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MONEY AND FINANCE

DOWNTURN FOR THE SWISS FRANC

For several years we have grown accustomed to seeing the Swiss Franc appreciate against all other currencies, but it has probably not escaped notice that this trend now seems to have run out of steam. In fact not only has the pound registered a sizeable gain against the Swiss Franc in recent months but this has also been the case with those pariahs of the monetary system, the Dollar and the Lira. It all makes good reading for the potential holiday maker in Switzerland, but why is it happening?

The main reason is that the Swiss National Bank wants to see the Franc at a lower level and has taken the necessary action to see that this happens. In the Autumn of 1978 the National Bank took the decision to hold the rate of the DM well above Fr. 80. This led to massive intervention on the foreign exchange market and a corresponding expansion of the domestic money supply. In fact the Swiss National Bank has announced that in 1979 it will not set a money supply growth target. This is all the reverse of the situation in the UK where any increase in the money supply is viewed with alarm. In any other case but Switzerland's — with Europe's lowest level of inflation — taking the shackles off the money supply would create considerable concern about the likelihood of price rises. But, with scope for manoeuvre on the prices front the National Bank is more interested in stimulating Switzerland's export-based industries.

However, the recent economic bulletins of leading banks such as the Swiss Bank Corporation, Credit Suisse and Union Bank all express some concern that the Central Bank should keep a close watch on developments. As Union Bank puts it: "Swiss central bank policy is therefore currently faced with a conflict of aims between exchange rate policy and money supply policy. The acute risk of unemployment because of unrealistic foreign exchange rates should not let us forget the latent danger of inflation. The loss of price stability would endanger Switzerland's competitive position internationally, threaten employment at home and, in addition, lead to social tension. Since the Swiss National Bank is aware of these problems, it is likely that money supply policy will move increasingly into the spotlight in

Switzerland as soon as the international currency situation stabilises enough to permit such action."

INVESTMENT OVERSEAS

One beneficial consequence of the stabilisation of the Franc is that Swiss investors should now feel more confident about investing overseas. The problem in recent years has been that any gains on foreign stockmarkets have been more than wiped out by currency losses (with the exception of Japan) as the following table supplied by the Swiss Bank Corporation proves.

Share indexes

Country (index)	% change from 31.12.1970 to 31.8.1978	% change from 31.12.1970 to 31.8.1978†
Japan (Tokyo D.J.)	+181.1	+101.0
Switzerland (Swiss Bank Corp.)	+ 3.3	+ 3.3
Germany (FAZ)	+ 37.7	- 4.1
Netherlands (ANP-CBS)	+ 11.3	- 29.6
France (CAC)	+ 2.0	- 51.0
UK (FT)	+ 46.3	- 55.0
Canada (Toronto 300)	+ 29.8	- 56.8
USA (Stand. & Poor's 400)	+ 13.4	- 57.0
USA (Dow Jones)	+ 4.5	- 60.3

†Adjusted for the change in the Swiss franc's exchange rate against each national currency.

WEALTH TAX

By the time this issue of *Swiss Observer* appears the results of the British General Election will be known, but in the run-up beforehand Switzerland was mentioned in at least one context. This was in connection with the wealth tax proposed by both the Labour and the Liberal parties but sternly condemned by the Conservatives as just another piece of "soak the rich" legislation. The Confederation of British Industry also expressed its disapproval.

However, it was pointed out in various respectable quarters of the British press (including the *Financial Times* and the *Guardian*) that wealth taxes of one kind or another were by no means unknown in advanced industrial countries and indeed were present in eight such European countries. Switzerland was cited in

one case as an example of a highly successful economy which had a thorough-going wealth tax embracing owner-occupied houses, works of art and other valuables. The implication was that if it worked for Switzerland, why not here?

Of course the problem in the UK is that there are already too many taxes and a wealth tax would create just one more headache. In particular the frontiers between the wealth tax and capital transfer tax would need to be clearly defined. It is also likely that the Inland Revenue would raise a howl of protest if the tax were introduced because if it were done

on any large scale basis the problems of assessment would clearly come to the fore. And one of the results of living in a highly taxed environment has been the rapid development in the past decade of a highly efficient tax-avoidance industry, largely manned by ex-tax inspectors.

Perhaps the lesson to be learnt from the Swiss experience is that no one raises too many objections to a wealth tax if it is reasonably pitched and is accompanied by corresponding low levels of income tax. The development of such a happy state of affairs seems unlikely.

BRITISH STOCKS

At one time — not so long ago — the folk wisdom in the Square Mile was that a return of the Conservatives would be bad news for stock markets since it would produce an

immediate confrontation with the unions and ensuing chaos. That remains to be seen, but prior to the election the financial community in London had considerably modified its views and the prospect of a Conservative government, sympathetic to private enterprise was greeted with enthusiasm.

However, most analyses produced by leading stockbrokers suggest that, whatever the complexion of the new Government, there is unlikely to be any dramatic change in the main influences on the market such as public sector borrowing and the growth of the money supply. This is largely because the Labour Government's estimates on public sector borrowing in 1978-79 already look over-optimistic and any action taken by a Conservative Government would probably do no more than restore the forecast level.

ROUND AND ABOUT

* Nestlé, the largest industrial company in Switzerland and one of the world's leading food processing groups, recently reported an 11 per cent fall to Sw.Fr. 739 million in net profits for 1978. The company blamed unfavourable exchange rate movements and unsparing efforts to defend market shares in various countries.

