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SWITZERLAND AND THE FUTURE OF THE EUROPEAN PAYMENTS UNION.

(A talk given by Dr. A. Weitnauer, Commercial Counsellor, on the occasion of the Annual General Meeting of the Swiss Economic Council, on Friday, June 18th, 1954.)

The European Payments Union has been throughout these last years a very popular topic, not only with economists and politicians, but also with a more general public. This is only natural. Quite apart from the political significance that some people choose to attach to it as a stepping stone towards a political union of the European States, and quite apart also from the very ingenious system it represents in the field of economic and financial organisation, the European Payments Union—or E.P.U., as it is commonly called—has had very far-reaching and, on the whole, extremely beneficial effects on the development and stabilisation of European and world economy. Every single businessman in Europe, her overseas territories, and the British Commonwealth, has in some way or other been affected by its existence, and it is difficult to imagine how the prosperity to be found in all branches of the economy could have prevailed without the facilities offered by the E.P.U.

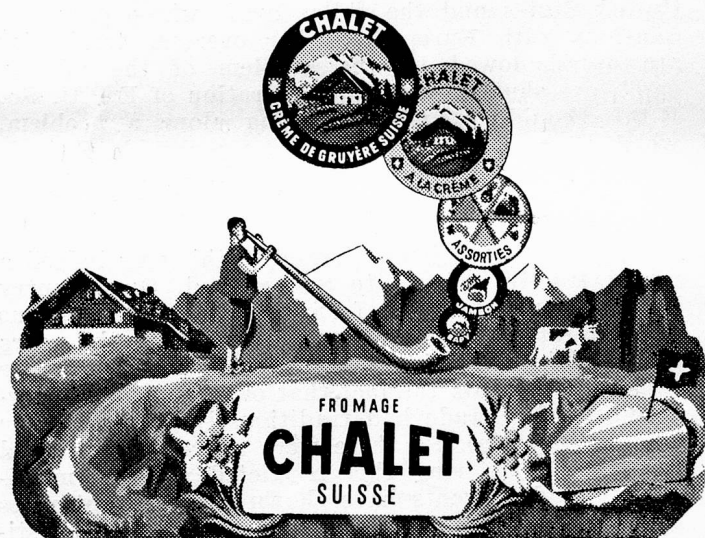
To our own country, Switzerland, membership has also proved a definite advantage. Let me just give you a few telling figures, which will illustrate much better than anything else what our participation in this great European enterprise has meant for the progress of our trade and our economy in general:

In 1950, that is to say the year when the Union was established, Switzerland's exports to the member countries—which, you may recall, are: Belgium, Denmark, Western Germany, Great Britain, the British Colonial Empire and the Commonwealth, France, Greece, Luxemburg, Italy, the Netherlands, Norway, Austria, Portugal, Sweden and Turkey—totalled approximately 2,100 million Swiss francs. The 1953 exports to the same countries reached the impressive figure of 3,100 million Swiss francs, which amounted to a net increase of 1,000 million Swiss francs or 50%, whereas Switzerland's exports to the rest of the world had remained almost stationary over the same period. The corresponding figures for Swiss exports to the United Kingdom and the outer sterling area in particular are 290 million Swiss francs in 1950 and 590 million Swiss francs in 1953 that is to say that these exports have more than doubled, being exactly 102.6% of what they were in 1950. The picture is equally gratifying in the field of tourism and other invisible payments. Just one example: Our foreign guests coming from E.P.U. member countries spent 5.5 million nights in Swiss hotels in 1950; in 1953, the total was nine million..

