

ESSAYS IN INTERNATIONAL FINANCE

No. 22, May 1955

THE BANK FOR INTERNATIONAL
SETTLEMENTS, 1930-1955

ROGER AUBOIN



INTERNATIONAL FINANCE SECTION

DEPARTMENT OF ECONOMICS AND SOCIOLOGY

PRINCETON UNIVERSITY

Princeton, New Jersey

This essay was prepared as the twenty-second in the series ESSAYS IN INTERNATIONAL FINANCE, published from time to time by the International Finance Section of the Department of Economics and Sociology in Princeton University.

Monsieur Roger Auboin, the author, has for many years been General Manager of the Bank for International Settlements as well as Alternate of the President of the Bank. This essay, however, has no official character and commits nobody but the author.

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GARDNER PATTERSON, *Director*
International Finance Section

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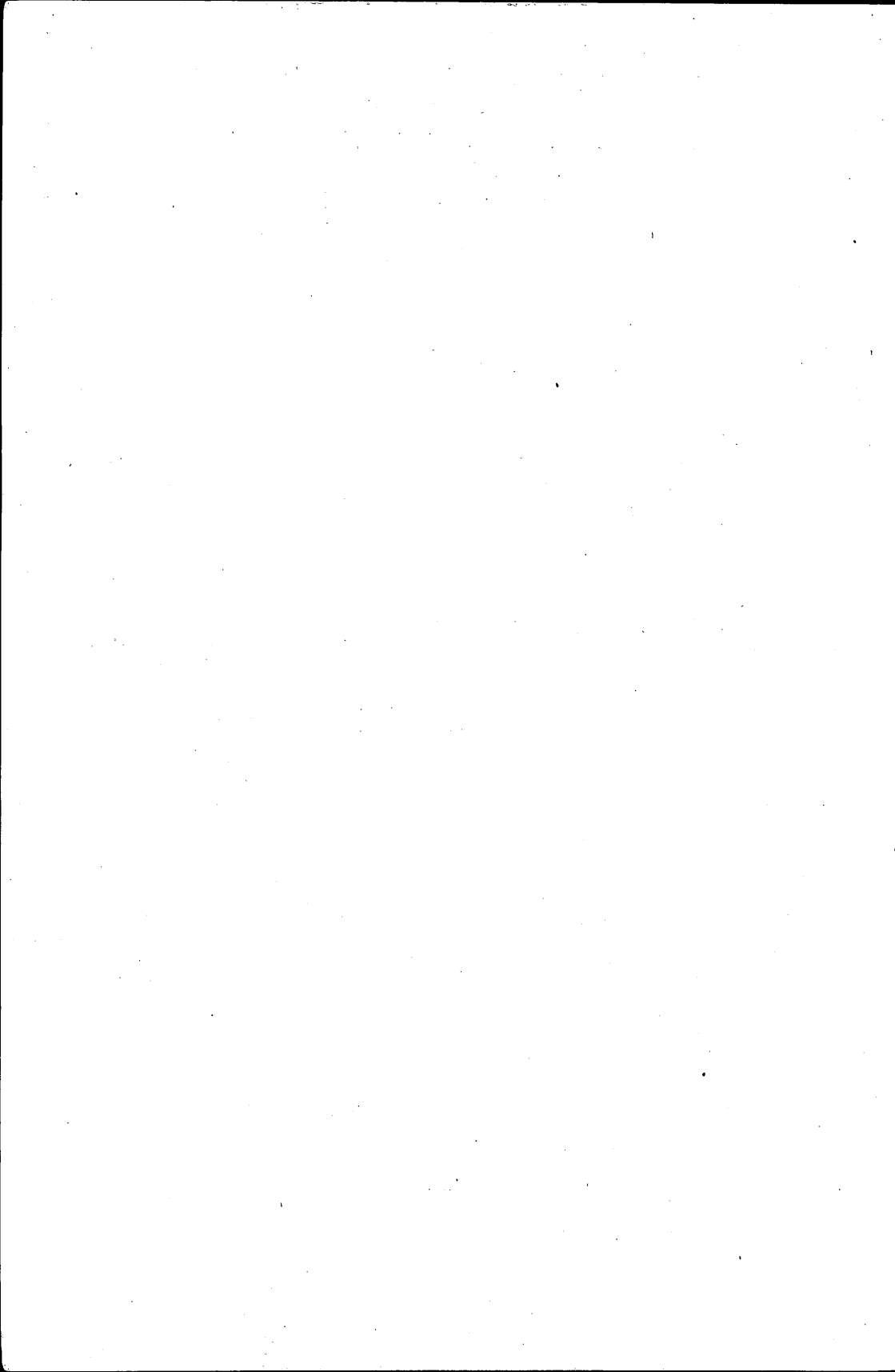


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THE Bank for International Settlements has just completed its twenty-fifth year. The quarter of a century during which the Bank has been in existence has not only seen a great depression and a great war but has also been marked by a significant evolution of ideas regarding the questions with which the Bank itself is especially concerned, those relating to the principles of monetary policy and the rôle of central banks.

By its structure and functions the Bank for International Settlements is a permanent organization for cooperation between central banks and within this technical sphere it has endeavored to create and maintain, in particularly difficult circumstances, a truly European spirit.

The Bank's history, therefore, may well be of general interest; but relatively little is known about it or its work. The reason for this is not that there is anything mysterious or secret about its activities but that these are technical and that by the very nature of its tasks it keeps aloof from politics and avoids publicity, with the result that there is little opportunity for persons outside the narrow circle of central banks to form any clear idea of what the Bank has been doing. My aim in this brief survey, therefore, is to give an account of the character and scope of the Bank's work, without attempting to discuss all the technical and legal questions involved, in the hope that it will provide those who take an interest in questions of monetary policy and international cooperation with additional material which may be helpful to them in forming an opinion on these matters.

I. ORIGIN, OBJECTS AND ORGANIZATION

Even before 1914 there had been occasions when central banks had found it useful to cooperate with one another in order to facilitate international settlements. But this had happened only in exceptional circumstances. After the first world war, however, and especially during the currency stabilizations of the period 1922-1930, the principal central banks frequently joined forces for the purpose of granting special "stabilization credits" either in connection with the reconstruction work

undertaken by the Financial Committee of the League of Nations or independently of these schemes.

It was therefore natural enough that the monetary and political authorities soon became interested in the idea of substituting for such ad-hoc and temporary associations a more permanent system of cooperation. This idea took practical shape in the course of the negotiations on the problem of reparations owed by Germany after the first world war. These resulted in what became known as the Young Plan, which provided for a reduction (as compared with the earlier Dawes Plan) and also a "commercialization" of the annuities to be paid by Germany and made possible, moreover, the partial mobilization of these annuities through the issue of international loans. It was deemed necessary for the attainment of this purpose that an international organization should be set up possessing official status and at the same time sufficiently commercial in character to be independent of political considerations and able to work in direct contact with the financial markets.

It was therefore decided to create, under the name of "Bank for International Settlements,"* an international bank to be founded by the principal central banks of the countries involved, whose permanent function would be to promote cooperation between central banks and to facilitate international financial settlements and to which could also be entrusted the task of executing the Young Plan as the agent of the governments concerned.

The Young Plan was officially accepted at the Conference held at The Hague in January 1930. The Plan contained a general description of the nature and functions of the international bank which was to be set up and the Annexes to the Hague Agreements included drafts of the bank's Charter and its Statutes, as well as other relevant documents. By virtue of a special Convention signed on the same day the Government of the Swiss Confederation undertook to grant to the BIS a Constituent Charter having force of law.† The next month the Governors of the founding central banks and representatives of an American banking group met in Rome and signed the instrument by virtue of which the BIS was constituted. The Bank began operations on 17th May, 1930.‡

* Commonly referred to as "BIS" in English, "BRI" in French and Italian, and "BIZ" in German.

† The Governments of Belgium, France, Germany, Great Britain, Italy, and Japan signed the Convention with Switzerland. In 1951 the Japanese Government renounced all rights acquired by it under the Hague Agreements and in particular under the Convention concerning the BIS.

‡ The task of drawing up the final documents concerning the BIS, which were annexed to the Hague Agreements, was entrusted to an Organization Committee, which

The Charter of the Bank cannot be altered except with the agreement of all the parties to the Convention; and the same applies to the essential articles of the Bank's Statutes, which are annexed to the Charter. The registered office of the Bank is in the town of Basle. By virtue of its Charter the Bank possesses in Switzerland a special status guaranteed by an international agreement.

The BIS has a twofold task. Firstly, under Article 3 of its Statutes, the duty of the Bank is "to promote the cooperation of central banks and to provide additional facilities for international financial operations." The chief activity of the Bank consists therefore in the carrying-out of such banking operations as are requested by the central banks. The Bank's own operations on the various markets and any arrangements which it may make with private banks are merely accessory to its primary business with the central banks, and it is laid down that these dealings must always be such that they do not give rise to any objection on the part of the central banks.

Secondly, the Bank can under its Statutes "act as trustee or agent in regard to international financial settlements entrusted to it under agree-

met in Baden-Baden from 3rd October to 13th November 1929 under the chairmanship of Mr. Jackson E. Reynolds. It was composed as follows:

Members designated by the central banks: Belgium: Mr. Louis Franck, Mr. Delacroix and later Mr. Paul van Zeeland; France: Mr. Clément Moret, Mr. Pierre Quesnay; Germany: Dr. Hjalmar Schacht, Dr. Wilhelm Vocke; Italy: Prof. Alberto Beneduce, Dr. V. Azzolini; Japan: Mr. T. Tanaka, Mr. S. Sonoda; United Kingdom: Sir Charles Addis, Sir Walter T. Layton. Co-opted members: United States: Mr. Jackson E. Reynolds, Mr. Melvin A. Traylor.

After the conclusion of the Hague Agreements and the signing, on 27th February 1930 in Rome, of the instrument by virtue of which the BIS was constituted, the members of the Board of Directors held two unofficial meetings in Basle on 22nd and 23rd April 1930. At these meetings note was taken of the Swiss law promulgating the Convention concerning the Bank for International Settlements and of the instrument signed in Rome. The Bank having thus been duly constituted, the first official meeting of the Board took place on 12th May 1930.

