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*There is more to the tale of Czechoslovak gold being stolen by Germany than in the Bank of England's embarrassment – the Bank for International Settlements actually financed Hitler's war machine, says **Adam LeBor***

The documents reveal a shocking story: just six months before Britain went to war with Nazi Germany, the Bank of England willingly handed over £5.6 million worth of gold to Hitler – and it belonged to another country.

The official history of the bank, written in 1950 but posted online for the first time on Tuesday, reveals how betrayed Czechoslovakia – not just with the infamous Munich agreement of September 1938, which allowed the Nazis to annex the Sudetenland, but also in London, where Montagu Norman, the eccentric but ruthless governor of the Bank of England agreed to surrender gold owned by the National Bank of Czechoslovakia.

The Czechoslovak gold was held in London in a sub-account in the name of the Bank of International Settlements, the Basel-based bank for central banks. When the Nazis marched into Prague in March 1939 they immediately sent armed soldiers to the offices of the National Bank. The Czech directors were ordered, on pain of death, to send two transfer requests.

The first instructed the BIS to transfer 23.1 metric tons of gold from the Czechoslovak BIS account, held at the Bank of England, to the Reichsbank BIS account, also held at Threadneedle Street.

The second order instructed the Bank of England to transfer

almost 27 metric tons of gold held in the National Bank of Czechoslovakia's own name to the BIS's gold account at the Bank of England.

To outsiders, the distinction between the accounts seems obscure. Yet it proved crucial – and allowed Norman to ensure that the first order was carried out. The Czechoslovak bank officials believed that as the orders had obviously been carried out under duress neither would be allowed to go through. But they had not reckoned on the bureaucrats running the BIS and the determination of Montagu Norman to see that procedures were followed, even as his country prepared for war with Nazi Germany.

His decision caused uproar, both in the press and in the parliament. George Strauss, a Labour MP, spoke for many when he thundered in Parliament: "The Bank for International Settlements is the bank which sanctions the most notorious outrage of this generation – the rape of Czechoslovakia." Winston Churchill demanded to know how the government could ask its citizens to enlist in the military when it was "so butter-fingered that £6 million worth of gold can be transferred to Nazi government."

It was a good question. Thanks to Norman and the BIS, Nazi Germany had just looted 23.1 tons of gold without a shot being fired. The second transfer order, for the gold held in the National Bank of Czechoslovakia's own name, did not go through. Sir John Simon, the Chancellor of the Exchequer, had instructed banks to block all Czechoslovak assets.

The documents released by the Bank of England are revealing, both for what they show and what they omit. They are a window into a world fearful deference of authority, the primacy of procedure over morality, a world where, for the bankers, the most important thing is to keep the channels of international finance open, no matter what the human cost. A world, in other words, not entirely different to today.

The BIS was founded in 1930, in effect by Montagu Norman and his close friend Hjalmar Schacht, the former president of the Reichsbank, known as the father of the Nazi economic miracle. Schacht even referred to the BIS as “my” bank. The BIS is a unique hybrid: a commercial bank protected by international treaty. Its assets can never be seized, even in times of war. It pays no taxes on profits. The Czechoslovaks believed that the BIS’s legal immunities would protect them. But they were wrong.

The Bank of England’s historian argued that to refuse the transfer order would have been a breach of Britain’s treaty obligations with regard to the BIS. In fact there was a powerful counter-argument that the Nazi invasion of Czechoslovakia had rendered any such obligations null and void as the country no longer existed.

A key sentence in the Bank of England documents is found on page 1,295. It reads: “The general attitude of the Bank of England directors of the BIS during the war was governed by their anxiety to keep the BIS to play its part in the solution of post-war problems”. And here the secret history of the BIS and its strong relationship with the Bank of England becomes ever more murky.

During the war the BIS proclaimed that it was neutral, a view supported by the Bank of England. In fact the BIS was so entwined with the Nazi economy that it helped keep the Third Reich in business. It carried out foreign exchange deals for the Reichsbank; it accepted looted Nazi gold; it recognised the puppet regimes installed in occupied countries, which, together with the Third Reich, soon controlled the majority of the bank’s shares.

Indeed, the BIS was so useful for the Nazis that Emil Puhl, the vice-president of the Reichsbank and BIS director, referred to the BIS as the Reichsbank’s only “foreign branch”.

The BIS's reach and connections were vital for Germany. So much so, that all through the war, the Reichsbank continued paying interest on the monies lent by the BIS. This interest was used by the BIS to pay dividends to shareholders – which included the Bank of England. Thus, through the BIS, the Reichsbank was funding the British war economy. After the war, five BIS directors were tried for war crimes, including Schacht. "They don't hang bankers," Schacht supposedly said, and he was right – he was acquitted.

Buried among the typewritten pages of the Bank of England's history is a name of whom few have ever heard, a man for whom, like Montagu Norman, the primacy of international finance reigned over mere national considerations.

Thomas McKittrick, an American banker, was president of the BIS. When the United States entered the war in December 1941, McKittrick's position, the history notes, "became difficult". But McKittrick managed to keep the bank in business, thanks in part to his friend Allen Dulles, the US spymaster based in Berne. McKittrick was an asset of Dulles, known as Codename 644, and frequently passed him information that he had garnered from Emil Puhl, who was a frequent visitor to Basel and often met McKittrick.

Declassified documents in the American intelligence archives reveal an even more disturbing story. Under an intelligence operation known as the "Harvard Plan", McKittrick was in contact with Nazi industrialists, working towards what the US documents, dated February 1945, describe as a "close cooperation between the Allied and German business world".

Thus while Allied soldiers were fighting through Europe, McKittrick was cutting deals to keep the Germany economy strong. This was happening with what the US documents describe as "the full assistance" of the State department.

The Bank of England history also makes disparaging reference

to Harry Dexter White, an official in the Treasury Department, who was a close ally of Henry Morgenthau, the Treasury Secretary. Morgenthau and White were the BIS's most powerful enemies and lobbied hard at Bretton Woods in July 1944, where the Allies met to plan the post-war financial system for the BIS to be closed. While the Bank history notes rather sneeringly, had said of the BIS: "There is an American president doing business with the Germans while our boys are fighting the Germans."

Aided by its powerful friends, such as Montagu Norman, Allen Dulles and much of Wall Street, the BIS survived the attempts by Morgenthau and White to close it down. The bank's allies used precisely the argument detailed on page 1,295 of the Bank of England's history; the BIS was needed to plan the post-war European economy.

From the 1950s to the 1990s the BIS hosted much of the planning and technical preparation for the introduction of the euro. Without the BIS the euro would probably not exist. In 1994, Alexander Lamfalussy, the former BIS manager, set up the European Monetary Institute, now known as the European Central Bank.

The BIS remains very profitable. It has only about 140 customers (it refuses to say how many) but made a tax-free profit of about £900 million last year. Every other month it hosts the Global Economy Meetings, where 60 of the most powerful central bankers, including Mark Carney, Governor of the Bank of England, meet. No details of meetings are released, even though the attendees are public servants, charged with managing national economies.

The BIS also hosts the Basel Committee on Banking Supervision, which regulates commercial banks, and the new Financial Stability Board, which coordinates national regulatory authorities. The BIS has made itself the central pillar of the global financial system.

Montagu Norman and Hjalmar Schacht would be very proud indeed.

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