

Geneva, November 2nd, 1932.

LEAGUE OF NATIONS

COMMISSION OF ENQUIRY FOR EUROPEAN UNION

**REPORT BY THE COMMITTEE OF EXPERTS APPOINTED TO
EXAMINE THE MONETARY NORMALISATION FUND SCHEME**

The Committee of Experts, appointed to undertake the detailed and thorough examination and preparation of the Monetary Normalisation Fund Scheme mentioned in the resolutions of the Stresa Conference, met at Geneva on October 26th, 1932, and completed its work on November 1st.

It consisted of the following members :

- M. BACHMANN, President of the Swiss National Bank ;
- M. BRUINS, Royal Commissioner of the Netherlands Bank ;
- M. DAYRAS, Inspector of Finance, Commissioner of the French Government at the State Bank of Morocco ;
- M. DI NOLA, Director-General of the " Istituto Italiano di Credito Fondiario " ;
- Sir Cecil KISCH, Financial Secretary, India Office, London ;
- M. MLYNARSKI, Professor in the School of Advanced Commercial Studies, Warsaw, former Vice-Governor of the Bank of Poland ;
- M. MÜLLER, Director of the " Reichsbank " ;
- M. PROTITCH, Director of the National Bank of Yugoslavia ;
- M. VAN ZEELAND, Director of the National Bank of Belgium.

M. Bachmann acted as Chairman of the Committee.

I. INTRODUCTION.

The Committee received the following instructions from the Council :

" The Council authorises its President, after consultation with its Rapporteurs on financial and economic questions and with the Chairmen of the Financial and Economic Committees, to proceed to the appointment of a committee of qualified experts to undertake the detailed and thorough examination and preparation of the Monetary Normalisation Fund Scheme mentioned in the resolutions of the Stresa Conference. The experts will also have to examine whether and in what circumstances the Fund for the Revaluation of Cereals might be combined with the Monetary Normalisation Fund."

In this resolution, the Council referred to the tenth recommendation of the Financial Committee of the Stresa Conference. That Committee recommended :

" That measures be contemplated forthwith for the constitution of the necessary funds, in order that the States of Central and Eastern Europe may, when the moment arises, find financial assistance such as will enable them definitely to strengthen or restore their monetary situation and will inspire immediately a feeling of security.

" It has been suggested in this connection that a fund should be created which would be constituted by means of repayable advances supplied by all the States parties thereto and from which, in case of need, loans for a reasonable term would be granted to banks of issue.

" The Committee did not feel able to examine in detail the means whereby effect might be given to this proposal, which did not meet with the unanimous approval of its members, but appeared to the majority of them worthy of submission to the Commission of Enquiry for European Union. The latter would have to decide what body should be made responsible for the administration of the fund, the general lines of such administration, the method of calculating contributions and the manner in which such contributions might be supplied."

1. In suggesting the establishment of a Monetary Normalisation Fund, the Financial Committee of the Stresa Conference did not contemplate the immediate operation of that Fund. It stressed the necessity for the previous fulfilment of certain essential conditions, the most important of which were the readjustment of the balance of payments of countries which might have recourse to the Fund, the re-establishment on sound bases of their entire national economy, the final restoration of budgetary equilibrium and the adjustment, so far as might be necessary, of foreign debts by means of negotiations with the creditors. The Financial Committee of the Stresa Conference suggested that, when all these conditions had been fulfilled and "the countries concerned had reached the threshold of a final adjustment in regard both to internal relations and the relations of their own economic life with that of the world at large", situations might arise in which foreign assistance in currency matters would be found both necessary and effective for the purpose of abolishing exchange restrictions and maintaining or restoring the legal stability of the currency. The Normalisation Fund might thus begin to operate "at the opportune moment". According to the report of the Stresa Conference, "it would not be called into play until the last stage and would, as it were, form the coping-stone of the edifice raised by the interested parties themselves". It was also considered that, apart from its actual utilisation, this Fund would have a psychological effect and would stimulate confidence.

We attach no less importance than the members of the Stresa Conference to a return at the earliest possible moment to freedom in regard to exchange. We also share their views as to the necessity of the countries concerned taking suitable internal measures.

