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SWITZERLAND STOPS GOLDMONGERING.

(The following article is reprinted from the September issue of the "FINANCIAL TIMES" with due acknowledgement.)

Suspension of the convertibility of sterling has brought to a climax the long-standing controversy about the gold policy of the National Bank of Switzerland.

Until now, no clear issue was possible, because circumstances forced the National Bank to pursue two main aims, which, however, under present world conditions, could not both be satisfied at the same time.

On the one hand, to guard against inflation of the note issue, the National Bank felt obliged to refuse to accept gold against francs except to meet the genuine requirements of trade. Certain relaxations, permitting the repatriation of part of the accumulated interest and dividends on investments abroad, have recently been possible, but do not invalidate the main principle.

On the other hand, the National Bank had given an undertaking to use every possible means to close the gap between the official and free rates of exchange of the dollar in Switzerland. Actually, the free rate only exists at all because the National Bank does not accept gold against francs without limit to effect finance transfers. Consequently, dollars are always offered far in excess of the amount in francs the market can supply, the free rate fluctuating with the variation in the demand for francs. In Switzerland as a whole, the daily turnover in dollars is estimated by competent experts to vary between \$1,500,000 and \$2,500,000.

If the National Bank decided to accept gold against francs to any amount, the note issue would immediately get out of control, because the demand for Swiss francs is worldwide. But unless the National Bank does do that, there will always be a free dollar, obtainable at an appreciably lower price than official dollars. This is disagreeable both to Washington and to Berne, because, as there is no distinction between official and free dollars as means of payment for purchases in U.S.A., an increasingly large proportion of international trade payments tend to be in free dollars. Swiss importers, however, are precluded from paying for their purchases in free dollars, so that the wider the margin between the two dollar quotations the greater the disadvantage to Swiss trade.

Hitherto the National Bank has been between the devil and the deep sea. For a host of reasons, Switzerland has felt obliged to make numerous exceptions to the cast-iron rule against accepting gold against francs — for example, under the current Anglo-Swiss Payments Agreement. At the same time, relentless pressure has been kept up by Swiss investors and Swiss exporters to induce the National Bank to allow repatriation of Swiss capital and remove existing restrictions on payment in francs for exports.

To satisfy as many of these conflicting demands as possible, the National Bank last November resumed the sale of gold coins and abolished all the chief impediments to the sale and export of gold. The inducement to do this lay in the fact that, as fast as Swiss francs were received in payment for gold coins and gold bars, the National Bank was able to accept gold from abroad without fear of inflationary effects.

Relief was immediate. Gold was bought on foreign account in increasing quantities. This, however, turned out to be embarrassing. Firstly, the free dollar

rate was kept under pressure, because the only way of obtaining francs to buy gold was to sell dollars in Switzerland. And the lower the free dollar rate went, the greater the disadvantages under which Swiss trade laboured in competition with other countries.

More serious still was the fact that the shipment to the Near and Far East of large quantities of gold bought in Switzerland increased the turnover in trading on the free gold markets, where — notably in China and India — as much as \$70 to \$80 an ounce was paid for gold by comparison with the official buying price in U.S.A. of \$35 an ounce. This led to great discontent in the gold-producing countries, who complained that, although mining costs had risen substantially in recent years, the official buying price of gold had been kept fixed. The yawning abyss between the official and the free market price of gold threatened to discourage gold production and so force up commodity prices all over the world.

So when the International Monetary Fund asked all its member countries to prohibit the sale of gold at prices above that paid in transactions between central banks, Switzerland, on her own initiative, although not a signatory to Bretton Woods, ceased to issue permits for the export of gold as from last March, except where this was in the national interest. Gold bars and gold coins could still be bought through the banks to any quantity, but, as export permits were unobtainable, the presumption was that Switzerland would cease to be a source of supply of gold for the free markets of the Near and Far East.

Actually, this proved to be erroneous.

