

THE BANK FOR INTERNATIONAL SETTLEMENTS AND THE RISE OF FINANCIAL
AND POLITICAL INSTABILITY, 1919-1948

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Dedication

This work is dedicated to the Kumulipo

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Abstract

This thesis argues that the creation of the Bank for International Settlements (BIS) was part of a significantly broader plan to stabilize international finance through the promotion of core democratic and capitalist policies to thwart Soviet communism and stimulate Western private commercial interests. In particular, a triune core is posited to explain the enduring coordination and cooperation exhibited by the United States, Great Britain, and Germany in creating the world's first international financial institution, as well as in defending it, once the Bank was targeted for liquidation for alleged financial malfeasance.¹ The establishment of the BIS formalized the nascent underpinnings of a long-standing interest in creating an international bank by the Bank of England, the Reichsbank and the US Federal Reserve. One of the ironies of this multinational birth was the tremendous instability that was injected into global finance and the postwar geopolitical situation just as the Bank for International Settlements became established in the early years of the Great Depression. The source of these destabilizing tendencies could be seen to arise from the same financial instruments which were extolled as the keys to stabilizing international finance: access to internationally recognized credit and loans. This thesis provides a coherent narrative of events involved in the conception, creation and operation of the Bank in the period from the signing of the Versailles Treaty in 1919 to the decision to rescue the BIS from liquidation in 1948.

¹ “malfeasance – intentionally doing something either legally or morally wrong which one had no right to do. It always involves dishonesty, illegality, or knowingly exceeding authority for improper reasons. Malfeasance is distinguished from ‘misfeasance,’ which is committing a wrong or error by mistake, negligence or inadvertence, but not by intentional wrongdoing” (ALM Law.com Dictionary, <https://dictionary.law.com/Default.aspx?selected=1196>). See also Harland Prechel, “Corporate Fraud, Corruption, and Financial Malfeasance,” *Criminology and Criminal Justice* (Oxford University Press, 15 September 2022), <https://doi.org/10.1093/acrefore/9780190264079.013.271>

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Introduction

Stabilizing Political and Financial Instabilities

The Bank for International Settlements (BIS), in addition to being the world's first international bank, is also among the opaquest of financial institutions. The story of its first two decades is an interesting one that should be more widely known because of the Bank's significance in financial history. Not only have its activities informed the creation and operation of other such international institutions, including the International Monetary Fund and the World Bank; its history also provides one of the first examples of how powerful financial institutions, when faced with serious allegations of malfeasance, are only rarely, if ever, exposed to criminal charges. They are not required to acknowledge that any illegal or improper activity has occurred² and are only asked to pay fines.³ However, even among many of the more recent cases of serious financial impropriety, the BIS stands out because of how it aided and abetted the Nazi regime in implementing its racist and destructive Lebensraum policy, for which a number of its directors were exposed to war crimes charges, convictions, and sentences. Given this context, one can fairly ask whether, if not for the crucial financial assistance it received from the BIS and the Swiss National Bank (SNB), the Third Reich would have been able to militarily occupy so many other European nations. For this and other reasons, the Bank was targeted by some leaders and financiers for liquidation during and after the war, yet an enormous effort was expended to save

² See, for example, 18 U.S. Code § 1956 - Laundering of monetary instruments, *Legal Information Institute* (Cornell Law School, 2022), <https://www.law.cornell.edu/uscode/text/18/1956>

³ Edwin H. Sutherland, *White Collar Crime* (New Haven, Connecticut: Yale University Press, 1983 [1949]), 61.

the Bank from what appeared to be its certain fate. Why was such effort expended, and why was it ultimately successful? This thesis attempts to answer such questions by first presenting a coherent and relatively comprehensive account of events that unfolded in the years after World War I up to the beginning of the Cold War and then examining the role played by the BIS in the years from 1930 to 1948.

One of the motivations for writing this thesis was to address apparent limitations in published accounts of the events that unfolded at the BIS during its first two decades. A number of these works, written over the past 92 years, describe the organization and operation of the BIS but lack a suitably compact, comprehensive, and coherent narrative of events, presented in sufficient detail to allow the reader to comprehend what most likely happened in the period under study. The avoidance or obscuring of such salient factual evidence may have been because of the unavailability of sufficient documentary evidence at the time, challenges associated with understanding interbank financial transactions, or complications arising from the chaos and violence that characterized the 1930s and 1940s. On the other hand, another likely reason for these lacunae is the financial services to Hitler's Nazi regime surreptitiously provided by the BIS both before and during WWII: some of these published accounts exhibit a markedly defensive stance, seeking to reorient the reader away from the detrimental evidence and the disagreeable conclusions that might logically follow.

There is a considerable literature on the Bank for International Settlements. Among the earliest publications are Paul Einzig's *Bank for International Settlements* (1930)⁴ and Eleanor

⁴ Paul Einzig, *The Bank for International Settlements* (London: Macmillan and Co., 1930).

Lansing Dulles's *The Bank for International Settlements at Work* (1932);⁵ among the more recent are Kazuhiko Yago's *Financial History of the Bank for International Settlements* (2012)⁶ and Adam Lebor's *Tower of Basel* (2013).⁷ Some of the more defensive accounts include those written by BIS managing director (1938-1958) Roger Auboin (1955),⁸ American economist Henry H. Schloss (1958),⁹ and American economist Gianni Toniolo (2005).¹⁰ Others, if less defensive, suffer from an overly complicated theoretical framing, such as that written by American political scientist Beth A. Simmons (2011).¹¹

Though the activities at the BIS comprise only a portion of his investigations, American historian Frank C. Costigliola (1973) did a remarkable job of fleshing out a surprising amount of detailed information related to establishing the Bank, such as the likely role played by American diplomat John Foster Dulles.¹² Unfortunately, Costigliola's storyline concludes soon after the BIS commences its operations. Not only this, but the very detail and careful documentation of his information also tends to obscure the bigger picture. Among the first to scour the available archives and provide some preliminary quantitative estimates of just how much gold the BIS and the SNB likely laundered on behalf of Nazi Germany is American historian Arthur L. Smith,

⁵ Eleanor Lansing Dulles, *The Bank for International Settlements at Work* (New York: Macmillan, 1932).

⁶ Yago Kazuhiko, *The Financial History of the Bank for International Settlements* (London: Routledge, 2013).

⁷ Adam Lebor, *Tower of Basel: The Shadowy History of the Secret Bank that Runs the World* (New York, N.Y.: PublicAffairs, 2013).

⁸ Roger Auboin, "The Bank for International Settlements, 1930-1955," *International Finance Section, Essays in International Finance*, No. 22 (Princeton, New Jersey: Princeton University, 1955):1-38, 14-16.

⁹ Henry H. Schloss, *The Bank for International Settlements: An Experiment in Central Bank Cooperation* (Amsterdam: North Holland Publishing Co., 1958).

¹⁰ Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930-1973* (Cambridge: Cambridge University Press, 2005).

¹¹ Beth A. Simmons, "Why Innovate? Founding the Bank for International Settlements," *World Politics* 45 (April 1993): 361-405.

¹² Frank Costigliola, *The Politics of Financial Stabilization: American Reconstruction Policy in Europe 1924-30* (Ithaca, New York: Cornell University, Dissertation, 1973), 1-534.

Jr.'s *Hitler's Gold* (1982).¹³ Italian banker, economist, and BIS vice-chair (1988-1989) Paolo Baffi conducted extensive research on the origins of the BIS with an emphasis on its earliest aims.¹⁴ Though his fine work is an invaluable resource, Baffi's death in 1989 cut short his project on the Bank; *The Origins of Central Bank Cooperation* was published posthumously in 2002. Toniolo's 729-page *Central Bank Cooperation at the Bank for International Settlements, 1930-1973* (2005) offers a veritable treasure trove of detailed information regarding the origins and operations of the BIS obtained from its Archives. His work is notably protective of the Bank's reputation, especially in regards to its operations during the time period under consideration in this thesis. Waseda University Professor of Commerce Kazuhiko Yago (2012) presented a credible, though limited, narrative of events, and in apparent due diligence included a preliminary balance sheet study to identify accounting anomalies.¹⁵ British journalist LeBor has published one of the most comprehensive accounts of the role of the BIS and its relation to global finance, military industries and corporate espionage in *The Tower of Basel* (2013). Part of a long lineage of studies which have sought to describe the origin and operations of the Bank,¹⁶ the work is notable for its grappling with the daunting complexity of the issues and institutional interconnections related to the Bank for International Settlements and its role in the world of global finance.

¹³ Arthur L. Smith, Jr., *Hitler's Gold: The Story of the Nazi War Loot* (Oxford: Berg, 1989).

¹⁴ Paolo Baffi, *The Origins of Central Bank Cooperation: The Establishment of the Central Bank for International Settlements* (Bank of Italy and Bank for International Settlements: Gius. Laterza & Figli, 2002).

¹⁵ See, for example, Yago, *The Financial History of the Bank for International Settlements* 63-74.

¹⁶ See also Giuseppe Ugo Papi, *The First Twenty Years of the Bank for International Settlements* (Rome: Bancaria, 1951); Gian Trepp, *Bankgeschäfte mit dem Feind. Die Bank für Internationalen Zahlungsausgleich im Zweiten Weltkrieg. Von Hitlers Europabank zum Instrument des Marshallplans* (Zürich: Rotpunktverlag, 1993); James C. Baker, *The Bank for International Settlements: Evolution and Evaluation* (Westport, Connecticut: Praeger, Greenwood Publishing Group, 2002); and Kevin Ozgercin, "The History of the Bank for International Settlements, 1930-1958" (City University of New York, Dissertation, 2005).

Overview

The Bank for International Settlements, which began operations on 17 May 1930, formed the substructure upon which modern international finance and international banking was built.¹⁷ It was proposed as a new type of bank at the Baden-Baden Conference (September-December 1929) by the Organization Committee, composed of the world's leading financial experts and bankers and headed by American lawyer, industrialist, and diplomat Owen D. Young. The Bank was formally convened to alleviate Germany's continued financial difficulties and assist it in fulfilling its payment obligations.¹⁸ As the BIS's official website explains:

The BIS was set up to take over the functions previously performed by the Agent General for Reparations [created under the Dawes Plan]: managing the collection, administration and distribution of the annuities payable as reparations. The Bank's name is derived from this original role.¹⁹

However, soon after its creation, this articulated responsibility had become obsolete, as Germany repudiated its obligation to pay its reparations.²⁰ Nevertheless, the Bank continued to exist and to function, as it does to this present day. The overriding idea of the bank that finally emerged, as stated in its charter, was as a forum to coordinate cooperation between member central banks. And as with any bank, it was intended to increase the earnings and dividends of its members and shareholders.

¹⁷ See, for example, "The 1931 published assets of the BIS," *New York Times* (6 August 1931), <https://timesmachine.nytimes.com/timesmachine/1931/08/06/92159806.html?action=click&contentCollection=Archives&module=LedeAsset®ion=ArchiveBody&pgtype=article>

¹⁸ Chandler P. Anderson, "Final Liquidation of German War Reparation," *American Journal of Law* 25 (1931): 97-101, <https://www.jstor.org/stable/2189628>

¹⁹ "History – Foundation and Crises (1930-1939)," BIS, https://www.bis.org/about/history_1foundation.htm

²⁰ By 30 June 1933, president of the German Reichsbank, Hjalmar Schacht, refused honoring any further payments.

The Bank was a product of its time. With the demise of the German, Russian, Austro-Hungarian, and Ottoman empires after World War I, international geopolitics and finance underwent a colossal and problematic reorganization.²¹ The second and third decades of the twentieth century saw increasingly urgent plans to coordinate international finance on either side of the Atlantic. In the midst of this fragmented and unstable situation, certain internationalists had begun devising some means to promote monetary and financial stability by establishing an ad hoc system of international finance that could endow the economy of postwar Europe with sufficient strength to withstand assaults from without and even the vicissitudes of another global war.²² In particular, Germany's unpredictable economic situation in the interwar years heightened the perceived need to establish an international financial institution that could bring stability to the war-ravaged, pan-European economic system. To this end, the Federal Reserve, the Bank of England, and the Reichsbank, along with powerful private American bankers, such as J.P. Morgan, Jr., worked together to create the BIS in the hopes of stimulating international finance, as well as furthering private commercial and international banking interests.²³

This work investigates the origins of the Bank for International Settlements and the first two decades of its existence. It argues that while the founders of the BIS represented the Bank as necessary to stabilize international finance and banking, thwart Soviet communism,²⁴ and

²¹ See A.G Hopkins, *American Empire: A Global History* (Princeton: Princeton University Press, 2018), 443-456 for a contrasting argument.

²² Some of the earliest proponents of this ad hoc system put in place in the 1920s, include president of the Federal Reserve System of New York, Benjamin Strong, Jr., governor of the Bank of England, Montagu C. Norman, and the US Treasury Secretary Andrew Mellon.

²³ See, for example, Carl Felsenfeld and Genci Bilali, "The Role of the Bank for International Settlements in shaping the world financial system," *University of Pennsylvania Journal of International Law* 25 (2004): 945-1045, 960.

²⁴ Frank Costigliola, *Awkward Dominion: American political, economic, and cultural relations with Europe, 1919-1933* (Ithaca, N.Y.: Cornell University Press, 1984), 211.

advance democratic and capitalistic practices and principles, it did so in large part by first promoting the democratic Weimar Republic, and then later advancing the meteoric growth of the Third Reich, one of the most brutal and destructive regimes in world history. Historical context is needed to contextualize specific motivations for promoting financial stability and to highlight certain destabilizing consequences that resulted from the Bank's existence during the interwar years, the Second World War, and the early years of the Cold War. It shows that in large part, the Bank established policies supporting Germany and the German economy because it was these that concurrently supported America and Great Britain, as well as France and Belgium. The thesis argues that the BIS, in large part, effectively laid the institutional foundation upon which the United States later was able to build its international financial, political, and commercial hegemony, while also furthering Britain's international commercial and financial pre-eminence, specifically through the loans and credit American and British financial and commercial interests made available to the Weimar Republic and later the Third Reich. How such lofty and worthy goals as promoting interbank cooperation and stabilizing international credit, banking and finance led to such a devastating international outcome as Hitler's rise to power comprises a significant portion of the present study.

The Introduction provides some historical background to the founding of the BIS, particularly discussing the Paris Peace Conference and its product the Versailles Treaty, which was later used ultimately as a justification for the Bank's creation. Chapter 1 further analyzes the international agreements, including the Dawes and Young plans, as attempted solutions to the problem of Germany's reparations payments for World War I, and discusses the establishment of the BIS. It offers historical context motivating these agreements, including the episode of

hyperinflation Germany underwent in the early 1920s and the conflicts occasioned by the American reparation agent S. Parker Gilbert. Chapter 2 discusses the BIS from the point of view of its aspirations and the historical reality that shaped them in the face of the unfolding Great Depression. It examines the Bank's originating documents, arguing that the later uses to which it was put were inherent in its overall structure from the beginning. Chapter 3 focuses on two powerful individuals, Hjalmar Schacht and Montagu Norman, who worked on behalf of the Bank and their own countries' interests in the years leading up to World War Two. It shows that a major focus of both was to promote yet insulate, protect, and obscure the innerworkings of the Bank. Chapter 4 shows how this intended opacity backfired because of questionable gold transactions that took place at the BIS in the run-up to and during the war. These dubious transactions caused the Bank to be perceived as an international problem, leading to calls for its liquidation. It argues that rather than being isolated incidents, these acts of fiduciary malfeasance followed logically from its history and originating documents, as well as its internal structure and intended functions. Chapter 5 describes the remarkable battle that ensued to thwart the intended liquidation of the Bank and the many powerful individuals and entities which defended the BIS and pulled it back from the brink of dissolution. The Epilogue assesses the longer-term stabilizing and destabilizing influences that the BIS brought to the world of international finance and geopolitics between 1930 and 1948, and concludes with a likely geopolitical reason why the Bank for International Settlements was protected from dissolution.

Before Versailles

While the lineage of the BIS can be traced back to the 1919 Paris Peace Conference and consequent Versailles Treaty, to give context to the present study it is useful to quickly consider some of the events taking place in the previous decades. The forced payment of war reparations levied upon Germany mandated at the Conference after its defeat in World War I had a historical precedent in the punitive damages France was forced to pay Germany after its humiliating defeat in the Franco-Prussian War (19 July 1870–28 January 1871). In accordance with the Treaty of Frankfurt (10 May 1871), Germany demanded 5 billion gold Deutsch Marks in war reparations,²⁵ of which 4 billion Marks went to the central bank of Prussia.²⁶ After World War I, when the tables were turned and Germany was now on the losing side of the negotiations, France demanded that representatives of the Second Reich sign the Versailles Treaty in the Hall of Mirrors, the same room where they themselves almost fifty years earlier had been made to sign the Treaty of Frankfurt. This incident underscores the sense of humiliation sought by those who demanded reparations and experienced by those who were forced to pay them, which will become salient in the narrative surrounding the Versailles Treaty.

²⁵ *Note:* Ignoring inflation, if the same base rate is used to estimate war reparations owed in accordance to the ratio of war reparations-to-casualties sustained in the Franco-Prussian War (est. 5 billion gold marks for 1.15 million casualties), then with an estimated 40 million casualties suffered in World War One, Germany would commensurately owe, according to this method, 170 billion gold Deutsch Marks, far below the original 1919 estimate of 269 billion but about 1/3 greater than that agreed to in the 1924 Dawes Plan of 120 billion. In other words, ignoring inflation, the newly estimated reparations amount was clearly not excessive when compared with the amount that France owed Germany a few generations earlier.

²⁶ Gerd Hardach, "War Finance and Monetary Consequences: The German Case Revisited," *International Encyclopedia of the First World War, 1914-1919* (Online), https://encyclopedia.1914-1918-online.net/pdf/1914-1918-Online-war_finance_and_monetary_consequences_the_german_case_revisited-2015-09-21.pdf. *Note:* The German empire was created on 1 January 1871 and a little more than two weeks later (18 January 1871), Wilhelm I was proclaimed emperor of the Second Reich in Versailles' Hall of Mirrors.

These decades preceding the Great War had also seen the creation of a number of national banks and monetary systems: Deutsche Bank was founded in anticipation of the Franco-Prussian War on 10 March 1870 by the Kingdom of Prussia and the North German Confederation, and six years later, after the war (1 January 1876), the Reichsbank was instituted.²⁷ The Federal Reserve System of United States was established on 23 December 1913, under the auspices of international financial giant J.P. Morgan & Co.,²⁸ and proved instrumental in positioning the United States to advance its interests as a world power and cement its dominance in global trade, manufacturing and finance.²⁹ This new banking system, along with the country's foreign policy and burgeoning industrial revolution, enabled the United States to become the primary beneficiary of the extraordinary geopolitical disorder brought about by the Great War: in contrast to Great Britain, which was rendered destitute by the war, the US ultimately became the global creditor. These disturbances facilitated the restructuring of the international financial, commercial and economic power dynamics in the wake of the destruction of long-enduring empires.

²⁷ The Bank of England was founded in 1694, though instead *during* its Nine-Years' War with France.

²⁸ Michael D. Bordo and William Roberds, *The Origins, History, and future of the Federal Reserve: A Return to Jekyll Island* (Cambridge University Press, 2013).

²⁹ See, for example, Barry Eichengreen and Marc Flandreau, "The Federal Reserve, the Bank of England, and the Rise of the Dollar as an International Currency, 1914-1939," BIS Annual Research Conference (Lucerne, Switzerland, 24-25 June 2010), <https://www.bis.org/events/conf100624/eichengreenflandreupaper.pdf>. These aspirations had their origins earlier, during the McKinley administration, when the US had acquired the Philippines, Cuba and Guam after the Spanish-American War (1898), and soon after the turn of the century, the United States articulated the Roosevelt Corollary (1904) and implemented Taft's dollar diplomacy (1909-1913) to further its international and geopolitical interests. See Emily Rosenberg, *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900-1930* (Durham, North Carolina: Duke University Press, 2003).

The Paris Peace Conference and the Treaty of Versailles

Following the defeat of Germany and the Central Powers, the “Big Four”—the United Kingdom, France, Italy and the United States—met at what would come to be called the Paris Peace Conference to negotiate the conditions of peace, without their former ally Russia or any of the Central Powers, including Germany, in attendance. World War I had ruined the economies of Europe, and Germany was seen as the key to reconstituting them through reparation payments, levied both as restitution for the incredible destruction it had wreaked and because of the belief in the future prowess of German industriousness. It was in part to determine the amount Germany owed that the Paris Peace Conference was convened and the Treaty of Versailles ratified. With the signing of the Treaty on 28 June 1919, World War I officially ended and new borders were drawn between the belligerent nations.

The Paris Peace Treaty, as it is also known, embodied as well as gave rise to entangled geopolitical and long-term economic issues. One major problem was Article 231, co-authored by John Foster Dulles,³⁰ who had been tasked by President Woodrow Wilson to represent the legal position of the United States at the Paris Peace Conference.³¹ This article articulated the infamous so-called “war guilt clause,” demanded by both France and Belgium as a condition for obtaining a negotiated reparations amount, and it also created confusion and unease because it

³⁰ It’s plausible that the Article had a co-author, who was John Maynard Keynes (see, for example, his 1916 “Memorandum on the Effect of an Indemnity” (*The Collected Writings of John Maynard Keynes* (London: Cambridge University Press, 1971 [1923]), 311-334, in which Keynes argues that no specified reparations amount should be given in the treaty)). See also Robert Skidelsky, *John Maynard Keynes, Volume 1: Hopes Betrayed, 1883-1920* (New York: Viking, 1986 [1983]), 354-402.

³¹ Allen Welch Dulles was also in attendance but played a much smaller role in the treaty formalities. Their sister Eleanor Lansing Dulles was also present during the treaty negotiations.

did not give a specific amount that Germany was obligated to pay.³² While the 1921 London Schedule of payments later set the figure at 132 billion gold Deutsch Marks, this specificity did little to rectify the perceived problems of the Article, nor those of the Treaty in general.³³ Criticisms of the Versailles Treaty, the reparation articles, and particularly of Article 231, as both harsh and inequitable³⁴ were raised almost immediately after it was finalized, even by members of the states that had worked to broker it. The criticisms noted that the harshness of this war reparation total would tend to exacerbate the challenging geopolitical situation and increase the likelihood that a humiliated Germany would not fulfill its payment obligations.³⁵ Indeed, Germany's early and fully aired grievances gave powerful ammunition to propagandists and apologists of the National Socialist Party, who eventually eroded the authority of the Versailles Treaty and strengthened undercurrents of resistance against the mandates of the Treaty (and later the Dawes and Young plans). Members of the Nazi Party would become vociferous in repudiating the validity of the international agreements made during the Paris Peace Conference, contemptuously referring to it as the "Diktat of Versailles."³⁶ In a sense, one could argue that the

³² Peace Treaty of Versailles, "Reparations," Articles 231-247, <https://net.lib.byu.edu/~rdh7/wwi/versa/versa7.html>; "Financial Clauses," Articles 248-263, <https://net.lib.byu.edu/~rdh7/wwi/versa/versa8.html>. According to H.W. Brands, *Woodrow Wilson* (New York: Henry Holt and Company, 2003), President Wilson greatly increased the war reparations imposed on Germany (116), in part, because he wanted to show vigorous support for Georges Clemenceau, who survived an assassination attempt (19 February 1919) while the Paris Peace Conference was still ongoing.

³³ "Schedule of Payments Prescribing the Time and Manner for Securing and Discharging the Entire Obligation of Germany for Reparation Under Articles 231, 232, and 233 of the Treaty of Versailles," *American Journal of International Law* 16 (1922): 215-219, 216, <https://www.jstor.org/stable/2213054>: "Germany will [. . .] pay [. . .] 132 milliards [billion] of gold marks" (216).

³⁴ See, for examples, A.J.P. Taylor, *The Origins of the Second World War* (London: Hamish Hamilton, 1961); H.W. Brands, *Woodrow Wilson* (2003); and Hopkins, *American Empire*.

³⁵ See, for examples, John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920); Hjalmar Schacht, *The End of Reparations: The Economic Consequences of the World War*, translated by Lewis Gannett (London: Jonathan Cape, 1931). The similarity in titles is no coincidence; Schacht made good use of Keynes' *Economic Consequences* to promote the cause of Hitler and the National Socialists.

³⁶ William L. Shirer, *The Rise and Fall of the Third Reich: A History of Nazi Germany* (New York: Simon & Schuster, 1990 [1960]), 34.

reparation articles and particularly Article 231 encapsulated the crucial elements that most contributed to bringing about the end of the democratically elected Weimar Republic.³⁷ Germany's defeat in the war, compounded by the strictures of the Treaty, weakened and humiliated the country, and its political and economic institutions never fully revived during the 1920s.³⁸

At the same time, criticisms of the Treaty outside Germany were often raised for reasons having little to do with sympathy for Germany's supposed plight. The primary beneficiaries of this skepticism were in fact British financiers and the Bank of England, who had no particular desire to see the bulk of the payments flow to France, as they were slated to do.³⁹ The pessimistic predictions that the Treaty would fail to bring about its desired results were realized: although the Weimar Republic did complete the transfer of roughly 21 billion gold Deutsch Marks⁴⁰ between 1924 and 1929, it repeatedly defaulted on its payments. After 1932, Germany never made an additional reparation payment; in 1933, Hitler openly defied any further Versailles-related payments, and by 30 June 1933 Schacht stopped payments entirely⁴¹ as will be discussed in Chapter 2.

³⁷ See, for examples, Keynes, *Economic Consequences*, and Schacht, *The End of Reparations* and "Germany and the Young Plan," *Bulletin of International News* 13 (1930): 3-12, <https://www-jstor-org.eres.library.manoa.hawaii.edu/stable/pdf/25638736.pdf?refreqid=excelsior%3A322f467adbfcf73f781f5fab8dfd680c>.

³⁸ The democratic Weimar Republic did experience a brief Golden Age following passage of the 1924 Dawes Plan between 1925 and 1929, but this was short lived and had little lasting effect.

³⁹ William R. Keylor, *The Twentieth Century World: An International History* (Oxford, Oxford University Press, 1996), 84-85.

⁴⁰ "In fact, 20 billion marks is approximately what Germany paid during the entire history of reparations" (Sally Marks, "The Myths of Reparations," *Central European History* 11 (September 1978): 231-255, 233, <http://www.jstor.com/stable/4545835>).

⁴¹ Peter Longerich, *Hitler* (Oxford, Oxford University Press, 2019 [2015]), 317.

“Paris Cannot Be Understood Without Moscow”

Ironically, much of the focus of the Paris Peace Conference was on ways to control not the defeated enemy nation of Germany but a defeated and humiliated Russian empire. One of the most salient aspects of the Great War and its aftermath was the appearance of a new and terrifying geopolitical entity: the Union of Soviet Socialist Republics,⁴² which emerged soon after the Russian empire’s collapse after World War I. The appearance of this large, anti-capitalist nation acted as a major new perturbation in Western Europe’s geopolitical balance of power. In 1917 Lenin published *The State and Revolution*, which called for the violent overthrow of all capitalist exploiters and bourgeois governments by the proletariat:⁴³

The state is a special organization of force: it is an organization of violence for the suppression of some class. What class must the proletariat suppress? Naturally, only the exploiting class, i.e., the bourgeoisie. [. . .]. For the proletariat is the only class that is consistently revolutionary, the only class that can unite all of the working and exploited people in the struggle against the bourgeoisie, in completely removing it.⁴⁴

In 1918 came reports of the brutal execution of the entire Romanov family, Nicholas II, his wife Alexandra Feodorovna, and his five children, Olga, Tatiana, Maria, Anastasia, and Alexi on 16 July of that year by the Bolsheviks,⁴⁵ ending the 300-year-old Romanov dynasty. These events deeply influenced the proceedings the Paris Peace Conference, which began in January 1919.⁴⁶

⁴² *Note:* The USSR was not officially formed until 30 December 1922. By 1918, the Bolshevik Party had been renamed the Russian Communist Party (Richard Pipes, *The Formation of the Soviet Union: Communism and Nationalism, 1917-1923* (Harvard, Harvard University Press, 1997 [1954]), 110, 282).

⁴³ See also H.W.V. Temperley, *A History of the Peace Conference of Paris*, Volume VI (London: Henry Frowde and Hodder & Stoughton, 1924), 579-580.

⁴⁴ Vladimir Il’ich Lenin, *The State and Revolution* (Chicago, Illinois: Haymarket Books, 2014 [1917]), 61, <https://ebookcentral.proquest.com/lib/uhm/reader.action?docID=2028937#>

⁴⁵ “Ex-Czar of Russia Killed by Order of Ural Soviet,” *New York Times* (21 July 1918), 1, 8, <https://timesmachine.nytimes.com/timesmachine/1918/07/21/102724598.html?pageNumber=1>

⁴⁶ Some observers, including Keynes, saw Bolshevik Russia as becoming less threatening in the early 1920s. A number of significant changes had taken place in the Russian Communist Party since the Paris Peace Conference, most notably the 1921-1922 famine, estimated to have killed 5 million people (see, for example, Christopher

One observer commented that the “effect of the Russian problem on the Paris Conference [. . .] was profound: Paris cannot be understood without Moscow.”⁴⁷ It appeared that the communist influence was rapidly spreading into Europe, where its influence was “sweeping westward ‘like a flame.’”⁴⁸ At the commencement of the Conference, the so-called Spartacist Uprising (5-12 January 1919)⁴⁹ pitted Social Democrats in Germany and the German Communist Party against one another in a military skirmish in Berlin.

The hostility emanating from the Communist International in promoting a world revolution contributed to precipitating the First Red Scare.⁵⁰

As soon as they came to power, Soviet leaders . . . considered the WR [world revolution] their most important geopolitical component. The Bolsheviks’ strategy supposed the destabilization of society in the countries—their adversaries by all means—by political and economic strikes, terrorist acts, guerilla warfare and military insurrections.”⁵¹

Concerns about Bolshevism at the Paris Peace Conference introduced destabilizing economic and political fracture lines into the proceedings and the resultant Versailles Treaty, helping to explain, in part, why so many were willing to mollify Germany with regard to their reparation payments. As English Prime Minister David Lloyd George warned at the Conference:

Williams, “The 1921 Russian Famine: Center and Periphery Responses,” *Revolutionary Russia* 6 (1993): 277-314). Yet, with the death of Lenin in 1924, the Russian Communist Party would subsequently undergo a remarkable transformation under Stalin that would make it clear that the threat had not been mitigated.

⁴⁷ Ray Stannard Baker, *Woodrow Wilson and World Settlement*, Volume II (New York: Doubleday, Page & Co., 1923), 64.

⁴⁸ Baker, *Woodrow Wilson*, Volume II 63.

⁴⁹ Richard Cavendish, “The Spartacist Uprising in Berlin,” *History Today* 59 (2009), <https://www.historytoday.com/archive/spartacist-uprising-berlin>

⁵⁰ Jane Degras, *Communist International, 1919-1943, Documents: Volume 1, 1919-1922* (Royal Institute of International Affairs, 1955), 45, <https://www.marxists.org/history/international/comintern/documents/volume1-1919-1922.pdf>

⁵¹ Vladimir Shlapentokh, “The World Revolution as a Geopolitical Instrument of the Soviet Leadership,” *Russian History* 26 (1999): 316n5, 315-334.

The greatest danger that I can see in the present situation is that Germany may throw in her lot with Bolshevism and place her resources, her brains, her vast organizing power at the disposal of the revolutionary fanatics whose dream is to conquer the world for Bolshevism by force of arms.⁵²

Haunted by the possibility of explosive violence from the Bolsheviks in the East, the Peace Conference's tenuous and difficult negotiations regarding Germany's and Europe's future took place in an atmosphere of intimidation and fear.⁵³ The threat of Bolshevism thus became incorporated within the Treaty itself, introducing a disruptive source of geopolitical instability into the reparation articles. The signatories' choice, as they expressed it, was between a weakened, pro-Bolshevik Germany or a strengthened democratic anti-Bolshevik Germany, a fundamental tension that would both shape policy and could be exploited later during the Cold War.

Many members of the Conference felt that strengthening the economic standing of the West would provide the greatest protection against Russian communism. Woodrow Wilson emphasized "the importance of coöperating in the maintenance of the existing economic order in western Europe in order to stem the tide of Bolshevism."⁵⁴ English economist John Maynard

⁵² Lloyd George, "Memorandum of Mr. Lloyd George, 'Some Considerations for the Peace Conference'" in Ray Stannard Baker, *Woodrow Wilson and World Settlement*, Volume III (New York: Doubleday, Page & Co., 1923), 452; see also 450.

⁵³ On 21 February 1919, there was an assassination attempt on Georges Clemenceau; the bullet which shot him was deemed too close to his lungs to be removed, though he survived and lived for another ten years ("One This Day: February 21, 1919," *The Times* (21 February 2005), <https://www.thetimes.co.uk/article/on-this-day-february-21-1919-qcn7zhvz06p>).

⁵⁴ Baker, *Woodrow Wilson*, Volume II 323; The curious situation that international financiers found themselves in during the interwar years was that, during Woodrow Wilson's first term in office, the United States was experiencing a marked strain of isolationism (e.g., 1914-1917) (see, for example, Rosenberg, *Financial Missionaries* 150). However, these international bankers, financiers, and industrialists had become sufficiently adept at spreading the gospel of free trade in the spirit of President Taft's dollar diplomacy (1909-1913)—which sought to revamp America's image from that of an incipient imperialist into one based more on a platform of transnational economics. In this new twentieth century world of geoeconomics ushered in by dollar diplomacy, there was a concerted effort "to use private bank loans to leverage the acceptance of financial advisers by foreign governments that U.S. officials and investors considered unstable" (Rosenberg, *Financial Missionaries* 1.) From these early beginnings, one can

Keynes, though he did downplay the menace of Bolshevism,⁵⁵ still acknowledged that if the Russian communists got a foothold in Germany, all bets would be off for any kind of financial or economic solution to the problem of reconstituting Europe:

A victory of Spartacism in Germany might well be the prelude to Revolution everywhere; it would renew the forces of Bolshevism in Russia, and precipitate the dreaded union of Germany and Russia; it would certainly put an end to any expectations which have been built on the financial and economic clauses of the Treaty of Peace.⁵⁶

British economic historian Robert Skidelsky notes that “the war had not caused [Keynes] to renounce the view, common to his generation, that an economically dynamic Germany was an asset, not a liability to Europe—a view which if anything had been strengthened by the Bolshevik Revolution.”⁵⁷ Keynes resigned in disgust during the creation of the Versailles Treaty at what he saw as the unfair reparations and war debt impositions being heaped upon an impoverished Germany and later ridiculed and castigated the negotiators in his *Economic Consequences of the Peace*, in which he predicted that the injustices of the Treaty would result in another world war.⁵⁸

While Lloyd George sought a more careful yet firm approach to the Reparations Clause in the Versailles Treaty,⁵⁹ President Woodrow Wilson raised the total reparation amount by

witness the United States leveraging its loans to acquire a supervisory power over other countries' finances, initiating the new fields of investment banking and international finance (Rosenberg, *Financial Missionaries* 253-254).

⁵⁵ Keynes, *Economic Consequences* 289.

⁵⁶ *Ibid.*,

<https://babel.hathitrust.org/cgi/pt?id=hvd.32044015508815&view=1up&seq=307&skin=2021&q1=spartacism>

⁵⁷ Robert Skidelsky, *John Maynard Keynes, Volume 2: The Economist as Saviour, 1920-1937* (New York: Penguin Press, 1994[1992]), 32.

⁵⁸ Keynes, *Economic Consequences* 5.

⁵⁹ See, for example, “Memorandum of Mr. Lloyd George, ‘Some Considerations for the Peace Conference’” in Ray Stannard Baker, *Woodrow Wilson and World Settlement, Volume III* (New York: Doubleday, Page & Co., 1923), Document 65, 456, 449-457: “An essential element, therefore, in the peace settlement is the Constitution of the

demanding inclusion of pensions in Germany's payments.⁶⁰ John Foster Dulles and Keynes disagreed with imposing such a large reparation on a humiliated Germany. Why did Wilson think that the reparations amount should be raised while Dulles and Keynes opposed such an increase? The difference may lie in the fact that Dulles and Keynes approached the problem from financial and economic perspectives, whereas President Wilson came down hard on Germany for its moral failings and wartime transgressions as well as to remain consistent with his much-acclaimed proposal (in Europe at least) of a League of Nations.

The key to the reparation payment dilemma was to find a balance between the total reparation amount which would satisfy France and Belgium and realistically take into account Germany's ability to pay.⁶¹ Finding that balance led to a decade-long dance between the world of finance and the world of politics. Keynes's views were in alignment with those of Schacht that economic considerations should supersede political ones. In Keynes's *The Economic Consequences of the Peace*, he deplored that "the Big Three all gave politics precedence over economics."⁶²

For this sin of prioritizing political considerations over economic ones, Georges Clemenceau, Lloyd George, and Woodrow Wilson were excoriated and caricatured by Keynes. As Keynes lacked the temperament of a negotiator, he failed to see that, if handled with proper

League of Nations as the effective guardian of international right and international liberty throughout the world" (455).

⁶⁰ See Ronald W. Pruessen, "Woodrow Wilson to John Foster Dulles: A Legacy," *Princeton University Library Chronicle* 34 (Winter 1973): 109-129, 112-113; H.W. Brands, *Woodrow Wilson* (New York: Henry Holt & Co., 2003), 128-129; Max Sering, *Germany Under the Dawes Plan: Origin, Legal Foundations, and Economic Effects of the Reparation Payments* (London: King & Son, Ltd. 1929), 3-7.

⁶¹ Skidelsky, *John Maynard Keynes, Vol 1* 390.

⁶² Skidelsky, *John Maynard Keynes, Vol 1* 387. In fact, there were the Big Four: Lloyd George of Great Britain, Georges Clemenceau of France, Woodrow Wilson of the United States and Vittorio Emanuele Orlando of Italy.

care,⁶³ the war reparations could act as more than just an instrument of vengeance against a starving, impoverished and defeated German people. Rather, the loans and financing could underwrite the reconstruction of Germany, France, Belgium, and Europe and, as a result, keep the Communist menace at bay.⁶⁴ This struggle became particularly pronounced during the depression years when the National Socialist Party grew in popularity.⁶⁵

Some pro-German advocates even sought to justify Germany's non-payment of its negotiated reparations and debts as a legitimate means of protecting the West from what they saw as this graver threat. French Prime Minister Georges Clemenceau, on the other hand, countered this view, opining that "the Germans were urging Bolshevism as a bogey with which to frighten the Allies"⁶⁶; France "would never admit the danger of Bolshevism as any argument for lending themselves to the general scheme of European reconstruction."⁶⁷ A correspondent at the Paris Peace Conference went so far as to note that in Clemenceau's view, "There was undoubtedly a feeling somewhere below the surface that if Bolshevism was going to weaken Germany so much the better!"⁶⁸

No matter which side the participants embraced, early on in the Paris Peace Conference one of the critical motivations to establish an international monetary and financial system at this time was not just the war-torn and degraded economic state of Europe but also the abiding fears

⁶³ For example, see Lloyd George's balanced approach as described in Antony Lentin, "Several types of ambiguity: Lloyd George at the Paris peace conference," *Diplomacy and Statecraft* 6 (1995): 223-251, 231, <https://www.tandfonline.com/doi/abs/10.1080/09592299508405960>.

⁶⁴ Cavendish, "The Spartacist Uprising in Berlin"

⁶⁵ Whereas the German Socialist Party never attained more than between 10-15% of the vote, the National Socialists occasionally got more than twice that percentage.

⁶⁶ Baker, *Woodrow Wilson*, Volume II 299.

⁶⁷ *Ibid.*

⁶⁸ Baker, *Woodrow Wilson*, Volume II 323.

of a belligerent, anti-democratic, and anti-capitalist Soviet Union. Such geopolitical pressure can be seen as casting a shadow over the accomplishments of the Conference—as well as jump-starting Europe’s economic recovery using the financing of Germany’s reparations and war debt as the basis for the planned reconstruction. For whatever its impetus and influences, the Versailles Treaty nevertheless formed the basis upon which a new geopolitical and financial order was built. Even amidst the turmoil of the first decades of the twentieth century, Western Europe did become more financially integrated as a result of the work of various internationalists as well as through access to American and British loans and credit. The next chapter discusses two major negotiated agreements, the Dawes and Young plans, that emerged as ways to deal with the problem of Germany’s war debt and reparation payments and how they led to the signing of the Hague Agreement on 20 January 1930, which established the Bank for International Settlements.

Chapter 1

The Dawes and Young Plans and the Founding of the BIS

Overview

The founding of the BIS took place at a critical time in world history. In response to the post-war economic depression in Europe and, as argued in the Introduction, the imminent threat of Bolshevism, the Western powers sought to construct a robust international monetary and financial system. Though the financial system of the 1920s was inchoate and decidedly ad hoc,⁶⁹ the system that was put in place in the 1930s was by comparison a much more organized affair, based as it was on international agreements centered around the newly created BIS.

Within five years of the Versailles Treaty, in response to Germany's repeated payment defaults, a series of adjustments was made resulting in a greater-than-50% reduction in the total estimated payments, from between 200 and 300 billion⁷⁰ gold Reichsmarks (first assessed sometime after the signing of the Versailles Treaty) to 132 billion (in accordance with the 1921 London Schedule). No change was made to the reparation total under the 1924 Dawes Plan,⁷¹ but within another five years, the additional modifications of the Young Plan (1929-1930) further delimited the scope of the original Reparation Articles. No mention was made of any total

⁶⁹ György Péteri, "Central Bank Diplomacy: Montagu Norman and Central Europe's Monetary Reconstruction after World War I," *Contemporary European History* 1 (November 1992): 233-258, 245, <https://www.jstor.org/stable/20081449>

⁷⁰ Marks, "The Myths of Reparations" 236n21.

⁷¹ See "Committee of Experts' (Dawes) Plan," in Appendix: Certain Treaties for Execution or Modification of the Treaty of Peace with Germany, *Office of the Historian*, US State Department, <https://history.state.gov/historicaldocuments/frus1919Parisv13/comp5>

amount outstanding in the Dawes Plan, instead payments of 2.5 billion RM were due annually.⁷²

The decision as to the total reparation amount was deferred until the Young Plan.

This chapter examines these modifications made to the Treaty in the years after its ratification, including the 1921 London Schedule of Payments but focuses on the Dawes Plan and the Young Plan.⁷³ As mentioned, these changes to the Treaty attempted to resolve the problem of Germany's inability or refusal to pay what was demanded of them,⁷⁴ which non-payment had continuing and far-reaching consequences for those to whom the funds were owed. The chapter then discusses the proposal, brought up during the negotiations for the Young Plan, that a Bank for International Settlements be created to facilitate Germany's payment and establish an international financial system to promote monetary and financial stability.⁷⁵ There had long been a dream among international financiers of creating an international bank and that the economic growth of the 1920s had provided the opportunity for the realization of such aspirations, but it was not until Germany's war reparations problem had proven intractable that this issue provided a fortuitous justification for creating such an institution.

⁷² John W. Wheeler-Bennett and Hugh Latimer, *Information on the Reparation Settlement* (London: George Allen & Unwin, 1930), 58, 66.

⁷³ For a brief overview of the Dawes and Young plans, see "The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts," *Office of the Historian*, US State Department, <https://history.state.gov/milestones/1921-1936/dawes>

⁷⁴ "Part VIII: Reparation," *Papers Relating to the Foreign Relations of the United States* [FRUS], The Paris Peace Conference, 1919, Volume XIII, <https://history.state.gov/historicaldocuments/frus1919Parisv13/ch17>

⁷⁵ From the Experts Committee Report quoted in Paul Einzig, *The Bank for International Settlements* (London: Macmillan and Co., 1930), 119.

The London Schedule of Payments

Although Article 231 of the Versailles Treaty had demanded that Germany accept responsibility for the war⁷⁶ in exchange for a reduction in the total reparations required, there had been no specific reparation amount⁷⁷ agreed upon at the conclusion of the Treaty in 1919.⁷⁸ It was not until the 1921 London Schedule of Payments that this omission was rectified, establishing that Germany was required to pay 132 billion Reichsmarks (RM).⁷⁹ The Reparation Commission allowed for payments to be made in cash or commodities, such as coal. On 9 January 1923, Germany defaulted on its coal deliveries, and then engaged in a form of passive resistance when it suspended its deliveries to France and Belgium.⁸⁰ In response, the Reparation Commission (minus England) voted that the Ruhr Valley, a heavily industrialized area of Germany and a principal source of the country's coal, should be occupied by France and Belgium. These countries, which believed that Germany's defaults were simply part of an elaborate ruse,⁸¹

⁷⁶ "Schedule of Payments (5 May 1921)," *Office of the Historian*, U.S. Department of State, <https://history.state.gov/historicaldocuments/frus1919Parisv13/ch34subch4>

⁷⁷ Often payment totals and payment schedules are deferred until later. This happened as well during the Young Committee. The idea of these deferrals is to keep the committee from splintering and failing. The details are more fractious politically and technically difficult because there are so many countries involved in the negotiations of the numbers. For example, it could be argued that Great Britain tried to sabotage the Young Committee early on as it demanded its payments be adjusted in its favor. This undiplomatic position forced other countries to agree to having their own payments reduced in order to satisfy England. Apparently, Keynes was the one who requested this deferral at the Paris Peace Treaty, and it was Owen D. Young who requested a deferral as part of the Young Committee negotiations.

⁷⁸ Proposed amounts ranged between 200 and 300 billion Reichsmarks (see, for example, Marks, "The Myths of Reparations" 236n21).

⁷⁹ "Schedule of Payments Prescribing the Time and Manner for Securing the Discharging the Entire Obligation of Germany for Reparation Under Articles 231, 232, and 233 of the Versailles Treaty," *American Journal of International Law* 16 (1922) 215-219, https://www-jstor-org.eres.library.manoa.hawaii.edu/stable/pdf/2213054.pdf?refreqid=excelsior%3Af30ebf52aa1fbd91f6a7dd9187b6cd7d&ab_segments=&origin=

⁸⁰ Carl T. Schmidt, "The Treaty of Versailles, Inflation and Stabilization" in *German Business Cycles, 1924-1933* (Cambridge, Massachusetts: National Bureau of Economic Research, 1934), 16-17, <https://www.nber.org/system/files/chapters/c4933/c4933.pdf>

⁸¹ See, George A. Finch, "The Legality of the Occupation of the Ruhr Valley," *International Law* 17 (1923): 724-733, 733, <https://www.jstor.org/stable/2188659>; see also, Marks, "The Myths of Reparations" 244-246.

therefore occupied the Ruhr from January 1923 to August 1925, during which time they extracted coal as a means of fulfilling part of Germany's payment obligations. Though this provided France and Belgium with a portion of the reparation payments, it cost so much to occupy the Ruhr that France claimed, instead, that the intention was to force Germany to recognize the validity of the Versailles Treaty. By the end of January, France and Belgium were in complete control of the Ruhr, and the exchange value of the German Mark to the dollar decreased from 7,000 to 50,000.⁸² Being militarily occupied by a foreign power and denied control over its own natural resources also increased Germany's humiliation. Concern that a war could result from the heated conflict led to the creation of the Dawes Committee to resolve the worsening crisis once France agreed to join in November 1923 under pressure from the United States and Great Britain.⁸³

The Dawes Plan

By both acknowledging the authority of the Versailles Treaty and reviewing its terms, the Dawes Plan⁸⁴ sought to alleviate Germany's extreme monetary crisis of the early 1920s,⁸⁵ which resulted from its hyperinflation and foreign occupation. By working to resolve the country's inability to complete its reparation payments and pay its war debt on schedule, it was hoped that

⁸² Schmidt, "The Treaty of Versailles" 18.

⁸³ Schmidt, "The Treaty of Versailles" 24.

⁸⁴ For a brief overview of the Dawes Plan, see "Dawes Plan," *Encyclopedia.com*, <https://www.encyclopedia.com/history/modern-europe/treaties-and-alliances/dawes-plan>.

⁸⁵ Oscar T. Crosby, "The Dawes Plan a Temporary Basis for Reparation Payments," *The Annals of the American Academy of Political and Social Science* 120 (July 1925), 11-15, <https://www.jstor.org/stable/1015629>

a possible military conflict between Germany and France could be avoided. The 1924 Dawes Plan was intended as a short-term solution that would need to be renegotiated later.⁸⁶

Its lead author, Charles G. Dawes, said that “[i]t was the endeavor of the experts to found their plan upon the principles of justice, fairness, and mutual interest [. . .] for the universal safeguarding of peace.”⁸⁷ Dawes, vice president of the United States under Calvin Coolidge, won the 1925 Nobel Peace Prize⁸⁸ for his “crucial role in bringing about the Dawes Plan.”⁸⁹ And for a time, the Plan was effective: France and Belgium withdrew from the Ruhr in 1925, and the American Reparation Agent-General tasked with receiving reparations, S. Parker Gilbert, got the Weimar Republic to pay nearly 21 billion gold RM,⁹⁰ which he distributed to the war-damaged countries of Europe. The Plan also benefited Germany economically, as it was intended to do. Its implementation, coupled with the control of the country’s hyperinflation exercised by Reichsminister Hjalmar Schacht,⁹¹ granted the beleaguered economy of the Weimar Republic a brief revival in the second half of the 1920s.⁹²

⁸⁶ Wheeler-Bennett and Latimer, *Information on the Reparation Settlement* 59, 64.

