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Internal Memorandum

Montagu Norman

General Principles of Central Banking Policy (L. F. Giblin - The Growth of a Central Bank - Melbourne 1951, pp. 38-41 et seq).

Australia, striving in 1926 to improve its central banking, invited Sir Ernest Harvey, Comptroller of the Bank of England, to visit. He came in June, 1926. As preparation for his visit Norman had given Mr. J. J. Garvan, Chairman of the Australian Bank Board, a memorandum "in regard to the purpose of Sir Ernest's visit", which sets out the principles on which central banking should, in his opinion, be based. (Norman was then Governor of the Bank of England. In July, 1926 he offered to go to Australia as one of three Bank Board members provided the Bank complied with the accepted principles of central banking. No outside person being allowed by terms of the Charter, this fell through.)

The 14 principles stated in the Norman memo are important in view of Norman's friendship at the time with Benjamin Strong of the New York Federal Reserve Bank and his influence in the formation of American banking policy. As quoted by Giblin, they read as follows:

1. A Central Bank should not compete with other banks for general business.
2. A Central Bank should not take monies at interest on its own account nor accept Bills of Exchange.
3. A Central Bank should have no branch outside its own country.
4. A Central Bank should not engage in a general exchange business on its own account with any other country.
5. A Central Bank should be independent but should do all its own Government's business-directly or indirectly-including Gold and Currency.

6. A Central Bank should be the bankers of all other banks in its own country and should assist them to develop its business and economic resources.
7. A Central Bank should protect its own traders from the rapacity of other banks in its own country.
8. A Central Bank may have an Agency in another country.
9. That Agency (if not itself a Central Bank) should do all its banking and all kindred business with the Central Bank of the other country.
10. And should receive the most favoured treatment and information from the Central Bank of the other country.
11. And should do the banking and kindred business of its Principal's Government in the other country.
12. A Central Bank should act as the settling Agent for Clearing House balances arising between the banks of its own country, and to the widest extent practicable.
13. A Central Bank should handle domestic collections for its members and so regulate the domestic exchanges.
14. A Central Bank should have power to examine banks which come to the Central Bank for credit and assistance.

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