* A 30 per cent shareholding plus an option to obtain a controlling interest has been acquired by the Swiss casting and engineering firm, George Fischer, in New Haven Foundry Inc. of the USA. New Haven is one of America's ten leading independent iron foundries.

* Schweizerische Metallwerke Selve AG, a leading Swiss producer of non-ferrous products, has been acquired by Mr. Werner K. Rey, a London-based Swiss financier. In 1977 Mr. Rey came to notice when he attained control of Bally which he subsequently sold to the Oerlikon-Buehrle group.

* The Swiss Government plans to buy £426 million of British and US military equipment for its armed forces this year.

BIG INCREASE IN BUILDING LOANS

In view of the very small size of the Swiss territory, the construction of new industrial and semi-industrial premises as well as homes cannot go on indefinitely without raising problems with regard to the overall planning of the territory. A source of prosperity for building firms and all related industries, it nevertheless becomes particularly important in a period of low economic activity. The

increase in building loans, particularly in the industrial sector, thus bears witness to new efforts made within the country with a view to helping the Swiss economy to recover. During 1978, in the 59 Swiss banks covered by statistics and which handle about 90 per cent of the business in this field, an increase was noted from one quarter to the next in the rate of growth of newly granted building loans. In all, they advanced by some 33 per cent compared with only 2 per cent in 1977. By far the biggest evolution was recorded in the field of loans for industrial and semi-industrial premises (+68 per cent compared with -17 per cent in 1977). Next comes the housing sector (+37 per cent compared with -1 per cent) and the building of private homes; the growth in the volume of new loans granted for this purpose, amounting to 35 per cent, is once again considerable even though only slightly bigger than in the previous year (32 per cent). On the other hand, there is a falling off in new loans for agriculture (-8 per cent compared with -16 per cent) and a much bigger drop than in 1977 in loans for the building of subsidised housing (-45 per cent compared with -34 per cent). It is not possible therefore to talk of a far-reaching recovery in the building trade in Switzerland.

BIRTHDAYS AND ANNIVERSARIES

The following readers will be celebrating birthdays during June: Miss R. Preiswerk (Basle) will be 74 on 11th June, Mrs. B. Dreux (Basle) will have her 65th birthday on 23rd of the month. Mr. L. S. R. Asch will be 71 on 24th, Mr. W. Reutlinger (Basle) 67 on 25th. And yet another reader in Basle, Mr. M. Schneider, will have his 74th birthday on 26th June. Mr. P. Bucher will be 79 on 27th and Miss M. Oswald 73 on 30th of the month.

Mr. & Mrs. W. Zuber will have been married 54 years on 1st June, and Mr. & Mrs. J. W. Bonjour will have their 55th wedding anniversary.

Congratulations and best wishes to all these readers and any others whose birthdays will take place in June.

Perhaps we should like to remember that the late Fred Stauffer, former Editor of the *Swiss Observer* would have had his 90th birthday on 25th of June. He died in July 1965.

An *Apology* is due to Mr. Louis Meier, of 65 Gordon Mansions, Torrington Place, W1. His birthday on 5th March was given as 80. That was an error, and we want to

apologise; Mr. Meier was actually 90 on that day. Maybe, the mistake happened because nobody believes it that he has joined the ranks of nonagenarians. Congratulations!

SWITZERLAND IN BRITAIN'S CULTURAL LIFE

Academy Cinema 3 — *Claude Goretta's "The Lacemaker"*

To 16th June — Poole Arts Centre — *Photography in Switzerland from 1840 until Today*.

To 23rd June — Annely Juda Fine Art, 11 Tottenham Mews, W1 — Exhibition of Paintings and Drawings by *Gottfried Honegger*.

To 29th June — Institute of Contemporary Arts, The Mall — *Adolf Wölfl's Exhibition* (consult ICA programme which will include lecture on this artist).

June — Publication of Derek Bowman's translation of *Ulrich Bräker's* thoughts on reading Shakespeare's plays (Oswald Wolff Publishers Limited).

Sunday, 3rd June — Royal Festival Hall, 3.15 p.m. — *Martha Argerich* plays Ravel's Piano Concerto in G major with London Symphony Orchestra.

5th to 23rd June — London Coliseum — *Manola Asensio* dances leading roles in London Season of Nureyev with London Festival Ballet ("Romeo and Juliet", "Sleeping Beauty", "Sanguine Fan" and "Sheherazade").

Saturday, 9th June — Wigmore Hall — Master Concerts, 8 p.m. — Recital by the pianist *Albert Ferber* (Schubert, Chopin).

Wednesday, 27th June — Royal Festival Hall, 8 p.m. — Mozart programme presented by the London Mozart Players under Harry Blech: *Tamas Vasary* plays the Piano Concerto No. 27.

FORTHCOMING EVENTS

14th June, 7 p.m. Swiss Embassy, Nouvelle Société Helvétique: Talk on "Swiss Paintings through the Centuries", by Marcel Ney, Director of the Secretariat for the Swiss Abroad in Berne.

28th June — Nouvelle Société Helvétique: Concert at Fenton House, Hampstead.

6th July — City Swiss Club: Annual Summer Dinner-Dance, Grims Dyke Hotel, Old Redding, Harrow Weald, Middlesex.