⁸⁷ “Charles G. Dawes Acceptance Speech,” The Nobel Prize, <https://www.nobelprize.org/prizes/peace/1925/dawes/acceptance-speech/>

⁸⁸ Dawes shared the Nobel Peace Prize gift with Great Britain’s Secretary of State for Foreign Affairs Neville Chamberlain’s older half-brother, Sir Austen Chamberlain, German Foreign Minister Gustav Stresemann, and Prime Minister of France Aristide Briand, for their “crucial role in bringing about the Locarno Treaty,” (“The Nobel Peace Prize 1925,” *The Nobel Prize*, <https://www.nobelprize.org/prizes/peace/1925/summary/>) which too was credited with reducing postwar geopolitical tensions related to border disagreements.

⁸⁹ “The Nobel Peace Prize 1925,” <https://www.nobelprize.org/prizes/peace/1925/summary/>

⁹⁰ Marks, “The Myths of Reparations” 233.

⁹¹ Hjalmar Schacht, *The Stabilization of the Mark* (London: George Allen & Unwin, 1927).

⁹² German Chancellor of the Weimar Republic Gustav Stresemann in September 1923 appointed Hjalmar Schacht to get the hyperinflation under control within four months. Soon after Schacht and previous President of the Reichsbank Hans Luther got the out-of-control inflation under control by 1924, the Dawes Plan was proposed. Schacht has been credited with bringing down the inflation by devising a new currency the *Rentenmark* (Heinrich August Winkler, “From Dawes to Young: Germany Under Stresemann” in *The Age of Catastrophe* (New Haven: Yale University Press, 2020), 360-383, 360-361). The Rentenmark was equivalent to one billion Reichsmarks. Under Stresemann, the Weimar Republic continued making reparation payments in good faith during his tenure.

According to the changes agreed upon, Germany's payment schedule was modified, and Germany was also able to acquire investment capital, primarily from the United States,⁹³ which in turn allowed the country's steel industry to expand rapidly, becoming the largest in Europe by 1925.⁹⁴ These benefits did not resolve Germany's resentment over the so-called war guilt clause and large annual reparation payments, however. This resentment came to a head three years later, leading to another attempted solution: the Young Plan.

The Young Plan

Concerned by the growing power of the American-controlled Office of the Reparation Agent-General and the perception that Germany had lost economic control over its own country, further revisions were made to the payment schedule.⁹⁵ The United States had exacerbated this loss of economic control through various financial decisions, such as the Federal Reserve's first lowering interest rates⁹⁶ and then raising them,⁹⁷ actively undermining the economy of the Weimar Republic. According to Priscilla Roberts, these erratic policy changes largely arose from the Federal Reserve's attempts to promote postwar economic recovery in Europe, especially in Great Britain.⁹⁸ In effect,

⁹³ Stephen A. Schuker, *The End of the French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill, University of North Carolina Press, 1976).

⁹⁴ "World Steel Output in 1925 Much Larger," *New York Times* (17 January 1926), 82, https://timesmachine.nytimes.com/timesmachine/1926/01/17/100041723.pdf?pdf_redirect=true&ip=0

⁹⁵ Wheeler-Bennett and Latimer, *Information on the Reparation Settlement* 68.

⁹⁶ Priscilla Roberts, "Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part I: Intellectual Profile of a Central Banker," Federal Reserve Bank of Richmond *Economic Quarterly* Volume 86/2 (Spring 2000), 78, 83,

https://www.richmondfed.org/~media/richmondfedorg/publications/research/economic_quarterly/2000/spring/pdf/roberts.pdf; see also Frank C. Costigliola, "Anglo-American Financial Rivalry in the 1920s," *Journal of Economic History* 37 (1977): 911-934, 931.

⁹⁷ Roberts, "Benjamin Strong, Part I" 82.

⁹⁸ Roberts, "Benjamin Strong, Part I" 78-79.

however, they contributed to the Weimar Republic's no longer being able to acquire additional and much-needed American loans.⁹⁹ Though as the Dawes Plan effectively skirted the issue of the final reparation amount, that contentious issue had remained outstanding.¹⁰⁰

In response, the governments of Germany, France, Italy, Great Britain, Belgium, and Japan agreed on 16 September 1928 that a Reparations Committee of Experts should be convened and tasked with making proposals to achieve a "complete and final settlement of the reparation problem."¹⁰¹ Later that year, on 22 December 1928, the same government officials agreed to the terms under which the Committee of Experts would operate.¹⁰² This Reparation Commission further decided that two qualified American financial experts¹⁰³ would also be invited to join the Committee of Experts:¹⁰⁴ J.P. Morgan, Jr., and J.P. Morgan & Co. senior partner Thomas Lamont.¹⁰⁵

⁹⁹ Herbert Hoover laid blame for the Great Depression on the doorstep of the Federal Reserve and Governor Strong in particular for having prioritized the postwar European economic recovery by keeping American discount rates too low, which he claimed exacerbated US economic problems (Priscilla Roberts, "Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism. Part II. Strong and the Federal Reserve System in the 1920s," Federal Reserve Bank of Richmond *Economic Quarterly* 86 (2000): 77-98, 77-81, *in passim*).

¹⁰⁰ Wheeler-Bennett and Latimer, *Information on the Reparation Settlement* 66-68.

¹⁰¹ Martin, "The Bank for International Settlements" (circa 1935) 2, https://fraser.stlouisfed.org/files/docs/historical/martin/23_01_nd2.pdf; see also Thomas W. Lamont, "The Final Reparations Settlement," *Foreign Affairs* 8 (1930): 336-363, <https://www.jstor.org/stable/20030289>. See his description of Schacht's persistence to reduce the payments to extremely low totals and the deftness with which the Young Committee is shown in working around him (344-347).

¹⁰² Martin, "The Bank for International Settlements" 2.

¹⁰³ *Ibid.*

¹⁰⁴ "This Committee originated with the decision taken by Belgian, British, French, German, Italian and Japanese Governments to entrust to independent experts, the task of drawing up proposals for a complete and final settlement of the reparation problem. Twelve experts were to be chosen amongst the nationals of countries which participated in this decision, and two amongst the nationals of the United States of America" ("Settlement of the Reparations Problem: Report of the Committee of Experts," *American Journal of International Law* 24 (1930): 81-143, 81, <https://www.jstor.org/stable/2212799>).

¹⁰⁵ Mark Metzler, "American Pressure for Financial Internationalization in Japan on the Eve of the Great Depression," *Journal of Japanese Studies* 28 (2002): 277-300; 292-293.

American businessman Owen D. Young (who had himself been a member of the Dawes Committee) organized a meeting¹⁰⁶ in Paris on 9 February 1929 to address the matter of discontinuing the apparatus of the Office of the Reparation Agent-General. Within a matter of weeks of the official first day of the Young Committee meeting, the idea for an international bank had been suggested.¹⁰⁷ By as early as March 1929, it was proposed that the reparation agency be replaced with the machinery of a new commercial banking institution.¹⁰⁸

Two of the most salient proposals in the Report were that Germany should no longer be constrained by any oversight and that a new international bank should be created that could act as a commercial entity for both central and private banks and individuals.¹⁰⁹ These central and private banks could profit and make dividends through the purchasing of shares, an innovation that would later lead to serious international problems.

In the initial stages of the Young Plan committee meetings, various proposals were put forth recommending that a financial entity be established that could replace the institution of the Office of the Reparations Agent-General. Though Hjalmar Schacht and Montagu Norman had earlier proposed founding a new banking institution to deal with aspects of debt and reparations,¹¹⁰ the first draft to propose the commercialization of the German debt was made by the Belgian Minister without Portfolio Émile Francqui¹¹¹ on 23 February 1929. The Governor of the Banque de France Émile Moreau further proposed that such a bank should also include in its purview the reparation

¹⁰⁶ Frank Costigliola, "The Other Side of Isolationism: The Establishment of the First World Bank, 1929-1930," *Journal of American History* 59 (1972): 602-620, 607, <https://www.jstor.org/stable/1900660>.

¹⁰⁷ Costigliola, "The Other Side of Isolationism" 606-608.

¹⁰⁸ Costigliola, "The Other Side of Isolationism" 607-608.

¹⁰⁹ See "Adoption of the New (Young) Plan" in "Part VIII—Reparations," *Office of the Historian*, U.S. Department of State, <https://history.state.gov/historicaldocuments/frus1919Parisv13/ch17>

¹¹⁰ Péteri, "Central Bank Diplomacy" 241.

¹¹¹ Toniolo, *Central Bank Cooperation* 35.

payments and the economic recovery of Europe.¹¹² A few days later, Schacht recommended to Owen D. Young the idea of an international clearing house. After members of the Federal Reserve System were asked for their input regarding the Belgian, French and German proposals, these recommendations were taken up and this “compromise between the Francqui and the Schacht proposals, contained the main elements of the future BIS.”¹¹³ One of the surprising outcomes of these negotiations as pointed out by the author of the commissioned¹¹⁴ history of the BIS Gianni Toniolo was that the “Reichsbank was to enjoy the same statutory position in the bank as the other central banks.”¹¹⁵ This inclusion would have a profound effect on the behavior of the BIS in the run up to and throughout World War II.

There was a risk in replacing the Office of the Reparation Agent-General with a commercial bank: the protections instituted under the Dawes Plan to ensure that the transfers would be made in accordance with the agreed-upon schedule were eliminated, and Germany would be left to its own devices. The bankers saw the creation of such a financial institution, however, as providing much-needed flexibility in the event that any exchange difficulties arose. George L. Harrison, the president of the Federal Reserve Bank of New York, believed that such an institution would “‘facilitate and lighten [the] problem’ of an acute dollar shortage in Europe.”¹¹⁶ The Americans and their German counterparts also agreed that this new regime of international finance would need to be based more on the systematic operation of central bank cooperation and less on personal friendships, such as the one between Montagu Norman and the late Benjamin Strong, that had

¹¹² *Ibid.*

¹¹³ Toniolo, *Central Bank Cooperation* 36.

¹¹⁴ Oral communication with Piet Clement, BIS historian (4 July 2022)

¹¹⁵ Toniolo, *Central Bank Cooperation* 36.

¹¹⁶ Costigliola, “The Other Side of Isolationism” 608.

characterized the previous attempts to forge an international financial system in the 1920s.¹¹⁷ The initial Young Committee meeting concluded on 7 June 1929 with a Report from the Experts Committee, which formed the basis for the proposals which would become part of the final Young Plan.¹¹⁸

Lofty international banking goals and aspirations can be seen not only in the Experts Report (7 June 1929)—in which the expansive objectives of the Young Committee are clearly in evidence—but also in subsequent multinational agreements. Meetings took place first at the Hague between 6 and 31 August 1929,¹¹⁹ when the next version of the draft was completed, and then at Baden-Baden (between 3 October and 13 November 1929), where the Charter, Statutes, Convention, and Trust Agreement were drafted¹²⁰ under the leadership of American banker Jackson E. Reynolds, who headed the Organization Committee.¹²¹ Two financial developments took place during this meeting, the 29 October 1929 Wall Street Crash and a precipitous drop in short-term international loans to Germany, exacerbating the availability of loans to Germany that had already been approved in 1928.¹²² As Germany continued to fall into arrears in terms of its scheduled payments in the weeks and months following the October 1929 Wall Street Crash, its ability to access short-term loans became problematic after Hjalmar Schacht “torpedoed a government

¹¹⁷ Costigliola, “The Other Side of Isolationism” 615.

¹¹⁸ See the previous month’s negotiations in P.J. Philip, “Young Plan Wins Favor of Three Allies,” *New York Times* (7 May 1929), 1, 6,

https://timesmachine.nytimes.com/timesmachine/1929/05/07/95944130.pdf?pdf_redirect=true&ip=0

¹¹⁹ “Reparation Conference at the Hague,” *Advocate of Peace through Justice* 92 (February 1930): 37-40, <https://www.jstor.org/stable/20681403>

¹²⁰ Jackson E. Reynolds, “The Legal Structure of the Bank for International Settlements,” *American Bar Association Journal* 19 (1933): 289-293, 289, <https://www.jstor.org/stable/25710080>.

¹²¹ “Bank experts meet in Germany today,” *New York Times* (3 October 1929),

<https://www.nytimes.com/1929/10/03/archives/bank-experts-meet-in-germany-today-most-of-organization-group-are.html>

¹²² See Simmons, “Why Innovate?” 373-375, esp. “Figure 1: Germany’s Net Capital Movements” 375.

attempt to borrow from an American consortium.”¹²³ Following the Organization Committee meeting, an additional meeting was held in Brussels in December 1929. Its members, referred to as the Committee of Jurists or the Legal Committee, attempted to broaden the powers of the putative bank to rival those of nation-states, though this language was latter omitted from its proposals.¹²⁴

With the conclusion of the Second Hague meeting, held between 3 and 20 January 1930, the Young Plan was formally adopted. Authorized by Articles 231-235 of the Versailles Treaty, it recommended that the Allies exit the still-occupied Rhineland,¹²⁵ reduce Germany’s total reparation amount, this time by roughly one quarter, and reschedule its annual payments.¹²⁶ At the same meeting the decision was officially agreed to found a “global bank”¹²⁷ comprised of a consortium of different national banking interests, and the bank’s Charter, Statutes, Convention, and Trust Agreement were finalized. By means of such a bank, influential financial institutions and leading bankers would arrange for Germany to obtain large loans, with which it could complete its reparation payments and pay off its war debts and pursue commercial interests. The following month, on 27 February 1930, Switzerland granted a charter to the BIS by signing the Convention Respecting the Bank for International Settlements,¹²⁸ and this wholly new international bank began operations on 17 May 1930.¹²⁹

¹²³ Theo Balderston, “German Banking between the Wars: The Crisis of the Credit Banks,” *Business History Review* 65 (1991): 554-605, 587, <https://www.jstor.org/stable/3116768>.

¹²⁴ Reynolds, “The Legal Structure” 290.

¹²⁵ According to the Versailles Treaty, the Allies had until 1935 until to depart from the Rhineland, but under the Young Plan, they withdrew in 1930.

¹²⁶ Simmons, “Why Innovate?” 386.

¹²⁷ Elli Louka, *The Global Economic Order: The International Law and Politics of the Financial and Monetary System* (Northampton, Massachusetts: Elgar Publishing, 2020), 321.

¹²⁸ See, for example, Auboin, “The Bank for International Settlements” 2n⁺, <https://ies.princeton.edu/pdf/E22.pdf>: “After the conclusion of the Hague Agreements and the signing, on 27th February 1930 in Rome [where] the BIS was constituted [via] the Swiss law promulgating the Convention concerning the Bank for International Settlements.”

¹²⁹ Auboin, “The Bank for International Settlements” 2.

A Controversial Bank

Many individuals had strong reservations about or objections to the bank even before it came into existence. In large part, this was due to its proposed extraordinary powers, as it was the world's first international bank. British journalist Paul Einzig worried that the new independent Bank being fashioned could become a "super-Bank" through its "immense facilities for credit expansion," which would allow it to "infringe on the power of Governments."¹³⁰ Similarly, in his "Legal Character of the Bank for International Settlements," international lawyer John Fischer Williams discussed the disquieting significance of one of the phrases used by the Legal Committee in its legal description of the new bank: as that of a "*personne juridique internationale*,"¹³¹ which he translated as "international legal personality," and which, he argued, could have far-reaching and deleterious effects in terms of the Bank's powers. Nearly two years later, Jackson E. Reynolds published "The Legal Structure of the Bank for International Settlements," in which he further clarified and elaborated on the significance of the Brussels meeting in terms of assessing the legal nature of the Bank for International Settlements, concluding that even without the Legal Committee's recommendations (which according to him had never been published), the BIS "enjoys advantages superior, in some respects, to those accorded Governments under the usual relations existing between sovereign states."¹³² One of the things emphasized by these two authors, among others, is that the BIS remains an undefined legal entity; as will be shown below, this was very likely a conscious decision, made to confer the greatest flexibility and power upon the Bank.

¹³⁰ Einzig, *The Bank for International Settlements* 8-9; see also Yago, *The Financial History of the Bank for International Settlements* 7.

¹³¹ John Fischer Williams, "The Legal Character of the Bank for International Settlements," *The American Journal of International Law* 24 (1930): 665-673, 671.

¹³² Reynolds, "The Legal Structure" 293.

One related feature of the proposed bank, both unexpected and controversial, was its elimination of an overseeing agency, such as the Office of the Reparation Agent-General as instituted in the previous Dawes Plan. This new bank was planned to be a more equitable and more international entity than the former American-led Office of the Reparation Agent-General, which had been headed by former Undersecretary of the Treasury Seymour Parker Gilbert. In this and other ways, however, the Young Committee also contributed to dismantling or modifying certain aspects of the Versailles Treaty, from which it ostensibly derived its authorities.

Beginning with the drafted Articles 231-235 and the stabilizing of international finance via the Dawes Plan, there had been a discernable continuity in the incremental adjustments made between 1921 and 1929, making changes in the payment schedule and adjusting the payments. Though significant, these changes had never deviated substantially from the intent of the original reparation articles articulated in the Paris Peace Treaty. With the founding of the BIS, however, a distinct discontinuity emerged in the interpretation of the spirit and the letter of the international treaty. The prospect of profiting from international commerce went well beyond the drudgery of collecting and distributing reparation payments that the American Reparation Agent-General S. Parker Gilbert was saddled with under the Dawes Plan. The 1929-1930 Young Committee meetings brought about a series of alterations related not only to seeking to limit financial uncertainties and instabilities associated with the economy of the Weimar Republic but also to find new ways for investors to profit from their investments by purchasing shares in the BIS.

From the 7 June 1929 Experts Committee Report, a grander vision of a powerful international bank emerged, one they believed was destined to become a central hub of a much

larger international banking system. These larger aspirations were reflected in the oft-expressed appellation of the BIS as a “world bank.”¹³³ It can be construed from the Report that the proposed Bank was in some sense a manifestation of an international banker’s dream. A certain expansive optimism shines forth from it. The repeated and emphatic call for the new bank to be independent from national meddling and political entanglements¹³⁴ supports this view that it was envisioned from the start as a type of ideal international bank and unique commercial entity.¹³⁵

Nor is it just in the Experts Report where these ambitions can be discerned.¹³⁶ What comes through in the Charter, Statutes, Convention, and Trust Agreement, which describe the organization and functioning of the BIS, is the paramountcy of the proposed bank’s independence from all forms of governmental control, especially independence from taxation and regulation. The Charter¹³⁷ states that the “Bank shall be exempt and immune from all taxation . . .” (Paragraph 6) and that “[a]ll funds deposited with the Bank by any Government in pursuance of the Plan adopted by the Hague Agreement of January, 1930, shall be exempt and immune from taxation” (Paragraph 7). It furthermore states that the “foregoing exemptions and immunities shall apply to present and future taxation by whatsoever name it may be described, and whether imposed by Confederation, or by the cantonal, communal or other public authorities” (Paragraph 8). And finally, Paragraph 10 states:

¹³³ Herbert Feis, “World Bank, Six Months Old. Has a Record of Achievement,” *New York Times* (28 December 1930), XX 5, https://timesmachine.nytimes.com/timesmachine/1930/12/28/92130175.pdf?pdf_redirect=true&ip=0

¹³⁴ See, for example, Thomas W. Lamont, “The Reparations Settlement and Economic Peace in Europe,” *Political Science Quarterly* 45 (1930): 321-326.

¹³⁵ Wheeler-Bennett and Latimer, *Information on the Reparation Settlement* 86-87; see also Yago, *The Financial History of the Bank for International Settlements* 17.

¹³⁶ “[The Bank’s] organization will be outside the field of political influences, and its powers and facilities will be sufficiently broad to enable it to deal freely and promptly with the problems in Germany’s settlement obligations” (from the Committee of Experts Report quoted in Einzig, *The Bank for International Settlements* 188).

¹³⁷ “Constituent Charter of the Bank for International Settlements” (20 January 1930), Bank for International Settlements, <https://www.bis.org/about/charter-en.pdf>

The Bank, its property and assets and all deposits and other funds entrusted to it shall be immune in times of peace and in time of war from any measure such as expropriation, requisition, seizure, confiscation, prohibition or restriction of gold or currency export or import, and any other similar measures.

For such a relatively brief document, it is clear that significant space is given to discussion of the avoidance of taxation. It would be fair to ask if all it intended to do was to act as a bank to ultimately receive and distribute reparation payments, then why did it need all these extraordinary powers? It appears that the new bank had set its sights on accruing profit for itself and others; any financial entity that could avoid substantial taxes would have a clear advantage over its competitors.

The creation of a politically independent, global, commercial bank with little relation to the strictures of the Treaty or the controls of national taxation raised dangerous possibilities, and it drew criticisms from early on.¹³⁸ A few contemporary researchers saw warning signs¹³⁹ within the authorizing articles of the originating documents, whereby such a bank¹⁴⁰ could abuse its independence and effectively decouple itself from national and international laws.¹⁴¹

One such objection, voiced by Einzig, concerned “the proposed gold clearing system.”¹⁴² Such a system, originally suggested by Schacht, envisioned the Bank as an international clearinghouse¹⁴³ intended to coordinate activities with other central banks, including the Bank of

¹³⁸ See, for example, Einzig, *The Bank for International Settlements* 1-10, 107-111.

¹³⁹ Einzig, *The Bank for International Settlements* vi: “[T]he author, though in favour of the scheme as a whole, nevertheless shares the fears of those who consider the Bank as a potential source of international credit inflation. It is of great importance that public opinion should realise the extent of the danger of political influences on the Bank [which] might cause incalculable harm to the credit system of the world”; see also Dulles, *The Bank for International Settlements at Work* 125-127.

¹⁴⁰ Yago, *The Financial History of the Bank for International Settlements* 7.

¹⁴¹ Jackson E. Reynolds points out that it was only through the Convention Respecting the Bank for International Settlements that the BIS could be considered as constrained in any legal way, but then he concludes that “many of the Bank’s functions are admittedly beyond the control of Switzerland” (Reynolds, “The Legal Structure” 293).

¹⁴² Einzig, *The Bank for International Settlements* v, vi.

¹⁴³ A clearinghouse is a kind of intermediary designed to act as a go-between between other banks to exchange various financial transactions, which are either payments, derivatives, or securities. “[A clearinghouse is] an institution where claims made by various banks against each other are offset [which] reduces the need for transfers

England, the Federal Reserve, the Banque de France and the Reichsbank, all of which would benefit from the unique capabilities of this new type of bank. The United States, Great Britain and France were concerned, however, about Schacht's vision of a financial institution that could provide Germany with nearly unlimited credit¹⁴⁴ and loans to further its economic expansion¹⁴⁵ and so could act as a "source of international credit inflation."¹⁴⁶ The Dawes Plan, operating through Reparations Agent-General S. Parker Gilbert, had provided oversight through the threat of sanctions for German payment defaults and the possibility of territorial occupation. By contrast, the Hague Agreement, signed in January 1930, included no such controls beyond the belief that the market would rationally guide German decision-making regarding reparation and debt payments. These concerns proved prescient: because of this laxity, very little in the way of reparations would be recouped and distributed by the BIS under the Young Plan.¹⁴⁷

At the same time, enthusiastic support for such a bank was expressed by the heads of the British, American and German central banks: Montagu Norman, George L. Harrison, and even, at the outset, Hjalmar Schacht himself. Norman had persevered in promoting his idea of an Anglo-centric international bank since at least 1922; well after all interest had vanished, he even continued to forcefully pursue the possibility of having the BIS located in London.¹⁴⁸ Schacht, too, advocated for the establishment of an international bank that could provide cash-strapped Germany with a

of funds between banks" (John Black, Nigam Hashimzade and Gareth Myles, *Oxford Dictionary of Economics* (Oxford University Press, 2012)).

¹⁴⁴ Einzig, *The Bank for International Settlements* 9.

¹⁴⁵ Yago, *The Financial History of the Bank for International Settlements* 6, 8-9.

¹⁴⁶ Paolo Baffi, *The Origins of Central Bank Cooperation: The Establishment of the Bank for International Settlements* (Bari, Italy: Gius. Laterza & Figli, 2002), 167-168, <https://www.bancaditalia.it/pubblicazioni/collezioni-biblioteca-baffi/2019-3-scritti-baffi/bibliografia/500-599/519.pdf>; Toniolo, *Central Bank Cooperation* 35-38.

¹⁴⁷ Marks, "The Myths of Reparations" 254: "[The reparations] generated [. . .] just over 20 billion gold marks or \$5 billion, which was predominantly financed by foreign loans, many of which were eventually repudiated by Hitler."

¹⁴⁸ Baffi, *The Origins of Central Bank Cooperation* 83.

reliable line of credit.¹⁴⁹ Though Norman and Schacht's proposals were ultimately rejected, the BIS nevertheless managed to weave together aspects of these two proposals into its organizational principles in the founding charter of the new bank as it was being worked out.¹⁵⁰ With the inclusion of the commercialization of the reparations,¹⁵¹ even France looked forward to the creation of the new Bank. But perhaps the most influential individuals who first championed and then lastingly contributed to the final form and functions that the BIS as a new international banking hub were Americans, J.P. Morgan, Jr., Thomas Lamont, and Owen D. Young.¹⁵²

Interbank Cooperation: Foundations of Modern International Finance

As the BIS's originating documents¹⁵³ and various correspondence¹⁵⁴ show, those who contributed the most to the initial financing had the most to say over the final form the bank would take¹⁵⁵ and were likewise the primary intended beneficiaries of its founding. John Foster Dulles, who had played a crucial role at the Paris Peace Conference in articulating the German reparations and war debt articles and had also consulted on the original Dawes Plan,¹⁵⁶ headed the legal firm Sullivan &

¹⁴⁹ Baffi, *The Origins of Central Bank Cooperation* xxix, 8.

¹⁵⁰ Toniolo, *Central Bank Cooperation* 36-38; Baffi, *The Origins of Central Bank Cooperation* 167-176.

¹⁵¹ Baffi, *The Origins of Central Bank Cooperation* 16, 20.

¹⁵² Costigliola, "Anglo-American Financial Rivalry in the 1920s" 930; Costigliola, "The Other Side of Isolationism" 60-605, 614-615, 617-620; Baffi, *The Origins of Central Bank Cooperation* xxvii, 21, 28, 65.

¹⁵³ For original Convention and Statutes, see Appendix C in Henry H. Schloss, *The Bank for International Settlements: An Experiment in Central Bank Cooperation* (Amsterdam: North Holland Publishing Co., 1958), 146-166.

¹⁵⁴ Costigliola, *The Politics of Financial Stabilization* 479-483; Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Press, 2009), 336-337; Boyle, *Montagu Norman* 224-236; Johannes Houwink ten Gate, "Reichsbank President Hjalmar Schacht and the Reparation Payments (1924-1930)" in *German Yearbook on Business History* (Berlin, Heidelberg: Springer, 1988), 73-111, https://link.springer.com/chapter/10.1007/978-3-642-75512-5_3.

¹⁵⁵ Baffi, *The Origins of Central Bank Cooperation* 21.

¹⁵⁶ John Robertson Beal, *John Foster Dulles, A Biography* (New York: Harper, 1957), 63-71; *Note*: "The reparation clauses adopted on the 5th [of April 1919] were revised by Thomas W. Lamont, John Maynard Keynes, and Louis Loucheur for consideration by the Council of Four on April 7. At that meeting the language of what became articles 231 and 232 was discussed together and clause 1 was approved" (Papers Relating to the Foreign Relations of the

Cromwell, which represented powerful American banking and commercial clients including J.P. Morgan & Co., was well-positioned to gain access to the highly lucrative new German markets through the BIS.¹⁵⁷ According to author David Talbot, “Sullivan and Cromwell, the Dulles brothers law street law firm, was at the center of an intricate international network of banks, investment firms, and industrial conglomerates that rebuild Germany after World War I.”¹⁵⁸ For both the Dawes and Young plans, the premier US financial house J.P. Morgan & Co had floated the requisite financing: Morgan had extended the German government a nearly \$200 million loan¹⁵⁹ in December 1924,¹⁶⁰ to satisfy the requirements of the Dawes Plan and, later, a \$100 million loan¹⁶¹ to Germany in June 1930 as part of the Young Plan.¹⁶²

This financing of German debt would enable the United States to play a dominant role in determining the final form of the BIS; in fact, American historian Frank Costigliola goes so far as to argue that the founding of the BIS was manifestly an act of American hegemony.¹⁶³ The present

United States [FRUS], The Paris Peace Conference, 1919, Volume XIII, <https://history.state.gov/historicaldocuments/frus1919Parisv13/ch17subch1>.

¹⁵⁷ Stephen Kinzer, *The Brothers: John Foster Dulles, Allen Dulles, and Their Secret World War* (New York: Henry Holt and Co., 2013), 48-59; see Review of *The Brothers* by Adam LeBor, “Overt and Covert” *New York Times Book Review* (10 November 2013): BR50, <https://www.nytimes.com/2013/11/10/books/review/the-brothers-by-stephen-kinzer.html>; see also Nancy Lisagor and Frank Lipsius, *A Law Unto Itself: The Untold Story of the Law Firm of Sullivan and Cromwell* (New York, New York: William Morrow & Co, 1988), 89-150.

¹⁵⁸ David Talbot, *The Devil’s Chessboard: Allen Dulles, the CIA, and the Rise of America’s Secret Government* (New York: HarperCollins, 2015), 18-29: “[Allen Dulles] continued to do business with the Nazi financial and industrial network, joining the board of J. Henry Schroeder Bank” (20).

¹⁵⁹ More precisely, the bond floatation was for \$190.5 million (Simmons, “Why Innovate?” 376). For details on the member contributions, see Anderson, “Final Liquidation” 97-101.

¹⁶⁰ Zoltán Peterecz, “American Foreign Policy and American Financial Controllers in Europe in the 1920s,” *Hungarian Journal of English and American Studies* 18 (Spring-Fall 2012): 457-485, <https://www-jstor-org.eres.library.manoa.hawaii.edu/stable/pdf/43488487.pdf?refreqid=excelsior%3A9648d4cf9fc28d8c7e1f90c5771c65e7>

¹⁶¹ Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Atlantic Monthly Press, 1990), 518; see also, “The Dawes Plan, the Young Plan, German Reparations, and Inter-allied War Debts,” U.S. Department of State Archive, <https://2001-2009.state.gov/r/pa/ho/time/id/100933.htm>

¹⁶² For details, see Auboin, “The Bank for International Settlements” 4, 7-8, 9.

¹⁶³ Costigliola, *Awkward Dominion* 263-264.

study argues instead that the final organizational structure of the Bank and its subsequent activities relied upon a considerable heterogeneity, as will be detailed in the following section though the core American influence is undeniable. The originating documents of the BIS, such as its Charter, Statutes, Convention and Trust Agreement, reveal an unmistakable focus on profit-oriented objectives that are entirely in accordance with American corporate, banking, and financial concerns. Reading between the lines, the June 1929 Experts Committee Report likewise makes clear that the United States was absolutely vital to the success not only of the Young Plan but also of the founding of the BIS: without exaggeration, it appears that the Committee of Experts,¹⁶⁴ the Organization Committee and perhaps the Legal Committee bent over backwards to enable US private bankers and industrialists not only to partake of the authorities and powers afforded by the new bank but also to ensure that these same committees would be guided by their self-serving interests.¹⁶⁵

The attempt by the United States government to appear as uninvolved as possible in the design and founding of the BIS can be seen rather clearly in the originating documents as the authors' attempts to treat the veritable non-presence of the United States create a noticeable tension in the prose of the terse founding documents. Numerous exceptions cascade through the written material to enable the United States to not only participate in the construction and establishment of the BIS but also to ensure that it plays a leading role in the bank's overall design and operations

¹⁶⁴ For Extracts from the Report of the Committee of Experts that deal with the Bank for International Settlements, see "Settlement of the Reparation Problem: Report of the Committee of Experts," *American Journal of International Law* 24 (April 1930): 81-143, <https://www.jstor.org/stable/2212799>; and Einzig, *The Bank for International Settlements* Appendix II, 116-159.

¹⁶⁵ See, for example, Report of the Committee of Experts Section XII.—General Provisions: "If in any country there is more than one bank of issue, the term 'central bank' as used in this outline will shall be interpreted to mean the bank of issue situated and operating in the principle financial market of that country" (126).

though it prefers to remain in the shadows as much as possible. In a sense, the United States appears as though it only operates in the margins of the texts and is referred to as seldom as possible. On the few occasions when its private bankers are mentioned, they often appear prominently in highly relevant passages, as though they were staking out a territorial claim within the text. In the second paragraph of the Constituent Charter, it states:

And whereas the said central banks and a banking group including Messrs. J. P. Morgan & Company of New York, the First National Bank of New York, New York, and the First National Bank of Chicago, Chicago, have undertaken to found the said bank and have guaranteed or arranged for the guarantee of the subscription of its authorized capital amounting to five hundred million Swiss francs equal to 145,161,290.32 grammes fine gold, divided into 200,000 shares.¹⁶⁶

By contrast, the United States nor any of its representatives are mentioned in the Convention Respecting the Bank for International Settlements, through which Switzerland granted the bank a charter, and even today, the United States has never recognized the legal import of the Convention.¹⁶⁷ And yet, according to the BIS's Third Annual Report, it was German Reichsminister Schacht who was the principal author of the governing Statutes of the BIS.¹⁶⁸

It had already been pointed out that a financial institution could be shaped by the interests of its powerful founding members, since this had happened two decades earlier with the creation of the US Federal Reserve System. There are certain organizational similarities between the Fed and the BIS:¹⁶⁹ both act as hubs coordinating their member banks; in the case of the US Federal Reserve

¹⁶⁶ "Constituent Charter of the Bank for International Settlements" (20 January 1930), Bank for International Settlements, <https://www.bis.org/about/charter-en.pdf>

¹⁶⁷ Toniolo, *Central Bank Cooperation* 48 [26 February 1930]; Auboin, "The Bank for International Settlements" 2.

¹⁶⁸ See BIS Third Annual Report 42, https://www.bis.org/publ/arpdf/archive/ar1933_en.pdf. For a complete list of all those who worked on the Baden Baden Organization Committee tasked with drafting the Statues, see Toniolo, *Central Bank Cooperation* 497n102; see also 38, 39-44.

¹⁶⁹ Costigliola, "The Other Side of Isolationism" 602-620, 613n50, 614, 617; see also Yago, *The Financial History of the Bank for International Settlements* 4: "Specifically speaking, the BIS as a 'federal bank,' as imagined here, is an organization akin to that of the Federal Reserve Board (FRB) of the United States of America. This was the

System, the 12 member banks are national central banks, whereas in the case of the BIS, they are international central banks—those of Germany, Great Britain, the United States, France, Belgium, Italy, and Japan. However, whereas the Federal Reserve was established to be independent *within* government,¹⁷⁰ the BIS was specifically created to be independent *of* government:¹⁷¹ an apolitical, international hub of central banks. Some of the same people involved in the founding of the BIS had earlier been involved in the founding of the Fed as well.¹⁷² The original plan to create the Federal Reserve System began on Jekyll Island, Georgia,¹⁷³ in 1910,¹⁷⁴ where its charter was drafted by certain partners and senior-level employees of J.P. Morgan & Co.¹⁷⁵ and other American businessmen in a secret 10-day meeting. Three years later, on 23 December 1913, the recently inaugurated President Wilson signed the Federal Reserve Act, which created the US Federal

argument that the BIS should be planned as a ‘venue for cooperation between central banks’ to avoid the apprehension that would develop among part of public opinion as described below that the BIS would become the ‘world’s central bank.’”

¹⁷⁰ See, for example, “Who owns the Federal Reserve?” FAQs, Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/faqs/about_14986.htm

¹⁷¹ Paul Wachtel and Mario I. Blejer, “A Fresh Look at Central Bank Independence,” *Cato Journal* 40 (Winter 2020), <https://www.cato.org/cato-journal/winter-2020/fresh-look-central-bank-independence#>; and <https://www.cato.org/sites/cato.org/files/2020-02/cj-v40n1-7.pdf>

¹⁷² See, for example, Thomas W. Lamont, “The Reparations Settlement and Economic Peace in Europe,” *Political Science Quarterly* 45 (1930): 321-326.

¹⁷³ The original impetus for the Fed came in response to the well-publicized rescue of the federal government of the United States by J.P. Morgan, Sr., during the 1907 financial crisis. The public reaction to this overt control of the federal government’s financing by an individual American citizen resulted in the creation of the National Monetary Commission (1909-1912) to devise a new banking system for the United States, and the launching of a US congressional investigation, known as the Pujo Committee Hearings (16 May 1912- 26 February 1913), and the death of J.P. Morgan, Sr. (31 March 1913). For information on the 1893 bailout by J.P. Morgan, see Harold U. Faulkner, *Politics, Reform and Expansion, 1890-1900*, (New York: Harper & Row, 1959), 154-157, [https://heinonline-org.eres.library.manoa.hawaii.edu/HOL/Page?handle=hein.beal/ptsrmden0001&id=1&collection=beal&index=](https://heinonline-org.eres.library.manoa.hawaii.edu/HOL/Page?handle=hein.beal/ptsrmden0001&id=1&collection=beal&index=;); and on the 1907 bailout of the US government by J.P. Morgan & Co., see “J.P. Morgan, the Panic of 1907, and the Federal Reserve,” *Constitutional Rights Foundation* (2012), <https://www.crf-usa.org/images/pdf/jpmorgan.pdf>; For information on the secret ten-day meeting that resulted in the creation of the Federal Reserve System, see Bordo and Roberds, *A Return to Jekyll Island*.

¹⁷⁴ J.P. Morgan & Company played an outsized role in the creation of the Federal Reserve System, when it arranged to have the secret meeting on its property on Jekyll Island (see, for example, “The Meeting at Jekyll Island,” Federal Reserve History, <https://www.federalreservehistory.org/essays/jekyll-island-conference>).

¹⁷⁵ Bordo and Roberds, *A Return to Jekyll Island* 1-3

Reserve System.¹⁷⁶ A decade and a half later, as discussed, the powerful financial experts of J.P. Morgan & Co. also played a paramount role in formulating the organizational structure and operation of the BIS.¹⁷⁷ These included Thomas Lamont,¹⁷⁸ who became a partner of J.P. Morgan & Co. in 1911, the year after the Jekyll Island Club meeting.¹⁷⁹ The similarities between the two institutions and the continuity of their founders meant that just as the Fed had served the interests of J.P. Morgan & Co. and other powerful bankers, the BIS was likewise intended to serve their interests as well.

The BIS also has a number of similarities with the Bank of England, as historian Kazuhiko Yago has shown.¹⁸⁰ Again, this should not be surprising, since members of the Bank of England also helped draft its founding documents, and the financial objectives of the representatives of both the American and British interests are reflected in the originating documents and authorized banking functions of the BIS.¹⁸¹ Both the Fed and the Bank of England had also promoted cooperation between central banks even before the BIS was created. Contacts between the Federal Reserve of New York and the Bank of England had been ongoing

¹⁷⁶ “Federal Reserve Act Signed into Law,” *Federal Reserve History* (22 November 2013), <https://www.federalreservehistory.org/essays/federal-reserve-act-signed>

¹⁷⁷ Frank Costigliola, 602-603, 604; 616-617, 618-619; Costigliola, *The Politics of Financial Stabilization* 485-486, 487-489; Costigliola, *Awkward Dominion* 213; Toniolo, *Central Bank Cooperation* 45, 46, 70, 155; see also Frank Costigliola, “The United States and the Reconstruction of Germany in the 1920s,” *Business History Review* 50 (1967), 477-502, 491: which describes how JP Morgan sought to effectively dismantle the Versailles Treaty in regards to German reparations.

¹⁷⁸ See, for example, book by Lamont’s grandson, Edward M. Lamont, *The Ambassador from Wall Street: The Story of Thomas W. Lamont, J.P. Morgan’s Chief Executive* (Lanham, Maryland: National Book, 1994).

¹⁷⁹ Despite these connections, however, official US government policy would not authorize the Federal Reserve to sit on the Board of the BIS until 1994. See “History—The BIS Going Global (1961-)”; For a brief discussion on the behind-the-scenes coordination between the Federal Reserve Board and the BIS, see Felsenfeld and Bilali 960; and Simmons, “Why Innovate?” 394.

¹⁸⁰ Yago, *The Financial History of the Bank for International Settlements* 21.

¹⁸¹ Simply put, the commercialization of the war debts was basic to the American approval of the creation of the BIS (see, for instance, Simmons, “Why Innovate?” 381); the centrality of international bank cooperation had been a long-range goal for the development of international finance and banking by both Benjamin Strong, Jr. and Montagu Norman.

since the early 1920s. The governor of the Bank of England, Montagu Norman (1920-1944), had hoped to establish a more Anglo-centric international financial system for years¹⁸² to prop up the flagging value of the pound, and his insistence on creating such a financial institution¹⁸³ continued in his attempts to coordinate with the president of the New York Federal Reserve, Benjamin Strong, Jr.¹⁸⁴ As international economist Richard N. Cooper noted, “One of the most celebrated channels of central bank cooperation during the 1920s was the close friendship and frequent contact between Benjamin Strong [...] and Montagu Norman.”¹⁸⁵ The strong Anglo-American alliance during the interwar period, which had its roots in World War I, was strengthened during the postwar period of European economic development and the plan to restore the gold standard, as will be discussed¹⁸⁶ in Chapter 3. And indeed, both the United States and Great Britain gained new markets and a heightened ability to profit through the BIS, by means of interest on loans and financial instruments.

The German-Anglo-American Triune Core

While it has been argued, as noted, that nearly every development that led to the BIS can be seen as one of the United States and its financial and corporate sponsors taking control,¹⁸⁷ it is also important to recognize that the evident coordination and cooperation between not only the United

¹⁸² Clay, *Lord Norman* 141-142; Boyle, *Montagu Norman* 139, 223; Costigliola, *The Politics of Financial Stabilization*; 53, 420; Costigliola, “Anglo-American Financial Rivalry in the 1920s” 917-918, 927.

¹⁸³ Péteri, “Central Bank Diplomacy” 246, 253.

¹⁸⁴ Péteri, “Central Bank Diplomacy” 257-258; see also Costigliola, *The Politics of Financial Stabilization* 367-398.

¹⁸⁵ See Richard N. Cooper, “Almost a Century of Central Bank Cooperation,” Harvard University, June 2005, <https://www.bis.org/events/conf0506/cooper1.pdf>.

¹⁸⁶ Roberts, “Benjamin Strong Part I” 63-76.

¹⁸⁷ See Costigliola, “Anglo-American Financial Rivalry in the 1920s” 930; Costigliola, *The Politics of Financial Stabilization* 479, 485-488.

States and Great Britain, but also Germany in founding the BIS open up other interpretative possibilities. One of the remarkable developments of the Young Committee meetings was the decision to include the Reichsbank into the organization of the BIS, which forcefully showed just how far removed the Young Plan was from the Versailles Treaty. It seems consistent, on the one hand, as Schacht did contribute substantially to the drafting of the Statues; on the other, the possibility of overt conflict of interest and even fiscal malfeasance and likely violations of the Versailles Treaty become distinct possibilities. It should not be unexpected that Germany under Adolf Hitler officially discontinued paying its reparations, allowing the German armaments industry to expand under Reichsminister Schacht. The inclusion of Germany's Reichsbank into the Anglo-American interbank cooperation highlights what could be characterized as an Anglo-Saxon alignment of financial and commercial interests.

The Bank's establishment formalized the nascent underpinnings of this triune core by coordinating cooperative agreement, whether explicit or implicit, not only between the Federal Reserve and the Bank of England but also the Reichsbank, as well as with the other member central banks and businesses of other countries.¹⁸⁸ Positing the existence of such a coordinated triune international agreement between the three countries explains how Germany later managed to get so far in its belligerent enterprise before anything was done to stop it. As will be discussed in Chapters 3 and 4, during 1930s and 1940s, the financial and commercial incentives realized through the BIS blinded those most capable of opposing the Third Reich not only in their egregious renegeing on

¹⁸⁸ See, extended footnote in Auboin, "The Bank for International Settlements" 2-3.

various international agreements with other countries, such as with Czechoslovakia, but also to engage in pro-German practices that could even be described as complicit.¹⁸⁹

Of special interest to the Americans were the profits that could be made from investing in German heavy industries and other related businesses.¹⁹⁰ The Young Plan had introduced a subtle yet bold change in emphasis from the Versailles Treaty, in which Germany's reparation payments could be seen as clearly secondary to the pursuit of commercial investments and financial earnings. Part of the reason for this shift in strategy was practical, because as a banking institution, the BIS had no means to enforce payment. Instead, the strategy shifted to developing the German economy so that it could make good on its debts—most of which were owed to the

¹⁸⁹ Jean François Bergier et al., "Switzerland and the Global Transactions in the Second World War, Interim Report" *Independent Commission of Experts Switzerland – Second World War* (Bern, Switzerland: EDMZ, 2002[1998]), 1-193, 121-122, https://www.swissbankclaims.com/Documents/Doc_6_golde.pdf

¹⁹⁰ "[Herman Schmitz, the CEO of IG Farben] was one of the many Dulles brothers' law client and business associates who were involved with the BIS" (Talbot, *The Devil's Chessboard* 26). "[Allen Dulles and BIS President Thomas McKittrick were eager to discuss] how to protect the assets of their German and American corporate clients in the tumultuous war climate" (Talbot, *The Devil's Chessboard* 27). "Dozens of powerful financiers and industrialists [. . .] such as General Motors and Standard Oil [. . .] had profited handsomely from doing business with the Nazis" (Talbot, *The Devil's Chessboard* 27). "While Allen Dulles was using his OSS post in Switzerland to protect the interests of Sullivan and Cromwell's German clients, his brother Foster was doing the same in New York. By playing an intricate corporate shell game, Foster was able to hide the U.S. assets of major German cartels like IG Farben and Merck KGaA [. . .] and protect these subsidiaries from being confiscated by federal government as alien property" (Talbot, *The Devil's Chessboard* 28-29). "According to John Loftus, the former Justice Department Nazi hunter, [Allen Dulles and Richard Nixon] first came in contact in late 1945, when the young naval officer Richard Nixon [. . .] came across eye-opening Nazi documents [. . .] which revealed how the Dulles brothers had helped launder Nazi funds during the war" (Talbot, *The Devil's Chessboard* 162). "[Democratic Congressman Jerry] Voorhis posed a direct legal threat to the Dulles brothers through his efforts to shine a light on the wartime collusion between Sullivan and Cromwell clients like Standard Oil and DuPont chemical company and Nazi cartels such as IG Farben. Voorhis further unnerved the Dulles circle by demanding a congressional investigation of the controversial Bank for International Settlements, charging that bank president Thomas McKittrick, a close associate of the Dulles brothers, was a Nazi collaborator" (Talbot, *The Devil's Chessboard* 163). For a contrasting view: "One of its clients, International Nickel, had a British subsidiary, Mond Nickel, which belonged to various [German] cartels. [. . .] [John Foster Dulles] never had anything to do, directly or indirectly, with the great German chemical cartel firm, I.G. Farben. The charge that he did was made against him after the war. Dulles traced its origin and found that it was first printed in a Russian publication, Moscow's *New Times*, in the Spring of 1947, apparently in retaliation for an article Dulles wrote for *Life* magazine in 1946 entitled "Thoughts on Soviet Foreign Policy and What to Do About It." *Life* (3 June 1946), 20; see also Beal, *John Foster Dulles*, 84-85; for more on the *Life* article, see Mark G. Toulouse, "The Development of a Cold Warrior: John Foster Dulles and the Soviet Union, 1945-1952," *American Presbyterians* (1985): 309-325, 311-312, <https://www.jstor.org/stable/23330558>; see also Paul Einzig, "Nazi Economics at Work," *Current History* (1916-1940) 43 (1935): 21-26, 21.

United States—through its inclusion as a member of a newly devised international system of banking and credit. Incentivizing Germany to avoid defaulting on its international financial obligations, though not its war reparation payments, led to a more flexible financial arrangement. This shift in approach is reflected in the Statutes of the BIS,¹⁹¹ in which private commercial banking operations were prioritized over reparation payments—a change that had far-reaching and disastrous consequences.¹⁹²

This might better explain the *sui generis* nature of the BIS: it could be plausibly argued that the Bank was not established to ensure that Germany would complete its war reparation payments, a supposition that would be supported by the fact that the BIS collected only a small fraction of the sums Germany was still obligated to pay, and only for a short time thereafter. Instead, it seems possible that this unique supranational bank was established as a financial bulwark that could endure in the event of another devastating global war, a conclusion that is borne out by later events, including just how the BIS aided Nazi Germany itself.

