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## IS SWITZERLAND SHIRKING ?

(The following reprint is taken with acknowledgment from "THE STATIST," January 25th, it gives a lurid exposition of the relevant motives underlying our financial policy and uncovers the senseless attacks from certain quarters which try to involve us in the chaos and misery prevalent in some parts of the Continent and which we have at all times helped to allay to the best of our ability.)

"Reports appearing recently in the American Press graphically describe the resentment felt in London at the disinclination of Switzerland to do her fair share in financing European rehabilitation. "Switzerland, as a dollar-rich country in the midst of a dollar-poor Europe . . . fighting off (further) accretions to its holdings of gold and foreign exchange," says one report, "is leading other countries to conclude that she is not doing what she might in the job of world reconstruction."

Appearances DO seem to afford grounds for complaint.

But, in the interests of European recovery, which would undeniably be hastened if the amazing accumulation of buying power in hard currencies at the heart of Europe were mobilised for reconstruction and in answer to the embittered censure said to be heard in England, it is imperative that the reasons why Switzerland has done less than expected of her should be made clear. Otherwise the opinion that "the real obstacle is rigidity of outlook in powerful Swiss banking groups" would obscure the true cause of the inertia and hinder any substantial improvement.

If, for the moment, Switzerland often refuses gold or dollars or sterling offered in payment of goods or services wanted by other countries, the plain truth is that, as a result of deliveries of goods already made and of services already performed, Switzerland has far more gold than she has any use for, whereas the goods and services for which she is asked to accept payment in gold or dollars or sterling, for example, by tourists from other countries, as a rule involve imports into Switzerland of foodstuffs and raw materials of which Switzerland herself is ill-supplied and whose supply she cannot increase.

Before the war broke out in 1939, Switzerland, as a measure of self-defence, accumulated large stocks of food and primary raw materials intended mainly for her own use during the years she would be isolated from world markets. Yielding to remorseless pressure exerted during the war, she was obliged to part with these stocks in the shape of industrial products and — except for goods for current consumption — was obliged to accept payment in gold and foreign exchange. At the end of the war her stocks were gone. So that her vast holdings of gold and foreign exchange are not a measure of her superfluity but an indication of the extent of her dearth of raw materials. If allowed to do so, Switzerland would restock and so get rid of her excess of gold and foreign exchange. For the time being, however, that is not possible, because the trade in foodstuffs and raw materials is internationally controlled and each country is allocated a fixed quota.

Unwillingness to accept dollars in unlimited

amounts is easy to understand in view of the immense dollar assets of Switzerland blocked in U.S.A. since June 14th, 1941, and about to be released as quickly as Swiss ownership can be certified. So far as it is possible to convert dollars into francs, this capacity must be reserved to satisfy Swiss nationals who want to repatriate their long-alienated dollar balances. There has never been any hesitation on the part of the National Bank of Switzerland to issue francs required for financing genuine commercial transactions, that is to say, operations whereby Switzerland can obtain foodstuffs or raw materials because in that case the increase in the note issue would be balanced by an augmentation of the supply of goods on the market available for purchase. Hesitation arises only in the case of financial transfers, that is, in the repatriation of capital, the remittance from abroad of dividends or interest on investments or the conversion of foreign exchange into francs for use in effecting payments made by other countries among themselves. By an accident of circumstance, the Swiss franc has become the most eagerly sought currency in the world. But owing to the small size of the country the supply of francs is out of all proportion to the demand. If the restrictions were removed, Switzerland would soon be depleted of everything money will buy, prices would be forced up out of reach and the present utility of the Swiss franc in international operations would disappear.

That explains completely why the National Bank of Switzerland is obliged to limit the sale of francs



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on demand from foreign countries. More Swiss francs could be made available if more latitude were shown in allocating to Switzerland her share of supplies of food and rawstuffs. There would, moreover, be ample justification for such a policy, inasmuch as a more abundant supply of food and consumption goods would enable Switzerland to admit more tourists and the increased supply of raw materials would soon result in an increased supply of industrial finished products on the world market. What Switzerland wants for her own use is so small by comparison with total world demand that, even if all restrictions on buying by Switzerland were abolished, there would be little noticeable difference in the quota of any single country.

