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THE BANK FOR INTERNATIONAL SETTLEMENTS.

The salient financial characteristic of post-war Europe has been international debts and resultant exchange difficulties. Statesmen of all countries have directed the major portion of their energies toward the restoration of monetary stability and the adjustment of war debts and reparations to whatever measure of reality was consistent with political expediency.

During the two decades prior to the World War the predominant tendency in banking was toward government regulation or supervision. A central bank or a central banking system was considered an intelligent and worth-while instrumentality but by no means an essential to the maintenance of national life. Since the war adequate central banking facilities have become a requisite of good government. This is attested to by the recommendation of the Genoa conference of the League of Nations that all the newly formed states of Europe should maintain central banks. Credit has become the magic word. No matter what the condition of any given country or state credit is the popular key to unlock the difficulty. Government ownership or nationalization of the banking machinery has assumed the permanence of a social movement and until the experiment has proved either successful or misleading there appears nothing in the offing to halt it. People having lost their faith in private enterprise turn blindly to a naive faith in government control of credit as a world stablizer and as means of surcease from their troubles.

Regardless of how slow and painful the process may have appeared, no one can seriously doubt that until the collapse of 1929 the world appeared to be on the mend. Germany and France had both survived devastating inflations and possessed a real measure of economic stability. Here and there optimistic hopes for the League of Nations were being more and more entertained, and, while formal religion was gradually losing its grip the world round, a new gospel of peace was assuming a doctrinal nature. The wholesale granting of foreign credits continued to maintain this mirage of prosperity and the full force of public approval tended toward internationalism as a sound economy. It was out of this background that the Bank for International Settlements was framed and it was a natural and almost inevitable sequence to the League of Nations. That the bank should have been conceived on the eve of the great trade depression has seriously handicapped all efforts which have been made to accomplish its program.

In order to examine more carefully the bank as a natural post-war phenomenon whose object was to liquidate the reparations problem and prevent a financial relapse in juxtaposition with the League of Nations whose object was to liquidate the inheritance of war and attempt to set up machinery to prevent its recurrence, we will briefly review its history and statutes.

December 22, 1928 the German, French, Italian, British, Belgian and Japanese Governments agreed upon the terms for the Committee of Experts which they had decided to establish three months before. Independent financial experts composing the committee were to draw up "proposals for complete and final settlement of the reparation problem" including a settlement of the obligations resulting from the existing treaties and agreements between Germany and the creditor powers". The Reparation Commission and the German Government separately invited qualified Americans to serve. The attitude of the Washington Government was given out by the State Department as follows: "The President has indicated that the European Governments or the principal nations, including Germany, would like to secure the services of two Americans to join with the experts who are to be appointed by the European Governments, and the United States has reported to the European Governments that this Government has no objection to their taking that course. The President feels, however, that it should be emphasized that it is the European Governments that are making the appointments as well as the selection of the experts."

The Committee met on February 9, 1929, and signed its report on June 7, 1929. Owen Young was unanimously chosen chairman and acted in that capacity throughout the 17 weeks of continuous deliberation. He not only presided at the meetings, but shared the work of constructing solutions of the problems. On the basis of his active negotiations among the experts of the creditor countries and the German experts the plan has become popularly known as the Young Plan.

The report of the committee, while exceedingly detailed and interesting, has no place in our discussion here except in so far as it provided among incidental developments for the establishment of the Bank for International Settlements. After abolishing all organs invented specifically for the collection and distribution of reparations, including the Reparation Commission, the Agent-General for Reparation Payments, and foreign commissions supervising pledges representing security for Germany's liability, the report stated: "A general plan for a complete and final settlement of the reparation problem, being primarily financial in character, involves the performance of certain banking functions at one or more points in the sequence between the initial payment of the annuities and the final distribution of the funds. A banking institution designed to meet these requirements justifies and makes logical the liquidation of all political controls and provides instead machinery essentially commercial and financial in character, which carries with it all the support and at the same time all the responsibilities that economic engagements imply. * * * * * * * These several considerations led the committee to the elaboration of a plan for a Bank for International Settlements".