2. During the Committee's discussions, stress was laid on the importance of a rise in the prices of raw materials and agricultural products. We consider that this rise is a fundamental factor in the improvement of the situation. Moreover, it was in this spirit that the Stresa Conference contemplated action for the revalorisation of cereals and other agricultural products. The problem of a general rise in prices is outside our terms of reference and will doubtless be dealt with by the forthcoming International Economic Conference. However, we should like to express the following opinion: A rise in prices, particularly if accompanied by a general economic recovery, would greatly facilitate the fulfilment of the preliminary conditions required for the effective operation of the Fund.

3. The Committee wishes to emphasise the fact that the operation of the Fund constitutes only one of the means which it would be possible or expedient to apply at a later date to ensure the success of operations with a view to monetary recovery. In the past, operations of this kind have been carried out with the help of credits granted by central banks or commercial banks, long-term loans and in various other ways. The establishment a few years ago of the Bank for International Settlements has introduced further facilities in this domain. In view of the insecure position of monetary systems and of the fact that requests for assistance may be made simultaneously by several countries, it is, however, unlikely that these various methods, which will doubtless be called upon to play their part, will prove adequate.

4. It seems to us that one of the important aspects of the proposals made by the Stresa Conference lies in the fact that international collaboration is regarded as essential for the re-establishment of a normal monetary situation in Europe. The Stresa Conference suggested a new formula for this collaboration; we should like in the first place to emphasise the necessity for an organised effort, on the part of all nations in the world, to emerge from the present situation.

5. It is difficult at the present time to foresee the situation which will arise when the preliminary conditions for the operation of the Fund have been fulfilled; it may well be, if general conditions improve, that the measure of assistance which might seem necessary in the conditions of to-day may prove substantially less when the actual time arrives; consequently, the Committee did not consider it possible for the moment to undertake the detailed and thorough preparation of the scheme from a technical point of view. On the other hand, it feels able at present to indicate the main outlines—which are given below—and to lay down certain general principles for the future application of the Fund.

6. The Committee did not consider it possible to include in the Monetary Normalisation Fund or to attach to this Fund, which is to consist essentially of a collection of credits, the proceeds of the annual contributions which, according to the Report of the Stresa Conference, might be assigned for the revalorisation of cereals.

These two classes of assets must obviously be administered by different authorities. There is, it is true, a theoretical connection between the two schemes in that both involve contributions by Governments with the final common aim of the economic restoration of Europe, and in this respect action to revalorise cereals would precede the application of the Monetary Fund. But it would appear that this theoretical connection can only affect the discussions between Governments regarding the allocation of the contributions to be furnished possibly in different forms but with a common object.

For its part, the Committee has been obliged to confine itself, in drawing up the main outlines of a Monetary Normalisation Fund Scheme, to the consideration of that Fund alone.

Genève, le 28 novembre 1932.

SOCIETE DES NATIONS

ERRATUM

COMMISSION D'ETUDE POUR L'UNION EUROPEENNE.

Rapport du Comité d'Experts chargé de l'examen du projet
de Fonds de Normalisation monétaire.

Le Secrétariat regrette vivement que, par suite d'une erreur
matérielle, le nom de:

M. MONTCHILOFF, Gouverneur de la Banque nationale de Bulgarie
ait été omis dans la liste des membres du Comité publiée à la première
page du rapport.

Cette liste doit, en conséquence, être complétée par l'insertion
du nom de M. MONTCHILOFF entre ceux de M. Mlynarski et de M. Müller.

LEAGUE OF NATIONS

ERRATUM

COMMISSION OF ENQUIRY FOR EUROPEAN UNION.

Report by the Committee of Experts appointed to examine
the Monetary Normalisation Fund Scheme.

The Secretariat regrets that, through a material error, the
name of:

M. MONTCHILOFF, Governor of the National Bank of Bulgaria
has been omitted in the list of members of the Committee given on the
first page of the report.

This list should, therefore, be completed by the insertion of
M. MONTCHILOFF's name between those of M. Mlynarski and M. Müller.

II. NATURE OF THE SCHEME.

I. OBJECT.

The object of the Fund will be to promote the normalisation of currency conditions in Central and Eastern Europe.

Its utilisation will be contemplated only in cases where adequate assurance is given to the administrators of the Fund that the assistance granted will make it possible to achieve the object in view—namely, the abolition at the earliest possible date of restrictions on exchange transactions and monetary stability.

We have already referred to the preliminary conditions to be satisfied before recourse to the Fund can be authorised and we fully realise that, since the introduction of exchange restrictions, has frequently led to still greater disequilibrium, measures designed to relax this control are obviously necessary before the Fund can be utilised.

