

# **Central Bank Cooperation at the Periphery: The Scandinavian Central Banks and the Bank for International Settlements, 1930-1931.**

*Per H. Hansen*

*Copenhagen Business School*

*phh.lpf@cbs.dk*

[This paper is work in progress. In particular, the empirical analysis need much more work. Please, do not quote without permission from the author]

## Introduction

The purpose of this paper is to examine the role of small, peripheral central banks in central bank cooperation and in international lender of last resort operations. More specifically, I analyze the behavior and role of the three Scandinavian central banks, the Danish *Nationalbanken*, the Norwegian *Norges Bank*, and the Swedish *Riksbanken*, in the establishment of the Bank for International Settlements in 1930, and in the international lender of last resort operation towards Austria in 1931. The paper is laid out like this. In the following section I present the background of the establishment of the BIS and for the Austrian crisis. I then examine the theoretical and practical foundations for international cooperation, and I argue that narrow interest based analysis, while relevant, may not enable to understand and explain more fully the reasons for central bank cooperation. Based on this discussion, I investigate the Scandinavian central banks' position towards the establishment of the BIS, and finally in the last section I analyze their position towards the Austrian crisis.

## The Bank for International Settlements and the Austrian crisis

The Bank for International Settlements was established in May 1930 as a result of the Haag negotiations in August 1929 and January 1930 that led to the Young plan concerning the German reparation payments. The authority of the BIS was impaired from the beginning as the US Congress denied the Federal Reserve System to participate in the bank. The BIS was founded as a joint stock bank with a capital of 500 million Swiss Franc paid up by the central banks of Britain, France, Germany, Belgium, Italy, Japan as well as some US commercial banks led by J.P. Morgan.<sup>1</sup>

The purpose of the BIS was to promote 'the co-operation of central banks and to provide additional facilities for international financial operations; and to act as a trustee or agent in regard to international financial settlements entrusted to it ...'<sup>2</sup> According to chapter 3 of the Bank's Statutes the bank was entitled to carry out financial operations in concordance with the monetary policy of the member countries. Among other things the BIS could advance credit to central banks against liquid collateral, but in no case was the Bank authorised to lend to governments.<sup>3</sup>

The Statutes of the BIS thus authorised it to act as a lender of last resort and in principle the BIS could act as a substitute for the lack of support from Bank of England and other central banks. Thus, to a certain extent, the establishment of the BIS institutionalized the function of an international lender of last resort. Reality was somewhat different, however, since the Bank's resources were far from adequate to halt a major financial crisis as the Austrian crisis in May 1931.<sup>4</sup>

The Austrian crisis began on 8 May 1931 when the Austrian bank *Credit-Anstalt* informed the Austrian government that its accounts for 1930 showed a loss of 85 per cent of its equity. The *Credit-Anstalt* was Austria's largest bank with 69 per cent of all joint stock companies as customers and with a fine international reputation. The consternation over the bank's troubles was substantial, and the British minister plenipotentiary in Austria commented that "if even the *Credit-Anstalt* cannot be relied on, everything in

Austria must be rotten."<sup>5</sup> During the weekend of 9-10 May a rescue plan was set up with assistance from the Austrian government, the Austrian National Bank and the Rothschild's in Austria. The scheme did not have the necessary effect, however, and over the following days a run developed on the Credit-Anstalt and other banks in Vienna.<sup>6</sup>

In the weeks that followed both Austrian and foreign creditors withdrew their deposits and converted Austrian Schillings into gold and foreign currency forcing the Austrian government and National Bank to apply for assistance from the Bank of England. Bank of England in turn referred the Austrians to the *Bank for International Settlements* (BIS).<sup>7</sup> And, indeed, as is well known, the BIS orchestrated the arrangement of a credit to the Austrian National Bank. This was not an easy task, however, because the BIS did not have any resources itself and therefore had to coordinate between many independent central banks that had to be asked if they would take part in the rescue operation. However, on 31 May 1931, a syndicate of central banks organized by the BIS announced that it had arranged arranged for a loan of 100 million schilling (\$14 million) to the Austrian central bank.

But the money came too little too late. Due to coordination problems and political problems the loan could not be arranged until the end of May and it did not ease the pressure on either the Credit-Anstalt or the Austrian currency. In less than a week the money was spent and on 5 June the Austrian National Bank applied for further credit, but now the political issues intensified. The French demanded that a planned customs union between Austria and Germany should be cancelled, but the Austrian Government refused to do this and resigned.<sup>8</sup>

In the meantime the Bank of England had intervened with a short-term 50 million schilling credit. This action was a sign that Montagu Norman, the Governor of the Bank of England, realised the need for urgent action in order to 'save the ship before it sinks'. Since Credit-Anstalt's short-term foreign bank debt alone amounted to more than 100 million dollars, it also illustrated the incapacity of the Bank of England to act as an international lender of last resort.<sup>9</sup>

As June went on the banking troubles spread to Germany. Foreign creditors withdrew their deposits and on 13 July a large bank, Danatbank, failed. The German Government decreed a two day bank holiday and introduced restrictions on gold export.<sup>10</sup> From Germany the crisis spread to Britain where the pressure on Bank of England's gold reserves and thus on Sterling increased. On 21 September 1931 the international monetary regime of the gold (exchange) standard broke down when Britain left gold.<sup>11</sup> One week later the Scandinavian countries followed Britain off gold.

The BIS characterised the situation as 'these occurrences still further shattered what was left of confidence and forthwith caused a strain on the reserves of nearly all central banks of the world, including the Federal Reserve System.'<sup>12</sup> The Dollar and the US banking system came under pressure and over the following

months Europe and the United States introduced protectionist measures resulting in a decline in world trade. The Great Depression was a reality.<sup>13</sup>

It is a central hypothesis of much of the literature on the Great Depression that its length and depth can be explained by the lack of international central bank cooperation. Thus, Kindleberger asserts that '... if the runs on Austria, Germany, and Britain had been halted by timely international help on a massive scale, the basic recuperative powers of competitive markets would have prevented the depression from going on so long and so deep.'<sup>14</sup> Eichengreen also attributes great importance to the lack of international cooperation during the financial crisis of 1931. It brought down the gold standard and even though the demise of gold presented new policy options they were not seized because decision-makers feared inflation even more than deflation.<sup>15</sup> To a certain degree Donald Moggridge has contested this view, but he agrees that cooperation problems caused the rescue operation for Austria to come too late.<sup>16</sup> Oye has argued that there was a manifest failure of cooperation between the central monetary powers in the period 1931-1933.<sup>17</sup>

It is evident that for the lender of last resort operation to be successful the large countries' participation was crucial. International cooperation between the large countries was not good, however, and national interests and differences over the reparations question hampered the rescue operation. Another question, raised by Kindleberger is the behavior of the small countries' central banks. He argues that the small countries' central banks were free riders because they liquidated their foreign exchange holdings at the Bank of England.<sup>18</sup> He further asserts that the small countries have been blamed for acting irresponsible and then continues

*'There is, however, no universally accepted standard of behaviour for small countries. On one showing, they lack power to affect the outcome of great events and are therefore privileged to look after the private national interest rather than concern themselves with the public good of stability in the world economy as a whole. On a somewhat higher ethical level, the small countries may be held to the Kantian categorical imperative, which enjoins them to act only in ways that can be generalised. In such circumstances, of course, they would not have withdrawn credits from Austria in the spring of 1931, nor from Germany and Britain in the summer, nor from the United States in the autumn.'*<sup>19</sup>

Regardless of whether one accepts the existence of a categorical imperative in relation to state behaviour, which would probably be hazardous in a world of realpolitik, it is interesting to analyse the behavior of the small central banks during the Austrian crisis. This paper will focus on the Swedish, Norwegian and Danish central banks' positions towards the establishment of the BIS and towards the international lender of last resort operation during the Austrian crisis. Apart from Kindleberger's hypothesis that the small central banks were free riders, the three Scandinavian central banks' role is also interesting because they had been neutral during the war and were not enmeshed to the same degree in the reparations and war debt conflicts that complicated international political and economic relations between the wars. The questions that are being asked, then, are what are the theoretical underpinnings for central bank cooperation, did the Scandinavian central banks cooperate and in what way?

