Henry C. Wallich
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Report on BIS Meeting - December 9, 1974

The BIS meeting on December 9 covered an unusually wide range of topics.

The Eurocurrency Committee examined the BIS' current effort to collect more complete data on banking claims on developing countries, which is going forward satisfactorily, and the assembly of information on regulatory and supervisory practices, which has been virtually completed. Some dissatisfaction was voiced with delays in the collection and dissemination of Eurocurrency data. Attention was drawn to the interest of the International Monetary Fund in entering this field, and suggestions were made for expediting data handling at the BIS.

The governors' meeting discussed and adopted a proposal for the creation of a new staff committee to deal with problems in the area of bank liquidity, solvency, and related matters. Each central bank would nominate two staff representatives, one for regulation and supervision and one for data gathering, who would meet from time to time under the chairmanship of George Blunden of the Bank of England. Exchange of information, rather than harmonization of national practices is to be the objective. The new group would parallel in some respects, but not compete with or supersede, the committee of regulators and supervisors of EEC countries now functioning under the chairmanship of Albert Dondelinger of Luxembourg. Governors Mitchell and Wallich talked to Mr. Dondelinger and sought to make arrangements to bring his group to Washington for an exchange of views some time early next year.

Governor Richardson said that he was contemplating a letter addressed to the London banks on the subject of their foreign exchange operations.

Governor Mitchell discussed the structure of U.S. bank regulation and supervision, making clear the diversity of arrangements and by implication, the difficulty of any coordination with procedures abroad. He also described the foreign banking legislation put forward by the Federal Reserve Board, indicating that it had had a good Congressional and public reception. There were no adverse comments.

There was a brief discussion of U.S. gold legislation and Treasury activities with respect thereto. In setting these forth, Governor Wallich broadly followed the testimony of Chairman Burns before the Gonzalez subcommittee on December 5, without taking a pronouncedly negative attitude toward U.S. policy or raising the specter of possibly alarming consequences. Very few questions were asked.

The most interesting discussion concerned the recent announcement of the German Bundesbank that they would expand the monetary base at a rate of 8 per cent for the next year. The purpose of this policy announcement was stated to be to give the government, labor, and business a fixed frame of reference for their planning with respect to wage and price setting and financing. Dr. Emminger explained the derivation of the growth rate of the monetary base, which makes allowance for foreseeable rates of inflation, real growth, and changes in the relation of the base of the money supply and the money supply to GNP. The base was chosen in preference to M_1 because M_1 in Germany has proved to be less stably related to GNP than the base.

In the discussion, questions were raised concerning the ability of the Bundesbank to stick to its targets, the possible effects of a rigid limitation of base growth upon the ability to intervene in exchange markets to keep the mark from rising, and the effect on interest rates. It was noted that, for a country with a large international sector like Germany, the new policy seemed to give a remarkably high priority to domestic considerations. A somewhat extreme formulation of the policy, not by a German representative, was that the Bundesbank was telling the labor unions what nominal GNP was going to be and was leaving it to them how they wanted to split it between price increases and real increases.