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International bank and the reparations settlement;

George Percival Auld (1881- )

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The International Bank and the Reparations Settlement

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FOREWORD

The adoption of the Young Plan for the settlement of the reparation question in Europe and the establishment of the Bank for International Settlements are events of profound importance which should contribute materially to the re-establishment of a reasonable rate of progress in world trade.

As a creditor nation we should bear our fair share of the burden of rehabilitation. We should know what our commitments are under it. We should be aware, most especially, of the change in the situation that has been brought about by the current settlement with Germany, and of the advantages to American foreign trade that should accrue from it.

Mr. Auld's address at the Seventeenth National Foreign Trade Convention at Los Angeles is an admirable statement of the practical factors of agreement and co-ordination which have been brought to bear by the Young Plan on the whole world trade situation. It is a real contribution to one of the vital phases of American foreign trade policy.

JAMES A. FARRELL, Chairman,
National Foreign Trade Council.
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THE INTERNATIONAL BANK AND THE
REPARATIONS SETTLEMENT

By GEORGE P. AULD
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formerly Accountant-General of the Reparation Commission

Going back as far as the foundation of the Bank of England in 1694, we find that the exigencies of war or the clearing away of its aftermath have occasioned the establishment of three out of the four leading central banks of the world. The Bank for International Settlements, which now links them up, has a similar origin. It was conceived by the Young Committee to aid in the solution of post-war financial and monetary problems, by acting as trustee of the reparation plan and by providing convenient means for cooperation between central banks, there being at present no less than 34 such institutions, of which 11 were created since the World War.

Every great conflict has thrown a critical strain on the existing mechanism of civilization, and new and improved instruments have been called into being to carry the strain and aid in reconstruction. Many such emergency devices have proven long-lived. Each new era of peace, following on reconstruction, has witnessed a marked acceleration of the normal pace of human affairs. The new pace has thrown new burdens on the institutions of society, and the emergency instruments have survived as indispensable units in the machinery of the new regime. Such a career for the new Bank was expressly foreseen by the Young Committee.

In the year that has elapsed since this project was launched, an extensive literature of controversy has already grown up around it. The new institution has been both denounced as a super-bank and derided as a cipher. Its structure and control have been harshly criticized; some of its functions as reparation trustee, notably in connection with the proposed sale of bonds, have been attacked; and its broad general powers as a potential central bank of central banks have been the object of furious controversy. But the project has moved along over all hurdles, and the Bank has now begun to function at
Basel, under the chairmanship of Mr. Gates W. McGarrah, until recently Chairman of the Federal Reserve Bank of New York.

The Bank is incorporated under a special act of the Swiss federal assembly, embodying a treaty between Switzerland and the six founding nations, Great Britain, France, Germany, Italy, Belgium and Japan.

Structure of the Bank

Fifty-six per cent of the capital was allocated in seven equal parts to the central banks of the six founding governments, plus an American banking group, consisting of J. P. Morgan & Co., the First National Bank of New York, and the First National Bank of Chicago. Under the charter, the American group may at any time be replaced by the Federal Reserve Bank of New York, in the unlikely event that our government should reconsider its disapproval of Reserve Bank participation. The minority interest of forty-four per cent in the capital of the B. I. S., as the Bank is colloquially known, will be contributed by the smaller central banks.

While the stock will be resold to the public, voting powers will remain with the central banks and the American banking group, in proportion to their original subscriptions. Voting control thus lies with the group representing Germany and the six major creditor countries, which also has operating control, through the holding of 16 places out of 25 on the Board of Directors.

Subsequent to the publication of the Young report containing a suggested outline of the Bank, and prior to the definite formulation of the charter by the organizing committee headed by Mr. Jackson E. Reynolds, strong criticism was expressed on the predominance given to the seven major institutions. The scheme was characterized by the London Times as "a close oligarchy of the governors of the central banks of the reparation countries . . . . inconsistent with the larger functions contemplated for the bank as an international reserve institution."

This criticism was not well-considered and it had no effect; for the countries of the majority group (excepting Belgium) are economically the most important nations of the globe, and without regard to their reparation interests would inevitably predominate in any enterprise of an economic character. Moreover, any serious abuse of power would require consistent unanimity among the seven major parties, which would clearly be impossible. The Bank can operate
only by common consent, and this fact alone makes it inevitable that as the danger of abuse of power will be small, so also will the possibility for constructive service be slow in arriving.

