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THE SWISS FRANC AND THE DEVALUATIONS OF SEPTEMBER 1949.

In order clearly to understand the recent happenings on the market for foreign exchanges in Switzerland after the devaluation of the Pound Sterling and numerous other currencies in September last, it is necessary shortly to trace the history of Swiss monetary policy since 1936 when — with some considerable delay — the gold parity of the Swiss Franc was adjusted in accordance with the prior devaluations of the U.S. Dollar, the Pound Sterling and practically all other major currencies throughout the world.

Until September 27th, 1936, the exact value of the Swiss Franc was 290.32 milligrams of fine gold, corresponding to a parity of 3.06 Francs to the U.S. Dollar. By decree, the Swiss Federal Council then instructed the Swiss National Bank to keep the value of the Franc in future between 190 and 215 milligrams of fine gold. That is to say, devaluation was not to be more than 34½% and not less than 26%. Accordingly, and based on the U.S. equivalent for gold of 35 Dollars per ounce, the rate of exchange of the Dollar in Switzerland was not to be higher than 4.68 or lower than 4.13 Francs.

As the Swiss franc after devaluation in 1936 had no fixed gold equivalent, gold coins corresponding in denomination to the new standard value could not be minted. Nor could the Swiss National Bank be any longer required to redeem its notes in gold, since the franc had no specific gold equivalent. Therefore, the decree of September 27th, 1936, stipulated that provisionally the notes of the Swiss National Bank would be legal tender in Switzerland to any amount.

In practice the Dollar-Franc rate based on the buying price for gold of the Swiss National Bank of Francs 4,869.80 was kept at 4.33 Francs to the Dollar.

Except on some rare occasions of grave national emergency, the Swiss National Bank has never had any difficulty in keeping the dollar-franc rate rigidly fixed at 4.33. At the outbreak of World War II in 1939, for instance, the dollar-franc rate rose momentarily to 4.46. But even on these exceptional occasions, the rate never once fluctuated beyond the limits fixed by the decree of September 27th, 1936.

From a technical point of view, of course, the position of the Swiss Franc was unassailable even before 1936 and has remained so ever since. At the beginning of World War II the bank note circulation and engagements at sight of the Swiss National Bank were covered by gold or holdings of hard currencies to the extent of 94.8%. This proportion has risen to-day to 103.7% and is higher than the corresponding figure for any other country in the world including the United States.

On the other hand, the precarious political and economic position of Switzerland during the second World War induced the Swiss National Bank to take a series of measures intended to counteract the supposed inflationary effects of free and unlimited conversion of gold (as such or in the form of U.S. Dollars always convertible into gold through the medium of the Swiss National Bank's account with the Federal Reserve Bank of New York) into Swiss Francs. As a matter of fact, the War brought about a considerable demand for Swiss Francs for a number of reasons. Stocks previously held by Swiss industry and commerce were slowly liquidated and could not be replaced at

the time, so that considerable liquid funds of Swiss ownership accumulated particularly within the Dollar area. The Swiss Franc having become the most stable and readily acceptable currency not only in Europe but also in other parts of the world, many governments and private or public organizations continuously tried to increase their holdings of Swiss Francs by offering gold or U.S. Dollars in exchange. At the same time Swiss industry was still able to export goods to overseas countries, mainly paid for in U.S. Dollars which they in turn wanted to rapatriate for conversion into Swiss Francs.

As against this considerable demand for Swiss Francs resulting in a corresponding increase of means of payment available in Switzerland, there had to be put the scarcity of goods within the country with the corresponding threat to the price structure through excessive demand, overemployment, high wages and unsound investments.