No doubt then that the Swiss Government made a very wise decision in 1950 in joining the Union. This decision, however, was not arrived at without quite a few hesitations. There were several reasons for that: the considerable financial obligations which membership of the E.P.U. entails, the weakening of our bilateral bargaining position, etc., etc. But there was one particularly important one, which struck at the very root of Switzerland's economic situation: the fact, namely, that E.P.U. constitutes a regional

European trade and payments system, whereas Switzerland's economic well-being is—as all experts agree — vitally linked up with the world as a whole. It has always been our pride and our privilege that the products of the Swiss industry find their way to the furthestmost markets of the earth—this in exchange for raw materials which our country, entirely deprived of natural riches of any sort, has to import from all parts of the globe. Let us not, however, forget one fact of paramount importance: If Switzerland's world-wide network of economic relations could be maintained through the last 40 years, characterised by the economic disaster arising from two great wars, it is above all owing to the enormous advantage of having a freely convertible currency, the Swiss franc, as "hard" a currency as there ever was.

It was thus quite natural that Switzerland should have shown much interest in the initiatives taken after the last war to reorganise the international economy on a really world-wide scale. These initiatives seemed to assume a concrete shape when, in the winter of 1947-48, more than 40 nations assembled in Havana to discuss the final draft of a world trade charter, the so-called Havana Charter. The high hopes staked in this enterprise, however, proved fallacious, since the Charter was not ratified by any important trading nations of the world. On a much more modest scale, the General Agreement on Tariffs and Trade, G.A.T.T., which is a sort of smaller edition of the ill-fated Havana Charter, lives on, and has been of some use, mainly in the field of international tariff negotiations. It is indeed true that the tariff conferences organised by G.A.T.T. in Geneva in 1947, in Annecy in 1949, and in Torquay in 1951-52, had for result an appreciable lowering of some very high tariffs in the world, especially the American tariff. In all other respects, G.A.T.T. has so far been a failure; it has not succeeded in achieving the ambitious aim set out in considerable detail in its Trade Code: that of re-establishing freedom in world trade. Furthermore the essential complement to free world trade, namely freely convertible currencies, has remained a hope, too. With that objective in mind, the International Monetary Fund (I.M.F.) was established shortly after the war, but is has so far



shared the fate of the General Agreement on Tariffs and Trade in remaining a programme without much substance, a body with but feebly flickering life. Why? A great many reasons could be put forward, the most important of all no doubt being that most countries in the world, with very few exceptions, have been entirely depleted of their monetary reserves, which must be considered indispensable to back a system of freedom in world economy and to overcome temporary or permanent unbalances, from which world trade has always suffered. The essential problem in this field, the unbalance between the dollar area and the rest of the world, the famous "dollar gap", may perhaps one day be closed by an opening-up of the American market—God only knows when that day may arrive—; but a much surer and more classical way would certainly be the free circulation of monetary gold all over the world to stop gaps wherever they occur. This was not possible because the necessary reserves were mostly lacking. For this same reason the I.M.F. could not be made as strong as it should be, since it lives on the contributions subscribed to it by the member countries.

Here we hit upon the decisive difference between G.A.T.T. and the I.M.F. on the one hand and the European Payments Union on the other. As you all know, the E.P.U. is operating round a central monetary pool, extending and receiving gold payments and credits to and from its member countries. Two factors made this system possible: First of all, it stands to reason that if payments are multilateralised among some 18 countries, instead of only two in a separate bilateral scheme, the proceeds of exports and services to one fellow member can be used to meet commitments to another, and the scarcity of monetary reserves in the member countries' national banks will make itself felt to a much lesser degree. The reserves are pooled or, so to say, made into a central reserve. In addition to that, the E.P.U. central pool was considerably stepped up by a contribution of \$350 million granted by the U.S. Government at the beginning of the Union's operations, an amount that has proved a very appreciable help to ensure the smooth running of the whole system. And the second reason that made E.P.U. a practical proposition: The countries belonging to it have been linked to one another for a very considerable time in economic exchanges and are compensating each other's economic needs. The United States and the dollar area, whose economic relations with Europe and her overseas territories are overshadowed by the problem of the "dollar gap", are shut out from the operation of E.P.U. So, E.P.U. could, by wisely leaving alone a problem, which has so far proved an unsurmountable obstacle to both the G.A.T.T. and the I.M.F., reasonably hope to achieve not less ambitious aims within a restricted field.