At the time the issue of export permits ceased, the sale of gold coins in Switzerland aggregated in value

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between Fr. 5 million and Fr. 10 million weekly. Demand continued almost undiminished at this order of magnitude. This was not unwelcome to the National Bank, as the sale of gold against francs made it possible to accept gold from abroad against francs — for example, from Britain — without risk of inflationary effects. Gold coins are sold to the public at a price much higher than the official rate of \$35 an ounce. In the sum of Fr. 30.50 paid by the public for each Vreneli gold coin is a premium of 5 per cent. imposed by the National Bank. On top of this, the purchaser has to pay 4 per cent. turnover tax. So that the total capital loss in buying gold coins is at least 9 per cent. Only hoarders terrified of currency devaluation — it was thought — would pay such a high insurance premium. But as the demand for gold coins continued, and in the last few weeks was usually nearer Fr. 10 million than Fr. 5 million a week, it was evident that others besides hoarders were buying.

In reality, despite all precautions, gold was being smuggled out of Switzerland systematically. Not only to satisfy the demand of hoarders in neighbouring countries, where currency depreciation is known to be only a question of time, but also because demand was being sustained chiefly by the world-wide uneasiness caused by persistent rumours that the official price of gold was about to be raised from \$35 to \$50 an ounce. Categorical denials from Washington had no effect. The expected gain to goldholders in the event of rise in the official buying price was great enough to make the capital loss of 9 per cent. in buying gold coins in Switzerland seem worth while. Cases are known where holders of gold in U.S.A. sold out there at \$40-\$45 an

ounce, converted the dollars into Swiss francs at the free dollar rate and bought back gold coins equal to their original gold-holding, pocketing a substantial profit and reckoning on a fair chance of still more if gold were revaluated after all.

When the convertibility of sterling was suspended, fear and uncertainty became for the moment so great that a run on Swiss gold set in from all parts of the world. This was reflected in the free dollar rate. For months, this had stood at about 3.80 as against the official rate of 4.28. Early in August, the free dollar rate began to weaken. On August 20th, the day convertibility was suspended, the rate was 3.73. By August 28th, the free dollar rate was down to 3.66, the lowest since May 10th. On that day the National Bank suspended the sale of gold coins. Before the convertibility of sterling was suspended, the sale of gold coins amounted in value to Fr. 10 million weekly. When, last November, restrictions on the sale of coins were removed, it was stated that the Federal Mint could strike 600,000 to 800,000 coins a week. This would correspond in value to about Fr. 25 million. On certain days last week, the demand for gold coins exceeded this figure. So that if demand had continued at that level for long the Federal Mint would not have been able to strike coins fast enough.

When coins became unobtainable, the demand for gold bars increased, but not to the same value as the decrease in the sales of coins. Bars are troublesome to handle and dispose of. Moreover the banks charged the highest price permitted, namely, Fr. 4,970 per kilo fine as against Fr. 4,920-4,960 formerly. There is no keenness on the part of the banks to engage in dealing in gold bars as the amount of ready capital needed is great and the profits small. Just now, to meet swollen demands for commercial operations, the banks are selling treasury bonds to increase liquidity and dislike dealing in gold bars. This week, the sale of gold coins was resumed, but on a quota which curtails the supply to a fraction of its former value.

No increase in the present quota is expected. Apparently the volume of coins to be issued henceforth has been determined so as just to cover the legitimate demands of hoarders in Switzerland whose purchases hurt nobody. Gold hoarded in Switzerland can always be recovered in an emergency. Otherwise it remains in hiding because re-sale involves its owner in an appreciable capital loss. There are indications that the National Bank will be more disposed than heretofore to accept gold against francs in accordance with the demands made for a long time past by bankers and industrialists. One of their main arguments is that gold will never be cheaper than now. Gold, in fact, is the only material asset whose value cannot possibly shrink. So nothing is lost by holding it. But if the costs of gold mining continue to rise, the time is likely to come when the present official price of \$35 will have to be raised.