Another important question which was raised as to the structure of the Bank related to the matter of ultimate control over the power of the Bank to revise its own charter. It was cogently argued, notably in England, that as a national central bank is not a sovereign power, but is subject, in the last resort, like every other institution, to the authority of the state, so an international central bank must in the last resort be subject to the authority of the participating states. The political control over an economic instrumentality, however, must be a remote one, in order that there may be as little interference as possible in administration.

A solution offered in England, that the Bank should be placed under the League of Nations, was impractical and illogical. The United States is not a member of the League, and it was necessary that the Bank enjoy at least the passive approval of this country. More than that, control by the League would be the precise opposite of the remote control required. For, the outstanding virtue claimed for the League lies in the continuing character of its organization—its instant availability for conference when a political crisis arises.

A satisfactory solution of this question was found by the organizing Committee by inserting a provision requiring approval by Switzerland and the founding governments of all amendments adopted by the Directors to important specified sections of the charter. The sections specified relate chiefly to the structure of the Bank, the allocation of its capital, the restrictions on its powers and the distribution of its profits. Ultimate political control is thus provided, but its remoteness is well assured.

Broad Divisions of the Bank's Functions

The objects of the Bank, as stated in its charter, are “to promote the cooperation of central banks and to provide additional facilities for international financial operations; and to act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned.”

The Bank’s trustee functions cover specifically those of a trustee appointed by Germany’s creditors to receive, manage and distribute the reparation payments. This will give the Bank plenty to do, but,
with certain exceptions, the duties involved are of a routine nature, not involving discretionary action.

The settlement with Germany amounted to a reduction of her annuities from a Dawes Plan annuity (of indefinite duration though presumably not more than 37 years) of about $600,000,000 (to which, commencing this year, there would have been additions reflecting improvements in Germany's economic condition) to an average annuity under the Young Plan of about $477,000,000, to run for 59 years. As an additional inducement to Germany, the annuities were so arranged that the early ones will be relatively small, commencing at $346,000,000 for the first 12 months, and rising gradually to $578,000,000 in the 37th year, thereafter being fixed at about $400,000,000. Expressed as a capital sum, the obligation may be said, on certain mathematical assumptions, to have been reduced from about $10,000,000,000 to about $9,000,000,000.

The chief provisions of special interest in the plan—and these provisions also call for exercise of discretionary powers by the trustee—have to do with the contemplated issues of reparation bonds and with the so-called transfer problem.

The Annuities

The German annuity is split into an unconditional portion set at a fixed amount of $157,000,000, and a postponable portion covering the remainder. The postponable feature is devised to obviate any dangers to the German currency reserves which might arise in exchanging marks into foreign currencies for payment abroad. The possible existence of such dangers is known as the transfer problem.

Both portions of the annuities are payable by Germany in foreign currencies monthly to the B. I. S., but in the case of the postponable annuity the foreign currency payment may be postponed on the sole decision of the German government for not more than two years, payment being made meanwhile in marks (though in the second year of a postponement part of the mark payment may also be deferred for one year).

In case of postponement, or notification by Germany of expected postponement, the Bank is required to call together an advisory committee, the members of which will be appointed by the respective governors of the seven principal institutions. This committee will "make a full investigation of Germany's position in regard to her obligations under [the] plan." Its recommendations will be transmitted to the
respective governments and to the Bank, the approval of which will be necessary for action.

The establishment of this system means that Germany now assumes the postponement prerogative (which was never exercised) of the inter-allied Transfer Committee set up under the Dawes Plan six years ago. For the reassurance of the creditors, the German government declared in the Hague agreement that "it is firmly determined to make every possible effort to avoid a declaration of postponement. . . . ."

For their part, the experts of the creditor powers stated in the Young Plan that they had "every reason to believe" that the total annuity "can in fact be both paid and transferred." They stated, however, that they "fully respected [the] scruples" of the Germans as to making themselves "unconditionally responsible for any obligation which they are not certain is within their power of performance in all circumstances." And they admitted that over short periods difficulties of transfer might be encountered.

The acceptance of the Young Plan by the Germans unquestionably hinged, in a very important degree, upon this admission by the creditor experts of the possibility of temporary transfer difficulties, upon their agreeing to base a postponement clause upon it and, especially, upon their willingness to erect an institution of non-political character which would automatically bring special circumstances up for review and have a responsible share in any plan for their adjustment.