Despite its regional character, this was indeed a very attractive scheme to Switzerland. Our country had had much to suffer from the narrow limitations of bilateralism, imposed upon its trade in the years immediately following the war. Furthermore, we could not overlook the fact that over 60% of Switzerland's foreign trade had traditionally been with the E.P.U. countries. So there were a great many good reasons for entering this restricted area of multilateral trade. Events have shown that the optimists were right. The multilateral payments system consti-

tuted by E.P.U. has formed the basis of what is to be regarded as E.P.U.'s main achievement over the last four years: the *liberalisation of inter-European trade and payments*, that is to say the removal of quantitative restrictions. This aim has been reached by stages, and the process is by no means fully completed yet. A liberalisation rate of 75% is at the present moment the rule set by the organisation. Not a few member States have gone much further than that, freeing their trade up to 90% and more (for Switzerland, for instance, it is 95.1%, for Great Britain 79.5%, right now), while other countries—especially France—are lagging far behind. It is in the policy of liberalisation made possible by the existence of E.P.U. that lies the explanation for the considerable increase of Swiss exports, about which I gave you some impressive figures earlier in my talk.

Pleasing though the picture may be which E.P.U. represents within the general framework of restoring the European economy, there is one disturbing factor that has been threatening the very life of E.P.U. right from its beginning, and more and more so as time went on. It is the fact that, notwithstanding the multilateral compensation of payments within E.P.U., a few countries have moved into what is technically called a persistent creditor position, whereas some others have always shown a marked tendency to becoming persistent, or structural, debtors to the Union. This is in contradiction with the idea underlying the E.P.U., namely that its mechanism should only take care of fluctuating unbalances in the pay-

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ments between member countries, but not in the end stifle the whole system through exhaustion of the creditor and debtor quotas and whatever supplementary credit arrangements made available later on. Such is unfortunately the situation we are practically faced with now. There is a group of creditors, headed by Western Germany and comprising Belgium, Holland, Switzerland, and a few other countries, which have been accumulating surpluses for a considerable period. On 31st March of this year the Union owed to Western Germany \$1,000 million, to Belgium \$400 million, to Holland \$340 million, to Switzerland \$300 million and so on. On the other side, countries like France, but also Great Britain, found themselves up to their necks in debt to the Union. France, at the same date, owed the Union \$850 million, and Great Britain \$800 million. This brings me to a topic which has repeatedly made headlines these last weeks: the reform of E.P.U.

The persistent creditors to the Union have for a long time done quite a lot of thinking about how the payment mechanism of the Union could be disengaged. Their ideas took concrete shape in a project which provided that all debts incurred towards the Union for more than 18 months should be repaid by the debtors. To this the debtor countries opposed a most stubborn resistance, alleging that their whole policy of liberalisation would be jeopardised by such an arrangement. Both camps stuck firmly to their points of view, and in the early spring of this year nobody would have ventured to predict how the deadlock might be broken.

If events took quite a surprising and, as it now appears, very constructive turn, the merit of it goes to new proposals put forward at the beginning of April by the British Government for the settlement of the British debt to the Union. The British authorities suggested that they might be willing to repay immediately, and in hard cash, 25% of their total obligations, provided that it should be possible to fund the remaining debt with the E.P.U. creditors over a longer period (seven years as an average). Before discussing the implications and the deeper meaning of these proposals I should just mention that when the Cabinet Ministers of the participating countries convened on the 5th and the 6th May in Paris for their biannual meeting the British project was accepted in principle. Other debtor countries had by then declared their willingness to make a similar effort. Details of the funding arrangements are now being worked out between creditor and debtor countries, and although a final overall settlement has not been arrived at yet there can no longer be any doubt that the main objective of the British plan: the "déblocage" of the Union's credit system, will in the end be reached.