The final legal transformation of the 1919 Paris Peace Treaty took place through the Young Plan, in which the BIS had found its reason for existence, with international justification directly descended from the authority of the Versailles Treaty itself. However, the fact that the Plan formed part of the international financial foundation upon which Nazi Germany was able to remilitarize must be seen as a complete perversion of the Treaty's original intent. How was the international public role that the BIS agreed upon in securing reparation payments from Germany superseded by private and corporate profit and commercial investment opportunities?

¹⁹¹ Simmons, “Why Innovate?” 378 (Table 2); see also French suggestion to create bonds to deal with the German reparation debt 392n84.

¹⁹² Simmons, “Why Innovate?” 379 (Table 2).

The 1920s was a time when repeated attempts were made to maintain the balance between a Germany that was strong enough to pay off its reparations and debts and yet weak enough so that it would not rise again as a dangerous military power. The French repeatedly occupied Germany to ensure timely payments, as when they militarily controlled the Ruhr beginning in 1923. At the same time, France and Belgium, the two countries most damaged by the war, were adamant that Germany must never rise again as a military power, even if that meant crippling its industrial and economic engine.¹⁹³ It took about a decade, however, for France to realize the inherent contradiction of demanding payments from an economically eviscerated Germany that would be too weak to make good on its war debts and reparations. The delicate balance between Germany's ability to pay and what was demanded of it was the guiding principle behind the successful Dawes Plan. Its economy must not only endure but thrive, as indeed American and to a lesser extent British bankers and businessmen desired to ensure the continued profitability of their considerable investments. Though Great Britain was strongly in favor of a plan that required Germany to pay its war debts to them, the country was not otherwise predominantly interested in forcing Germany to fulfill its war reparations—as the bulk of those payments would go to its financial rival France—and the United States was even less interested in forcing Germany to make good on its reparation payments, being more focused on international financial stability and profit-making and intent on being seen as detached from postwar European political entanglements.

¹⁹³ See, for example, [Henry Morgenthau, Jr., and Harry Dexter White,] “Program to Prevent Germany from starting a World War III” (9 September 1944), Roosevelt Papers (Top Secret), *Office of the Historian*, United States of America Department of State, <https://history.state.gov/historicaldocuments/frus1944Quebec/d91>

It was understood early on that the new Bank would be under the control of the Bank of England, the Federal Reserve System, the Banque de France, and the Reichsbank.¹⁹⁴ However, there were considerable differences in how France, Great Britain, the United States and Germany wanted to resolve Germany's reparation payment problem though they finally all agreed that it would best be accomplished through the creation of a new bank.¹⁹⁵ In principle, the overriding goal of interbank cooperation could be witnessed in this concerted attempt to cohere these disparate views. One could argue that with the creation of the BIS, the epitome of interbank cooperation was manifest as the United States, Great Britain and Germany formed the foundation upon which the Bank's raison d'être would reside.

The outstanding problem that needed to be resolved was how to design the world's first international financial and banking system so that France's (and Belgium's) interests would be protected if Germany were to default on its payments. According to Costigliola, the sheer financial prowess of American financial power could surmount such difficulties.¹⁹⁶ However, France did actively participate in safeguarding what it sought to attain on behalf of its beleaguered citizens, who struggled as a result of the devastation of the Great War.¹⁹⁷ The Young Plan's organizing committee accepted¹⁹⁸ France's request to have the brilliant French banker Pierre Quesnay be the first general manager of the BIS,¹⁹⁹ and that the first BIS president would be an American,²⁰⁰ effectively ending what had been a diplomatic logjam.

¹⁹⁴ Dulles, *The Bank for International Settlements at Work* 11.

¹⁹⁵ Baffi, *The Origins of Central Bank Cooperation* 6-8.

¹⁹⁶ Costigliola, "The United States and the Reconstruction of Germany" 491-493.

¹⁹⁷ Baffi, *The Origins of Central Bank Cooperation* xxviii, 23.

¹⁹⁸ Toniolo, *Central Bank Cooperation* 62.

¹⁹⁹ "Biographical Note: Pierre Quesnay (1895-1937), former General Manager," <https://www.bis.org/about/biopq.htm>

²⁰⁰ Ozgercin, "The History of the Bank for International Settlements, 1930-1958" 46.

France was eventually assuaged by the argument that Germany would be under the multinational pressure of market forces and would perform complete its reparation payments in a timely manner because otherwise the integrity of the German economy would be in put in jeopardy, its access to international credit would be rendered forfeit, and the “risk of being cut off from international sources of capital would discourage default on commercial loans.”²⁰¹ As a result of these negotiated agreements, France came around to seeing the benefit of fashioning an international financial institution such as the BIS because it came to believe that Germany would make good on its reparation payments though, as it turned out, it was a belief that would prove erroneous. As a result of this compromise, all four negotiating parties agreed that the new Bank would commercialize the handling of reparation payments and war debts.²⁰² From this perspective, in opposition to Costigliola’s argument, France, Britain, Germany and the United States can be seen as coalescing their diverse goals through a unity of purpose to found the BIS.

Another way of looking at this cooperation is to see them as comprised of two tiers, depending on the strength and stability of their respective currencies and the amount of gold reserves they held. One of the consequences of the issuance of the \$200 million Dawes Plan loan was that the devaluation of the French franc was halted.²⁰³ This fortuitous development stabilized the French franc to allow it to expand its gold reserves significantly. To get a sense of just how disparate the economic situation was between these two tiers, in the first half of 1929 when the

²⁰¹ Simmons, “Why Innovate?” 392; see also 392n84.

²⁰² That they all agreed to allow the Bank to pursue commercial and investment activities reveals that the reparations issue took a backseat to industrial and financial profit-taking. (See Toniolo, *Central Bank Cooperation* 48-51.) France argued, nevertheless, that even though the new international bank could engage in commercial activities, it should not be allowed to directly compete with private commercial banks (Baffi, *The Origins of Central Bank Cooperation* 20).

²⁰³ Costigliola, “The United States and the Reconstruction” 489.

Young Committee was still in session, France acquired an additional \$182 million and the United States \$210 million, while Great Britain and Germany's holdings, by contrast, shrank proportionally as a result of destabilizing speculation.²⁰⁴ Because of their extensive gold reserves and strong currencies, France and the United States tended to align in regard to their preferences regarding the organization and operations of the Bank, while Germany and Great Britain tended to align on certain matters for different reasons.

An alternative way to group these four banking entities, which is the one that will be employed in this study, is to treat the United States, Great Britain and Germany as comprising one category and France as another, which often acted in opposition to this German-Anglo-American triune core whenever it was deemed necessary. Though this approach appears less informative in terms of understanding the fashioning of the BIS and its first few years, as the 1930s unfold, the intricate interdependencies between the Bank of England, the Reichsbank and the Federal Reserve begin to become noticeably intertwined. The overlap in aligned activities between the central banks of Great Britain, Germany, and the United States become progressively more evident as the Great Depression deepens and the Third Reich rises.

With the creation of the Bank for International Settlements in 1930, Germany became more integrated into the international capitalist system of finance and banking. During the first few years of its fledgling existence, international financiers and bankers viewed Germany in a favorable light as contributing significantly to the emergent geo-economic system instituted by the Hague Agreement. A stronger Germany could pay off its war debts; it could become part of the vanguard to make the world safe for democracy and establish a financial bulwark to oppose

²⁰⁴ Simmons, "Why Innovate?" 385.

the growing Communist menace. However, with the rise of Hitlerism in 1933, Germany would soon jettison its aspirations as a nascent democracy²⁰⁵ and instead institute state centric policies that would undermine the Weimar Republic's former democratic and capitalist aspirations.²⁰⁶

Each of these diverse groupings of the four primary countries which founded the BIS has its respective strengths and weaknesses. The triune core, as proposed in this thesis, offers considerably more explanatory power than the other potential organizing frameworks, in which it will be shown that it is able to better elucidate and cohere more of the historical complexities and interconnected geopolitical and geoeconomics events which took place in the 1930s and 1940s, such as the dual devastations of the Great Depression and the Third Reich, which each profoundly influenced the role and subsequent activities of the newly created Bank for International Settlements.

²⁰⁵ By 1935, Nazi Germany claimed to be promoting "aristocratic democracy" (Otto D. Tolischus, "Dr. Schacht defies Reich's censorship," *New York Times* (24 August 1935): 7).

²⁰⁶ "While the liberalism that National Socialism has overcome started with the individual and made him the centre of all things," [Dr. Goebbels] said, "we have replaced the individual by the nation and the man by the community. It must be admitted that in doing so we have had to restrict the liberty of the individual insofar as it has collided, or was incompatible, with the liberty of the nation" (Tolischus, "Dr. Schacht defies Reich's censorship" 7).

Chapter 2

The BIS Transformed (1929-1934)

Overview

The conception, drafting, founding and early operations of the BIS took place during an inflection period, encompassing the time from the 1928 Reparation Commission meetings to the 1931 collapse of the Credit-Anstalt and the last futile bid to achieve a final settlement of the reparation problem at Lausanne in 1932. In the latter half of the interwar period, the American-, German-, French-, and British-created; and Swiss-located Bank for International Settlements provided American, German, and British economic leaders with a golden opportunity to re-imagine and re-invent banking, international finance, and global commerce. With its founding, the prospect of a more prosperous Germany had appeared on the horizon. Unfortunately, this possibility was relatively short lived: after the 1929 Wall Street Crash and the financial and economic damage caused by the worsening Great Depression, the Weimar Republic faltered economically and politically. The spreading financial disaster led to a liquidity crisis, followed by a widespread banking crisis and then an economic depression. With the collapse of the Credit-Anstalt, Austria's largest bank, Germany's economy finally buckled under these devastating financial and economic dislocations, and along with it the stability of the international financial system.

This chapter shows how attempts to stabilize the international banking system through extending credits to Germany contributed to the spread of the financial crisis as it radiated out from its German-speaking epicenters in Vienna and Berlin to Paris, London, and New York and

much of the rest of the main financial hubs of the world of the early 1930s.²⁰⁷ It also argues that the Wall Street Crash and its aftermath may have catalyzed an expansion of the BIS's powers beyond what was consistent with the Versailles Treaty as it was just then being negotiated by the Young Committee. The 1931 German financial crisis laid bare the essential constituents of the Anglo-American-German international arrangement, revealing just how the BIS was designed to prioritize the interests of the triune core. Even as Germany's war reparation payments were initially suspended and then later repudiated—as Hitler ascended to the German chancellorship—all was not lost for the Americans and British, as this chapter shows, since the originating documents establishing the BIS were fashioned with sufficient flexibility so the Bank and its members could pursue profits by taking actions in accordance with its Statutes even as the international financial system was coming apart.

As will be argued, the inherent ability of the Bank to profit through its policies, decisions, and actions taken on behalf of its member central banks²⁰⁸ ultimately contributed to the rise of the destructive and racist regime of Hitler and his Third Reich.²⁰⁹ In the process, the intrinsic contradiction in the BIS's *raison d'être* was fully exposed once Germany reneged on fulfilling its reparation obligations even though its access to loans and credit continued. The final termination

²⁰⁷ Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford: Oxford University Press, 1995), 19-20; see also Thomas Ferguson and Peter Temin, "Made in Germany: The German Currency Crisis of 1931," Working Paper 01-07 (Cambridge, Massachusetts: Massachusetts Institute of Technology, 2001), 6-7,

<https://dspace.mit.edu/bitstream/handle/1721.1/63870/madeingermanyger00ferg.pdf?sequence=1&isAllowed=y>

²⁰⁸ See, Simmons, "Why Innovate?", Table 2: Negotiations and Participants in the Formation of the BIS" (378) for details.

²⁰⁹ Donald Moggridge, ed., *The Collected Writings of John Maynard Keynes*, Vol. XX: *Activities 1929-1931: Rethinking Employment and Unemployment Policies* (London: Macmillan, 1981), 38. "Keynes is always perverse, Puckish," [J.P. Morgan & Company partner Russell] Leffingwell wrote in 1931. "He attacks anything sound or established or generally accepted, partly for the fun of it, partly for the purpose of stimulating debate. In doing so he is utterly irresponsible. He doesn't care how much harm he does in giving aid and comfort to the enemies of sound finance" (Roberts, "Benjamin Strong, Part II" 92, see also 92n46).

of the BIS's reparation responsibilities brought to light not just how fundamentally misguided the original plan was to foster a strong and prosperous Germany in accordance with the First and Second Hague Agreements, but also how Germany's surreptitious remilitarization undid the overriding intention of the 1919 Versailles Treaty and the 1924 Dawes Plan. Ultimately, the Great Depression cut short these financial and geopolitical aspirations, embodied in the founding documents of the world's first international bank, whereby Germany was to be re-incorporated and re-integrated into the emergent international financial system. The ideal of interbank cooperation based on agreed to gold exchanges was referred to by Japanese researcher Kazuhiko Yago as "financial utopianism,"²¹⁰ which primed the financial and geopolitical interbank pump which Nazi Germany's Reichsbank manifestly dismantled and replaced with a series of heterogeneous bilateral arrangements in furtherance of the regime's ascent and its horrors and atrocities.

The 1931 German Financial Crisis

The October 1929 Wall Street Crash must have seemed an especially baleful omen pointing to a latent instability within the international financial system; many bankers, financiers, and industrialists however had consoled themselves with the thought that it was just another transient decline, not unlike those that had occurred in 1920 and 1926. After each of those previous downturns, the international financial system had managed to right itself within a year and a half,²¹¹ but this time, complications and compounding factors generated a damaging feedback loop that

²¹⁰ Yago, *The Financial History of the Bank for International Settlements* 2-3, 17.

²¹¹ G. Richardson, "Banking Panics of 1930-31," *Federal Reserve History* (22 November 2013), <https://www.federalreservehistory.org/essays/great-depression>

played out among major lending institutions on either side of the Atlantic. As the international financial system began to unravel, progressively more countries instituted ruinous protectionist policies, such as the United States' passage of the Smoot-Hawley tariff on 13 March 1930. Then the largest bank in the German-speaking countries, the Austrian Credit-Anstalt, defaulted on its payment obligations on 11 May 1931, and this event, more than any other before it, precipitated the wholesale degradation of the global financial system and the emergence of an economic depression. Despite its apparent isolation, various attempts were made to keep the Germany economy afloat. The wide-reaching financial and economic devastation prompted by this bank's default can be seen, nevertheless, as providing a suitable gauge of just how integrated the international financial system had become.

A forced and tenuous bank merger two years earlier²¹² likely paved the way for the failure of the Credit-Anstalt. When the Allgemeine Österreichische Boden Credit-Anstalt, the second-largest bank in Austria, was teetering on the brink of collapse²¹³ in 1929, Austrian banker Hans Fischböck²¹⁴ (1895-1967) and Austrian Prime Minister Johannes Schober (1874-1932) pressured Louis Nathaniel de Rothschild²¹⁵ (1882-1955), chairman of the Credit-Anstalt, to acquire it.²¹⁶ Two

²¹² Bennett, *Germany and the Diplomacy* 204, 264.

²¹³ Michele Kangas, "The Collapse of the Creditanstalt Bank," *Global Financial Data* (5 January 2019), <https://globalfinancialdata.com/the-collapse-of-the-creditanstalt-bank>

²¹⁴ Fischböck later became a minister of finance under the Third Reich, a brigadier general of the SS, and was tried as a war criminal at Nuremberg (*Trials of the War Criminals before the Nuernberg Military Tribunals [TWC]*, Volume VIII, "The I.G. Farben Case," October 1946-April 1949 (United States Government Printing Office, Washington D.C., 1952), 1364, https://www.google.com/books/edition/Trials_of_War_Criminals_Before_the_Nuern/d8Ad0RtsgUEC?hl=en&gbpv=1&dq=Hans+Fischboeck++October+6,+1929&pg=PA1364&printsec=frontcover).

²¹⁵ "The History of the Creditanstalt," *The Rothschild Archive*, <https://guide-to-the-archive.rothschildarchive.org/the-vienna-banking-house/depts/the-creditanstalt/history-of-the-creditanstalt>

²¹⁶ "Allgemeine Bodencreditanstalt," https://second.wiki/wiki/allgemeine_bodencreditanstalt

years later, the Credit-Anstalt itself became financially unstable, which resulted in its inability to acquire long-term loans from the United States, England, and elsewhere.²¹⁷

Conventional arguments as to the causes of the bankruptcy of the Credit-Anstalt include the flight of capital out of Austria,²¹⁸ in which the bank's initial default led to a crisis in confidence, causing investors to scramble to remove their money from the bank, which hastened the breakdown of the financial system. British economic historian Harold James argued that it was endogenous forces—internal to Germany's financial management—that were of primary significance in the 1931 financial crisis, rather than exogenous forces, associated with accidents or other external factors,²¹⁹ such as credit flight. However, Italian political scientist Iago Aguado maintained, based on documents obtained from the Bank of England in 2000, that this argument was insufficient because the problem was both more subtle and more complicated. Agreements between banks in New York, London and Vienna reveal the existence of a hidden financial connection between the American, British and Austrian financial institutions; according to Aguado's reading of these documents, the merger that took place between the Boden and the Credit-Anstalt was effectuated through an agreement to assist if need be with "cross deposits"²²⁰ from American and British banks and institutions,²²¹ such as the New York Trust Company, the Bank of England and the Rothschilds in London.²²² Among the Bank of England documents, Aguado also found a memorandum of a

²¹⁷ Harold James, "The Causes of the German Banking Crisis of 1931," *The Economic History Review* 37 (1984): 68-87, 70, 72, 78.

²¹⁸ James, "The Causes of the German Banking Crisis of 1931" 77-78, 80, 81, 82, 84.

²¹⁹ James, "The Causes of the German Banking Crisis of 1931" 84.

²²⁰ Iago Gil Aguado, "The Creditanstalt Crisis of 1931 and the Failure of the Austro-German Customs Union Project," *The Historical Journal* 44 (2001): 199-221, 201-202, <https://www.jstor.org/stable/3133667>

²²¹ Aguado, "Creditanstalt" 202.

²²² Aguado, "Creditanstalt" 203; see, for example, the telegram from the New York Trust Co. to the Bank of England, and his analysis that the transactions were most likely illegal, 202-203.

telephone conversation in which a BIS representative in Vienna explained why this cross-deposit system had been set up in the first place: “[T]he National Bank seems to have given the devisen [foreign exchange] question to the Creditanstalt as a sop to the latter to induce it to take over the Boden Credit at the time of the latter’s collapse.”²²³ Thus, the cross-deposit arrangement was part of the terms of agreement if the Credit-Anstalt took over the Boden Credit-Anstalt. Aguado argued that the “sheer complexity of the system of cross-deposits suggests that the [Austrian] Nationalbank was illicitly helping the Creditanstalt,”²²⁴ and so it was less likely that internal mismanagement was the root cause than had previously been argued.²²⁵

In contrast to Aguado, it is argued here that these multinational back-channel communications between Austria, England, and the United States reveal the degree of interbank cooperation that persisted between the Credit-Anstalt, the Bank of England, and the New York Trust Company and just how integrated the international financial system had become by early 1931. The surreptitious infusion of capital directly into the Credit-Anstalt through cross-deposits was among the final, desperate maneuvers implemented to stave off the impending disaster.²²⁶ Through such covert actions, agents of the various banks tried to avert the unraveling of the international financial system from what was arguably its epicenter in Austria.²²⁷ Unfortunately, these final communications before the collapse of the Credit-Anstalt also demonstrate just how the last sinews of this cooperation were being torn asunder: these desperate, covert cross-deposit transactions did not avert the demise of Austria’s largest bank.

²²³ Rodd to Siepman (memorandum of telephone conversation), 2 June 1931, BoE, OV 28/75 Doc. 104, qtd and cited in Aguado, “Creditanstalt” 204, 204n18.

²²⁴ Aguado, “Creditanstalt” 204.

²²⁵ Aguado, “Creditanstalt” 205-7.

²²⁶ Aguado, “Creditanstalt” 199, 201-207.

²²⁷ Aguado, “Creditanstalt” 204, 211, 214, 215.

In response to the devastation being wrought on the European economy, on 20 June 1931, US President Herbert Hoover, that die-hard disciple of self-sufficiency, called for a one-year moratorium on war reparations and debt payments,²²⁸ which temporarily relieved Germany of its payment obligations until June 1932.²²⁹ For over a decade, the Harding, Coolidge, and Hoover administrations had upheld a federal government policy that explicitly proscribed the US government from being seen to be politically involved in Germany's postwar reparations and debt payments,²³⁰ though there had nevertheless been an implicit agreement that these business arrangements would, in general, align with US national interests.²³¹ However, this official, though essentially pro forma, disconnect²³² ended with Hoover's belated effort to address the

²²⁸ "The War Debt Holiday," *Advocate of Peace through Justice* 93 (1931): 146-150, 146, <https://www.jstor.org/stable/20681587>

²²⁹ See, for example, Hjalmar Schacht, *The End of War Reparations*, translated by Lewis Gannett (New York: Jonathan Cape and Harrison Smith, 1931); see also Edward W. Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931* (Cambridge: Harvard University Press, 1962), 137, 139.

²³⁰ Toniolo, *Central Bank Cooperation* 46-48.

²³¹ There were at least three main reasons why the United States did not want to appear politically involved in the German reparation payment problem: 1) it had no reparation claims on Germany after WWI, 2) it did not want to appear geopolitically involved after President Wilson's failed attempt to authorize his League of Nations proposal, and 3) it wanted to distance itself from financial matters after its apparent collusion with J.P. Morgan, Sr. after the 1907 Panic, which led to the Pujo Congressional Subcommittee Hearings (1912-1913). While no members of the Federal Reserve were explicitly involved, the private bankers were dedicated to protecting American interests during the process of founding and managing the BIS; for example, "Thomas Lamont [a member of the Organization Committee] described his responsibilities as follows: 'In assisting to draft the report, we should naturally have in mind the best interests of the United States, and we will do everything within our power to guide it into channels and into terminology that will be cooperative with American interests.' [April ? 1929]" (Simmons, "Why Innovate?" 377n40); see also Costigliola, *The Politics of Financial Stabilization* 137-139.

²³² The US government did generally approve what these financial experts decided upon and did; many of them were themselves former, if not active, US government officials, such as 1) S. Gilbert Parker, who served as reparations agent on behalf of the United States from 1924 to 1930; former director of the Federal Reserve Bank of New York (1923-1926) 2) Gates M. McGarrah, who served as first president of the BIS from 1930 to 1933; 3) Leon Fraser, who served as president of the BIS from 1933 to 1935 (see "Leon Fraser Dies from Suicide Shot on Summer Estate," *New York Times* (9 April 1945), 1,32, <https://timesmachine.nytimes.com/timesmachine/1945/04/09/88212072.html?pageNumber=1>), an expert on international law, and a banker—and close friend of Allen Dulles (John Foster Dulles's younger brother)—and 4) Thomas McKittrick, who served as president of the BIS from 1940 to 1946 (see "T.H. M'Kittrick, World Financier," *New York Times*, (22 January 1970), 37, <https://www.nytimes.com/1970/01/22/archives/th-mkittrick-world-financier-head-of-international-bank-during.html>).

worsening financial crisis in Europe with the moratorium. This nearly unilateral decision by the United States (France, for one, was never notified of it) to provide protection for the German economy was an especially significant event in the history of the BIS and international finance in general, because through it, the United States abandoned its decade-long resolve to appear neutral in regard to German reparations. This was an explicitly political act; it would not be too much to say that the United States gave the impression that it favored Germany over Great Britain, France, Belgium, Italy, and all the other war-damaged countries that depended on the treaty-mandated payments that the American president had so high-handedly delayed. This further weakened the economies of these European nations; Hoover's moratorium further diminished the value of the British pound in the summer of 1931, which contributed to Great Britain unilaterally exiting the gold exchange standard in September 1931. While this was advertised as a temporary departure, it would prove to be long term; England would not return to the gold standard until 1944. This unexpected exit, besides breeding further discontent, affected global finance and the economy, as seen in the prompt departure of more than two dozen other countries from the gold standard.

While the moratorium was instituted to give Germany some breathing room to weather the crisis, it was expected that the country could continue paying what it owed, but after the proffered year-long suspension in the face of the worsening global economic situation, it would not make additional debt payments until after 1953.²³³ However, since it at least resumed earlier

²³³ Gregori Galofré-Vilà, Christopher M. Meissner, Martin McKee, and David Stuckler. "The economic consequences of the 1953 London Debt Agreement," *European Review of Economic History* 23 (2018): 1-29, <https://voxeu.org/article/economic-consequences-1953-london-debt-agreement>; see also Toniolo, *Central Bank Cooperation* 119, 120, 154-155; Edward N Peterson, *Hjalmar Schacht: For and Against Hitler: A Politico-economic study of Germany, 1923-1945* (Boston: Christian Publishing House, 1954), 145-146; Marks, "The Myths of Reparations" 253-254. A year later, in 1932, war debts and reparations were all but canceled in the Lausanne

payment of its war debts, if not its reparations, after the moratorium ended, it was still able to access international credit and loans courtesy of the BIS, the United States, and the United Kingdom and its other creditors, such as Switzerland and the Netherlands,²³⁴ this at a time that the availability of gold was severely limited,²³⁵ especially in Germany.

Though the moratorium had the immediate effect of stanching the drain on the European gold reserves, within a week the wound reopened, with a run on many European banks. The Bank of England attempted to stabilize the crisis but was unable to. It was in this dire situation that the BIS made its debut, in its attempt to alleviate Germany's and the world's liquidity problem by joining with the "Central Banks in London and Paris and the Federal Reserve Bank of New York" to extend "a \$100 million credit" to the Credit-Anstalt.²³⁶ The Bank had been planned, in part, to establish an island of financial stability in a sea of political and financial turmoil; however, some of its initial attempts, including this one, proved ineffective.²³⁷ On the very next day following this large infusion of credit, 100 million Reichsmarks²³⁸ in foreign exchange was lost because of large withdrawals.²³⁹

Settlement, but Germany's debt continued to be serviced until 1934, when Hitler repudiated it and ended the story (Arminio Fraga, "German Reparations and the Brazilian Debt: A Comparative Study," *Essays in International Finance*. No. 163, Princeton University (1986), 10-11, 1-34, <https://ies.princeton.edu/pdf/E163.pdf>); see also BIS Annual Reports.

²³⁴ Eichengreen, *Golden Fetters* 20.

²³⁵ Paolo Baffi, *The Origins of Central Bank Cooperation: The Establishment of the Central Bank for International Settlements* (Bank of Italy and Bank for International Settlements: Gius. Laterza & Figli, 2002), 128-129, <https://www.bancaditalia.it/pubblicazioni/collezioni-biblioteca-baffi/2019-3-scritti-baffi/bibliografia/500-599/519.pdf>

²³⁶ Clay, *Lord Norman* 380; see also Toniolo, *Central Bank Cooperation* 88-97, 100-103, 106-114.

²³⁷ David J. Bederman, "The Bank for International Settlements and the Debt Crisis: A New Role for the Central Bankers Bank?" *Berkeley Journal International Law* 6 (1988): 92-121, 102, <https://lawcat.berkeley.edu/record/1113136?ln=en>

²³⁸ The change in currency reflects that the loss was only a large percentage and not the total amount.

²³⁹ Clay, *Lord Norman* 380.

The Brüning Government and the Standstill Agreement

Until the demise of the Credit-Anstalt, there had been a widespread belief that the economic slump would soon be over.²⁴⁰ But the default of Austria's largest bank exacerbated the erosion of capital and confidence throughout Europe, which triggered a noticeable downturn in international finance. This, in turn, radicalized the political situation in the Weimar Republic, giving the National Socialist Party increased appeal.²⁴¹ In the months before the BIS had begun operating, the head of Germany's Social Democratic government, Herman Müller, had resigned (17 March 1930),²⁴² and the subsequent Center Party headed by Heinrich Brüning (1930-1932) signed the Second Hague Agreement, establishing the BIS as the principal vehicle to coordinate Germany's reparation and war debt payments. On the one hand, the 1931 financial crisis improved the possibility that Brüning's liberal government could negotiate to have the outstanding reparation payments permanently ended, but this possibility never ultimately manifested during his term in office.²⁴³ The worsening financial situation for millions of impoverished Germans made the government look increasingly ineffectual. Brüning struggled to pass emergency economic measures to avoid the fiscal crisis, but his proposed budget was defeated by the Parliament.²⁴⁴ This disarray strengthened the political position of the Nazi Party;²⁴⁵ on 24 April 1932, it won 36.3% of the vote, which made it "the strongest party in the largest German state [Prussia],"²⁴⁶ and by 31 July, it had attained "37.4

²⁴⁰ Robert J. Samuelson, "Revisiting the Great Depression," *Wilson Quarterly* (2012), 38
<https://www.jstor.org/stable/41484425>

²⁴¹ Longerich, *Hitler* 231.

²⁴² Longerich, *Hitler* 243-245.

²⁴³ Longerich, *Hitler* 232. See also Toniolo, *Central Bank Cooperation* 106; Peterson, *Hjalmar Schacht: For and Against Hitler* 145.

²⁴⁴ Longerich, *Hitler* 200-201.

²⁴⁵ Longerich, *Hitler* 232-233.

²⁴⁶ Longerich, *Hitler* 241.

per cent of the vote,” making it “the strongest Party in the Reichstag.”²⁴⁷ In a desperate bid to ensure his party’s political relevance, Brüning was actively pursuing forming a coalition government with the National Socialists under Hitler, when the discovery of documents revealing their violent plot to take over the government promptly eliminated that possibility.²⁴⁸

At the same time that Brüning was struggling to strengthen his administration’s political position, a meeting took place in London in 20-23 July 1931 to salvage the country’s rapidly deteriorating financial situation by examining “the immediate and further credit needs of [Germany] and [. . .] study[ing] the possibilities of converting a portion of the short-term credits into long-term loans.”²⁴⁹ The London Conference decided not to extend a long-term loan to the Reichsbank²⁵⁰ under its president, Dr. Hans Luther (1930-1933). Instead, it recommended to the BIS that a financial committee be appointed to investigate Germany’s credit needs.²⁵¹ The committee was headed by a powerful American banker, Albert H. Wiggin. As chairman of the board of Chase National Bank, Wiggin was selected because his bank was one of the creditors to whom Germany’s short-term loans were outstanding²⁵² and therefore was in a position to offer the possibility of temporarily freezing payment on them.

The Wiggin Committee met on 8 August 1931 and produced the Wiggin Report (also called the Wiggin-Layton Report) on 18 August 1931,²⁵³ proposing what it called Standstill Arrangements,

²⁴⁷ Longerich, *Hitler* 252.

²⁴⁸ Longerich, *Hitler* 230-231.

²⁴⁹ H.L., “The Financial Crisis in Germany and the Wiggin Report,” *Bulletin of International News* 8 (1931): 143-150, 143.; see also Toniolo, *Central Bank Cooperation* 105.

²⁵⁰ H.L. “The Financial Crisis” 143; see also Toniolo, *Central Bank Cooperation* 126.

²⁵¹ “Text of the Wiggin Report on the German Financial Crisis,” *New York Times* (20 August 1931), 12; see also, *New York Times* (21 August 1931), 10.

²⁵² Toniolo, *Central Bank Cooperation* 125.

²⁵³ Toniolo, *Central Bank Cooperation* 123.

releasing Germany from the obligation to make payments on its short-term debts, estimated at 12.3 billion Reichsmarks,²⁵⁴ for a period of six months.²⁵⁵ Though only intended as a temporary measure to give the German economy some breathing space, these agreements would be extended repeatedly. As Beyen summarized:

The first Standstill Agreement [. . .] expired on February 1st, 1932. [. . .] A second Standstill conference was called in Berlin in December, 1931, to consider the prolongation of the Standstill Agreement. [. . .]. The Standstill conference developed—unofficially—into a standing organization that met each year for several weeks in Berlin to prolong the temporary agreement for another year. [. . .]. The Standstill Agreement lasted in its original form until the outbreak of the war and was carried on with the Continental European partners for some years after that.²⁵⁶

What had been intended to last less than a year (beginning 19 September 1931)²⁵⁷ eventually lasted more than ten and had far-reaching consequences. The British acceptance houses²⁵⁸ tasked with ensuring that German debtors would make good on their short-term debts were forced to pretend Germany was a good debtor and that they were good creditors,²⁵⁹ when in fact neither was true. Great Britain's protracted program of economic appeasement²⁶⁰ in its relations with Germany eventually led to a policy of political appeasement of its former enemy. And the Third Reich was

²⁵⁴ Stephen A Schuker, "American 'Reparations' to Germany, 1919-1933," Princeton Studies in International Finance No. 61 (Princeton University, July 1988), 114, <https://ies.princeton.edu/pdf/S61.pdf>

²⁵⁵ "Text of the Wiggin Report" 12. Under pressure from France, the recommended time period in which Germany could continue accessing credit was later shortened from six to three months (H.L. "The Financial Crisis" 144).

²⁵⁶ J.W. Beyen, *Money in a Maelstrom* (New York: Macmillan Company, 1949) 73. Beyen discusses the Standstill Agreements on pp. 71-87; see also William C. McNeil, *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression* (New York: Columbia University Press, 1986), 255; and Toniolo, *Central Bank Cooperation* 125, 154.

²⁵⁷ Neil Forbes, "London Banks, the German Standstill Agreements, and 'Economic Appeasement' in the 1930s," *Economic History Review* 40 (1987): 571-587, 575.

²⁵⁸ Acceptance houses are financial firms that guarantee that accepted bills of exchange will be to be paid on a given due date (*Oxford Dictionary of Economics*, 2012).

²⁵⁹ Beyen, *Money* 73.

²⁶⁰ Bernd-Juergen Wendt, "Economic Appeasement: A Crisis Strategy" in the *Fascist Challenge and the Policy of Appeasement*, eds. Wolfgang J. Mommsen and Lothar Kettenacker (Routledge, 1983).

able to accelerate its armaments program for nearly a decade, in violation of the Versailles Treaty.²⁶¹

In the years following the first Standstill agreement on Germany's short-term loans, under the National Socialists, it also ceased payment on its medium- and long-term loans²⁶² in a disturbing parallel with the discontinuation of reparation payments after the Hoover moratorium. Being released from its reparation payments and debt obligations, Germany had gained increased financial flexibility, which would be ably exploited by Hitler's economic minister, president of the Reichsbank, and BIS board member Hjalmar Schacht. From the beginning of his tenure in 1933, Schacht would manipulate the Standstill agreements at every turn to the disadvantage of the signatories and the long-term advantage of Germany.²⁶³ Even after he resigned as economic minister in 1937, many of the financial arrangements he put in place would be continued into the Second World War.

International Finance: From Apolitical to Political Banking

One of the key takeaways from the London Conference and the subsequent Wiggin Report was the extent to which the unfolding German financial crisis had transformed international banking in terms of its sought-for independence from political influence. In their emphasis on interbank cooperation, the originators of the BIS had been resolute in their attempts to avoid the taint of the political. Yet comparing the Wiggin Report to the BIS's originating documents and correspondence

²⁶¹ "Schacht once boasted to Hitler that he was financing German rearmament with the foreigner's own money" (Peterson, *Hjalmar Schacht: For and Against Hitler* 209); see also Forbes, "London Banks" 583.

²⁶² Forbes, "London Banks" 578; Peterson, *Hjalmar Schacht: For and Against Hitler* 207-209.

²⁶³ Peterson, *Hjalmar Schacht: For and Against Hitler* 205-216.

makes clear that the strategy of remaining apolitical had given way not only to overt political influence but also to a peculiar yearning for governmental support and control;²⁶⁴ the Report concluded that the world's governments should be held responsible to ensure confidence in the international financial and economic system: "We believe [this restoration of money and goods] can be accomplished, but only if the governments of the world will realize the responsibility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it."²⁶⁵ Thus, the sought-for independence from governmental involvement was jettisoned and, in its place, a direct public appeal was made for the world's governments to restore confidence in the international financial system while also ensuring that German financial stability would not be undermined in the process:

We think it is essential that before the period of prolongation of credits recommended by the London conference comes to an end they should give to the world assurance that international political relations are established on the basis of mutual confidence which is the sine qua non of economic recovery that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability.²⁶⁶

To fully appreciate the irony of some of the recommendations made in the Wiggin Report, it helps to realize that beyond the fact that the Wiggin Committee was acting under the auspices of the BIS and that Wiggin was the "biggest banker in the U.S.,"²⁶⁷ the requested appeal was for the governments to provide a *political* solution to the international *financial* disaster. Thus, in the waning months of 1931, those tasked with promoting international financial stability—most notably

²⁶⁴ William McChesney Martin, Jr. "The Bank for International Settlements" [1935], 2-3, Box 23, Folder 1, <https://fraser.stlouisfed.org/author/martin-william-mcchesney#456792>, https://fraser.stlouisfed.org/files/docs/historical/martin/23_01_nd2.pdf?utm_source=direct_download

²⁶⁵ "Text of the Wiggin Report" 12.

²⁶⁶ *Ibid.*

²⁶⁷ "International: Nothing Resounding," *Time magazine* (24 August 1931), <http://content.time.com/time/subscriber/article/0,33009,752977-1,00.html>

international bankers and those at the helm at the newly minted Bank for International Settlements—abruptly reversed course. No longer would investor confidence arise solely from the ingenuity and innovations of independent bankers and international financial institutions, but, instead, the chairman of one of the largest banks in the United States would make a public request for governments around the world to take on their previous role. It is remarkable just how quickly some of these most powerful bankers reversed their principled and resolved position to avoid the political once the German financial crisis grew out of control. Just as the financial inflection reversed the extent of postwar interbank integration and cooperation, international bankers and financiers underwent a similar reversal, seeking financial assistance from the very governments that they had so recently and so long eschewed.

However, it is argued here that even in the beginning, what they had wanted was less to be apolitical and more to use the appearance of being apolitical as a way to be independent and covert; to create not just an island of stability in a sea of uncertainty but also an island of secure, private communications, guided by a form of diplomacy they represented as based on knowledge and technical skill rather than on the petty grievances and resentments rife in political machinations. This stance was shown to be more pretense than principle when major bankers such as Albert Henry Wiggin so abruptly began to seek political solutions when faced by a crisis in confidence when the international financial system began to seriously unravel.

The End of Reparations

However, one political response to the economic problems had far-reaching and unintended effects of its own. By the end of 1931, it was no longer tenable to deny the extensive economic damage that followed not only from the demise of the Credit-Anstalt and the consequent German financial crisis but also from Hoover's response to it, since, as mentioned above, after the one-year moratorium expired, the Reichsbank discontinued its payments to the BIS.

One final international attempt to resolve once and for all Germany's ongoing reparation problem was made at Lausanne²⁶⁸ (16 June-9 July 1932), which began just after the Hoover moratorium concluded.²⁶⁹ All members in attendance agreed to cancel Germany's annuity payments as detailed in the Young Plan and replace them with a total lump sum which amounted to 2.6 billion gold Reichsmarks.²⁷⁰ Unfortunately, this solution to a nearly 15-year-long problem was rejected by the United States Senate and House.²⁷¹ Because of the numerous loans that American banks and financial institutions (most notably J.P. Morgan & Co.) had provided over the previous decade,²⁷²

²⁶⁸ Office of the Historian, United States Department of State, Papers Relating to the FRUS, the Paris Peace Conference, 1919, volume XIII, <https://history.state.gov/historicaldocuments/frus1919Parisv13/ch17>

²⁶⁹ "The Result of the Lausanne Conference," *World Affairs* 95 (1932) 75-77, <https://www.jstor.org/stable/20662122>. Note: In 1932, 4.24 RM = \$1.

²⁷⁰ J.W., and W-B, "The Lausanne Conference," *Bulletin of International News* 9 (1932): 3-15, 15, <http://www.jstor.com/stable/25639062>.

²⁷¹ "It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner canceled or reduced" (United States Senate Congressional Record, Proceedings and Debates of the Second Session of the Seventy-Second Congress, Volume 76, Part 3 (27 January 1933), 2658, https://www.google.com/books/edition/Congressional_Record/UHsdXvcVCasC?hl=en&gbpv=1&dq=It+is+hereby+expressly+declared+to+be+against+the+policy+of+Congress+that+any+of+the+indebtedness+of+foreign+countries+&pg=PA2658&printsec=frontcover)

²⁷² The British debt to the United States alone was nearly \$40 billion (Gold Reserve Act of 1934, Seventy-third Congress, Hearings, 19, https://fraser.stlouisfed.org/files/docs/historical/house/1934hr_goldresact.pdf?utm_source=direct_download); Two-thirds of American loans to Europe went into default in the 1930s (Barry Eichengreen, "Resolving Debt Crises: An Historical Perspective," *National Bureau of Economic Research*, Working Paper No. 2555 (April 1988), i, https://www.nber.org/system/files/working_papers/w2555/w2555.pdf).

they were the creditors to whom Germany was most indebted. These bankers insisted that Germany repay its outstanding debts to the United States and all the other countries to which it was indebted. Since those other European nations were also indebted to American bankers, they too were dependent on the reparation and war debt payments from Germany to service their own debt to the United States. Thus the reparations problem endured because of American intransigence and the indebtedness of many postwar nations. This bitterly contested, decade-long issue would contribute substantially to Germany's worsening political and economic crises.

Adolf Hitler ascended to the German chancellorship on 30 January 1933, and on 17 May 1933 of that year, he explicitly terminated all reparation payments to European countries that had been implicitly ended after Lausanne, in blatant violation of the Versailles Treaty.²⁷³ The era of reparations was over.²⁷⁴ Inadvertently, but undeniably, the United States' federal government had effectively and all but permanently ended the transfer of reparation payments to the BIS through what had been intended as a temporary moratorium.²⁷⁵ When the reparation payments ended, American and British banks and financial institutions, authorized by the Versailles Treaty and the Dawes and Young plans, ended up footing the German reparations bill since it was they who had made the large loans to Germany which were never fully paid back.²⁷⁶ America had not only cut off

²⁷³ Hitler and Schacht had long complained, repeatedly and loudly, about the unfairness of the reparation payments, which Schacht referred to contemptuously as "tribute" (Schacht, *End of Reparations*); see also "Hitler Repudiates the Versailles Treaty and Reparations" (17 May 1933), *American Foreign Relations*, <https://www.americanforeignrelations.com/E-N/Loans-and-Debt-Resolution-Hitler-repudiates-the-versailles-treaty-and-reparations.html>

²⁷⁴ *Note*: These debt payments continued upon German reunification and were finally completed in October 2010—nearly eighty years after it made its penultimate prewar reparation payment to the BIS in 1933. See, for example, Erin Blakemore, "Germany's World War I Debt Was So Crushing It Took 92 Years to Pay Off," *History* (27 June 2019), <https://www.history.com/news/germany-world-war-i-debt-treaty-versailles>

²⁷⁵ Galofré-Vilà et al., "The economic consequences of the 1953 London Debt Agreement" 1-29.

²⁷⁶ Marks, "The Myths of Reparations" 233, 253-254: "The ultimate effect of the German failure to pay reparations in substantial quantity was transfer of the burden to the victors" (254).

its own creditors' ability to recoup the billions they were owed²⁷⁷ but had also compromised Europe's financial, monetary, and economic security in the process: France, Belgium, and Great Britain would never receive the agreed-upon billions of gold Reichsmarks as Germany never did make good on its overdue annuity payments.²⁷⁸ Thus the plan to force payment through the threat of being cut off from international credit through the bond arrangement proved illusory. Significantly, discontinuation of these war reparation payments gave the president of the Reichsbank, Hjalmar Schacht, an enhanced ability to redirect these previously allocated assets into increasing Nazi Germany's armament production.

FDR and the Bankers

Following the failure at Lausanne, President Hoover and many of the world's international bankers attempted to resolve the spreading damage to the global economic system by calling for another such international conference. The 1933 London Monetary and Economic Conference offered the newly appointed chancellor of Germany, Adolf Hitler, a golden opportunity to consolidate his political power in a highly public forum. Newly elected president Roosevelt also made use of this international economic forum to express his beliefs regarding the nature of the economic crisis. Thus, within days of the opening of the London Economic Conference, potent political forces were unleashed into the world of finance and international banking, aggravating Germany's precarious political and economic dilemma and transforming American finance and banking, which brought the full force of American high-powered finance to the doorstep of the American presidency.

²⁷⁷ Marks, "The Myths of Reparations" 252-253.

²⁷⁸ Galofré-Vilà et al., "The economic consequences of the 1953 London Debt Agreement" 1-29.

At the Conference, the most renowned international financiers and bankers from 66 nations convened in London from 12 June to 27 July 1933, where they proposed a revised currency exchange scheme to mitigate certain aspects of the ongoing economic crisis. Roosevelt was perhaps the most outspoken opponent of the belief that it was the duty of national governments to promote confidence in the world's banking industry. During his campaign, Roosevelt had made considerable inroads into outmaneuvering the beleaguered Hoover administration. After his inauguration on 4 March 1933,²⁷⁹ he published a book, *Looking Forward*, in which he laid out the problem, as well as his guiding principles and his plans to get Americans working again so the United States could pull itself out from its economic depression: “[T]he economic structure of other nations was affected by our own tide of speculation and the curtailment of our lending helped to bring on their distress.”²⁸⁰ In his Inauguration Speech, Roosevelt again forcefully blamed international bankers and financiers for causing the world's economic disaster:

And yet our distress comes from no failure of substance. [. . .]. [T]he rulers of the exchange of mankind's goods have failed through their own stubbornness and their own incompetence, have admitted their failure and abdicated. [. . .]. True, they have tried, but their efforts have been cast in the pattern of an outworn tradition. Faced by failure of credit, they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence.²⁸¹

He bluntly ridiculed such appeals for government intervention to promote “confidence” in the financial system as articulated, for instance, in the Wiggin Report. Within a few months of FDR's

²⁷⁹ This was the last time that an elected president had to wait 100 days to take office after being elected. The previous presidential inauguration date (4 March) was changed to 20 January by the Twentieth Amendment to shorten the overly long lame duck period to two months. Part of the reason for the swift passage of the Twentieth Amendment was related to the inability of President-elect Roosevelt to take any action to mitigate the economic crisis for almost four months.

²⁸⁰ Franklin D. Roosevelt, *Looking Forward* (New York: Touchstone, 2009 [27 March 1933]), 185.

²⁸¹ Roosevelt, *Looking Forward* 220-221.

inauguration, the United States had exited the gold exchange standard (5 June 1933),²⁸² and two weeks after that, the president had his secretary of state, Cordell Hull, express his well-considered views at the Conference—though the president did not attend the conference himself.

Although his aims were similar to those of the conference—“Our broad purpose is the permanent stabilization of every nation’s currency,” he maintained—the means by which this might be effected was far removed from their proposal. Through his speech, Hull underscored the interdependence of the world’s political, financial, and economic spheres and openly dismissed the currency exchange solution proposed by the world’s foremost international bankers, effectively pulling the rug out from under them:

I would regard it a catastrophe amounting to a world tragedy if the great conference of nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. [. . .].

The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations.

It is for this reason that reduced cost of government, adequate government income, and ability to service government debts are all so important to ultimate stability. So too, old fetishes of so called [sic] international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not greatly vary in terms of the commodities and necessities of modern civilization.²⁸³

²⁸² The story behind the US exit from the gold standard took place in stages. It began when the federal government made it illegal to hoard gold (Executive Order 6102, 5 April 1933), followed by the official departure on 19 April 1933, and on 5 June 1933 Congress abrogated the gold clauses (Roosevelt’s Gold Program, 1933, Federal Reserve History, <https://www.federalreservehistory.org/essays/roosevelts-gold-program>), and passage of the Gold Reserve Act (30 January 1934), when it was signed into law by President Roosevelt through which all the gold in the Federal Reserve was moved to the US Treasury and the value of gold was changed from roughly \$21 (\$20.67) to \$35 per ounce (see Gold Reserve Act of 1934, Federal Reserve of St. Louis, FRASER, <https://fraser.stlouisfed.org/title/gold-reserve-act-1934-1085>).

²⁸³ Franklin D. Roosevelt, Day by Day (July 1933), *Pare Lorentz Center at the FDR Presidential Library*, <http://www.fdrlibrary.marist.edu/daybyday/resource/july-1933-2/>

In openly dismissing what he saw as just another currency exchange proposal, presumably based on nothing more than the “old fetish” (i.e., gold), Roosevelt, through Hull, laid down the gauntlet to the “so[-]called international bankers” by suggesting that an alternative, more equitable way to stabilize “every nation’s currency” be found, not just one “affecting the monetary exchange of a few nations only.” On the same day that Roosevelt made known by proxy his disdain for international bankers (16 June 1933), he signed the Glass-Steagall Act into law. One of the most stringent of the Banking Acts, it prohibited commercial banks from engaging in risky investments.²⁸⁴ As a consequence of these strictures, there arose an abiding antipathy toward President Roosevelt among international bankers that endures to this day.