The original members of the Board of Directors were: Mr. Gates W. McGarrah, United States, Chairman; Sir Charles Addis, United Kingdom, Dr. Carl Melchior, Germany, Vice-Chairmen; Dr. V. Azzolini, Italy; Prof. Alberto Beneduce, Italy; Baron Brincard, France; Mr. Louis Franck, Belgium; Mr. Emile Francqui, Belgium; Mr. Leon Fraser, United States; Mr. Hans Luther, Germany; Mr. Clément Moret, France; Mr. D. Nohara, Japan; Mr. Montagu Collet Norman, United Kingdom; Mr. Paul Reusch, Germany; Mr. T. Tanaka, Japan; the Marquis de Vogüé, France. Alternates: Mr. Charles Farnier, France; Mr. H. A. Siepmann, United Kingdom; Mr. Pasquale Troise, Italy; Dr. Wilhelm Vocke, Germany; Mr. Paul van Zeeland, Belgium.

The following members were elected to the Board in May 1931: Mr. G. Bachmann, Switzerland; Mr. Ivar Rooth, Sweden; Mr. L. J. A. Trip, Netherlands.

Mr. Leon Fraser was the Alternate of the President; Mr. Pierre Quesnay, General Manager; Mr. Ernst Hülse, Assistant General Manager; Mr. Francis R. Rodd (later Mr. R. H. Porters), Manager; Mr. R. Pilotti, Secretary General; Mr. Marcel van Zeeland, Manager.

ments with the parties concerned." It was by virtue of this function that the Bank was originally entrusted with the technical execution of the Young Plan and subsequently assumed other duties, such as its present work in connection with the European Payments Union and the European Coal and Steel Community.

The Bank's capital was fixed at 500 million gold francs (one gold franc equals 0.2903 grammes of fine gold, or approximately one-third of a present United States dollar), this being the monetary unit of Switzerland at the time and the unit then often employed for various international settlements. This capital, which is divided into 200,000 shares, has been paid up to the extent of one-quarter, that is, 125 million gold francs, equal to about 41 million present United States dollars.

Initially the subscription of the capital was guaranteed in equal parts by five central banks: the National Bank of Belgium, the Bank of England, the Bank of France, the Bank of Italy, and the Reichsbank, and by two banking groups, one acting in the place of the Bank of Japan and another formed by three United States banks—J. P. Morgan and Company, the First National Bank of New York, and the First National Bank of Chicago. The other central banks were given the opportunity of subscribing to the capital of the BIS within a period of two years but owing to various circumstances, in particular the suspension of the gold standard in a great many countries, not all the European central banks took up shares. The European character of the Bank having been demonstrated in practice, even though this character is not legally defined, an amendment to the Statutes was made in 1950 authorizing the Bank to accept subscriptions of capital from further central banks. Now that Portugal, Ireland, Turkey, and Iceland have subscribed, the membership of the BIS consists of all the European central banks with the exception only of the State Bank of the USSR and the Bank of Spain. On the other hand, the shares held by the Japanese banking group were repurchased by those of the European central banks which were founder members.

The central banks had the option either of subscribing for the shares themselves or of offering them for subscription by the public on their respective markets. The great majority of the central banks did, in fact, choose to subscribe for the shares themselves and central banks now own three-quarters of the Bank's shares. Most of the shares of the American issue, all of which were originally sold on the United States market, have since been repurchased in Europe.*

* The Bank's shares are registered; the Bank is entitled to decline to accept any transferee of its shares and it may not give its assent to a transfer without the prior consent of the central bank concerned.

In order to ensure that the BIS shall always retain its essential character as a "central banks' bank," the Statutes contain a special provision making the rights of representation and of voting completely independent of the ownership of shares, these rights being exercised solely by the central banks of the countries in which the shares were originally subscribed. The central banks thus possess the voting rights on the entire share capital.

With the object of enabling the BIS to play its proper role in international affairs it has been given certain special advantages under the Hague Agreement and the Bank's Constituent Charter. The most important of these privileges is that the Bank, its property and assets and all deposits and other funds entrusted to it are immune in time of peace and in time of war from any measure such as expropriation, requisition, seizure, confiscation, prohibition or restriction of gold or currency export or import, and any other similar measures. Other governments, which were not signatories to the Hague Agreements, have by separate dispositions given a similar undertaking. In its relations with the U.S. Federal Reserve System and the U.S. Treasury the BIS enjoys the same status as do central banks and is thus able, for instance, to buy gold from or sell gold to the U.S. Treasury.

The BIS is administered by a Board of Directors, which elects a President and appoints a General Manager. Since 1948 the Chairman of the Board of Directors has also held the office of President of the Bank, and the General Manager has been the Alternate of the President. This arrangement ensures close and permanent liaison between the Board of Directors and those responsible for the technical management of the Bank. The Governors of the founding central banks are ex-officio members of the Board of Directors, which also includes members appointed by these Governors and of the same nationality as themselves (there being at present five such members appointed), together with members elected from among the Governors of the other central banks which are members of the BIS or of persons nominated by these Governors. In point of fact, the latter group have been up to the present the Governors of the central banks of the Netherlands, Sweden, and Switzerland, these countries possessing the most important money and capital markets after those of the founder banks and having participated in the issue of the Young Loan.*

The United States monetary authorities have never taken up the seats on the Board of the BIS to which the original American subscription entitled them. For the periods 1930-1935 and 1940-1946, however, the

* A list of the members of the Board of Directors may be found in each *Annual Report* of the Bank.

Board elected as President of the Bank persons of American nationality, and it has always appointed a New York bank to exercise at General Meetings the right of voting carried by the shares of the American issue. In addition, close personal contact is maintained between the principal officials of the BIS and officers of the U.S. Federal Reserve System. The Federal Reserve Bank of New York is the Bank's correspondent as regards the American market.

The Board of Directors of the BIS, which holds monthly meetings, determines the nature of the operations to be undertaken by the Bank under the provisions of its Statutes. The Bank may, in particular: buy, sell, exchange or hold gold for its own account or for the account of central banks; make advances to or borrow from central banks; discount, rediscount, purchase or sell, with or without its endorsement, bills of exchange and other short-term obligations of prime liquidity; buy and sell exchange; buy and sell negotiable securities other than shares; discount for central banks bills from their portfolio, and rediscount with central banks bills from its own portfolio. Further, the Bank may accept deposits from central banks on current or deposit account, government deposits in connection with special agreements, and such other deposits as, in the opinion of the Board, come within the scope of the Bank's functions.

On the other hand, the Bank is prohibited by its Statutes from issuing notes payable at sight to bearer, accepting bills of exchange, making advances to governments, acquiring a predominant interest in any business concern, or retaining ownership of any real property other than that necessary for the conduct of its own business. The Bank is required to pay particular attention to its liquidity.

The Statutes also stipulate that the operations of the BIS must be in conformity with the monetary policy of the central banks of the countries in question. Before carrying out an operation on any market or in any currency the BIS must give all the central banks directly concerned an opportunity to dissent. In the case of the United States the authority which has thus to be consulted is the Federal Reserve Bank of New York.

The BIS has no direct contact with the public. It has neither counters nor tills nor strong-rooms; its gold, its funds, and its securities are kept at the central banks which are its correspondents.

The BIS comprises a Banking Department, which carries out the banking operations, a Monetary and Economic Department, which does research and prepares the *Annual Report*, and a General Secretariat, which performs the administrative work. The staff is not large, consisting at present of some 150 employees and about 30 officials and heads

of section. Members of the staff, though presently consisting of persons of ten different nationalities, are selected for their individual qualifications and not as representatives of particular countries.

The BIS is, then, an international bank, and both "international" and "bank" deserve emphasis. It was founded by central banks which at one and the same time are its shareholders and customers and provide its directors. It has grown up as a truly *European* organization, although maintaining close technical relations with the American market. It is an official organization possessing a Charter guaranteed by international convention and enjoying certain special advantages.

But even so, the BIS is essentially a bank and needs to be mindful of its standing, the liquidity of its balance sheet, and the results shown by its profit and loss account. The BIS receives no instructions from any government, except when it is acting in the capacity of agent in the performance of some specific function, and it is not subsidized by any country. The methods which it employs are essentially commercial.

II. EARLY OPERATIONS

The BIS owes a great debt to those wise men who, twenty-five years ago, drew up its Statutes. They made them simple and did not attempt to provide for every possible eventuality. While taking special care to formulate clearly and concisely the general aims, they left to the new institution a large measure of flexibility. The result has been that the Bank has been able to show a remarkable degree of adaptability in contending, as it has had to do from the very first years of its existence, with a series of extraordinary and unforeseeable developments.

When the Bank opened in 1930, the great depression had already begun. In May 1931 came the outbreak of the central European financial crisis. In July the execution of the Young Plan was suspended by the Hoover Moratorium. And in September the United Kingdom, followed by a considerable number of other countries, suspended the gold standard. The Bank's activities were profoundly affected by these events.

As already mentioned, one of the original tasks of the BIS was to cooperate in the carrying-out of the Young Plan, under which it was entrusted with the duty of receiving and distributing the reparation payments provided for in the Hague Agreements. During its first year of operation the Bank received and distributed in the agreed manner the monthly instalments paid by Germany. It acted, in addition, as agent in connection with the issue of the German Government International 5½% Loan 1930 (Young Loan), for the service of which it had agreed to perform the functions of trustee. This loan was placed on nine different markets and yielded in all a net amount of about the equivalent

of \$300 million. Under the Hague Agreements, one-third of this amount was received by the German Government and the remaining two-thirds went to six countries, creditors of Germany, which thus mobilized part of their reparations claims.

The duties of the BIS as trustee for the governments concerned were not confined, however, to the mere collection and distribution, in accordance with the Hague Agreements, of the payments made by Germany. Its function was much wider, for it was also to play an essential part in the execution of the Young Plan by setting up "machinery which will provide an elastic element between the payments to be made by Germany and their realization." It was, in particular, the task of the Bank to help to prevent a suspension of the transfers by granting direct aid to the Reichsbank in the form of foreign currency credits or by giving indirect aid through the investment in Reichsmarks of part of the annuity receipts on the German market in agreement with the Reichsbank. Thus, in order to ensure the regular flow of the transfers, the BIS was to influence the exchange markets by the purchase of Reichsmarks in periods of strain and by a reduction of its investments in Reichsmarks when conditions for transfer were more favorable.

It was left to the Bank itself to decide when and to what extent it ought to intervene, it being merely stated in the Young Plan that the Bank was to act within the limits of the funds at its disposal and with due regard to its liquidity. But the very freedom of action which was thus allowed made it a duty for the Bank to intervene actively in periods of difficulty, as far as its means permitted.

Since the entry into force of the Young Plan coincided with the beginning of the world crisis, the difficulties which arose soon became far greater than those associated with periods of temporary strain attributable to seasonal or other factors. The Bank's interventions in the form of purchases of Reichsmarks and of investments on the German market, although technically at short term, were in fact for an indefinite period, since the date of the termination of these operations depended on the German foreign exchange situation, except in the case of the amounts in Reichsmarks earmarked for the payment of reparations in kind, which were cancelled automatically as the deliveries took place.