To explore the reasons why the British Government put forward their proposals, and why these were finally accepted by the E.P.U. partners, is of the greatest interest for the future not only of E.P.U. but of the organization of world trade and payments as a whole. What were indeed the motives that prompted the British move? The answer is very simple: It was designed to introduce a most important preparatory phase of the great enterprise the British authorities have been striving and working for all these last years: *the convertibility of the pound sterling*.

This indeed is Britain's way to freedom of world trade and world payments. Through the convertibility of the pound—a currency on whose basis nearly 60% of the world trade is already now being transacted—Britain hopes to link up the E.P.U. area to the dollar area, to close the dollar gap, and to achieve this one economic world that has been so painfully absent ever since the beginning of the last war. The convertibility of the pound sterling could not, of course, stand alone; it should, according to the British views, operate as a sort of "prime mover" within the frame work of a truly liberal organisation of the world economy.

Two factors would characterise such a new system:

- 1.° Currencies freely convertible into one another, especially into the American dollar. This means that other currencies now inconvertible should join in the move towards convertibility, which, in the British opinion, can in any case be realised only in stages: first for current transactions and for non-residents, and then, as soon as circumstances permit, for residents and for capital transactions as well.
- 2.° Freedom of world trade from, if possible, all quantitative restrictions. This would include, among other things, the lifting of the very severe import restrictions now existing in most European countries—and particularly in Great Britain—against the dollar area.

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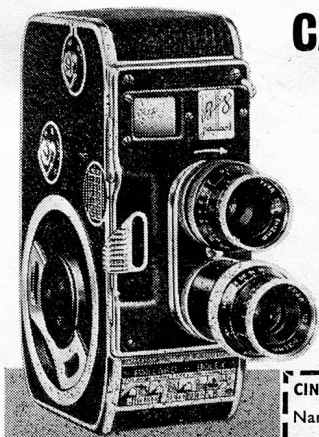
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Britain went through, and what heavy losses her monetary reserves suffered, when she tried, no doubt prematurely, to make the pound sterling convertible in 1947. No wonder that the British Government are firmly resolved to use the utmost care before trying a similar experiment again. Much will of course depend on the evolution of the international political situation. In the purely economic field, the fulfilment of the following main conditions is generally mentioned as indispensable before a Government as circumstances as the present British one are likely to embark on so far-reaching an enterprise. All these conditions tend to ensure the presence of sufficient monetary reserves, which are rightly considered essential.

First of all, the reserves of the sterling area as such should reach a still higher level than at present. They stand now at about \$3,000 million, and it is safe to assume that the British Government would like to see them go up at least another thousand million dollars before starting the experiment. As a supplementary backing Great Britain very much favours the establishment of a full-fledged international Monetary Fund, and the arrangement of of the credit facilities now provided by the International Monetary Fund, and the arrangement of stand-by credits by the United States Federal Reserve System, are recommended. In plain language, this means an invitation to the U.S. Treasury to make available part of their own reserves to serve as an international guarantee fund. Furthermore, the British Government attach the highest importance to the maintenance and extension of trade liberalisation. Quite understandably they regard open markets for British products in the whole world as the surest and healthiest means of securing a steady flow of wealth back to the old country. That is why Great Britain advocates, on the other hand, the maintenance of E.P.U. and E.P.U. trade liberalisation as long as convertibility remains at the planning stage, and on the other hand, the drafting of international trade rules—probably through a revision of G.A.T.T.—destined to operate under a system of convertibility, and whose main purpose would be to make the recourse to quantitative restrictions as difficult as possible. Within the framework of such a system of convertible currencies and free trade, there will be, in the British view, no longer room for the maintenance of the European Payments Union. Thus, E.P.U.

should come to an end as soon as convertibility is established, and bilateral agreements, as well, should no more be resorted to as a means of international economic policy.

