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SWISS COLLABORATION OFFER SPARING BUT . . .

by
Lombard

It can hardly be denied that the contribution to his reserve stock of the the more usable currencies Dr. Per Jacobsson has managed to wheedle out of the Swiss after months of negotiation in on the mean side. But it would be unwise, perhaps, to dismiss the Fund's new agreement with Switzerland as of little importance to the progress of the international financial collaboration drive on that account. For the fact that this key country in the world's monetary structure has at last consented to becoming involved in the work of the I.M.F. if only in an indirect way is itself a development that could have considerable significance in a broader sense.

Switzerland took a fairly prominent part in the so-called Basle Agreements arrangements for the provision of support for the £ by Continental central banks during the U.K.'s 1961 payments crisis. So it seemed logical enough to try to persuade her to participate in the plan the I.M.F. set in motion later in the same year to reinforce supplies of the more usable currencies at its disposal so that it would not find itself unable to respond adequately should some of its major members--and notably the U.S. and the U.K.--happen to stand in need of massive aid at the same time on some future occasion. For the scheme hinged on the creation of special borrowing rights in the major commercial countries and there was clearly no reason why such rights shouldn't be established in Switzerland just because she was not a member of the Fund.

In Modest Degree

Well, Switzerland has proved to be persuadable but only in comparatively modest degree. Two countries alone of the other ten participating in the Fund's new club--Belgium and Swėden--are making contributions of a smaller order than the $200m. the Swiss have agreed to commit themselves to. I suppose Switzerland will be feeling that she has done the rest of the world proud in making an undertaking of this kind at all when she is not even a member of the I.M.F. But it seems to me that she has spoiled what might otherwise have been a splendid gesture by behaving in a somewhat parsimonious fashion.

After all, the very fact that Switzerland is not making any contribution through membership of the I.M.F. to the preservation of the international financial stability she is supposed to hold so dear could by itself be regarded as putting her under an obligation to be relatively more generous than other leading commercial countries in the provision of supplementary credits for use by the Fund in emergency conditions.

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And so could a number of other considerations. It is the case, to begin with, that the Swiss franc is one of the world's strongest currencies and therefore less likely than most to feel any strain from the backwash of mutual aid operations.

It is also the case that the Swiss external reserve of some $2,600m. is the sixth largest in the world and in per capita terms far and away the biggest of them all. Then it is almost a foregone conclusion that, if circumstances were to arise wherein the Fund needed to exercise its new borrowing rights because key currencies were weak, the Swiss franc itself would be exceptionally strong. Switzerland's tendency to attract refugee funds whatever the nature of the fright that has set them on the wing usually meaning that at such times her balance of payments is more than usually strong.

All in all, one might have thought that the Swiss could have put themselves down for two to three times the figure they apparently have done without turning a hair--especially when it is borne in mind that the Fund cannot call on members of its new club to honour their obligations unless they are in a fit state at the time and also that money lent under these arrangements carries cast-iron repayment guarantees. Had they done so, moreover, the effect would have been to strengthen materially the effective value of the club by adding substantially to the amount of the currencies it commands that are most likely to be wanted.

Future Attitude

However, as I said before, there could be rather more to this agreement between the Fund and Switzerland than the modest contribution it makes directly to the strengthening of international financial collaboration. We must remember that hitherto the Swiss have been disinclined to participate in the activities of the Fund in almost any shape or form, taking the view that to do so might be to impair their neutrality status.

The fact that they are even now refusing to become members even though Switzerland is about the only sizeable country outside the Soviet Bloc in this position and even though all the other recognised neutrals having long since decided that this was not incompatible with their chosen political status, shows that this out-moded concept still holds sway. Yet, by allowing herself to become identified with the supplementary borrowing rights club Switzerland has started to participate informally in the Fund's operations, just as she has been doing in those of the World Bank for some time past.

Once having broken the "neutrality barrier" in this way, Switzerland could presumably come to feel disposed in the course of time to travel a good deal further along the international financial collaboration road by contributing to the work the I.M.F. is doing in this field--eventually perhaps joining that institution altogether and so equipping it with a holding of Swiss francs that would be available for regular and not merely emergency use.