INTERNATIONAL BANK REGULATION IN THE EARLY TWENTIETH CENTURY EXPLAINED BY THE THEORY OF CLUB GOVERNANCE

It is often argued that international bank regulation began with the establishment of the Basel Committee in the mid 1970’s. However, what I argue is that the regulation of international banks has occurred for a much longer period throughout history, beginning in the eighteenth and nineteenth centuries with bilateral cooperation between the central and international commercial bankers themselves and then developing in the twentieth century into a club like style of self-regulation. This, I argue, is similar in form to the ‘club governance’ that Michael Moran explains ruled the financial landscape of the City of London itself from the Victorian era up until the late 1970’s. He argues that up until the late twentieth century, the regulation of financial markets in the City existed only in the form of cultural norms, gentleman’s agreements and informal cooperation and I think this theory can also be used to explain what was happening on an international level. The following points form the key attributes in the development of this international club culture:

1. The development of personal relationships between central bankers

The early twentieth century saw the relationships between central bankers begin to develop in a more personal way, indicating that the close relationships that underlined the club culture of the City itself were beginning to be emulated at an international level. In particular, the relationship that developed between Benjamin Strong, of the FRBNY and Montagu Norman, of the Bank of England in the early twentieth century has been hailed as ‘one of the most celebrated channels of central bank cooperation during the 1920s.’ After they first met, Strong began to write to Norman regularly, first in relation to things such as credit policy, but then on a more personal level, and as their friendship grew, Norman began to have visions of the creation of a ‘league of central bankers.’

Benjamin Franklin, FRBNY

Montagu Norman, Bank of England

2. The formalisation of cooperation- the inter-war conferences

The Brussels Financial Conference, 1920

This conference was convened at the request of the League of Nations in one of their first manifestations. The League invited twenty-five nations to send three delegates who were ‘conversant with public finance and banking as well as with general economic questions.’ Thus, in contrast to the previous financial conferences of the nineteenth century which were represented by government officials, the Brussels Conference was represented by the leading men in industry; the bankers themselves. This gave these men the opportunity to meet, for the first time, on a more formal basis to discuss international financial matters.

The Genoa Economic and Financial Conference, 1922

This conference dealt with the issue of central bank cooperation head on. The Finance committee, which was appointed at the conference to deal with issues pertaining to currency, credit and exchange, formulated a total of 19 resolutions; one stated that currency reform would be greatly facilitated by the cooperation of central banks and another stated that the Bank of England should call meetings of the central banks, so that they could examine the proposals adopted by the Conference and make recommendations to their respective Governments in order to adopt an international monetary convention.

The Genoa Conference 1922

When Benjamin Strong passed away in 1928, it became clear that cooperation based solely on informal relations between central bankers could not continue indefinitely and some more solid method would need to be implemented. Accordingly, and what became the main protagonist in this story of international club governance was the establishment of the BIS. While its original purpose concerned the issue of German war reparations, once this had faded, the focus of the bank’s activity fell on the promotion of cooperation between central bankers around the world. Accordingly, this organisation paved the way for the development of this club like style of regulation through the periodical, informal, private meetings of the key international bankers of the world. The board of directors of the Bank included five of the most important central bankers in the world who would meet at least ten times each year and who were compelled to coordinate their policies, and to understand one another’s points of view. The central bankers, through the auspices of the BIS, were able to offer assistance during the 1931 financial crisis, they were involved in the 1933 London Economic Conference, they assisted during the recreation of Europe’s system of multilateral payments in the 1950s and they were heavily involved in the support for the Bretton Woods system during the 1960s. Most importantly, it was from this organisation that the Basel Committee was born.

The BIS, Basel, Switzerland