

BANK FOR INTERNATIONAL SETTLEMENTS

The Bank of England is only one of the many Central Banks to have a banker-customer relationship with the B.I.S.; but the Bank of England had also a share in the foundation of the B.I.S.; moreover, the B.I.S. is entirely controlled by its Directors and not by its shareholders, and the Governor of the Bank of England is ex officio Director* and nominates a second Director. The nominated Director at the time of the outbreak of war was Sir Otto Niemeyer, who happened also to be Chairman of the Board of the B.I.S. from May 1937 to May 1940. The alternate for the Governor was Mr. Cobbold. The Bank of England Directors were naturally among the most influential on the Directorate. One object of the B.I.S. was to provide a meeting place for the co-operation of Central Banks, a policy largely instituted by the Bank of England. Various officials of the Bank of England visited the B.I.S. from time to time and their contacts were close and informal. The Governor reported to Committee of Treasury any matter of special interest that had been discussed at B.I.S. monthly meetings. Thus, the connection of the Bank of England with the B.I.S. had always been an intimate and vital one.

At the outbreak of war and for some time afterwards the Czech gold incident still rankled. Outside the Bank and the Government the Bank's position has probably never been thoroughly appreciated and their action at the time was widely misunderstood. Hence the abnormal amount of attention given to it by the Press, Parliament and public. Consequently a clarification so far as authority can make them clear, of the issues arising from that episode seem both called for and in place here. A recitation of the full facts would necessarily be very long and this account will be confined mainly to expressions of what the Governor deemed to be his duty, and to support for the Bank's actions.

*If the Governor of one of seven designated Central Banks is "unable or unwilling to serve as a Director" or to make an appointment, the Governors of the remaining designated banks or a majority of them might invite two nationals of the country of the Governor in question "not objected to by the Central Bank of that country". In fact, no use was ever made of this provision.

On the 21st March 1939 the Chief Cashier received the request to transfer about £5.6 million gold from the B.I.S. No.2 Account to their No.17 Account. The Bank (although it was no business of theirs) were fairly sure that the No.2 Account was a Czech National Bank Account and they believed, although they were not sure at the time, that No.17 Account was a Reichsbank. The amount was transferred on the same day and a small further amount on the 22nd. Between the 21st and 31st March the gold received on the No.17 Account was disposed of, about £4 million going to the National Bank of Belgium and the Nederlandsche Bank and the remainder being sold in London.

It is clear from the (general) immunity granted to the B.I.S. that no Government which was a party to the original agreement, and there were seventeen of them, including, of course, the Governments of the U.K. and France, could have taken any action unless they had been prepared, in time of peace too, to violate their Treaty obligation.

The Chancellor, in the House of Commons on the 5th June, said -

"I sought the advice of the Law Officers on a number of points. What I am about to say is in accordance with their advice. H.M. Government are precluded by the terms of the Protocols of 1930 and 1936 from taking any steps by way of legislation or otherwise, to prevent the Bank of England from obeying the instruction given to it by its customer the Bank for International Settlements to transfer gold as it may be instructed."

On the 22nd March the Governor acquainted the Committee of Treasury that he had received a telephone message from the Governor of the Bank of France proposing that they should urge their respective Treasuries to make a joint protest to the President of the B.I.S. against the possible delivery of Czech assets to the Germans or to a German-controlled Czech Bank, and should themselves join in making a specific request to the President of the B.I.S. to transfer no Czech assets pending the next meeting of the Board in Basle.

He considered that it would be wrong and dangerous for the future of the B.I.S. or any Member of the Board, particularly from a national standpoint, to attempt for political reasons to influence decisions of the President of the B.I.S. on matters which are entirely within the President's jurisdiction: he had, therefore, declined both proposals.