It also seems apparent that the German experts attached great weight in the transfer connection to certain other passages in the plan. One of them referred to the possibility of assistance being rendered to Germany by means of temporary credits by the Bank. Another referred to the more general ultimate service of the Bank in opening up new fields of commerce, in which process Germany, as a participant, would be helped to increase her export surplus.

The Transfer Problem

The latter reference particularly might be thought to suggest recognition of a real transfer problem in its only important sense of a problem of a permanent, continuing nature. But in that sense, no factual evidence has ever been produced to demonstrate the reality of the transfer problem. The theory of it is fallacious, and the belief in it, except in German and in some English quarters, is now fairly
well exploded. Transfers of great debt payments are and always have been automatically ensured over the major swings of trade and finance by one of two complementary processes—either by the export of a commodity surplus or in its absence by further long-term borrowing abroad, arising through natural processes of capital distribution.

What the creditor experts subscribed to on the subject was no more than a reference to the recurring short-period strains, more or less regularly experienced not only in Germany but in every other country, when the foreign exchanges rise in value on account of temporarily increased demands for remittances. Such demands normally are due to seasonal requirements or to relatively low prices abroad for commodities and high rates abroad for money.

Conceivably in the case of Germany, or any country, such circumstances might call for special temporary advances of foreign exchange by the B. I. S. But such situations have long been among the commonplaces of international finance, and the necessary short-swing adjustment is ordinarily set in motion by an increase in the discount rate of the central bank concerned. In response to the higher money rate, the international pool of short-term money, always on the lookout for profitable employment, moves in from abroad. Thus the supply of foreign exchange is increased. At the same time domestic credit is contracted by the higher bank rate, domestic prices fall and the demand for foreign goods is decreased. Thus the demand for foreign exchange is decreased. In this manner the fine adjustment of the exchanges over the short swing is made effective.

By this process the exportation of gold in exchange for foreign currencies is checked, and the currency reserves protected from undue depletion. During the five years of the Dawes Plan, the Reichsbank had no great difficulty in so protecting its reserves, and even with the enormous drawing power for short-term money exercised by the American stock market, and in the face of a falling off in our long-term loans to Germany, the annuities under the Dawes Plan were regularly paid.

Assuming, therefore, a certain degree of normality in economic affairs and international relations and ordinary good management by the Reichsbank, no occasion to invoke the postponement clause of the Young Plan should arise. No central bank, however, can safely administer its rate policy in disregard of conditions on other money markets. Consultation with other central banks is essential. The new
institution furnishes, above all else, effective means for such consultation, and it is largely in this sense rather than in the prospect of employing its funds for the relief of Germany, that the machinery of the B. I. S. seems likely to be of importance in connection with reparation payments.

There were excellent reasons why a controversy over a fine-spun point of economic theory regarding transfers should have loomed large in the excessively practical negotiations at Paris last year. Germany was out to get her debt reduced, and France, as compensation, wanted a capital payment or series of capital payments arranged through "mobilization" of a portion of the debt, i.e., through a sale of reparation bonds to the public.

Such bonds, to be marketable, had to be based on an unconditional undertaking by Germany to meet the interest and sinking fund charges, without any reservations about transfers, and France, of course, wanted the undertaking to cover as large a part of the obligation as possible.

But the greater the unconditional annuity, involving at least potentially its conversion into bonds to be placed with the investing public, the larger would become the proportion of the debt to which Germany would be irrevocably tied. The door to any future downward revision of that part of the obligation would be definitely closed, for, short of revolution, no great nation ever has taken or is likely to take steps tending to compromise its commercially held external debt.

Thus, at Paris, the conflicting convictions of France and Germany as to the correct economic theory of transfers were found in practice strongly to support the respective interests of the two parties in the matter of the size of the unconditional obligation.

**The Forthcoming German Bond Issue**

An issue of German bonds is due to be brought out shortly in the principal amount of $300,000,000, of which $200,000,000 will be a partial mobilization of the reparation annuities for the benefit of the creditors and $100,000,000 will be a loan for the benefit of the German railway and postal service. The participation of the American market in this issue is expected to be about $75,000,000 to $100,000,000.

