Active Role in the World Bank Likely for Us Under New Policy: ...
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Active Role in the World Bank Likely for Us Under New Policy

Elimination of War Debt Link May End Stimson Ban and Acceptance by Harrison of Place on Board Would Bring Cooperation on Monetary Problems.

The Federal Reserve System is expected to participate actively soon in the affairs of the Bank for International Settlements through the election of George L. Harrison, governor of the Federal Reserve Bank of New York, to the board of the World Bank.

Under the charter of the Bank for International Settlements the vacancy on the bank's board caused by the recent resignation of Gates W. McGarrah belongs to Mr. Harrison. His acceptance of the post, however, will require a reversal of the ruling made by Secretary of State Stimson in 1929 forbidding the Federal Reserve to participate in the ownership or direction of the institution.

Administration and Federal Reserve officials have the question under consideration and in international banking circles hope was entertained yesterday that they would decide in favor of the Federal Reserve's taking the place in the "central banks' bank" which originally was assigned to it in the World Bank's charter.

The convention of the Bank for International Settlement, drawn up in The Hague in January, 1930, provided under Article 28 that the board of directors of the bank should be composed of:

"The governors for the time being of the central banks of Belgium, France, Germany, Great Britain, Italy, Japan and the United States of America * * *"

It was explained officially, with special reference to this country, that where there was more than one central bank in a country, the one in the principal money market should assume the official rôle with respect to the new bank.

In recognition, however, of the attitude of the State Department, the articles of the World Bank continued:

"If for any reason the governor of any of the seven institutions above mentioned is unable or unwilling to serve as director, or to appoint a substitute nominee under subclause (1), or to make an appointment under subclause (2), the governors of the other institutions referred to, or a majority of them, may invite to become members of the board two nationals of the country of the governor in question, not objected to by the central bank of that country."

Under this ruling Mr. McGarrah

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and Leon Fraser were appointed American directors of the World Bank in February, 1930. Mr. McGarrah, who at the time was chairman of the board of the Federal Reserve bank of New York, resigned his post to become associated with the Bank for International Settlements and was elected its first president.

War Debt Problem Involved.

When Mr. McGarrah retired from the board of the World Bank last May, Mr. Fraser succeeded him as head of the bank, but his position as director never was filled. Bankers conversant with the affairs of the World Bank pointed out yesterday that this vacancy belongs, by virtue of the bank's charter, to Mr. Harrison or his appointee.

When Mr. Stimson issued his ruling forbidding the Federal Reserve to have official representation on the board of the World Bank, bankers here felt that a severe blow had been dealt to the cause of international monetary cooperation.

It was recognized at the time that the reason for the State Department's move was the fact that the Bank for International Settlements was tied up with the question of war debts and reparations. Under its statutes, all reparations payments and war debt remittances, as well as service payments on the German Dawes Plan and Young Plan loans, were to pass through the World Bank.

The bank had, moreover, been the product of the reparations conference headed by Owen D. Young which had drawn up a "final settlement" of reparations after long and bitter wrangling.

It appeared to be part and parcel of the European reparations settlement, and participation in it by our central banking system was construed as laying this government open to the appearance of having tacitly acknowledged Europe's contention that the war debts to the United States and reparations were inextricably bound up.

Under the Lausanne agreement, however, reparations have been temporarily wiped off the slate and the general suspension of war debts payments has left the World Bank without its original function and made it purely an instrument of central banking cooperation.

In these circumstances, bankers here feel, the present administration can take an entirely different stand from that of the last administration.

In addition, it is felt, the imperative need for international central banking cooperation to combat the depression and to solve the current monetary problems is now obvious enough to make American participation in the World Bank popular.

The acceptance of a place on the board of the World Bank by Mr. Harrison would make official and more effective the relationship between the central banking authorities here and the World Bank. Actually, cooperation has been practiced to a limited degree in spite of the Stimson dictum.

Has Acted in Bank Matters.

At the close of 1931, when the question arose of appointing an American representative to the committee of the World Bank that was to investigate Germany's capacity to continue reparations payments, Mr. Harrison appointed Walter Stewart without consulting the banks and banking houses here that hold the American portion of the stock of the Bank for International Settlements.

From time to time, when Mr. McGarrah or Mr. Fraser visited here, they have made their headquarters at the Federal Reserve Bank of New York. The Reserve Bank has maintained a small deposit with the World Bank since it opened for business in May, 1930, and it has performed for the World Bank the usual services tendered to central banking correspondents.