One of the reasons for FDR’s articulated exasperation regarding the 1933 London Conference was the limited benefit he perceived to a wider group beyond those individuals directly tied to the banking community and those beneficiaries of the BIS. In his view, the international bankers were primarily interested in feathering their own nests at the expense of those who were not internationalists or member nations during the devastating depression year of 1933. The loans provided to Germany were obtained from credits from other bank members that comprised the reserve assets of the BIS,²⁸⁵ most notably the United States and the Bank of England. These loans and capital flowed into Germany, and those businesses and nations willing to do business with Germany could accrue considerable dividends, interest, and profits. Germany provided the industries through which the capital obtained from those loans and commercial

²⁸⁴ The Glass-Steagall Act aligned with the 1913 Federal Reserve Act and consequently brought more coherence to the system of American banking laws.

²⁸⁵ Michael P. Hughes and Chris Palke, “The Bank for International Settlements: An Evolutionary Institution,” *Journal of Business Case Studies* 15 (2019): 19-28, 20.

transactions flowed. These funds could conceivably have been used to benefit the economies of other European nations, which desperately needed capital support throughout the 1930s. However, they were limited to those nations and businesses that worked with raw material extraction, heavy industry, manufacturing, other related military industries, and, of course, finance.²⁸⁶

The BIS Untethered

What Hitler's 1933 decision to end reparations had done was not just to give the Nazi regime an opportunity to explicitly defy international law, but also to liberate the BIS from its previous responsibility to coordinate Germany's war reparation payments so that it could from then on tailor its agenda to its own profit-oriented goals.²⁸⁷ There was no longer any meaningful constraint on how the Bank could operate in the world of global finance, commerce, and banking beyond ensuring annual profits and dividends to its members and shareholders and coordinating debt payments. It could now serve as a source of credit and finance for Hitler's militaristic aspirations regardless of Germany's violation of the Paris Peace Treaty. Designed as it was by the Young Committee to be largely untethered from any pretension to abide by national or international finance laws beyond its own self-imposed by-laws,²⁸⁸ from 1933 on the BIS could pursue its interests in ways that were inconsistent with the authority implicit in the Versailles

²⁸⁶ Forbes, "London Banks" 583-584; Peterson, *Hjalmar Schacht: For and Against* 209; 290-306.

²⁸⁷ See Toniolo, *Central Bank Cooperation* 150-157; Baker, *The Bank for International Settlements: Evolution and Evaluation*; see also BIS's statement of wartime neutrality in response to the Hitler's invasion of Poland: "[The BIS] 'should only carry out operations which are above reproach both from the point of view of belligerents and neutrals'" (Beyen, Letter (18 December 1939, https://www.bis.org/about/history_2ww2.htm).

²⁸⁸ For details, see Schloss, "The Bank for International Settlements" 14-18; Toniolo, *Central Bank Cooperation* 119, 120, 154-155.

Treaty and the Dawes Plan. As the Bank later put it in its official history, published at its website:

With the reparations issue out of the way, the BIS focused its activities on the technical cooperation between central banks (including reserve management, foreign exchange transactions, international postal payments, gold deposit and swap facilities) and on providing a forum for regular meetings of central bank Governors and officials.²⁸⁹

These expanded banking activities continued even after Germany resumed its war-debt payments, though not its reparations.²⁹⁰ While the requirement of “technical cooperation between central banks” was prominently articulated in the originating Statutes, which broadened the Bank’s powers and ensured its relevance and longevity, after Germany defaulted on its medium- and long-term loan payments, the role of the BIS in international finance likewise changed.

Just as the Versailles Treaty was increasingly violated with the rise of the National Socialist Party, on the one hand, the BIS was able to behave more as a fully-fledged commercial bank; on the other, it had less real autonomy than it appeared because of the economic depression and the departure from the gold standard by most of its members in the early 1930s. Originally conceived to promote international financial stability,²⁹¹ it evolved in the latter half of the 1930s to foster its opposite: international financial *instability*. Once the Bank began to prioritize private profit over public service on behalf of the world of international finance by contributing to German militarization, it transcended the strictures of treaty-based finance and instead began influencing political and geopolitical domains far afield by providing financial services to the Nazi regime

²⁸⁹ “History –The BIS Going Global (1961-).”

²⁹⁰ Galofré-Vilà et al., “The economic consequences of the 1953 London Debt Agreement” 1-29.

²⁹¹ Robert B. Kahn and Ellen E. Meade, “International Aspects of Central Banking: Diplomacy and Coordination,” Finance and Economic Discussion Series 2016-062, Washington Board of Governors of the Federal Reserve System, <https://www.federalreserve.gov/econresdata/feds/2016/files/2016062pap.pdf>

during the war. Though the Bank became increasingly detached from its reparation responsibilities and treaty obligations, as it became more of an autonomous financial institution, and the unraveling of international finance in the 1930s exposed it to the predations of more powerful banks, most notably the Reichsbank.

The BIS Transformed

The question for the BIS was not just whether it could survive the financial storms of the 1930s but how would it adapt along with the rise of the Third Reich. While in the present day the BIS represents itself as having been transformed from a bank dedicated to the acquisition and distribution of reparation payments to one more focused on commercial enterprise and interbank cooperation, the originating documents and associated correspondence, reports, and newspaper articles show quite clearly that no such transformation in fact took place. It had been designed from the outset to act as an entity that could pursue financial and commercial enterprise as a means of strengthening the German economy as well as generating profits and dividends for its shareholders. Eleanor Dulles, the sister of John Foster and Allen Dulles, in her contemporary study of the BIS, emphasized “the important part played by the immediate needs of European finance”²⁹² in the bank’s creation from the beginning. In other words, the BIS had been from the first constituted to behave as any banking entity in its pursuit of profit. This is not to say that the BIS did not undergo a significant change, merely that its abrogation of its original statutes was not what caused the alteration. It was not merely its detachment from its reparation

²⁹² Dulles, *The Bank for International Settlements at Work* 4,
<https://babel.hathitrust.org/cgi/pt?id=mdp.39015064478608&view=1up&seq=13>

responsibilities that caused the BIS to undergo its mid-1930s transformation, because those agreed-upon Statutes enabled the Bank to pursue profits as part of how it was originally conceived; it was instead its own vulnerabilities and ability to adapt that exposed it to schemes employed by the Reichsbank as the economic depression deepened and Nazi Germany bolstered its aggressive military regime.

The Specter of Banking in the Age of Hitler

Just as the 1931 German financial crisis rent asunder various interconnecting links between German debtors and their creditors, Hitler's ascent to the chancellorship and Schacht's promotion to the presidency of the Reichsbank (March 1933) and later to the position of economic minister of Germany (1934-1937) accelerated the fragmenting interbank cooperation and the tenuous interconnections that remained between the central banks comprising the international financial system in the early 1930s. One of the most significant developments of these new arrangements was how the Reichsbank displaced the BIS as hub of interbank cooperation and exchange, although the dissolution of the international financial system had begun years earlier, when Schacht, then president of the Reichsbank under the Weimar Republic, undermined the Müller administration by publicly criticizing the democratically elected government just as they were finalizing the establishment of the BIS.

In the years between Schacht's resignation from the presidency of the Reichsbank in 1930 and the conclusion of Hoover's moratorium in 1932, Germany ended the annuity payments it owed. By 1934, payments on medium- and long-term debts had also ended, making it clear that the former dream of international central bank cooperation based on gold had become

replaced with a more fragmented and divisive scheme, whose methods were reminiscent of those employed by Hitler and the Nazi high command; these new developments would be among the achievements of the Reichsbank's president and economics minister, who worked incessantly on behalf of the militaristic Nazi regime to advance Germany's weapons manufacturing economy.

When Great Britain left the gold exchange standard in September 1931 and the United States followed suit in April 1933, German finance was put into a difficult position. In response, on 8 May 1933, Schacht notified the BIS that Germany would no longer recognize the gold clause in the BIS's statutes,²⁹³ through which it had been agreed that all member countries' currencies would be tied to the value of gold. As the United States was Germany's main creditor, following its departure from the gold exchange standard, Germany lost its previous access to gold-based currency from its creditors. Cut off from access to future loans, the Reichsbank was faced with the increased likelihood of defaulting on its payments, and the United States and its other creditors were less likely to recover full payment on their outstanding loans to Germany. While its reparation payments ceased soon after Hitler's 17 May 1933 decree, Germany was still faced with tens of billions of Reichsmarks in outstanding debt.

The Reichsbank called a meeting in Berlin for the first week of June 1933, while the London Monetary and Economic Conference was in session, to discuss "the question of further continuation of [the] transfer of foreign exchange for debt service."²⁹⁴ The Reichsbank unilaterally informed the meeting's attendees that it had suspended the transfer in foreign exchange for most of its outstanding liabilities and argued against any further Young loan transfers, though it would consider

²⁹³ Toniolo, *Central Bank Cooperation* 120.

²⁹⁴ Toniolo, *Central Bank Cooperation* 151.

continuing its Dawes loan transfers.²⁹⁵ Then came Schacht's German Transfer Moratorium Conference, also held in Berlin on 31 January 1934,²⁹⁶ where the issues of discriminatory loan transfer payments and reduced cash payments were discussed, followed later by the Berlin Transfer Conference (27 April-29 May 1934), where Schacht offered the creditor banks "70 per cent of the German payment due," though they would only be able to "cash [. . .] it at half of its face value,"²⁹⁷ as a contemporary *New York Times* account summarized. The Netherlands and Switzerland agreed at this conference to accept increased German imports in return for receiving full foreign exchange payments, while England considered the possibility of refund agreements.²⁹⁸ The United States walked away from the Reichsbank's offers of coercive devaluations, which represented Germany's renegeing on its financial obligations.

Switzerland's Banking Act of 1934

The fact that Schacht—as a newly installed member of the board of directors at the BIS—would renege on the Reichsbank's reparation payments at about the same time that²⁹⁹ Switzerland instituted a new banking secrecy law suggests that the Swiss Banking Act of 1934 was instrumental in aiding Germany to further protect and obscure its international transactions. On 2 February 1934, Switzerland passed a banking secrecy law formally called the Federal Act on Banks and Savings Banks that made it a crime for any banking representative to divulge any information about an

²⁹⁵ Toniolo, *Central Bank Cooperation* 151-152.

²⁹⁶ "Reich Debt Talks Face Crisis Today," *New York Times* (31 January 1934), 13.

²⁹⁷ *Ibid.*

²⁹⁸ Toniolo, *Central Bank Cooperation* 149, 150.

²⁹⁹ Beyen says it was in June 1933 (*Money in a Maelstrom* 116) Longerich says that "the withdrawal from the international payments system [. . .] was triggered on 30 June [1933]" (Longerich, *Hitler* 317).

individual's bank account in Switzerland. In *Swiss Banking Secrecy*,³⁰⁰ Article 47 of the Swiss Banking Law

provides imprisonment not exceeding six months or a fine not exceeding 50,000 Fr.[Swiss francs] for anyone divulging a secret entrusted to him in his capacity as officer, employee, agent, liquidator or commissioner of a bank, as a representative of the Banking Commission, officer or employee of a recognized auditing company or who has become aware of such secret in this capacity. If the act was committed negligently the penalty is a fine not exceeding 30,000 Fr.

As a result of this law's very broad scope and strict language, the BIS could in principle insulate itself and benefit from this Swiss federal law with another layer of legally enforceable secrecy—this time through the protection of criminal statutes.

A myth has grown up around the Swiss Banking Act of 1934 regarding the cause of its enactment that is rather difficult to dislodge. This fabricated story has been convincingly rebutted, however, by Swiss historian Sebastien Guex in “The Origins of Swiss Banking Secrecy Law”:

It demonstrates that, contrary to popular opinion, the institution of Swiss banking secrecy did not arise from a desire to protect the funds deposited in Switzerland by Jewish victims of Nazi persecution but rather had substantially different origins.³⁰¹

As Guex compellingly explains, it was the incredible difficulty that Jews faced in trying to recoup their savings from out of Swiss banks in the 1990s that most convincingly gave the lie to the tale that the 1934 law had been passed to protect Jewish assets. The rejection of this particular version considerably changes the nature of the historical narrative related to the actions taken—and not taken—by the BIS and the Swiss National Bank during the 1930s and first half of the 1940s.

³⁰⁰ See Mario Kronauer's Review of Maurice Aubert, Jean-Philippe Kernén, and Herbert Schoenle, *Le Secret Bancaire Suisse* [“Swiss Banking Secrecy”] (Bern: Staempfli, 1976), <https://www.jstor.org/stable/839682>; see also Swiss Federal Act on Banks and Savings Banks, *KPMG* (2020), <https://assets.kpmg/content/dam/kpmg/ch/pdf/ch-banking-act-en.pdf>

³⁰¹ Sébastien Guex, “The Origins of Swiss Banking Secrecy Law and Its Repercussions for Swiss Federal Policy,” *Business History Review* 74 (2000): 237-266, 237, <https://www.jstor.org/stable/3116693>

Though Switzerland has a long history of bank secrecy³⁰²—apparently extending back hundreds of years³⁰³— with the creation of the opaque, new Bank for International Settlements and even more with the passage of the Swiss Banking Act, secrecy became both institutionalized and codified. Although institutional and legal ramparts were put in place to obscure how such assets were acquired and from whom, especially those the bank secrecy laws were put in place to protect, with these fundamental changes Switzerland became (in)famous for its clandestine banking activities. According to University of Chicago Booth School of Business historian Hugo Baenziger, “‘Switzerland became transformed into an international financial center,’ a transformation sanctioned in 1930 by the establishment in Basel of the Bank for International Settlements.”³⁰⁴ It was not until the twentieth century, however, that Swiss banking institutions became synonymous with clandestine accounts, political intrigue,³⁰⁵ and stringent bank secrecy laws. In the decades preceding the creation of the BIS and the passage and enactment of this new law, the volatile political and financial situation that emerged in Europe after World War I opened up a great opportunity for banking in Switzerland mainly because of “the solidity of the Swiss franc, [...] the

³⁰² “In 1713, long before Switzerland existed as a federal state, the Great Council of Geneva adopted regulations prohibiting bankers, who were already harbouring substantial deposits belonging to European aristocracy, from revealing details about their clients” (Tax Justice Network, “Narrative Report on Switzerland,” *Financial Secrecy Index* (2013), https://static.nzz.ch/files/9/8/8/Switzerland_1.18639988.pdf); for more details, see also Tax Justice Network, “Narrative Report on Switzerland,” *Financial Secrecy Index 2020*, https://www.vidc.org/fileadmin/martina/2020_fsi_2020/switzerland_fsi2020.pdf

³⁰³ Isabel Vincent, *Hitler’s Silent Partners: Swiss Banks, Nazi Gold, and the Pursuit of Justice* (New York: William Morrow and Company, 1997), 60.

³⁰⁴ Qtd in Guex, “The Origins of Swiss Banking Secrecy” 242.

³⁰⁵ One of the reasons why Switzerland attracted so many spies in the twentieth century was because of its long history of neutrality which was agreed to in the Treaty of Paris (1815), however, three hundred years earlier, it had attained various milestones towards its well-known neutrality after its last war (with France) in 1515, and later with the signing of the Peace of Westphalia (1648) (Gordon E. Sherman, “The Neutrality of Switzerland,” *American Journal of International Law* 12 (1918): 241-250, <https://www.jstor.org/stable/2188141>). The League of Nations, located in Geneva, recognized Swiss neutrality on an international level in 1920 (Walter R. Zahler, “Switzerland and the League of Nations; A Chapter in Diplomatic History,” *American Political Science Review* 30 (1936): 753-757, 756, <https://www.jstor.org/stable/1947951>).

political stability of the country, [...] its neutrality, [...] the mildness of its taxation laws, [...] the obliging nature of its fiscal authorities, and, last but not least, [...] the existence of banking secrecy.³⁰⁶

As a result of this confluence of bank secrecy and military neutrality, Switzerland became a major site of international finance after World War I.³⁰⁷ The codification of bank secrecy in the Swiss Bank Act of 1934, which made any violation of this secrecy a criminal offense punishable by heavy fines and imprisonment, arose in response to the severe financial difficulties that Switzerland had faced in the years following the 1931 German financial crisis.³⁰⁸ It is interesting to recognize the codification of a criminal statute that could be used to cover up extensive and large-scale criminal activities.³⁰⁹ As a result of the passage of the Swiss Banking Act of 1934, the BIS, located in Basel, Switzerland, became doubly insulated and legally fortified from any unwanted exposure.

Financial Disunity and the German Default

The abandonment of the gold exchange standard was a devastating blow to the overall conceptualization and function of the BIS as an international bank, as it effectively became unable to fulfill its originally intended purpose. One of the crucial outcomes of the dissolution of the BIS's so-called "gold club" was the Bank's inability to coordinate activities between central banks, crippling the unity among international banks, originally one of the hallmarks and achievements of the BIS. This former coordination was instead supplanted by bilateral agreements arranged between

³⁰⁶ Guex, "The Origins of Swiss Banking Secrecy" 241-242.

³⁰⁷ Guex, "The Origins of Swiss Banking Secrecy" 242.

³⁰⁸ Guex, "The Origins of Swiss Banking Secrecy" 243-244.

³⁰⁹ See, for example, Tax Justice Network, "Narrative Report on Switzerland."

central banks and their respective governments, and Germany.³¹⁰ In this fraught situation, more creditor nations were encouraged to make separate agreements with the Reichsbank. Once the effective control and coordination of the BIS was superseded by these newly devised and disconnected financial arrangements, the Reichsbank, under Schacht's leadership, exploited the difficult situation by fostering division and disunity among the debtor nations to augment Nazi Germany's financial and geopolitical standing at the expense of other nations.

Like any good Nazi, Schacht knew how to profit from the misfortunes of others. He used misdirection, precipitous actions, strong-arm tactics and delay to demoralize Germany's creditors. The various concessions made by the Netherlands and Switzerland augmented the Reichsbank's power at their expense and the expense of the BIS. Essentially, Schacht reversed the power dynamic between creditor and debtor, making the creditors dependent upon his calculating manipulations:

One of Schacht's first major deeds was the proclamation of a complete transfer-moratorium from which were exempt only the debts of the Reichsbank itself, [and] the investments of the Bank for International Settlements [. . .]. A large meeting of representatives of all creditors, long-term and short-term, was called at the Reichsbank in May 1933. They were told that Germany was unable to go on transferring any interest because the other countries had prevented it from having export surplus out of which the interest could be paid.³¹¹

Effectively what Schacht was trying to accomplish by arguing that the transfer payments could not be made unless the creditor nations agreed to import German goods was to force these other nations into aiding and collaborating in the rebuilding of Nazi Germany's military and armaments.³¹²

³¹⁰ According to Toniolo, the German transfer crisis arose from the failure of the 1933 London Conference, which absolved the Third Reich of their international obligations and adherence to interbank protocols (Toniolo, *Central Bank Cooperation* 122); see also the 9 June 1933 "Law Concerning Payment Obligations via-a-vis Foreigners" (H.J. Dernburg, "The Blocked Mark Problem, 1931-54," *Journal of Finance* (1955): 17-40, 19, <https://www.jstor.org/stable/2976061>).

³¹¹ Beyen, *Money in a Maelstrom* 85.

³¹² Beyen, *Money in a Maelstrom* 84-87, 116.

As a result of the Reichsminister's machinations, a new regime in international banking emerged that was based more on bilateral foreign exchange agreements and less on the type of interbank cooperation originally mandated by the BIS. While these developments altered the very nature of the operations promoted and adhered to by the BIS, as the Reichsbank's terms were often in violation of the BIS's statutory terms, there was little that the Bank could do to remedy the situation or enforce its legal position.³¹³ The unified, gold-based international financial system envisioned by the BIS was replaced by one characterized by heterogeneity and fragmentation that now relied upon conditions set by the Reichsbank.

The methodology employed by the Reichsbank in these diverse bilateral agreements, where creditor nations were offered only portions of the loans on terms that were at odds with those previously arranged with the former Weimar Republic,³¹⁴ was characteristically Hitleresque: abrupt, inflexible, dilatory and strategically coordinated to demoralize and disarm. As Schacht had been instrumental in the design and organization of the BIS, and as he continued to attend the meetings of the Bank's board, he knew precisely where its weak points lay and exploited them fully. The abruptness, delays, and scheduling of the numerous Berlin transfers conferences were peremptorily announced with the conditions preset, i.e., there was not going to be any negotiation of the proffered terms. The transfer moratorium conference, during which the creditors were presented with deals that they could take or leave, is a case in point.

In a way, it was understandable why Schacht had taken this approach: Germany's gold reserves had fallen precipitously the previous year,³¹⁵ and so its demands for concessions were

³¹³ For more on the legal aspects of the BIS, see Toniolo, *Central Bank Cooperation* 48.

³¹⁴ Toniolo, *Central Bank Cooperation* 152.

³¹⁵ See BIS Fourth Annual Report (1934), 25, https://www.bis.org/publ/arpdf/archive/ar1934_en.pdf

conducted in the context of this desperate financial situation. A particularly Hitleresque touch that took place early on in the negotiations occurred during the German Transfer Conference (April-May 1934), when German minister of finance Count Schwerin von Krosigk warned those in attendance just prior to the meeting's start that Germany would not be able to continue servicing its debt on its Dawes and Young loan after 30 June 1934, and therefore there would be no negotiation. As a result, on 1 July 1934, "the transfer mechanism of the Dawes and Young [. . .] ground to a halt."³¹⁶ Thus not only were the reparation payments a dead letter, but payment on the medium- and long-term loans was also ended under conditions set by the Reichsbank. These Depression-era developments transformed the international financial system formerly based on gold, interbank cooperation, and central bank independence, whose hub and institutional embodiment was the BIS, into one characterized by central bank interdependence, fragmentation and bilateral arrangements, coupled with a reduced expectation of payment: "Germany had successfully dismantled the remaining international machinery of the Dawes and Young plans, sidelined the BIS and put its financial obligations on a purely bilateral basis."³¹⁷ With the promotion of Schacht as Hitler's minister of economics, the power of the BIS as a transfer agent between independent central banks was curtailed.³¹⁸

³¹⁶ Toniolo, *Central Bank Cooperation* 154; For more details on the issue of the Reichsbank's handling of the transfer of foreign exchange, see Piet Clement, "The touchstone of German credit': Nazi Germany and the service of the Dawes and Young Loans," *Financial History Review* 11 (2004): 33-50, 38-44.

³¹⁷ Toniolo, *Central Bank Cooperation* 155.

³¹⁸ *Ibid.*

Conclusion

The years immediately preceding and following the founding of the BIS—from 1929 to 1934—exhibited a noticeable inflection, when critical financial and political indicators inauspiciously reversed as profits turned to losses. The ascendant phase of the inflection coincided with the growing integration in the world of international finance that had been attained in the first half of the interwar years. During this time, the BIS was seen by its promoters as a kind of capstone, solidifying international financiers' earlier achievements, painstakingly put in place by its adherents on either side of the Atlantic after the war. The second half of the inflection was epitomized by its descent, when the insidious damage caused by the Great Depression forced Great Britain and the United States to exit the gold exchange standard, marking the start of a significantly less unified and more adversarial situation in international finance and banking. During this latter phase, the president of the Reichsbank pitted the BIS's member central banks against one another, causing them to quarrel, which promoted a more disputatious, fragmented and heterogenous environment within the world of international finance and banking. In the process, the financial skills of the BIS were gradually being put in service of Hitler's Third Reich.

With Schacht's abandonment of the BIS's gold clause, the dissolution of its "gold club"³¹⁹ and fragmentation of interbank cooperation among many of its member banks, the era of international central bank cooperation—which had only just begun—rapidly came a close once Germany repudiated its war debt payments. Through such financial coercion Germany sought to coopt its creditors to help rearm it in direct violation of the Versailles Treaty.

³¹⁹ Toniolo, *Central Bank Cooperation* 120.

Chapter 3

Founding Members of the BIS: Hjalmar Schacht and Montagu Norman

Overview

As the Great Depression spread and deepened, it became clear that the bankers' dream of an apolitical international banking solution to the global financial and economic crisis was unrealistic. This change in outlook was due largely to the severity of the economic downturn. In the midst of this crisis, the BIS found itself at the epicenter of a European financial maelstrom in the 1930s. By 1939, public reports indicated that this international financial institution might have become unduly influenced by political pressure from the Third Reich.³²⁰ Within the board of the BIS, the members from Germany and Great Britain stood out as those most likely to influence the Bank in favor of the Nazi regime, Great Britain because Montagu Norman, the governor of the Bank of England, maintained an enduring respect and admiration for Hjalmar Schacht, the president of the Reichsbank—who served directly under Hitler, whom Norman also admired. Without a doubt, Schacht and Norman were the two most powerful members of the BIS board of directors,³²¹ and both contributed significantly to the creation and operations of the Bank.³²² As Reichsbank

³²⁰ See, for example, "Britain's Czech Gold Becomes a Mystery: Believed Transferred to Reich—Spokesman Can't Say," *New York Times* (23 May 1939), 10.

³²¹ "In the 1930s, the BIS Board consisted of the Governors and their alternates of the National Bank of Belgium, the Bank of France, the German Reichsbank, the Bank of Italy, the Netherlands Bank, the Swedish Riksbank, the Swiss National Bank and the Bank of England, as well as representatives for the Bank of Japan" (History—foundation and crisis (1930-1939), BIS, https://www.bis.org/about/history_1foundation.htm)

³²² Schacht and Norman both help draft the underlying scheme of the BIS as a clearing bank. "[Norman] was working on the functions and policy of the Bank with his advisers and Schacht" (Sir Henry Clay, *Lord Norman* (London: St Martin's Press, 1957), 269); "The strange thing about these 'clearing agreements' was that they were in some cases imposed on Germany by the free currency countries who were affected by Dr. Schacht's moratorium of June 1933, stopping the transfer of interest payments on Germany's long-term debt. The idea of this moratorium was to force the creditor countries to come to bilateral agreements with Germany regarding imports, exports and interest

president and Hitler's appointed economist, Schacht was deeply involved in advancing the economy of Nazi Germany throughout his tenure. The fact that Norman was close friends with Schacht raises the additional question of what, if anything, the Bank of England might have done to aid the Third Reich in the 1930s. This chapter will discuss the influence of Schacht and Norman on the Bank for International Settlements.

Hjalmar Schacht³²³

Overview

Schacht, a highly regarded economist and prolific author of books and papers on his economic thoughts and life, provides an interesting case study for understanding the ethical decisions made by one of the board members of the BIS and president of Germany's central bank. Known for his ingenuity and sagacity,³²⁴ Schacht had become internationally famous for his role³²⁵ in ending the hyperinflation episode in the Weimar Republic (1924-1925) through the implementation of a novel currency, the *Rentenmark*.³²⁶ His reputation became tarnished, however, in the 1930s when he significantly expanded the Nazi military through his financial policies and economic expertise.³²⁷

payments. Dr. Schacht knew all too well that Germany would be in a stronger bargaining position than the free currency countries" (Beyen, *Money in a Maelstrom* 116).

³²³ Schacht's tenure as member of the BIS board of directors was 1933-1939. Reichsbank presidents include Hjalmar Schacht (12 November 1923-6 March 1930, 17 March 1933-20 January 1939), Hans Luther (7 March 1930- 17 March 1933), Walther Funk (20 January 1939-8 May 1945); Swiss National Bank, governing board Gottlieb Bachmann (1 July 1925-15 March 1939) and Ernst Weber (1 April 1939-31 March 1947) (Source: "Members of the Governing Board," Swiss National Bank, BNS, https://www.snb.ch/en/i/about/snb/hist/histbio/id/hist_bios_dm#t6);

³²⁴ He was assessed by the Nuremberg International Military Tribunal as having the highest IQ of all the major Nazi war criminals. (Defendants in the Major War Trials, <http://law2.umkc.edu/faculty/projects/ftrials/nuremberg/meetthedefendants.html>)

³²⁵ Beyen implies it was not, in fact, Schacht's own idea that ended the hyperinflation (*Money in a Maelstrom* 19)

³²⁶ See Schacht, *The Stabilization of the Mark*.

³²⁷ "[H]ere was a man who claimed to love peace but who rearmed a madman" (qtd. in Peterson, *Hjalmar Schacht, For and Against Hitler* 11).

President of the Reichsbank (1923-1930, 1933-1939), Schacht was instrumental first in the conceptualizing of the BIS and later, through his objections to the same Bank, in altering its powers and constraints. Schacht was not only one of the first to propose the creation of such a bank; he also boasted of this distinction,³²⁸ though he later became one of those most vehement in denunciations of the Young Plan in general and the BIS in particular. According to the 1933 Third Annual Report,³²⁹ Schacht had written the BIS's Statutes during the formative phase of the Young Committee. His later objections to the Young Plan and to the modifications to the charter in favor of what he termed the "unilateral interests"³³⁰ of "foreign Governments" may have been what caused Schacht to resign as president of the Reichsbank on 7 March 1930,³³¹ though Hitler re-appointed him to the Reichsbank as a reward for his loyalty three years later in 1933. As Schacht became one of the BIS's more famous members of its board of directors, his actions as president of the Reichsbank are of particular interest, especially those he engaged in while he worked as board member and Hitler's banker and senior economist. Given all the underlying issues associated with the justification for founding the bank—which included engaging in commercial transactions to benefit the German economy—it seems that many conflicts of interest could arise.³³²

³²⁸ Andrew Boyle, *Montagu Norman: A Biography* (New York: Weybright and Talley, 1967), 246-247.

³²⁹ BIS Third Annual Report 42, https://www.bis.org/publ/arpdf/archive/ar1933_en.pdf

³³⁰ Schacht, "Germany and the Young Plan" 12.

³³¹ Hjalmar Schacht, "Germany and the Young Plan," *Bulletin of International News* 6 (1930): 3-12, <https://www.jstor.org/stable/25638736>; see also Albrecht Ritschl, "Was Schacht Right? Reparations, the Young Plan and the Great Depression in Germany," *Universitat Pompeu Fabra and CEPR [Center for Economic and Policy Research]* (November 1996): 1-23, https://personal.lse.ac.uk/ritschl/pdf_files/Schacht2.pdf; and Johannes Houwink ten Cate, "Reichsbank President Hjalmar Schacht and the Reparation Payments (1924-1930)," *German Yearbook on Business History* 1988, 73-111, https://link.springer.com/content/pdf/10.1007%2F978-3-642-75512-5_3.pdf

³³² It would also be interesting to know if Schacht continued to work with the BIS, in any capacity, after Hitler removed him as president of the Reichsbank in 1939, and if he was still influential during the years he served as minister without portfolio (1939-1943), perhaps through his close association with Norman.

In later years, Schacht continued both his loyalty to the Nazi regime and his opposition to the international agreements he saw the Bank as symbolizing. In 1934, Schacht evolved a scheme by which the Third Reich was able to expand its armaments,³³³ in defiance of the Paris Peace Treaty's restriction of Germany's militarization, through outright deception. He initiated production of an effectively untraceable currency known as Mefo bills,³³⁴ which did not appear on Germany's official ledgers, effectively concealing the armament expenditures for which they were used from those who monitored Germany's adherence to the Versailles Treaty's restrictions.³³⁵ In the same period in which this legerdemain took place (from 1934 to 1938),³³⁶ Germany was borrowing billions of dollars from the United States.³³⁷ To this day, questions persist regarding just how much Schacht did to advance the Third Reich he so obviously empowered, and what exactly he did to advance some of Hitler's more appalling racist policies during his tenure working as an economist and central banker for the Nazi regime.

³³³ Shirer, *The Rise and Fall of the Third Reich* 258-262.

³³⁴ MEFO was a German acronym; it referred to a fictitious firm *Metallurgische Forschungsgesellschaft* ("Metallurgical Research Corporation"); for more, see Theo Balderston, "German Banking between the Wars: The Crisis of the Credit Banks," *Business History Review* 65 (1991): 554-605, 602, see also references in 602n148, and Shirer, 145, 310, 352; see also "Schacht played a dominant role in the conspirators' program of rearmament and economic planning and preparation for war," (1) "Armament financing, (a) "Mefo bills" in Nazi Conspiracy and Aggression, Volume 2, Chapter XVI, Part 12. "Hjalmar Schacht," Yale Law School, *Lillian Goldman Law Library*, https://avalon.law.yale.edu/imt/chap16_part12.asp; see also Albert Speer, *Inside the Third Reich*, translated by Richard and Clara Winston (New York: Macmillan, 1970 [*Errinerungen*, Verlag Ullstein GmbH, 1969]); and Shirer, *The Rise and Fall of the Third Reich*; see Appendix, Endnote 1.

³³⁵ Peace Treaty of Versailles, "Military, Naval and Air Clauses," Articles 159-213, <https://net.lib.byu.edu/~rdh7/wwi/versa/versa4.html>

³³⁶ "Hitler with Reichsmark President Hjalmar Schacht (May 5, 1934)," *GHDI*, https://ghdi.ghi-dc.org/sub_image.cfm?image_id=1964

³³⁷ Shirer, *The Rise and Fall of the Third Reich* 117.

Schacht and the Weimar Republic

Of all those who vigorously promoted an “apolitical” approach to resolving the German reparations and war debts issues, none was as outspoken and persistent as Hjalmar Schacht. In a way, he perfectly embodied the inherent conflict and contradictions of this position as a representative of the international banking community. During the Young Committee negotiations, he threw a hand grenade into the delicate politico-economic debates then underway in the Young Committee and the embattled Müller government of the Weimar Republic by publishing his condemnation in a 6 December 1929 memorandum, which triggered a governmental crisis.³³⁸ At issue was whether Schacht, as president of the Reichsbank, could oppose a fundamental government policy, namely, the way the Young Plan was negotiated. By publishing his anti-governmental views without fair warning, Schacht set off a firestorm in the Reichstag. This public act of defiance could be seen as a clear attempt to undermine the Müller government’s legitimacy, as it was just then preparing to sign the Young Plan’s Hague Agreement and create the BIS. Schacht argued that the German government had to first put its finances and budget in order before signing the agreement.³³⁹ He had been consistent in his position that the government should “establish permanent order in the financial offices of the Reich,”³⁴⁰ but his decision to publicly embarrass the Müller government as it was actively engaged in a series of sensitive national and international negotiations can hardly be construed as the act of a “simple banker.”³⁴¹ By unilaterally making his disagreement known as publicly as possible, Schacht engaged in an overt political act to sabotage negotiations and curtail

³³⁸ Amos E. Simpson, *Hjalmar Schacht in Perspective* (The Hague, Netherlands: Mouton Press, 1969), 45-47, 56.

³³⁹ Simpson, *Hjalmar Schacht* 44.

³⁴⁰ Simpson, *Hjalmar Schacht in Perspective* 44n106.

³⁴¹ “Schacht always insisted that he was but a simple banker” (Peterson, *Hjalmar Schacht, For and Against Hitler* 79).

Germany's signing of the Hague Agreement. In a sense, he was himself acting "unilaterally" and attempting to take power into his own hands as an unelected governmental official. Nevertheless, in the strategic way he damaged the credibility of the Weimar Republic and undermined the delicate diplomatic negotiations, he made a good fit among the National Socialists whose antigovernment rhetoric and undiplomatic actions were well known.

In this so-called "Reichstag crisis,"³⁴² Schacht perfectly exemplified the inherent inconsistency in the so-called "apolitical" approach to further stability in national and international finance. The complications that Schacht introduced into the Müller government and the Young Committee negotiations were well timed to cause the most possible political damage.³⁴³ Despite Schacht's ham-fisted attempt to disrupt the signing and adoption of the Young Plan, the Weimar Republic did, in fact, sign the international Hague Agreement on 20 January 1930.³⁴⁴ The simplest explanation for why Schacht rejected³⁴⁵ the Charter of the BIS at such a late date (13 January 1930)³⁴⁶—one week before its scheduled signing—was that, as a member of the Young Committee, he had worked to have the total reparations amount significantly reduced to some nominal value, an effort that was ultimately not successful.

Given that he had a premonition that the Weimar Republic was "doomed,"³⁴⁷ he may have decided that it was time for him to leave the Reichsbank. Once he saw the writing on the wall for

³⁴² Simpson, *Hjalmar Schacht in Perspective* 48

³⁴³ Schacht's sabotage did effectively hasten the demise of the Müller government, which ended on 27 March 1930—only three weeks after Schacht's departure as president of the Reichsbank on 7 March 1930.

³⁴⁴ The amended Young Plan was "passed by a comfortable majority of the Reichstag on March 12, 1930" (Simpson, *Hjalmar Schacht in Perspective* 60); Schacht resigned on 7 March 1930 (54).

³⁴⁵ See Schacht, *End of the Reparations* (1 January 1931), 260-263; Simpson, *Hjalmar Schacht in Perspective* 41-57.

³⁴⁶ Simpson, *Hjalmar Schacht in Perspective* 52.

³⁴⁷ Nazi Conspiracy and Aggression Volume 2, https://www.loc.gov/rr/frd/Military_Law/pdf/NT_Nazi_Vol-VII.pdf

the Weimar Republic and the future of the German economy, he made sure that he was “luckily out of office when the [Reichsbank] House collapsed.”³⁴⁸ There may also have been last-minute changes made to the Young Plan’s originating documents and the BIS that angered Schacht.³⁴⁹ However, given the reported rejection of the Legal Committee’s proposed changes,³⁵⁰ it does not seem possible that Schacht could have complained if no such emendations were in fact made to the Young Plan’s originating documents. It seems more likely that Schacht backed certain changes that were ultimately rejected.³⁵¹ This possibility seems to be supported by a comment that Schacht made in his 1931 book *The End of Reparations*: “It is fundamentally mistaken, and bad tactics too, to underrate the possibilities of revision, change and settlement which the Young Plan offers.”³⁵² Perhaps Schacht’s dramatic departure and melodramatic pronouncements³⁵³ may have had less to do with the BIS itself and more to do with his decision to abandon his post as president of the Reichsbank during the final years of the Weimar Republic so that he could find suitable employment elsewhere.

³⁴⁸ Peterson, *Hjalmar Schacht, For and Against Hitler* 78.

³⁴⁹ See, for example, Schacht, *The End of Reparations* 121-122.

³⁵⁰ The Legal Committee’s proposed changes that were reported to have been rejected were also reported as never having been published (John Fischer Williams, “The Legal Character of the Bank for International Settlements,” *The American Journal of International Law* 24 (1930): 665-673).

³⁵¹ Schacht, *End of Reparations* 118-121: “The world deceives itself if it believes that we can pay millions and milliards beyond the sums assigned us in the Young Plan or that we can sacrifice our property rights. And our own people deceives itself if it believes that with the burdens already imposed by the Young Plan upon our industry, still further sums can be raised. I do not want to and will not contribute to such deception” (121).

³⁵² Schacht, *The End of Reparations* 112.

³⁵³ Simpson, *Hjalmar Schacht in Perspective*: “A correspondent for The Times reported that Schacht ‘lost no time in making one of those flamboyant political moves which are expected of him’” (52).

How Schacht Became Hitler's Economist

Just as Hitler most likely saw in this highly regarded economist a means to an end, so too did Schacht see Hitler. There was close alignment between their views regarding the need to do whatever it took to ensure Germany's greatness. From his writings, it is clear that Schacht believed that the Young Committee and the Weimar Republic were doing wrong to Germany. After resigning as president of the Reichsbank on 7 March 1930 to protest Germany's signing of the Hague Agreement, Schacht traveled to the United States,³⁵⁴ read Hitler's *Mein Kampf*³⁵⁵ en route, and, once there, espoused his pro-German views and railed against the reparation payments as "tribute."³⁵⁶ He gave "nearly 50 lectures in the US in less than two months."³⁵⁷ During his whirlwind speaking tour, Schacht perpetuated his indignant views regarding Germany's inability to fulfill its reparations payment obligations³⁵⁸ and complained of the unfairness of the Young Plan.³⁵⁹ He repeatedly argued that if Germany followed the dictates of the Versailles Treaty, German laborers would ultimately pay the price.³⁶⁰ He attended a Foreign Policy Meeting in New York (20 October 1930), where he debated John Foster Dulles on the likelihood of Germany's ability to pay its reparations.³⁶¹

³⁵⁴ Schacht returned to Germany in December 1930 (Peterson, *Hjalmar Schacht, For and Against Hitler* 104).

³⁵⁵ Peterson, *Hjalmar Schacht, For and Against Hitler* 101-102.

³⁵⁶ Schacht, *The End of Reparations* 262.

³⁵⁷ Simpson, *Hjalmar Schacht in Perspective* 65; "forty odd" (Peterson, *Hjalmar Schacht, For and Against Hitler* 102).

³⁵⁸ Schacht, *The End of Reparations* 121; Simpson, *Hjalmar Schacht in Perspective* 45; Peterson, *Hjalmar Schacht, For and Against Hitler* 102-104.

³⁵⁹ Schacht, *The End of Reparations* 114-121, 260.

³⁶⁰ Schacht, *The End of Reparations* 255-260.

³⁶¹ John Foster Dulles and Dr. Hjalmar Schacht, "The Young Plan in Relation to World Economy," New York Dinner Discussion, Pamphlet No. 68 (November 1930), Series 1930-31, *Foreign Policy Association* (20 October 1930), 7-26.

Schacht appears to have been on a self-promotional tour throughout his time abroad, not only espousing his politico-economic views but also strengthening his political credentials in the hopes of obtaining a new position within the German government once the Weimar Republic was swept aside. Schacht's outspokenness, prolific publications, and repeated complaints of the unfairness of the Paris Peace Treaty both within Germany and abroad reveal that at heart he was also a propagandist, who often chose highly public venues to promote the belief that Germany should once again become a major European power.³⁶² This, along with his open defiance of international law, acts of sabotage of the government of the Weimar Republic, defiant view of the Versailles Treaty and persistent public grievance displays, all made him the ideal candidate to be Hitler's banker.

Immediately after returning from his speaking tour abroad in December 1930, Schacht met with Göring and Hitler at Göring's house in January 1931,³⁶³ where he also spoke with German steel manufacturer Fritz Thyssen, Hermann Göring, and Joseph Goebbels.³⁶⁴ In other words, even before Hitler became chancellor, Schacht had already met the aspiring Nazi leader, as well as various bankers and industrialists who supported Hitler's vision of a militarily powerful National Socialist Party, though he said later³⁶⁵ that he did not finally decide to join the Nazi Party until July

³⁶² Simpson, *Hjalmar Schacht in Perspective* 62-66.

³⁶³ Longerich, *Hitler* 212; see also Volker Ullrich, *Hitler: Ascent, 1889-1939*, translated by Jefferson Chase (New York: Vintage, 2016), 419-420, and *Nazi Conspiracy and Aggression*, Volume 2, Chapter XVI, Part 12, https://avalon.law.yale.edu/imt/chap16_part12.asp

³⁶⁴ *Nazi Conspiracy and Aggression* Volume 2, Chapter XVI, Part 12.

³⁶⁵ Schacht was adamant that it was not until July 1932 when he finally decided to support the Nazi Party (Simpson, *Hjalmar Schacht in Perspective* 78). "On November 21, 1932 Goebbels for the first time recorded in his diary that Schacht 'absolutely supports our standpoint. He is one of the few who quite steadily side with the Leader'" (Simpson, *Hjalmar Schacht in Perspective* 79).

1932.³⁶⁶ The Nazi party had done relatively well at the polls on 1 July 1932,³⁶⁷ and in response, Schacht decided to abandon Western liberalism and the Social Democratic Party and cast his lot with the National Socialists, well-known troublemakers. Roughly two years after first meeting Hitler at Göring's house, Schacht wrote to Hitler in August 1932 to inform him³⁶⁸ that he backed his bid as chancellor and saw the end approaching for the Weimar Republic: "I have no doubt that the present development of things can only lead to your becoming chancellor. [. . .]. I am quite confident that the present system is certainly doomed to disintegration."³⁶⁹

The contacts formed between Hitler and Schacht beginning in 1931 were intended to strengthen ties between National Socialists, industrialists, and bankers through the creation of a "bureau,"³⁷⁰ which included German heavy industrialists Fritz Thyssen and Gustav Krupp von Bohlen, though most of the financial support that Hitler received at this time was from "small- and medium-sized firms."³⁷¹ Given such details, it begins to make sense why Schacht was so insistent that he had not yet decided to join up with the Nazis until 1 July 1932, but his earlier interactions highlight just how much in agreement he was with Hitler regarding the centrality of rearming Germany.

Hitler was appointed German chancellor on 30 January 1933 by President Hindenburg after a compromise was reached that ensured that conservatives would also be appointed to the Führer's

³⁶⁶ Peterson, *Hjalmar Schacht, For and Against Hitler* 106; Simpson, *Hjalmar Schacht in Perspective* 73-76.

³⁶⁷ "In the Reichstag elections of 31 July, the Nazis gained 230 seats with 37.4 per cent of the votes" (Longerich, *Hitler* 252); Peterson, *Hjalmar Schacht, For and Against Hitler* 115: "[I]n 1932 heavy industry [. . .] supported Hitler in the July, 1932 election."

³⁶⁸ Letter from the Reichstag Bank president to Hitler (1932), <https://alphahistory.com/nazigermany/letter-from-the-reichstag-bank-president-to-hitler-1932/>

³⁶⁹ Nazi Conspiracy and Aggression Volume 2, https://www.loc.gov/rr/frd/Military_Law/pdf/NT_Nazi_Vol-VII.pdf

³⁷⁰ Longerich, *Hitler* 234-235.

³⁷¹ Longerich, *Hitler* 234; see also Ullrich, *Hitler: Ascent* 419-420, 292-293

cabinet. Hitler then reappointed Schacht as president of the Reichsbank only two months after attaining the chancellorship (17 March 1933). Early on in his chancellorship (May 1933), Hitler made it clear that he intended for Germany once again to become a major European power,³⁷² a goal with which Schacht completely agreed. With his appointment as head of the Reichsbank, Schacht also became one of a small handful of founding members who sat on the BIS's exclusive board of directors (17 March 1933-20 January 1939). Becoming a member of the BIS board of directors was a rather curious turn of events for Schacht, who had abruptly departed from the Young Committee in protest just before the BIS was established. On the other hand, it was natural that he would be on the board of the BIS; it was he who wrote its Statutes.³⁷³ This fact helps explain why Schacht was able to supplant the functions of the BIS with those of the Reichsbank.

As Reichsminister for the Nazis, Schacht began to act in an increasingly unilateral manner by openly advocating defiance of the Versailles Treaty as part of the culmination of his sustained grievance campaign. In addition to being a brilliant economist and a prolific writer, he was also resourceful, highly adaptable,³⁷⁴ and exceptionally cagey.³⁷⁵ In the more than ten years he worked for the Nazi government (1933-1943), he would defy the law, renege on Germany's reparation

³⁷² Longerich, *Hitler* 316

³⁷³ BIS, Third Annual Report 42

³⁷⁴ His chameleonlike nature is described in Peterson, *Hjalmar Schacht: For and Against Hitler* 19-23; Simpson, *Hjalmar Schacht in Perspective* 11: "At first glance the tenacity of the 'Man Who saved the Mark' under both the democratic republic and Hitler's Third Reich seems to betray the opportunist, a political chameleon capable of many hues."

³⁷⁵ See, for examples, Schacht's testimony and rebuttals in the IMT transcript in which his argumentative, combative and confounding communication style is clearly in evidence: *Trial of the Major War Criminals [TMWC] Before the International Military Tribunal* Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (3 May 1946), (Morning Session), ["The Testimony of Hjalmar Schacht"], 1-43; TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings (Afternoon Session), 3 May 1946-15 May 1946 (3 May 1946), ["The Testimony of Hjalmar Schacht"], 71-202; see especially *Trial of the Major War Criminals*, Avalon Project: Documents in Law, History and Diplomacy, Yale Law School [. . .]: Volumes 1-42 (Online), https://avalon.law.yale.edu/subject_menus/imtproc_v13menu.asp

payments, and ensure that Hitler would be able to create a powerful German military through a deceptive accounting scheme in direct violation of the Versailles Treaty. Based on his actions, he not only seems to have been a self-promoting opportunist, but when it came to actualizing his and Hitler's vision of a powerful Germany, he also skillfully circumvented propriety³⁷⁶ and the law³⁷⁷ when it suited him. This opportunism, impudence, embrace of lawlessness, and secret transactions to perpetuate a fraud upon the Versailles Armaments inspection committee overseeing German armaments production are consistent with his decision to join up with the Nazi Party.³⁷⁸

Schacht and the Nazi Economy

During the first year of Hitler's chancellorship and Schacht's presidency of the Reichsbank, Germany's gold reserves fell precipitously as foreign assets were being rapidly removed from German banks. This currency flight caused Germany's gold reserves to drop from 1.083 billion Swiss francs on 1 January 1933 to 0.338 billion Swiss francs by 31 March 1934—a drop of nearly 70%.³⁷⁹ According to historian Peter Longerich, the root of Germany's economic problem arose from the drastic reduction in its exports,³⁸⁰ which in turn had been precipitated in part by the foreign exchange crisis that had been brewing ever since Great Britain and the United States had exited the gold standard (September 1931 and June 1933, respectively), and that finally erupted in July 1933.³⁸¹ The devaluations that thus occurred in the British pound sterling and the American dollar

³⁷⁶ Beyen, *Money in a Maelstrom* 85.