While the market for these bonds might be somewhat more favorable if the plans of the German government for the reorganization
of its finances were further advanced, it can nevertheless be said that all these issues are well-secured. The annuities generally are secured on the duties of the German customs and the taxes on tobacco, beer and spirits. In addition, the unconditional annuity on which the mobilized bonds are based is secured by the impounding of a tax of equal amount levied on the railways, taking the place of the Dawes Plan mortgage, which is to be cancelled. The terms and conditions of the bonds will be fixed by the B. I. S.

How large a figure the reparation bond issues will ultimately reach is problematical. If bonds were issued covering the whole of the unconditional annuity, they might amount to a total face value of $2,000,000,000 to $2,500,000,000, depending on the rate of interest and maturity. It seems certain, however, that the total issue will fall very far short of any such figure and of the hopes of the French in this connection, for the ability of the world investment markets to take up German obligations will probably be fairly well covered by German industrial financing. Germany's ability to pay reparations is founded on the fruitfulness of her industry, and that industry will require from year to year large amounts of fresh capital. A part of what would be Germany's normal capital accumulation will be impounded by taxation to serve the reparation annuities, and unless increased savings are made, that part is likely for many years to be brought back to the service of German industry through the issuance of industrial obligations and their sale to foreigners.

To that extent German industry will be financed not by domestic stockholders' capital but by foreign bondholders' capital, and unless the reparation creditors are convinced that their best interest lies in cashing in on a part of their claims to the possible detriment of the remainder, the sale of reparation bonds for account of the creditors will have to be restricted. This would not preclude, however, substantial issues of German reparation bonds for conversion purposes, i.e., to be offered, for example, to French citizens in exchange for obligations of their own treasury now held by them.

In the new reparation scheme the Bank takes the place of the Agent General of the creditor powers at Berlin and of his nominal superior, the Reparation Commission, at Paris. The Young Plan regime sweeps away all other paraphernalia of foreign control, including the foreign supervision of the railways and the reparation mortgage on German industry, as well as the military occupation of the Rhineland.
Deliveries in Kind to be Gradually Abolished

Certain artificial arrangements involved in the system of deliveries in kind will also be eliminated by the gradual abolition of that system over the next ten years. The system was to an extent a product of the myth of transfer difficulties, and in so far as delivery programs did not follow usual commercial channels they resulted in abnormal displacements in the field of European industry. The English were convinced that this was so, particularly in the case of coal deliveries. Under the new regime, and as a result of Mr. Snowden's forceful representations at the Hague Conference, England has secured a reduction of German coal deliveries to Italy on reparation account and has obtained the agreement of the Italian government to purchase for the Italian State railways 1,000,000 tons of British coal a year for the next three years.

The transformation, so far as possible, of the conditions of a political problem to the forms and practices of private business was one of the conscious objects of the Young Committee. It was a statesmanlike object, and the spirit in which the plan was conceived was a statesmanlike spirit. Mr. Young recently said that the term "reparations," which possesses such a bitterly controversial background, was used as sparingly as possible in the report. This remark is very illuminating as to the temper of the man and the attitude of the report that bears his name. The liquidation of the reparation problem was to be made effective not only through transformations of substance relating to its methods and instruments, but also through appeasements on the psychological and moral side.

There has been some ill-considered talk in this country on the supposed dangers of the commercialization of the reparation debt in connection both with the issuance of reparation bonds and the gradual transformation of the remainder of the debt into private obligations of German industry. The substance of the outcry is contained in the slogan, "The American investor is holding the bag for the allies."

It is true that the allies are benefited by all this, but the fact is, the American taxpayer is the principal beneficiary. Two-thirds of the reparation payments will be remitted immediately to the United States treasury, on account of the approximately $6,000,000,000 (present value of the annuities) owed by the European allies to this country.

Investor Is Not "Holding the Bag"

It is a gross misreading of the facts, however, to suggest that the
investor is holding a bag for anyone at all. What he is really doing is investing to good advantage in good securities such of his surplus earnings as are not needed at home. This is not to say that the holding of a disproportionate amount of the commercial debt of one country does not present any problem at all for the United States. Undoubtedly it would be better to have more diversification. But the point is that the problems connected with the holding of international commercial debt have nowhere near the explosive quality of those involved in the international obligations between tax-paying publics which the commercial debts will little by little take over.

Our real concern in this connection arises out of the political factors involved in the taxpayers' obligations, slated to continue for the next 59 years. The position which the United States occupies as chief ultimate creditor of Germany certainly offers food for thought.