This is a rough outline of how the British Government visualise the gradual transition from the present state of affairs to the final achievement of a new world-wide economic system. Viewed against this background, the purpose of the British suggestions for the disengagement of the E.P.U. payment mechanism holds no mystery any more. They are clearly intended first to keep E.P.U.—and, with it, liberalisation—alive as long as convertibility is not realised, and second to anticipate, as it were, the financial liquidation of E.P.U. by negotiating now, for the debtors' obligations, funding arrangements that are much more advantageous than what the debtors would have to accept if the ordinary E.P.U. rules applied. According to these rules, the debtors would indeed have to settle their accounts within three years instead of the average of seven years that, following the British proposals, is now quite generally agreed upon. So it is quite obvious that through these arrangements, too, the monetary reserves of Great Britain and other debtor countries are carefully preserved in order that they may play their full part once convertibility is introduced.

It is very remarkable to notice how deeply impressed the Ministers assembled in Paris apparently

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were by the all-embracing, highly constructive nature of the British proposals, since the resolutions taken by the Ministerial Council go all along these lines. I already told you that for the financial reform of E.P.U. the British views were accepted. It was further decided that 1°) the life of E.P.U. should be extended for another year (from 1st July, 1954, to 30th June, 1955) 2°) a committee of eight Cabinet Ministers, under the chairmanship of Mr. Butler, Chancellor of the British Exchequer, should be set up to examine all problems connected with the convertibility programme. Switzerland is a member of this committee, which will hold a first meeting here in London in the middle of next month.

This brings up the question of the Swiss attitude towards the very complex problems now for examination. The Swiss reaction is mainly one of whole-hearted approval, although on a few points we do not find it possible to agree with the British conception.

At the beginning of my talk I put particular emphasis on the fact that Switzerland's economy is traditionally linked up with the whole world; so we cannot but sympathise entirely with the two main objectives the British Government set to the future course of events: the convertibility of the principal international currencies and the liberation of world trade from quantitative restrictions. May I recall that Switzerland has never ceased to live up to both these aims, and that furthermore the Swiss customs tariff is one of the world's lowest.

On the other hand, it is not without some serious misgivings that we learnt of the preponderant part the British Government seem resolved to assign to the General Agreement on Tariffs and Trade and the International Monetary Fund in the future organisation of the world economy. Switzerland is not a member of either of these international bodies, and this for very good reasons, of which I cannot give you a detailed account now. It is a rather long and involved story, and has a lot to do with the fact that under the rules of both these organisations countries with balance of payments difficulties are allowed to maintain discriminatory import restrictions against hard currency countries. Switzerland has always been such a hard-currency country, but with this in particular that she depends to a very large extent on the exports of so-called "non essential" products, always the first to be threatened by the import embargoes and restrictions of soft-currency countries. So we

preferred to keep our defences intact by staying outside both G.A.T.T. and I.M.F.

If Great Britain does not show any interest in the preservation of the European Payments Union once sterling has become convertible, it is because a currency of the international standing of the pound will always somehow be available, even to a country with a disturbed balance of payments. In this respect Switzerland is in quite a different situation. As experience tends to show, the Swiss franc, especially after the disappearance of E.P.U., will prove again a "scarce" currency—to use the terminology of the I.M.F.—with respect to quite a few of our trade partners. E.P.U., with its multilateral payments facilities, was ideally suited to fit such a situation. That is why Switzerland would deplore it if, with the introduction of convertibility, E.P.U. should not be maintained at least on a restricted scale, as a payment system for and with countries whose currencies remained inconvertible. Barring such a safeguard, there is a real danger that Switzerland might have to fall back onto purely bilateral arrangements with a number of countries.

However that may be, Switzerland will certainly take a very active part in the forthcoming discussions of the Ministerial Committee. As always, we shall again sincerely co-operate in this common effort, never forgetting however that our first task must be and remain the defence of the precious treasure we call our own: the highly prosperous but also highly vulnerable Swiss economy.

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