### **International and central bank cooperation**

Helen Milner defines cooperation among nations as “goal-directed behavior that entails mutual policy adjustments so that all sides end up better off than they would otherwise be” and she emphasizes that cooperation calls for coordination between the actors.<sup>20</sup> Usually this definition is based on the basic assumptions of economic theory of atomistic, maximizing rational agents operating under full information, and game theoretic approaches are increasingly used to explain or even predict and understand actors’ behavior.<sup>21</sup> International cooperation theory deal mostly with nations and argue, then, that nations will only cooperate when they expect to gain from cooperation, that is when cooperation serves their national interests. However, even when cooperation does serve the national interest, coordination and asymmetric information problems such as in the classic Prisoners’ Dilemma game, may still be an obstacle to cooperation.<sup>22</sup> When cooperation does take place, the concrete form, according to Milner, can be either tacit, negotiated or imposed. In all three cases domestic policy and interest groups are important factors in determining whether cooperation will actually take place or not.<sup>23</sup>

Such a “realist” or anarchic view of international cooperation seems to be based on the assumption that there exist objective and rational national interests that can easily be identified and analyzed and transformed into rational decisions and actions.<sup>24</sup> This view does not take into account, first, that national interests will constantly be mediated between different domestic interest groups, and, secondly, that the idea of the national interest must be interpreted and mediated by means of narratives before they can be translated into decisions and actions. Furthermore, when it comes to central banks, while to a relatively high degree they must navigate within the institutional framework set up by their respective governments,<sup>25</sup> it makes sense to expect central bankers to have different outlooks and perceptions of the context and of their role than their governments, and to have certain degrees of freedom and discretion when it comes to performing their duties as central bankers.

Indeed, theoretically, it could be argued that central banks and central bankers constitute a (or perhaps a few) personal and social network that subscribes to shared narratives that construct the central bankers’ understanding of social reality, and thereby influence their decisions and actions.<sup>26</sup> Such networks also generate repeated interactions and therefore personal relations and trust, and the result may be the construction of an “imagined community” or “epistemic community”. An epistemic community is defined as “... a professional group that believes in the same cause-and-effect relationships, truth tests to accept them, and shares common values; its members share a common understanding of a problem and its solution.”<sup>27</sup> If this is the case, the assumptions of atomized agents, self-interested, rational behavior and a simple realist perception of national interests should perhaps be somewhat qualified? Moreover, “... Prisoner’s Dilemmas are ... often obviated by the strength of personal relations, and this strength is a property not of the transactors but of their concrete relations.”<sup>28</sup>

The fact that independence of the government was formalized in many central banks' regulations also contributes to the argument that central bankers' attention was not exclusively directed towards the national interest as perceived by national government. In addition, even though the formal institutional framework governing the central banks was laid down by governments, central bankers did have some discretion, and their attribution of meaning to events, context and structures fed back and influenced institutional arrangements. In other words, even though the regulatory framework governing central banks was determined by the state, central banks did have some degrees of freedom when it came to interpreting and framing of this framework. Finally, the meanings assigned to the events and their context by central bankers may very well have differed from the meanings assigned to the same events by governments and private interest groups.

Part of the institutional framework under which central banks cooperated was the gold standard which to a certain degree institutionalized and locked in the rules of the game. Traditionally, the gold standard is considered a regime, with both formal and informal institutional arrangements. This meant that certain norms, rules and expectations were linked to and formed the background for the central banks' operations during the gold standard. These norms and rules reduced uncertainty and thereby the transaction costs of cooperation. As an international monetary regime the gold standard possessed these advantages even though the post-war gold-exchange standard was less stable than the pre-war gold standard.<sup>29</sup> On the other hand, the establishment of the Bank for International Settlements represented a step in the direction of further institutionalizing central bank cooperation, which had the potential to increase interaction and cooperation between central banks.<sup>30</sup>

Concretely, in general three positions can be found in the literature on central bank cooperation during the gold standard. First, the classical idea that the gold standard was basically an automatic system tending towards equilibrium by the price-specie-flow mechanism was originally promoted by David Hume.<sup>31</sup> This theory, which presupposes tacit cooperation, is based on the usual assumption in economic theory of atomistic, maximizing, self interested agents acting under conditions of full information. Secondly, Kindleberger has argued that cooperation and in particular international lender of last resort operations rely on a hegemon able and willing to act as a lender of last resort in order to stabilize the international payment system. Kindleberger has further argued that the existence of an international lender of last resort should be considered an international public good, which cannot be provided by the market but, on the contrary, requires cooperation – in particular in times of crisis when markets' capacity to allocate resources do not work.<sup>32</sup> To some extent this could be categorized as imposed cooperation. Third, Barry Eichengreen has argued that, contrary to the classical position, the gold standard only functioned well because of credibility and international cooperation between central banks, in particular in times of crisis – except for the Great Depression where domestic political constraints, national interests and “incompatible conceptual frameworks ... precluded co-operative central bank response to the depression.”<sup>33</sup> This would be negotiated cooperation, and Eichengreen has also argued that “so long as governments were at loggerheads, it was unlikely that national central banks could successfully collaborate.”<sup>34</sup> Kenneth Mouré has argued that central bank

cooperation grew out of personal relationships during the stabilization period in the early and mid-1920s, first and foremost between Montagu Norman at the Bank of England and Benjamin Strong at the Federal Reserve Bank of New York, but Hjalmar Schacht of the German *Reichsbank*, and Émile Moreau, Charles Rist and Pierre Quesnay of the *Banque de France* took part as well. In the late 1920s these relations were institutionalized in the individual central banks, but, according to Mouré, perhaps forgetting the BIS, "... no framework for co-operative management of the international monetary system had been set in place", and after stabilization when the management of the gold-exchange standard became the challenge, cooperation stalled.<sup>35</sup> Marc Flandreau, on the other hand, has dismissed the cooperation story altogether and argued that cooperation took place only when it served the self interests of the cooperating banks, and that in general the attitude of central banks towards each other oscillated between "... hatred, neglect, and indifference."<sup>36</sup>

Thus, the question of central bank cooperation during the gold standard monetary regime has been debated a great deal. The most recent discussion is in Gianni Toniolo's history of the BIS. Toniolo argues that "... as far as the international monetary system is concerned ... formal cooperation is definitely needed in dealing with major single shocks (e.g. financial crises) whereas the long-run sustainability of international monetary arrangements could rest on commitments made credible by reputation ..."<sup>37</sup>

The most interesting ideas in the literature about central bank cooperation in theory and practice may be Helen Milner's focus on "epistemic communities", Barry Eichengreen's focus on "incompatible conceptual frameworks" and Kenneth Oye's emphasis on the importance of different belief systems in the relevant countries.<sup>38</sup> These ideas are related to Douglas North's emphasis on mental models.<sup>39</sup> The perspective in this article is to relate these concepts to constructivism and Benedict Anderson's concept of "imagined community", and to argue that what's important in understanding the "belief systems" or "mental models" of the actors is not social reality but these actors' construction of specific narratives that represent reality and history in specific ways. Moreover, the use of these historical narratives by epistemic communities is equally important.

In the following I seek to understand the motivations for and nature of cooperation or lack thereof among the three Scandinavian central banks and their relation to the wider international community of central banks and the Bank for International Settlements. The next two sections analyze the role of the Scandinavian central banks in international cooperation during the most difficult time of the international gold standard.