It is doubtless expedient for us to emphasize the status of the debts owing to us as being, legally, the obligations of the European allies, and the collection of reparations (except for a small amount paid to us direct) as being, legally, for the account of the allies. Our disinclination to appear as the great creditor, vis-a-vis Germany as the great debtor, is a natural one, but it bears no relation to the facts underlying the legal forms. What will come out of those facts is a question that at present cannot even be usefully outlined. But it is safe to say that we shall hear much more of this alignment in the future than we have in the past, and that its consequences, whatever they may prove to be, will have great importance.

Broader Functions of the Bank

Turning to the broader aspects of the Bank's purposes and powers, we find that they include, in particular, the right to receive deposits from central banks and others and make deposits with central banks, to grant loans to or borrow from central banks on security, to discount or rediscount short-term obligations of prime liquidity, to make investments in negotiable securities, to buy and sell gold and exchange, and hold gold in custody for central banks. The Bank is also empowered to act as agent for any central bank and to arrange for any central bank to act as its agent.

This grant of powers, together with collateral questions, has provoked intense controversy. But the plan, with some modifications, has gone ahead to final adoption without its authors feeling it necessary
to rally to its defense. The fact is, the scheme had great inherent
strength and carrying power. For in spite of a certain vagueness in
the minds of students as to precisely what the Bank will do in prac-
tice, it is widely recognized that the increasing closeness and com-
plexity of international money market relationships require systematic
cooperation between central banks; and there is general belief that no
judgment as to the effective means of securing such cooperation could
be more competent or responsible than the combined judgment of
the central banks themselves. The important fact in this connection
is that the Young Committee had as its chairman a director of the
Federal Reserve Bank of New York and included in its membership
two directors of the Bank of England, the head of the Reichsbank
and the head of the Bank of France.

These men or their associates, with Mr. McGarrah and Mr.
Fraser, will have a predominating part in administering the B. I. S.
It is apparent from the report of the Young Committee and subse-
quently expressed by individual members of it that they had a certain
vision of a wide ultimate usefulness of the Bank in the international
centralization of reserves, the creation of a gold settlement fund, the
development of world trade and the stabilization of prices. It is
equally apparent, however, that they expect the realization of these
ends to come about only in natural course, when and as further ad-
vances in the art of central banking and an increasing solidarity of
world opinion may make them possible.

The ends held immediately in view were much less spectacular.
These ends were the creation in corporate form of a laboratory for the
development of the art of central banking, and a clearing house for
the exchange of information and counsel, and, more concretely, the
establishment of a capital fund for the purpose of extending emer-
gency credits to the central banks of countries requiring assistance in
restoring the gold standard or in supporting it in times of temporary
strain. The extension of such credits as necessary will constitute an
organized method of executing the same kind of service as that per-
formed over the past decade by specially arranged consortiums of
central banks, in which the Bank of England and on several occasions
our Federal Reserve system have taken a leading part.

Characterization of the institution as a super-bank possessing dan-
gerous powers arose in the early public discussions of the project,
when it was in a formative state behind the more or less closed doors
of the experts' committee room. In the final form of the charter, the
express restrictions laid on the powers of the Bank effectively dispose of any such idea.

Of these prohibitions, the most important, and also the most thoroughly conclusive from a nationalistic standpoint, is the so-called veto clause, which provides that the Bank cannot operate on any given market or in any given currency if the central bank or central banks directly concerned express dissent. Besides this, the Bank may not issue currency notes; which means that a world currency is not contemplated. It is forbidden to endorse its “acceptance” on bills of exchange, which means that it will not compete in the profitable private field occupied by the acceptance bankers of London and other centers. It may not acquire a predominant interest in any business concern; which means that its participation in private enterprise generally will be held within proper limits. And finally the Bank may not make advances to or open current accounts in the names of governments, which precludes its direct involvement with political instrumentalities.

Ultimate Ends

The significant power of the Bank lies in the possession of a capital fund of $100,000,000 available as the basis for rediscounting operations by central banks. The Young Committee said that “the use of the Bank’s credit by central banks within moderate limits and over short periods may in time become a normal function scarcely different in its exercises from the use of central bank credit by banks and bankers.”

