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OF THE
FINANCIAL COMMITTEE

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INTRODUCTORY NOTE.

The report of the Financial Committee on its thirty-ninth session (document A.41.1930.II. [F.847]) contains a Statement dealing with the work and functions of the Committee. This Statement is reprinted separately herewith.

The Statement was approved by the Council on September 24th, 1930, and transmitted by it to the Assembly for the latter's consideration. It was approved by the Assembly on September 29th, 1930.

THE WORK AND FUNCTIONS OF THE FINANCIAL COMMITTEE.

The present meeting of the Financial Committee marks the conclusion of the first ten years of its existence. The Committee thinks it useful on this occasion to make a short general report on the stage it has now reached in its work. The main reason why this seems opportune at this moment is not the accident that a decade has just ended, but rather that the work of financial reconstruction is now so nearly completed that the kind of service which the League may render to its members in the financial field is changing in scope and in character. With or without the aid of the League, and whether or not under the direct or indirect influence and example of the work with which the League had been directly associated, the vast majority of countries with a complex economic structure have now reformed their finances and connected their currencies with gold. The process is, indeed, not complete; but, of the cases which remain, some require only the development of a policy already initiated and others present problems very different from those already solved by the League. One category of tasks is therefore nearly ended, while new problems have been brought into prominence.

In the last ten years, the principal, though by no means the sole, work of the Committee has been in connection with financial reconstruction or the establishment of refugees in certain countries. The tasks, even within each of these two spheres, have, indeed, differed considerably in importance, scope and character. In Austria, where disorganisation had proceeded very far, it was necessary to arrange for the issue of a loan guaranteed by a number of Governments and a comparatively extensive control through a League Commissioner responsible to the Council for some years. In Hungary, the problem was in some respects simpler, the required loan was issued without external guarantees, and the control through a League Commissioner was both shorter in duration and, in some aspects, modified in character. In Greece, the first problem which presented itself was the establishment of a very large number of refugees—the majority on the land; and a Commission suitable in composition for the direction of a vast task of land settlement was appointed. It was later necessary to assist Greece in placing her finances on a sound basis, and to help her in raising a loan for this purpose. The problem here, however, was not, as in the two earlier cases, one of restoring a rapidly depreciating currency, but only of strengthening and stabilising one which had elements of weakness; and the difference is reflected in the fact that the advice of a Financial Adviser appointed by the National Bank and periodical consultation of the Financial Committee by representatives of the Government and the Bank were sufficient as means of following the progress of the work. In Bulgaria, similarly, a work of refugee settlement on a much smaller scale was also followed by one of financial restoration, a single League Commissioner in this case both supervising the refugee work and also watching the financial reform as Financial Adviser. The work in these four countries has occupied the major part of the time of the Committee during these ten years. Assistance has also, however, been given to Estonia, in strengthening the National Bank, and to Danzig, both as regards the establishment of a currency and the raising of loans for constructive economic development.

In all these cases, loans were issued “under League auspices”, nine being so issued in all.

The work undertaken in all the above-named countries had certain common features. In each case it involved some form of financial reconstruction, the issue of a loan or loans “under League auspices”, and some form of responsibility on the part of the League for the execution as well as the original recommendation and adoption of the scheme. The variety, both in problem and in method, is, however, no less striking. For, in some cases, the whole economy of a disorganised country had to be dealt with; and, in another, only the strengthening and technical reform of a Central Bank was needed. Similarly, the method¹ adopted to associate the League with the progress of the work varied from the appointment of a Commissioner-General with extensive powers over the budget to an informal arrangement for periodical consultation.

In the first decade, therefore, the Committee has been mainly engaged upon one special and temporary category of work, reconstruction with the aid of loans issued under League auspices. This work has been important and exacting. It has naturally tended to postpone consideration of other more normal duties of the Committee as the financial advisers of the League within the framework of the Covenant. But, as stated above, this work is apparently nearing its end. No new loans have been issued under League auspices since 1928, and the work already undertaken in this sphere has been finished or is nearing completion.