On 26th May the Chancellor wrote to the Governor asking whether the Bank of England still held the Czech gold, as the information might help him to answer questions in the House. The Governor in his reply (30th May) did not answer the question, but pointed out that the Bank held gold from time to time for the B.I.S. and had no knowledge whether it was their own property or that of their customers. Hence, they could not say whether the gold was held for the National Bank of Czechoslovakia.

There was a further gold transaction on the 1st June when there were sales of gold (£440,000) and gold shipments to New York (£420,000) from the No.19 Account of the B.I.S. This represented gold which had been shipped to London by the Reichsbank. This time, before acting, the Bank of England referred the matter to the Chancellor, who said that he would like the opinion of the Law Officers of the Crown. On the B.I.S. enquiring, however, what was causing delay and saying that inconvenience would be caused because of payments the next day, the Bank of England acted on the instructions without referring to the Law Officers, who, however, subsequently upheld their action.

Before the next meeting of the B.I.S. Board took place (12th June) the Governor wrote to the Chancellor to make his position clear. After saying that the Chancellor's recent statement in the House on the Czech balances seem to have led to a clearer view of the facts he continued:

"I am going to Basle this week and so, in order to prevent misunderstanding, I should like you to realise that questions by certain Members of the House of Commons do not change my views on, nor my attitude towards, the Bank for International Settlements. I do not, therefore propose in any way to modify the line of conduct which from the beginning the

British Directors have pursued with regard to the relations between Members of the Board on the one hand and the (neutral) President and his Executive on the other. This line of conduct I believe to be in accordance both with the letter and the spirit of the Statutes which express the intentions of the Powers signatory to the Hague Agreement." (L 76 1939).

Wartime Relations

B.I.S. Neutrality

The general attitude of the Bank of England Directors of the B.I.S. during the war was governed by their anxiety to keep the B.I.S. alive to play its part in the solution of post-war problems. For this reason, if for no other, it was essential that it should be strictly impartial and neutral, an objective fully shared by Dr. Beyen* and later by Mr. McKittrick and successfully carried out in the opinion of the English Directors and the Treasury. It was early decided that as little as possible new business should be done.

On the 4th September 1939 the Governor wrote to Sir Richard Hopkins -

"We spoke a few days ago about the position of the Bank for International Settlements in wartime and I understood from you that H.M. Government proposed to adopt the view that they were not bound to observe in wartime the full immunities enjoyed by the Bank for International Settlements. If this is the official decision we shall, of course, accept it. But I must point out that this decision is quite at variance with the interpretation which has been commonly placed on the immunities. At no time have any doubts about the immunities been expressed in public by H.M. Government; indeed, the signature of the Brussels Protocol in 1936 and its ratification in 1937 imply the very opposite as did the statement of the views of the Law Officers of the Crown during the recent

*President from May 1937 until Mr. McKittrick's appointment in June 1939.

discussions in Parliament about the Czech gold. The proposed attitude of H.M. Government would doubtless be a surprise to neutral States and would offer hostile propaganda an excellent opportunity for the criticism that, where it is in their interest, H.M. Government do not hesitate to disregard their international arrangements

The Governor enclosed a short memorandum which he had drawn up, on the assumption that the Government's decision had already been taken, and which he proposed should govern the Bank's relations with the B.I.S. in wartime. No direct reply to this letter was received, but later Sir Richard Hopkins wrote to say that he had been asked by the Chancellor to write to him the following letter -

"I have been instructed to inform you that H.M. Government has reached the following decision:

- (1) That the Bank should not act upon an order of the Bank for International Settlements if it seems to the Bank to be likely that the order might benefit the enemy.
- (2) That the Bank should not act upon an order without consulting the Treasury.
- (3) That the Treasury will not authorise compliance with an order unless satisfied that it is not likely to benefit the enemy.
- (4) That the present order is subject to enquiry to see what the Bank for International Settlements are prepared to say as to ownership.
- (5) That the present action is to be regarded as "stop" action, pending investigation.
- (6) That neutrals are to be assured that in any case where the Treasury are satisfied as to ownership, orders by the Bank for International Settlements shown to be on behalf of neutrals will be authorised."