When, in 1931, the financial crisis broke over Europe and through the Hoover Moratorium the machinery of the Young Plan was brought to a standstill as from 1st July, the BIS, having acted in conformity with the obligations imposed upon it, had invested on the German market an amount corresponding to the long-term deposits which had been placed at its disposal by the various Creditor Governments for this purpose, as

well as a portion of its own funds.* At an international conference which was held in London in July 1931, the Governments of Belgium, France, Germany, Great Britain, Italy, Japan and the United States recommended that the volume of credits already granted to Germany should be maintained. In conformity with this recommendation, the Bank's investments on the German market were left undiminished and were subsequently reduced only by the amounts earmarked for the payment of reparations in kind as the deliveries were made.

The total amount of the Bank's investments in Germany, which had been as high as 444 million gold francs (equal to about 148 million present United States dollars) in June 1931, had by the end of 1932 been reduced to about 300 million gold francs (about 100 million present United States dollars), and it has remained almost unchanged at that level ever since. A definitive settlement of these investments and the long-term deposits of the governments, which were also made under the Hague Agreements, should take place in 1966 under an arrangement concluded in 1953 between the Bank and the Federal Republic of Germany, a brief outline of which is given in Section IV below.

From 1931 onwards, the BIS took an active part in the attempts which were made to counteract the effects of the financial crisis.

The International Conference which met in London in July 1931 recommended, *inter alia*, that the BIS should set up a committee of experts to enquire into the immediate credit requirements of Germany and the possibility of consolidating part of the short-term credits already granted to that country. The committee convened by the Bank was composed of representatives appointed by the central banks of Belgium, France, Germany, Great Britain, Italy, Japan, the Netherlands, Sweden and Switzerland and by the Federal Reserve Bank of New York. It held its meetings in Basle and its report was issued in August 1931.

Moreover, at the Committee's invitation, representatives of German private banks and of private banks of other countries also met in Basle, and on 17th September 1931 a first Standstill Agreement was concluded, covering six months' short-term banking credits to Germany. At the same time, at the request of the contracting parties, the BIS appointed an Arbitration Committee, which was entrusted with the task of settling

* Under the Hague Agreements and the Trust Agreement annexed thereto the amounts due to the governments which were creditors under the Young Plan were credited to Trust Accounts opened for them in the books of the BIS. These governments were required to leave in their Trust Accounts a certain minimum amount as an interest-free long-term deposit. The German Government for its part was to make a similar deposit equal in amount to fifty percent of the deposits of the Creditor Governments. Since 1931 the aggregate amount of these minimum long-term deposits has stood at the equivalent of 229 million gold francs (equal to about 76 million present U.S. dollars).

any dispute arising in connection with the interpretation or the execution of the Standstill Agreement.

As a result of a series of negotiations between the governments concerned, the German Government decided on 19th November 1931 to request the BIS, in accordance with the provisions of the Young Plan, to convoke the Special Consultative Committee entrusted with the task of examining the measures to be taken in the event of danger to Germany's exchange and economic life. The Board of Directors of the Bank immediately convoked the Committee, which met in Basle under the chairmanship of Professor Alberto Beneduce and issued its report in December 1931. After recognizing Germany's right to suspend for one year the transfer of the postponable part of the annuities, the Committee drew the attention of the various governments to the unprecedented gravity of the crisis, "the magnitude of which undoubtedly exceeds the 'relatively short depression' envisaged in the Young Plan to meet which the 'measures of safeguard' contained therein were designed." The following unanimous conclusion was reached:

"The adjustment of all inter-governmental debts (Reparations and other War Debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace."

A Conference was convened in Lausanne in June 1932 for the purpose of discussing the problem of the German debt, and at the same time negotiations also took place concerning the other war debts. The Conference reached an agreement which was signed but not ratified and therefore never came into force. Indeed it proved impossible to arrive at any general agreement on the question of a final settlement of the various war liabilities.

A great deal had, however, already been done in 1931 by way of granting emergency credits and the BIS participated on a large scale in these measures. The total of the credits granted at the time by the central banks and the Treasuries and by the BIS and the principal banking centers was of the magnitude of approximately \$1,000 million. It has been estimated that this total corresponded to about one-tenth of the aggregate amount of international short-term indebtedness outstanding at the beginning of 1931. The BIS itself was concerned in the emergency credits granted to the National Bank of Hungary, the National Bank of Austria, the Reichsbank and the National Bank of Yugoslavia, a temporary advance being also granted to the Bank of Danzig. In particular, the BIS organized two syndicates of central banks; three

central banks—the Federal Reserve Bank of New York, the Bank of England and the Bank of France—and the BIS participated to the extent of \$25 million each in a credit of \$100 million to the Reichsbank; and with twelve central banks the BIS was a partner in a credit of approximately \$26 million to the National Bank of Hungary.

It is interesting to note that these emergency credits in which the BIS was thus concerned have all been fully repaid, most of them within the space of a few years. The whole of the credit to the Reichsbank had been repaid by April 1933 and in the case of the credit granted to the National Bank of Hungary, for which a longer period was arranged, repayment was completed in 1946.

The Bank also cooperated in the preparation for and the actual work of the World Monetary and Economic Conference which met in London in June 1933 and which represented a last combined effort, under the auspices of the League of Nations, to bring order into the economic and monetary situation. The Conference was preceded by a great deal of preparatory work, notably on the functioning of the gold standard and the gold exchange standard, in which the BIS took an active part. Unfortunately the Conference itself did not result in any concerted action, for it proved impossible to arrive at an agreed policy, the participating countries grouping themselves instead into different currency areas and blocs.* With regard to more long-range problems of monetary policy, however, the Conference adopted five resolutions in which renewed stress was laid on monetary cooperation. Central banks should recognize, it was said, "that in addition to their national task they have also to fulfil a task of international character." The Conference therefore recommended "close and continuous cooperation between central banks," adding that in this connection the BIS "should play an increasingly important part not only by improving contact but also as an instrument for common action".

Apart from necessitating emergency credit operations, the disturbed conditions of the 1930's naturally affected the more current activities of the BIS, particularly its operations on the gold and foreign exchange markets.

In the first year of the Bank's existence, when the monetary authorities in a great number of countries still held fairly large reserves of foreign exchange in addition to their gold reserves, the original intention was, by centralizing at the BIS part of the foreign exchange holdings of the central banks, to enable payments to be made by means of transfers in the books of the Bank, as little recourse as possible being

* A detailed account of the work of the London Conference of 1933 is given in the 3rd and 4th *Annual Reports* of the Bank for International Settlements (1933 and 1934).

had to the markets in order to avoid upsetting their equilibrium. It was, indeed, hoped that it would be possible to create what was called a "foreign exchange clearing system" and to that end attempts were made to unify the rates quoted for operations in the different currencies. The disruption of the monetary system in 1931, however, very soon cut short all these endeavors to achieve uniformity of treatment irrespective of the conditions which prevailed in particular markets. It should perhaps be added that, even if a more stable order had survived, it would very likely have been necessary to apply those initial ideas with a greater degree of realistic flexibility than was at first planned.

As it was, the financial events of 1931 not only deprived the BIS of the receipts and the substantial deposits resulting from the payment of the annuities under the Young Plan but also caused the central banks to reduce their holdings of foreign exchange, with a consequent decline in their available funds, of which a part had been entrusted to the BIS. A number of countries devalued their currencies, and some placed an embargo on transfers by introducing systems of foreign exchange control. This resulted in a general impairment of the delicate mechanism by means of which settlements in respect of international transactions had previously been carried on with a minimum of cost and delay.

The Bank took immediate action in the autumn of 1931 to adapt itself to these new circumstances. For not only had its own resources become smaller but the increasing tension in the political and economic sphere was anything but conducive to a further development of international cooperation. As time went on it proved possible, however, to arrange for the granting of credits, especially of a commercial type—this being done by obtaining credits from a central bank in its own currency offset by credits in gold or in another currency. To the extent to which such methods were utilized, the resulting credits afforded a means of commercial financing and provided at the same time an exchange guarantee, which helped to make up for the absence of forward exchange markets in a great many currency relations. By 1938 more than ten European central banks had concluded arrangements of this type with the BIS.

After the devaluations of 1931 and the following years a number of central banks decided to keep an increasing portion of their reserves in gold. They consequently adopted the practice of converting into gold from day to day any currency surpluses which they acquired—and this development soon became reflected in a certain increase in the gold operations of the BIS. The Bank naturally continued to act as an intermediary, at the request of the individual central banks, for the carrying-

out of purchases, sales and exchanges of gold, and it was often able to offer relatively favorable terms thanks to its central position.

In addition, a system of bank accounts expressed in a "weight of gold" was introduced to facilitate transfers in gold values of any desired amount. This new facility came to be used chiefly for payments between postal administrations within the scope of the Universal Postal Union.

While remaining in contact with the different markets in which it had been operating, the BIS decided, as a matter of policy, to keep aloof from the bilateral clearing arrangements which from 1931 onwards were adopted by most countries in central and eastern Europe. The adoption of this attitude by the Bank may for a time have curtailed the volume of its operations, but subsequent events can be said to have justified the Bank's policy in this respect. Apart from its normal operations in convertible currencies, it was always possible for the BIS to make particular arrangements whereby it obtained a special exchange or gold guarantee and, indeed, in practice was able to undertake certain clearly defined operations in controlled currencies as if these currencies had been convertible. With regard to the Bank's investments in the German market—which were in fact always kept below the figure reached at the time of the Hoover Moratorium of July 1931—the amounts accruing in Reichsmarks in respect of discount and interest were regularly transferred either in gold or in convertible currencies.

In the troubled period between the Munich agreement in 1938 and the outbreak of the war the BIS was naturally faced with many difficult problems, and these were not made any easier to solve by the knowledge that if it had become necessary to raise political questions the functioning of the Bank might easily have been paralyzed. The only possible line of action was to respect meticulously the technical character of the Bank and thus strictly to disregard all political considerations in reaching the necessary decisions. During this period the BIS consequently had no alternative but to adopt a similar attitude to that of the banking institutions in those countries—notably the United States and Switzerland—which had not introduced any emergency legislation. In France and the United Kingdom, on the other hand, official freezing measures had been adopted following the events in Austria and Czechoslovakia. The British and French banks were therefore legally discharged from all responsibility whenever, in execution of the freezing measures, they did not comply with the orders received for the disposal of assets held by them.