In speaking of restrictions on exchange transactions, we mean, in accordance with the views expressed at Stresa, all exceptional measures for the protection of currency. Certain commercial measures, the actual aim of which is merely to restrict foreign exchange commitments, should be put on the same footing as exchange restrictions.

However, the Committee recognises that it may be necessary to maintain for a certain time, which should be as short as possible, measures for the supervision of transfers of capital of a purely financial or speculative nature, even after the restoration of normal conditions in every other respect.

In certain cases, the interested parties themselves might come to an agreement with the administrators of the Fund to strengthen the action of the Fund by means of special arrangements ensuring closer co-operation between them.

The mandate given by the Council to the Committee is confined to the possible needs of certain countries in Central and Eastern Europe. However, the same problem arises from a monetary point of view in regard to various other countries, even in Europe. The field of action of the Fund might be extended accordingly. This extension would assure to the Fund assistance which it might not otherwise obtain.

2. OPERATIONS.

In principle, the action of the Fund will take the form of the opening of credits for the purpose of providing the bank of issue with a second line of reserve.

In case of need, the Fund may also make advances, the proceeds of which will serve to strengthen the central bank.

The duration of these operations will not exceed two years ; they may, however, be renewed, provided their total duration does not exceed three years.

The necessary guarantees will be required.

The normal form in which the Fund will lend its assistance will be that of openings of credit which, in the ordinary way, as already stated, will not be utilised.

The text also provides that, in case of need, advances may be made, the proceeds of which will serve to strengthen the central bank. It is clearly understood that these advances, which would be granted for a maximum period of two years with a possible extension for one year, cannot take the place of foreign loans, should such loans be necessary. As regards these advances, it is essential, as in the case of openings of credit, that all the preliminary conditions should be fulfilled.

As a general rule, the advances contemplated will be granted direct to the central banks in the form of the rediscounting of bills. In such a case, the Committee considers it essential that the external resources secured from the Fund should not be reckoned as forming part of the legal cover of the borrowing bank.

The Committee also discussed the possibility of these advances being granted through the public treasury or financial institutions, but was unable to reach a decision on this point. Certain members stated that, in principle, they were opposed to any advance being made to Governments or financial institutions, while other members did not feel able to assume the responsibility of excluding this form of advances in exceptional cases and under special guarantees and safeguards, both as regards repayment and as regards transfer, and urged that the proceeds of such operations should always go direct to the central bank with a view to strengthening the monetary position. These advances should in no case lead to an actual increase in the volume of circulation.

3. AMOUNT.

The fund will amount to not less than the equivalent of . . . million gold dollars ; of this amount, a part will be paid in cash. The balance will be called up only in case of need.

Our conception of the Fund takes largely the form of a "masse de manœuvre" which might be employed in several countries, either simultaneously or successively. In these circumstances, we are unable to indicate a total figure for the amount that would be required

to achieve the object in view. This may depend largely on the international conditions prevailing at the time, as well as on the strength of the internal position that the countries concerned may have built up by their own efforts. It is, however, our hope that the maximum sum contemplated for the Fund, whether by way of credit or cash, will not be required.

It should be noted that the amount of the Fund will depend on the extent of its field of action ; if this is not confined to Central and Eastern Europe, the amount will obviously have to be increased.

The Fund should represent at least a collection of credit pledges corresponding to the requirements in the way of monetary cover of the group of countries mentioned in the report of the Stresa Conference. It should in any case be able to ensure the permanent success of the proposed assistance.

Whatever the amount at which it is finally decided to fix the Fund, it will no doubt be advisable for a certain sum to be paid at the time of its establishment. This sum should be sufficient to permit of rapid action if circumstances make this necessary. It is also permissible to hope that the balance will never have to be called up. Experience of previous operations shows that when stabilisation credits are opened wisely they need not be actually utilised. Moreover, the administrators of the Fund will doubtless be able to devise methods of restricting or even avoiding altogether actual payments by the subscribers ; the guarantee constituted by the signature of subscribers may make it possible for them to find the necessary sums in markets where capital is abundant.

4. PARTICIPATION.

The Fund will be subscribed by the following Governments :

- A to the extent of x per cent ;
- B to the extent of y per cent ;
- C to the extent of z per cent.

The report of the Financial Committee of the Stresa Conference suggests that the Fund should be constituted " through an appeal to Governments which would make the necessary sum available either directly or indirectly ".