**[Section on the institutional frameworks of the three central banks: ownership, independence of Government etc. – to be continued]**

### **Scandinavian subscription of shares in the BIS**

On 17 March 1930 Ivar Rooth - the governor of the Swedish central bank, *Riksbanken* – was in London. He was sitting at the desk in his room at the Carlton Hotel writing a letter to his colleagues F. Schröder, one of

the directors at the Danish central bank, *Nationalbanken* and Nicolai Rygg, the Governor of *Norges Bank*. Ivar Rooth had arrived at the Carlton from Paris where he had met with some of his more prominent international colleagues George Harrison from the New York Fed, Emile Moreau from Banque de France and Leon Fraser the vice president in 'spe of the BIS.

Apparently, Rooth's primary interest at the meeting had been to find out which countries would be invited to take part in the initial subscription for shares in the BIS. As reparations countries, the central banks of France, Britain, Germany, Italy, Belgium and Japan were the founding partners together with some US commercial banks led by J.P. Morgan. Together, they subscribed 56 per cent of the capital, and as far as Rooth had been told only a few other banks would be considered in the first subscription but later on the BIS would want as many countries as possible as shareholders. In order to prepare Riksbanken to subscribe when the opportunity presented itself, Rooth planned to ask the Swedish parliament, *Riksdagen* to prepare a bill permitting Riksbanken to own shares.<sup>40</sup>

In a letter of 27 March 1930 to the Swedish King the Riksbank asked for this change of its charter. The Riksbank explained why it was important to become a shareholder in the BIS.

*'As yet our country has not missed the opportunity to participate in the international financial co-operation. Our increasing economic interests abroad and our steadily increasing financial relations with foreign countries makes it natural to develop this co-operation further by subscribing shares in the international bank. Relations with the international bank are not conditioned on subscribing shares, but it is obvious that the Riksbank would be better positioned as a shareholder. By subscribing shares our country would have the opportunity to become member of the board, which would make possible a closer participation in the co-operation between the central banks. The question of stabilisation of gold prices is of particular interest in this co-operation.'*<sup>41</sup>

The Riksbank was clearly interested in close relations with the BIS and Governor Rooth apparently had the international contacts to work actively for the inclusion of the Scandinavian central banks in the subscription of shares. He also seemed to have an interest in becoming a board member of the BIS. In their letter to the King the board of directors argued that Sweden's position in the international financial cooperation would be improved and that it was important for the Riksbank to become a shareholder.

Rooth seems to have been a messenger for the Danish central bank too. Already three months earlier Rooth had informed Schrøder that Harry Siepmann, head of Bank of England's Central Banking section, believed that Denmark, Norway and Sweden would be offered to subscribe 4- or 5,000 shares each. Nonetheless, when Schrøder answered Rooth's letter of 17 March a few days later he thanked for the information and concluded that 'it does not seem to be of interest to the leaders to include the Nordic central banks for the time being. We take that with coolness ...'<sup>42</sup> The Governor of Norges Bank, Nicolai Rygg thanked Rooth for his letter but he did not mention the subscription issue with a word.<sup>43</sup> However, at a meeting in early 1930 in

the Norwegian Economic Association, the participants were strongly in favor of Norway being part of the BIS. Governor Rygg emphasized that the most important part of the BIS question was the need for "... organized cooperation between central banks. Now, as opposed to before, a basis for such cooperation exists. During my time at Norges Bank a strong development towards increased cooperation between the central banks has taken place. ... a true cooperation, a sense of community, may be the result and would be of the utmost importance."<sup>44</sup>

When, one month later, Rooth could tell Nationalbanken and Norges Bank that Riksbanken had been invited to participate in the initial subscription together with the Dutch and Swiss central banks, the Danes were shocked.<sup>45</sup> The coolness was gone, and even though there was not total agreement at the hastily called board meeting at Nationalbanken the majority of directors decided to send a colleague, Lord Rosenkrantz, to London immediately.<sup>46</sup>

From London, Rosenkrantz cabled his colleagues in Copenhagen on 1 May informing them that Governor Rooth was correctly informed. Harry Siepmann had confirmed that the BIS would offer Holland, Switzerland and Sweden to subscribe 10,000 shares each. Rosenkrantz protested that the BIS had decided to give three 'powers' a privileged position, and Siepmann's explanation that this was due to their importance as capital markets, did not appease him. Allegedly the idea had come from the president of the BIS, Gates W. McGarrah who wanted more neutral countries among the first shareholders. The prospect that Denmark would be invited for the next subscription did not do much to ease the situation, especially when it became clear that these shares would probably not be sold at par but at market price.

Rosenkrantz protested again and made it clear that in that case Denmark would not take any shares at all. In Rosenkrantz' narrative this was bad news for Siepmann who felt uncomfortable by the Danish position. When Siepmann's colleague Francis Rodd remarked that other central banks might respond along the same lines,

*'... mr. Siepmann asked if our position was a matter of prestige, I confirmed this. In that case he meant that, since we wanted to hold a little number to be part of the matter, letting us subscribe a small number of shares might solve the problem. I confirmed that we had no interest whatsoever in a larger block of shares but would be satisfied with a small amount at par value.'*<sup>47</sup>

Harry Siepmann would mention Nationalbanken's request at the next meeting at the BIS, and Rosenkrantz left for Denmark pleased with the result of the negotiations. He and his colleagues might not have been quite as satisfied had they known that Rooth had not been completely honest when informing Nationalbanken. For instance he did not tell the Danish central bank that on 3 April Rooth had written a letter to Gates McGarrah asking if '... [you] would interest yourself for our participating [to subscribe for shares] as soon as possible in the discussion concerning the BIS. Naturally, the reasons for our request is merely economical and financial,

as we do not wish to serve any political interest whatsoever.’ There was no mention of Denmark or Norway in the letter.<sup>48</sup>

Already on 9 April McGarrah replied to Rooth’s letter that he was very much interested in having Riksbanken to subscribe for shares. In a later telegram he told Rooth that he would propose to the board of the BIS to invite Riksbanken to take a block of 4,000 shares. In continuation of the correspondence on 1 May, the day Baron Rosenkrantz met with Siepmann at the Bank of England, Rooth wrote a letter to McGarrah in which he made a plea for his neighbour countries. ‘You would greatly oblige me, if you at your next meeting also invite our neighbouring countries, Denmark, Norway and Finland which are all on gold basis.’<sup>49</sup>

Rooth’s efforts bore fruit. On 8 May McGarrah wrote a letter to among others Nationalbanken and Norges Bank whether they would be interested in subscribing for shares in the BIS. Nationalbanken confirmed its interest in participating in the first issue while Norges Bank hesitated. Norges Bank answered that it had been expecting the question but it had not yet decided anything. However, as a consequence of McGarrah’s letter the Bank would now consider the question. In another letter sent a few days later Norges Bank wanted to know what would happen if at a later moment it wanted to discontinue its membership.<sup>50</sup>

In Norway, in spite of governor Rygg’s support of the BIS, the interest for subscribing does not seem to have been as intense as in Sweden and Denmark. Nationalbanken responded immediately to Rooth’s information that Riksbanken would be invited to subscribe, but Norges Bank was calmer. On 16 May Rygg informed the bank’s council about the BIS. McGarrah had asked the bank if it might be interested to take a block of shares at the initial subscription, and the board took a non-committing stance. The board declared that

*‘At this time the board of directors has no incentive to look further into the case. First, we do not know how large a block of shares Norway may be offered and, secondly, we do not know how many shares the commercial banks may be interested to take over. The real work on this case has first begun in these days. ... it should be regarded of great importance to our country to participate in this international co-operation. Certain reservations have been expressed based on the national interest but the statutes of the international bank does guard the national interest.’<sup>51</sup>*

While Norges Bank and governor Rygg were obviously interested in joining the BIS, they did not want to rush it, and they waited for back-up from the Parliament which needed to change the charter, in order for Norges Bank to be able to buy shares in the BIS.<sup>52</sup> Nicolai Rygg could not commit Norges Bank at this moment no matter how much he wanted to. In letters to McGarrah and to Montagu Norman at the Bank of England he explained his position, and complained that ‘... it is not possible for me to settle the question of our partaking (sic!) in the BIS at this moment, even though I should be glad to see Norway take her share in this work at once.’ Rygg asked that they would support that Norway could postpone the decision for one year.<sup>53</sup>