The Bank's business had been constantly conducted with due regard to the need for maintaining *an extremely high degree of liquidity* and also of balancing any "exchange positions" as they arose—a state of balance being of particular importance at a time when the international

monetary system had been so seriously dislocated. Thanks to the observance of these rules the Bank was able, without any special difficulty, to pass through the recurrent periods of crisis in the years immediately before the second world war—and this applies, in particular, to the critical days in September 1938, in March 1939 and then again in the summer of 1939.

III. PROBLEMS AND ACTIVITIES DURING WORLD WAR II

As an international institution situated in the middle of Europe, the BIS was subjected to a crucial test by the outbreak of the second world war. The state of war gave rise to new and difficult problems for those whose task and concern it was to maintain unimpaired the financial and moral standing of the Bank.

In the autumn of 1939 individual consultations were held with those governors of central banks who were members of the Board of Directors of the BIS, following upon which a number of decisions were taken fixing the principles to be observed in the management of the Bank during the period of hostilities. It was thus decided:

1. to suspend all actual meetings of the Board of Directors and also the holding of General Meetings with the attendance of representatives from the different countries. The procedure adopted was that any necessary decisions (for instance, in relation to the Bank's balance sheet, its profit and loss account, etc.) should be approved by correspondence. The legality of decisions taken at the formal General Meetings which had to be held was ensured by the fact that voting by proxy is permitted under the Statutes;
2. to make a special declaration with regard to the nature of the Bank's operations during the period of hostilities. In the declaration in question, which was sent on 18th December 1939 to all the Bank's correspondents, the Bank announced its express intention of refraining from all operations which, although permissible in a purely legal sense, were not "above reproach both from the point of view of belligerents and neutrals";
3. to refrain from any act implying recognition of political or territorial changes which had not previously received unanimous recognition; appropriate measures were in fact taken to safeguard the rights of all the parties concerned in so far as this depended upon the Bank; and
4. in a general way, to subject every operation to a searching scrutiny not only as to its safety and to its bearing on the Bank's liquidity but especially from the standpoint of the rules of conduct which the Bank had laid down for itself.

With these decisions formally approved by all members of the Board of Directors, the Bank was in a position to protect itself in an effective

manner when the changing circumstances of the war period gave rise to difficult problems. It was, in particular, necessary to ensure, on the one hand, that there should be no diminution of the special privileges which the Bank possessed, in time of war as in time of peace, in the countries which had signed the Hague Agreements or which had given it rights similar to those granted in these agreements, and, on the other, that none of these privileges should be used to effect operations which would be found questionable by the countries concerned, or even operations which would merely be contrary to the line of conduct which the Bank felt it ought to maintain in these matters.

The only way in which these two essential interests could be safeguarded was to place a very strict voluntary limitation upon the operations which the BIS would undertake. But even within the limitations which the Bank thus imposed upon itself it had at times the opportunity of rendering certain services to the members of its association. When, for instance, it was found, in the winter of 1939-1940, that the central banks of a number of countries not yet involved in the war desired to transfer a substantial part of their monetary reserves to places overseas (especially to New York), the BIS was able to handle a considerable part of these transfers. Moreover, certain central banks which had deposits at the BIS gave it a standing order immediately to transfer these deposits overseas if their country became involved in the war. The arrangements thus made all worked out satisfactorily.

As the war went on the volume of possible business became more and more limited, but several problems arose requiring much thought and care.

The military occupation of a large number of countries made it imperative for the BIS to take certain precautionary measures in order to prevent amounts which the Bank had to transfer to such countries from being subjected to measures which would, in fact, be equivalent to seizure by the occupying authorities. It was, moreover, necessary to find a solution to the special difficulties created by the military occupation of a country as regards the actual management of the latter's central bank. The position arose in which certain central banks had one managing body in the occupied territory and another on foreign soil. This situation gave rise to contradictions, both political and legal in character, which the BIS was obviously not qualified to resolve. It was decided, in order to avoid these difficulties, to offset in the Bank's books, whenever practicable, the claims and debts of the Bank in relation to each of the markets involved, so as to obviate the necessity for any actual transfers. It subsequently proved possible to secure the approval of the interested parties for the compensations thus effected. On the few occa-

sions when it was impossible to resort to such a solution, protective measures were taken with a view to postponing the disposal of the assets in question—the BIS having taken independent legal advice.

In June 1940 the United States established a system of licences applicable to certain foreign assets, and the BIS immediately placed in a special account all the amounts which it then held in the United States for the account of countries whose assets had been blocked by the American measures. In 1941, Switzerland was added to the list of countries in this category and after that the Bank's own assets in the United States became subject to the licensing system of the U.S. Treasury.

The continued transfer by the Reichsbank of the interest on the Bank's investments in Germany (investments which all dated from the period 1930-1931) gave rise to a particular problem whenever the transfer in question was effected by means of a gold delivery. It was not possible for the Bank, from a legal point of view, to refuse to receive any payments that were made in accordance with the contracts entered into under the Hague Agreements—and any such refusal would moreover have been prejudicial to the interests of the creditor countries, especially France and Great Britain. The BIS could not, however, rule out the possibility that, in spite of declarations to the contrary, the gold which was transferred might have been seized, in one form or another, in one of the occupied countries. After a careful examination of the questions involved, the Bank decided: (1) to accept gold in respect of all transfers legally due to it; and (2) to take steps to ensure that at some future date an enquiry could be made into the origin of all gold bars which it had received.

Apart from the investments which the BIS had made in Germany in connection with the Hague Agreements—and these could obviously not be settled during the war—the Bank was able to realize and convert into assets with a high degree of liquidity all its old investments in other countries which had still been outstanding in 1939. Over the period 1939-1945 an amount equal to 120 million gold francs (about \$40 million) was in fact added to the Bank's net holdings of liquid assets in dollars, Swiss francs and gold. The Bank had, on balance, suffered no financial loss: all the commitments which different central banks had entered into with the BIS had been scrupulously respected, notwithstanding the exceptional and unforeseeable circumstances which had prevailed in the years that had passed since the foundation of the Bank. At the same time, the deposits, as they stood in the books of the BIS on 1st September 1939, had been safeguarded in full, largely as a result of the protective measures which had been taken in good time by the Bank.

IV. RESUMPTION OF OPERATIONS AND SETTLEMENT OF WAR-BORN QUESTIONS

When the war in Europe came to an end in May 1945, the financial position of the BIS was as satisfactory as could possibly be expected, but, even so, the Bank was faced with a number of new and difficult problems.

In the first place, an answer had to be found to the question of the Bank's future rôle in the new conditions of the post-war world. In doing so it was necessary, in particular, to take into account the recent creation in Washington of two new international financial institutions endowed with substantial resources: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD).

The Bretton Woods Conference, which had drawn up the plans for these institutions, had at the same time recommended in its final declaration of July 1944 that the BIS should be liquidated. Owing to the circumstances at the time, it is evident that little could be known concerning the precise nature of the Bank's activities during the war and its exact financial position, isolated as it was in a neutral country surrounded by belligerent countries and bound by the very rules of conduct which it had set itself to observe the utmost discretion. But as soon as the cessation of hostilities had made it possible for the essential contacts to be re-established, and for facts to be seen in their true light, it was unanimously decided not to proceed with the resolution concerning the BIS.

Moreover, it was found that the Bank not only would not duplicate the functions of the new organizations which had been set up in Washington but could indeed be a useful complement to them. For the BIS had established itself since 1930 as an essentially European institution, whereas the IMF and the IBRD had a world-wide competence. Furthermore, these two institutions had very clearly defined statutory functions, the International Bank specializing in long-term lending and the Monetary Fund in the purchasing of the currencies of the member countries to the exclusion of all other kinds of banking transactions. The field of activity of the BIS was quite different, with the result that it was soon apparent that there was room for fruitful cooperation, the development of which would be in the general interest.

The BIS had by late 1946 resumed the monthly meetings of its Board of Directors, which had been suspended from the autumn of 1939. At the first two post-war meetings, which were held in December 1946 and February 1947, the Board of Directors was given a detailed report

of the management of the Bank during the war years and expressed its approval of the way the Bank had been managed during this period, its business having been conducted strictly in accordance with the decisions of principle taken in 1939. At the same meetings, preparations were made for the settlement of some important unsolved problems.

At the end of the war, the BIS set on foot, with the cooperation of the central banks concerned, a detailed enquiry with the aim of tracing the origin of all gold bars transferred to it during the war, since it was possible, in spite of all assurances, that some of the gold it had received might have been seized in one form or another in occupied territories. It was ultimately possible to compare the results of the long and intricate investigations carried out by the Bank itself, or on its behalf, with the data available to the Governments of France, Great Britain and the United States—which had been entrusted with the task of settling the question of looted gold under an agreement concerning reparations concluded in Paris in 1946. The comparison thus made revealed that the Bank had received in payment only a small number of stolen bars, transferred to it after a remelting of gold seized in occupied territories. A formal agreement between the three governments and the BIS was concluded in Washington in May 1948; the amount of gold identified as having been taken from occupied countries and unknowingly received in payment by the Bank was agreed to be 3,740 kilogrammes, of which 3,366 kilogrammes was for the Bank's own account and the balance for the account of a central bank. The BIS placed this amount at the disposal of the three governments in London. Once the agreement had been concluded, the Bank's accounts in the United States were freed, with the exception of certain limited amounts corresponding to deposits of a few central banks situated in countries whose accounts in the United States were still blocked.

Early in the post-war period, technical cooperation was arranged between the BIS and the International Bank and Monetary Fund. The BIS has each year been represented at the annual meetings of the IMF and the IBRD, while these two institutions have sent representatives to the Annual General Meetings of the BIS. Personal contacts and the regular exchange of information enable each institution to benefit from the experience of the others. In the banking field the BIS was able to facilitate the placing of the first issues of bonds in Swiss francs made by the International Bank and from time to time it discounts securities approaching maturity which are held by the IBRD in respect of its loans. Further, the BIS is registered with the International Monetary Fund as one of the Fund's correspondents for the purpose of gold operations.

In the following years, negotiations were conducted between the BIS

and the governments concerned in order to arrive at a settlement of a number of still outstanding questions resulting from the suspension of the Young Plan in 1931. There had been no particular occasion before the war to decide on an agreed interpretation of the provisions of the Hague Agreements by virtue of which the BIS had, since 1931, been a creditor on the German market and a debtor of the Creditor Governments under these Agreements, noted in Section II above. Through a series of events which had occurred in the intervening period, the question had, however, evolved in a way which could not possibly have been foreseen at the time when the original texts were drafted.