The Organization Committee of the Bank for International Settlements met at the Hotel Stephanie, Baden-Baden, Oct. 3 - Nov. 13, 1929. This Organization Committee produced the text of the charter of the bank, the statutes of the bank, and the trust agreement. A brief outline of the bank is in order here.

The authorized capital of the bank is 500,000,000 Swiss francs ($96,475,000) divided into 200,000 shares of 2,500 Swiss francs ($480.38) issuable at par only, the nominal value to be expressed in dollars and local currency converted into gold mint parity. The Banque Nationale de Belgique, the Bank of England, the Banque de France, the Reichsbank, Banca d'Italia, the Yokohama Specie Bank and a New York financial institution guarantee the total authorized capital, and the bank may begin business as soon as a total of 112,000 shares (56%) has been subscribed by the seven mentioned institutions in quotas of 16,000 each. The remaining 88,000 shares (44%) may be issued by the Board of Directors by offer to central or other banks of other countries whose currencies are on the gold or gold exchange standard (for those interested in reparation) in lots not exceeding 8,000 shares per country.

Twenty-five percent only of each share is payable at the time of subscription, the balance to be "called up" at the discretion of the board on three months' notice. Capital of the bank may be increased or reduced by vote of a two-thirds majority of the board. In the case of an increase, the seven guaranteeing institutions are entitled to subscribe for 55% of the increase, the remainder being assignable to other subscribing countries. Shares are registered and transferable on the books of the bank, which retains the faculty of accepting a subscriber. Ownership of shares carries no right of voting or representation at general meetings, both rights being exercised by the central bank or its nominee in proportion to the shares subscribed in each country. The subscribing institution may issue either the shares or certificates against the shares to a banking group within the country, or to others.

The major purposes of the bank are: (1) to promote cooperation between central banks and to provide additional facilities for international financial operations (2) to act as trustee or agent in regard to international financial settlements intrusted to it under agreements with the parties concerned.

The board of directors are to consist of 25 members during the continuance of Germany's liability to pay reparation annuities, and always shall consist of 23 members. The directorate is composed as follows:

1. The governors, or their substitute nominees of like nationality, of the central banks of Belgium, France, Germany, Great Britain, Italy, Japan and the United States, known as ex officio directors. In case one of these countries has no central bank, or if such bank is either unable or unwilling to act, the board shall nominate an appropriate financial institution to designate candidates for election. The Yokohama Specie Bank acts for Japan and J. P. Morgan & Co. with the First National Banks of New York and Chicago for the United States.

2. Seven persons "representative of finance, industry and commerce" of the same nationality as and appointed by each of the former group.

3. Nine persons elected from lists submitted by the governors of the central banks of Bulgaria, Czechoslovakia, Greece, Hungary, Poland, Portugal, Rumania and Yugoslavia - being countries interested in reparation - and by the governors of the central banks of the Netherlands, Sweden and Switzerland, all of which have subscribed to the bank's capital "at the time of its incorporation." The candidates are to be representatives of finance and of industry or commerce in equal numbers. The election of the nine persons from these lists is by a two-thirds majority for three-year terms.

4. "During continuance of the liability of Germany to pay reparation annuities two persons of French and German nationality respectively, representative of industry or commerce, appointed by the governors of the Bank of France and of the Reichsbank respectively, if they so desire."

Aside from governors of central banks, no official of a Government is entitled to be a director, and directors must reside in a place from which it is possible to attend meetings of the bank regularly.

The Bank for International Settlements is a limited share company with its registered office at Basle, Switzerland, established by the central banks of Belgium, France, Germany, Great Britain, Italy and Japan and a financial institution of the United States, incorporated by and receiving its charter under the laws of Switzerland. The bank is generally immune from Swiss taxation, its statutes are sanctioned by Swiss law and may not be amended except in accordance with their own terms, irrespective of consistency with present or future Swiss laws relating to corporations. The bank is not subject to Swiss restrictive legislation.

The distribution of the net profits is set forth in the statutes in detail and shows an intimate connection with the payment of reparations.