Reassuring answers came in from both London and Basle. McGarrah could tell Rygg that the board of directors of the BIS had decided that they were prepared to reconsider Norges Bank's subscription of shares at a later moment. He could '... not formally assure you that an opportunity of subscribing hereafter will occur ...', but hoped that they could find a solution.<sup>54</sup>

So they did. Almost one year after, on 22 April 1931, McGarrah informed Rygg that the board of the BIS had decided to allocate 4,000 shares to Norges Bank. The decision could be carried out as soon as the Norwegian parliament, *Stortinget*, had amended Norges Bank's charter. Rygg expected that to happen well before the annual general meeting on 19 May, but a political crisis in Norway came between during the first days of May and considerably upset Rygg. From his room at the Grand Hotel Bellevue in Geneva he wrote a letter to McGarrah regretting that the government crisis had resulted in a new government. Rygg now feared that the amendment of Norges Bank's charter might be delayed.

While writing the letter, news came to Rygg that the first chamber of the parliament had accepted the amendment with a great majority, and his worry was somewhat relieved. McGarrah too was pleased about this development and even though Rygg was not legally entitled to take part in the general meeting, he was invited by McGarrah to also attend the meeting of Governors and experts that would follow the general meeting. It is clear, however, that it was Ivar Rooth who had obtained this invitation for Rygg, a fact that once again indicates that Rooth played a special role in relation to the BIS. Finally on 28 May Norges Bank was able to officially subscribe to 4,000 shares in the Bank for International Settlements.<sup>55</sup>

At that time both Sweden and Denmark had been shareholders for almost a year. The Swedish Riksbank was offered 4,000 shares and on 22 May 1930 the board accepted the offer.<sup>56</sup> A few weeks later, on 18 June Nationalbanken was also officially offered 4,000 shares in the BIS, and the council accepted the offer. The more pragmatic approach was put away when the chairman of the council stated that '... the international bank's operations are important to our country and we are aware that the Government shares our view.' This statement, of course, indicates that there had been consultations between Nationalbanken and the Danish Government. The discussion then centred on whether it was necessary for the bank to purchase all the offered shares, but the chairman cut through the debate by asserting that it was important for the financial prestige of Denmark to do so. It should be possible to pass on some of the shares, however. And so it was. Out of the 4,000 shares Nationalbanken kept only 1,700 for itself while 2,300 shares were sold to large companies and banks.<sup>57</sup>

To conclude this section, it is clear that Rooth approached the formation of the BIS with a more activist line than Denmark and Norway who left it to others to make the contacts and in general took a more pragmatic or even opportunistic attitude towards BIS and international financial cooperation. While Rooth argued along the lines of the need for financial cooperation and the economic and financial interests of Sweden, the board of directors in Nationalbanken seemed to be more concerned about prestige and not being left out. In Norway, on the other hand, Nicolai Rygg, while in agreement with his board and council on the importance of

the BIS for future central bank cooperation, had to wait for the Norwegian Government and parliament to change the bank charter. Internally in Norges Bank there was also some concern about the national interest, but there it was seen as a problem of surrendering national sovereignty, and Rygg assured his colleagues that this problem was not of significance.<sup>58</sup>

### **Preparing for crisis**

The correspondence between the Scandinavian central banks and the BIS demonstrates more generally that Ivar Rooth took more interest in the matters of the BIS than his two colleagues did. He also announced his interest in becoming a member of the Board of the BIS and he was in closer contact with the Bank. In a letter of 3 September 1930 he posed an array of more technical questions to the general manager of BIS, Pierre Quesnay, who was appointed from Bank of France. Quesnay was absent from the bank, however, but in his place another manager, Francis Rodd, who were appointed by Bank of England and in charge of the department for central bank cooperation, answered Rooth's letter. The last paragraph of the 10 page long letter is of particular interest for the following section of this paper:

*'In the event of a Central Bank requiring an advance in foreign currency and making a request to the BIS for assistance of this nature there would, I should think, be no objection to the operation being termed an advance and not a deposit and being carried as such in the books of the Central Bank. In fact it may be, though we have not really considered this question, that the practical difference between an advance and a deposit lies in the distinction of the currency involved; an advance taking the form of an operation in a currency other than that of the Central Bank concerned, whereas a deposit would continue to be, as it has been with us in the past, an operation in the national currency of the Central Bank.'*<sup>59</sup>

Apart from the technical matters of this question, Rodd's letter indicates that the BIS was not fully prepared to act as a lender of last resort when the Austrian crisis suddenly unfolded eight months later. The Bank had, however, been preparing for a situation like the Austrian crisis. On August 4-6 Quesnay visited Sveriges Riksbank, and in a conversation with Ivar Rooth he had mentioned that the BIS expected to be able to perform small lending operations to central banks in need. In more serious cases the BIS would have to cooperate with the central banks in order to raise the necessary amount. In Rooth's words the BIS wanted to know if the '... central banks are interested that it tries already now to create such an organisation, which can be used in case of urgent need.'<sup>60</sup>

Thus, the BIS was not unaware of the need, but it was by no means ready to take charge when the Credit Anstalt crisis became a fact. A note from the Bank of England showing that it had had the same worries shortly before the crisis broke out corroborates this interpretation. The note was prepared on 22 January 1931 and it deals with the prospect of a financial crisis:

*'Though it is rather unpleasant to deal with future dangers which, as one hopes, may never materialise it may still be worthwhile to consider what would be the attitude of the B.I.S. if it were approached by central banks in cases of serious trouble with private credit institutions within their area.'*

This seems to indicate that the plans for an organisational preparedness considered by the BIS had not yet been carried further in January 1931, only four months before the crisis. Perhaps Austria was the country least expected to put the BIS in need of a plan. At least the note continued with a rather unfortunate evaluation of the Austrian situation:

*'The information about the short-term indebtedness is rather difficult to obtain and not very reliable. In the case of Austria, for instance, according to a private estimate I have heard, the total short term indebtedness of banks and bankers amount to about 600 million schillings, whereas the central bank holds gold and foreign exchange serving as legal cover up to 395 million schillings, and other foreign exchange assets up to 513 million schillings; in this case, therefore, even the largest withdrawal of foreign funds could, apparently, be easily dealt with by the central bank. As, however, the situation might not be equally favourable in other countries it might be worthwhile considering what might happen in these cases.'*<sup>61</sup>

While the nervousness on behalf of the BIS's capability to handle a financial crisis proved to be relevant, the estimation of the Austrian problem was certainly wrong. Perhaps that was the reason why the Bank of England referred Austria to the BIS during the first days of the crisis? Part of the explanation may also be that the BIS took immediate action. Francis Rodd was sent to Vienna already on 11 May, and Harry Siepmann from the Bank of England wrote to the Austrian finance minister, Dr. Juch, that

*'I have now heard that Mr. Rodd left Basle this afternoon for Vienna. Any service I might have been able to render will now be better, and more properly, rendered by someone acting and speaking for central banks in their corporate capacity. I hope you will agree with me that, in the circumstances, the visit which you were kind enough to propose to me has now become unnecessary and indeed, in some ways, undesirable.'*<sup>62</sup>

In a letter dated 13 May to R. Reisch, president of the Austrian National Bank, Siepmann developed his argument a bit further. He noted that

*'You may be sure that we should wish to co-operate in any helpful way, but the position has been essentially changed since March 1926 by the foundation of the B.I.S. Individual action by central banks, for reasons of sympathy or even material interest, in such circumstance has been superseded by corporate action through Basle, and particular engagements, though they still hold good in substance, have changed their form. I feel quite sure that it would have been a mistake for us to be*

*personally represented in Vienna, for it might well have disturbed your relationship with others as well as our own.*<sup>63</sup>

Thus, the Bank of England very quickly declined to take the lead in the lender of last resort operation, and the BIS acknowledged its responsibility by sending Francis Rodd to Vienna. This meant that the scene was set with BIS as the main actor and the central banks in subordinate roles. The Scandinavian central banks were part of the play.