The following pages describe, and classify, the work as it now is and is developing, and call attention to certain questions in respect of which it would be useful for the Council to lay down the principles on which the Committee should carry out its duties.

¹ As regards method, the Committee would draw special attention to the small book, published by the League, on *Principles and Methods of Financial Reconstruction*.

The work of the Committee has been, and is likely to be, very largely within that sphere of the League's duties which the Covenant describes as the "promotion of international co-operation". The development of this kind of work will, of course, depend upon expediency, opportunity and the desires of Member States at different times, and is subject to no other limiting considerations. In addition, however, the Committee is, of course, available, as the Council's financial adviser, in connection with any specific financial tasks, or the financial aspects of specific tasks arising under other parts of the Covenant.

The functions of a League Financial Committee fall, it is suggested, into three categories, each of which has some examples in past experience, but the relative importance of which seems likely to change considerably in future:

- I. General financial questions;
- II. Advice and assistance to particular States;
- III. Advice on financial questions arising out of current political or administrative work of the Council.

It will be well to consider each of these in turn.

I. GENERAL FINANCIAL QUESTIONS.

The Council will doubtless wish that, as in the past, the Committee shall consider it to be within its competence to watch general financial developments in relation to economic progress, and from time to time take the initiative of making proposals to the Council for the study of any general question that seems at the time to be of special importance.

The most notable, though not the only, examples of general financial questions, among work undertaken either on the request of the Council or on the initiative of the Committee approved by the Council, relate to double taxation, counterfeiting currency, and the gold problem. In each case the Committee has been concerned in the initiation, and, in varying degrees, the subsequent direction, of the work. But in every case the main work has been done through specialised *ad hoc* committees or Conferences. On the gold problem, a preliminary report on the prospective supply and demand for gold is now being submitted to the Council.¹ The Committee hopes to follow this by a fuller study, particularly of those aspects of the problem which have a direct bearing upon practical action.

Among other problems of a similar order which demand serious consideration now or are likely to necessitate such consideration in the near future may be mentioned, by way of example, that of the recurrence of alternating periods of prosperity and depression which the present difficult situation has forced upon public attention, and that of assisting the Economic Organisation in keeping the world informed of the course of financial development. The problem of what is sometimes called the trade cycle is possibly at certain points related to that of the supplies of monetary gold with which the Committee is already concerned. But it is much wider in its range, and for any serious study would require the collaboration of experts in a number of other branches of knowledge and activity in addition to that which is represented by the Financial Committee.

Another subject on which it may prove desirable for the Committee to arrange an appropriate study is that of the conditions which determine the flow of capital from one country into another, its sufficiency, its cost, its form (*e.g.*, for the purpose of short-term credit or long-term investment), etc. Such a study might cover such factors as the effect of taxation or taxation methods, apprehensions as to loss of investments in war or through political instability, or any deficiencies in the available mechanism for arranging different forms of credit transactions; or such a selection among these as the Committee might think to be specially important and suitable for consideration at any given moment.

The Committee has also always been interested in the work which the Economic Organisation does in keeping the world informed by means of special memoranda and co-ordinated statistics of economic progress and development, and it hopes in the future to help, by advice and direction, the extension of this work.

These are only examples of the kind of general questions on which from time to time a central international body of financial advisers may make a useful contribution to the solution of the world's financial problems, either directly or in conjunction with specialised *ad hoc* committees.

¹ Document C.375. M.161. 1930.II.

II. ADVICE AND ASSISTANCE TO INDIVIDUAL GOVERNMENTS.

I. *Advice without "League Loans".*

The basis of the whole of the reconstruction work conducted by the League in earlier years has consisted of advice given by the Committee on problems of financial and monetary reform. For the execution of the plans of reconstruction ultimately formulated as a result of this advice, foreign money has, in fact, in most cases, proved necessary, and the practical problem of raising that money by means of international loans has thus been forced upon the attention of the Committee. In the future, however, it may well be that a number of problems of a technical character will arise, the solution of which will not demand the flotation of special loans.