On the 8th September the Governor ruled that all copies of correspondence between the Bank and the B.I.S. should be forwarded to the Treasury: except for routine matters this practice continued throughout the war.

About five weeks after the outbreak of war an incident occurred which showed that H.M. Government were not altogether happy about the attitude they had taken up. The French Government approached the British Foreign Office asking that the Chairman of the B.I.S. should be instructed to take steps to stop the transfer to the Reichsbank of any gold entrusted by the former Czech National Bank to the B.I.S. for safe keeping and alleged to be domiciled with the Netherlands Bank in Amsterdam and the Swiss National Bank in Berne. The Foreign Office replied on the 10th October that H.M. Government were prepared in principle "..... at once to direct Niemeyer and Norman to enter protest and request the President to refuse such transfer pending further communication, provided that the French Directors of the Bank for International Settlements joined in this protest and request".

Having decided that this was a question for the Chancellor and not for Sir Otto Niemeyer and himself, the Governor went to see the Chancellor (10th October). There ensued a long controversial meeting, attended by Lord Halifax, Sir Hankey, Sir Richard Hopkins and Sir Frederick Phillips, as a result of which the Foreign Office telegram referred to above was sent to Paris on the same evening. This telegram seems to have reassured the French, who considered that "the state of war overrides political considerations" and who therefore welcomed the proposed instructions to the Governor and Sir Otto Niemeyer and requested the French Directors of the B.I.S. to do everything possible to stop the further transfer of Czech gold.

Direction and Management

The appointment of Dr. Schacht as a Minister of the German Government in 1938 led to his departure from the Reichsbank and also from the Board of the B.I.S. In June 1939 Mr. McKittrick, an American, was appointed President of the B.I.S. in place of Dr. Beyen, who had been in office since May 1937 and was due to retire in the following January.

At first it seemed to be agreed that there should be no meeting of Directors during the war, but in October the Governor of

the Bank of France (M. Fournier) suggested occasional meetings, to be attended by neutral members only, directors of belligerent countries giving proxies to, say, a neutral Vice-Chairman (the Vice-Chairmen were respectively Belgian and Japanese). Some such solution was also favoured by Dr. Beyen; the Bank of England Directors, though not in favour of any meetings, thought it might be difficult to stop them. The Chancellor also was, of course, averse from meetings and was anxious if they were unavoidable that the English should keep in line with the French. In November Sir Otto Niemeyer was successful in persuading M. Fournier and Dr. Beyen to abandon the proposal and later obtained the agreement of the Bank of Italy (Sr. Azzolini) who had also shown some disposition in favour of meetings.

In January 1940 Mr. McKittrick suggested that when the Report and other papers were sent to the Directors each month the President should invite them to give their views in writing on questions which would normally have been submitted to the Board. In addition he would ask all members of the Board to visit the Bank from time to time to maintain personal touch. The French and English Directors did not approve of either idea and both were dropped.

At the end of August 1940 the Governor thought it well that the Bank's solicitors should consider his position and that of Sir Otto Niemeyer as Directors of the B.I.S. They reported that no reason existed for the English Directors not remaining as members of the Board (L. 13.9.40).

Upon the entry of the U.S.A. into the war the position of Mr. McKittrick became difficult. He had been very anxious in the summer of 1941 to go to America to clear up the position of the B.I.S. with the Authorities, but the Bank of England Directors thought that his absence might easily suggest that the B.I.S. was being temporarily administered by individuals from Berlin and Vichy, in which case there would be immediate danger of its being black-listed. On the opposition of the English Directors and the Treasury Mr. McKittrick withdrew his proposal.

Early in 1942, though the Americans, the Reichsbank (and also perhaps the Bank of Italy) were willing that Mr. McKittrick should stay, the Nazi Party leaders opposed this course. As a compromise it was suggested by Axis members of the Management that an Executive Committee of the Board (the President with two neutral Directors) should be appointed under Article 43 of the Statutes. A similar idea had been put forward in January 1941 and had been approved by the Bank of England Directors and the Treasury, but had not been acted upon. On this occasion too the idea was abandoned.