The statutes of the bank carefully limit its operations to the international financial field and indicate that its normal activities in any country will be supplementary rather than duplicative of the national banking organization, including the central banks. It may deal with almost anyone, provided the central bank of that country does not object. Certain things are, however, definitely prohibited such as:

(1) Owning of real estate permanently beyond the requirements of its own business
(2) Opening of current accounts "in the name of Governments"
(3) Acceptance of bills of exchange
(4) Making advances to Governments
(5) Note issue

One of the most interesting features of the bank is in the provisions respecting reserve funds. By Art. 26 of the statutes, "the bank shall be administered with particular regard to maintaining its liquidity," and its assets shall be "appropriate to the maturity and character of its liabilities." The Young Plan provided special gold reserve percentages for specified types of deposits. The statutes provide for no gold reserve, but create two reserve funds. The "legal reserve fund" is to amount to 10% of the paid-up capital and is to be created from a percentage of the net profits. A "general reserve fund," which is "available for meeting any losses incurred by the bank," is to be created by a sum subtracted at the fourth point in the distribution of the net profits. This general reserve fund is stipulated by the statutes to be built up to five times the paid-up capital and beyond that will be increased by a very minor percentage of the net profits.

Why not?

It is not within the province of this paper to more than sketch the framework on which the bank stands. The scope of the banking department, the credit resources of the bank and possibilities therein for inflation, the hope of a world bank rate, and international Gold clearing are all subjects for detailed technical study. Our purpose here has been merely to show the ambitious province of the bank and to point out that it attempts for finance what the League of Nations attempts for politics and that therein lies its chief weakness inasmuch as finance and politics have today become inseparable as the aftermath of the War. Time will demonstrate, we believe, that, having been founded primarily to settle the Reparation problem, the bank must do more than it has so far been able to achieve or else gradually fall into the discard.

The bank ended the year 1934 with funds totaling 654,384,181.18 Swiss francs at par (Swiss franc is 32.669 cents). This is 3,000,000 Swiss francs less than on Nov. 30 but is within 500,000 of the bank's position at the end of 1933. We cannot but consider this a real achievement and a demonstration that the bank is still to be reckoned with.

In the second annual report of the bank we have a summary of that fiscal year which in itself serves as a testimony to the adaptibility and resourcefulness of the management and gives a clear picture of the difficult times through which it had to pass. "In the second month of the fiscal year, the collapse of the Oesterreichische Credit-Anstalt, with its ramifications throughout Central Europe, called for immediate aid to the National Bank of Austria. In the third month of the fiscal year, there was announced the so-called 'Hoover moratorium", which materially changed the scope of the operations of the Bank and the magnitude of the funds at its disposal in its capacity as Trustee for international financial settlements between governments. In the same month banking difficulties in Germany,precipitated by wholesale withdrawals of short-term credit, and the pressure on the Hungarian Exchange, necessitated the organization of central bank aid to the Reichsbank and to the National Bank of Hungary."

"In the fourth month the London International Conference declared that 'excessive withdrawals of capital from Germany had created an acute financial crisis' and invited the bank to set up a Committee to inquire into the credit needs of Germany. In the fifth month, this committee urged "most earnestly upon all Governments concerned that they lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany - and thereby to the world - sorely needed assistance."

"In the sixth month the world was shocked by the sudden fall of sterling, which was almost immediately followed by the suspension of the gold or gold exchange standard by six other nations. These occurrences still further shattered what was left of confidence, and forthwith caused a strain on reserves of nearly all central banks of world, including the F. R. System. The necessity for the employment by central banks of their reserves in turn place a strain upon the Bank for International Settlements, in its capacity as the depositary for a substantial portion of the reserves of many European banks of issue, but the large withdrawals in September were met without decreasing its high degree of liquidity."

That after such a report in 1932 the bank could make such a creditable report as it did in 1934 lends hope to its ability to continue. Mr. Fraser's recent resignation as president makes it likely that a member of the Gold Bloc will be named head in March. Since the World bank had as one of its objectives the promotion of the gold standard, the present American position is, to say the least, anomalous. With President Roosevelt friendly to the world court there is some hope a non-American president might facilitate the entry of the Federal Reserve into the bank by diminishing the responsibility the step would involve. The sterling, dollar, franc tangle is still in the offing and a stabilization agreement of some sort would possibly give a new lease on life to the bank. If, in conclusion, one were to express a hope it would be that more information and publicity be disseminated about an institution which is of universal interest if not, as yet, of importance.

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