The realization of this purpose depends on the attitude of the various participating banks toward a general practice of periodical borrowing at the B. I. S., and on their faculty of calculating the credits thus created with the B. I. S. as part of their reserves. On the latter point many if not most central banks, except our Reserve institutions, would be able to include their deposits with the B. I. S. as part of their reserves. Assuming the ultimate coming into effect of a regular practice of rediscounting, an economy in gold reserves should result. The amount of fresh bank credit capable of being created by this means for customers of the central banks would apparently be several times the amount of the capital and other cash resources available to the B. I. S., the precise ratio depending on the reserve policies of the B. I. S. itself. The statutes of the latter specify no definite minimum of cash reserves, but require that the Bank “shall be administered
with particular regard to maintaining its liquidity and for this purpose shall retain assets appropriate to the maturity and character of its liabilities."

Among the ultimate purposes of the Bank, the establishment of a gold settlement fund has received considerable attention. Mr. Traylor, who with Mr. Reynolds, constitute the American representation of the Organization Committee, thinks that this may come soon; others disagree. Whether or not it does, it seems a relatively unimportant though useful mechanical device for saving the cost of shipping gold.

The idea that the Bank might lend itself to schemes for the development of so-called backward areas and the direct stimulation of trade projects has excited lively comment and some apprehensions. It is of course obvious that, in whatever countries the benefits of the rediscounting functions of the Bank might be felt, those benefits would be reflected in the producing and purchasing power of the countries concerned. But that any direct exploitation of industry or trade as such in specific areas will be undertaken by the Bank appears most unlikely. Seemingly the selection of the areas to be so benefited would alone present almost insuperable difficulties to a board of diverse nationalities. The most plausible explanation of references in the Young report to the possible opening up of new fields of commerce, as already mentioned with relation to the transfer problem, is that they were the expression of a hope of Dr. Schacht's, made familiar to us through his frequent pronouncements on the expansion of German trade and the return of the German colonies. It may be observed that in the definition of the objects of the Bank appearing in the charter, as already quoted, no specific mention is made of trade development.

Nor is there any mention in the charter of stabilization of prices. This problem is as yet only very vaguely defined, and its solution is presumably far in the future. Substantial accomplishment in that direction must depend on the development of the science of economics and the art of central banking generally; and predictions as to the part that the new bank might play in it would be highly speculative.

A certain weeding out of the controversy over the new bank is possible when one appreciates that much of it reflects merely current controversy on the theory and practice of central banking generally, and raises no new questions. Though many of the problems of central banking are still unsolved, and some of its broader ends are still only dimly outlined, this should cause no misgivings in connection
with the creation of the new international unit. The essential things are that the control of the new bank should be safeguarded from abuse and its powers adequately restricted; and both of these conditions have been realized.

**Our Relation to the Bank**

Our Reserve banks will not participate in this institution. The original announcement of this policy by the Secretary of State placed the decision on the understandable ground that “this government does not desire to have any American official, directly or indirectly, participate in the collection of German reparations through the agency of this bank or otherwise.”

Other grounds of opposition to the participation of our Reserve Banks have been expressed by certain commentators. These are based largely on fears of undue European influence in the determination of Federal Reserve discount rates and credit policies. Such a view does scant justice to the intellectual and moral calibre of our banking authorities. It is, moreover, founded on a too commonly accepted fallacy that what is good for Europe is bad for us.

The dangers foreseen by those who accept this view are supposed to be connected with the practice of lowering our rediscount rate to ease the strain on the European exchanges. The classic example cited is the lowering of the rate in 1927, followed as it was by the great upswing of our stock market. But the lowering of the rate on that occasion, as would always be the case, had a dual purpose, which was not only to strengthen the European exchanges, but also and thereby to stimulate our own exports and industry generally.

That this cheapening of money also caused the bull market is highly dubious economic reasoning; for subsequent experience showed that high interest rates could not dampen the enthusiasm of a speculation-crazed public. The bull market was born of a spectacular industrial expansion, it fed on the cupidity and self-delusion of a vast new army of speculators, and, while the mania persisted, it was of itself a major economic force that could not be denied. Money rates did not make the bull market; on the contrary, the bull market made money rates.

Though our Reserve system will not participate in the new bank, co-operation with the bank and its central bank members in the matter of money rates and otherwise will still be necessary. The eco-
nomic facts that require such co-operation will still exist. A better public understanding of those facts would effectively dispose of much ill-considered criticism of Federal Reserve policies. The broad truth is that economic forces so interlock that what is sound policy with regard to our foreign trade and investment interests is also sound policy with regard to our domestic affairs.
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