Consequently, doubtful points had arisen which, though of no great importance to the governments concerned in view of the relatively small amount involved for each of them, were a very serious matter for the BIS. Through the good will of the various parties concerned, agreements were reached which made it possible to establish in a clear and definitive manner the scope of the Bank's responsibilities. In 1950 the principal Creditor Governments under the Hague Agreements, on whose behalf the BIS had been acting as trustee, agreed that they could not, in respect of their claims on the Annuity Trust Account created under the Young Plan, demand from the BIS the transfer of amounts greater than those of which the BIS could itself obtain reimbursement and transfer by Germany in currencies approved by the Bank. This declaration was given, in the first place, by the Governments of France, Great Britain, Italy, and Belgium, which together hold 93 percent of the claims in question. Other governments have subsequently adhered to this agreement, so that at present it applies to 149.9 million gold francs, equivalent to 98 percent of the total of all such claims.

The BIS also concluded with the Federal Republic of Germany, within the framework of the London Agreement on German External Debts, an arrangement which was signed on 9th January 1953. Under the terms of this accord, the payment of current interest on the investments made by the Bank in Germany in execution of the Hague Agreements during the period 1930-1931 was resumed as from 1st January 1953 by the payment of a lump-sum annuity in Swiss francs by the Government of the Federal Republic of Germany, to which the Bank surrendered the rights it possessed in respect of such interest vis-à-vis the German debtor institutions. The annuity, fixed at 5.6 million Swiss francs, represents slightly less than half the amount of interest transferred in 1939, a reduction of roughly the same magnitude having been agreed to by the other groups of Germany's creditors, and notably by the bondholders of the Dawes and Young Loans.

In consideration of the regular transfer of the interest due, the BIS

agreed not to demand before 1st April 1966 the reimbursement of the principal amount (297 million gold francs—about \$98 million) or the payment of arrears of interest. This date was chosen for the termination of the investments in question because it is the earliest date on which, under the Hague Agreements, the withdrawal of the long-term deposit made by the German Government is permitted to take place.

It was expressly agreed that, in every other respect, the existing legal position would in no way be changed; thus, the rights and obligations of the BIS under the Hague Agreements remained unaltered and the special character of the assets of the Bank was fully recognized.

V. THE POST-WAR EXPANSION

The consolidation of the Bank's position by the settlement of the various questions which had arisen before or just after the war paved the way for a resumption, gradual at first but later at a rapidly increasing rate, of its banking operations and its activities as a center for contact between the European central banks.

It was found that the BIS had by no means ceased to be of use to the central banks but that, on the contrary, it was particularly opportune in the special circumstances of the post-war period that there should be a central institution in Europe capable of helping in the development of monetary cooperation. For the European central banks found themselves faced after the war with new and complex problems; with the limited and often inadequate resources at their disposal, they had to contend not only with the difficulties resulting from the war but also with unexpected fluctuations, made more violent by the absence of a wide international exchange market.

During the war the deposits entrusted to the Bank by various central banks had naturally been reduced to a minimum and in 1947 the *total* of the Bank's balance sheet stood at approximately 500 million gold francs (about \$166 million), having remained virtually unchanged at that level since 1939, as the charts on pages 24 and 25 show. Leaving out of account the assets and liabilities connected with the Hague Agreements, the BIS actually had at its disposal for use in new operations an amount equivalent to approximately 200 million gold francs (about \$66 million). But this sum (which practically corresponded to the total of the Bank's own funds), though modest, was absolutely liquid, consisting of gold, dollars and Swiss francs at sight or at very short notice.

In view of this very liquid position, the Bank's credit remained high notwithstanding the small volume of its operations. And as soon as the questions resulting from the war had been adequately settled by the

agreement of 1948, the deposits of central banks began to be built up again, slowly at first but afterwards at a more rapid rate, reaching 500 million gold francs in 1950, 1 milliard in 1953 and at times more than 1,500 million (about \$500 million) in 1954.

The following table shows the development since the war of the Bank's active resources:

TABLE I
*Bank for International Settlements:
Active Resources and Their Utilization**
(in millions of gold francs)

Date	Resources			Utilization		
	Short-term and sight deposits	The Bank's own funds	Total	Actual gold and investments in gold	Credits and investments in currencies	Total
1947 31st March	28	174	202	101	101	202
1948 " "	75	184	259	143	116	259
1949 " "	242	183	425	188	237	425
1950 " "	497	189	686	285	401	686
1951 " "	761	196	957	377	580	957
1952 " "	741	201	942	513	429	942
1953 " "	1,056	206	1,262	721	541	1,262
1954 " "	1,230	213	1,443	651	792	1,443
1955 " "	1,432	218	1,650	680	970	1,650

* Excluded are the assets and liabilities in connection with the execution of the Hague Agreements of 1930. The Bank's own funds include a reserve for certain secondary commitments.

This rapid growth was naturally influenced by the reconstitution of the reserves of the European central banks, which again entrusted part of their reserves to the BIS in the form of deposits at sight or at term. The time deposits, whether at fixed term or at notice, are generally at three months. A number of central banks manage funds belonging to their governments or to various official institutions, and in such cases the central banks may be able to deposit a part of these resources at somewhat longer term. The larger the overall amount of the deposits entrusted to the Bank, the easier it is for the Bank to render the central banks the services which they wish it to perform. This system is thus essentially cooperative in character.

The assets of the BIS are held partly in gold and partly in the principal currencies, so that the Bank is generally in a position to buy, sell, or exchange gold or to carry out various exchange operations as re-

requested by central banks. Since the essential rôle of the BIS is to act as the central banks' bank, its main operations naturally take the form of direct transactions with the central banks. Its interventions on the various markets and the arrangements which it makes with commercial banks are merely accessory to its main operations.

The gold operations of the BIS are all performed in response to requests made by central banks and are, of course, effected in conformity with the monetary policies of the countries concerned; these operations are influenced, in particular, by the U.S. Treasury's official buying and selling price for gold, by the prices quoted on the London market since its reopening in the spring of 1954, and by the costs entailed in possible shipments of gold from one center to another. It is naturally easier for the BIS to comply with the requests of central banks if they are sufficiently varied in nature for the operations to be combined or offset against each other. Such transactions often make it possible to avoid a physical transfer of gold, especially between Europe and the United States. In these matters the BIS enjoys the advantage of having favorable technical agreements with the central banks with which the gold is deposited.

The BIS likewise deals with central banks in connection with its credit operations. Under its Statutes, the BIS may not make direct advances to governments, but it is allowed to purchase from central banks short-term government securities provided that these securities are currently marketable.

Since the BIS is not bound by rigid rules as to the form of its interventions, it is generally in a position to make its operations as flexible as it desires and in that way to adapt itself to circumstances and requests which, as experience has shown, differ widely and are extremely variable. More often than not they reflect seasonal requirements, the need for an adjustment in the timing of payments, or other temporary conditions. The financial mechanism of the BIS is furthermore in itself a flexible bond helping to bring together the different European markets.

The Bank's technique in the conduct of its affairs has naturally improved as a consequence of increasing experience. Its original operations under the Young Plan and the international support measures which were arranged in the period 1930-1933 often took the form of purchases of securities which were expressed in the currency of the market in question and backed by a gold clause or exchange guarantees. Before the war such operations absorbed a relatively large proportion of the Bank's resources.

After the war the Bank, profiting from its early experience, endeavored to keep its business activities within the scope of genuinely

short-term operations covering specific periods and involving clearly defined commitments. It is only by adhering to this rule that the Bank can be sure of being always in a position to render at any time such fresh services as are requested of it within its own particular sphere: that of short-term operations. The development of the Bank's technique has, actually, been in the direction of increased use of forward exchange operations, especially in the form of spot sales of gold or currencies combined with an arrangement for forward repurchase.

The total of the Bank's operations increased rapidly between 1947 and 1950, and has since remained at a high level. With the Bank's active resources amounting altogether to between 1,500 and 1,800 million gold francs (\$500 to \$600 million), its annual turnover is something like ten times that figure.

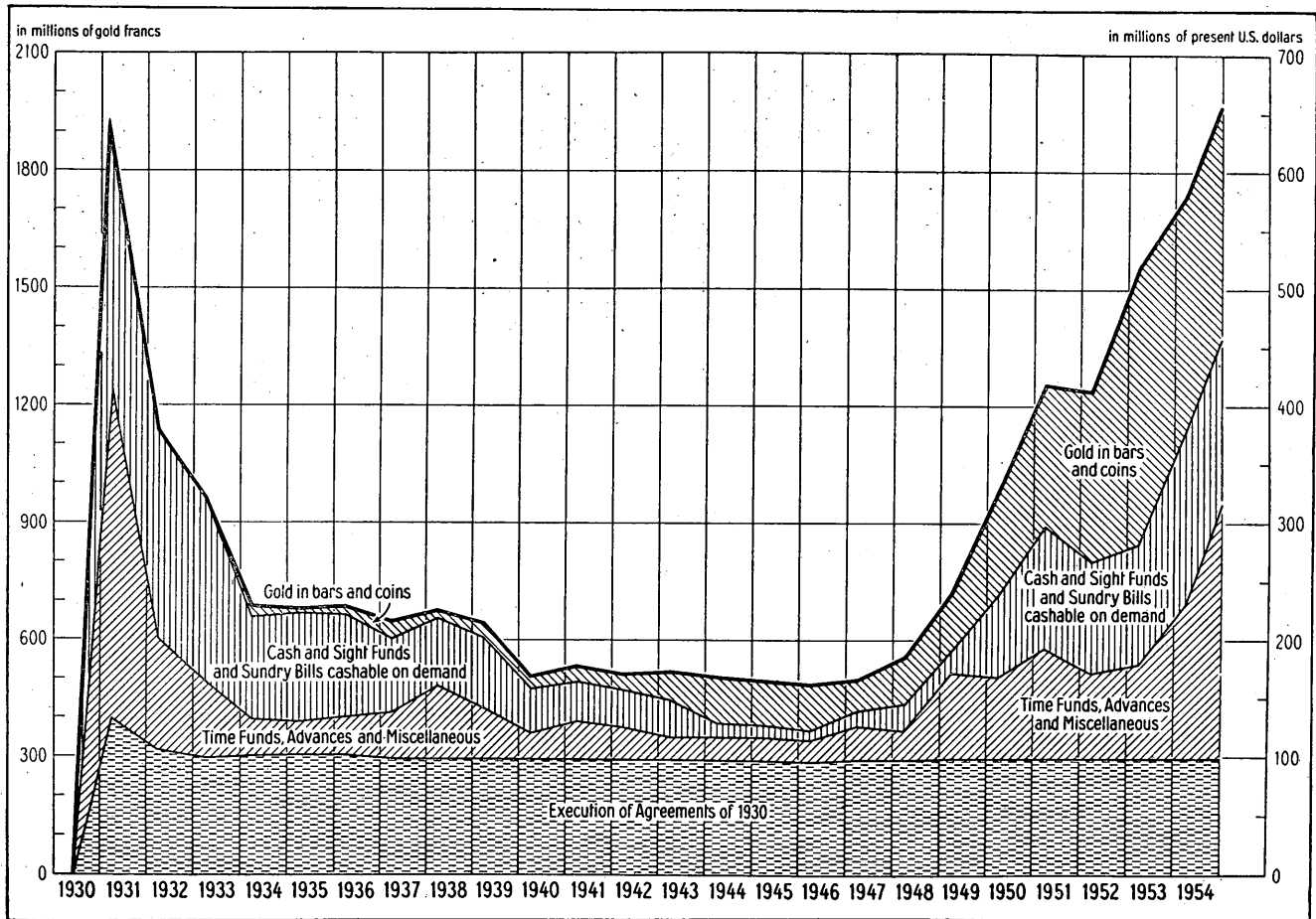
From the geographical point of view, there are naturally great differences in the volume of business which the Bank carries out on the various markets. It may be said that in the period before 1939 the Bank's current operations (apart from its investments in Germany under the Young Plan) were principally conducted with the central banks of countries possessing comparatively limited markets, in which the Bank's relatively modest resources could be most effectively employed. Since the war, however, the Bank has frequently been able to perform transactions involving fairly substantial amounts with the central banks of several larger countries.