### **The Austrian crisis and the Scandinavian Central Banks**

The first annual general meeting of the BIS was scheduled on 19 May 1931. In Copenhagen the somewhat ambiguous attitude towards the BIS continued. The board of managers was not sure if they should send a delegate or not. In a note prepared by Einar Cohn, an economist at the Bank, he discussed the issue and concluded that it would be inappropriate if Nationalbanken did not '... take part in the international financial co-operation planned to take place through the BIS, which may not yet be very well defined, but which it must be important from Danish hold to keep in contact with anyway. ... Nationalbanken should also be represented at the general meeting in order to become informed about the plans for BIS's future operations as well as to take advantage of the gathering with other central bank leaders'<sup>64</sup>

Cohn's recommendation was followed and in May Lord Rosenkrantz went to Basle for the general meeting of the BIS. The timing was perfect in relation to the Austrian crisis, since the communication between the many central bankers was improved by the fact that they were convened in Basle. And the Scandinavian central bankers were there too. Besides Rosenkrantz, Nicolai Rygg from Norges Bank and Ivar Rooth from Riksbanken had travelled to Basle to take part in the annual meeting. Rygg had been able to combine the visit to Basle with one to Geneva where the League of Nation's Financial Committee held a meeting, which he attended as a member.<sup>65</sup>

The day before the general meeting, McGarrah wrote a letter to the governors of the central banks that had contacts with the BIS.

*'Dear Mr. Governor,*

*As a consequence of the decision arrived at by the Board of Directors of the B.I.S. this morning regarding the request received from the National Bank of Austria for credit facilities to assist them in the present situation, I am writing to inform you that the B.I.S. is arranging for joint credit facilities to be placed at the disposal of the Austrian National Bank for a total amount of 100,000,000 Schillings in the course of this week. ... The money will probably be required by the Austrian National Bank in the course of this week, and should be made available to them through the B.I.S. I am writing to enquire whether the Norges Bank will be prepared to participate in this credit.*<sup>66</sup>

Letters with the same content were sent to many central bank governors. The fact that the letter was sent on 18 May but the credit not ready until 31 May quite well illustrates the coordination problems connected with the BIS taking on the role as an international lender of last resort.

Rygg who was already in Basle must have had the letter handed over personally as was probably the other central bankers present at the general meeting. Since Rygg did not answer the letter until 21 May it is likely that he had been in contact with Norges Bank back home. Having done that, he wrote his letter to McGarrath that it was impossible for Norges Bank to participate in the credit to Austrian National Bank.<sup>67</sup> No explanation was given as to why Norges Bank could not take part in the credit, but it may be a good guess that the same reasons were behind as when Rygg had had to give up to subscribe to the BIS shares the year before.

Baron Rosenkrantz and his colleagues had received the same letter as Rygg, of course. On 19 May Rosenkrantz wrote a letter to Nationalbanken in Copenhagen to inform the board of directors about the planned rescue operation. He informed the board about the Austrian crisis and the stance of the other central banks. Sweden planned to participate with 1 million schilling while Norway was negative and Finland would only take part if all countries did, a typical coordination problem. Francis Rood had explicitly urged Rosenkrantz that Nationalbanken took part in the credit, but Rosenkrantz observed that the loan was already fully subscribed. In other words, if Nationalbanken participated in the plan it would only mean that another central bank could reduce its share of the credit.

Rosenkrantz was indecisive. Should Nationalbanken say yes or should it say no? In the monetary sense he had no doubt, the money was there already so why bother? The cooperation issue or the categorical imperative did not weigh much in his considerations. In his view, if Nationalbanken took part in the loan it would simply ease the burden for another central bank. The next day, however, he arrived at a different decision. It was yes, because even though there was a certain risk, it was not significant and

*'... the day may come when Denmark too needs international support and our chance to attain a credit with other central banks might be considerably better if we too take part in rescue operations as the one proposed.'*<sup>68</sup>

That was a pragmatic and self serving decision, which was not to be upheld for very long, however. The same day, Rosenkrantz learned that, back in Sweden, Rooth from Sveriges Riksbank had been turned down by his colleagues. As soon as Rosenkrantz heard about that he changed his decision and wrote his colleagues in Copenhagen for confirmation. The following day a brief but unambiguous telegram arrived in Basle from Nationalbanken. It said, 'Agreed, Nationalbanken does not participate in Austria'. Rosenkrantz wrote in hand on the letter from BIS enquiring if Denmark would take part in the operation that he had 'informed Rodd that NB will not participate'.<sup>69</sup>

Case dismissed. Rosenkrantz could leave Basle but before he returned to Denmark and Copenhagen he paid a visit to the Bank of England. On his way to London he stayed in Paris and wrote a letter to his co-managers at Nationalbanken. He could inform them that Ivar Rooth had been elected to the board of the BIS.

*'They have a meeting once a month so I don't understand how he will manage. Rooth was very eager to participate in the Austrian rescue operation, but apparently he could not force his opinion through back home, since he suddenly changed his position and stated that Sweden would not participate after all. It came in very handy that we could get off the hook in a decent manner.'*<sup>70</sup>

A month later, back in Copenhagen from his visits to Basle, Paris and London, Rosenkrantz wrote an account of the BIS general meeting to inform the board of directors. Sweden, Finland and Norway had decided not to take part in the credit, which was fully subscribed by the larger central banks anyway, and based on these facts the board of managers felt that Nationalbanken too could decline to take a share of the loan.<sup>71</sup>

Thus, in the end, none of the Scandinavian central banks took part in the credit to Austria. The Danish case is best documented, but the evidence also shows that Ivar Rooth was the most enthusiastic about the BIS and international cooperation. It also demonstrates that Rooth wanted to go further than his colleagues in Sveriges Riksbank in Stockholm. They did not agree with Rooth's rather activist line, and forced him not to let his bank take a part of the Austrian credit. In a brief letter to McGarrah he was troubled to admit that '... my colleagues in Stockholm did not wish to participate in the credit to the Austrian National Bank.'<sup>72</sup>

Among the Scandinavian actors, it was clearly Ivar Rooth from the Swedish Riksbank who showed most interest in the international cooperation. Rooth himself thought so as well. In his autobiography, he argued that before 1929 when he became governor of Riksbanken cooperation with other central banks had been minimal, and he strived for more explicit cooperation. There was already, however, some cooperation between the Scandinavian central banks that held annual Nordic meetings and their leading individuals knew each other personally. A few weeks after Rooth became governor, Harry Siepmann from Bank of England visited Riksbanken and Rooth was invited to visit the Old Lady in Threadneedle Street and Governor Norman in London for a couple of weeks. "There I met the English colleagues ... I had lunch with them every day ... we had tea every afternoon around 5. In that way you received important information and you made good friends with many of them." Rooth also asserted that he knew the directors of Nationalbanken but that they never became friends. Governor Rygg of Norges Bank he knew well.<sup>73</sup>

It was also Rooth who, as the only one, wanted his country to wholeheartedly take part in the Austrian rescue operation. At the same time Rooth demonstrated his interest in the BIS by accepting a position at the board of the Bank, a position that he had actively aimed at. Whether this was out of personal ambition, an interest in securing Sweden's say in international matters, an international outlook or a combination of all three is uncertain, however.

Based on evidence from the first truly international lender of last resort operation, it is my conclusion that the Scandinavian countries were free riders or opportunists. The Danish central bank disclosed the most opportunistic viewpoint; a short-sighted economic and domestic interest was the main consideration. As soon as it became clear that neither Sweden nor Norway or Finland would take part, the Nationalbanken changed its position and abstained from the BIS action.