So, as Dr. Walter Boveri, chairman of directors of Brown Boveri et Cie, Baden, told the shareholders on July 15th, Switzerland would be acting more wisely in trying to conserve gold instead of consistently refusing to accept it. Why — it is asked — should Switzerland go on selling gold in unlimited quantities at the official price to enable foreign speculators to carry on an illicit and lucrative trade? A rise in the official price of gold at this juncture would be equivalent to the devaluation of all currencies and would undeniably

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have disastrous effects on sterling, affecting all other currencies adversely in sympathy. So an immediate rise in the gold price is thought to be out of the question. Meanwhile, for the sake of the efforts to restore world-wide equilibrium, every effort should be made to curtail turnover on the free gold market.

Until last week, there was no absolute proof that the fluctuation in the quotation of the free dollar was directly linked to the demand for gold. But when the run on gold set in after the convertibility of sterling had been suspended, the free dollar rate dropped heavily. Immediately the sale of gold coins was stopped on August 28th, the free dollar rate jumped from 3.66 to 3.72. This was so conclusive that there now seems to be no satisfactory answer to those who demand the adoption of a more elastic gold policy by the National Bank of Switzerland.

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Monseigneur,

Nous venons avec un Profond Respect témoigner notre Reconnaissance à Votre Grandeur de l'accueil favorable dont elle a daigné recevoir nos derniers députés et nous ne craignons point de nous rendre importuns pour la supplier de nous continuer toujours sa genereuse protection pour l'Eglise Nationale des Suisses qui sont à Londres, établis sous l'heureuse domination de son Auguste Majesté. Le Nombre s'augmente tous les jours par l'arrivée de plusieurs de nos Compatriotes, dont un grand nombre entre dans le service de sa Majesté les autres ne trouvant point d'emploi, par la difficulté de la langue, et étans sans aucun secours dans les Eglises du Refuge, supplient que Votre Grandeur daigne écouter leurs Gemissements.

Nous sommes dans la dernière perplexité de ce que nos freres les françois Refugiés, mais sur tout les ministres n'ont rien negligé pour nous deceder aupres de quelques Seigneurs Anglois, Au sujet des Ministres suisses, non-obstant que Sa Grandeur My Lord Archeveque par sa bonté ordinaire, et Votre Grandeur on levé toutes les difficultés et nous apprenons encore qu'aujourd'huy ils veulent entreprendre de nous détruire aupres de nos Superieurs en Suisse, nous osons protester ici à Votre Grandeur que nous n'avons jamais eu aucune veüe particulière que le bien des pauvres de Nôtre Nation, et de réunir tous nos Suisses pour être en état de rendre service dans l'occasions à Sa Majesté et au Gouvernement. Nous esperons que Votre Grandeur n'aura d'Egard qu'à nôtre dessein charitable en nous faisant expedier la Patente Royale que son Auguste Majesté veut bien accorder aux Suisses Protestans dans Londres sous des commissaires Anglois, tant Ecclesiastiques que Politiques choisi par sa Majesté tant pour la Nomination des Ministres, que pour nous rendrons toujours un Conte Exat de toutes les mesures prises ou à prendre. Anglois, pour la Nomination des Ministres, que pour le gouvernement de l'Eglise Nationale, et auxquels nous rendrons toujours un Conte Exat de toutes les mesures prises ou à prendre.

Votre Grandeur pourra voir par ce cayer ci joint que nous ne recevons aucun Suisse dans nôtre Société qui ne soit bien affectionné pour le service de sa Majesté, et des droits de sa Couronne.

Veuille le ciel repandre ses plus precieuses benedictions sur son Auguste Majesté sur la Serenissime Maison d'Hannover sur son Glorieux Gouvernement, et en Particulier sur vous Monseigneur, nous osons encor reclamer vôtre puissante protection, sur nous et sur nôtre Nation, et nous vour prions tant en nôtre Nom, qu'à nom de tous nos Compatriotes pour qui nous agissons, d'agréer nos très humbles services et notre Zèle, comme ayans l'honneur de nous dire,

Monsieur

De Votre Grandeur

Les très humbles et très obeissants serviteurs :
Pierre Gaspard Gresse de Rolle au Canton de