Comment

COMMENT

THE MONETARY SITUATION

To have a sound economic reputation like Switzerland's is not without disadvantages, as the officials of the Swiss National Bank are likely to stress. When a country has such a reputation, holders of pounds sterling, dollars and lire will inevitably try to convert these somewhat weak and fluctuating currencies into its own currency. In this day of monetary uncertainty, plagued by an ocean of petro-dollars and other loose funds floating on every money market, what can be a better buy than a good and hard sum of Swiss francs deposited in a safe Swiss bank?

As this argument has been universally shared for many years, Switzerland has been flooded by other weaker currencies with the result that it has more money on its hands than it can cope with. Swiss banks have enough funds available to offer borrowers extremely easy terms. The fact that they do not do so is that they are prevented by the Government. Too much easy money inevitably leads to excessive business activity (overheat) whereby the production machinery is over-strained. Inflation develops and Swiss goods are no longer competitive abroad.

As it is, the Swiss franc is the strongest currency in the world and, according to the Reuters Index of major currencies, is in greater demand even than the Deutsch Mark. Over the past three years, the franc has gained 33 per cent in value over the weighted average of other major world currencies. This trend has seen an acceleration during 1974, when the Swiss franc gained 11.6 per cent in value over the Dutch Guilder, 12.5 per cent over the German Mark, 21.8 per cent over the Pound Sterling, 21.8 per cent over the American Dollar, 27.4 per cent over the Japanese Yen and 27.4 per cent over the Italian Lira.

Because of these figures, it has been widely assumed in the business world that the Swiss franc was over-valued. Not being sufficiently "au fait" on the matter, we won't comment on these speculations. Switzerland's current account is still in surplus. The country has the highest gold collateral in the world. Inflation has been kept at a "reasonable" level of about 11 per cent. Its banks handle 89 billion francs of capital abroad and derive 3.2 billion francs a year from these operations – more than half the deficit in the trade balance. Other similar facts have helped to buttress confidence in the Swiss economy. Even though Switzerland's export performance hasn't been as impressive as Germany's or Belgium's, and despite signs that Switzerland's ability to produce goods to the highest standards of quality and sophistication has been somewhat weakened by a change of mood at home, the results of the past and Switzerland's reputation today is strong enough to engender a rush for Swiss currency.

Far from devaluing the Swiss franc or establishing some form of exchange control, the Swiss National Bank decided at the end of January to impose a massive 40 per cent negative rate of interest on all foreign funds finding their way into Swiss banks since 31st October, 1974. Thus the Englishman coming to Zurich with a suitcase full of sterling notes and dollars will have to bank on a minimum appreciation rate of 25 per cent of the Swiss franc to make his deposit worth while.

Last November, the Swiss National Bank had already instituted a 12 per cent negative interest, or levy, on foreign funds just to discourage them from entering the country. But this was apparently not enough as dollars swarmed the Zurich money market and fell to an all-time low of one dollar for 2.47 Swiss francs. The crash of the American currency favoured a relative pick-up of sterling (inspiring boisterous banner-headlines in the *Evening Standard*) which at the time was being exchanged for about 6.05 Swiss francs, after having sunk as low as 5.80 last December.

The Swiss National Bank had bought an estimated half-billion dollars before taking its latest drastic measure. The 40 per cent negative interest was in fact only the main element of a package which also made commercial banks balance their foreign exchange books at the end of each trading session to prevent overnight speculation.

There are various ways a country can tackle either a blood-letting of its own currency, which is the case of Switzerland, or of badly required foreign currency. Exchange control as practised by many countries can involve a complete clamp on all movements of money. Switzerland could have informed its trading partners that none of their uninvested currency would be allowed in the country. Swiss importers would have had to buy foreign currency at the National Bank at a controlled price or sought cheaper funds on foreign money markets. Another device which Switzerland also refused to consider was to set up a two-tier money market. Money required for commercial transactions would be exchanged on a fixed Commercial Market, where the Central Bank could eventually intervene, while floating funds seeking asylum in the Confederation would be dealt with on a completely free Financial Market.