These problems might, for example, concern: Treasury, budget or taxation systems; currency or Central Bank systems; the organisation of general or agricultural credit; the general financial conditions of a country; special financial difficulties in connection with State railways or roads, State savings banks, other government undertakings, etc.

In fact, there is no necessary relationship between the advice which may be sought from or given by the Committee and the immediate or subsequent issue of loans on foreign markets, whether the advice is concerned with some detailed problem or with the general financial situation in any country.

Advice and assistance in such cases might be entirely unconnected with a loan; it might, as in Estonia, be ultimately followed by a League loan; it might be followed by a loan contracted direct by the Government and not under League auspices.

We think it would be very useful to Member States who may from time to time be thinking of consulting the Committee, that the attitude of the Council and Committee should be made clear beforehand on certain points that arise under the three above alternatives.

In the first place, we suggest that the principle just stated—that financial advice should not necessarily be given only in cases connected with international loans—should be clearly recognised.

In the second place, where it proves desirable that a loan should be issued "under the auspices of the League" (a "League loan"), the Committee considers that it necessarily follows that some measure of responsibility falls upon the League with regard to the subsequent carrying out of the scheme. These cases are dealt with in the next section.

There remains the third class, in respect of which it is most desirable that the League's position should be defined. The "advice" asked may be such as to have a bearing on some future loan that a country wishes to raise, and the wish to assist the issue may be one of the objects of the request. At the same time, the Government concerned may not wish to ask that the loan should be issued "under the auspices of the League", and may not need the help of the Committee as regards the framing of the whole of the scheme with which the loan may be connected or its execution. In the view of the Committee, there is no reason why it should not give its advice in such a case on such questions as it may be asked, without assuming any responsibility for the subsequent progress of the scheme, and without therefore being obliged to establish any system of supervision or periodical consultation. It is, however, obviously desirable that, in such cases, the limits of the League's responsibility should be exactly defined and clearly understood by all concerned. For this purpose two precautions are required:

(a) The issue of a public statement (such for example as the present report) endorsed by the Council, explaining the stage now reached in the League's financial work and pointing out that, now that financial reconstruction has been practically accomplished in most countries, recommendations of loans "under League auspices" will no longer be the normal work; that, more usually, advice only will be given, and, in that case, the League's responsibility will be limited in character to the nature of the advice and in time to the date at which it is given. It will not extend (except where specifically stated) to securing that the advice is followed or that any of the conditions declared to exist at the time of the advice are maintained afterwards.

(b) The stipulation by the Committee, whenever its advice is asked, that, if that advice is ever quoted, or even the fact of its being given mentioned in connection with a loan operation, the prospectus of the loan shall contain a statement drafted by the Committee, explaining the exact limits of the responsibility it has assumed.

These two precautions, combined with the opportunities of communicating information and of publicity which the Committee has, both through its members and otherwise, would, it is considered, be sufficient.

2. "League Loans."

There remain the cases in which the issue of loans "under the auspices of the League" ("League loans") may still be desirable in future.

There may, in the first place, still be problems of financial reconstruction more or less similar to those already undertaken, though these are not likely to be frequent in future.



The Committee is sometimes, however, asked whether it is prepared to consider schemes which are not covered by the precedents of financial reconstruction and refugee establishment. These raise the important question of principle: Should the League be prepared to be associated with the issue of a loan "under the auspices of the League" for purposes of economic development?

In general, the Committee considers that loans for these purposes should not be issued "under League auspices". There may be special circumstances, however, which would make such an issue desirable, as where the League has certain special responsibilities (*e.g.*, as regards Danzig), or where the project promises certain valuable international advantages which might not otherwise be attained.