Meanwhile, the suggestion made in Britain is that the vast financial resources accumulated in Switzerland should be utilised for hastening European rehabilitation. That is precisely what "the powerful Swiss banking groups" clamour to be allowed to do. But it takes two to make a bargain. At whose disposal — for instance, in the case of Germany — should this capital be placed? Who would guarantee its repayment?

Recollecting the disastrous losses Switzerland incurred after the first world war by following the advice and example of U.S.A. and Great Britain in making lavish loans to devastated countries, the Confederation decided after the second world war that, for the time being, all loans and credits should be between Governments. One reason why the Confederation was eager to grant credits was the stimulation of export so as to avoid wholesale unemployment. This policy was followed consistently and achieved its purpose completely. Credits aggregating about S.Fr. 800 million were arranged. In some cases, for example, in those of Italy and Rumania, the credits in question never became available because of the veto imposed by the Allies. But the amount in question is kept at the disposal of the countries concerned to be ready the moment the veto is lifted.

To grant still more credit under present conditions would be ineffectual. Credits in Swiss francs must obviously be used to buy commodities in Switzerland. As all Swiss industries are now working full blast and have orders enough on hand to keep them fully employed for another two years, the grant of more credit would increase demand but could not augment the supply of industrial products available for European rehabilitation. More factories might be built, but more skilled labour to man them is not available in Switzerland. Before these factories could be operating with imported labour, the industries of Great Britain and U.S.A. will be exporting abundantly.

Another proof that Switzerland has gone to the limit in doing what is feasible to restart the devastated countries under present conditions is the fact that the negative balance on clearing account with European countries aggregates something like S.Fr. 1,300 million. A large part of this is owing from Germany and a very great amount in frozen assets is also still owing from Germany. This of course, is no active contribution towards rehabilitation, but does explain why much of the nominal wealth of Switzerland cannot be made available for accelerating recovery.

Whether the financial strength of Switzerland is being used to the best advantage while the resources of the nation are under the control of the Confederation and the National Bank is a matter of perpetual con-

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roversy. The entire banking community of Switzerland is united in contesting that opinion. Doubtless the Confederation and National Bank answer that bankers think first of private interests and dividend earning and that the National Bank is the custodian of the well-being of the whole nation and must first and foremost safeguard the soundness of the currency.

All private bankers in Switzerland demand the removal of control by the State and by the National Bank and insist on the right to deal direct with their own clients and decide for themselves whether a risk is worth taking or not. Their assertion is that, in competition with one another, private bankers are far better able to adapt themselves to the practical needs of the devastated countries and are far more competent to gauge the credit-worthiness of men struggling to regain a foothold in the midst of post-war chaos. Switzerland is an integral part of Europe. For generations Swiss bankers have been familiar with the peculiarities, the mentality, the languages of the peoples of Central and South-Eastern Europe and know, much better than people from overseas, how far it is safe to go in entering into financial commitments in these countries.

Determined efforts by Swiss bankers to recover their liberty of action would probably have been effectual long ago if it were not for the fact that military government in the occupied countries precludes the possibility of their making wide use of this liberty. Moreover, a Government is always better equipped to bargain with a military administration than individual private bankers. Capital cannot be made available unless those willing to put it at the disposal of those needing it are allowed to move freely in and out of the occupied countries and conduct private business unhampered. As long as the occupation authorities insist that all deals should be concluded with the Military Government, capital will avoid such fields.

On the question of general policy, there is unceasing conflict in Switzerland between the National Bank and the private banks, who protest against the excessive caution exercised in safeguarding the stability of the franc. Swiss bankers are practical men who scorn the idea that the risks of inflationary effects are as great in practice as in theory. The National Bank, they say, is guided chiefly by charts and statistics, while private bankers make greater allowance for the compensating factor of human nature."