

Central Bank Cooperation at the Bank for International Settlements, 1930–1973. *By Gianni Toniolo, with the assistance of Piet Clement.* New York: Cambridge University Press, 2005. xxii + 729 pp. Photographs, illustrations, tables, figures, appendix, bibliography, notes, index. Cloth, \$125.00. ISBN: 0-521-84551-3.

Reviewed by James M. Boughton

When the Great War ended in November 1918 after leaving more than nine million dead on the battlefields, the world needed a renewal of international cooperation as never before. Tragically, despite repeated efforts, beginning with the Paris Peace Conference, cooperation failed to take root until after a second world war had killed another twenty-five million combatants and countless civilians less than three decades later. Politically, cooperation was undone by competition and conflicts among communist, democratic, and fascist regimes and by a deep spirit of isolationism in the United States. Economically, the eternal competition for scarce resources was magnified by the distrust and demands for retribution sown by the first war, and international relations descended into protection, autarky, and ultimately depression.

One bright spot—though only a spot—in this dismal interwar history was the initiation of multilateral cooperation among central banks. As Gianni Toniolo recounts in this superb new history of the Bank for International Settlements (BIS), that effort originated with a letter from Montagu Norman, governor of the Bank of England, to his counterpart and friend at the Federal Reserve Bank of New York, Benjamin Strong. “I rather hope,” he wrote in 1925, “that next summer, we may be able to inaugurate a private and eclectic Central Banks’ ‘Club,’ small at first, large in the future” (p. 30).

That kernel of thought grew slowly into the BIS, which was established five years later as a quasi-bank, quasi-intergovernmental organization located in Basel, Switzerland. A major part of the impetus driving governments to support its creation was the need to organize and rationalize the transfer of reparations payments from Germany to the Allies. Its more permanent responsibility, however, was to serve as a locus for cooperation among central banks adhering to the gold standard, and even as a bank for its member central banks. Toniolo offers a clear and succinct account of how these disparate

functions were brought together through diplomacy into a unique and unprecedented private-public entity.

As it had done with the League of Nations, the U.S. government participated in the conception and gestation of the BIS, but it ultimately ruled out official U.S. membership. In this case, however, the founders devised a clever solution by inviting two American bankers with strong central-banking credentials to join the board and look after U.S. financial interests. Indeed, one of the two—Gates W. McGarrath, who resigned as chairman of the Federal Reserve Bank of New York in order to go to Basel—became the first president of the BIS.

The early years of the BIS could scarcely be regarded as a great success, but the failures were primarily political and systemic and not the result of poor leadership or execution at the BIS itself. The Bank organized a loan to Austria in the wake of the 1931 Credit-Anstalt crisis, but it was insufficient to stop the run on bank deposits. The same year, it organized a loan to Germany that failed to stop that country's financial crisis at a time when economic collapse was fueling Hitler's rise to power. When the gold standard collapsed in the wake of these crises, the BIS kept going only by ignoring the fact that it had been established partly as a bank for intermediating reparations payments that were no longer being paid and partly as a club for central banks that were no longer adhering to gold.

Nonetheless, the glass of purpose and respectability for the BIS, even if it was not always half full, never quite ran dry during the remainder of the 1930s. Among others, the Swedish economist Per Jacobsson—then an economic advisor at the BIS and later the head of its Monetary and Economic Department before becoming managing director of the International Monetary Fund (IMF) in 1956—provided the intellectual leadership that the Bank needed to play an important role in keeping the goal of stable and open financial relations among states on the agenda throughout the dark years of the depression. As Toniolo explains, “The BIS continued to be regarded as a valuable locus—if not for actual cooperation, then at least for the exchange of information and opinions” (p. 167). Without this forum for ongoing discussion and debate, it is arguable that the one moderately successful incidence of monetary cooperation in the 1930s—the Tripartite

Agreement among Britain, France, and the United States in September 1936—would never have taken root.

The darkest days in the history of the BIS came during World War II, and Toniolo does not shrink from portraying either the mistakes that Bank officials made or the pressures that resulted in at least some of those mistakes becoming almost inevitable. How could the BIS, located within spitting distance of both France and Germany and working under a board of directors with members from both sides in the war, remain both neutral and effective? Most famously, after Germany invaded Czechoslovakia in March 1939, the BIS complied with an order to transfer a large sum of gold owned by the Czech National Bank to the Reichsbank in Berlin. Within two years, though still neutral in principle, the BIS was partly under the control of the Axis, which after a series of invasions held the majority of the votes on its board. It also remained useful to the Allies, and an American reigned as president throughout the war. Nonetheless, by 1944 the BIS was viewed by many as not only an obsolete relic but as a shameful lackey to the Nazis as well, and a nonbinding resolution to abolish it was adopted by the Allied countries meeting at Bretton Woods.

These early stumbles and the consequent struggle for institutional survival take up roughly the first half of Toniolo's narrative. After the war, the emphasis shifts from the role of the Bank itself to the context in which it continued to operate: the restoration of multilateral payments and currency convertibility, followed by the heyday and ultimate collapse of the Bretton Woods exchange-rate system in the early 1970s. In that era, the BIS role was overshadowed by the IMF and by the European Payments Union and its successors. Toniolo's account of these intertwined influences is nicely balanced and competes with the more detailed and equally authoritative history of postwar cooperation by Harold James (*International Monetary Cooperation since Bretton Woods* [1996]).

The major limitation of this book, which was commissioned by the BIS as part of an effort to become more open and transparent, is that it ends in 1973. The choice is not illogical, because it marks the end of the Bretton Woods system, but it was necessitated by the limits on access to the archives of the BIS rather than by the march of history. The cost of this cutoff is that Toniolo—a professor of economic history at both Duke University and the University of Rome—was prevented from covering the real glory days

of the BIS. Since 1982, the Bank has helped organize and finance multilateral rescue operations for several emerging-market countries facing financial crises. Since the mid-1990s, it has expanded to draw in the central banks of many emerging markets across Europe, Asia, and Latin America. The BIS also hosts several related entities, such as the Basel Committee, which has evolved into a standard-setting body for the adequacy of commercial-bank capitalization and for the monitoring and control of money laundering and the financing of terrorism.

It is only in these last three decades that the BIS has truly realized Montagu Norman's vision of "small at first, large in the future." One must hope that Toniolo will be available one day to write this sequel. In the meantime, whether you are a serious student of monetary history or whether you simply love a good story about the travails of the rich and powerful, this volume deserves a place on your bedside table.

James M. Boughton is historian of the International Monetary Fund. He currently is writing a sequel to his 2001 book, Silent Revolution: The International Monetary Fund, 1979–1989. The views expressed in this review are those of the author and should not be interpreted as the views of the IMF.