Since the BIS is a bank, its business transactions are subject to the ordinary rules of banking secrecy. But while individual transactions with this or that central bank must not be made public, there is nothing secret about the nature of the operations in question; on the contrary, the general lines of the Bank's business are well known both to the central banks and to the treasury departments of the various countries. The fact that the BIS is obliged by its Statutes to give the central banks concerned an opportunity to dissent before any operation is undertaken by the BIS on its market or in its currency constitutes a guarantee that none of its operations will conflict with the monetary policies of any of the central banks in question.*

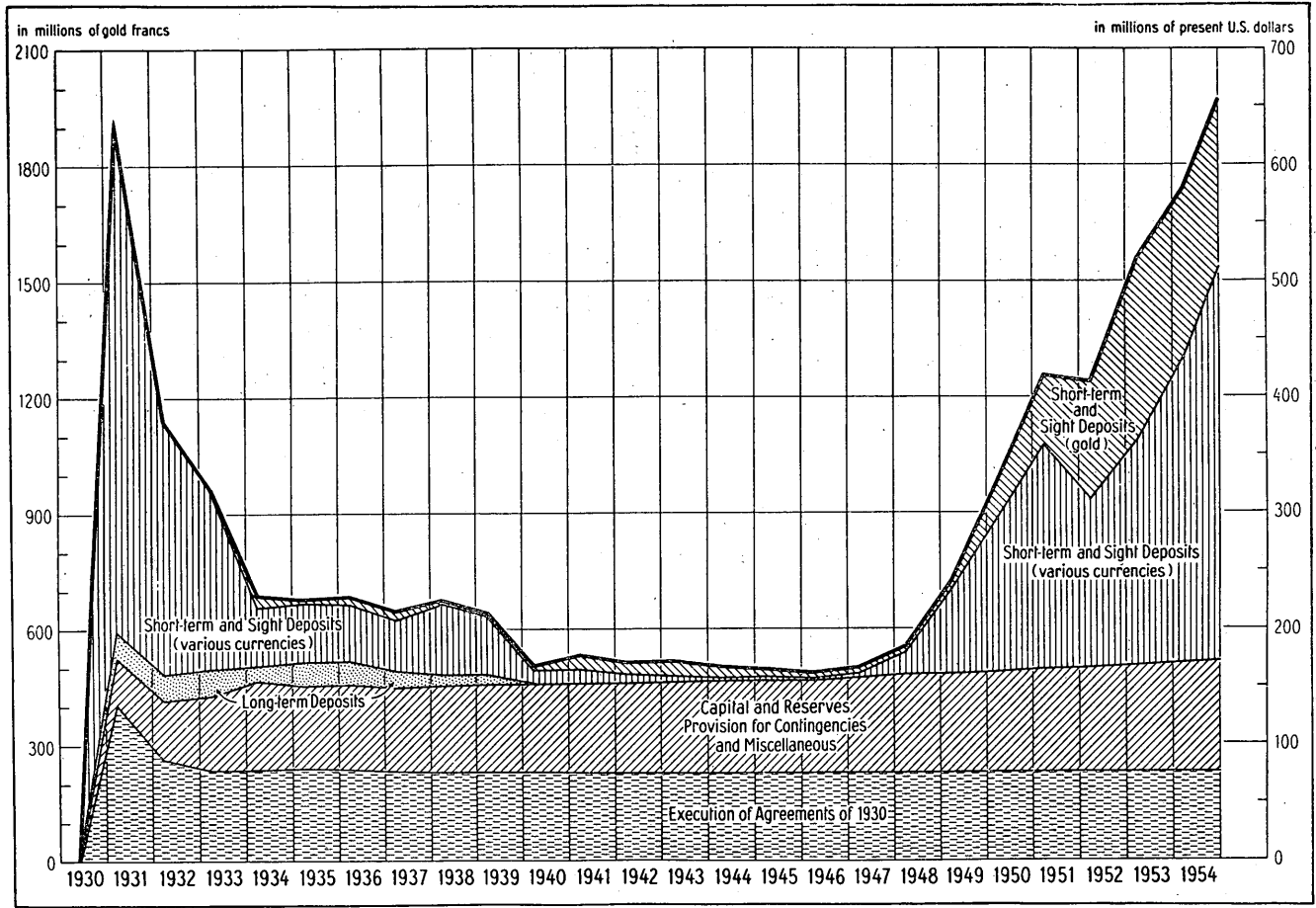
The position as of the end of 1954, as well as the development of the Bank's assets and liabilities, may be seen in the charts on pages 24 and 25. Detailed statements of the bank's balance sheet are regularly published in the *Annual Reports*.

These balance sheet data do not include gold under earmark and

* The Bank's capital being defined in terms of gold, it is unable to take up exchange positions of any great size for any considerable period. The Bank is therefore subject to a strict discipline. But it has found that this discipline, far from having the effect of paralyzing its activities, may well be regarded as a source of strength.



BANK FOR INTERNATIONAL SETTLEMENTS: EVOLUTION OF ASSETS



BANK FOR INTERNATIONAL SETTLEMENTS: EVOLUTION OF LIABILITIES

securities held in custody for the account of central banks or other depositors, nor the gold, funds and securities deposited with the BIS as Agent for the Organization for European Economic Cooperation (in respect of the European Payments Union), as Agent for the High Authority of the European Coal and Steel Community, and as Trustee or Fiscal Agent for international loans. The total of these various assets which are not included in the balance sheet but are held for account of others is of the order of \$500 million.

In the statement of account as at 31st March 1955 the Bank's gold stock stood at 626 million gold francs (\$205 million), this amount being equivalent to 36.4 percent of the total assets—excluding those in connection with the Hague Agreements of 1930; moreover, the liquid and remobilizable assets in various currencies, aggregating 492 million gold francs, accounted for 28.5 percent of the total assets, so that these two items together represented 64.9 percent of the total, while on the other side of the balance sheet sight deposits, amounting to 483 million gold francs, accounted for 28.1 percent of the total liabilities. The Bank thus maintains a particularly high degree of liquidity.

The Bank's exchange positions are of short duration and relatively insignificant in amount, fluctuating as they do with the development of the Bank's current operations. And experience has shown that the Bank's best policy, in order to be able to meet the demands which are made upon it, is always to maintain a fairly large stock of gold. If account is taken not only of the gold deposits but also of the Bank's forward operations, the *net* total of the Bank's gold holdings differs—often quite considerably—from the position as indicated by the figure for the Bank's gold stock in its statements of account, as may be seen from Table 2.

TABLE 2
Gold Position of the Bank for International Settlements
(in millions of gold francs)

Date	Gold in bars and coins	Deposits expressed in a weight of gold	Net stock of gold taking account of	
			Deposits only	Deposits and forward operations
1953 31st March	712.6	476.3	236.3	243.9
31st December	592.2	431.7	160.5	226.7
1954 31st March	609.1	439.1	170.0	212.1
31st December	598.6	436.0	162.6	215.9
1955 31st March	625.7	453.2	172.5	227.0

Leaving out of account the paid-up capital of 125 million gold francs and certain minor allocations, the Bank's reserves consist of the statutory reserves, totalling 21 million gold francs, and the provision for contingencies, amounting to 118 million gold francs—the equivalent of some \$46 million in all.

After deduction of the 68.3 million gold francs of the Bank's own funds which are earmarked for the execution of the Hague Agreements and are thus tied up until 1966, and also of the amounts held in reserve for certain minor commitments, the total of the Bank's own available funds amounted on 31st March 1955 to some 218 million gold francs (about \$72 million). This amount, which has grown steadily, particularly since 1947 as can be seen from Table 1, has as its counterpart on the assets side the holdings of actual gold available at sight or at short term and distributed among the principal centers. These gold holdings constitute for the BIS a useful liquidity reserve and at the same time form the basis for its gold operations.

Before 1939, the interest on the investments made under the Hague Agreements amounted to between 8 and 9 million gold francs annually and accounted for a relatively large proportion of the Bank's gross profits. This income ceased in 1945 but, as already mentioned, the transfer of interest on the said investments was resumed in 1953, although at the reduced rate of 5.6 million Swiss francs, or about \$1.3 million, annually. Since 1947 the income from the Bank's current operations has increased rapidly and this increase has compensated, at least to some extent, for the loss of interest on the investments in Germany.

On the other hand, the total amount of interest allowed by the BIS on deposits entrusted to it has, of course, also increased as the deposits in question have been reconstituted. The Bank's costs of administration, which were substantially reduced during the war period, subsequently returned to a more normal level. This increase has, however, only brought them up again to the pre-1935 level, notwithstanding the appreciable rise in prices which has taken place since that time and the new functions assumed by the Bank.

In the first period of the Bank's existence (1931-1935) the net profit, calculated after making certain allocations to reserves, amounted to between 13 and 15 million gold francs annually. In the subsequent phase, from 1935 to 1939, the net profit settled down at about 9 million gold francs, after which it declined considerably during the war.