The Reichsbank and the Bank of Italy still attached great importance to the B.I.S. as a meeting-place for discussions immediately after the war between Authorities in the opposing belligerent countries; and that the advantages of retaining our own place there were strongly in the official mind in Whitehall is clear from the following extract from a Treasury letter to M.E.W. (12.6.44) "... It seems to me the height of intellectual modesty to think that the only way of not being outwitted after the war by the defeated Germans is to cut our connection with the B.I.S. now with all the immediate loss to the war effort that that entails." This may be said also to express the view of the English Directors.

Early in May 1942 Mr. McKittrick again raised the question of his position: his term of office as President was expiring at the end of the year, and his suggested solution was that M. Weber (President of the Swiss National Bank) should accept the Chairmanship which had been vacant since May 1940*; that he himself should be allowed to pay a visit to America and that temporarily the objections of the British Government should be met by the appointment by the Governor of an alternate who should reside in Switzerland. The Governor did not accept the last-named proposal but thought that Mr. McKittrick might perhaps continue as President without any formal re-election, and that the appointment of a new Chairman of the Board might arouse political controversy. Later, however, the English Directors obtained the assent of the

*In the meantime, by general agreement, the Belgian Vice-Chairman (M. Galopin) had been acting as Chairman.

Treasury to Mr. Weber's becoming Chairman provided that Mr. McKittrick continued as President. The Treasury also promised to assist the latter to visit the U.S.A. By September this programme of three points had been agreed upon. The Directors allocated M. Weber as Chairman as from the 1st December and he nominated Mr. McKittrick as President.

Miscellaneous

During the war the main transactions with the B.I.S. appeared to have been the removal of its own gold, or at their request of gold belonging to its customers from places which were relatively unsafe to others which were relatively safe, either by physical transfer or by effecting exchanges. New business was discouraged, though some transactions were undertaken for the International Red Cross. The remainder of its business was concerned with the carrying through of its pre-war engagements and in general tended to diminish its assets and liabilities.

At the outbreak of war the Bank of England held negligible balances with the B.I.S. and made no withdrawals. The Bank's own dealings with the B.I.S. during the war were confined to settlement of pre-war transactions involving pre-war B.I.S. balances and the receipt of dividends due to them and to private holders in the sterling area.

Hostility to the B.I.S., first aroused over the question of the Czech gold, was still noticeable from time to time and the publication of the Twelfth Annual Report in the summer of 1942 gave rise to a number of ill-informed questions in the House of Commons and to allegations in certain quarters that the B.I.S. was not observing neutrality, but was favouring the Axis powers. On the 13th October the Chancellor took an opportunity in the House to state that he had "complete confidence" in the President.

In November 1943 came the first official indication that the U.S.A. was likely to be hostile to the continuance of the B.I.S. after the war. Details concerning the International Bank suggested by Mr. Harry White of the U.S. Treasury were given in the Press,

and the "New York Times" reported that Mr. White had stated that the B.I.S. had no significance in connection with his proposed Bank and that it was German-controlled, adding the typically American comment that "There is an American President doing business with the Germans while our American boys are fighting Germans".

Perhaps even more typical of the concensus of opinion on the position of the B.I.S. in the post-war world was a recommendation by the United Nations Monetary and Financial Conference at Bretton Woods that the B.I.S. should be liquidated "at the earliest possible moment" (July 1944). Opinion amongst interested parties in the United Kingdom was by no means unanimous and at the time there appeared to be little likelihood of the survival of the B.I.S. in the circumstances of this recommendation.

On the 18th April 1944 Lord Catto succeeded Lord Norman as Governor of the Bank of England and re-appointed Mr. Cobbold as his alternate on the B.I.S. Board.