The main measures introduced by the Swiss National Bank as a means to fight these dangers were the following:

U.S. Dollars offered for sale in Switzerland and resulting from any transaction other than the sale of Swiss goods or services abroad were no longer bought by the Swiss National Bank for conversion into Swiss francs. A distinction was therefore made between so called "commercial Dollars" freely salable to, or obligatorily to be bought from the Swiss National Bank at the fixed rate of 4.28 and 4.315 respectively, and "financial Dollars" resulting from any non-commercial transactions, which could be dealt with only in a free market, subject to the laws of supply and demand, the Swiss National Bank having the possibility, but no obligation whatsoever, to intervene on that market at any time. There were consequently wide fluctuations of the rate of the financial Dollar



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in Switzerland, the lowest value ever recorded being Francs 2.27 to the Dollar on February 12th, 1944. In 1949, just prior to the devaluation of Sterling, the rate was steady at about Frs 3.98 to the Dollar.

In order to put a break on the excess of industrial activity and profits in certain branches of industry, the Swiss National Bank decreed the blocking for various periods of time of the proceeds of the sale abroad of certain categories of goods in certain definite proportions, the funds so blocked being nevertheless available for utilisation, for example, through bank advances.

The Swiss Confederation also cooperated in the policy pursued by the Swiss National Bank through considerable purchases of gold against the issue of treasury bonds resulting in a corresponding decrease of the means of payment available for investment or consumption purposes.

To cope with the over-liquidity of the money and capital market, the Swiss National Bank also had recourse to the sale of gold to Swiss nationals, not only to the commercial banks in the form of bars but also to the public in the form of coins. In either case, gold was sold as merchandise, not as a monetary instrument. Coins minted before the devaluation of the franc in 1936, nominally worth Fcs.20, were sold to the public at Fcs.30.50. At that time, there was an insatiable demand for gold from the Far East where prices up to \$70 an ounce were paid, while the U.S. Official price of gold was \$35 an ounce. Moreover, in France, fear of currency devaluation created a voracious demand for gold for hoarding. To prevent gold sold in Switzerland from being smuggled out of the country,

the Swiss National Bank insisted that the commercial banks should register the names and addresses of all purchasers. This proved ineffectual. On September 9th, 1947, the Swiss National Bank stopped the sale of gold altogether. This had become necessary because to buy cheap gold dealers were flooding the Swiss market with dollars and depressing the financial dollar rate. In the meantime the obligation to register the names and addresses of purchasers of gold has been abolished and the trade in gold within the country at the official price fixed by the Swiss National Bank is theoretically free, subject only to special licences for import and export or transit business to be obtained from the Swiss National Bank.

Amongst the reasons favouring foreign purchases of Swiss francs against gold or U.S. dollars, particularly in postwar years, were the long standing discussions, doubts and fears about a possible devaluation of Sterling and other currencies. Although outside the U.S.A. and Switzerland, free movements of capital were almost impossible after the war, it must nevertheless be assumed that a certain amount of foreign money was able to take refuge in Switzerland, thereby contributing to the aforementioned rise in the total holding of gold of the Swiss National Bank and the Swiss Confederation.

The devaluations of September 1949 and particularly that of the £ Sterling, abruptly announced on September 17th, brought about the expected outflow of hot money totalling in value about 500 million Swiss Francs supplied partly by the Swiss National Bank partly from the Swiss Confederation from their respective holdings of gold or U.S. Dollars. From the 15th