³⁷⁷ Beyen, *Money in a Maelstrom* 132.

³⁷⁸ Simpson, *Hjalmar Schacht in Perspective* 66-67.

³⁷⁹ BIS Fourth Annual Report (1 April 1933-31 March 1934), Bank for International Settlements (Basle, 14 May 1934), 25, https://www.bis.org/publ/arpdf/archive/ar1934_en.pdf

³⁸⁰ Longerich, *Hitler* 378. The need to increase Germany's exports was precisely what had underlain the justification for creating the BIS in the first place: if the German economy was able to expand its commercial activities, as Schacht had earlier argued, it would be able to complete its reparation payments.

³⁸¹ Longerich, *Hitler* 379.

caused the Reichsmark to become overvalued.³⁸² This meant that German currency was worth relatively less in exchange, especially combined with Germany's extremely limited supplies of gold. What resulted from the mismatch in the foreign exchange ratio was increased prices, food shortages, restrictions on imports, and a reduction in the quality of manufactured goods.³⁸³

Although they were in accord politically, Schacht's and Hitler's contrasting responses to the economic crisis reveal their diametrically opposing economic approaches: Schacht believed that economic considerations were to be prioritized, whereas Hitler held that political considerations should be given paramountcy. By early April 1934, Schacht decided that Germany must stop making payments on its war debt unless a surplus in its exports occurred,³⁸⁴ and the decision to end payments was finally implemented in the summer of 1934.³⁸⁵ At the same time, in mid-June 1934, Schacht announced that Germany would suspend payments on Reichsbonds.³⁸⁶ By contrast, Hitler's "solution" to the deepening economic crisis was to launch his Night of the Long Knives (30 June-2 July 1934), systematically liquidating those long loyal to him, the *Sturmabteilung*,³⁸⁷ or brownshirts, who had helped bring him to power through over a decade of dedicated service and loyalty. Even their leader, Ernst Röhm, was executed on 1 July 1934.³⁸⁸ This was how *der Führer* dealt with potentially damaging information that could have potentially weakened his hold on power—by viciously attacking any convenient "other" and blaming them for instigating the problem, as he infamously did with the Jews. As a result of these actions, Hitler began to take on

³⁸² Longerich, *Hitler* 378.

³⁸³ Longerich, *Hitler* 405.

³⁸⁴ Longerich, *Hitler* 317.

³⁸⁵ Longerich, *Hitler* 378.

³⁸⁶ Longerich, *Hitler* 379.

³⁸⁷ *Sturmabteilung*, literally "storm division."

³⁸⁸ Longerich, *Hitler* 389.

the role as sole legal adjudicator of German justice,³⁸⁹ further consolidating his power. Hitler's problem-solving "methodology" would escalate during Schacht's tenure as financial wizard working on behalf of the Nazis and would bring the two into increasing conflict, though they continued to use each other to further their own ends.

On 2 August 1934, President Paul von Hindenburg died, and the next day Hitler promoted Schacht to become Germany's minister of economics, a post he would hold for more than three years (3 August 1934-26 November 1937). As both economic minister and president of the Reichsbank, Schacht was tasked with developing a new economic plan, which he called the New Plan.³⁹⁰ Ultimately, this plan would completely restructure the Germany economy through a rapid increase in the rearmaments program to make Germany a great European power once again,³⁹¹ a plan in which Longerich argued that Schacht played "[t]he key role."³⁹² In complete agreement with his Führer politically, Schacht assured Hitler "that rearmament could proceed at the fastest pace possible."³⁹³ To achieve these goals, Schacht transformed the German economy into one based on state intervention and elite membership.³⁹⁴ Along with this decision to ignore international debt obligations, he instituted a financial scheme to secretly pay for German rearmament by arranging to have 35 billion Reichsmarks (spread out over eight years) available for this purpose³⁹⁵ through his so-called Mefo bills (1934-1938). He knowingly acted in direct violation of the Versailles Treaty to secretly rearm the Third Reich: through this financialization stratagem, Schacht increased German

³⁸⁹ Longerich, *Hitler* 374.

³⁹⁰ Peterson, *Hjalmar Schacht: For and Against Hitler* 216-232.

³⁹¹ Longerich, *Hitler* 405.

³⁹² *Ibid.*

³⁹³ *Ibid.*

³⁹⁴ Longerich, *Hitler* 406.

³⁹⁵ Longerich, *Hitler* 317.

armament expenditures by over a factor of 50.³⁹⁶ Through this program of economic restructuring, he ensured Nazi control of both German commerce and business.³⁹⁷ Clearly, his scheme played a critical role in enabling Germany to become a major European power.

To achieve this profound restructuring, Schacht devised his infamous Mefo³⁹⁸ bills to finance the German weapons manufacturing industries, such as Krupp, IG Farben, and Thyssen.³⁹⁹ This rearmament-centric economic system resulted in a worsening of the food shortages⁴⁰⁰ and social discontent, which in turn highlighted the key disconnect between Schacht's and Hitler's economic policies. The problem for Schacht was that Hitler equated any discussion of Germany's food shortage problem as a form of sabotage against his program of "guns before butter."⁴⁰¹ During his tenure as minister of economics, Schacht complained repeatedly that expenses for armaments production were excessive.⁴⁰² According to Longerich, Hitler undermined Schacht's New Plan⁴⁰³ by forcing his minister of economics to extort money from the Jewish communities to relieve any strain on the economy.⁴⁰⁴ In 1936, Hitler wrote a memorandum directly contradicting Schacht's economic policy approach.⁴⁰⁵ Schacht was president of the Reichsbank from 1933 to 1939, minister of economics from 1934 to 1937, and Germany's general plenipotentiary of the war economy from 1935 to 1937. The end of his two most powerful positions in 1937 is one indication of the escalating tension between his and Hitler's divergent economic views. Schacht was demoted on 20 January

³⁹⁶ *Ibid.*

³⁹⁷ Longerich, *Hitler* 406.

³⁹⁸ See Appendix: Endnote 1; see also Peterson, *Schacht, For and Against Hitler* 155.

³⁹⁹ Longerich, *Hitler* 406.

⁴⁰⁰ Longerich, *Hitler* 439-449.

⁴⁰¹ Longerich, *Hitler* 448.

⁴⁰² Longerich, *Hitler* 439.

⁴⁰³ This was incidentally the same name given to refer to the Young Plan.

⁴⁰⁴ Longerich, *Hitler* 472-473.

⁴⁰⁵ Longerich, *Hitler* 461-464.

1939 to the position of minister without portfolio, yet he would remain on the Reichsbank payroll until 1943, too valuable to the Nazi regime for Hitler to jettison entirely.

As president of the Reichsbank, Schacht ably represented Germany's interests as a member on the BIS's board of directors from March 1933 to January 1939, and these national interests continued to be represented even after Schacht was replaced by later-convicted Nazi war criminal Walther Funk. It seems reasonable to inquire whether he used the BIS to provide Germany with additional credit and loans, which would have given the Nazi regime any military, economic, or other advantage.⁴⁰⁶ Certainly Schacht fueled the Nazi agenda and war machine in other respects. He countenanced and approved unfair and anti-Semitic policies.⁴⁰⁷ As Hitler's August 1936 memorandum made clear, the accelerated production of armaments was in preparation for war,⁴⁰⁸ a war that Schacht, as undisputed head of the German economy, helped to make possible.⁴⁰⁹ This knowledge that the armament build-up was to prepare for war would later expose Schacht to charges by the IMT of being part of the conspiracy of Hitler's war of aggression, as will be discussed in detail in Chapter 4.

⁴⁰⁶ Even Director of IG Farben, Herman Schmitz ("Former Nazi Bank to Rule the Global Economy," *Prison Planet* (03 May 2010), https://www.uffedieffe.com/index.php?option=com_content&task=view&id=63038) who, in 1940, was also the president of the Reichsbank and minister of economics, and Baron von Schroeder (see Larry Getlin, "The Great Bank Robbery," *The New York Post* (12 May 2013), <https://nypost.com/2013/05/12/the-great-bank-robbery/>) partner of the bank JH. Stein would become members of the prestigious BIS board of directors. *Note:* It was at von Schroeder's home where former Chancellor von Papen met Hitler to discuss his prospects as chancellor only a few weeks before Hitler was appointed by President Hindenburg (30 January 1933) (Source: "Von Papen Said to be Trying to Make Hitler Chancellor," *St. Louis Post-Dispatch* (6 January 1933), 1, https://www.newspapers.com/image/?clipping_id=5253330&fcfToken=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJmcmVILXZpZXctaWQiOiJlODg2NjE1OCwiaWF0IjoxNjQ0MTEyODU3LCJleHAiOiJlE2NDQxOTkyNTd9.xc0nqhU02U7fgLf33vToLhdkorPSkvo_ZjoYIfCZvf8)

⁴⁰⁷ From the excerpted letters provided by Simpson, it seems inescapable that Hitler put Schacht into a moral dilemma, though Schacht's justification for doing or not doing anything had little to do with moral considerations and instead on his litmus test of whether or not it was good for the Germany economy.

⁴⁰⁸ Longerich, *Hitler* 463-464.

⁴⁰⁹ In the spring of 1936, Hitler had made Göring Commissar of Raw Materials and Foreign Exchange (Longerich, *Hitler* 465); see also Ullrich, *Hitler: Ascent* 586-588.

Montagu Norman⁴¹⁰

Another of the co-founders of the BIS as well as the most famous of all governors of the Bank of England, Montagu Collet Norman (1920-1944) was a strong admirer of Schacht. A biography of Norman emphasizes his “unbounded admiration for Schacht (in every respect the opposite of himself),” an attitude that was increasingly in evidence as the 1930s drew to their horrifying conclusion⁴¹¹ and Norman jettisoned many of the longstanding principles and orthodox views regarding bank policy and operations to which he had previously held firmly.⁴¹²

Soon after his appointment as its governor,⁴¹³ Norman convened a conference in 1922, the Genoa Financial Commission. One of his principles was enshrined in the Report from this conference: “Banks, and especially banks of issue [those authorized to print money] should be free from political pressure, and should be conducted solely on lines of prudent finance.”⁴¹⁴ His tenacity in regard to these strongly held precepts never abated during most of his astonishing 24-year career, though it can be argued that these same principles were the fountainhead of his faults.⁴¹⁵ His adherence to these principles explains, in part, his drive to establish the BIS, which incorporated many, if not most, of his fundamental tenets and orthodox precepts regarding the role of international central banking.

⁴¹⁰ Note: Norman’s tenure as BIS member of the board of directors spans from 1930 to 1944.

⁴¹¹ Boyle, *Montagu Norman* 281.

⁴¹² See, for example, Gyorgi Peteri, “Central Bank Diplomacy: Montagu Norman and Central Europe’s Reconstruction after World War I,” *Contemporary European History* 1 (1992): 233-258, 256, <https://www.jstor.org/stable/20081449>

⁴¹³ Norman previously served as director in 1907 and deputy governor of the Bank in 1917.

⁴¹⁴ Resolution 2. Genoa Financial Commission Report, *Federal Reserve Bulletin* (June 1922): 678-680, 678, https://fraser.stlouisfed.org/files/docs/publications/FRB/pages/1920-1924/26565_1920-1924.pdf

⁴¹⁵ John Maynard Keynes stated that Norman was “always absolutely charming, always absolutely wrong” (qtd. in Charles R. Bean, “A Review Essay: David Kynaston’s *Till Time’s Last Sand: A History of the Bank of England, 1694-2013*,” *Journal of Economic Literature* 57 (2019): 972-987, 977.

http://eprints.lse.ac.uk/90516/1/Bean_David%20Kynaston%27s%20review_2018.pdf; see also, David Kynaston, *City of London, Volume III: Illusions of Gold, 1914-1945* (London: Chatto & Windus, 1999), 483.

One of the most significant issues that Norman supported as governor of the Bank of England was Great Britain's return to the gold exchange standard after World War I, which was achieved in February 1925. However, this led to uninspiring results.⁴¹⁶ Even after the pound sterling was pegged at \$4.86 to £1—one of Norman's most determined accomplishments—there was little change in the status of British finances, as Great Britain's currency remained too high relative to the French franc and the American dollar. The result was higher unemployment and economic stagnation, for which Norman was repeatedly criticized.⁴¹⁷ Though it must have been disheartening to see his masterplan—to reconstitute Britain's finances and return them to their heyday in the 19th century—fail,⁴¹⁸ he remained known as honest, hardworking, and relentless in his efforts to reinvigorate Britain's currency, gold reserves and industrial prowess throughout his long tenure.

His powers and reputation as governor of the Bank were at their height in 1927,⁴¹⁹ which was the penultimate year of his close personal and professional relationship with the president of the Federal Reserve Bank of New York, Benjamin Strong, who died the following year on 16 October 1928.⁴²⁰ The death of Strong seriously isolated Norman just before the financial storm and economic crises hit.⁴²¹ Like Strong, Norman fully believed that national and international banking institutions—such as the Bank of England—should be essentially apolitical in character.⁴²² Like Strong, he too sought financial strength and stability for his country through the monetarist view of

⁴¹⁶ "Economic Slump," The Cabinet Papers, National Archives, <https://www.nationalarchives.gov.uk/cabinetpapers/themes/economic-slump.htm>

⁴¹⁷ Boyle, *Montagu Norman* 280.

⁴¹⁸ Boyle, *Montagu Norman* 286.

⁴¹⁹ Boyle, *Montagu Norman* 221, 231.

⁴²⁰ Clay, *Lord Norman* 307-309; Boyle, *Montagu Norman* 247-248.

⁴²¹ Boyle, *Montagu Norman* 247.

⁴²² Boyle, *Montagu Norman* 243, 246.

the sanctity of gold and the gold exchange standard, which his adversary and nemesis John Maynard Keynes⁴²³ disputed throughout Norman's long career as governor of the Bank of England.

Unfortunately for Norman, a series of interrelated calamitous circumstances seriously undermined his orthodox approach to ensuring the strength and stability of international banking and finance and, as a result, put the financial foundation of Great Britain and the Bank of England into a precarious position, such as the persistent weakness of the value of the pound sterling relative to the franc and the dollar, the apparently reckless lending practices perpetuated by the United States in the 1920s,⁴²⁴ the damage to the reputation of the Bank and its governor following the publications of the 1931 Macmillan⁴²⁵ and the May⁴²⁶ reports, the 11 May 1931 failure of the Credit-Anstalt, and the highly effective monetary transactions made by the Banque de France to counteract British and American attempts to throw Germany a lifeline following the 1931 German financial crisis.⁴²⁷ Nor were circumstances alone to blame for Governor Norman's downfall.⁴²⁸ His fatalistic outlook;⁴²⁹ peculiar personal habits, such as dressing in disguise⁴³⁰ and assuming a false name (Professor Skinner) when he traveled abroad;⁴³¹ friendship with infamous Nazi banker

⁴²³ Boyle, *Montagu Norman* 221, 255-259; Skidelsky, *John Maynard Keynes, Volume 2* 356.

⁴²⁴ For examples, see John Kenneth Galbraith, *The Great Crash 1929* (Boston, Massachusetts: Mariner Books, 1954), 3-7, 11-13.

⁴²⁵ J. C. Stamp, "The Report of the Macmillan Committee," *Economic Journal* 41 (September 1931): 424-435, <https://www.jstor.org/stable/2223900>. "[T]he Macmillan Committee's report had disclosed for the first time to the outside world its estimate of Britain's trade deficit" (Boyle, *Montagu Norman* 264). The May Report revealed "Britain's budget deficit [which] sapped that confidence completely" (Boyle, *Montagu Norman* 266).

⁴²⁶ See, for example, Charles L. Mowat, "The Fall of the Labour Government in Great Britain, August, 1931," *Huntington Library Quarterly* 7 (1944): 353-386, 359, <https://www.jstor.org/stable/3815737>

⁴²⁷ Boyle, *Montagu Norman* 254.

⁴²⁸ See, for example, William H. Janeway, "The 1931 Sterling Crisis and the Independence of the Bank of England," *Journal of Post-Keynesian Economics* 18 (Winter 1995-1996): 251-268, 260-261, <https://www.jstor.org/stable/4538489>

⁴²⁹ Boyle, *Montagu Norman* 313-316.

⁴³⁰ Boyle, *Montagu Norman* 217.

⁴³¹ Boyle, *Montagu Norman* 321. His suspicious behavior caused the former Chancellor of the Exchequer and later Prime Minister Winston Churchill to habitually refer to him as that "that man Skinner" (Boyle, *Montagu Norman* 217).

Hjalmar Schacht;⁴³² and unfortunate responses to the questions posed to him by Keynes during the Bank's investigation following the 1931 German financial crisis⁴³³ contributed to sully his reputation.⁴³⁴

The severity of the 1930s financial storm damaged Great Britain's reputation as the global center of banking, finance, and capitalism. In its wake, it weakened England's financial stability, transformed the Labour government, and lessened the influence of its leader Ramsay MacDonald along with it. By September 1931, based upon Parliament's decision and the crown's approval, the Bank of England again abandoned the gold exchange standard. A combination of factors, including the fallout from the failure of the Credit-Anstalt, Norman's desperate attempt to shore up the Austrian and German banks, the French removal of the pound sterling from German and British banks,⁴³⁵ and the steady withdrawal of British currency from the financial centers of Europe, left Britain's coffers bare. The escalating rate of this currency flight was such that in the summer months leading up to the British Parliament's decision to leave the gold exchange standard, the flow of capital out of the Bank of England was roughly £60 million per month,⁴³⁶ and, by September 1931, the outflow had reached £43 million in three and a half days.⁴³⁷ Norman only learned of the decision that the Bank of England would no longer honor the exchange of sterling for gold after returning from a visit to the United States, when he saw a memorandum informing him, "Old Lady [of Threadneedle] goes off on Monday."⁴³⁸ Understandably, Norman was devastated to learn of the

⁴³² Boyle, *Montagu Norman* 312.

⁴³³ Boyle, *Montagu Norman* 255-258.

⁴³⁴ Boyle, *Montagu Norman* 312, 314.

⁴³⁵ Boyle, *Montagu Norman* 264-265.

⁴³⁶ Piers Brendon, *Dark Valley: A Panorama of the 1930s* (New York: Vintage Books, 2000), 184-185.

⁴³⁷ Boyle, *Montagu Norman* 275; Compare with Brendon, *Dark Valley* 191; "£40 million in a single week."

⁴³⁸ Boyle, *Montagu Norman* 268. The excessive ambiguity of the coded message left Norman believing it referred to his mother taking a holiday (*Ibid.*).

depressing news that Great Britain's finances⁴³⁹ were in such disarray that the center of the global finance had been badly shaken and London's reputation had been seriously undercut.⁴⁴⁰

Reeling from this onslaught of depressing monetary news, Norman found solace in Basel, Switzerland, working at the Bank for International Settlements.⁴⁴¹ As governor of the Bank of England, he served as a member of the BIS board of directors for over a dozen years, but his association with the Bank went far beyond this role: the BIS represented the culmination of the international central bank cooperation Norman had worked to achieve for nearly a decade. As early as 1922, in the Genoa Financial Commission Report⁴⁴² he authored with the British delegation,⁴⁴³ he stated: "Measure of currency reform will be facilitated if the practices of continuous cooperation among central banks of issue or banks regulating credit policy in the several countries can be developed" (Resolution 3). He would continue to work up through 1944 to facilitate such international central bank cooperation and to purportedly extricate international finance and banking from political pressure—the quintessential characteristics upon which the Bank for International Settlements was founded. Norman's monthly attendance at the Bank in Basel was so consistent that his biographer Andrew Boyle argued that it was "a spiritual home from home"⁴⁴⁴ for him, and former BIS President Johan Willem Beyen stated that the Bank "must be honored as his

⁴³⁹ Boyle, *Montagu Norman* 275.

⁴⁴⁰ See Eichengreen and Flandreau, "The Federal Reserve."

⁴⁴¹ Boyle, *Montagu Norman* 281.

⁴⁴² "Genoa Financial Commission Report," *Federal Reserve Bulletin* (June 1922), 678-680, https://fraser.stlouisfed.org/files/docs/publications/FRB/pages/1920-1924/26565_1920-1924.pdf

⁴⁴³ György Péteri, "Central Bank Diplomacy: Montagu Norman and Central Europe's Monetary Reconstruction after World War I," *Contemporary European History* 1(1992): 239, 239n17, 233-258, <https://www.cambridge.org/core/services/aop-cambridge-core/content/view/83AE1D639F8D76F2D43F4B2C4CB303F6/S0960777300000163a.pdf/central-bank-diplomacy-montagu-norman-and-central-europes-monetary-reconstruction-after-world-war-i.pdf>

⁴⁴⁴ Boyle, *Montagu Norman* 281.

monument.”⁴⁴⁵ In his personal communications with Boyle, Beyen depicted Norman, in fact, as an apostle of the BIS:

Norman’s prestige in Basle was overwhelming. As the apostle of central bank co-operation, he made the central banker into a kind of archpriest of monetary religion. The B.I.S. was, in fact, his creation. He came on Saturday morning and left on Monday night, accompanied by his retinue. The other governors invariably flocked to his room.⁴⁴⁶

Writing in apostrophe on behalf of Norman, Boyle expounded: “The Bank at Basle was the one isolated shining symbol of what could and might one day be done to promote honesty and co-operation between nations which were increasingly at odds.”⁴⁴⁷ The exceedingly public-averse Norman also greatly relished the veritably monastic nature and exceptional exclusivity of the BIS. The sequestered, secretive Bank provided him with a sanctuary, in which he could ignore his worsening status as pariah in the world of high-powered money, finance and international banking.

Almost overnight, the spread of the global disaster undercut the status of the Bank of England, its governor, and Great Britain as the world’s foremost financial center as the flight of British sterling and gold forced the United Kingdom in the mid-1930s to seek loans from J.P. Morgan & Co. and the Banque de France⁴⁴⁸—a clear indicator of just how dire its situation had become. Norman threw himself into the struggle to save the Austrian and German banks⁴⁴⁹—less out of any goodwill than because so many British loans had been arranged in both countries—yet he was outfoxed by the French, with their massive withdrawal of gold from Germany, which

⁴⁴⁵ Johan Willem (“Wim”) Beyen, Dutch ambassador to France, former Vice President of the BIS (May 1935-May 1937), and President (May 1937-Dec 1939) (see BIS Annual Report 10 (April 1939-March 1940), 158). Qtd. in Boyle, *Montagu Norman* 281.

⁴⁴⁶ Boyle, *Montagu Norman* 281.

⁴⁴⁷ Boyle, *Montagu Norman* 287.

⁴⁴⁸ Boyle, *Montagu Norman* 273-276.

⁴⁴⁹ Boyle, *Montagu Norman* 276-277.

undermined any chance of salvaging the German, Austrian, and British banks.⁴⁵⁰ Unfortunately for Norman, Germany and all of the countries that sought to right the ship of international finance and banking were outmaneuvered by France when it called in its loans at this critical junction in the financial crisis.⁴⁵¹ France was emboldened to pursue this strategy because of the plentiful gold reserves it held at the Banque de France,⁴⁵² as well as because of the strength of the French franc. Even the BIS's attempts to staunch the outflow short-circuited because, in the first five years of the Great Depression, French finance just could not be outgunned monetarily.⁴⁵³

This rapid transformation of the 1931 German financial crisis into a full-blown global economic crisis offers an excellent window into the institutional opacity and secrecy of the world of international finance because of the extreme actions taken to end the crisis.⁴⁵⁴ The unique complexity of this chaotic period makes it challenging to discern any latent patterns in the obfuscated situation. One revealing development, however, was the rather sudden about-face that Governor Norman, the apostle of apolitical finance, underwent in the summer of 1931.

The End of the Age of Apolitical Finance

The Young Plan was initially seen as a boon because of the large tranches of gold, loans and credit it made available to the various European countries to which Germany was indebted. Though it

⁴⁵⁰ The financial rivalry between France and England became quite a complex affair throughout the 1920s. See, for example, Boyle, *Montagu Norman* 221-228; 254, 276-277.

⁴⁵¹ Boyle *Montagu Norman* 238.

⁴⁵² Douglas A. Irwin, "The French Gold Sink and the Great Deflation of 1929-32," *Cato Papers on Public Policy* 2 (2012): 1-56, <https://cpb-us-e1.wpmucdn.com/sites.dartmouth.edu/dist/c/1993/files/2018/08/French-Gold-Sink-2fte1hy.pdf>

⁴⁵³ France did not exit the gold standard until 1936.

⁴⁵⁴ It would not be too much of an oversimplification to argue that the foundation of what became the modern system of international finance was put in place by US Treasury Secretary Andrew Mellon, New York Federal Reserve President Benjamin Strong and the Governor of the Bank of England Montagu Norman in the 1920s.

provided a source of immediate liquidity in a time of declining trade, the concomitant fall in prices and diminished tax revenues exacerbated future payment obligations.⁴⁵⁵ This situation created a damaging feedback loop that undercut the perceived benefits of receipt of the large Young Plan monetary tranches, as they tended to deepen the financial obligations of the recipients who were part of the interlinked European economic system. These damaging feedbacks were sufficiently severe that Norman began to openly call for *political* solutions to resolve the financial crisis.

This sea change appears to have taken place when Governor Norman and other central bankers began to appreciate the true complexity of the financial system which they had taken for granted for too long. In the months preceding the 1931 German financial crisis, an explosive diplomatic development reframed the emerging financial crisis in stark, geopolitical terms. The German Foreign Minister acknowledged that Germany and Austria had agreed to establish a joint Customs Union:

This announcement aroused the fears of France and the Succession States of the Austro-Hungarian Empire of a German political revival. The French government had obstructed the grant credits to Austria, so long as this agreement stood, and, although the British representatives at Geneva proposed that the question of legality of the agreement be referred to the International Court at the Hague, and the German Foreign Minister accepted the proposal, the suspicions excited continued to obstruct international economic co-operation.⁴⁵⁶

As the Versailles Treaty explicitly forbade any future alliance between the two countries,⁴⁵⁷ France was understandably alarmed by the possibility of such an economic alliance.

⁴⁵⁵ Boyle, *Montagu Norman* 254.

⁴⁵⁶ Clay, *Lord Norman* 378.

⁴⁵⁷ Versailles Treaty (28 June 1919), Article 80, *Avalon Project*, Yale Law School, <https://avalon.law.yale.edu/imt/partiii.asp>

The role that France played at this critical juncture revealed the limitations of interbank cooperation. Although it was fine to talk about an apolitical financial system relying upon the stabilizing influence of gold and effective interbank cooperation, during a severe financial crisis those former bastions of stability themselves begin to act as sources of instability.⁴⁵⁸ Under these circumstances, interbank cooperation becomes another constraint, which tends to reduce maneuverability and increase rigidity.⁴⁵⁹ Similarly, the usual stabilizing influence of the agreed-upon gold exchange rates can also transform into a destabilizing curse once sufficient liquidity is lost. After France decided to accumulate gold and/or currencies at the expense of other nations—to ensure its own national security when faced with the prospect of an ascendant Germany⁴⁶⁰—it revealed to the world’s central bankers the geoeconomic power of bullion. In a sense, what France, and later England (when it left the gold exchange standard) demonstrated was that the belief that international finance could somehow be apolitical was illusory, because it then became unmistakably clear that this severe financial crisis utterly disrupted the system of international finance and banking, rendering it largely dysfunctional.

These circumstances led the stalwart and devout apolitical banker Montagu Norman, despite his longstanding principles, to make a monumental reversal. The dire situation faced by the Bank of England, with its many outstanding loans that would soon be uncollectable from bankrupted German, Austrian, Hungarian and other banks, impelled the governor to travel far and wide in a last

⁴⁵⁸ It is important to note that although the idea of an apolitical international financial *system* began to appear as overly simplistic, the idea of an apolitical international financial *institution*, such as the Bank for International Settlements, was still seen as viable.

⁴⁵⁹ An analogy which reveals how “cooperation” can lead to rigidity occurred in the decades preceding World War I, when an intricate system of alliances constrained the participants to engage in a series of obligatory reactions and responses that resulted in the Great War.

⁴⁶⁰ Boyle, *Montagu Norman* 254.

desperate attempt to remedy the catastrophic situation.⁴⁶¹ However, with France holding so many of the cards, it became incumbent on Norman to acknowledge France and the “political” factor that international bankers had sought to circumvent for over a decade.⁴⁶² By the late spring and early summer of 1931, the evident complexity of the matter demanded central bankers acknowledge that France had leveraged its financial, monetary, and economic strengths to influence the geopolitical situation. It was during Norman’s meeting with Federal Reserve Chairman of New York George L. Harrison and the Treasury Secretary Andrew Mellon in Washington⁴⁶³ that he began to openly assert that the financial situation must be seen as a political problem.

The Hoover administration appears to have been the first to recognize this reality and to act on it, as early as June 1931, through the moratorium on payments discussed in Chapter 2. Nevertheless, the larger transformation of the central bankers from acolytes of apolitical banking to staunch advocates of political solutions for international financial problems was spearheaded by Norman: “He had insisted that the German problem was political, to be resolved by Ministers in conference, not by financial experts.”⁴⁶⁴

It was in these doleful summer months that the damaging May and Macmillan reports alerted the international community to just how dire Britain’s commercial and financial situation had become. These devastating developments led to a disconcerting drop in the sterling exchange, which Norman was at a loss to explain.⁴⁶⁵ The blame game soon escalated as bankers reprimanded

⁴⁶¹ Boyle, *Montagu Norman* 254, 261-266.

⁴⁶² From a certain perspective, the word “political” could be viewed as coded to mean “French” and/or “any qualities reminiscent of the Versailles Treaty.”

⁴⁶³ Clay, *Lord Norman* 379; Boyle, *Montagu Norman* 261-262.

⁴⁶⁴ Clay, *Lord Norman* 385; “But again, at Basle, he insisted that credits could not meet Germany’s difficulties unless there was a clearing up of the political situation” (381).

⁴⁶⁵ Clay, *Lord Norman* 384.

the politicians for their tardiness in resolving outstanding financial problems and politicians blamed the bankers for their shortsightedness. Then the long slide of the German, British and American economies renewed in this dismal time of the doubtful debtor.⁴⁶⁶ Even the BIS “thought that London could no longer be relied on as a capital market.”⁴⁶⁷ In the face of these financial and political difficulties, the twin specters of national insolvency and rising fascism reared up. And just as London left off exchanging pounds sterling for gold (and the Americans, dollars for gold), the Nazi Party began its rise in political prominence at the polls. After the Bank of England left the gold exchange standard, Norman was sidelined,⁴⁶⁸ left to watch his castle of sand melt away into the sea. In contrast, by 1934, Schacht’s economic program of rearmament provided 2 million more jobs, and by 1936, Germany attained full employment.⁴⁶⁹ Faced with these achievements, Montagu Norman acquired an “admiration and respect”⁴⁷⁰ for Adolf Hitler as well as for Schacht that would have far-reaching consequences for the activities of the BIS.

⁴⁶⁶ Clay, *Lord Norman* 373.

⁴⁶⁷ Clay, *Lord Norman* 371.

⁴⁶⁸ Boyle, *Montagu Norman* 312.

⁴⁶⁹ Brandon, *Dark Valley* 292.

⁴⁷⁰ Brandon, *Dark Valley* 292n53: CAC, LKEN 1/20, 12 Sept. 1936.

Chapter 4

The BIS on the Precipice

Overview

This chapter examines the interrelated developments that led to the BIS being targeted for liquidation. The earliest calls to dissolve the institution came in 1939, followed by a more concerted effort in 1944. The predicament in which the Bank found itself was not entirely unforeseeable, however. Its founding documents gave the BIS considerable latitude, and once reparation payments officially ended, it had effectively become an autonomous institution. At the same time, its debt transactions with the Reichsbank, newly instituted by Schacht, increasingly exposed it to the Reichsbank's manipulations via his transfer moratorium arrangements. Most of the duplicity and illegality in the Reichsbank's operations, into which the BIS was being drawn, had Schacht's fingerprints all over it, and although he was forced to resign⁴⁷¹ as head of the Reichsbank in January 1939, his successors continued on the path he had laid out. The period between 1933 and 1939 saw the steady diminution of the BIS's stature as the central hub of international finance and banking, through the combined effects of the long-standing Standstill Agreements, whereby Germany was given a pass on paying interest on its short-term loans, and Schacht's Transfer Moratorium, by which the Reichsminister renegotiated the cooperative debt payments to the advantage of the Reichsbank.

⁴⁷¹ According to German historian Volker Ullrich, "[w]hat prompted Schacht's dismissal was a memo he had written on 7 January [1939] in which he underscored, in dramatic words, the danger of inflation" (Ullrich, *Hitler: Ascent* 589).

As a result of these Depression-era financial manipulations, the BIS was rendered vulnerable, as this chapter discusses. The March 1939 Czech gold scandal seriously damaged its reputation. Then, following Hitler's September 1939 invasion of Poland, the Bank's decision to remain operational greatly exposed it to the likelihood—and actuality—that gold stolen by Nazi Germany would continue to be laundered through it. Though most, if not all, of these illicit transfers of looted gold took place after Schacht was no longer president of the Reichsbank, the early stages of the transformation did take place during his tenure as head of the Reichsbank and member of the BIS Board.

Schacht was undeniably complicit in devising and implementing these arrangements. Although he disagreed with Hitler on a number of important matters, he was aligned with the overall Nazi agenda. The central disagreement between Schacht and Hitler concerned whether economic necessities or political expediency should drive policy. Schacht fervently believed that economic considerations were paramount, whereas Hitler believed the opposite. Schacht was concerned about Hitler's aggressive program of armament production less because of the food shortages and widespread deprivations it caused the German people than because he feared it might bring down the economic system over which he had labored for years to ensure that Germany would once again become a great world power. By 1937 their disagreements had escalated into outright shouting matches.

Nonetheless, Schacht's awareness of the acquisition of Jewish assets, as well as his overall acceptance of the despoilation following the Austrian Anschluss, make clear just how complicit he was in these violent acquisitions of *Raubgold* ("stolen gold"). In the difficult economic circumstances of the Depression, access to large quantities of gold was seen as

essential to implementing Hitler's Lebensraum policy, with which Schacht was in general agreement until at least 1939. As president of the Reichsbank and economic minister, Schacht knew of the pillaging of the Jewish wealth in Austria in exacting quantitative detail, just as he had known about the earlier depredations upon the Jews in Germany.

In the spring of 1939, in the months leading up to Hitler's invasion of Poland, news reports began describing questionable transfers of gold from Czechoslovakian⁴⁷² to German accounts by the BIS.⁴⁷³ What came to be known as the Czech gold scandal cast a harsh light on the insulated, apolitical world of the BIS; the British officials' clumsy handling of the potentially explosive matter brought unwanted attention to Bank, which at that point was largely unknown outside of financial circles,⁴⁷⁴ since early press reports were sufficiently obscure that investigators became curious to find out who was responsible. The Czech gold scandal severely damaged the reputation of the fledging Bank⁴⁷⁵ and prompted the earliest calls for its dissolution, though crucial details of this damaging affair have not been generally known until relatively recently.⁴⁷⁶

Often presented as simply an unfortunate and isolated incident,⁴⁷⁷ the Czech gold scandal turned out to be just the first in a number of disreputable transactions that would take place at the

⁴⁷² See April Speech by Hitler about Czechoslovakia, <https://avalon.law.yale.edu/wwii/blbk20.asp>

⁴⁷³ See, for example, David Blaazer, "Finance and the End of Appeasement: The Bank of England, the National Government and the Czech Gold," *Journal of Contemporary History* 40 (2005): 25-39.

⁴⁷⁴ The scandal was reported in the press from March to June 1939.

⁴⁷⁵ Beyen, *Money in a Maelstrom* 139.

⁴⁷⁶ Cf 6-hour December 1996 Congressional Hearing on Nazi Gold and Swiss Banks: and earlier investigations conducted by the Swiss authorities in 1946, 1962; See also, Bank of England, "Chapter IX. Bank for International Settlements," Bank of England Archive, M5/537, [1950], 1292-1301, <https://www.bankofengland.co.uk/-/media/boe/files/archive/ww/boe-1939-1945-partiii-chapterix.pdf>

⁴⁷⁷ Thomas Reveille, *The Spoil of Europe: The Nazi Technique in Political and Economic Conquest* (New York: W. W. Norton & Co., 1941), 131-133, <https://archive.org/details/TheSpoilOfEurope>.

BIS during the war. Defending their assistance to the Nazis in seizing Czech gold, the BIS argued that they had “been forced” into this untenable position, while the Bank of England stated that it “could not oppose this stand [because the deposits] have been made immune.”⁴⁷⁸ The BIS did take action to make sure any such *similar* misallocation of funds would not be repeated.⁴⁷⁹ However, as Hitler’s desire for Lebensraum intensified and his economic ministers failed to devise a feasible budget,⁴⁸⁰ the Nazi bankers associated with the BIS escalated the Bank’s manipulative economic practices to refill their war chests. The unjust acquisition of personal possessions from victims in countries invaded by the Germans became a valued economic resource of the self-described master race, which voraciously plundered Jews, Slavs, and all of those categorized as “inferior” in the Nazi racial classification system,⁴⁸¹ as Hitler’s war machine became progressively more dependent on the stolen possessions of those subjugated by Germany’s drive for dominance. With the energetic and esteemed assistance of gold specialist Emil Puhl⁴⁸² and Nazi bureaucrat Walther Funk, the self-described “neutral” and “apolitical” Bank for International Settlements provided financial services to launder what BIS Director Puhl referred to as “unusual property”⁴⁸³ on behalf of the Nazi regime: not only did it receive and convert into international credit the personal possessions of concentration camp victims; it also

⁴⁷⁸ See “Bank Acts on Czech Gold,” *New York Times* (31 May 1939), 9,

https://timesmachine.nytimes.com/timesmachine/1939/05/31/93921472.pdf?pdf_redirect=true&ip=0

⁴⁷⁹ Blaazer, “Finance and the End of Appeasement” 34.

⁴⁸⁰ Longerich, *Hitler* 404-407.

⁴⁸¹ See, for example, Eric Ehrenreich, *The Nazi Ancestral Proof: Genealogy, Racial Science, and the Final Solution* (Bloomington: Indiana University Press, 2007),

https://archive.org/details/naziancestralpro00ehre_0/page/n5/mode/2up

⁴⁸² Toniolo, *Central Bank Cooperation* 228.

⁴⁸³ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, One Hundred and Thirtieth Day, (Morning Session), Wednesday, 15 May 1946, [“Testimony of Emil Puhl”], 579, 559-590, Avalon Project, Yale University, <https://avalon.law.yale.edu/imt/05-15-46.asp>; see also Kevin Reynolds, “Banking against Humanity: The Holocaust, the Reichsbank Loot Film and the American Prosecution at the Nuremberg Military Tribunal,” *History* 98 (2013): 517, 511-529.

accepted gold bars looted from the central banks of occupied nations that had been re-melted and re-stamped to give the appearance that they had been minted earlier in Prussia.⁴⁸⁴ These actions prompted increasingly urgent calls for the Bank's dissolution.

Schacht's Complicity with the Nazi Regime

Immediately after the Berlin Olympics (16 August 1936), Hitler threw caution to the winds and began to ramp up German armaments production and persecution of the Jews.⁴⁸⁵ As soon as Schacht became too much of an impediment to the increasing militarization, he was removed in November 1937 by the Führer from his positions as minister of economics (1934-1937) and general plenipotentiary of the war economy (1935-1937). And although he officially resigned as president of the Reichsbank on 20 January 1939, he had already been peremptorily superseded in this position by Walther Funk as early as April 1938.⁴⁸⁶

One of the reasons for Hitler's precipitous reshuffling of his economists was that things were not going well for the Reich in 1937,⁴⁸⁷ and Hitler most likely found Funk's obliging and servile manner a refreshing change from his predecessor's well-known pugnacity. In his dealings with both Berlin and Basel, Schacht was shrewd and uncompromising, in contrast to Funk, who was more amenable and much less circumspect than the self-acclaimed financial wizard.⁴⁸⁸

⁴⁸⁴ Toniolo, *Central Bank Cooperation* 251.

⁴⁸⁵ Ullrich, *Hitler: Ascent* 566.

⁴⁸⁶ See BIS Ninth Annual Report, https://www.bis.org/publ/arpdf/archive/ar1939_en.pdf

⁴⁸⁷ Longerich, *Hitler* 565-570. By as early as 1936, Hitler had already empowered Hermann Göring as the Reich Commissioner for raw materials and foreign exchange to undercut Schacht's obstinance (Longerich, *Hitler* 449, 461, 464-465, 586-589).

⁴⁸⁸ See Hjalmar Schacht, *Confessions of the Old Wizard: The Autobiography of Hjalmar Horace Greeley Schacht* (Boston: Houghton Mifflin, 1956); see also "Schacht is cleared again. Hitler's financial 'wizard' is free in 'no-jurisdiction' verdict," *New York Times* (14 June 1949), 11, https://timesmachine.nytimes.com/timesmachine/1949/06/14/84568930.pdf?pdf_redirect=true&ip=0

There is little dispute, however, that without Schacht's economic expertise, Hitler would never have been able to annex, invade and occupy nine European nations,⁴⁸⁹ because Germany would never have had sufficient economic strength to create a well-supplied million-man Wehrmacht for large-scale military campaigns.⁴⁹⁰ The rise of the Third Reich was part of a dual creation between Schacht's economic ingenuity and duplicity and Hitler's aggrandizing and exploitive racism; together they transformed the enfeebled Weimar Republic into a brutal, fascist dictatorship. The Third Reich would never have materialized without Schacht's active, enthusiastic, and thorough involvement as minister of economics and president of the Reichsbank.⁴⁹¹

The records show that it was not until Schacht's tenure as minister of economics had ended that Hitler put Germany and all the occupied countries into "total mobilization,"⁴⁹² where all aspects of the economy and production were geared toward war. Nevertheless, his deceptive Mefo bills and his years-long tolerance of Hitler's violent and illegal acts against the Jews and all others who got in the way of Germany's destined greatness paved the way for the regime to perpetuate shockingly inhumane acts⁴⁹³ in their violent acquisitions of Raubgold. Thus, Schacht

⁴⁸⁹ The Nazi regime occupied Poland, Denmark, Norway, Belgium, the Netherlands, Luxembourg, France, Yugoslavia, and Greece, though Hitler had invaded many more countries without occupying them (e.g., the USSR).

⁴⁹⁰ Michael Haskew, *The Wehrmacht: The Growth and Organization of German Land Forces* (London: Amber Books, 2011), 28.

⁴⁹¹ Intriguingly, the IMT came to precisely the opposite conclusion: That it was because of Schacht's restraint that the Third Reich was limited during his tenure. Though the timing of Schacht's demotion and departure is consistent with this narrative, it overlooks other equally crucial factors, such as his role in financially processing the looted gold from Germany and Austria (and possibly Czechoslovakia). Moreover, Göring's failure to solve Germany's steel crisis in accordance with Hitler's Four-Year Plan was a more likely cause of the limitations of the Reich during Schacht's tenure (Longerich, *Hitler* 533-534).

⁴⁹² Henry Simon Bloch and Bert F. Hoselitz, *Economics of Military Occupation: Selected Problems* (Chicago: Foundation Press, 1944), 127.

⁴⁹³ See, the description of the ever more efficient ways Nazis dedicated themselves to killing ever more people in Lord Russel of Liverpool, *The Scourge of the Swastika: A Short History of Nazi War Crimes during WWII* (New York: Skyhorse Publishing, 2008 [1954]), <https://archive.org/details/in.gov.ignca.17441/page/n15/mode/2up>.

countenanced countless appalling policies and actions that rained down on Jews, Slavs and other unfortunate people in the years leading up to Hitler's invasion of Poland. Though he left the Reichsbank in 1939, he did not finally renounce Hitler's Nazi regime until January 1943, when he resigned from the Reichsbank as minister without portfolio.

The BIS: Its Statutory Conflicts of Interest

Hjalmar Schacht was not alone in empowering the Third Reich economically. The glaring conflict of interest between the BIS's articulated tasks—to assist Germany by making credits and loans available to aid it in fulfilling its reparations and war debt payments—and its collaboration with Nazi Germany was growing steadily more egregious. Schacht had sat on the BIS board⁴⁹⁴ from 1933 to 1939 when questionable banking activities, such as laundering contraband, were a distinct though as-yet-unproven possibility in the economic growth of the Nazis. As time passed, and more and more Nazis served in leadership roles at the BIS, increasingly egregious unethical and criminal activities became more and more commonplace. Having schooled the National Socialists on how best to deceive the Versailles Treaty authorities regarding the reality of Germany's illicit armaments program, Schacht's successors had learned from the financial wizard the art of surreptitious banking.⁴⁹⁵ BIS directors Walther Funk and Emil Puhl played very active roles, engaging in some of the most disreputable practices imaginable as they transferred

⁴⁹⁴ It might be interesting to know when Schacht last visited the BIS.

⁴⁹⁵ See Bergier et al., "Switzerland and Gold Transactions" 25, 40.

and processed Jewish wartime contraband in cooperative coordination with the highest authorities within the SS.⁴⁹⁶

Adam LeBor goes so far as to argue that during World War Two the BIS acted as Hitler's own international bank. The Reichsbank's vice-president and the Bank of International Settlements' Director Emil Puhl famously referred to the BIS as "the Reichsbank's 'only real foreign branch.'"⁴⁹⁷ One wonders how these overtly pro-Nazi actions could have been considered acceptable behavior to the prestige-conscious central bankers and members of the BIS's board of directors. Why would the BIS, along with the Swiss National Bank and other central banks, have not seen the overt impropriety and criminality of these acts of deception and outright fraud on the part of the Reichsbank, with which they worked closely throughout the war? Why did none of these Swiss banks meaningfully distance themselves from such disreputable practices?

During the war, the BIS employed all manner of Nazis, Nazi sympathizers, and Nazi apologists: "According to the Reichsbank, the BIS had rendered Germany 'valuable services' since the beginning of the war. [. . .]. All of this [Reichsbank Vice-President Emil] Puhl argued was made possible thanks to the internal staffing of the BIS."⁴⁹⁸ With Schacht's resignation, Funk served not only as the minister of economics and Germany's representative on the BIS board of directors (1938-1945) but also as president of the Reichsbank (19 January 1939-8 May 1945), and he soon began to coordinate with Puhl, also the director of the BIS, to expedite the

⁴⁹⁶ Part of Puhl's influence arose from the fact that he "had been a bank director under Schacht" (Smith, *Hitler's Gold* 3).

⁴⁹⁷ Quoted in Michael Hirsch, "They've Got a Secret," *New York Times* (19 July 2013), <https://www.nytimes.com/2013/07/21/books/review/tower-of-basel-by-adam-lebor.html>; see also Toniolo, *Central Bank Cooperation* 229.

⁴⁹⁸ Toniolo, *Central Bank Cooperation* 228, 229.

receipt of stolen Jewish possessions from the occupied territories, obtained from SS officers under Heinrich Himmler, Reichsführer of the Schutzstaffel.⁴⁹⁹ Other confirmed or probable Nazis at the BIS included chairman Ernst Weber (1942-1945),⁵⁰⁰ director Hermann Schmitz (also director of IG Farben), and director Kurt von Schroeder, founder of J. Henry Schroeder Bank in London (1923-1985), who served as SS-Brigadeführer, “major general.”⁵⁰¹ All these former BIS directors would later be tried at Nuremberg, with the exception of Weber,⁵⁰² director (1939-1947) and chairman (1942-1947) of the BIS as well as president of the Swiss National Bank (1925-1939).⁵⁰³ Schacht and Funk were tried by the IMT, while Puhl, Schmitz and Schroeder were tried at the Subsequent Nuremberg Tribunals (NMT). Except for Schacht, all were found guilty of war crimes.⁵⁰⁴

Beyond the presence at the Bank of overt Nazi sympathizers, however, was the fact that many of the BIS’s own aims aligned with those of the Nazi regime. This can be seen in the decision by the Bank’s board of directors to remain in operation even after the war had commenced. This decision was a critical one because the Bank took a chance—in the middle of a war—to pursue profit. This goes to the heart of the underlying motivations of the Bank and makes it clear that it was not financial stability, interbank cooperation, and a secure meeting

⁴⁹⁹ Note: *die Schutzstaffel* (“protection squadron”), or SS, was comprised of four categories depending on their assigned tasks, *Allgemeine* (“general,” e.g., Kristallnacht), *Totenkopfverbände* (“death head units,” i.e., concentration camps), *Verfügungstruppe* (“dispositional,” Hitler’s personal attaché), and the *Waffen-SS* (“armed-SS,” combat units) (TMWC [Trial of the Major War Criminals], Volume XIII).

⁵⁰⁰ Bergier et al., “Switzerland and the Gold Transactions” 95-99.