There was a slight loss in 1945-1946, but this was compensated for by a comparable surplus in the following financial year. With the resumption of normal operations, the profits have since developed as shown in Table 3.

TABLE 3
Profit Record of Bank for International Settlements
 (in millions of gold francs)

Financial year	<i>Profit before provisions for contingencies</i>	<i>Net profit</i>
1947-1948	9.5	—
“ “ 1948-1949	5.1	—
“ “ 1949-1950	6.0	2.6
“ “ 1950-1951	6.1	3.1
“ “ 1951-1952	6.4	2.7
“ “ 1952-1953	6.9	3.5
“ “ 1953-1954	9.9	5.0

The dividend of 6 percent provided for in the Statutes was paid until 1942. It was reduced in 1943 and 1944 and suspended in 1945. The payment of a dividend was resumed as from 1951, at the rate of first 2 and later 3 percent. In 1954 the dividend was fixed at 19.60 gold francs, or 28 Swiss francs, per share, corresponding to 3.14 percent of the gold value of the paid-up capital.*

It would seem to follow from these statements of the financial situation of the BIS that, although its profits are necessarily limited by the nature of its operations, its financial position is strong and provides as high a degree of security as may legitimately be expected.

VI. TRUSTEE AND AGENCY FUNCTIONS

One of the objects of the BIS under Article 3 of its Statutes is to “act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned”. The first task of this nature to be entrusted to the Bank was in connection with the application of the Young Plan. The BIS had only been in existence for a year when its activity in this field was almost wholly suspended by the Hoover Moratorium of 1931. The Bank remained responsible, however, for the assets and liabilities connected with the Hague Agree-

* The clause in the Statutes concerning a cumulative dividend of 6 percent gives the shareholders priority over the governments. The latter were not entitled to receive any interest on the long-term deposits which they had made under the Young Plan but had a right to a portion of the profits remaining after the payment of a cumulative dividend of 6 percent to the shareholders. At present there is in fact no longer any sharing of profits with the governments and the shareholders receive by way of dividend the whole of the net profit after the necessary allocations to reserves have been made. For the sake of greater clarity these allocations are now shown in the annual Profit and Loss Account.

ments and this responsibility will continue until the final settlement, due to take place in 1966.

In 1930 the BIS was, in addition, appointed Fiscal Agent of the Trustees for the Dawes Loan and also Agent of the governments in connection with the issue of the Young Loan and Trustee for this loan; it was also made Trustee for the Austrian International Loan of 1930. In the carrying-out of its functions as Trustee for these loans the Bank has many times had to intervene in order to reaffirm the rights of the bondholders. It did so quite recently at the London Conference on German External Debts in 1952 and at the Rome Conference on Austrian Debts in 1953. Following these conferences the BIS agreed, at the request of the governments concerned, to make its services available for the execution of the resultant agreements as trustee for the bondholders who accepted the proposed settlements.

Between 1930 and 1939 the BIS was on several occasions asked to act as agent for specific operations in connection, for instance, with the settlement of loans, the application of certain agreements concerning the Saar, the Austrian Credit-Anstalt, etc. The Bank has also been asked at various times from 1931 onwards to hold in safekeeping certain international financial agreements on behalf of the signatories and to appoint the members of the arbitration committees provided for in these agreements, as, for example, in the case of the German Credit Agreements relating to the so-called "Standstill Debts". The BIS still performs functions of this nature.

After the war a new function was entrusted to the BIS, that of technical agent for the execution of various monetary compensation agreements.

In the autumn of 1947 the BIS agreed to act as Agent of most of the European governments participating in the Marshall Plan for the purpose of the execution of the limited compensation agreement signed at that time. This scheme was a first attempt to get away from the strictly bilateral payments arrangements which had been in force since the war. Although it produced only modest results, it established methods of reporting by European central banks which served as the basis for later agreements.

In April 1948 the Organization for European Economic Cooperation (the OEEC) was formed, and in September of that year the BIS became the Agent of this Organization for the execution of the "Agreements for Intra-European Payments and Compensations" for the two years 1948-1949 and 1949-1950. These agreements were directly linked with the distribution of Marshall aid. As the amount of aid given to the individual countries was calculated on the basis of the estimated deficits in

their balances of payments, the aid received took the form not only of direct allocations in dollars but also of grants made in European currencies in the form of "drawing rights", in respect of which "conditional aid" in dollars was allocated to the countries whose resources were drawn upon in this way. During the two years, an amount in European currencies equivalent to \$1,400 million was utilized in the form of "drawing rights".

In 1950 these schemes were superseded by the "Agreement for the Establishment of a European Payments Union". The creation of this Union (EPU), which had an initial capital fund in dollars provided out of Marshall aid, made it possible to organize a general compensation and in that way to avoid to a great extent an important drawback of the bilateral agreements—the accumulation of inconvertible balances. The BIS was again entrusted, as Agent for the OEEC, with the technical operation of the EPU agreement and also with the task of acting as banker for the Union.

The EPU mechanism is based on the reporting of balances to the BIS by the central banks of member countries and on the settlement of these balances. The BIS, in its capacity as Agent, performs functions of a purely technical character, duties demanding the greatest precision in carrying out intricate operations. The Bank ascertains the amount of the bilateral surpluses and deficits and calculates the net position of each country vis-à-vis the Union after the general compensation of the bilateral balances. The net positions are settled by the debtor countries with the Union and by the Union with the creditor countries, partly by a payment in gold or dollars and partly by the automatic opening and cancellation of credit to an extent and according to the rules laid down in advance. All these operations are carried out each month on the agreed "value date".

Within its terms of reference and in accordance with the instructions of the Managing Board of the Union, the BIS receives reports from the central banks (to which, of course, the rule of banking secrecy applies) and performs the necessary technical operations and calculations. It receives and pays the amounts to be settled in gold, in London or New York, or in dollars through the special account opened for this purpose by the Federal Reserve Bank of New York. The BIS keeps the Union's accounts, invests the available dollar balances in U.S. Treasury bills and prepares a statement of account and a report every month.

The accounts and balance sheet of the EPU are, of course, kept entirely separate from the accounts and balance sheet of the BIS itself, as are all funds and securities handled by the Bank in its capacity as trustee or agent. Between 1950 and the end of 1954 the amounts received and

paid by the BIS in gold and dollars for the account of the Union totalled some \$6,500 million. The total of the balances in gold or dollars held by the BIS for the account of the Union and not included in the Bank's balance sheet amounted at the end of 1954 to about \$300 million.

In November 1954 the High Authority of the European Coal and Steel Community invited the Bank to accept certain new functions in connection with an agreement for a loan of \$100 million which the High Authority had recently concluded with the U.S. Government, represented by the Export-Import Bank in Washington.

The proceeds of this loan are used by the High Authority to grant credits to enterprises in the six countries which are members of the Community. Under the agreement concluded with the U.S. Government the notes drawn by the enterprises receiving the loans are to constitute a separate portfolio, which will serve as a common pledge for the benefit of present and future lenders of funds to the High Authority.

The BIS has agreed to act as Depositary in regard to this pledge. Under the contract entered into with the High Authority the BIS receives in a special account the funds made available by the lenders and it has in due course to release these funds to the enterprises designated by the High Authority against the pledging of notes made out by the enterprises in question. The notes are managed on behalf of the BIS by national sub-agents appointed in agreement with the High Authority. The amounts paid in respect of interest and amortization by the various enterprises to which credits have been granted are collected by the Bank, which also makes, for account of the High Authority, the payments due from the High Authority to its lenders.

In this field, too, the functions of the BIS are entirely technical.

The functions assumed by the BIS as trustee or agent are quite varied in character. They all, however, meet the same need: that there should exist, for the execution of agreements between different countries, an international institution, possessing an official status and yet commercial in its methods, which at one and the same time is able to remain in contact with both the markets and the monetary authorities and is known to possess the technical qualifications necessary to ensure the smooth working of the various agreements on the best terms possible and with the maximum security for the parties concerned.

Experience has shown how important it is that any mandate given to the BIS should be defined as precisely as possible. That is the reason why, apart from the functions performed by the Bank in 1930 and 1931 under the Hague Agreements and those assumed at the same time by virtue of its appointment as trustee for certain international loans, the BIS has done its best to avoid entering into commitments which are

too general in character. The term "trustee" in itself presents certain difficulties, for it has no exact equivalent in continental law; differences of opinion may, therefore, easily arise as to the responsibilities which the term implies. The task of the BIS should be to perform certain technical duties determined in advance and considered necessary for the execution of a particular agreement. This has clearly been the case as regards the functions which have been undertaken by the Bank under the recent agreements.

VII. ECONOMIC AND MONETARY RESEARCH

The BIS is not only an international bank which makes its services available to the European central banks and a technical agent for the execution of certain specific agreements. It is also a center for economic and monetary research and consultation.

The Bank's activity in this sphere takes various forms. Perhaps the most widely known is the regular issue by the Bank of a certain number of publications, the most important of which is its *Annual Report*. Each year this *Report* contains, in addition to the profit and loss account, the balance sheet and the financial statement which are submitted for the approval of the General Meeting, a general survey of the international economic and monetary situation, particularly in Europe, with special sections devoted to such technical subjects as the production and distribution of gold, foreign exchange markets, price movements, foreign trade, etc.

In conformity with a decision reached when the BIS was first established, this survey of economic and monetary developments is not a document officially adopted by the Board of Directors or by the General Meeting. It is an independent study made by the Management of the Bank, and, while it certainly reflects opinions shared by the heads of the various central banks, it does not officially commit either these banks or their governments. This being the case, it is possible in these Reports to discuss frankly the most important economic and financial questions of the day and to express views inspired, as far as possible, by the spirit of objective enquiry.

During its existence, the BIS has carried out a number of special studies at the request of various central banks. The reports written in response to these requests are as a rule of a confidential nature. They are intended for the use of the central bank which has asked for the particular study to be made, and are not published or passed on to others except with the consent of the central bank concerned. In the years 1934-1938 the Monetary and Economic Department was associated with

the work of a Banking Commission in Dublin, which led to the establishment of the Central Bank of Ireland; and since 1945 special studies have been carried out in Italy, the Netherlands, France, Austria, and Germany—in the last-mentioned case in cooperation with the OEEC. A memorandum on the sterling area was given a fairly wide distribution, with the consent of the Bank of England. In the autumn of 1953 the BIS was entrusted by the High Authority of the European Coal and Steel Community with the task of making a technical study of the financing of coal stocks in certain European countries.

