out of the beginnings of international monetary cooperation in the postwar world. The Bretton Woods resolutions also called for the winding up of the BIS: on the grounds that the Basle Bank had collaborated with Germany and compromised its neutrality. But this accusation was a pretext for a more general feeling that international central bank cooperation had proved itself decisively to be a failure.

³³ FRBNY BIS, 12 February 1933 BIS Unofficial meeting. Stenographic notes of Dr. Michaelis.

³⁴ FRBNY 3010.2, 11 June 1933 Harrison diary, quoting Sprague.