It is desirable that the general attitude of the League should be known beforehand, and the Committee recommends that it should be defined in the following formula:

"Loans for economic development in a particular country should not, in principle, be regarded as within the scope of loans which may be issued 'under the auspices of the League', but this is not to exclude the consideration of such loans when they present special international interest or advantages."

In the light of the principle so indicated, any specific proposal should be considered on its merits at the time.

Where, in accordance with this principle, the issue of a loan "under the auspices of the League" is considered inadmissible, the Committee might still, of course, give advice on particular features of a scheme without assuming responsibility for the loan or the execution of any programme, subject to the conditions and safeguards described in the previous section.

Where, on the other hand, the issue of a loan "under the auspices of the League" is considered admissible and desirable, the necessary measures to enable the League to follow the progress made in the carrying out of any programme would be determined in relation to the circumstances of the particular case. The method would, as described above, be so arranged as to involve as little interference as possible, amounting, where the case permits, to no more than occasional consultation.

3. *Disputes, Conciliation and Arbitration Work.*

In a number of cases in the past, the Committee has acted as conciliators or arbitrators in connection with the interpretation or execution of loan contracts to which one of the parties is a Government. This has been done in cases in which no specific provision has been made beforehand in the loan contract (as in the case of the Disconto Gesellschaft loan to Bulgaria), on the request of the two parties and after consideration by the Council of the general character of the dispute, and may also arise in accordance with a provision in the original contract. If such contracts be made in the future, they should, we think, be submitted at the time of negotiation to the League of Nations for approval. But it would only be necessary for the League to consider whether the loan was, in its general character, such as it could be associated with, and whether the actual arbitration clause was satisfactory. It would not be necessary to examine the conditions and details of the loan.

We believe that the development of such arbitration work would have valuable results for a number of reasons.

A real service might be rendered to lenders by helping to secure a settlement of disputes and the execution of contracts by means of the collective moral authority which association with the League gives (and consequently also to borrowers in the negotiations through this prospect), without the dangerous and difficult use of pressure by individual Governments. And, incidentally, such an association would help to form an effective public opinion encouraging the better and more constructive forms of international loans, as distinct from those which include obviously undesirable features.

III. ADVICE ON FINANCIAL QUESTIONS ARISING OUT OF CURRENT POLITICAL AND ADMINISTRATIVE WORK OF THE COUNCIL.

In the whole of its work, the Committee has, of course, acted as the technical advisory body to the Council of the League on financial questions. But, in addition to the problems described above, which have been primarily financial in character, the Council has referred to it from time to time the specifically financial aspects of other problems arising in the course of the Council's current political and administrative work. The preparation of the scheme of financial assistance, as a part of the general proposals advocated by the Committee on Arbitration and Security, may be taken as an example of this kind of work, though usually the questions referred are likely to be of a more limited scope and application. A more typical example is, perhaps, to be found in the work done by the Committee in relation to questions arising from Greco-Bulgarian emigration.

Financial questions arising in relation to work of the Mandates Commission, or the administration of the Saar, or the preparatory work in relation to Article 16 (and application if the occasion arose), or budgetary problems in connection with disarmament, are only instances of financial questions which have arisen or may arise within almost any sphere of the League's work on which the advice of the Committee may be needed.

* * *

The above report is an attempt to describe the main character of the work hitherto undertaken by the Committee; the stage now reached in it; the change in character of the work which is taking place as a result of the general progress in financial stabilisation that the world has now achieved; and to call attention to certain questions on which decisions of principle are desirable as a guidance to future development. A general statement endorsed by the Council would, the Committee believes, at this date be useful as a guide both to Member States, to the Council itself and League organs generally, and certainly to the Committee itself, as an indication of the kind of service which may, with prospects of useful results, be asked of the Committee, and the kind which may not.

For this purpose, the Committee ventures to suggest that the Council and Assembly should authorise the publication of this report as a statement endorsed by them, with such amendments or additions as they may consider desirable.