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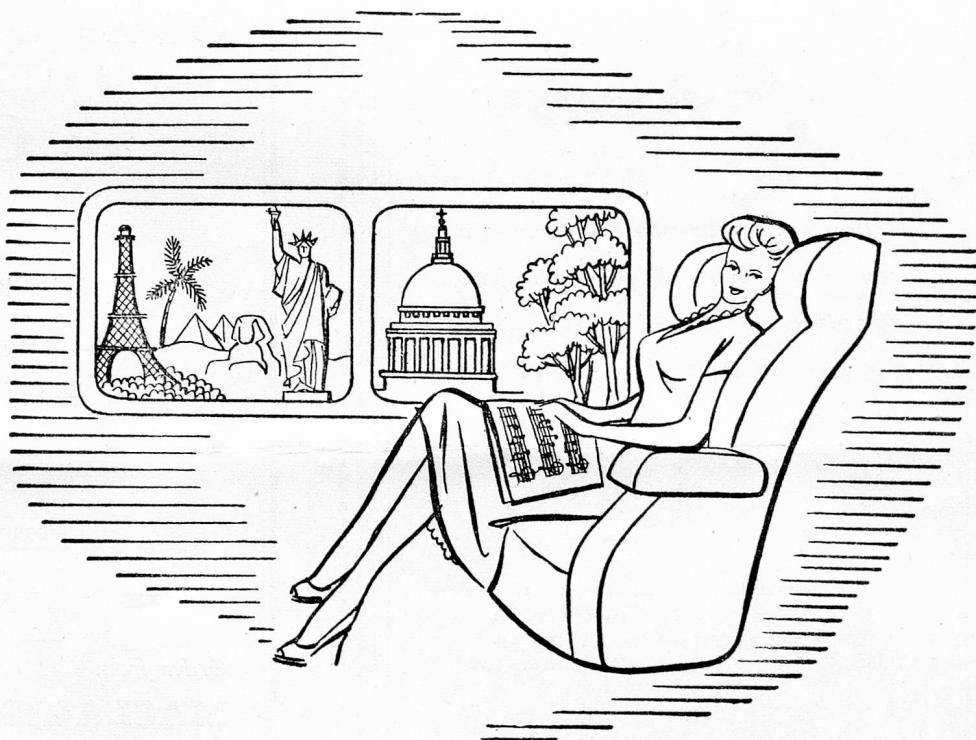
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to the 30th of September, the gold holdings of the Swiss National Bank fell from Fcs.6,281 millions to Fcs.6,158 and its dollar reserves from Fcs.312 millions to Fcs.188 millions. All in all, monetary reserves showed a reduction of Fcs.247 millions during the second half of September. Despite this reduction, they were still on the 30th of September 1949 higher by Fcs.288 millions than at the beginning of the year. Over and above the monetary reserves of the Swiss National Bank, the Swiss Confederation itself held gold to the value of Fcs.269 millions on the 30th of September, 1949, against Fcs.182 millions at the beginning of the year. To complete the picture, it should be recalled that the Confederation purchased gold to the value of Fcs.125 millions from the Swiss National Bank during the month of August.

On the other hand, the insistent demand for U.S. Dollars brought the rate of the "financial Dollar" up to parity with the "commercial Dollar" within a few days. Taking advantage of this opportunity, the Swiss National Bank on September 23rd announced the abolition of all restrictions on trading in Dollars. That was the end of the distinction between the "commercial Dollar" and the "financial Dollar" whose co-existence at rates so greatly at variance from time to time was an anomaly sometimes resented abroad and never liked in Switzerland. To-day U.S. Dollars may be freely sold and bought in Switzerland, the Swiss National Bank having announced that in future it would be willing to buy Dollars at 4.28 and sell at 4.375 to any amount. This rate of 4.375 is calculated

on an average price of Fcs.4,920.63 per kilogram of fine gold equivalent to a parity of 203.226 milligrams of fine gold per Swiss franc and ratifies a devaluation of exactly 30% with respect to the parity valid up to September 1936 — this being in accordance with the instructions given by the Federal Council at the time. In fact, the rate has again remained more or less around 4.32—4.34 after having reached 4.375 immediately after the devaluation of the Pound Sterling.

In a declaration made on September 27th, the President of the Swiss Confederation, Federal Councillor Ernest Nobs said that:

1. For a long time to come, any deficit in the balance of payments of Switzerland could be covered by gold shipments,
2. Monetary devaluation elsewhere affects only about half of Switzerland's foreign trade,
3. In countries where the currency has been devaluated, prices are already rising.
4. In Switzerland, the prices of imported food and raw materials are already sinking.

All fear that the Swiss franc would be devaluated in the foreseeable future vanished.

No such step is, in fact, necessary, but it nevertheless remains true that Switzerland will have to make strenuous efforts in order, at the same time, to take full advantage of the opportunities offered by the devaluations abroad and in order to reduce cost of living and cost of production at home.

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