⁵⁰¹ See “Papers of J. Henry Schroeder Banking Corporation,” <https://archiveshub.jisc.ac.uk/search/archives/c91e8f82-bcb5-3800-877e-364ee2a4d171>

⁵⁰² “Former Functionaries of the BIS Board of Directors,” BIS, <https://www.bis.org/about/formerboard.htm>

⁵⁰³ “Ernst Weber,” Biography, Swiss National Bank (Schweizerische Nationalbank), https://www.snb.ch/en/mmr/reference/hist_bios_dm_weber/source/hist_bios_dm_weber.en.pdf

⁵⁰⁴ Adam LeBor, “The American who let the Nazis Rebuild Germany,” *The Critic* (November 2021) <https://thecritic.co.uk/issues/november-2021/the-american-who-let-the-nazis-rebuild-germany/>

place in a neutral country that was most desired; instead, it was profit-seeking that ultimately drove its decision-making. This is a vital consideration when evaluating the possibility that the BIS had been made to accept and convert contraband and remelted gold bars from the Reichsbank under duress: the decision to keep the bank operating during the war undercuts such a defense.

The Czech Gold Scandal

After every possible possession from all the Jews in Germany was looted, the Nazis turned their racist avariciousness toward Austria, Czechoslovakia, and elsewhere in Europe as part of Hitler's insatiable quest to extract wealth in any manner his Gestapo,⁵⁰⁵ SS, and SD⁵⁰⁶ saw fit. Money laundering intensified over the course of the war, as Hitler's forays into exploiting Jews quickly crystallized into an entrenched policy.⁵⁰⁷ After Funk and Puhl knowingly received contraband gold and other valuables from the countless victims of Nazi aggression, the Raubgold was converted into internationally recognized credit by the BIS and the Swiss National Bank, which acted as clearinghouses for international loans and credits.⁵⁰⁸

However, even before the war began, the Czech gold scandal signaled the pro-Nazi leanings of the Bank for International Settlements. Beginning sometime after March 1938,⁵⁰⁹ the BIS had become increasingly complicit in providing financial services for Nazi Germany by

⁵⁰⁵ Gestapo was the abbreviation for *Geheime Staatspolizei* ("secret state police").

⁵⁰⁶ The SD or *Sicherheitsdienst* ("security service") was the intelligence arm of the SS.

⁵⁰⁷ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, One Hundred and Twenty-First Day, (Morning Session), Saturday, 3 May 1946, ["Testimony of Walther Funk"], 80-102, https://tile.loc.gov/storage-services/service/ll/llmp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf; see also One Hundred and Twenty-Second and Twenty-Third Days, 103-202.

⁵⁰⁸ Simpson, *The Splendid Blond Beast* 218-219.

⁵⁰⁹ According to the BIS 1940 Annual Report, Schacht was no longer director at the BIS by the time that the Nazis annexed Sudetenland in October 1938. Yet, he was still president of the Reichsbank until 20 January 1939.

converting contraband gold acquired through force from the dispossessed into internationally recognized credit, used to commit further enormities.⁵¹⁰ The Austrian Anschluss (13 March 1938) had given way to the anti-Semitic violence of Kristallnacht (also known as the 1938 November Pogrom). This in turn had been followed by the annexation and occupation of Sudetenland, Czechoslovakia, in accordance with the infamous Munich Agreement (30 September 1938). Neither France nor Britain consulted with Czechoslovakia regarding the annexation of its own country.⁵¹¹ This international agreement between Italy, France, Britain and Germany not only violated the import of the Versailles Treaty;⁵¹² it offered up the countries' long-standing political ally Czechoslovakia to the Nazis. Though the Agreement temporarily thwarted Hitler's planned invasion of Czechoslovakia,⁵¹³ the Nazis then abrogated its terms, by forcibly annexing and occupying Bohemia and Moravia (15 March 1939).⁵¹⁴ It was clear to informed observers that Hitler was not going to be satisfied with Sudetenland.⁵¹⁵

⁵¹⁰ Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James, eds., *International Financial History in the Twentieth Century: System and Anarchy* (Cambridge University Press, 2003), 89-90.

⁵¹¹ "Then our Government and the French Government could have faced the consequences. They could have told Czechoslovakia 'We cannot any longer defend you. You had better now make the best terms you can with Germany, enter her political orbit and give her anything to escape before the wrath comes upon you.' But they did nothing of the sort. Czechoslovakia continued under the supposed shelter of these treaties" (Clement Attlee, House of Commons, (3 October 1938), British Parliamentary Debate on the Munich Agreement, <http://academic.brooklyn.cuny.edu/history/johnson/munichdebate.htm>).

⁵¹² Peace Treaty of Versailles, "Political Clauses for Europe," Articles 31-117, <https://net.lib.byu.edu/~rdh7/wwi/versa/versa2.html>

⁵¹³ See, for example, Longerich, *Hitler* 581-583.

⁵¹⁴ Within six months of the signing of the Munich Agreement (30 September 1938), Hitler had established the Protectorate of Bohemia and Moravia on 16 March 1939 (See Longerich, *Hitler* 609-610). In essence, it was a coerced occupation: "On [12 March 1939] Hitler ordered the armed forces to prepare for the occupation of Czechoslovakia on 15 March" (608). On 14 March, Hitler along with Keitel, Göring, and Ribbentrop "subjected [the Czech President, Emil Hácha, and his foreign minister] to massive pressure, finally compelling them to capitulate. They had to sign a declaration committing themselves to placing 'the fate of the Czech people and country trustingly in the hands of the Führer of the German people [and the German Reich would] guarantee [its] autonomous development.' [. . .]. The following day [16 March 1939, Hitler] signed a decree establishing a 'Protectorate of Bohemia and Moravia'" (609).

⁵¹⁵ "At the end of November 1937, Hitler had told Goebbels: 'The Jews must get out of Germany, in fact, out of the whole of Europe'" (Longerich, *Hitler* 571). See also Clement Attlee's assessment of the situation in Czechoslovakia

Moreover, in the immediate wake of the Czech gold scandal, the French government—which had treaties⁵¹⁶ with Czechoslovakia extending back before French Prime Minister Édouard Daladier took office—asked the British Foreign Office to advise the Chairman of the BIS “to take steps to stop the transfer to the Reichsbank of any gold entrusted by the former Czech National Bank to the BIS for safekeeping and alleged to be domiciled with the Netherlands Bank in Amsterdam and the Swiss National bank in Berne.”⁵¹⁷ In response, the Foreign Office directed “[Sir Otto] Niemeyer and Norman to [. . .] refuse such transfer pending further communication” with the French Directors at the BIS.⁵¹⁸ Thus, months later, there were still concerns that Czech gold was being re-routed to the Reichsbank, which prompted attempts to curtail any such future transfers. Czechoslovakia had long been an ally of France⁵¹⁹ and England⁵²⁰ and had earlier taken active measures in the preceding years to protect its gold from the Nazis by transferring it into an account in the Bank of England for safekeeping. Moreover, the Bank of England was fully aware of the Third Reich’s piratical nature following Hitler’s

on 3 October 1938: “I fear that the Prime Minister is deceived if he thinks that the cause of this trouble has been the woes of the Sudeten Germans. I say that the question of the Sudeten Germans has been used as a counter in the game of politics, and in other conditions Herr Hitler might just as well have used the people of Memel, the people of South Denmark, the people in the Trentino or the Germans in South Tyrol. . . The history of the last seven years is the background of this crisis, and the first point I must make to the Government is this. This crisis did not come unexpectedly. It was obvious to any intelligent student of foreign affairs that this attack would come” (House of Commons, British Parliamentary Debate on the Munich Agreement, <https://www.mtholyoke.edu/acad/intrel/munich.htm>)

⁵¹⁶ For example, see Sally Marks, *The Illusion of Peace: International Relations in Europe, 1918-1933. Second edition* (New York: Palgrave Macmillan, 2003), 46, 77, 95, 147, 155.

⁵¹⁷ Bank of England, M5/537 1297.

⁵¹⁸ *Ibid.*

⁵¹⁹ See “Treaty of Alliance of Friendship Between France and Czechoslovakia, Signed at Paris January 1924,” League of Nations Treaty, 165-167, <https://treaties.un.org/doc/Publication/UNTS/LON/Volume%2023/v23.pdf>; the Little Entente (1921-1938), and the Pact of Locarno (1925); for more, see Harindar Aulach, “Britain and the Sudeten Issue, 1938: The Evolution of a Policy,” *Journal of Contemporary History* 18 (1983): 241, 233-259, <https://www.jstor.org/stable/260386>

⁵²⁰ The Locarno Treaties, International Documents, *Advocate of Peace Through Justice* 87 (1925): 685-692, <https://www.jstor.org/stable/20661099>

Austrian Anschluss⁵²¹ and took preventive actions to safeguard against future such occurrences.⁵²²

In this light, the BIS's transfer of gold from Czechoslovakia's account at the Bank of England and into German accounts at the BIS only five months after the Nazis began occupying the country (October 1938) and only days after Hitler established the Protectorate of Bohemia and Moravia (16 March 1939) can be seen as little more than tying up loose ends after Czechoslovakia had already been literally handed over to Hitler, yet it was a shocking development, nonetheless.

Four individuals were at or near the helm when the Czech gold matter first arose: Johan Willem Beyen, the president of the BIS; Montagu Norman, the governor of the Bank of England and the most senior and esteemed member of the board of directors at the BIS; Walther Funk, Schacht's replacement as minister of economics and German representative on the BIS's board of directors; and Pierre Quesnay's replacement Roger Auboin,⁵²³ the managing director of the BIS. The fact that the gold transfer was approved gave the BIS, the Bank of England, and its governor little cover from accusations of pro-German bias against their own ally, and the Bank's reputation as a neutral and apolitical entity suffered.

The underlying facts of the Czech gold crisis were relatively straightforward, though the actual decision to release the gold, and who made that decision, had long been obscured.

⁵²¹ Blaazer, "Finance and the End of Appeasement" 31.

⁵²² Blaazer, "Finance and the End of Appeasement" 25, 26: "the Czechoslovakia (Restrictions of Banking Accounts &c.) Act of March 1939, by which the British had frozen Czech assets in Britain," <https://www.gold.org/sites/default/files/documents/after-the-gold-standard/1939mar21.pdf>

⁵²³ French Director Pierre Fournier was also involved (Blaazer, "Finance and the End of Appeasement" 32); see also BIS, Tenth Annual Report (1940), https://www.bis.org/publ/arpdf/archive/ar1940_en.pdf

Immediately after its occupation, the Third Reich had taken control of the National Bank of Czechoslovakia in such a way that it did not appear to be under direct German control:

[T]he Germans, desirous of preserving the appearance of legality, had not liquidated the Czechoslovakian National Bank or merged it into the Reichsbank as they had in Austria. Instead, it was reorganized into the National Bank of Bohemia and Moravia, retaining collaborative personnel and giving the outward impression that it was autonomous as an institution in the new protectorate.⁵²⁴

On 21/22 March 1939, millions of pounds' worth of gold were transferred from the Czechoslovakian National Bank (Account No. 2), which Czechoslovakia believed was under British protection, into the BIS accounts of the Nazi-controlled Reichsbank (Account No. 17)⁵²⁵ on the same day, or perhaps the day after, the money was requested by the Nazis who now controlled the bank. According to a document written by the Bank of England in 1950, though not released until 2013, "On the 21st March 1939 the Chief Cashier received the request to transfer about £5.6 million gold from the B.I.S. No. 2 Account to their No. 17 Account." There was immediate outcry concerning this transfer from other member countries of the Bank, yet it proceeded regardless. As the document continues:

On the 22nd March the Governor acquainted the Committee of Treasury that he had received a telephone message from the Governor of the Bank of France proposing that they should urge their respective Treasuries to make a joint protest to the President of the B.I.S. against the possible delivery of Czech assets to the Germans, or to a German-controlled Czech bank.⁵²⁶

BIS president Beyen argued that the "laws" of the BIS forced him to take the course of action he took, to allow the transfer to go through.⁵²⁷ in essence, his hands were tied. Yet his own self-

⁵²⁴ Smith, *Hitler's Gold* 7; see also Vincent, *Hitler's Silent Partners* 107.

⁵²⁵ Blaazer, "Finance and the End of Appeasement" 32.

⁵²⁶ Bank of England, M5/537 1293.

⁵²⁷ Beyen, *Money in a Maelstrom* 136-138.

described behavior in his 1949 book *Money in a Maelstrom* suggested that the transaction should probably not have proceeded, and that he knew this. He did not rely solely on his own reading of the Statutes; instead, he sought input from the French Director Pierre Fournier⁵²⁸ and presumably Montagu Norman,⁵²⁹ believing that in the end they would stay his hand.⁵³⁰ But, according to Beyen's version of events, his urgent inquiries were met with silence. Faced with making this decision by himself, as he explained, he concluded that he had no option but to follow the dictates of the Statutes and approve the gold transfer without delay.⁵³¹

The by-laws of the BIS can be interpreted as having an extraordinary power to supersede the legal authorities of other nations and their central banks, as appeared to have happened with the Bank of England during the Czech gold crisis. One could argue therefore that in principle the BIS did have flexibility when it came to interpreting its Statutes and so could have chosen from several possible courses of action. Article 24 of the BIS Statutes stipulates:

[The Bank] may arrange with central banks to have gold earmarked for their account and transferable on their order, to open accounts through which central banks can transfer their assets from one currency to another and to take such other measures as the Board may think advisable within the limits of the powers granted by these Statutes.⁵³²

When the Czech gold in the Bank of England's vaults was transferred to the Nazi account, it would seem that British laws were supplanted by the BIS's by-laws, as the transfer took place right under their noses. This interpretation highlights an apparent discrepancy in Beyen's version of events:

⁵²⁸ Blaazer, "Finance and the End of Appeasement" 32.

⁵²⁹ The uncertainty to who exactly Beyen refers in his brief account arises from the fact that he provides no specific names in his version of events.

⁵³⁰ Beyen, *Money in a Maelstrom* 138.

⁵³¹ Beyen, *Money in a Maelstrom* 137.

⁵³² Quoted from Appendix C in Henry H. Schloss, *The Bank for International Settlements: An Experiment in Central Bank Cooperation* (Amsterdam: North-Holland Publishing Company, 1958), 156.

perhaps it was true that the BIS had more authority than the Bank of England—as the international Hague Agreement could have been interpreted—nevertheless, according to Beyen’s account, he would have chosen otherwise if the by-laws of the BIS had allowed it. There seems to be something missing in Beyen’s version of events, such as an explanation of how the BIS could have decided to make the transfer of the Czech gold from the Bank of England’s account into the Reichsbank’s.

On its face, President Beyen seems to have been sufficiently inculcated in the apolitical view that the Statutes of the BIS were in some sense sacrosanct.⁵³³ But it certainly seems that he chose an especially bad time to be adamant about the sanctity of the Bank’s by-laws! Assuming Beyen’s narrative is accurate, one wonders why his urgent calls regarding this crucial bank matter were never returned. And if Beyen did struggle with the decision, it raises the question of whether the BIS had any lawyers who could have been consulted regarding this apparent dilemma. A plain reading of Article 24 (*supra*) shows that the BIS had considerable latitude to deal with the matter as it saw fit.

According to Beyen’s further narrative of events, he saw himself as the designated fall guy, as he was the duly elected president of the BIS. He likens the situation to a story from Bucharest,⁵³⁴ in which a house full of gangsters is surrounded by the police, but as soon as a little man laughs at the strange sight, it is he who is promptly arrested. In Beyen’s anecdote, he tells us in his defense that “the B.I.S. was the little man and it did not even laugh.”⁵³⁵ If it is true that Beyen took the fall

⁵³³ “As far as the Bank of England was concerned, such a transfer was a mere bookkeeping transaction within the account of one and the same customer, it could not possibly refuse. For that reason alone, the Bank of England, which did not know to whom the subaccount belonged, could not have invoked the recent blocking by law of all Czecho-Slovak balances in London. Apart from all that, all assets of the B.I.S. enjoyed immunity from seizing, blocking, etc., in view of the relative clause of the Hague Treaty of 1929” (Beyen, *Money in a Maelstrom* 137).

⁵³⁴ Beyen, *Money in a Maelstrom* 139.

⁵³⁵ *Ibid.*

for someone else, who was it? From the way he presented his brief though informative narrative, it seemed clear that the Bank of England played some unspecified role,⁵³⁶ as the Czech gold was sitting in the vaults of the British central bank. In contrast, the French Director Fournier would have had little to say in the matter.⁵³⁷

Two months before the Czech gold scandal erupted in the newspapers (March 1939), Montagu Norman had visited Schacht in Berlin (3-10 January 1939).⁵³⁸ He went even though he was advised against it by the British Foreign Office.⁵³⁹ It seems highly probable that Schacht and Norman discussed Czechoslovakia, as the signing of the Munich Agreement had only taken place a couple of months earlier.⁵⁴⁰

In British historian David Blaazer's 2005 account of the Czech gold crisis, framed within the broadening context of theories of appeasement, he offered details of the events in Great Britain

⁵³⁶ *Ibid.*: "It is strange that the blame for the transfer of the Czech gold has been put on the B.I.S. as an institution—or on me as its President—while it clearly belonged at the doorstep of the appeasing governments of those days."

⁵³⁷ It is interesting to compare Toniolo's account in which Norman is missing in action. In one correspondence two years after the events sent from the former President of the BIS Willem Beyen to Bank of England employee Lord Cameron Cobbold (11 December 1941), Beyen relates how the Chairman of the Board of the BIS Sir Otto Niemeyer expressed his "astonishment that the one man [the Governor of the Bank of France Pierre Fournier (1937-1940)] who could have had the Board deal with the matter, and who had me expressly informed that he desired to take no action, should now be protesting" (Toniolo, *Central Bank Cooperation* 207). The narrative appears to have elided the salient information that caused Fournier to protest: he may have just then been made aware of the fact that Norman had unilaterally approved the transfer "without previous knowledge of the Board" (Toniolo, *Central Bank Cooperation* 207). Armed with the truth of the Governor Norman's role in the affair, Toniolo's narrative does not bear much scrutiny, and his lengthy narrative of events (204-213) makes for rather difficult reading as he offhandedly casts aspersions elsewhere. Why has such an enormous effort been sustained to cover up Norman's approval of the transfer?

⁵³⁸ There is the question of how could Funk represent the Reichsbank beginning in April 1938, when Schacht was still the President of the Reichsbank until 20 January 1939, when he was demoted to Minister without Portfolio? At the time, Funk had already been installed on the BIS Board of Directors, and his name appears in the Ninth Annual Report (for fiscal year 1938) as a member of the BIS's Board of Directors by April 1938.

⁵³⁹ Andrew Boyle, *Montagu Norman: A Biography* (New York: Weybright & Talley, 1967), 307.

⁵⁴⁰ Longerich argued that the success of the Austrian Anschluss, Hitler's hubris and the embarrassment associated with the 'weekend crisis' (20-21 May 1939) triggered his decision to launch a war against France, England, and Czechoslovakia (559-562).

during the crisis, based on his reading of archival documents.⁵⁴¹ In the middle of his critique of the various views on this appeasement interpretation, he mentioned somewhat offhandedly that the governor of the Bank of England, Montagu Norman, had lied to the Chancellor of the Exchequer about his involvement in the transfer of the Czech gold to the Nazi account.⁵⁴² This decision by the governor to mischaracterize his role in the affair, Blaazer maintained, must be seen in the context of Great Britain's appeasement policy. In his analysis, there was no possible reason besides appeasement why the governor misrepresented his involvement in the transfer. However, Blaazer's position seems untenable. Clearly, by 1939 the British policy of appeasement had been shown to be an abject failure following Hitler's annexation and occupation of what were formerly the historical regions known as Moravia and Bohemia.⁵⁴³ Moreover, why would Norman have to falsify his role if it were in alignment with the British government? Norman's falsification to the Exchequer helps to simply explain, in part, why the British handling of the public affair seemed so inept: they were kept in the dark as to who authorized the transfer of Czech gold and when that decision was made. After learning that Governor Norman had personally approved the transfer of Czech gold into the Nazi account, the Bank of England and the British prime minister thereafter worked to protect the reputation of the BIS and the Bank of England at the expense of Czechoslovakia. Even for a dedicatedly apolitical banker who extolled the virtues of neutrality and cooperation, like Montagu Norman, this unilateral decision concerning the assets of another nation known to be under Nazi occupation, which were under the care and protection of the British government, could be seen as an overtly politically biased act.

⁵⁴¹ Blaazer, "Finance and the End of Appeasement" 25.

⁵⁴² Blaazer, "Finance and the End of Appeasement" 33.

⁵⁴³ See, Longerich, *Hitler* 608-609, 955; Shirer, *The Rise and Fall of the Third Reich* 361-454.

Though Blaazer intended to set the record straight, by constraining possible interpretations within the logic of appeasement, his analysis falls short—shy of a syllogistic link or two. First, if the policy of appeasement were central to the decision-making, then why did Norman act unilaterally? Second, Blaazer dismissed the potential significance of Norman’s friendship with Schacht by arguing that “Norman’s support for Germany in international financial matters pre-dated the Nazi regime,”⁵⁴⁴ though “his strong friendship with Schacht could [have] led Norman to a wholly uncharacteristic readiness to tolerate flagrant breaches of commercial and financial ethics.”⁵⁴⁵ Though Blaazer did state that Norman directly lied to the head of the Exchequer Simon, he downplayed Norman’s great admiration for the secret Nazi Schacht and the fact that Norman had bald-facedly ignored the Foreign Office’s warning to him against going on his trip to Berlin in January 1939. Nor did Blaazer mention Norman’s self-confessed admiration for Hitler. Without more of the actual context in which Norman made his decision, the historiographic framing of the problem solely within the context of appeasement seems to take too much potentially relevant information out of the picture.

In defense of this limited approach, however, we are repeatedly told that Norman’s decisions were in alignment with the Bank of England’s overall policy objectives, despite his dissimulation and his decision to act without properly consulting with the Bank of England’s Legal Department:⁵⁴⁶

While Norman’s approach to the Czech gold transaction should be seen in light of his readiness to appease Germany financially, it is more important to recognize that his (and the Bank [of England’s] officials’) responses to the BIS order were in strict accordance with the Bank’s wider objectives. [. . .]. The Czech gold affair [. . .] was

⁵⁴⁴ Blaazer, “Finance and the End of Appeasement” 36.

⁵⁴⁵ *Ibid.*

⁵⁴⁶ Blaazer, “Finance and the End of Appeasement” 28.

an act of appeasement, carried out by the Bank of England, which decided the question on the basis of considerations which figured largely in the government's and the Bank's formulation and execution of the appeasement policy.⁵⁴⁷

If Norman had consulted with his own government, Blaazer's appeasement argument might sound more credible, but the fact that he not only intentionally withheld information, which forced them into an awkward and uninformed position, but also kept them in the dark well after the situation had devolved into a scandal, makes it less convincing. Norman's actions left the Bank of England, his governorship, the British government, the BIS, and its president exposed to unnecessary criticism.

The 1950 document released from the Bank of England's archives in 2013 described aspects of Norman's role as governor during this embarrassing affair. Written in a fragmented and elliptical style, it presented a compact yet disjointed narrative. It implied without directly stating that Norman did make the final decision to release the gold from the Czechoslovakian National Bank's account to the Reichsbank's and noted that just after the transfer had been effected, there were calls from the Bank of France to protest. In the following excerpt, Norman explained his position in the matter, months after having approved the gold transfer:

I am going to Basle this week and so, in order to prevent misunderstanding, I should like you to realise that questions by certain Members of the House of Commons do not change my views on, nor my attitude towards, the Bank for International Settlements. I do not, therefore, propose in any way to modify the line of conduct which from the beginning the British Directors [i.e., Otto Niemeyer?] have pursued with regard to the relations between Members of the Board on the one hand and the (neutral) President and his Executive [i.e., J.W. Beyen and Roger Auboin?] on the other. This line of conduct, I believe to be in accordance with the letter and the spirit of the Statutes which express the intentions of the Powers signatory to the Hague Agreement (L 76 1939).⁵⁴⁸

⁵⁴⁷ Blaazer, "Finance and the End of Appeasement" 37, 39.

⁵⁴⁸ Bank of England, M5/537 1292, 1293, 1294, 1295; see also, Bank for International Settlements, "Note on Gold Operations Involving the Bank for International Settlements and the German Reichsbank,"

Clearly, Norman had not been precise in describing his role, which kept many of those in his government in the dark in the period from March until June, well after he had already approved the transfer. In the excerpt of his communication to the Chancellor of the Exchequer, it seems odd that the governor is so concerned about the sanctity of the BIS Statutes and so contemptuous of his own government as to not even have properly informed them as to the truth of the matter for which the Bank of England and the Bank for International Settlements were so badly exposed. The misleading nature of Norman's correspondence was such that it perpetuated a misunderstanding in the *New York Times* news report of the situation, which stated that the final decision as to what to do about the Czech gold had been made on 6 June 1939.⁵⁴⁹

During the Czech gold crisis, the BIS allowed the transfer of gold but would not countenance the transfer of "shares" to the Reichsbank,⁵⁵⁰ revealing an obvious inconsistency in the Bank's own sacrosanct by-laws. In the case of the Bank of England, a clear discrepancy appeared in gold transfers, some of which were approved (£6 million) and others of which were not (£2 million),⁵⁵¹ further revealing the inconsistency of the Bank's own procedures. Such incongruities tend to weaken belief in Norman's conduct, which he professed to have pursued "in accordance with the spirit and letter of the Statutes."

The resultant Czech gold scandal offers an ideal example of the types of problems international bankers may face when chartering their own "apolitical" laws and statutes, which

<https://www.bis.org/publ/bisp02b.pdf> (1st September 1939-8th May 1945, Basle, 12 May 1997), 4n1: "On 22nd March 1939 the Czechoslovakian gold held under earmark with the BIS loco London (23.1 tonnes or 1,845 bars) had been transferred to the earmarked gold account which the German Reichsbank held with the BIS in London."

⁵⁴⁹ "Sees British Hands Tied on Czech Gold," *New York Times* (6 June 1939), 6,

https://timesmachine.nytimes.com/timesmachine/1939/06/06/88164147.pdf?pdf_redirect=true&ip=0

⁵⁵⁰ LeBor, *The Tower of Basel* 66

⁵⁵¹ Blaazer, "Finance and the End of Appeasement" 38.

might overlook or even eschew ethical norms. Such oversights could open the door to accusations of improper or unjust actions. Beyen seemed to have understood this and yet took no action to protect either himself or the Bank. If his narrative is accurate, he had other options because he could have stayed the order—which was not an uncommon occurrence—and had it put under formal review. The Bank had incorporated into its Statutes an arbitration clause,⁵⁵² which could have been invoked on behalf of Czechoslovakia. He argued that he did not have the luxury of time, as the transfer had to proceed without delay,⁵⁵³ but holding up the transfer would have been prudent if there had been any doubt as to the legitimacy of ownership, which would have been a basic requirement of any bank: to not transfer funds into the wrong account.⁵⁵⁴

A fuller examination of the events that transpired at the BIS, presented within a more detailed framework, exposes the fact that the transfer of Czech gold into the Nazi account was entirely indefensible. If it is true that the BIS handled the gold bullion from other occupied countries with the same disregard for legal ownership as it had the Czech gold, as will be discussed in the following chapter, then clearly further accusations can be leveled against the Bank, including but not limited to providing material support to a known belligerent and monetarily advancing the Nazi ideology of racially motivated theft, violence, and atrocities. Could there be an acceptable justification for such blatant fiduciary malfeasance, which had such

⁵⁵² Article 56 (4): “The provision of this article shall not prejudice the right of the parties to a dispute to refer the same by common consent to the President or a member of the Tribunal as sole arbitrator” (Schloss, *The Bank for International Settlements* 165).

⁵⁵³ Beyen, *Money in a Maelstrom* 137.

⁵⁵⁴ Article 52 (b): “[W]hether, in [the Board’s] opinion, the Balance Sheet dealt with in the Report is properly drawn up so as to exhibit a true and correct view of the state of the Bank’s affairs according to the best of their information and the explanations given to them as shown by the books of the Bank” (Schloss, *The Bank for International Settlements* 162).

dire consequences? The answer may lie in the geopolitical context of the Bank's creation and the importance it placed on secrecy.

The American Connection to the BIS and the Nazis

Americans associated with the Bank were likewise culpable. During the war years, the BIS was headed by American lawyer Thomas McKittrick, who worked hand in hand with Nazis, the Reichsbank, and the OSS. As part of the negotiations made at the Young Committee meetings,⁵⁵⁵ the French delegates had demanded that the first presidents of the BIS be American—for their perceived neutrality—and the Bank's managing directors be French.⁵⁵⁶ In fulfillment of these negotiated demands, the first BIS presidents were American bankers Gates W. McGarrah (April 1930-May 1933),⁵⁵⁷ Leon Fraser (May 1933-May 1935), and Thomas McKittrick (January 1940-June 1946),⁵⁵⁸ and the first two general managers were French economists Pierre Quesnay (1930-1938) and Roger Auboin (1938-1958). The high-powered American bankers acted as official representatives, who worked on behalf of the interests of the United States, the Federal Reserve,

⁵⁵⁵ For a brief overview of the final negotiations at the Second Hague Conference (3-20 January 1930), see "The Second Hague Conference. I," *Bulletin of International News* 6 (Jan. 30, 1930): 3-11, <https://www.jstor.org/stable/25638748>.

⁵⁵⁶ In terms of attaining a stable economy and steady growth, France may have also benefited significantly from the fact that the first two managing directors of the BIS were French economists, Pierre Quesnay (April 1930-September 1937) and Roger Auboin (January 1938-September 1958).

⁵⁵⁷ "His nomination to represent the banking system of the United States on the directorate of the world bank was made by a private group of American bankers, including J. P. Morgan & Co., the First National Bank of New York and the First National Bank of Chicago, after the State Department had refused to allow the Federal Reserve to participate formally in the world bank" ("Gates W. M'Garrah, Noted Banker, Dies," *New York Times* (6 November 1940)).

⁵⁵⁸ This fact regarding McKittrick's presidency does not appear in the BIS website on its "Functionaries"; but see *The BIS during the Second World War (1939-1948)*, BIS, https://www.bis.org/about/history_2ww2.htm, for brief discussion of McKittrick's tenure as third and last American President of the BIS.

and three private US banking institutions—J.P. Morgan & Co., the First National Bank of New York and the First National Bank of Chicago.

From 1940 to 1946, the American president of the BIS Thomas McKittrick coordinated activities at the highest levels between various banks and governments.⁵⁵⁹ With his vast array of European and American contacts, McKittrick had a network, or floating bureaucracy, working on his behalf.⁵⁶⁰ Through him the Bank also received critical assistance from the Bank of England⁵⁶¹ and the European director of the OSS office in Bern, Switzerland.⁵⁶² As the end of McKittrick's original tenure approached in December 1942, he endeavored to be re-appointed. To ensure that he would continue as president at the BIS, McKittrick and Norman evolved a quid pro quo agreement with the president of the Swiss National Bank, Ernst Weber:⁵⁶³ Weber would be offered chairmanship and a seat at the board in return for re-appointing McKittrick. Once Weber accepted the BIS chairmanship, McKittrick once again assumed the presidency of the BIS.

Along with OSS Bern Station Chief Allen Dulles, McKittrick would strive tenaciously and clandestinely to prevent the liquidation of the BIS. His term was filled with intrigue and all sorts of curious dealings as McKittrick and his allies on Wall Street, the OSS, and the State Department engaged in a concerted effort to save the Bank from what appeared to be imminent

⁵⁵⁹ McKittrick could travel through Italy and Germany during the war unmolested (Smith, *Hitler's Gold* 54)

⁵⁶⁰ LeBor, *The Tower of Basel* 73-91.

⁵⁶¹ Toniolo, *Central Bank Cooperation* 272, 274, 280.

⁵⁶² Toniolo, *Central Bank Cooperation* 231.

⁵⁶³ LeBor, *The Tower of Basel* 89-91; Toniolo, *Central Bank Cooperation* 225.

dissolution. He was even involved in making future arrangements with various German industrialists to ensure that they would continue to profit even after the war.⁵⁶⁴

Conflicts of interest extended to the private financial sector as well. The managing director of the American Union Banking Corporation (UBC) Prescott Bush was found to have violated the Trading with the Enemy Act (20 October 1942) when the UBC operated as a “de facto Nazi front organization”⁵⁶⁵ for German steel magnate Fritz Thyssen’s United Steel Works (*Vereinigte Stahlwerke*).⁵⁶⁶ UBC had its assets seized in 1942, yet after the war it was compensated for its losses and awarded \$1.5 million. Among the most high-powered of the American bankers personally involved in coordinating activities of the BIS were JP Morgan, Jr., (1913-1943) and Thomas Lamont (1903-1947). Many of John Foster Dulles’s Sullivan & Cromwell clients profited handsomely in the years leading up to and during the war by working on behalf of German industrialists such as Krupp⁵⁶⁷ and IG Farben⁵⁶⁸—whose owners and

⁵⁶⁴ LeBor, *The Tower of Basel* 120. Note: In the final weeks of the war, McKittrick spoke to Emil Puhl, who told him that the Nazis would never give up even after the war ended because they were fanatics (LeBor, *The Tower of Basel* 156-157).

⁵⁶⁵ John Buchanan, “Bush/Nazi Link Confirmed,” *New Hampshire Gazette* 248 (10 October 2003), <https://www.nhgazette.com/the-bushnazi-stories/bushnazi-link-confirmed/>

⁵⁶⁶ “How Bush’s Grandfather helped Hitler’s rise to power,”

<https://www.theguardian.com/world/2004/sep/25/usa.secondworldwar>; see also “The Profitable Business of War,” https://www.salon.com/2004/09/27/finance_nazis/; “Facilitating the Nazis: The Relationship between American Business and the Third Reich,” <https://jasonweixelbaum.wordpress.com/2008/09/07/facilitating-the-nazis-the-relationship-between-american-business-and-the-third-reich/>; For details, see Charles Higham, *Trading with the Enemy: An Expose on the Nazi-American Money Plot, 1933-1949* (New York: Delacorte Press, 1983).

⁵⁶⁷ See US Military Tribunal in Nuerenberg (NMT), known as the Krupp Trial, Vanderbilt University, <https://krupp.library.vanderbilt.edu/trial>, it was one of twelve subsequent trials after the IMT

⁵⁶⁸ See Subsequent Nuremberg Trials (aka NMT), Number 6, The I.G. Farben Case, “Trials of War Criminals [TWC] Before the Nuernberg Tribunals Under Control Council Law, Number 10, (Green Series): Volume 8: The I.G. Farben Case (Continued), 1-1471, https://tile.loc.gov/storage-services/service/ll/llmlp/2011525364_NT_war-criminals_Vol-VIII/2011525364_NT_war-criminals_Vol-VIII.pdf; see for example, Telford Taylor, “Opening Statements” University of Georgia Law School’s Digital Commons (27 August 1947), <https://digitalcommons.law.uga.edu/cgi/viewcontent.cgi?article=1002&context=nmt6>; John Foster Dulles argued vociferously against charges that he collaborated with Nazis but his role as gatekeeper (i.e., international lawyer) show that his involvement was more indirect (see, for example, Ronald W. Pruessen, *John Foster Dulles: The Road to Power* (New York: The Free Press, 1982), 123-132.)

employees were tried and found guilty at the NMT.⁵⁶⁹ Thus, there were a number of American bankers and businessmen who sought to profit through various arrangements with members of the Nazi regime.

Surreptitious Banking: Financial and Geopolitical Instability

According to J.P. Morgan, Sr., nothing undercuts confidence in finance as much as a lack of trust.⁵⁷⁰ Such a lack of trust can not only undermine long-term financial stability but also disrupt and degrade political and geopolitical relations and institutions. The Czech gold scandal is a case in point. The perceived injustice that surrounded the approval led to public outcry. Following the Bank of England's belated acknowledgement that Czechoslovakia's gold had been transferred into its occupiers' account, the reputations of the BIS, the Bank of England and the heads of these institutions suffered. Although IMT Chief Prosecutor Jackson⁵⁷¹ was unsuccessful in his prosecution of the banker and economist Hjalmar Schacht, Undersecretary of State Stuart Eizenstat compiled evidence in his diverse reports,⁵⁷² showing just how those wartime banking decisions had

⁵⁶⁹ Gustav Krupp was determined to be too sick to stand trial and many of those at Krupp had their sentences commuted (see Stanley Goldman, "A Fuhrer [sic] of Industry: Krupp Before, During, and After Nuremberg," *The Nuremberg Laws and the Nuremberg Trials*, *Loyola of Los Angeles International and Comparative Law Review*, Volume 39, 198, 187-208,

<https://digitalcommons.lmu.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1735&context=ilr>)

⁵⁷⁰ "[A] man I do not trust could not get money from me on all the bonds of Christendom" ("Testimony of Mr. J. Pierpont Morgan" in *Money Trust Investigation: Investigation of Financial and Monetary Conditions in the United States under House Resolutions Nos. 429 and 505, Parts 15-19*, United States Congress, House Committee on Banking and Currency (Washington, D.C.: U.S. Government Printing Office, 1913), 1084)

⁵⁷¹ At the time, Chief IMT Prosecutor Robert H. Jackson was also an Associate Justice of the United States Supreme Court (1941-1954).

⁵⁷² See Stuart E. Eizenstat, "Plunder and Restitution: Findings and Recommendations of the Presidential Advisory Commission on Holocaust Assets in the United States and Staff Report," *US National Archives* (December 2000), https://govinfo.library.unt.edu/pcha/PlunderRestitution.html/html/Home_Content.html

long-lasting geopolitical consequences.⁵⁷³ Along with convicted war criminals Funk and Puhl, Schacht carried the stigma of having long aided the Nazi regime, even after being acquitted by the IMT.⁵⁷⁴ The Czech gold scandal not only made the BIS a target for dissolution; it also raised awareness of the ways bankers and industrialists can be intimately involved in promoting and profiting from military actions and the resultant geopolitical instabilities that may result.

Looted Nazi Gold: Converting War Crimes into International Credit

The year 1939 was a transformative one. In that *annus horribilus*, Great Britain, France, and Italy had witnessed the grim consequences of their misbegotten Munich Agreement (30 September 1938), after the signing of which Hitler did pretty much as he pleased in Czechoslovakia. Lord Norman had still not deigned to inform his government about the worsening Czech gold scandal as late as 6 June 1939, though he had authorized the Czech gold to be transferred to the Reichsbank back in March. Then on 1 September 1939, Hitler invaded Poland.

Why did the Bank for International Settlements decide to continue financial operations during the war—a markedly risky endeavor, considering that the Bank’s board of directors and member banks were on both sides of the conflict—and then provide nearly unlimited financial services for the Third Reich? Germany had played an outsized role in the conceptualization and

⁵⁷³ “Without your help, my dear Schacht, none of this rearmament could have taken place” (Reichsminister of War General Werner von Blomberg in January 1937 (qtd. in George M. Taber, *Chasing Gold: The Incredible Story of How the Nazis Stole Europe’s Bullion* (New York: Pegasus Books, 2014), 45.)

⁵⁷⁴ “In 1946, the International Military Tribunal (IMT) acquitted him in the Nuremberg Trial of the Major War Criminals, but a Stuttgart denazification court [*Spruchkammer*] judged him as a “major offender” [*Hauptschuldiger*] the following year and sentenced him to eight years of hard labor. Schacht filed a successful appeal and was released in 1948” (GHDI (German History in Documents and Images), https://ghdi.ghi-dc.org/sub_image.cfm?image_id=1964).

drafting of the Bank's founding documents, and it was also undeniable that numerous Nazi officials later worked at the BIS—at least five of them were found guilty of Nazi war crimes after the war. Moreover, the BIS had specifically been created to aid in the growth of the German economy, and there appeared to be considerable profits that could be made through charging exorbitant fees for their financial services.⁵⁷⁵

These transfers were known to have begun just before the Austrian Anschluss (March 1938) and continued throughout the war.⁵⁷⁶ American historian Arthur L. Smith, Jr., also explained that other banks in Switzerland were involved in similar activities: “It was the opinion of the German Foreign Office that the Swiss saw a certain stability in the situation by providing Germany with this service and that the feeling increased with Hitler's attack on the Soviet Union in June 1941.”⁵⁷⁷ The BIS was thus an ideal institution for laundering Nazi contraband, since it was strategically located in a neutral country, maintained its secrecy tenaciously, and was eminently protected by its Charter, Statutes and Convention. As Smith put it, “With the gold increase [that was a result of Schacht's hidden gold reserve program], the Reichsbank needed the services of the international banking community from time to time, and none proved more helpful than the Bank for International Settlements in Basel, Switzerland.”⁵⁷⁸

After the invasion of the USSR, known as Operation Barbarossa, there was a noticeable increase in the role of Swiss banks, as they began to see opportunities for profit and national

⁵⁷⁵ Smith, *Hitler's Gold* 73-74; see also Vincent, *Hitler's Silent Partners* 105.

⁵⁷⁶ Vincent, *Hitler's Silent Partners* 105-144; see also Jean Ziegler, *The Swiss, the Gold, and the Dead*, translator John Brownjohn (New York: Harcourt Brace & Company 1998 [translated from *Die Schweiz, das Gold, und die Töten*, 1997]), 67-69,

https://www.worldhistory.biz/download567/TheSwisstheGoldandtheDead_worldhistory.biz.pdf

⁵⁷⁷ Smith, *Hitler's Gold* 50.

⁵⁷⁸ Smith, *Hitler's Gold* 4.

stability by assuming the role of Hitler's wartime banking system.⁵⁷⁹ By that time it had already become common knowledge that the Germans were engaging in wholesale looting of the countries that they occupied,⁵⁸⁰ and the US Treasury began to keep tabs on the Bank for International Settlements and the Swiss National Bank as likely conduits of illicit transfers of this gold,⁵⁸¹ perhaps because of the way the Swiss banks responded to Hitler's Operation Barbarossa. By 1942, the United States was using radio broadcasts and other media to repeatedly warn Swiss banks against associating with Nazi Germany.⁵⁸² By 1943, an Inter-Allied Declaration had warned neutral countries against dealing in looted gold.⁵⁸³ These warnings, however, had little effect: at about the same time, the Swiss National Bank in Bern was allowing Germany to deposit huge quantities of Belgian gold.⁵⁸⁴

There were allegations made at the highest levels of the British government that the president of the Swiss National Bank and chairman of the BIS Ernst Weber (December 1942–November 1945) knew that the gold the banks received from Germany was stolen:⁵⁸⁵ “As early as 1942 the Treasury Department suspected the BIS of shifting assets to neutral countries in

⁵⁷⁹ Smith, *Hitler's Gold* 50; see also, Bergier et al., “Switzerland and the Gold Transactions” 77.

⁵⁸⁰ Smith, *Hitler's Gold* 63.

⁵⁸¹ Smith, *Hitler's Gold* 53-54.

⁵⁸² Smith, *Hitler's Gold* 63-64.

⁵⁸³ Smith, *Hitler's Gold* 64; Toniolo, *Central Bank Cooperation* 249.

⁵⁸⁴ Smith, *Hitler's Gold* 64.

⁵⁸⁵ “Hostility to the B.I.S. first aroused over the question of Czech gold, was still noticeable from time to time and the publication of the [BIS] Twelfth Annual Report in the summer of 1942 gave rise to a number of ill-formed questions in the House of Commons and to allegations in certain quarters that the B.I.S. was not observing neutrality, but was favouring the Axis powers” (Bank of England Archive, M5/537 1300). The court demanded to know who had informed Puhl of this. “The president of the Swiss National Bank,” stated Puhl, “Ernst Weber.” (Ziegler, *The Swiss, the Gold* 84); see also Bergier et al., “Switzerland and the Gold Transactions” 11, 95, 122, 123.

order to ‘escape and defeat the foreign funds control’ of the U.S. Government and of being controlled by the Axis.’⁵⁸⁶

Approaching the transference and physical acquisition of looted gold from occupied countries from the BIS into the Reichsbank can be productively dealt with by means of a more general treatment of the transference process between banks located in Switzerland.⁵⁸⁷ Two banks of particular interest are the Swiss National Bank and the Bank for International Settlements. Since the BIS is an international bank, not technically a Swiss bank, it is protected yet not constrained by Swiss banking laws. As special envoy of the State Department Stuart E. Eizenstat concluded:

the amount of Germany’s gold reserves before the war was well known. Clearly the evidence [. . .] is incontrovertible: the Swiss National Bank and private Swiss bankers knew, as the War progressed, that the Reichsbank’s own coffers had been depleted, and the Swiss were handling vast sums of looted gold. The Swiss were aware of the Nazi gold heists from France of Belgian gold as well as from other countries.⁵⁸⁸

This shows how easily information can be distorted through obfuscation, secrecy or misinformation. When such transfers take place between two or more neutral banks, the complexity of the transaction may make it difficult to discern crucial details of the transaction to fully understand who did what when.⁵⁸⁹

Because the BIS played an intermediary role in the processing of the looted gold, the details as to those most responsible are obscured somewhat by the ability of those in positions of

⁵⁸⁶ Stuart E. Eizenstat, “U.S. and Allied Efforts to Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II: Preliminary Study,” prepared by William Z. Slany, *The Historian*, Department of State (May 1997), vi, 1-279, 187, <https://fcit.usf.edu/holocaust/resource/gold/gold.pdf>

⁵⁸⁷ Smith, *Hitler’s Gold* 48-67; Bergier et al., “Switzerland and Gold Transactions” 61-152, 191.

⁵⁸⁸ Eizenstat, “U.S. and Allied Efforts” vi-vii; see also Toniolo, *Central Bank Cooperation* 249.

⁵⁸⁹ Bergier et al., “Switzerland and the Gold Transactions” iii, 135.

authority to deflect attention away from themselves and onto others, as had happened most notably during the Czech gold scandal, in which the overlapping roles of the BIS and the Bank of England tended to obscure the identities of those responsible for almost two generations.

In the years preceding the unfreezing of the BIS accounts in the United States in 1948,⁵⁹⁰ the US Treasury Department collected evidence showing that “the BIS had received resmelted looted gold from the Reichsbank.”⁵⁹¹ Along with its well-guarded secrecy, the Statutes developed by Schacht also afforded the BIS considerable protection from external pressure. As Gianni Toniolo concisely explained: “The wise gentlemen who had drawn up the BIS Statutes at Baden-Baden had conceived an institution that proved difficult to unwind, protected as it was by an international treaty and Swiss corporate law.”⁵⁹² It is clear why he avoided mentioning that among those “wise gentlemen” was Hjalmar Schacht, an indicted war criminal, who was largely credited with having written the BIS Statutes. The Swiss bank secrecy laws, however, did effectively thwart earlier investigations into Swiss banking activities in 1946,⁵⁹³ and again in 1962.⁵⁹⁴

The Nazi bankers provided the central banks of neutral countries and the BIS with a suitable cover under which they could surreptitiously operate. The transactions between the Reichsbank and the various Swiss banks were conducted in such a way that the exact amount of the gold that was exchanged or transferred into Switzerland by Germany will probably never be fully known. Arthur L. Smith, Jr., one of the first to peruse the available archives in the late

⁵⁹⁰ Bank for International Settlements, “Note on Gold Operations”

⁵⁹¹ Eizenstat, “U.S. and Allied Efforts” 130, 134, 164, 167, 168, 175, 176, 178, 189.

⁵⁹² Toniolo, *Central Bank Cooperation* 280.

⁵⁹³ Eizenstat, “U.S. and Allied Efforts” vii-ix, 62-88, 95-120.

⁵⁹⁴ Eizenstat, “U.S. and Allied Efforts” viii, xxxiv, 194-196, 199, 200, 205.

1980s, estimated that the total amount of gold looted from foreign banks came to roughly \$625 million.⁵⁹⁵ Transactions handled by the Swiss National Bank on behalf of the Reichsbank totaled \$378 million,⁵⁹⁶ though the Reichsbank's records implied that it had gold reserves of only \$29 million. Such disparities in the accounting of looted gold made it difficult to complete a forensic audit, which would allow a quantitative confirmation of the gold transferred. Moreover, persistent intransigence exhibited by the Swiss National Bank undermined the ability of the American authorities to confirm the final transaction figures.⁵⁹⁷ When the estimated \$625 million of looted gold is added to the \$150 million that Germany is said to have had in reserve before the war, it appears that Hitler may have had somewhere around \$770 million in gold at his disposal. Subtracting the \$252 million that the Allies recovered from the Kaiseroda mine in Thuringia⁵⁹⁸ left about \$378 million, not counting Germany's possible \$150 in reserve, that "was passed into Switzerland where, in the underground vaults of the Swiss National Bank, it was moved from one depot to another for debit or credit as the needs of the Reichsbank were met."⁵⁹⁹

According to Eizenstat, the BIS admitted years later that it had acquired 13,542 kilograms of looted monetary gold during World War II, valued at \$15 million.⁶⁰⁰ The most notorious case aspect of this looted gold concerned Belgium:

[A]ccording to the testimony of former Reichsbank Vice President Puhl, [the Belgian gold] was accepted by the BIS after [BIS President Thomas] McKittrick and other officials [. . .] had been fully informed that it was Belgian gold for which payment by the Reichsbank had not been accepted. [. . .]. In every case the

⁵⁹⁵ Smith, *Hitler's Gold* xii, 51, 155 (where it is stated instead as \$621 million).