Switzerland has thought it best to penalise foreign depositors. The move could of course affect the business of banks dealing with financial rather than commercial transactions. It could reduce the volume of their business and the Association of Swiss Bankers have already warned of the dangers of seeing Switzerland loose its position as an international financial centre. According to Press reports, the move will be more harmful to the Geneva than to the Zurich banking establishment. This is because Geneva banks are both smaller and more concerned with financial dealings.

It is doubtful, however, that it will increase the rate of bank closures. Several banks have been told to close or suspend operations since last autumn. But most of them had fallen into trouble through misfired foreign exchange dealings.

Of greater concern to the Swiss authorities is the cost to the competitivity of Swiss products of a constantly appreciating Swiss currency. As described in our cover story, the hotel industry has suffered badly because of the loss of buying power of its traditional customers. But Swiss products are already starting to price themselves out of foreign markets. The excessive up-valuation of the Swiss franc comes at a particularly bad moment, because it is compounded with the deterioration of the world economic climate. Some industries, such as the Basle chemical giants, have already reported fast-declining sales over the past three months. Many firms are laying off staff because of reduced orders and unemployment has risen by over 2000 per cent. Indeed, the number of registered unemployed reached 1039 in January whereas the average for last year was about 55. Already there is talk of introducing legislation which would prevent employers from hiring foreign workers at jobs which could be taken by nationals. Most of these (foreign) unemployed are to be found in the building trade, which is going through a slump because of the government's anti-inflationary policy.

However worrying the long-term prospects may be, the situation is still very far from dramatic. Unemployment is infinitely worse in West Germany, for example. But the language often used in Switzerland tends to be dramatic. An atmosphere of gloom has set in among the Swiss who, perhaps of their taste for order and their long experience of prosperity, tend to get alarmed at relatively minor economic upsets. The Gross National Product is expected to decline by 1.4 per cent this year. Investments will fall by 12 per cent. Household consumption will increase by only 0.5 per cent. This means that standards of living will remain at a standstill. This is something the Swiss are certainly not used to!

P.M.B.

SWISS EVENTS

EUROPEAN SECURITY CONFERENCE

The European Security Conference has resumed its work in Geneva after a Christmas break for what may be its final and most crucial sessions. The delegates of all the countries of Europe except Albania, and those of the U.S. and Canada have been working for nearly a year on an agreement that should permanently establish peace and coexistence on the European continent. The 36 participating countries are divided into roughly three groups: The members of NATO, Neutral Countries, and the Warsaw Pact Countries. Each have laid emphasis on different aspects of European Co-operation.

The Western countries of NATO have attached great importance to the things as radio broadcasts (Western countries would like to see them freed from jamming), marriages, between Eastern and Western Europe. Freedom of personal movement and information touches on such things as radio broadcasts (western countries would like to see them freed from jamming), marriages, and the re-unification of families. Although many aspects of these have been settled, there is still a great resistance from the Soviet bloc towards complete liberalisation of human and cultural exchanges as this could, in these countries' view, be equated to "Interference in their internal affairs".

Neutral countries are particularly concerned by the ways of preventing war on the Continent. They have asked for a system of advance notice of large-scale military manoeuvres. The Soviets have created difficulties by setting limits to the importance and geographical locations of manoeuvres that could be announced in advance. The Eastern countries are particularly concerned with getting trade concessions from the West. Romania wants to be recognised as a developing country so as to enjoy special facilities. Russia was hoping that the conference would place the seal on Europe's present borders, thus finalising the division of Germany. The West is not prepared to go as far as this.

After months of arduous discussion, the delegates appear to be nearing an agreement and a special group is already at work on the drafting of an Accord which could be signed at a grand Continental Summit to take place at Helsinki this summer. But observers in Geneva stress that there are still hurdles to overcome and the holding of this summit is not yet a certainty. But they are in general agreement that the recent set-back to détente following the scrapping of the 1972 Soviet-US Trade Agreement by Moscow, and Leonid Breznev's illness, will not negatively affect the work of the conference whose main promoter was the Soviet Communist Party Chief in the first place.

An anti-constitutional levy

The Greater London Council is considering the introduction of a £1 a day tax on motorists driving into London to work. It also wants to reduce by 40 per cent the 50,000 parking spaces