In addition, the BIS regularly prepares compilations of a number of documents which it receives. In particular it has made a collection of documents relating to foreign exchange regulations in force in the principal countries. Certain of these compilations may be purchased by the public, while others are reserved for internal use in the BIS itself and the various central banks which are specially interested in them. Furthermore, the central banks receive from the BIS a daily press review containing summaries in English of articles selected from various newspapers in Europe and the United States as being of particular interest from a monetary, economic, and financial point of view.

The BIS, as such, has no official doctrine and, indeed, avoids anything in the nature of dogmatism; but the members of the Board of Directors and of the Management have had, in various capacities, much personal experience in matters of monetary policy. Most of them have today, or have had in the course of their careers, to shoulder practical responsibilities in connection with the management of a particular currency.

It is therefore not surprising, and it is undoubtedly all to the good, that in the interpretation of facts and the drawing of conclusions the Bank's *Annual Reports* should reflect this varied experience and uphold what has come to be known as the "central-bank tradition". This is, however, by its very nature a tradition which must be constantly kept up to date, in view of the great progress which has taken place in the science of economics over the last twenty-five years and the important advances made in monetary technique, influenced as they have been by the lessons learned from actual developments in this field.

Looking back over the series of *Annual Reports* published by the BIS, it is striking to note that there is an unmistakable continuity of ideas and opinions, however difficult and varied the particular circumstances of each period may have been. Right from the beginning, attention has been drawn over and over again to the fundamental solidarity of all countries in their approach to economic and monetary problems. The belief that one country in isolation could achieve prosperity by cutting itself off from the others through a policy of autarky was condemned

in the very earliest *Annual Reports*, which appeared at a time when that particular fallacy had in some countries become so firmly rooted that it almost amounted to an official doctrine.

The Fifth *Annual Report* (published in 1935) gave a detailed description of the methods of cooperation between central banks. This study naturally bore the mark of the circumstances prevailing at the time, but in broad outline it is as topical today as it was when it was written.

The ideas which were contained in the *Annual Reports* of the BIS in the first post-war years conflicted at the time on many points with the views prevalent in leading economic circles in various countries and, in particular, with a number of forecasts which were put forward at the end of the war. There was then a fairly general belief that the main danger lay in the possibility of a serious business setback after the heavy wartime expenditure had been reduced. It seems that the great depression between the two wars had had so marked an effect on men's minds that the fear of another deflation blinded them to the opposite danger: that presented by a continuing inflation. Consequently, most people were convinced that a policy of easy money would be more necessary than ever and that the methods of financial economic control which had been introduced during the war should, broadly speaking, still be applied, in any case during the period of reconstruction.

Already in 1944 the Bank, in its Fourteenth *Annual Report*, had taken a very different view of the situation. After noting the excessively high degree of liquidity then characteristic of market conditions in almost every country, the *Report* drew attention to a number of other facts and figures which indicated that there would certainly be no immediate lack of means of payment and that the main necessity was not to fight deflation but to combat inflationary tendencies and to make the adjustments required for a rapid change-over to a peacetime trend of expanding production and employment. Such a task called not so much for a continuation of controls and restrictive measures as for a conscious reliance on the active forces which would allow the spirit of enterprise and international competition to make their proper contribution to economic progress.

In addition, the *Annual Reports* of the first post-war years laid stress on some other essential points which were often overlooked at the time: First and foremost, that there is a very strong link—not always recognized but still as strong as ever—between a country's domestic financial and monetary policy, on the one hand, and the development of its balance of payments, on the other. Secondly, that there is a need for a truly flexible credit policy which, by means of variations in interest rates, can be constantly adapted to changing circumstances. Finally, that with

the passing of the war economy a removal of quantitative restrictions of all kinds is the most effective way of improving a country's economic position and, especially, of strengthening its currency, although particular pressure groups, swayed by shortsighted considerations, may make the lifting of import restrictions appear as a "concession" to other countries.

The Seventeenth *Report* of the BIS, published in 1947, laid particular stress in its conclusions on the urgent necessity for bringing to an end the wartime inflationary methods, the retention of which, it argued, served to prolong the dollar shortage in Europe. These conclusions were elaborated in greater detail in a note on the new American scheme for aid to Europe announced by the U.S. Secretary of State, Mr. Marshall, in the speech he delivered on 6th June 1947. This note, dated 10th July of that year, was intended for the use of the European central banks and was also communicated to the United States authorities. In it attention was drawn to the fact that foreign aid of the type contemplated—which, it was recognized, would be a factor of the greatest importance for the post-war recovery of Europe—could not be maintained over an indefinite period. To be put to the best use it would have to be regarded as a means of facilitating the carrying-out of a comprehensive plan in which the financial and monetary rehabilitation of the European economies should be one of the main objectives and to assist this rehabilitation a certain portion of the aid should be earmarked for the strengthening of monetary reserves. Whilst the physical aspects of European reconstruction were undoubtedly important, they were not the only factors of which account had to be taken; if these aspects were to be given too much attention, it was maintained, while little were done with regard to balance-of-payments deficits except to subsidize them, there would be the danger that the financial disorders which were largely responsible for the shortages from which Europe was suffering might be unduly prolonged.

In the decade since the war, successive *Annual Reports* have presented a wealth of evidence showing conclusively that the fundamental monetary ideas constantly defended in the *Reports* have been borne out by events. With the aid of numerous examples, it has, in particular, been possible to prove that sound monetary policies are not incompatible with a steady expansion of economic activity and with the maintenance of a high level of employment. Since the outbreak of the Korean conflict, which was followed by a fairly general return to a flexible credit policy, the dominant ideas in monetary thinking have undoubtedly undergone a great change. Fortunately, a careful examination of actual developments in the various countries has done much to bridge the gulf which existed between the adherents of different doctrines in the first

years after the war. Nowadays there is hardly anyone who disputes the usefulness of what has been described as the "revival of monetary policy".

The remarkable economic progress which has been achieved in Europe during the last few years has inevitably given added importance to an increase in savings activity and the restoration of properly functioning capital markets; and there has come to be, at the same time, a greater understanding for the need to return to a truly international monetary system based on currency convertibility.

The Twenty-third and Twenty-fourth *Annual Reports* (issued in 1953 and 1954 respectively) contained special chapters on the financing of investment and the growth of savings, which constitute the basis for economic development. Particular reference was made to some of the ideas on these subjects which had come to be connected with the name of Keynes. Attention was drawn to the strange fact "that there was for a long time so little recognition of the essential difference between the situation prevailing in the post-war years and the state of affairs which Keynes had in mind when he prescribed his remedies for the ills of the great depression".* The conclusion reached was summed up in the following words: "The restoration of a healthy currency is not only the most urgent but also the most remunerative form of investment". The restoration of a healthy currency is, indeed, the only way in which a high degree of European cooperation and integration can be achieved without turning Europe once again into a closed area. The concluding observations of the Twenty-third *Annual Report* laid particular stress on the same points in the following words: "Europe's whole history shows that the periods when it has been cut off from other regions of the world have been its dark ages"; and "convertibility is a flexible bond which constitutes the most effective and least rigid form of integration".

As post-war conditions have improved in Europe, the *Reports* have tried to indicate the practical steps which might be adopted in order to achieve a gradual return to convertibility. Constant care has been taken to avoid entering the barren field of doctrinaire controversy or losing sight of the fact that one of the essential aims of the economic analyses contained in the *BIS Reports* is to provide those who are responsible for monetary policy with the requisite facts and figures, presented in as objective a manner as possible, so that they may be useful to them in their discussions of their own problems and may really help them to draw the necessary conclusions.

* Some ideas connected with Keynes' theories had already been discussed in Chapter III of the *Twentieth Annual Report* (issued in 1950) with particular reference to the need for post-war investment in various European countries, and especially in Italy.

VIII. CONCLUSION

The founders of the BIS attached great importance to the permanent contacts which the new institution would make possible between officials of the different central banks. Their hopes that such contacts would develop and would produce useful results can certainly be said to have been fulfilled. It is, indeed, a remarkable fact that for twenty-five years—apart from the interruption during the war—the central-bank Governors who are members of the Bank's Board of Directors have, despite all the other claims on their time, devoted two or three days month after month to the Board Meetings in Basle; and other central-bank Governors not only attend the Annual General Meeting but also make occasional visits during the year.*

These personal contacts between the Governors, their alternates, and a number of high officials whom the Governors often bring to the meetings are of great value. The authorities have found by experience that in order to carry out the delicate tasks entrusted to them they nowadays require a thorough knowledge not only of their own country's monetary situation but also of that of other countries. The interchange of statistical and other data and the relations which are established through diplomatic channels or at official conferences cannot take the place of the direct personal contacts, the relationships between man and man, and the close understanding which exists between those who have to shoulder very much the same responsibilities in their respective countries.

Indeed, a new spirit has grown up in the relations among European central banks; and there is no doubt that the regular meetings in Basle have played their part in helping it to develop. And since, fortunately, this spirit of cooperation has evolved spontaneously and not as a result of any formal regulation, it has grown stronger with the years and has become powerful enough to survive even under the most extraordinary circumstances.

Practically all countries in Europe are now faced with important problems. As far as monetary questions are concerned, the primary necessity for these countries in the sphere of domestic policy is to make a proper valuation both of the traditions of the past which have stood the test of time but which need to be harmonized with the conditions of a modern world, and of certain doctrines, more recent in origin, which have often been too rigid and therefore also stand in need of adaptation to existing facts. Indeed, the experience of these post-war years has

* In addition to the regular sessions of the Board of Directors, meetings of experts are held from time to time at the BIS. These meetings are essentially technical and informal in character and are intended to help the central banks to compare notes and to widen their sources of information.

proved more conclusively than ever that neither social nor economic progress can be made unless a proper monetary policy is pursued. In the international field the important task is to reconstruct an effective and durable monetary system, this being the only means of achieving the high degree of integration which is necessary in the world of today without at the same time turning Europe into a closed area; for the goal must be to promote a more abundant flow of goods and capital throughout the world.

In a modest but I believe useful way, the BIS is in a position to make a contribution to the solution of these essential problems. By its very existence and its international activities the Bank proves that European cooperation should not be regarded merely as a lofty ideal but that it can, step by step, become a reality sufficiently strong and durable to surmount the greatest difficulties.

The history of the Bank for International Settlements proves that the important point is not necessarily the size of initial financial resources and still less the existence of complex and detailed statutory guarantees. What really matters is the mutual trust between men pledged to a common task and, above all, the ability of institutions, within their particular field, to adapt themselves to the constantly changing conditions of the modern world.

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