### **The 'Goose Club'**

The failure of the Austrian rescue operation sparked some soul-searching at the BIS. On 13 June the Bank sent a letter to several central banks including the Scandinavian ones saying that the monetary crisis was potentially damaging to the 'less powerful central banks'. This made it necessary to strengthen the collaboration between the central banks, a task that was important to the BIS. The collaboration should enable the BIS to support a distressed central bank with foreign exchange, and the central banks were asked if they would be prepared to deposit a certain amount of foreign exchange with the BIS. This pooling principle was beneficial because

*'... the system of deposits would seem to be the one which offers the best method of ensuring the immediate collaboration in times of crisis between central banks desirous of contributing towards the maintenance of currency stability.'*

The letter ended

*'On Monday next, June 15th, we shall open a 'special account' with deposits we hope to receive from certain central banks and I should be happy if you yourself could make a deposit for this account at an early date. The largest participators will be always consulted by telephone before any advance is put into operation, and all information on the employment of funds of the 'special account' will be given to the participating banks. You will understand that a syndicate as above proposed can only give appreciable results provided the greatest number possible of central banks agree to participate.'*<sup>74</sup>

The board of the Nationalbanken was not amused. They had managed to evade the Austrian operation and now they were asked to deposit a part of their foreign exchange reserves in order to enable the BIS to support troubled central banks. Unable to make a decision Nationalbanken resorted to the same procedure as in the case of Austria. In a letter to the Bank of England, Rosenkrantz confessed that

*'We somewhat demur to transferring part of our foreign exchange from our present connections to the BIS, ... as our stocks of foreign exchange are not especially ample at present, and we are unable to know when we shall have to make use of them. I should be very much obliged to you if you could impart some confidential information to me as to how the Bank of England stands to this matter.'*<sup>75</sup>

We do not know if Rosenkrantz liked the answer from Harry Siepmann, but there is no reason to assume he did. Siepmann was positive and the Bank of England had already informed the BIS that it was willing to take part in the 'Goose Club', provided that the other central banks did the same. He then continued that

*'We recognize that ... the scheme may be said to be not quite orthodox. But it has this great merit that it brings reserves into use. I suppose there are central banks whose reserves are so deficient by now that they may all be required at any moment. But in a great number of countries the position is that reserves have been accumulated which by law or by practice cannot be made available in times of need. If the BIS can mobilise such reserves, or even only a small part of them, we feel that they would be rendering a great service. I very much hope that you will find it possible to make a contribution to the 'special account'. No one, of course, can be expected to subscribe beyond his means. But I should miss the name of the Central Bank of Denmark if it did not appear on the list of subscribers.'*<sup>76</sup>

Of course Siepmann also cultivated the interests of the Bank of England, which could only support any effort to lift the burden off its shoulders. One can almost hear the collective sigh from the board when they read Siepmann's letter. It was not, what they had hoped for. What could they do? Perhaps their Scandinavian colleagues would be more understanding. After the receipt of Siepmann's letter Rosenkrantz wrote to Norges Bank and to Riksbanken in Sweden to hear their opinion. Nicolai Rygg wrote back that Norges Bank had much sympathy for the idea but that domestic conditions dictated the Bank to keep its foreign exchange for the Norwegian market.<sup>77</sup> There is no doubt that the Norwegian response was more in line with the position of the board of Nationalbanken. While the stance taken by Bank of England was in its own interest, because it would reduce the expectations to it, the Danish central bank did not want to let go of its foreign exchange. In other words, the Danish central bank was inclined – once more – to take a free ride.

So was Riksbanken. At a meeting of the board of managers Rooth presented the 'Goose Club' scheme and recommended that the board declined the proposal. He motivated his position by the fact that it was not possible for the Riksbanken to exercise any control over the deposit with the BIS.<sup>78</sup> In a letter to McGarrah, Rooth explained that his bank's

*'... regulations make it impossible to deposit foreign currencies with yourselves to be employed for the purpose of assisting any central bank which may need support. The stipulations for foreign credits make it necessary for the Sveriges Riksbank, before taking part in any credit in foreign currency, to consider the form and conditions of the credit as well as the security offered in each case.'*<sup>79</sup>

In the very same letter, Rooth informed McGarrah that Sveriges Riksbank was willing to take part in the second credit to the Austrian National Bank. Rooth had obtained accept for this at the same meeting which decided not to deposit foreign exchange with the BIS. This may confirm that the decision not to deposit foreign exchange was due to regulations.

Neither Rooth's explanation to the board of managers or to his Danish colleague, Rosenkrantz, was quite as unambiguous, however, as to the question if it was legally possible for Riksbanken to deposit foreign exchange with the BIS. To Rosenkrantz Rooth admitted that it was a matter of interpretation and that the important consideration was '... whether Riksbanken as a state bank should commit itself in advance to unspecified credits since Riksbanken considers itself to be obliged to carefully consider the risk in relation to its advances.' Rooth also informed Rosenkrantz that he had learned that the large central banks would deposit considerable amounts with the BIS.<sup>80</sup>

To conclude this section, the Scandinavian central banks once again acted as free riders. None of them wanted to take part in the BIS scheme to establish a fund of foreign exchange deposits that could be used by the BIS to support central banks in distress. The Danish, Swedish and Norwegian central banks left it to the large and influential central banks to set up and finance the scheme, even though they admitted that the idea was a good one. On the other hand it was a tougher decision for the small Scandinavian central banks to deposit part of their foreign exchange, than for Bank of England who might otherwise be expected to take the lead in lender of last resort operations.

## **Conclusion**

This paper has discussed the behaviour of the Scandinavian central banks of Norway, Denmark and Sweden in the establishment of the Bank for International Settlements and in the lender of last resort operation for the Austrian National Bank orchestrated by the BIS. The purpose has been to investigate whether the three countries' central banks acted as free riders in this first attempt at institutionalizing international financial cooperation and an international lender of last resort.

Based on the archives of the three central banks as well as the BIS and the Bank of England it is concluded that the Nationalbanken, the Norges Bank and the Riksbank were free riders, but also that there were differences. It is demonstrated that the governor of the Swedish central bank, Ivar Rooth, had a keen interest in cooperation with the BIS and that within certain limits he wanted to involve the Riksbank in the Austrian operation. He did not have the necessary back up from his co-managers, however. At the other side of the spectre was the Danish central bank which took a pragmatic approach to the issue. They would have loved to be with, but it should not cost any money, and the evidence shows quite clearly that the Nationalbanken was a free rider looking for excuses to stay out without negative reputational effects. As for the Norwegian central bank there is not much evidence, but it is clear that the governor, Nicolai Rygg, did not have the necessary support from his colleagues to involve Norges Bank in the operation. Also, based on the available evidence, it seems to be the case that Norges Bank and the Norwegian Government was more explicitly concerned with the national interest. Thus, none of the banks lived up to Kindleberger's use of Kant's categorical imperative. On the issue of central bank cooperation it should also be noted, however, that cooperation did indeed take place, and a network based on personal relations was already established if not firmly institutionalized at the time of the financial crisis of 1931. This observation seem to be in line with Kenneth Mouré's point about the larger central banks and their relations.