Hence, the subscribers to the Fund would be the Governments themselves. The latter would take whatever steps they considered adequate to enable them to provide the money or obtain the pledges required. Among the possibilities contemplated was the case in which, as the result of a special agreement, the Central Bank furnished the necessary sum to the Government, the latter naturally assuming the risks and taking the profits.

It is highly desirable that all European countries, Members of the League, if possible without any exception, should participate in the Fund and that, in particular, the States for which the Fund is constituted should be called upon to participate under the same conditions as the rest.

As regards the basis on which Governmental contributions might be fixed, various alternatives present themselves, such as the capacity to pay or transfer, the volume of a country's external trade, the special interest of each country in the part of Europe for which the Fund will be brought into operation—or a combination of these alternatives. The Committee recognises that this list is not exhaustive ; it merely mentions these suggestions without expressing any opinion on them in the present state of the question.

The chief reason which should lead all European countries to collaborate in this undertaking is the importance for them all of the monetary recovery of a part of Europe. For similar reasons, other large extra-European countries might also be induced to participate in the Fund, since this recovery is of great importance to them also. The Committee, while recognising that this suggestion goes beyond its province and comes within that of the future International Economic Conference, considers it advisable to draw attention to it.

5. MANAGEMENT.

As regards the management of the Fund, the Committee agreed upon two principles :

- (1) The actual handling of the Fund should, in any case, be entrusted to the Bank for International Settlements ;
- (2) Contact should, in any case, be established and maintained between the Bank for International Settlements and the Financial Committee of the League.

As regards the control of the Fund—that is to say, final decisions as to its utilisation—several possibilities were considered : (1) that the power of decision should be tested entirely in the Bank for International Settlements on the understanding that, in this case, contact would be established in an appropriate manner between the Bank for International Settlements and the Financial Committee of the League ; (2) that control should be entrusted to a special committee designated in part by the League Council and in part by the Bank for International Settlements.

In the opinion of several members of the Committee, the first suggestion would have the following advantage : the Bank for International Settlements, if it controlled this Fund and

was thus covered by the direct or indirect pledges of the Governments concerned, would itself find on this basis the capital which appeared to be actually required to achieve the object in view. Other members of the Committee considered that the second suggestion would be more in accordance with the conception of a fund guaranteed or furnished by Governments for a definite purpose, with special rules for its employment, and the management of which might permit of a certain amount of technical collaboration in the countries concerned.

It was not possible for us to consult the Board of the Bank for International Settlements as to the foregoing suggestions, and, naturally, the Committee does not propose to give a final form to suggestions involving action by the Bank for International Settlements without first obtaining the latter's consent.

6. INTEREST AND COMMISSION.

The Fund will collect interest and commission at a suitable rate. The sums thus collected will, after deducting expenses, be placed to the reserve.

7. DURATION.

The Monetary Normalisation Fund will remain in operation for a period of five years as from its actual constitution. No commitments falling due after the expiry of the third year following the termination of the above-mentioned period of operation will be entered into under this Fund.

The assets will be distributed among the subscribers pro rata to their subscriptions.

III. CONCLUSION.

These then are the general lines on which we consider that the scheme for the constitution of a Monetary Normalisation Fund should be developed. We have not been able to make more definite suggestions, owing to the difficulty of foreseeing the developments of the situation and ascertaining how far the activity of the Fund should and might legitimately be extended in the circumstances—still too indefinite—in which its employment would be justified.

It will be found that many problems which will have to be solved before technical measures can be taken in the spheres within our mandate come within the province of the Monetary and Economic Conference and the Preparatory Commission for that Conference.

In these circumstances, it might be asked whether it would not have been more prudent on our part to have proposed to the Council that our labours should be adjourned. We did not adopt this course because we considered it necessary to regulate the organisation of the Fund, at whatever moment it may be utilised, and because in the present state of affairs we attach the greatest importance to any action which might be regarded as an advance towards international co-operation, on which the restoration of monetary and economic normality depends. This was the central point of the discussions at Stresa and we are anxious that our suggestions should be in conformity with this point of view.

However, as regards the essential matters, we considered that our deliberations were sufficiently exhaustive to justify our setting forth the results, even in cases where an alternative was involved. We thus hoped to help forward, as far as lay in our power at the moment, the studies necessary for the preparation of a detailed scheme by supplying as many data as possible, with a view to the resumption of the work at an early date.