⁵⁹⁶ Smith, *Hitler's Gold* 51, 155.

⁵⁹⁷ Bank for International Settlements, "Note on Gold Operations" 6-7; Smith, *Hitler's Gold* 50: "If the Swedes were stubborn, the Swiss were the cube of stubbornness."

⁵⁹⁸ Greg Bradsher, "Nazi Gold: The Merkers Mine Treasure," *National Archives*, <https://www.archives.gov/publications/prologue/1999/spring/nazi-gold-merkers-mine-treasure.html>

⁵⁹⁹ Smith, *Hitler's Gold* 154-155.

⁶⁰⁰ Eizenstat, "U.S. and Allied Efforts" 189-190.

BIS accepted German assurances at face value long after McKittrick and Ernst Weber, director of the Swiss National Bank and chairman of the BIS administrative council, knew very well that the gold shipments “far exceeded the Reichsbank’s published reserves of legitimately acquired gold.”⁶⁰¹

These accounting disparities began soon after Hjalmar Schacht started to work as Hitler’s banker. Investigative reporter Isabel Vincent concluded:

The Reichsbank had actually been hiding gold since 1933, in flagrant violation of the 1919 Treaty of Versailles. In order to facilitate Germany’s rearmament, Hitler secretly appointed Hjalmar Schacht as plenipotentiary general for the war economy. Schacht [. . .] was ordered to keep two sets of books for the Nazi regime in order to plan secretly for a war economy.⁶⁰²

Thus, “[i]t was during Schacht’s tenure that the Reichsbank embarked upon a hidden-gold-reserve program reminiscent of the German gold buildup before the First World War.”⁶⁰³ Such hidden gold makes it difficult to properly determine the total German reserves before and after the war. So much of the deception, misinformation and obfuscation surrounding the facts of the gold transfers began early at the Reichsbank. After the Czech gold debacle, however, Allied nations were alerted to the possibility that it was not just Nazis who were looting gold.

The International Military Tribunal Investigates Bank Gold Transactions

At the International Military Tribunal (IMT) in Nuremberg (November 1945-October 1946), the judges decided that there was insufficient evidence to warrant finding Schacht guilty of conspiracy to engage in a war of aggression.⁶⁰⁴ Looking at the evidence, however, it is arguable

⁶⁰¹ Smith, *Hitler’s Gold* 57

⁶⁰² Vincent, *Hitler’s Silent Partners* 103.

⁶⁰³ Smith, *Hitler’s Gold* 3.

⁶⁰⁴ “[T]he French and British judges voting for acquittal and the American and Russian judges voting for conviction” (“Schacht Acquitted [by IMT] on Tie Vote,” *New York Times* (5 March 1947), 4, <https://timesmachine.nytimes.com/timesmachine/1947/03/05/88764244.html?pageNumber=4>).

that the prosecution at the IMT had not made the strongest case against Hitler's foremost banker and economist. Apparently, the judges did not take into account the March 1938 Austrian Anschluss, which devastated wealthy Austrian Jews through first the passage of the 1935 Nuremberg Laws⁶⁰⁵ and then the 1938 Order to Disclose Jewish Assets.⁶⁰⁶ The Nazis "systematically looted Austria's foreign assets, as well as the foreign-owned assets held in Austria";⁶⁰⁷ Austrian Jews had their homes and businesses plundered and their money, homes and cars taken; and they were subjected to mass arrests.⁶⁰⁸ All this occurred while Schacht was at the helm at the Reichsbank and director at the BIS. He was undoubtedly aware of the "large amount of gold and foreign exchange [acquired] from the Austrian National Bank"⁶⁰⁹ that entered the Reichsbank's coffers. Schacht himself testified at his trial that he generally saw Hitler's decision to pursue the Anschluss as regrettable but inevitable⁶¹⁰—inevitable because the

⁶⁰⁵ "[A German court of appeals wanted to review three points, including testimony] that Dr. Schacht secretly had been a member of the Nazi party, that he had paid to the treasury the sum of 1,000 Reichsmarks monthly in recognition of having been made a bearer of the golden badge, and that his resistance to the Hitler Government had not been based on genuine anti-Nazi sentiment" ("Germans Cancel Schacht Release Pending New Study of Nazi Ties," *New York Times* (6 November 1948), 1, <https://timesmachine.nytimes.com/timesmachine/1948/11/06/86757237.html?pageNumber=1>)

⁶⁰⁶ See, Order form to Disclosure of Jewish Assets (valued over 5000 Reichsmarks), <https://refairesavie.museeholocauste.ca/eng/order-disclosure-jewish-assets>

⁶⁰⁷ Blaazer, "Finance and the End of Appeasement" 31; Longerich, *Hitler* 955, 1935 Nuremberg Laws, also known as the "Law for the Protection of German Blood and Honor," <https://www.yadvashem.org/docs/nuremberg-law-for-protection-of-german-blood-1935.html>; this was followed three years later by passage of the "Decree for the Reporting of Jewish-owned Property" (26 April 1938), which required all Jews in Germany and Austria to report all assets in excess of 5000 Reichsmarks, <https://alphahistory.com/holocaust/decreed-reporting-jewish-owned-property-1938/>. Armed with this knowledge, Göring made it much easier for wealthy Jews to be separated from their assets.

⁶⁰⁸ Longerich, *Hitler* 552.

⁶⁰⁹ Longerich, *Hitler* 553.

⁶¹⁰ TMWC [Trial of the Major War Criminals], Volume XII: Proceedings, One Hundred and Seventeenth Day, Tuesday (30 April 1946), (Morning Session), *Nuremberg Trial Proceedings*, Volume 12, 435, *Avalon Project*, Yale University, <https://avalon.law.yale.edu/imt/04-30-46.asp>

Austrian Anschluss was the first item on Hitler's list of projected military actions.⁶¹¹ Moreover, Schacht even agreed with it in terms of political and economic policy.⁶¹²

To be fair, Schacht's behavior did not explicitly cross into conspiracy to commit war crimes and/or crimes against humanity; his acts were more shrouded and less clear cut, especially when compared to those of Funk and Göring, in part because he was much more protected by the IMT than either Funk or Göring. Funk was found guilty of war crimes and sentenced to life in prison for his role in enabling Hitler's inhumane and brutal practices, while Göring escaped the hangman's noose by taking his own life. As part of the IMT's final judgment, Chief Prosecutor Robert Jackson referred to Funk in a manner that has since led to his being called "the Gold Tooth Banker"⁶¹³ because of his involvement in converting gold extracted from dentures, as well as gold bullion,⁶¹⁴ into valuable credit,⁶¹⁵ while the Reichsbank served as the primary location for the collection, storage, and inventorying of the contraband gold.⁶¹⁶

Consideration of the roles played by those bankers and industrialists who promoted the escalating militarism brings us full circle back to the BIS and its Swiss banking environment. While the BIS was designed as an international bank which advertised itself as promoting international

⁶¹¹ Longerich, *Hitler* 543-554.

⁶¹² See also Taber, *Chasing Gold* 97.

⁶¹³ "As Minister of Economics FUNK accelerated the pace of rearmament, and as Reichsbank president banked for the SS the gold teeth fillings of concentration camp victims—probably the most ghoulis collateral in banking history" (Robert H. Jackson, "Closing Arguments for Conviction of Nazi War Criminals" (Nuremberg, 26 July 1946) *Temple Law Quarterly* 85 (1946), 96, 85-107, https://www.roberthjackson.org/wp-content/uploads/2015/01/Closing_Argument_for_Conviction_of_Nazi_War_Criminals.pdf).

⁶¹⁴ Reveille, *The Spoil of Europe* 138-143, <https://archive.org/details/TheSpoilOfEurope>.

⁶¹⁵ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings (Afternoon Session), 3 May 1946-15 May 1946 (3 May 1946) ["Testimony of Hjalmar Schacht"], 71-202, in *The Trial of the Major War Criminals before the International Military Tribunal, Nuremberg, 14 November 1945-1 October 1946* (Nuremberg, 1948), 171-173, https://tile.loc.gov/storage-services/service/ll/llmlp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf

⁶¹⁶ Reveille, *The Spoil of Europe* 89-150, <https://archive.org/details/TheSpoilOfEurope>.

cooperation and financial stability, its actions revealed just how financially and politically destabilizing it was in the years preceding and during the Second World War.

The two international organisations – the League of Nations, based in Geneva, and the Bank for International Settlements (BIS) (Bank für Internationalen Zahlungsausgleich, BIZ), which was set up in Basel in 1930, were intended to safeguard the stability of the world order, but failed in this task. This was largely due to the fact that both institutions were hopelessly embroiled in the legacy of war.⁶¹⁷

The BIS had effected this destabilization through its financial assistance to Nazi Germany by facilitating its ability to loot the vaults of various European central banks⁶¹⁸ and promote its racist and industrialized war of aggression.⁶¹⁹ The BIS, however, was not alone in this, as the “consignments from the Reichsbank to the SNB [Swiss National Bank] amounted to around 500 million francs.”⁶²⁰

To see just how the actions of the bankers at the Reichsbank and the directors of the BIS contributed to the growth of geopolitical instability and the militarism of the Nazi regime, some consideration of the findings of the IMT is warranted. It is clear, however, that by working with the Nazi regime, Hitler and the SS, Schacht, Funk and Puhl introduced distrust⁶²¹ into the world

⁶¹⁷ Independent Commission of Experts Switzerland – Second World War: “Switzerland, National Socialism and the Second World War, Final Report” (Zürich: Pendo Verlag GmbH, 2002), 1-597, 52, <https://www.uek.ch/en/schlussbericht/synthesis/ueke.pdf>;

⁶¹⁸ Bank for International Settlements, “Note on Gold Operations” (1997), see Appendix 2: “International Postal Settlements: Receipts and Payments for the Account of the Reichsbank, 1st September 1939-8th May 1945” (unnumbered pages 19-21); see also, Independent Committee of Eminent Persons, *Report on Dormant Accounts of Victims of Nazi Persecution in Swiss Banks* (Bern, Switzerland: Stampfli, 1999).

⁶¹⁹ For more descriptive and accounting details of the BIS, see Bergier et al., “Switzerland and the Gold Transactions” (2002 [1998]).

Note: “Furthermore, we only discuss the role of the Bank for International Settlements in passing. A systematic examination of the bank’s abundant historical resources would shed light on the relationships between the Reichsbank, the BIS, and Swiss banks” (22).

⁶²⁰ “Switzerland, National Socialism and the Second World War,” 240; see also Figure 4: Gold Purchases by the SNB from the Reichsbank, 1939-1945 (241).

⁶²¹ “Much of this [wholly unjustified suspicion] was linked up with the figures of Governor Norman and Dr. Schacht, and an atmosphere of irritated distrust was unwillingly created that found its outburst at the occasion of the

of international banking and in particular into the central hub of the nascent system, the BIS, which is why it was targeted for liquidation.

The International Military Tribunal (IMT) and the Subsequent Nuremberg Military Tribunals (NMT) conducted intensive interrogations; compiled meticulously maintained troves of Nazi documents;⁶²² heard testimony from witnesses, including Schacht, Funk and Puhl, among many others; and cross-examined them. The question of whether Schacht, Funk, and Puhl acted immorally or were just doing their jobs after being put in difficult ethical positions preoccupied the judges, prosecutors, and lawyers. Schacht and Funk were tried as major Nazi war criminals by the IMT, Puhl by the NMT. Funk and Puhl were found guilty of war crimes; Funk received a life sentence, and Puhl received a five-year sentence. The fact that both Funk and Puhl were on the BIS board of directors while Funk was the Reichsbank president and Puhl was its vice-president⁶²³ raised red flags, which led to additional inquiries regarding the details of what the BIS had done during the war in coordination with the Reichsbank.

Schacht was acquitted, although Chief Prosecutor Robert H. Jackson's Closing Argument (26 July 1946) presents a powerful case that he, along with other bankers and industrialists, should be found guilty.⁶²⁴ The Soviet judge Major General I.T. Nikitchenko, too, vehemently

unfortunate incident of the transfer of the gold of the Czecho-Slovak National Bank" (Beyen, *Money in a Maelstrom* 132).

⁶²² See, for example, Lord Russell of Liverpool, *The Scourge of the Swastika*: "the records, returns, inventories, orders, and other documents, all carefully preserved, which fell into Allied hands after the surrender of the German forces in Europe" (2).

⁶²³ Toniolo, *Central Bank Cooperation* 225.

⁶²⁴ "It was SCHACHT, the façade of starched respectability, who in the early days provided the window dressing, the bait for the hesitant, and whose wizardry later made it possible for Hitler to finance the colossal rearmament program, and to do it secretly" (Robert H. Jackson, "Closing Arguments for Conviction of Nazi War Criminals," *Temple Law Quarterly* 30 (1946): 85-107, 96; "[Göring summed up the Nazi plan at a 27 May 1936 meeting Schacht attended:] All measures are to be considered from the standpoint of an assured waging of war" (91), https://www.roberthjackson.org/wp-content/uploads/2015/01/Closing_Argument_for_Conviction_of_Nazi_War_Criminals.pdf

disagreed with Schacht's acquittal.⁶²⁵ In support of his dissent, he reminded the Tribunal of letters that Schacht had sent Hitler both early and late in his career spent working under the dictator. Nikitchenko presented an excerpt of a 12 November 1932 letter in which Schacht wrote to Hitler: "I have no doubt that the present development of things can only lead to your becoming Chancellor. It seems as if our attempt to collect a number of signatures from business circles [I.G. Farbenindustrie] for this purpose is not altogether in vain."⁶²⁶ What this letter shows is that Schacht knew that militarization was the intended strategy of the Nazi Party.⁶²⁷ Nikitchenko submitted a long list of evidence that "Schacht also participated in the persecution of the Jews [...and] agreed to the policy of the persecution of the Jews as a matter of principle," of which only a single example was that "[i]n his capacity of Minister of Economics, Schacht signed a series of decrees, in accordance with which the property of the Jews in Germany was subject to plunder with impunity,"⁶²⁸ providing support that Schacht was fully informed of the Nazi agenda at the time and completely agreed with it.

There are several complicating issues related to Schacht's acquittal, one of the most notable⁶²⁹ being the glaring disparity at the highest levels on the advisability of prosecuting him at all: while certain Americans were determined to do so, "the British had not listed Schacht as a

⁶²⁵ IMT Judgment—Dissenting Opinion, Avalon Project, <https://avalon.law.yale.edu/imt/juddiss.asp>; see also a statement from a Letter to Hitler dated 3 May 1939 that "For the purpose of the most effective execution of this "New Plan" Schacht used the property and means of those political enemies of the Nazi régime, who either became the victims of terror or were forced to emigrate (Schacht's note to Hitler of 3rd May, 1939)."

⁶²⁶ Nikitchenko, "Unfounded Acquittal of Defendant Schacht" 156-163, https://crimeofaggression.info/documents/6/1946_Nuremberg_Judgement.pdf

⁶²⁷ International Military Tribunal, Trials of the Major War Criminals (TMWC), Volume XIII, One Hundred and Twentieth Day, (Morning Session), Friday 3 May 1946, 23: "MR. JUSTICE JACKSON: And the success of that aggression at every step was due to the Wehrmacht which you had so much to do with creating? SCHACHT: Unfortunately." <https://avalon.law.yale.edu/imt/05-03-46.asp>

⁶²⁸ Nikitchenko, "Unfounded Acquittal of Defendant Schacht" 156-163, https://crimeofaggression.info/documents/6/1946_Nuremberg_Judgement.pdf

⁶²⁹ See Endnote 2 in Appendix

proposed defendant.”⁶³⁰ As the Bank of England’s Montagu Norman was a close family friend—and Schacht’s grandchild was baptized with Norman’s name in Berlin in January 1939—it seems likely that some at the Bank of England were unwilling to have the close friend of their bank’s governor prosecuted—and may have had the power to influence the lists of those slated for trial. Lastly, efforts were made by both British and certain other Americans at the Nuremberg Palace of Justice to ensure that Schacht would ultimately be acquitted, in opposition to Chief Prosecutor Jackson’s intentions.⁶³¹

Although an overwhelming amount of evidence against Schacht was presented at his trial, it appears to have been ignored by some of the judges, ultimately raising questions as to what is considered acceptable behavior within the international banking community. The issue is not strictly whether Schacht was in fact a war criminal, which is a technical finding entirely dependent on the actual wording and intent of the Nuremberg Charter, the evidence presented, the testimony given, and the disposition of the judges. Rather, this thesis scrutinizes Schacht’s character because he was a founding member of the BIS, credited with drafting its Statutes,⁶³² and one of its most highly regarded directors.⁶³³ This is a relevant line of inquiry because if it is true that decisions made by

⁶³⁰ Telford Taylor, *The Anatomy of the Nuremberg Trials: A Personal Memoir* (New York: Skyhorse, 2013 [1993]), 386.

⁶³¹ Taylor, *The Anatomy of the Nuremberg Trials* 53-55, 80-82; See Report to President Truman by Mr. Justice Jackson (6 June 1945), *Avalon Project*, Yale Law School, <https://avalon.law.yale.edu/imt/jack08.asp>; see also Endnote 2 in Appendix

⁶³² Jackson Reynolds is alluded to as having been part of the statute drafting committee (Gates W. McGarrah, “The First Six Months of the Bank for International Settlements,” *Proceedings of the Academy of Political Science* 14 (1931), 27, 25-36).

⁶³³ Beyen in his *Money in a Maelstrom* presents Schacht as both courageous and impudent, and yet at heart a Nazi: “[The Nazis] swallowed the impudence with which he told them the most disagreeable truths not only because they admired impudence as such, but also because they knew he would be just as impudent in dealing with foreign creditors. Schacht always claimed not to be a Nazi and by breeding and culture he certainly was not. He showed great courage in opposing his new masters. But he shared their creed that the use of power is a means sanctified by its end—the ‘major sui gloria’” (85).

bankers, financiers and financial institutions have possible geopolitical ramifications, then their actions should be carefully considered and supervised.

Compared with Schacht's case, the handling of Funk's appeared to be more straightforward, but there was a complication in his prosecution that also showed just how unwanted evidence could be suppressed when convenient. During his trial, a short silent film was presented which purported to show vast quantities of gold, including gold dentures,⁶³⁴ discovered by American soldiers. On being asked where the film was made, IMT prosecutor Thomas J. Dodd referred the Tribunal to an affidavit of the "circumstances under which the film was made"⁶³⁵ and answered that it was filmed in Frankfurt.⁶³⁶ Funk appeared a little confused and stated in his defense that "I never saw a single item such as these shown in the film, and I cannot imagine where these things came from, to whom they belonged, and to what use they were put."⁶³⁷ He cogently argued that "[p]hotography and especially films are always very dangerous documents because they show many things in a light different from what they really are,"⁶³⁸ and further stated that the collection appeared to have come from potassium mines in Thuringia, having been placed there for protection against bombing, and moved from there to Frankfurt. Though Funk's defense was undermined by testimony against him given by former vice-president of the Reichsbank Emil Puhl,⁶³⁹ there was a legitimate problem with

⁶³⁴ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Morning Session), 169-171, https://tile.loc.gov/storage-services/service/ll/llmlp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf

⁶³⁵ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Morning Session), 169.

⁶³⁶ *Ibid.*

⁶³⁷ *Ibid.*

⁶³⁸ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Morning Session), 203.

⁶³⁹ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Morning Session), 170-171.

the filmed evidence that was used against him: as Kevin Reynolds explains in a 2013 paper, the vault containing the enormous quantity of gold had indeed been moved. It had been situated in the Russian zone and needed to be transported by the Allied Powers lest the Russians take control of it.⁶⁴⁰ After the gold was transferred to Frankfurt, it was then filmed there.⁶⁴¹ While it was Funk himself who “had ordered the transfer of the Berlin’s Reichsbank’s contents to the Kaiseroda potassium mine in Merkers, Thuringia,”⁶⁴² he had not been privy to the decision to move it, which explains his confusion during the trial at being told that it was discovered and filmed there. One of the Tribunal defendants Hans Fritzsche later included a chapter in his 1953 memoir, “Funk and the Bogus Film,” portraying Funk as being railroaded with false evidence.⁶⁴³ Yet while the evidence was in some ways false, in so far as it misrepresented the place the gold was discovered, it was no less damning for Funk.

It is clear from the IMT documents that the Reichsbank and its BIS associates were deeply involved in accepting Jewish contraband and gold bars from various plundered European central banks, as attested by the transcripts and the subsequent guilty verdicts of Funk, Puhl and many others. The trial records demonstrate that not only did Funk and Puhl convert looted gold from the countless victims within the Nazi concentration camps but that they accepted stolen gold bars from the national banks of Belgium and the Netherlands.⁶⁴⁴ Testimony given to the

⁶⁴⁰ Reynolds, “Banking against Humanity” 511-529.

⁶⁴¹ Reynolds, “Banking against Humanity” 520-521.

⁶⁴² Reynolds, “Banking against Humanity” 519.

⁶⁴³ Reynolds, “Banking against Humanity” 521.

⁶⁴⁴ TMWC [Trial of the Major War Criminals], Volume XIII, One Hundred and Twenty-Third Day (Tuesday, 7 May 1946), (Morning Session), 166-179: “FUNK: I put the question [to Himmler], ‘There is a gold deposit from you, from the SS, which we have at the Reichsbank. The members of the board of directors have asked me whether the Reichsbank can utilize that.’ And he said, ‘Yes.’ I did not say a word about jewelry or things of that kind or gold teeth or anything of that sort” (177).

⁶⁴⁴ Toniolo, *Central Bank Cooperation* 225. See also LeBor, *The Tower of Basel* 86-87.

IMT by Finance Minister Funk was seen as particularly incriminating, as, for example, when he explained that “a gold deposit had arrived from the SS and [BIS Director Emil] Puhl told me—and he said it somewhat ironically—it would be better that we should not try to ascertain what this deposit was.”⁶⁴⁵ The charges were also affirmed by the troves of documents American soldiers captured during the war. Though it has taken decades to discover what most likely happened at the BIS and the Swiss National Bank during the war, the long-felt need to liquidate the BIS throughout the war years ultimately undermined the ability of the Bank to hide its role most spectacularly.

It was not just that the BIS had worked closely with the Reichsbank and various military industries; it was that they continued to do so throughout the war in ways that seemed far from neutral and apolitical: a neutral observer could easily have construed that these bank employees were actively aiding and abetting the enemy during wartime. Simply stated, what the BIS did during the war was to act as a kind of clearinghouse that facilitated the receipt and transference of assets without physically moving them through the issuances of remittances, or receipts, in which transactions appeared as changes in account balances.⁶⁴⁶

The BIS cooperated and facilitated this scheme [to use currency manipulation and bank clearing procedures to loot the economies of entire countries] despite protests from exiled Allied governments. The bank recognized the Nazi-installed occupation governments, provided the clearing services essential to ‘legalizing’ the operation, and even went so far as to help Nazi leaders such as Walther Funk unload looted gold in international markets.⁶⁴⁷

⁶⁴⁵ TMWC [Trial of the Major War Criminals], Volume XIII, One Hundred and Twenty-Third Day (Tuesday, 7 May 1946), (Morning Session), 166, <https://avalon.law.yale.edu/imt/05-07-46.asp>

⁶⁴⁶ See “clearing-house” *Oxford Dictionary of Economics* (2012).

⁶⁴⁷ Christopher Simpson, *The Splendid Blond Beast: Money, Law, and Genocide in the Twentieth Century* (New York: Grove Press 1993), 222.

In other words, the BIS laundered the Nazi's ill-gotten gains into forms of internationally recognized credit.

Most of what we believe to be the case regarding the details of the transactions between the Swiss National Bank, the BIS, and the Reichsbank come from statements made by the vice president of the Reichsbank during the war, Emil Puhl.⁶⁴⁸ In many of Puhl's statements, he seemed quite comfortable sharing what he purportedly knew about the various details of the gold transactions and individuals involved, including those with the president of the Reichsbank Walther Funk. Puhl's testimony against Funk helped the IMT convict Funk of war crimes for which he received a sentence of life in prison, whereas Puhl only received a five-year sentence.

The additional dimension of possible war crimes raised the stakes and put the BIS and the SNB under a microscope. Once suspicion arose concerning the Bank's handling of wartime contraband acquired from occupied nations,⁶⁴⁹ various interrelated investigations were launched. Bankers, industrialists and businessmen could now be viewed as possibly playing a role in perpetuating long-term negative geopolitical consequences. However, with the transition into the postwar world of nuclear weapons, espionage and an emergent Cold War with the Soviet Union, the US State and Treasury departments agreed to pull the beleaguered Bank back from the brink on 13 May 1948, as the following chapter will discuss.⁶⁵⁰

⁶⁴⁸ See for examples, Toniolo, *Central Bank Cooperation* 228-229; Smith, *Hitler's Gold* 52 and Puhl's testimony at the NMT ("[T]he Tribunal convicted banker Emil Puhl because he 'knew that what was to be received and disposed of was stolen property and loot taken from the inmates of concentration camps'" (Brief of Amici Curiae Nuremberg, 22, <https://earthrights.org/wp-content/uploads/AmicusBriefofNurembergScholars7.1.11.pdf>)).

⁶⁴⁹ Reveille, *The Spoil of Europe* 89-151, <https://archive.org/details/TheSpoilOfEurope>.

⁶⁵⁰ Eizenstat, "U.S. and Allied Efforts" vii, xxiii, xxvi, 64-65.

Conclusion

Though Schacht was never ultimately found guilty of having committed war crimes,⁶⁵¹ he was on the list of major war criminals compiled by the United States⁶⁵² for the immoral and unethical fiscal and financial banking activities he had engaged in during his tenure under Hitler. It was not until the March 1939 Czech gold scandal, however, that the overt looting of once-sovereign nations' gold revealed the existence of questionable gold transactions even before World War II began in Europe. And the sophistication of these surreptitious banking transactions can be traced back to Schacht (e.g., his Mefo bills (1934-1938)) and would later continue under his protégé Walther Funk. Other neutral Swiss banks also played their part in obfuscating the nature of the acquisitions and the ownership of the looted gold that entered their coffers, while various American businessmen and bankers were likewise involved in commercial and gold transactions with the BIS and the Reichsbank. These surreptitious banking activities conducted in coordination with and on behalf of Hitler and his Nazi regime highlight the profound geopolitical influence that bankers and businessmen can have on geopolitics, which in part explains their inclusion on lists of war criminals and subsequent indictments and trials. Awareness of illicit gold transfers spawned a series of official warnings and investigations of these financial activities engaged in by the Bank for International Settlements and the Swiss National Bank. These international investigations into illicit gold transactions brought the questionable financial activities of the BIS and the SNB to the attention of various wartime and postwar authorities.

⁶⁵¹ Schacht was in fact found guilty by a German denazification court and sentenced to eight years hard labor, but his conviction was overturned on appeal.

⁶⁵² *Note:* Schacht's name never appeared on the war criminals list compiled by the United Kingdom.

Chapter 5

The BIS Back from the Precipice

Overview

After financially assisting the Third Reich by converting Nazi contraband into valuable international credits during the war, the BIS's claims of apolitical neutrality were publicly exposed as false. Its claims of immunity and immortality were also debatable; there was an intense battle underway in which the fate of the BIS would ultimately be determined. By 1944, the Bank's demise appeared all but certain. All was not lost, however, because there were many other things of greater importance to do during the war, so the BIS was left to go about its business of laundering the Nazis' atrocity-laden contraband. This decision to allow the Bank to continue operating during the war was predicated on the idea that it would eventually be liquidated. Yet the battle to save the BIS had begun even before the definitive call for its dissolution. This chapter discusses some of the investigations behind the proposed liquidation of the BIS and the surprising array of individuals, institutions and circumstances that ultimately led to the decision to rescue it.

Soon after the American lawyer Thomas McKittrick was reappointed as BIS president in a deal that included installing the pro-Nazi president of the Swiss National Bank Ernst Weber as BIS chairman, Bern OSS Station Chief Allen Dulles joined in what appeared to be a concerted campaign to save the Bank from liquidation that included the US State Department, the Federal Reserve Board,⁶⁵³ and the Bank of England. While John Maynard Keynes and Harry Dexter

⁶⁵³ Toniolo, *Central Bank Cooperation* 280.

White were both at the center of the “main” Battle of Bretton Woods,⁶⁵⁴ they also played roles in this “other” battle—the battle to save the Bank. Keynes, according to Toniolo, was both for and against liquidating it,⁶⁵⁵ but White was decidedly against it, after learning of its likely financial malfeasance. After the Bretton Woods agreement was concluded and no action against the Bank was taken, the “other” battle went into overdrive, with a series of investigations at the US State Department and Treasury Department that informed their decision regarding the Bank’s future. Though the credibility of the BIS and the SNB was damaged, by early 1948 a compromise was reached in which the BIS returned 3.4 tons of gold to Belgium and the Netherlands and opened their records for review, in return for ending the investigation and the threat of liquidation.⁶⁵⁶

Investigating the BIS

Although it was generally known that the Third Reich, which by 1939 wholly controlled the Reichsbank, was plundering and looting all of the countries it occupied, and early warnings had appeared in previous years pointing to the likely coordination between the Reichsbank and the BIS, it was not really until mid-1942 that the Allies begin to seriously address the problem of their coordination.⁶⁵⁷ The US Treasury Department under Henry Morgenthau, Jr., (1 January 1934–22 July 1945) began to take an interest in the gold transactions of the BIS following publication of the Bank’s Twelfth Annual Report (April 1942), which revealed that the BIS had

⁶⁵⁴ The “main” battle of Bretton Woods revolved, in part, around two proposals for a new monetary system, the “White stabilization fund and Keynes clearing union,” of which the former worked with existing currencies while the latter required a newly proposed currency (Toniolo, *Central Bank Cooperation* 265).

⁶⁵⁵ Toniolo, *Central Bank Cooperation* 279.

⁶⁵⁶ BIS, “The BIS during the Second World War,” https://www.bis.org/about/history_2ww2.htm

⁶⁵⁷ Smith, *Hitler’s Gold* 63.

closely cooperated with the Reichsbank.⁶⁵⁸ This development led President Roosevelt and Morgenthau to freeze German and Swiss assets located in the United States.⁶⁵⁹ Deepening suspicions resulted in the United States blocking the Bank for International Settlements' ability to transfer a million dollars into an account located at the Swiss National Bank in July 1942.⁶⁶⁰

Efforts to compel the BIS to desist from its wartime profiteering in service of the Nazis continued throughout the war. Treasury Secretary Morgenthau issued a press release on 22 February 1944 in response to the continued refusal of the neutral Swiss banks and the BIS to heed such British and American warnings against accepting looted Axis gold: "The United States Government formally declares that it does not and will not recognize the transference of title to the looted gold which the Axis [. . .] has disposed of in world markets."⁶⁶¹

The US Treasury Department also began to see the renewed urgency of liquidating the BIS. Although calls for such liquidation had begun after the Czech gold scandal,⁶⁶² the BIS had largely been left to its own devices throughout the war, until 1944. A draft proposal submitted by a Norwegian delegate⁶⁶³ to the United Nations Monetary and Financial Conference at Bretton

⁶⁵⁸ BIS, Twelfth Annual Report (Basel, 1942), https://www.bis.org/publ/arpdf/archive/ar1942_en.pdf

⁶⁵⁹ Smith, *Hitler's Gold* 63.

⁶⁶⁰ Eizenstat, "U.S. and Allied Efforts" 187-188.

⁶⁶¹ Quoted in Smith, *Hitler's Gold* 65.

⁶⁶² "[The Labour Party felt] that the Bank for International Settlements should be liquidated before it furnished any more sinews of war to Germany" ("Sees British Hands Tied on Czech Gold," *New York Times* (6 June 1939), 6, https://timesmachine.nytimes.com/timesmachine/1939/06/06/88164147.pdf?pdf_redirect=true&ip=0); It should be pointed out that the entirety of this *New York Times* article perpetuated the false impression that the Bank of England had not yet transferred the gold, because Norman instituted a falsehood upon the British government.

⁶⁶³ See Edwin M. Truman, "The End of the Bretton Woods International Monetary System," Working Paper Series WP17-11, *Peterson Institute for International Economics* (2017): 1-38, <https://ideas.repec.org/p/iee/wpaper/wp17-11.html>, 6n6: "The Bretton Woods conference, after a substantial amount of discussion, recommended the 'liquidation of the BIS at the earliest possible moment.'" In the period immediately following the conference, there were extensive discussions, largely between the United States and the United Kingdom, about whether and how to implement this recommendation. In the end, the matter was dropped because it would have required another treaty to liquidate the BIS, since it had been established by treaty, and the central banks, in particular European central banks, pressured their governments not to dissolve their club."

Woods, New Hampshire,⁶⁶⁴ called for the Bank for International Settlements to be dissolved “at the earliest possible moment” and asked that there be appointed a “commission to examine the management and transactions of the bank during the war,”⁶⁶⁵ but Assistant Secretary of State Dean Acheson, Keynes and the British delegation preferred to drop the examination requirement and just continue using the language that it would be liquidated at the earliest possible date.⁶⁶⁶ Within less than six months (on 3 November 1944), this proposal was amended so that only the proposed liquidation language appeared.⁶⁶⁷ It was agreed through this compromise that no inquiry into its books and vaults would be conducted, although the language of imminent liquidation would remain, which permitted the BIS to continue operating throughout the remainder of the war.⁶⁶⁸

Morgenthau and senior US Treasury Department official Harry Dexter White (1892-1948) were also among those who wanted the Bank liquidated.⁶⁶⁹ White in particular spearheaded the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) in 1944, though it is unclear whether these

⁶⁶⁴ “Liquidation of the Bank for International Settlements, The United Nations Monetary and Financial Conference Recommends: The Liquidation of the Bank for International Settlements at the earliest possible moment” (“Final Act and Related Documents,” United Nations Monetary and Financial Conference, Bretton Woods, New Hampshire (July 1 to July 22, 1944), 22, https://fraser.stlouisfed.org/files/docs/historical/eccles/036_17_0004.pdf).

⁶⁶⁵ Eizenstat, “U.S. and Allied Efforts” 188; “In summer 1941, *Fortune* magazine warned that Germany, by picking up shares from French, Belgian, Netherlands, Norwegian, and other holders, had gained control of the BIS” (Eizenstat, “U.S. and Allied Efforts” 187). See also Smith, *Hitler’s Gold* 58-59; see also International Financial Problems, The Bretton Woods Proposals, US Chamber of Commerce Finance Department (Washington DC, February 1945), 9-10, https://fraser.stlouisfed.org/files/docs/historical/eccles/036_18_0002.pdf

⁶⁶⁶ Eizenstat, “U.S. and Allied Efforts” 188.

⁶⁶⁷ Board of Governors of the Federal Reserve System, “Final Act and Related Documents of the United Nations Monetary and Financial Conference” (3 November 1944), 23, https://fraser.stlouisfed.org/files/docs/historical/eccles/036_17_0004.pdf

⁶⁶⁸ LeBor, *The Tower of Basel* 120-121.

⁶⁶⁹ Toniolo, *Central Bank Cooperation* 268.

were specifically intended to replace the BIS or just supplement it.⁶⁷⁰ Opposing the Bank's liquidation, however, were powerful advocates who worked to ensure its survival, including the US State Department, prestigious Wall Street firms, the Bank of England, the Federal Reserve, and certain members of the US Office of Strategic Services.⁶⁷¹ In the end, those who sought to preserve the disgraced Bank proved victorious against those whom they saw as their adversaries, and the Bank remains in existence to this day. However, the story behind this "other" battle at Bretton Woods is remarkable for its complexity; parts are still intensely debated.⁶⁷²

After postponing liquidation of the BIS following Bretton Woods, the United States conducted a covert investigation into the wartime activities of the Bank.⁶⁷³ Its report stated that its investigators

repeatedly encountered evidence of the Reichsbank's remarkably close and solicitous relationship with the Bank for International Settlements throughout the war, which raised strong suspicions of still-unrevealed war-time advantages accruing to the Reichsbank, and to the German Reich in general from their relationship with the BIS.⁶⁷⁴

This study concluded that "[t]he evidence from German sources is sufficient to raise serious questions as to the legitimacy of much of the war-time business of the B.I.S."⁶⁷⁵ One of the

⁶⁷⁰ Auboin stated that the BIS "could indeed be a useful complement to them" ("The Bank for International Settlements" 17); but see also Robert Skidelsky, *John Maynard Keynes, Volume 3: Fighting for Freedom, 1937-1946* (New York: Viking, 2000), 189: "[Harry White] drew up his own scheme for an International Stabilisation Fund [in opposition to the Bank for International Settlements]."

⁶⁷¹ Eizenstat, "U.S. and Allied Efforts" vi.

⁶⁷² See, for example, Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013); R. Bruce Craig, *Treasonable Doubt: The Harry Dexter White Spy Case* (Lawrence, Kansas: University Press of Kansas, 2004); John Earl Haynes and Harvey Klehr, *In Denial: Historians, Communism, and Espionage* (San Francisco: Encounter Books, 2003); James M. Boughton, "Dirtying White: Why Does Benn Steil's History of Bretton Woods Distort the Ideas of Harry Dexter White?" *The Nation* (2013): 44, <https://www.thenation.com/article/archive/dirtying-white/#axzz2bOBIfIRO>.

⁶⁷³ For details, see Eizenstat, "U.S. and Allied Efforts" 189-190.

⁶⁷⁴ Quoted in Smith, *Hitler's Gold* 3.

⁶⁷⁵ Quoted in Smith, *Hitler's Gold* 53-54.

reasons, if not the main reason, that the BIS continued to launder looted Nazi gold in exchange for “washed” Swiss francs was that the wartime economy made it difficult for the Bank to turn a significant profit. Once it had decided to launder gold for the Third Reich, however, the BIS’s board of directors believed its future prospects as a viable international bank would improve after the war ended.⁶⁷⁶

The “Other” Battle of Bretton Woods

Towards the end of and after the war, the “other” battle of Bretton Woods underwent a series of fraught skirmishes. The effort to dissolve the Bank suffered a fatal blow in April 1945, as those in favor of saving it were emboldened by the death of FDR, one of its main opponents. Treasury Secretary Morgenthau, who had also championed the Bank’s liquidation, retired on 22 July 1945, one week after questioning the British government regarding its position on the liquidation (14 July 1945) and receiving no answer.⁶⁷⁷ These departures left senior Treasury official Harry Dexter White to fend for himself.

It was just at this time that a debate was developing between and within other nations regarding the future of the BIS. Although the British Treasury’s official response to the US Treasury’s inquiries was belated and ambivalent, counseling delay in liquidation, Britain’s new Chancellor of the Exchequer Hugh Dalton (July 1945-February 1950) wrote in a marginal note on an internal British Treasury memorandum, “But why don’t we liquidate the BIS? It smells of

⁶⁷⁶ “In February 1941, Paul Hechler, a German banker serving as the BIS General Director, explained to the U.S. Treasury representative in Berlin that the offices of the bank were determined to keep it alive as a center of future international financial cooperation” (Eizenstat, “U.S. and Allied Efforts” 187); for more explanations regarding reasons for the acceptance by BIS for accepting Nazi gold, see Smith, *Hitler’s Gold* 55-57.

⁶⁷⁷ Toniolo, *Central Bank Cooperation* 273.

the Schacht-Norman period!”⁶⁷⁸ However, the Exchequer only represented one side of the issue in the summer of 1945. Part of the reason the British Treasury was opposed to the liquidation of the Bank, according to Toniolo, was that it would deal the Bank of England a financial loss at the expense of the Germans.⁶⁷⁹ Yet Chancellor Dalton (1945-1947) believed the “position of the BIS will have to be reviewed in the near future, and that it cannot continue to operate in the post-war period as it did before the war.”⁶⁸⁰

From a certain perspective, it appeared that the BIS had all the cards stacked in its favor. It was a secretive, sequestered, and relatively obscure bank; it had devoted members who would not divulge any of the Bank’s discussions or deliberations; and it was securely located within a country that had the strictest banking secrecy laws in the world. However, the enormity of the Nazi atrocities was such that an international military tribunal had been established to identify and prosecute war criminals and any possible collaborators, which included bankers and industrialists. It was in this context of war crimes that the walls of the fortress-within-a-fortress of the Basel-based BIS were ultimately breached.

It fell to the US departments of State and Treasury to resolve the question of whether to save or liquidate the BIS in the latter half of the 1940s, in part because the US Treasury Department had secretly investigated the Bank for International Settlements in the postwar period.⁶⁸¹ In June 1945, about the same time that hostilities in the European theater had ended, the Office of Military Government of the United States (OMGUS, 1946-1949) was formed and

⁶⁷⁸ *Ibid.*

⁶⁷⁹ *Ibid.*

⁶⁸⁰ Toniolo, *Central Bank Cooperation* 274.

⁶⁸¹ Smith, *Hitler’s Gold* 60.

headed by General Lucius Clay, who recommended that “an immediate demand be made on the Bank for International Settlements [to] permit a team of experts representing the United States [. . .] to inspect all gold owned by or in the possession of the Bank for International Settlements and all relevant books, files, and records.”⁶⁸² By December 1945, the OMGUS concluded:

the BIS [had] accepted looted gold, aided the Reichsbank in salvaging assets threatened by blocking in neutral countries, was dominated by Axis interests, continued to pay dividends to occupied countries in spite of inevitable confiscation by the Nazis, and furnished financial intelligence to the Reichsbank.⁶⁸³

That is, evidence of likely malfeasance continued to accumulate after the war. In a separate study, conducted by the US Treasury Department, information was uncovered regarding “looting by Germany of Netherlands monetary gold.”⁶⁸⁴ In response, Treasury officials asked Assistant Secretary of the Treasury Harry White and Treasury Secretary Fred M. Vinson to push the British Treasury to hold bilateral talks to arrange for the liquidation of the BIS in early 1946.⁶⁸⁵ These developments led the United States, France, and Great Britain in 1946 to establish the multilateral Tripartite Commission for the Restitution of the Monetary Gold, tasked with restoring gold stolen by Nazi Germany to its rightful owners.⁶⁸⁶

During the early years of the Cold War, interest in liquidating the BIS waned. Unlike Toniolo’s heroic description of the BIS as surviving in the face of unfair and baseless

⁶⁸² Eizenstat, “U.S. and Allied Efforts” 189.

⁶⁸³ *Ibid.*

⁶⁸⁴ *Ibid.*

⁶⁸⁵ *Ibid.*

⁶⁸⁶ Smith, *Hitler’s Gold* 114-120; some sense of the difficulty in recovering and returning gold acquired illegally to its rightful owners in the years from 1938 to 1948 can be seen by the fact that the Tripartite Commission did not disband until 1998 (“Dissolution of the Tripartite Gold Commission,” US Department of State Dispatch (October 1998), https://web.archive.org/web/20110724095328/http://findarticles.com/p/articles/mi_m1584/is_1998_Oct/ai_53227254/); see also Toniolo, *Central Bank Cooperation* 277.

accusations “because its enemies were divided about the means and timing of dissolution,”⁶⁸⁷ the emergent Cold War policies of the United States appeared to shift the overall East-West dynamics, responding to a reinvigorated communist Soviet Union under Stalin⁶⁸⁸ with a diminished interest in liquidating the Bank.

The liquidation issue was resolved by 1948 by means of a compromise reached between the managing director of the BIS Roger Auboin and the respective heads of the Treasury and State departments. The BIS submitted its wartime accounting records (“opened its books”) to the Tripartite Gold Commission, and then that commission began to reimburse (“restitute”) those countries whose banks it had helped loot.⁶⁸⁹ Though the details of these records would not be made public until the mid-1990s, the reputation of the BIS had been damaged in its first two decades.

There were many other factors, however, contributing to why White and Morgenthau eventually lost the “other” battle for Bretton Woods. Opposed to them was the Bank of England, the British Foreign Office, the British government, the US State Department, the OSS, and the BIS and all its powerful central bank members. Furthermore, White and Morgenthau seemed to have no real understanding of what they were up against when they originally set out to liquidate the Bank. Another key factor which contributed significantly to saving the BIS was that the Federal Reserve of New York submitted a Report in its favor.⁶⁹⁰ Thus, just as the Cold War was heating up in the late 1940s, the BIS was given a new lease on life.

⁶⁸⁷ Toniolo, *Central Bank Cooperation* 267-268.

⁶⁸⁸ Smith, *Hitler's Gold* 131.

⁶⁸⁹ Bank for International Settlements, “Note on Gold Operations” 12.

⁶⁹⁰ Toniolo, *Central Bank Cooperation* 278, 280, 281, 282.

As head of the American delegation at Bretton Woods, White had been tasked with the enormous responsibility of establishing a post-war international monetary and financial system. And yet White was a marked man. Not only had he sought the liquidation of the BIS, but he was also a Jew⁶⁹¹ and had helped draft the “Morgenthau Plan,” which endeavored to emasculate Germany after the war.⁶⁹² In August 1948, White was formally accused of being a communist spy by two formerly apprehended American spies who had previously worked on behalf of the Soviet Union, Whittaker Chambers and Elizabeth Bentley. White had been accused of spying for the Soviet Union by Chambers in 1939, though nothing had come of it until Bentley also stepped forward to accuse White in 1945. Three days after he testified on 13 August in his defense to the House Un-American Activities Committee (HUAC) that he had never been a communist, nor had he ever met Chambers or Bentley, White died of a heart attack (16 August 1948).

The future of the BIS assured, thus began one of the most productive and destructive eras in US history, as the creation of the IMF and the World Bank inaugurated the beginning of a new international monetary regime based primarily on the American dollar at the same time that the emergent paranoia of the early years of the Cold War launched a new wave of especially unseemly political actors epitomized by California Congressman Richard M. Nixon (1947-1950) and Wisconsin Senator Joseph P. McCarthy (1947-1957).

Although the BIS never fully accepted responsibility for having *knowingly* acquired looted gold to assist Nazi Germany financially,⁶⁹³ the Bank did return thousands of kilograms of

⁶⁹¹ Many people, including Hitler, believed that Bolsheviks were Jews and Jews Bolsheviks (Longerich, *Hitler* 87). Moreover, Hitler believed that by destroying the Soviet Union that it “would result in the destruction of the core of international ‘Jewish Bolshevism’” (Longerich, *Hitler* 731).

⁶⁹² [Morgenthau and White,] “Program to Prevent Germany from starting a World War III.”

⁶⁹³ “World Bank to Release Gold Released by Germany,” *New York Times* (15 May 1948), 21, https://timesmachine.nytimes.com/timesmachine/1948/05/15/88119851.pdf?pdf_redirect=true&ip=0

Raubgold to various non-communist countries.⁶⁹⁴ On 13 May 1948, the United States officially closed the matter regarding the liquidation of the BIS,⁶⁹⁵ though the Tripartite Gold Commission did not disband until 1998. Not everyone agreed that the Bank's wartime activities had been questionable: by late 1946, the BIS board of directors had resumed their monthly meetings, and

[a]t the first two post-war meetings, which were held in December 1946 and February 1947, the Board of Directors was given a detailed report of the management of the Bank during the war years and expressed its approval of the way the Bank had been managed during this period, its business having been conducted strictly in accordance with the decisions of principle taken in 1939.⁶⁹⁶

This marked divergence in the narrative regarding what most likely happened at the BIS during the war is relatively pervasive in the literature discussing the Bank. Toniolo suggests that “other aspects of the wartime conduct that aroused suspicion or prolonged condemnation at the time look in retrospect less erroneous than they did then.”⁶⁹⁷ Auboin's version of events gives the impression that everything ultimately worked out and that it was all just a misunderstanding that the BIS had “unknowingly received in payment [. . .] 3,740 kilogrammes [of gold].”⁶⁹⁸

General Manager Auboin, along with Maurice Frère, represented the BIS in the Tripartite Commission.⁶⁹⁹ He therefore understood in considerable detail just what happened and so could stay close to the truth of the matter in his narrative of the events while eliding crucial details to

⁶⁹⁴ Bank for International Settlements, “Note on Gold” [19-21]; compare with Tripartite Gold Commission, https://1997-2001.state.gov/regions/eur/tripartite_gold_commission.html

⁶⁹⁵ Eizenstat, “U.S. and Allied Efforts” xxxiii.

⁶⁹⁶ Auboin, “The Bank for International Settlements” 17-18. According to Auboin's telling, the BIS was fully satisfied that its behavior during the war was beyond scrutiny.

⁶⁹⁷ Toniolo, *Central Bank Cooperation* 201.