## Archives and Literature

Archives:

Norges Bank

Danmarks Nationalbank

Sveriges Rigsbank

Bank of England

Bank for International Settlements

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- <sup>1</sup> For the establishment of the BIS, see Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 24-83, and Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. p. 147.
- <sup>2</sup> (1931). Convention and Statutes. Haag, Bank for International Settlements.
- <sup>3</sup> Ibid.
- <sup>4</sup> Ibid., Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 184-114, and Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. pp. 145-47.
- <sup>5</sup> Schubert, A. (1991). The Credit-Anstalt Crisis of 1931. New York, Cambridge University Press. p.11.
- <sup>6</sup> Ibid. pp. 7-11.
- <sup>7</sup> Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press. p. 91
- <sup>8</sup> Ibid., pp. 93-96
- <sup>9</sup> Ibid. pp. 88-97, Kindleberger, C. P. (1986). The World in Depression, 1929-1939. London, Penguin. P. 147, and Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. pp. 186-89.
- <sup>10</sup> Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. p. 199.
- <sup>11</sup> Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 100-6, and Clement, P. (2002). Between Banks and Governments: the Records of BIS. European Banking Overseas, 19th-20th Century. T. d. Graaf, J. Jonker and J.-J. Mobron. Amsterdam, ABN AMRO Bank N.V..
- <sup>12</sup> (1932). Bank for International Settlements. Second Annual Report. April 1, 1931 - March 31, 1932. Basle, Bank for International Settlements.

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- <sup>13</sup> Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. p. 186.
- <sup>14</sup> Kindleberger, C. P. (1986). The World in Depression, 1929-1939. London, Penguin. p. xv. The same view can be found in Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. pp. 218-19.
- <sup>15</sup> Eichengreen, B. (1992). Golden Fetters. The Gold Standard and the Great Depression, 1919-1939. Oxford, Oxford University Press. pp. 285-86.
- <sup>16</sup> Moggridge, D. E. (1981). "Financial Crises and Lenders of Last Resort: Policy in the Crises of 1920 and 1929." Journal of European Economic History(1): 47-70, Moggridge, D. E. (1982). Policy in the Crises of 1920 and 1929. Financial Crises. Theory, History, and Policy. C. P. K. J. P. Lafargue. Cambridge: 171-87.
- <sup>17</sup> Oye, K. A. (1986). The Sterling-Dollar-Franc Triangle: Monetary Diplomacy, 1929-1937. Cooperation under Anarchy. K. A. Oye. Princeton, Princeton University Press: 173-199., p. 176.
- <sup>18</sup> Kindleberger, C. P. (1986). The World in Depression, 1929-1939. London, Penguin. pp. 157-58 and 300-01. The same point can be found in Clarke, S. V. O. (1967). Central Bank Cooperation. New York, Federal Reserve Bank of New York. p. 203.
- <sup>19</sup> Kindleberger, C. P. (1986). The World in Depression, 1929-1939. London, Penguin. p. 300.
- <sup>20</sup> Milner, H. (1992). "International Theories of Cooperation among Nations: Strengths and Weaknesses." World Politics **44**(3): 466-496. P. 447-8.
- <sup>21</sup> *Ibid.* and Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 9-13. See also Oye, K. A. (1986). The Sterling-Dollar-Franc Triangle: Monetary Diplomacy, 1929-1937. Cooperation under Anarchy. K. A. Oye. Princeton, Princeton University Press: 173-199. for a game theoretic approach to monetary cooperation in the interwar period.
- <sup>22</sup> See Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press. and, in particular, Flandreau, M. (1997). "Central Bank Cooperation in Historical Perspective: A Sceptical View." The Economic History Review **50**(4): 735-763., pp.
- <sup>23</sup> Milner, H. (1992). "International Theories of Cooperation among Nations: Strengths and Weaknesses." World Politics **44**(3): 466-496., pp. 469, 488-493 and Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 9-13.
- <sup>24</sup> For a definition of a realist view, see Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., pp. 10-11 and Kindleberger, C. P. (1986). "International Public Goods without International Government." The American Economic Review **76**(1): 1-13., p. 8.
- <sup>25</sup> See Flandreau, M. (1997). "Central Bank Cooperation in Historical Perspective: A Sceptical View." The Economic History Review **50**(4): 735-763., pp. ??, who argues that the structural or formal institutional framework under which central banks operate are fully determined by the government. So it is, of course, but there may still be room for interpretation, and the actions and decision of the central bank feed back and influence the structural level.

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- <sup>26</sup> For a general discussion of networks and neoclassical assumptions, see Granovetter, M. (1985). "Economic Action and Social Structure: The Problem of Embeddedness." The American Journal of Sociology **91**(3): 481-510.. On narratives and the social construction of crises, see Aykens, P. (2005). "(Mis)trusting authorities: a social theory of currency crises." Review of International Political Economy **12**(2): 310-333. and Widmaier, W. W. (2003). "Constructing monetary crises: New Keynesian understandings and monetary cooperation in the 1990s." Review of International Studies **29**(1): 61-77.. For a more general discussion of narratives and agency, see Hansen, P. H. (2007). "Organizational Culture and Organizational Change: A Narrative analysis of the Transformation of Savings Banks in Denmark, 1965-1990." Enterprise & Society **8**(4): 920-953.
- <sup>27</sup> On networks, see Granovetter, M. (1985). "Economic Action and Social Structure: The Problem of Embeddedness." The American Journal of Sociology **91**(3): 481-510., for „imagined communities“, see Anderson, B. (1991). Imagined Communities. Reflections of the Origin and Spread of Nationalism. New York, Verso., and for „epistemic communities“, see Haas, P. (1990). Saving the Mediterranean. New York, Columbia University Press. as quoted by Milner, H. (1992). "International Theories of Cooperation among Nations: Strengths and Weaknesses." World Politics **44**(3): 466-496., p. 478.
- <sup>28</sup> {Granovetter, 1985 #405}, p. 491.
- <sup>29</sup> On the importance of international regimes, see Milner, H. (1992). "International Theories of Cooperation among Nations: Strengths and Weaknesses." World Politics **44**(3): 466-496. pp. 475-8, Toniolo, 2005 #399} p. 12, and Kindleberger, C. P. (1986). "International Public Goods without International Government." The American Economic Review **76**(1): 1-13., p. 8.
- <sup>30</sup> Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., p. 12.
- <sup>31</sup> Eichengreen, B. and M. Flandreau, Eds. (1997). The Gold Standard in Theory and History. London, Routledge., p. 11, Hume, D. (1997). On the balance of trade. The Gold Standard in Theory and History. B. Eichengreen and M. Flandreau. London, Routledge: 33-43., and Mouré, K. (1992). "The Limits to Central Bank Co-operation, 1916-1936." Contemporary European History **1**(3): 259-279., p. 260.
- <sup>32</sup> Kindleberger, C. P. (1986). "International Public Goods without International Government." The American Economic Review **76**(1): 1-13., pp. 7-9, 11. See also, Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press., p. 12-13.
- <sup>33</sup> Eichengreen, B. (1995). "Central Bank Co-operation and Exchange Rate Commitments: The Classical and Interwar Gold Standards Compared." Financial History Review **2**(2): 99-118..
- <sup>34</sup> Eichengreen, B. (1992). Golden Fetters. The Gold Standard and the Great Depression, 1919-1939. Oxford, Oxford University Press., p. 160
- <sup>35</sup> Mouré, K. (1992). "The Limits to Central Bank Co-operation, 1916-1936." Contemporary European History **1**(3): 259-279., pp. 262-267, quote from p. 267. Do note, however, that in relation to the death of Benjamin Strong and George Harrison's take over as governor of the NY Fed, Mouré criticizes Eichengreen for putting too much emphasis on the importance of personal relationships and stresses that organizational and institutional factors were more important (p. 273).

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<sup>36</sup> Flandreau, M. (1997). "Central Bank Cooperation in Historical Perspective: A Sceptical View." The Economic History Review **50**(4): 735-763., the quotation is from p. 737.

<sup>37</sup> Toniolo, G. (2005). Central Bank Cooperation at the Bank for International Settlements, 1930-1973. Cambridge, Cambridge University Press. P. 10.

<sup>38</sup> See above, and Oye, K. A. (1986). The Sterling-Dollar-Franc Triangle: Monetary Diplomacy, 1929-1937. Cooperation under Anarchy. K. A. Oye. Princeton, Princeton University Press: 173-199., p. 191.

<sup>39</sup> North, D. C. (2005). Institutions and the Performance of Economies Over Time. Handbook of New Institutional Economics. C. Menard and M. M. Shirley. Dordrecht: 21-30.

<sup>40</sup> *Sveriges Riksbank's Archive* (SRA). Folder *Danmarks Nationalbank, 1929-1935*: Letters of 17 March 1930 from Ivar Rooth to F. Schrøder, Nationalbanken and to Nicolai Rygg, Norges Bank.

<sup>41</sup> Ibid. Fullmäktiges allmänna protokoll, 27 March 1930, supplement: 'Till KONUNGEN'

<sup>42</sup> Ibid. Rooth to Schrøder 5 December 1929 and F. Schrøder to Rooth 20 March 1930.

<sup>43</sup> *Norges Banks Archive* (NBA). Folder: I14, Den internationale bank i Basle. 7 Korrespondance med Sveriges Riksbank 1929/30. Letter of 25 March 1930 from Rygg to Rooth.

<sup>44</sup> Eriksen, A. (1931). "Den internasjonale bank." Statsøkonomisk Tidsskrift **45**: 1-24., (My translation).

<sup>45</sup> *Sveriges Riksbank's Archive* (SRA). Folder *Danmarks Nationalbank, 1929-1935*: Rooth to Schrøder and Rygg 24 April 1930. The Norwegian files does not indicate any response from Rygg to Rooth. Of course the letter could be missing, but there are no other signs to indicate that Norges Bank reacted like the Danish central bank.

<sup>46</sup> *Nationalbankens Arkiv* (NA): Minutes of the board, vol. 4, pp. 73-74.

<sup>47</sup> Ibid. Minutes of the board, supplement 2642, Telegram of 1 May 1930 from Rosenkrantz to Nationalbanken.

<sup>48</sup> SRA. Folder 'BIS 1930-1931', letter of 3 April 1930 from Rooth to McGarrah.

<sup>49</sup> Ibid. letters of 3 and 26 April and 1 May 1930 from Rooth to McGarrah, of 9 and 28 April 1930 from McGarrah to Rooth.

<sup>50</sup> NA, Minutes of the board, Vol. 4, supplement no. 2646. NBA: Folder: I14, Den internationale bank i Basle. 7 Korrespondance med Sveriges Riksbank 1929/30. Statement of 16 May 1930 from the board of directors to the council and letter of 8 May from McGarrah to Norges Bank and letters of 16 and 19 May from Norges Bank to McGarrah and to Pierre Quesnay, BIS, respectively.

<sup>51</sup> NBA. Folder: I14, Den internationale bank i Basle. 7 Korrespondance med Sveriges Riksbank 1929/30. Statement of 16 May 1930 from the board of directors to the council.

<sup>52</sup> Eriksen, A. (1931). "Den internasjonale bank." Statsøkonomisk Tidsskrift **45**: 1-24., p. 14.

<sup>53</sup> NBA: Folders: I14, Den internationale bank i Basle. 7 Korrespondance med Sveriges Riksbank 1929/30. Letters of 28 May to McGarrah and Montagu Norman.

<sup>54</sup> Ibid. Letters of 2 June and 16 June to Nicolai Rygg from Bank of England and from McGarrah respectively.

<sup>55</sup> NBA: Folders: 'I14, Den internationale bank i Basle. 7 Korrespondance med Sveriges Riksbank 1929/30, and I14, Den internationale Bank i Basle I, Generalforsamlinger, 1931-35.' Letters of 22 April 1931 from McGarrah to Rygg, 13 May from Rygg to McGarrah, 14 May from McGarrah to Rygg, 28 May 1931 from

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Norges Bank to BIS and 2 June from BIS to Norges Bank. For Rooth's role in having Rygg invited, see SRA, Folder: 'BIS, 1930-1931', letters dated 26 February and 7 March 1931 from Rooth to McGarrah and 2 March 1931 from McGarrah to Rooth.

<sup>56</sup> SRA. Fullmäktiges särskillta protokoll, 22 May 1930.

<sup>57</sup> NA, Minutes of the Board, Vol. 4, supplements 2646 and 2673. Note dated April 1931 by Einar Cohn, Nationalbanken.

<sup>58</sup> Eriksen, A. (1931). "Den internasjonale bank." *Statsøkonomisk Tidsskrift* 45: 1-24., pp. 20-21.

<sup>59</sup> SRA. 'BIS, 1930-1931, Letter of 17 September 1930 from F. Rodd to I. Rooth. The letter from Rooth to Quesnay seems to be missing.

<sup>60</sup> NA, Supplement no. 2642, 'Konfidentielt. Samtal med monsieur Pierre Quesnay vid hans besök i Stockholm den 4., 5. og 6. augusti 1930', sent from Rooth to Nationalbanken on 14 August 1930.

<sup>61</sup> Bank of England Archive, Country Files: Austria OV28. File No. 3, Supplement 1: Note dated 22 January 1931 prepared by 'CB'.

<sup>62</sup> Bank of England Archive, Austria OV 28, no. 3: 1931 1st Jan. - June 15<sup>th</sup>. Letter dated 11 May from Siepman to Dr. Juch.

<sup>63</sup> Ibid., supplement 13: Letter dated 13 May from H. Siepman, Bank of England to R. Reisch, Austrian National Bank.

<sup>64</sup> NA, Minutes of the Board, Vol. 4, supplement 2673. Note dated April 1931 by Einar Cohn, Nationalbanken.

<sup>65</sup> NBA, Folder: Chefdirektør Nicolai Rygg: Private Mapper 1931. Letter dated 21 March 1931 from Rygg to McGarrah, BIS and from Rygg in Geneva to Thorkildsen 7 May, 1931.

<sup>66</sup> NBA, Folder: I14, Den Internationale Bank i Basle, 4. Norges Banks tegning af aktier, 8/2 1930 – 25/6 1957. Private and confidential letter dated 18 May 1931 from McGarrah to Governor Rygg.

<sup>67</sup> Ibid., handwritten draft of letter dated 21 May 1931 from Rygg to McGarrah.

<sup>68</sup> NA, Supplement no. 2680. Letters dated 19 and 20 May from Rosenkrantz in Basle to Nationalbanken.

<sup>69</sup> Ibid., letter dated 20 May from Rosenkrantz to Nationalbanken and telegram dated 21 May from Nationalbanken to Rosenkrantz in Basle.

<sup>70</sup> Ibid., letter dated 22 May from Rosenkrantz, Hotel St. James in Paris to Nationalbanken.

<sup>71</sup> Ibid., note dated 23 June written by Rosenkrantz.

<sup>72</sup> SRA, Folder: 'BIS, 1930-1931'. Letter dated 20 May 1931 from Rooth to McGarrah.

<sup>73</sup> Rooth, I. (1988). *Ivar Rooth. Riksbankschef 1929-1948. En autobiografi intalad för och utskriven av Gösta Rooth.*, pp. 54-57, 61. The quotation is from p. 56. Of course, Rooth's memoirs were dictated many years later to his son, and his recollection may not have been precise. Still, they demonstrate that personal relations existed between the top individuals of central banks.

<sup>74</sup> NA, Supplement no. 2680, letter dated 13 June 1931 from the BIS to Nationalbanken.

<sup>75</sup> Ibid., letter dated 19 June 1931 from Rosenkrantz to Siepman, Bank of England.

<sup>76</sup> Ibid., letter dated 22 June 1931 from Siepman to Rosenkrantz.

<sup>77</sup> NBA, Folder: Chefdirektør Rygg. Private Mapper, 1931: Letter dated 25 June 1931 from Rygg to Rosenkrantz.

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<sup>78</sup> SRA, Minutes of the board of managers, 16 June 1931.

<sup>79</sup> Ibid, Folder: 'BIS, 1930-1931', Letter dated 19 June 1931 from Rooth to McGarrah.

<sup>80</sup> Ibid., Folder: 'Danmarks Nationalbank, 1929-1935'. Letter dated 25 June 1931 from Rooth to Rosenkrantz.