⁶⁹⁸ Auboin, “The Bank for International Settlements” 18; Eizenstat, “U.S. and Allied Efforts” 182; see also Toniolo, *Central Bank Cooperation* 251: “When the war was over, the Reichsbank and the Prussian Mint records captured by the Americans showed that the BIS had unknowingly received not only 1.6 tonnes of looted Belgian gold but also nearly 2.1 tonnes of looted Dutch gold.”

⁶⁹⁹ Toniolo, *Central Bank Cooperation* 278, 279; see also US State Department Archive, The Tripartite Gold Commission, https://1997-2001.state.gov/regions/eur/tripartite_gold_commission.html

create a hollowed-out version of the bank's actions, one that is noticeably devoid of any pertinent facts. In a characteristic passage, he explains away any responsibility for or knowledge of gold laundering: "[I]t was possible, in spite of all the assurances, that some of the gold it had received might have been seized in one form or another in occupied territories."⁷⁰⁰ Auboin's account, in fact, provides a good example of how narratives that have elided enough of the relevant information can make the issue of the Bank's culpability simply vanish.⁷⁰¹

Who Saved the BIS, and Why?

What was it about the BIS that had made it appear so essential that such a prestigious array of institutions and individuals would tenaciously fight a four- to six-year battle over the Bank's future? What had the Bank for International Settlements done during the war that made its survival so imperative? In the face of such evident malfeasance, is there any possible explanation for why so many bankers, lawyers, industrialists, diplomats, economists, intelligence agents, and internationalists endeavored to save the Bank for International Settlements?

By the 1940s, the dominance of American finance and banking had become undeniable, which explains, in part, how the United States was able to block the BIS from continuing as a viable international financial institution from 1945 to 1948.⁷⁰² Between the US's penalizing and prohibiting commercial contact, blacklisting neutral banking institutions suspected of financial malfeasance and freezing all Swiss bank accounts in the United States, the Swiss banks found

⁷⁰⁰ Auboin, "The Bank for International Settlements" 18.

⁷⁰¹ Toniolo, on the other hand, refers to such wholesale looting as "blunders" (259, 484) and "mistakes" (201).

⁷⁰² James M. Boughton, "American in the Shadows: Harry Dexter White and the Design of the International Monetary Fund," *International Monetary Fund*, Working Paper, WP/06/6 (January 2006), 1-19, 7, <https://www.elibrary.imf.org/view/journals/001/2006/006/article-A001-en.xml>

themselves in a bind after the war.⁷⁰³ In the simplest terms, the BIS was brought back from the precipice and saved after the US State and Treasury departments were satisfied with the actions it took, most notably returning stolen gold to nations not located behind the Iron Curtain.⁷⁰⁴ However, there is much scholarship discussing the reasons it was considered so necessary to save it and what characteristics it had that made it possible for it to be saved.

Advocates of the BIS have attributed its continued longevity not only to its manifest adaptability but also to its unique expertise in dealing with complex international financial transactions and the sophistication of its technical, multinational and multilingual staff. They have argued that the BIS facilitates international interbank cooperation because it is protected by strict banking secrecy laws and the high level of expertise exhibited by some of its earliest leaders. According to Auboin, the BIS was saved because people finally realized that it was a useful bank to have around,⁷⁰⁵ though the question may be asked why, if its usefulness was so apparent, did it have to go to such extremes to convince the US Treasury Department of its utility? Some saw the British government as responsible for its salvation.⁷⁰⁶ Toniolo concludes that “the main reasons that the Bank was able to weather the storm [were] the support it received from the main shareholding central banks and its own institutional resilience.”⁷⁰⁷ Though he does acknowledge that there was a wider debate, he sidesteps the significance of the Czech gold scandal, which raised credible suspicions about the BIS’s complicity in its wartime handling of gold on behalf of Nazi Germany:

⁷⁰³ Ziegler, *The Swiss, the Gold* 182; The Swiss did not stop their transactions until one month before the war ended: “Finally, in April 1945, the Swiss surrendered—only a month before General Jodl did” (Smith, *Hitler’s Gold* 50).

⁷⁰⁴ Bank for International Settlements, “Note on Gold.”

⁷⁰⁵ Auboin, “The Bank for International Settlements” 17.

⁷⁰⁶ Toniolo, *Central Bank Cooperation* 279.

⁷⁰⁷ Toniolo, *Central Bank Cooperation* 279, 279-282.

Hostility towards the BIS at Bretton Woods was rooted in a number of factors. One of these is the vague, if pervasive, feeling that the Bank was surreptitiously siding with Germany [. . .]. The seed of suspicion fell on particularly fertile ground as far as Morgenthau and White were concerned. That aside, there were two political reasons that the U.S. Treasury, engaged as it was in the creation of a grand scheme for postwar international financial reconstruction, was opposed to the very existence of the BIS. There seemed to be no place for the BIS in the framework envisaged at Bretton Woods.⁷⁰⁸

The Bretton Woods proposal to liquidate the Bank was neither acted upon nor rescinded.

According to the originating documents of the BIS, it would have been a legal impossibility for an external entity to dissolve the Bank. Technically speaking, it *cannot* be liquidated, because the Convention signed by the Swiss government forbids it. According to its own authorizing vehicle, the BIS will exist in perpetuity because there is no authority that can countermand its Charter, Convention, or Statutes. Only the BIS in full session can authorize the Bank's termination.

At the time the newly re-elected President McKittrick and OSS Bern Station Chief Dulles were actively working to stop the liquidation of the Bank,⁷⁰⁹ a surprisingly large assortment of powerful people was involved more passively in diluting the urgency and import of the draft proposal to liquidate the bank. A key phrase at stake in this dilution was that liquidation was to take place "at the earliest possible moment," but they maintained that that moment had not yet come and might never come.

The fact that this second battle of Bretton Woods took place between the US Department of State and the Department of the Treasury before, during and after the "main" battle between the outspoken and truculent American Harry Dexter White and the puckish and irascible British

⁷⁰⁸ Toniolo, *Central Bank Cooperation* 280.

⁷⁰⁹ Taber, *Chasing Gold* 380-381.

John Maynard Keynes endeavored to found a new international banking system brings other historical dimensions into the picture. John Foster Dulles and Keynes⁷¹⁰ were both involved in the reparations issue at the 1919 Versailles Treaty, while Allen Dulles and Keynes were among those who fought for and against the existence of the Bank in their respective associations with the Bretton Woods Conference. This twenty-five-year-long period, from the signing of the Versailles Treaty to the proposed liquidation and subsequent multi-year battle⁷¹¹ over the existence of the BIS, highlights the abiding role that these economists, bankers, intelligence agencies and assorted internationalists played in conceiving, establishing, fostering and defending the Bank for International Settlements. Among those who fought to save the Bank include individuals involved in the Dawes and Young plans and many of those who attended the monetary conferences that preceded Bretton Woods. Toniolo's answer to what saved the BIS was "an institutional setting that made dissolution difficult to achieve by any single government, no matter how determined and powerful; and the unwavering support of the main European central banks."⁷¹² Because of these strengths and the complexities associated with the fact that it was an internationally created bank, some suggested that its dissolution would have required a "new international treaty."⁷¹³

⁷¹⁰ Keynes was given the task to "prepare the Treasury's position on the question of German indemnity" (354). In protest, he resigned his post on 5 June 1919 (374-375); he also left because of a general feeling of unwellness (Skidelsky, *John Maynard Keynes, Volume 1* 374). The Peace Treaty of Versailles was signed on 28 June 1919.

⁷¹¹ If one assumes that the battle began in 1939, it could be argued as lasting for nine years (1939-1948).

⁷¹² Toniolo, *Central Bank Cooperation* 280.

⁷¹³ *Ibid.*; see also Truman, "The End of the Bretton Woods International Monetary System" 6n6: "In the period immediately following the conference, there were extensive discussions, largely between the United States and the United Kingdom, about whether and how to implement this recommendation. In the end, the matter was dropped because it would have required another treaty to liquidate the BIS, since it had been established by treaty, and the central banks, in particular European central banks, pressured their governments not to dissolve their club."

Though Toniolo presented a vigorous argument in support of his thesis, the material he elided is telling: among those central banks that provided “unwavering support” were the Bank of Belgium, “which played an important role [in saving the BIS]” and the Netherlands Bank, which was “strongly supportive.”⁷¹⁴ Missing in Toniolo’s defense of what he argued was an unfairly targeted BIS is that in 1997, the BIS returned nearly 14 tons of gold to these banks that it had misappropriated during the war.⁷¹⁵ Toniolo’s defense of the BIS also ended with his reluctant admission that yes, as bad as he was, Thomas McKittrick⁷¹⁶ should also be acknowledged for having done his part in saving the Bank:⁷¹⁷

True, McKittrick had lost touch with developments and feelings in his own country and was (to a certain extent) responsible for the U.S. administration’s misinformation about and mistrust of the BIS. However, if he was a liability in Washington he was an asset in London. Moreover, McKittrick shares with Auboin, Jacobsson, and other managers the credit for the continued vitality of the Bank.⁷¹⁸

From Toniolo’s retelling, the BIS was unfairly targeted for elimination by a conspiracy, headed by the US Treasury Department, that was concocted against it. As vibrant and inspiring as this version of events is, there is just too much missing, so much that the retelling sounds noticeably inconsistent and selective. LeBor’s more expansive, layered, and complicated narrative, by contrast, struggled to understand how so many powerful individuals and institutions could have

⁷¹⁴ Toniolo, *Central Bank Cooperation* 281.

⁷¹⁵ “BIS received a total of 13.542 metric tonnes of gold from the Reichsbank during the war” (Bank for International Settlements, “Note on Gold Operations” [unnumbered page 28]).

⁷¹⁶ Passages describing McKittrick often provide amusing reading as elided information creates a sense of “general confusion and misinformation” (235), which is also how McKittrick describes Americans’ understanding of Europe. See Toniolo’s description of McKittrick’s November 1942 visit to the United States and the supposedly inexplicably cold reception he receives there (234-235). There is only a single, obscure sentence on Allen Dulles in a section on the BIS’s relations with its Japanese members: “On the American side [Economic Adviser to the BIS Per] Jacobsson was in touch with Allen Dulles, European director of the Office of Strategic Services, who held an open communication line with President Truman’s office” (231).

⁷¹⁷ Toniolo, *Central Bank Cooperation* 282.

⁷¹⁸ *Ibid.*

been involved in such a long-running battle to do whatever it took to ensure the continued survival of the Bank for International Settlements.⁷¹⁹

The BIS and the Talisman of Gold

One of the subjects upon which all the powerful Western nations agreed in the period from 1919 to 1948 was that the most valuable and sacrosanct material was gold. To the Western bankers, reserves of gold meant monetary and financial stability. To the militarizing Nazi regime, they meant transforming their weakened postwar nation into a great military power. To the fleeing high-ranking Nazi officials and SS officers after the war, stashes of hidden gold were a means to escape prosecution and create a new life far from the humiliations, incarcerations, and executions taking place in postwar Germany. Gold was a talisman that beckoned Western nations with the promise of stability and prosperity. Montagu Norman struggled throughout his career as governor of the Bank of England (1920-1944) to stabilize the British financial and economic system through exchange-rate controls tied to the precious metal. France ensured that the international financial system conformed to its wishes during the interwar years as a result of the large quantity of gold its government held in reserve. Germany suffered miserably for most of the interwar period because of its paucity of gold. All these Western European nations saw gold as the key to international financial stability, long-term prosperity, and geo-economic dominance.

Likewise, the power of gold could harm as well as help. It was gold-related issues that damaged the reputation of the BIS and put the Bank on notice. Once word got out that the officials

⁷¹⁹ LeBor, *The Tower of Basel* 78, 85-88, 113-133.

at the BIS would not resist troublingly unethical transactions, namely the explosive charges the Bank helped Nazi officials who extracted contraband gold from countless Jewish victims, including their gold fillings and gold dentures,⁷²⁰ and that the BIS accepted gold from occupied nations that the Nazis remelted into gold bars in return for access to vital international credit and Swiss francs, the Bank was seen as an entity willing to ignore, even condone, questionable gold transactions.⁷²¹ IMT transcripts and contemporary news stories, as well as recent investigations and governmental reports, provide ample evidence of the disturbing details of how these profitable yet pitiable events unfolded.⁷²² Considerable evidence has also been compiled from the same general time period which offers an estimate⁷²³ of the quantities of contraband gold and international credit that the BIS and the Swiss National Bank gave the Nazis during the war.

The Czech gold scandal and the illicit laundering of contraband gold put the BIS on the radar as a potential international malefactor, one that some thought needed to be eliminated. Thus, a new international financial system destined to replace the BIS was proposed at Bretton Woods in 1944, in the form of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), later known as the World Bank. The final order of business listed at the Bretton Woods meeting was the proposed liquidation of the BIS “at the

⁷²⁰ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Afternoon Session), [“Testimony of Walther Funk”], 167, 169-179, https://tile.loc.gov/storage-services/service/ll/lmlp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf

⁷²¹ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (3 May 1946), (Morning Session), [“Testimony of Hjalmar Schacht”], 1-43, https://tile.loc.gov/storage-services/service/ll/lmlp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf

⁷²² See also CSPAN film, “Holocaust Victims Assets and Swiss Banks,” House Banking Committee (11 December 1996), <https://www.c-span.org/video/?77283-1/holocaust-victims-assets-swiss-banks>

⁷²³ Most of the work in identifying and quantifying the nature of the war crime related theft of gold during the war is based on records available in the United States. European investigations, studies and reports have been ongoing. Compare, for example, Eizenstat (1997) with the Bergier et al. (2002[1998]).

earliest possible moment.”⁷²⁴ But the moment never came. Instead, after a years’-long battle, the Bank was brought back from the precipice.

Berlin showed a deep interest in the future of the BIS and fought against its liquidation once the war concluded. The Federal Reserve Bank of New York, the British Foreign Office and the Bank of England all sought to discourage inquiries into the operations and activities of the Bank of International Settlements during the war years.⁷²⁵ Part of the reason for this intentional withholding of information was related to the vast troves of stashed gold that numerous high-ranking Nazi officials had hidden to facilitate their escape from prosecution, imprisonment, and death.⁷²⁶

Such legal legerdemain draws attention to the way the IMT handled unwanted evidence. Just as the true circumstances of the creation of the film of acquired Nazi gold in the case against Funk were withheld by the prosecution from the defense—to ensure that the Russians never learned that the Americans had removed such a vast quantity of gold with “thirty-two ten-ton trucks”⁷²⁷—so, too, incriminating evidence against a witness could have been withheld and exculpatory evidence presented in its place, as may have happened in the case of Schacht.⁷²⁸

⁷²⁴ According to Skidelsky, if it were not for Keynes’ demand that dual membership requirements in the BIS and IMF were allowable, the BIS may have ultimately been liquidated (*John Maynard Keynes, Volume 3* 354).

⁷²⁵ Toniolo, *Central Bank Cooperation* 271-272.

⁷²⁶ Richard Breitman and Norman J.W. Goda, *Hitler’s Shadow: Nazi War Criminals, U.S. Intelligence and the Cold War* (Washington, D.C.: National Archives, 2010); John Loftus and Mark Aarons, *The Unholy Trinity: The Vatican, the Nazis, and the Swiss Banks* (New York: St. Martin’s Griffin, 1998); and Mark Aarons and John Loftus, *Ratlines: How the Vatican’s Nazi Networks Betrayed Western Intelligence to the Soviets* (London: William Heinemann, 1991); see also, Richard Breitman et al., *U.S. Intelligence and the Nazis* (Cambridge: Cambridge University Press, 2005); Christopher Simpson, *Blowback: America’s Recruitment of Nazis and its Effect on the Cold War* (New York: Weidenfel & Nicholson, 1988); and Kerstin von Lingen, *Allen Dulles, the OSS, and Nazi War Criminals: The Dynamics of Selective Prosecution* (Cambridge: Cambridge University Press, 2013).

⁷²⁷ Reynolds, “Banking against Humanity” 521.

⁷²⁸ See Endnote 2 in Appendix

It was not only films, witness testimony, affidavits, and other documents that were used against Funk, however; his own testimony revealed inconsistencies and misrepresentations. He testified that he did not know anything about various incriminating actions and then later showed that he did in fact have a rather detailed knowledge of these events. From his testimony it becomes clear that these grim activities were just part and parcel of what he did at the Reichsbank.⁷²⁹ “Herr Puhl once told me that a gold deposit had arrived from the SS. I remember it now, it had escaped me as I did not pay too much attention to the entire matter. [. . .]. I spoke to the Reichsführer [Himmler] about whether the Reichsbank could utilize these items.”⁷³⁰ It seems hard to believe that Funk would have forgotten a conversation he had with the head of the SS Heinrich Himmler about the Reichsbank’s processing of gold dentures from concentration camp victims.

What the Reichsbank’s Schacht, Funk, and Puhl did in working with the SS to receive, disguise and surreptitiously commingle looted gold from occupied nations and concentration camp victims through their capacity as directors and agents of the Bank for International Settlement was no less than facilitate the Third Reich in conducting aggressive war and perpetuate war crimes and crimes against humanity.

Bank Secrecy, the Third Reich and the Cold War

The founders of the BIS wanted to have no accountability whatsoever, and they got it.

Unfortunately, the institution’s very secrecy brought unwanted attention to it, especially when

⁷²⁹ See also, Eizenstat, “US and Allied Efforts” 159-163; see also video of Emil Puhl’s testimony under cross-examination, <https://www.youtube.com/watch?v=wiTmRWuKQ14>

⁷³⁰ TMWC [Trial of the Major War Criminals], Volume XIII: Proceedings, 3 May 1946-15 May 1946. One Hundred and Twenty-Third Day (7 May 1946), (Morning Session), [“Testimony of Walther Funk”], 172, https://tile.loc.gov/storage-services/service/l1/llmlp/2011525338_NT_Vol-XIII/2011525338_NT_Vol-XIII.pdf

questions of improper actions arose. In a way, its secrecy has been both its greatest strength and its greatest weakness. Bank secrecy tends to undermine financial and political stability because it opens the door to illegal and corrupt behavior and the complete lack of accountability; without meaningful accountability there can be few, if any, lasting reforms. In the spy-versus-spy world of geopolitics, the economic hostilities that emerged after the Second World War took place between each of the superpowers' most secretive institutions: the USSR's KGB and the US's CIA. The Chekist internal security institution of the USSR was countered, at least until about 1947, by the secretive world of international banking, epitomized by the BIS.

This is not as unlikely a duel as it may appear, because the institutional secrecy of national banks and financial institutions had long pre-dated the institutional secrecy of modern Western clandestine organizations.⁷³¹ In this world of opposing clandestine institutions and activities, Stalin's regime (c.1924-1953) evolved an especially depraved form of institutionalized viciousness⁷³² exemplified by his Moscow Show Trials (1936-1938), his Great Purge (1937), and his creation of the Soviet Gulag (1920s-1950s), whereas the institutional secrecy of the BIS gave rise to a reckless immorality and unaccountability in which its Swiss neutrality, bank secrecy and ad hoc corporate laws, Charter, Convention and Statutes furnished it with a license to do whatever it pleased.

A partial justification for the Bank's high regard for secrecy might be that it was the only logical means by which to combat clandestine entities like the Bolshevik-inspired USSR, as it could

⁷³¹ The British Secret Service Bureau had been established by as early as 1909 ("Establishment of the Secret Service Bureau," Security Service MI5, <https://www.mi5.gov.uk/the-establishment-of-the-secret-service-bureau>); and the Central Intelligence Agency was created on 18 September 1947.

⁷³² See, for example, Matt Lenoe, "Did Stalin Kill Kirov and Does it Matter?" *Journal of Modern History* 74 (2002): 352-380.

provide a source of secret financial assets. As secrecy, characterized its Chekist organizational structure,⁷³³ became a salient aspect of the Soviet Union’s principles and methods of governance, it was countered by equally secretive institutions based on Western principles, organization, and methods of governance. The Bank for International Settlements was among the first such inherently secret institutions reflecting Western organizational, ideological and capitalist aspirations. Just as the Soviet Union relied upon secrecy to protect its interests and pursue its expansionist activities abroad, so too the Western powers attempted to create an entity more suited to their ideals, values and geopolitical objectives; they saw themselves simply as fighting fire with fire.

A brief consideration of the parallel developments of the international banking system in Europe with the state security apparatus of the USSR in the first half of the twentieth century—from the Bolshevik Revolution (1917) through the early years of the Cold War (1946-1948)—suggests that they were part of a conjoined system of action and reaction, each responding to changes instituted by the other. It is not surprising that the origins of the international monetary financial system can be traced back to the First Red Scare (1918-1920), and that the founding of the modern international financial system at Bretton Woods (1944) and the Marshall Plan (1948-1951) roughly overlaps with the Second Red Scare (1947-1957). In this context, the BIS can be seen not only as a crucial hub of Western capitalism but also as a bulwark against Soviet Communism.

In a way, the BIS got everything it wanted during the war: neutrality, its version of apolitical enterprise, gold and profits, and the security of operating within a powerful geopolitical entity, the Nazi regime. But the price for this extravagance was the compromising of

⁷³³ “Chekist” is an adjective that refers to the Cheka (1917-1922), the Bolshevik state security apparatus that was first set up under Lenin; it evolved during Russian history to include the OGPU (1923-1934), NKVD (1934-1946), KGB (1954-1978), and the FSB (1995-2022).

its credibility, causing it ironically to be viewed as a threat to the Western powers that created it. Its well-documented history reveals that it actively participated in the advancement of the Third Reich and the horrendous destruction that Hitler's regime unleashed on the world. And yet, as found in this thesis, its advocates could argue contrarily that it has provided protection against Stalin's communist regime in the years preceding the Cold War. In retrospect, it appears clear that the BIS crossed its Rubicon when it decided to continue operations during the war. Without having meaningfully distanced itself from the Nazi regime, it became impossible to pretend that the Czech gold affair was just an unintended banking oversight. From this perspective, its desire to seek profits during the war ultimately brought disrepute to the Bank.

Epilogue

This thesis investigated the role of the BIS in advancing stabilizing and destabilizing financial and political tendencies in international finance and politics in the first two decades of its existence (1930-1948). One of the most deleterious and yet informative episodes that occurred in the first decade of the BIS's reign was the Czech gold scandal, a legally dubious financial transaction that brought the Bank for International Settlements to the world's attention. The misappropriation of Czech gold from the Bank of England's account into the Reichsbank's could have been construed as a banking oversight, but the historical context makes this interpretation implausible. Following so soon after Hitler expressly violated the Munich Agreement by invading Czechoslovakia, the first of the Nazis' non-German land acquisitions, and forcibly annexing Bohemia and Moravia,⁷³⁴ the transaction appeared blatantly improper.

The public relations disaster that unfolded after the transfer of Czech gold brought discredit to the Bank for International Settlements and the Bank of England. This damaging outcome was especially ironic because the BIS had put significant effort into protecting itself from any unwanted scrutiny through its careful choice of location in neutral Switzerland, with its bank secrecy laws, and its own statutory immunity clause (Article 55). If not for this undue secrecy and unaccountability, it seems possible that a more equitable arrangement could have been made, since one of the Bank's biggest selling points was its expertise in interbank "cooperation." A delay would have been prudent for dealing with the difficult diplomatic situation resulting from Hitler's invasion, especially after he had claimed additional territories

⁷³⁴ For more information related to the military and diplomatic details in the months preceding the annexation, see Shirer, *The Rise and Fall of the Third Reich* 361-454.

not consented to in the Munich Agreement thanks to France, England, and Italy's misguided attempt to satisfy his desire for Lebensraum. Given this historical context, the BIS's transfer of Czechoslovakian gold into the Nazi bank account one week after Hitler unlawfully invaded a sovereign country looked especially egregious.

And yet, the BIS's Statutes were intended to protect and empower it to fulfill its internationalist financial mission. In its dedication to adhering to the fixed star of the Bank's apolitical creed, its actions during the crisis can be simply explained, which the BIS and the Bank of England attempted to do, by alluding to its self-imposed constraints enforced by its own self-created Statutes. It is difficult to understand how Norman maintained his loyalty to the BIS and its Statutes over his loyalty to his own government and the Bank of England.

As Schacht and Norman were among the most influential of the Bank's founding members, so their roles in the Bank's operations proved pivotal. Schacht has been credited with writing the highly protective Statutes, while Norman took the Bank's "hands off" doctrine to heart when he elected to defend the sanctity of the BIS's Statutes even if that meant not notifying his own government of his actions, evading consultation with other members of the Bank of England and avoiding pertinent legal and diplomatic advice about a potential geopolitical problem. That the relevant information surrounding the Czech gold scandal was obscured for decades permitted a false narrative to be perpetuated that implicated the president of the BIS as the most responsible party.⁷³⁵ As a result of Norman's imperious and long-hidden actions, the BIS and its president gained a certain notoriety, which prompted demands for the Bank's

⁷³⁵ See, for example, Toniolo, *Central Bank Cooperation* 204-213.

liquidation by as early as June 1939. Ultimately, Norman's unilateral decision brought the *sui generis* nature of the Bank to the public eye.

Once suspicions were aroused, it became difficult for the BIS to be uncritically accepted as a trustworthy financial institution. Inevitably, questions proliferated among Allied nations about the reliability of the Bank in terms of just how pro-Nazi it had been in its handling of other nation's gold once Hitler's Third Reich's occupied those nations and took control of their central banks. There is a palpably antagonistic attitude that comes through in some books and documents that seeks to defend the role of the BIS during wartime. The general stance seems to be that the BIS is somehow beyond scrutiny and those that do so are "hostile" to the Bank and that such inquiries are *prima facie* invalid because they are fundamentally misinformed: "The U.S. press remained as hostile to the BIS as it was misinformed about it."⁷³⁶ We are then told that "[BIS President McKittrick claimed to want an investigation into the BIS to] reply to repeated attacks and allegations based on misinformation and misunderstanding."⁷³⁷ In this BIS commissioned history of the Bank, Toniolo then traced the source of this misinformation: "McKittrick had lost touch with developments and feelings in his own country and was (to a certain extent) responsible for the U.S. administration's misinformation about and mistrust of the BIS."⁷³⁸ Such circularity does not inspire confidence in the overall argument's soundness. Moreover, there is a certain presumption that such inquiries are reflective of a certain bias against the Bank:

In November 1943 came the first official indication that the U.S.A. was likely to be hostile to the continuance of the B.I.S. after the war. Details concerning the

⁷³⁶ Toniolo, *Central Bank Cooperation* 271.

⁷³⁷ Toniolo, *Central Bank Cooperation* 272.

⁷³⁸ Toniolo, *Central Bank Cooperation* 282.

International Bank suggested by Mr. Harry White of the U.S. Treasury were given in the Press and the “New York Times” reported that Mr. White had stated that the B.I.S. had no significance in connection with his proposed Bank and that it was German-controlled, adding the typically American comment that “There is an American President doing business with the Germans while our American boys are fighting Germans.”⁷³⁹

Granted, this in an internal Bank of England memorandum so it exhibits a certain type of bureaucratic candor. The internal assessment strongly suggests that asking questions about the fiduciary reliability of the Bank for International Settlements is expressive of a baseless and “hostile” American stance. These attempts to deflect the problem away from the BIS (and the Bank of England) and onto other issues are indicative of efforts to circumvent any scrutiny.

There can also be seen in the above excerpt a marked aversion to anyone sharing information with the “Press” or the “New York Times.” The dismissiveness as to whether the BIS was in fact a “German-controlled” financial institution in 1943 seeks to avoid inquiries regarding the truth value of such statements by denigrating them as illegitimate. The implication is that anyone who suggests that the BIS was “German-controlled” during the war is in some sense biased and suspect. The statement that the BIS President Thomas McKittrick was working with Nazi officials while Americans were dying on the battlefield should be regarded as nothing more than a “typically American comment,” unworthy of further consideration.

Presenting historically accurate information to assess the propriety of the Bank’s behavior should not be construed as hostile, misinformed or biased. Instead, the writer of this Bank of England memorandum presumes that the problem does not reside with the BIS, but instead with people like Harry Dexter White and institutions such as the New York Times. The

⁷³⁹ Bank of England, M5/537 1301.

evasive and defensive mode of representation hints at why a full explanation of the role of Governor Norman has not yet been made—there appears to be something worth hiding. From the tone and attitude of this 1950 Bank of England memorandum, the sooner people stop talking about the role of the BIS during the war the better.

The phoenix-like longevity of the BIS appears to have been primarily due to those advocates who saw in it not just a place where the world's central bankers could meet privately, but also as an institution that could protect Europe and its democratic institutions from external threats from Soviet communism. It is an extremely curious and disconcerting fact that Harry Dexter White, the man who had done the most to conceive of, create, and supervise this new international financial system⁷⁴⁰ to either ameliorate⁷⁴¹ or thwart the communist menace in the 1940s, was publicly smeared at the 1948 House Un-American Activities Committee as a communist spy by his adversaries in the early years of the Cold War.⁷⁴²

To fathom the significance of such actions taken by those who sought to defend the BIS against dissolution, such as BIS President Thomas McKittrick and OSS Station Chief Allen Dulles, requires approaching the problem using an array of analytical methods, since McKittrick, for example, was a lawyer, who acted as an investment banker, while Allen Dulles, also trained as a lawyer and diplomat, worked in intelligence and operated in the shadows. McKittrick acted

⁷⁴⁰ Boughton, "American in the Shadows" 3, 7, 15, 1-19, <https://www.elibrary.imf.org/view/journals/001/2006/006/article-A001-en.xml>; see also James M. Boughton, "New Light on Harry Dexter White," *Journal of the History of Economic Thought* 26 (2004): 188, 190-191, 179-195.

⁷⁴¹ For a brief discussion of White's diplomatic role to persuade the Soviet Union to participate in the IMF, see James M. Boughton, "Harry Dexter White and the International Monetary Fund," *Finance and Development* 35 (1998), <https://www.imf.org/external/pubs/ft/fandd/1998/09/boughton.htm>

⁷⁴² These types of criticism against White tend to overlook the fact that the USSR was one of the Allied Powers from 1941 to 1945.

as Dulles's source of intelligence, whom Dulles code-named "644," and, among many of the questionable activities he engaged in, was promoting cooperation between US business interests and Germany's sprawling industrial sector with "the full assistance" of the US State Department.⁷⁴³

Just as the IMT and NMT trials brought to light the scurrilous activities of the president and vice-president of the Reichsbank—who worked closely with the BIS and the SNB—they also disclosed the roles of the Nazi industrialists, many of whom were given full reprieves through backroom deals pursued by American military and intelligence officials during and after the war to ensure the strength of the Germany economy just as the Cold War was heating up.⁷⁴⁴

To more systematically assess what happened at the BIS during the 1930s and 1940s, a comprehensive approach which includes legal, economic, financial, monetary, diplomatic, industrial, international and intelligence expertise, as well as some understanding of forensic accounting would be called for. Employing such overlapping analytical techniques would increase the dimensionality of the problem, but it would also provide opportunities for corroborating and cross-referencing narratives using diverse source materials. Such a multi-dimensional approach can deepen our understanding of what happened before, during, and after the war at the BIS.

In lieu of such a comprehensive approach, this thesis posited the existence of a triune core, comprised of the United States, Great Britain and Germany, as a useful framework for

⁷⁴³ Adam LeBor, "How Bankers Helped the Nazis," *The Sydney Morning Herald* (August 1, 2013), <https://www.smh.com.au/business/how-bankers-helped-the-nazis-20130801-2r1fd.html>; LeBor, *The Tower of Basel* 113; see also Eizenstat, "U.S. and Allied Efforts" 38-40; Vincent, *Hitler's Silent Partners* 113; Ziegler, *The Swiss, the Gold* 147; Talbot, *The Devil's Chessboard* 25-28.

⁷⁴⁴ LeBor, "The American who let the Nazis rebuild Germany."

more fully understanding some aspects of the enduring substructure which made up the sinews of the early twentieth century international financial system. With the creation of the BIS, the former ad hoc Anglo-American international system of banking and finance of the interwar period, expanded to include Germany as one of the central components of what would emerge as the earliest prototype of the modern international financial system as conceived in the late 1920s and implemented in the early 1930s. More specifically, at the heart of this newly restructured Western enterprise was the Federal Reserve System, the Bank of England and the Reichsbank. This should not be unexpected as these three central banks were located in the world's three largest economies.⁷⁴⁵ As a result of the Versailles Treaty and the Dawes and Young plans, closer coordination took place between the American, British and German economies in the 1920s and with the BIS in the 1930s. In contrast, France tended to work at cross purposes when necessary, made abundantly clear during the 1931 German financial crisis. Again, in the early years of the Cold War, the triune core can be witnessed as coordinating its financial and economic activities with one other and the newly restored BIS. This became evident soon after the Bank was given the task of distributing the Marshall Plan funds.⁷⁴⁶ The Bank of England, the British Foreign Office and the British government strove tenaciously in the latter half of the 1940s to protect the

⁷⁴⁵ In 1990 dollars, the 1913 GDP of the US was \$517 billion, UK \$244 billion, Germany \$237 billion, Russia \$232 billion, France \$144 billion, and Italy \$95 billion (Angus Maddison, *Contours of the World Economy, 1-2030 AD: Essays in Macro-Economic History* (Oxford: Oxford University Press, 2007), 379: Table A.4: "World GDP, 20 Countries and Regional Totals, 1-2003 AD (million 1990 international \$),"

<https://ebookcentral.proquest.com/lib/uhm/detail.action?docID=415201&pq-origsite=primo>

⁷⁴⁶ See, for example, Trepp, *Bankgeschaefte mit dem Feind. Die Bank für Internationalen Zahlungsausgleich im Zweiten Weltkrieg. Von Hitlers Europabank zum Instrument des Marshallplans* [Banking with the Enemy. The Bank for International Settlements in the Second World War. From Hitler's Europabank to the Instrument of the Marshall Plan] (Zurich, 1993).

BIS from liquidation and scrutiny, as did the Federal Reserve, the US State Department, and the OSS. Berlin too worked to keep the BIS operating as an international bank.

Thus, this Anglo-American German trio explicitly reconvened soon after hostilities in the Europe ceased. This multilateral cooperation was catalyzed once it became indisputable that Stalin was intent on expanding his postwar territorial acquisitions. Initially unforeseen in this study was the cohering influence that the fear of Bolshevism had in bolstering the triune core as an interpretive framework. The salience of this particular development is further supported by the likely role the Office for Strategic Services played in influencing the war crimes case brought against Hjalmar Schacht and that it worked to ensure that the world's first international bank would be saved from liquidation through coordination between its head in Bern, Switzerland, Allen Dulles, and BIS President Thomas McKittrick. Given these circumstances, it seems undeniable that the BIS had been imagined as functioning on some geopolitical level. Why else would the OSS have engaged in a sustained multi-year effort to save it? Such intricate international schemes among American, British and German entities suggest that the BIS was reestablished to play some more explicit future role in the newly emergent Cold War. Few researchers have acknowledged these possible geopolitical and international interconnections and complexities.

By having widened the spatiotemporal aperture to include at one end the Bolshevik Revolution (1917-1922) and its tangible influence on the Paris Peace Conference and at the other the early years of the Cold War (1946-1948), the relevance of Soviet Communism came into focus as a possible justification for creating the BIS in the first place and for terminating its proposed liquidation once evidence of fiduciary malfeasance began to accumulate. From this

perspective, the internationalists' argument that the German economy needed to be strengthened—at all costs—in the face of threats from Soviet communism appears more plausible given this particular geopolitical context.

Even though a complete accounting of the transactions between the BIS, the Reichsbank, the SNB, and other Swiss banks during wartime cannot be completed at present,⁷⁴⁷ a number of fortuitous events contributed to an improved understanding of what most likely transpired in the period from 1938 to 1945 at the BIS. First, there was the Czech gold scandal, which alerted western nations that there was something seriously amiss at the BIS. Second, the testimony given at the war crimes tribunals by the BIS's directors and the Reichsbank's Vice-President and President Emil Puhl and Walther Funk, respectively, disclosed a considerable amount of detailed information describing what purportedly took place at the BIS. Not just because Funk's testimony was so self-incriminating, but also because of the profusion of information amidst the typically scarce intelligence regarding the goings-on at the various banks obtained from highly regarded and well-connected bankers, such as Emil Puhl, who was in a unique position to be able to comprehend the significance of both ends of the looted gold transactions. Third, the discovery by the American military of \$252 million in gold in a mine in Thuringia, which Funk himself had deposited there for safekeeping on behalf of the Reichsbank, provided hard evidence with which to assay the validity of the purported gold transactions between the BIS, the SNB and the Reichsbank. Lastly, the undeniable political and economic dominance of the United States in the 1940s empowered it to freeze the BIS and Swiss bank accounts located in the United States until Roger Auboin, the Managing Director of the BIS, and Maurice Frère, the Assistant Managing

⁷⁴⁷ See, for example, Bergier et al., "Switzerland and the Gold Transactions" (2002[1998]).

Director, successfully negotiated a settlement with the Tripartite Commission by acknowledging the existence of the looted gold in their vaults and records along with the commitment to return the requisite amounts of gold to each of the vandalized nations.⁷⁴⁸

The circumstances which led to the late-twentieth-century elucidation of the activities of Swiss banks during the war were part of a larger series of investigations into the extent to which former Nazi officials emigrated into the United States and the role that US intelligence played during the war when Allen Dulles headed the OSS office in Bern.⁷⁴⁹ There is an expanding literature which seeks to elucidate the role of US officials and others who actively aided Nazis to escape from international prosecution and assisted them in beginning new lives in the United States and abroad. For instance, Allen Dulles helped SS-Waffen Nazi General Karl Wolff,⁷⁵⁰ who was Himmler's former chief of staff, and Nazi intelligence officer Lieutenant General Reinhard Gehlen⁷⁵¹ to avoid prosecution and find employment through the United States government.⁷⁵² This larger investigation included the role of Swiss banks in financing the Third Reich during the war to ascertain how certain US government officials and institutions were able to protect former high-ranking SS officers who presumably had access to large quantities of looted gold, enabling them escape prosecution and incarceration after the war.⁷⁵³

⁷⁴⁸ Bank for International Settlements, "Note on Gold Operations"; see also marked up 23 May 2000 draft of The Tripartite Commission Report, Clinton Digital Library, <https://clinton.presidentiallibraries.us/items/show/29354>

⁷⁴⁹ See, for example, Breitman et al., *U.S. Intelligence and the Nazis*.

⁷⁵⁰ von Lingen, *Allen Dulles, the OSS, and Nazi War Criminals*.

⁷⁵¹ See Mary Ellen Reese, *General Reinhard Gehlen: The CIA Connection* (Fairfax, Virginia: George Mason University, 1990); and Breitman et al., *U.S. Intelligence and the Nazis* 375-418.

⁷⁵² See, for example, Simpson, *Blowback: America's Recruitment of Nazis*.

⁷⁵³ See Robert J. Hanyok, *Eavesdropping on Hell: Historical Guide to Western Communications Intelligence and the Holocaust, 1939-1945*, National Security Agency (2005), <https://www.nsa.gov/portals/75/documents/about/cryptologic-heritage/historical-figures-publications/publications/wwii/eavesdropping.pdf>; and Breitman et al., *U.S. Intelligence and the Nazis* 461-471.

For all the financial and political instability that the BIS fostered in the run-up to and throughout the Second World War in providing financial services to the Nazi regime, there is a comparatively strong case that could be made that the BIS did bring long-lasting stability to international finance and banking, however, once evidence of its presumptive wartime fiduciary malfeasance is considered, because this information gave added impetus to establish a new system of international finance and banking in accordance with the Bretton Woods Agreement. In the final analysis, the BIS, like the SNB and other Swiss banks, sacrificed international geopolitical stability in pursuit of their own institutional and national financial stability and profit.

The BIS: A Bulwark Against Communism?

As the Introduction explained, the Bank for International Settlements had been established in part as a safeguard against Soviet communism, bracketed as it was between the First (1919) and Second (1947-1957) Red Scares, respectively coinciding with the Paris Peace Treaty and the early years of the Cold War. Much of the cohesion within the incipient Anglo-American economic system in the 1920s had evolved in part as a reaction to the perceived threat of an expansionist Soviet Union. In the 1930s, as Stalin's Moscow Show Trials and his Great Purge became known in the West, the tension between the centralized Soviet communist government and the more decentralized capitalist democracies led to renewed fears.⁷⁵⁴ These brutal events coincided with a plethora of other disturbing international developments, including Hitler's

⁷⁵⁴ See, for example, Arthur Koestler, *Darkness at Noon* (1941) for a fictionalized depiction of this dark time in Soviet history.

implementation of his ideological Lebensraum policy, Imperial Japan's assault on China in its Second Sino-Japanese War, the Spanish Civil War and Mussolini's Second Italo-Ethiopian War. It was during these grim years that Stalin kept himself busy incarcerating upwards of five million of his own citizens in his slave labor Gulag,⁷⁵⁵ and exterminating nearly a million of his own citizens as part of his Great Purge (1936-1938).⁷⁵⁶

This context of a resurgent and increasingly brutal Soviet regime under Stalin cemented the triune economic alliance between the United States, Great Britain and Germany, forming the primary core of what would later become a template for a future international financial system, in which the BIS was originally envisioned as its hub. According to Costigliola, the trans-Atlantic, Anglo-American financial and economic accord formed the kernel and substratum of what would later become the European Union.⁷⁵⁷ By the late 1930s, Soviet communism looked decidedly more vigorous, brutal and depraved but had not been seen by most leaders as immediate a threat as Nazi Germany.

To its founders, the BIS had been seen as the primary bulwark against Soviet communism as industrialist Owen D. Young argued in support of establishing the world's first international bank.⁷⁵⁸ Nevertheless, with its proven ineffectualness during the Great Depression

⁷⁵⁵ See, for example, Anne Applebaum, *Gulag: A History* (New York: Anchor Books, 2004), 578-586; see also, Aleksandr Solzhenitsyn, *The Gulag Archipelago*, Vols 1-3 (Paris: Éditions du Seuil, 1973).

⁷⁵⁶ Peter Whitewood, *The Red Army and the Great Terror: Stalin's Purge of the Soviet Military* (University of Kansas Press, 2015), 201-251; Timothy Snyder, "Hitler vs. Stalin: Who was Worse?" *New York Review* (27 January 2011), <https://www.nybooks.com/daily/2011/01/27/hitler-vs-stalin-who-was-worse/>; Robert W. Thurston, "Fear and Belief in the USSR's "Great Terror": Response to Arrest, 1935-1939," *Slavic Review* 45 (1986): 213-234, 230-231.

⁷⁵⁷ Frank C. Costigliola, "Anglo-American Financial Rivalry in the 1920s," *The Journal of Economic History* 37 (1977): 911-934, https://www-jstor-org.eres.library.manoa.hawaii.edu/stable/pdf/2119348.pdf?refreqid=excelsior%3Aaa498b2c4fd4a56aa6fc36a9994372e9&ab_segments=&origin=

⁷⁵⁸ Costigliola, *Awkward Dominion* 211.

and the degradation of its reputation during the war, a new system of international finance and banking was devised by Harry Dexter White and colleagues in the early years of World War Two.⁷⁵⁹ Perhaps the main reason White and Morgenthau ultimately lost the “other” battle of Bretton Woods was that they fundamentally misrecognized just how aligned and powerful the forces were that opposed the Bank’s liquidation. According to American journalist Christopher Simpson:

The Dulles family had played an important role in the bank since its inception, so that it was not surprising that Allen Dulles would turn to his contacts there. [. . .]. At least two senior officers, McKittrick and Roger Auboin, worked for Dulles as underground contract agents. [. . .]. Roger Auboin, the general manager of the BIS, appears as agent 651 (code-named “General Manager B”) in Dulles’s messages to OSS headquarters.⁷⁶⁰

Knowing about such contacts informs why Auboin’s version of events that took place at the BIS during wartime is so devoid of meaningful details.

From the perspective of those who fought to save the BIS from liquidation, it was crucial to do so precisely *because* the Bank for International Settlements could be seen by some as providing one of the critical lines of defense against the menace of Soviet Communism. This view became more entrenched as the Cold War deepened and spread. The renewed tension between Soviet communism and western democracies in the late 1940s offers a plausible context for defending the BIS. Because of its well-known surreptitious banking activities and inherent anti-communist stance, it would prove to be a vital asset in the early years of the Cold War as the tensions between East and West intensified. In the years after economists White and Keynes negotiated the establishment of a new international financial system, comprised of the IMF and

⁷⁵⁹ Boughton, “American in the Shadows” 1-19.

⁷⁶⁰ Simpson, *The Splendid Blond Beast* 219.

the World Bank, the Bank for International Settlements was retained as a refurbished international financial bulwark against a renewed and reinvigorated Soviet Union.

Appendix

END NOTES

Endnote 1:

“Transactions in Mefo bills worked as follows: the bills were drawn by armament contractors and accepted by a limited liability company called the Metallurgische Forschungsgesellschaft, m.b.H. (MEFO). This company was merely a dummy organization; it had a nominal capital of only one million Reichsmarks. Mefo bills ran for six months, but provision was made for extensions running consecutively for three months each. The drawer could present his Mefo bills to any German bank for discount at any time, and these banks, in turn, could rediscount the bills at the Reichsbank at any time within the last three months of their earliest maturity. The amount of such bills outstanding was a guarded state secret (EC-436). The system continued in practice until 1 April 1938, when 12 billion Reichsmarks’ worth of Mefo bills were outstanding (EC-436). This method of financing enabled the Reich to obtain credit from the Reichsbank which, under existing statutes, it could not directly have obtained, as direct lending to the government by the Reichsbank had been limited by statute to 100 million Reichsmarks (*Reichsgesetzblatt*, 1924, II, p. 241). Schacht conceded that his Mefo bill device ‘enabled the Reichsbank to lend by a subterfuge to the Government what it normally or legally could not do’ (3728-PS).”⁷⁶¹

Endnote 2.

OSS leader and lawyer William Donovan and his staff were tasked with collecting the evidence in the case of Hjalmar Schacht. But a curious matter arose that contributed to the eventual break between Chief Prosecutor Jackson and Donovan. One day, Donovan made a surprising proposition to Jackson: give Hermann Göring, the highest-ranking Nazi that they had in the Nuremberg brig, immunity so that he could testify on behalf of the prosecution.⁷⁶² Jackson rejected this proposal and their prosecutorial relationship deteriorated. This break with the arm that collected evidence against the accused was an unfortunate development in prosecuting the case against Schacht. As a result of this disconnect, the linkage in the chain from evidence collection to prosecution was disrupted.⁷⁶³ An exploitable gap thus arose in the prosecution of Schacht. Since Donovan and his staff were the authorized agents to interrogate Schacht, once Donovan and his staff (e.g., Francis M. Shea) left before Schacht’s trial, their expertise and most likely their interrogation notes went along with them.⁷⁶⁴ This gap in the bureaucratic organization of the IMT could now be exploited by replacing potentially incriminating evidence with exculpatory evidence.

⁷⁶¹ Source: Hjalmar Schacht, *Nazi Conspiracy and Aggression Volume 2*, Chapter XVI Part 12, *The Avalon Project*, Yale Law School, https://avalon.law.yale.edu/imt/chap16_part12.asp

⁷⁶² Taylor, *Anatomy of the Nuremberg Trials* 182-186.

⁷⁶³ Taylor, *Anatomy of the Nuremberg Trials* 180-181

⁷⁶⁴ Taylor, *Anatomy of the Nuremberg Trials* 265.

Enter Hans Bernd Gisevius,⁷⁶⁵ whose testimony ultimately would lead to Schacht's acquittal. Gisevius liaised with Donovan, the OSS and Allen Dulles, and worked with the German resistance in WWII.⁷⁶⁶ It seems quite likely that people worked toward ensuring Schacht's acquittal. Taken together, the compounding circumstantial evidence surrounding the prosecution of Schacht suggests that he was targeted for protection. Actions taken by Donovan's protégé, Allen Dulles, in relation to his strenuous (and successful) defense of Waffen-SS General Karl Wolff and Nazi intelligence official Reinhard Gehlen along with his keen interest to keep the BIS from liquidation support the view that there were many sympathetic to the Nazi cause, who worked in the OSS⁷⁶⁷ and elsewhere and were willing to do what it took to protect those individuals that they valued. A reasonable argument can be made that the entire case against Schacht was undermined not just by Donovan's departure but also by the fact that the defense's star witness, Hans Bernd Gisevius, had long liaised with Donovan and Allen Dulles.

⁷⁶⁵ See Testimony of Hans Bernd Gisevius (25 April 1946), <https://avalon.law.yale.edu/imt/04-25-46.asp>, (24 April 1946), https://www.fadedpage.com/books/20210821/html.php#Page_167 (includes English Transcript for 24 April and 25 April 1946), and audio of same (in German), <https://www.youtube.com/watch?v=9KxkbDrir2c>

⁷⁶⁶ See, Breitman et al., *U.S. Intelligence and the Nazis* 101; see, for example, Gisevius, *To the Bitter End* (New York: Houghton Mifflin, 1947); and the *New York Times*' contemptuous treatment of him in his obituary.

⁷⁶⁷ Breitman et al., *U.S. Intelligence and the Nazis*.

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