Monetary policy background to the gold transactions of the Swiss National Bank in the Second World War

SCHWEIZERISCHE NATIONALBANK
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Contents

1 Introduction

This paper attempts to describe the monetary policy background to the gold transactions of the Swiss National Bank (SNB) in the Second World War. The Independent Commission of Experts Switzerland – Second World War (ICE) addressed the general problem of the SNB gold transactions in the Second World War. In its report it concentrated primarily on reconstructing the gold account of the Reichsbank, recording and describing movements of gold between the Reichsbank and Switzerland, and the extent to which the SNB management at the time knew about the provenance of the gold shipped from the Deutsche Reichsbank. Although the ICE criticised the reasons put forward by the SNB after the War to justify its policy, it only dealt indirectly with the problem of the economic motives and decisions made by the then responsible bank officers. This study is an attempt to clarify this still largely unexplained issue, as only then will we be able to understand the conduct of the SNB management.[1]

The study is broken down into five parts. The introduction is followed by a description of the international currency system since the beginning of the century, as a perception of how it developed prior to 1939 is crucial to our understanding of the SNB's policy in the Second World War. Here it is necessary to look back at the experiences of the SNB in the First World War, as these clearly had an influence on the SNB management and its decisions in the years after 1939. Finally, we will briefly describe the Swiss balance of payments, as its structure also explains why the SNB wanted to retain gold parity and the convertibility of the Swiss franc.

Part three is a chronological summary of Switzerland's monetary situation during World War II. In contrast to the ICE, we have not aligned this summary to the course of the War, but have structured it according to the major monetary decisions taken by the SNB. Here we attempt to illustrate the development of the monetary room for manoeuvre of the SNB as a function of economic, political and military conditions.

1 Regarding the SNB's knowledge of the gold's provenance, see Independent Commission of Experts Switzerland – Second World War: Switzerland and Gold Transactions in the Second World War. Interim Report, Berne 1998. Further references to this topic can be found in Robert Vogler: The Swiss National Bank's gold transactions with the Deutsche Reichsbank 1939–1945, and Michel Fior: Die Schweiz und das Gold der Reichsbank. Was wusste die Schweizerische Nationalbank?, Zurich 1997. Vogler's publication is an internal SNB report dating from 1984, which was republished as a manuscript by the SNB in the autumn of 1996 with minor changes and amendments. An abridged version was published in 1985 in the SNB quarterly bulletin (Geld, Währung und Konjunktur 1, 1985, pp. 70–78). Quantitative information can be found in SNB: "Statistics of the National Bank's gold operations during the Second World War", a supplement to the press release of 20 March, and in Appendix 2 of the ICE's Interim Report.

Part four discusses the results of monetary policy with a view to the external stability of the currency, maintenance of purchasing power, and international payments. The question of the political motivation behind the gold transactions will also be addressed.

The final part of this study examines whether the SNB would have been in a position to limit gold operations with the Reichsbank at an earlier date without jeopardising its economic goals. Our analysis leads us to the conclusion that as of 1943 the SNB did indeed possess sufficient room for manoeuvre. Furthermore, throughout the War, the Governing Board at the time always discussed alternatives whenever one of its goals was in danger. The knowledge that the Deutsche Reich had confiscated the gold of the occupied countries' central banks and corresponding warnings issued by the Allies did not, in the eyes of the SNB, constitute a reason to scale back the shipments of gold received from the Reichsbank any faster or more resolutely after 1943.

2 Preconditions and goals of Swiss monetary policy prior to the Second World War

In order to understand the preconditions of Swiss monetary policy during the Second World War one must take account of the development of the international monetary system since the beginning of the century. The First World War put an end to the monetary system based on the gold standard, and attempts to reintroduce this system in the interwar period failed. In the early 1930s, isolationist tendencies – reinforced by the world economic crisis – also had an impact on the monetary sector. Most industrialised countries pursued a monetary policy geared to their own national interests, even if they did make efforts to revive the gold standard. The interwar period saw the formation of two parallel monetary systems: a majority of countries attempted to establish a modified form of the gold standard, while a minority introduced currency controls.

2.1 The gold standard prior to 1914

The gold standard, as described in economics textbooks, dates from the period between 1870 and 1914.[2] During this time, all countries that played a role in international trade adhered to this system.

In theory, each country adhering to the gold standard defines the value of its currency in terms of a specific quantity of gold, and the central banks guarantee the convertibility of their banknotes into gold. There are no restrictions as regards capital movements between the participating countries, and international transactions in gold and foreign currencies are unlimited. A change in the balance of payments determines the amount of liquidity in circulation in each country.[3] A surplus results in gold inflows and thus to an increase in the metal reserves and liquidity. Over time, this leads to higher prices and hence a decline in the balance of payments surplus. The countries participating in the gold standard thus profit from stable exchange rates and a similar price trend. At the same time, they lose the opportunity to adapt monetary policy to their economies' specific needs, as the balance of payments ultimately determines currency reserves, liquidity and the level of interest rates.

2 For an understanding of how the gold standard functioned in theory and practice, see Kenneth W. Dam: The rules of the game, Chicago 1982, pp.17–70 and Ian M. Drummond: The Gold Standard and the International Monetary System 1900–1939, Studies in Economic and Social History, Houndmills, 1987.
3 The worldwide liquidity of the system ultimately depended on the quantity of gold mined.

There are at least two reasons why in practice the adjustment processes were not automatically triggered in line with the theoretical model. Firstly, prices were not as flexible as would have been necessary in order for balances of payments to automatically regain their equilibrium. Secondly, the relationship between the balance of payments and liquidity in circulation was not as direct as had been assumed, as the banks of issue not only functioned as a transmission belt between gold movements on the one hand and liquidity on the other, but played a considerably more active role. Even then, the central banks tended to maintain some room for manoeuvre by offsetting part of the liquidity generated by these capital movements. Despite these restrictions, the system resulted in a favourable worldwide economic environment. Important prerequisites here were the pioneering monetary role played by Britain and the discovery of new gold deposits in South Africa and North America, which were able to cover the greater demand for gold resulting from economic growth.

In order to limit the costly and risky transport of gold as much as possible, the major international gold transfers took place in only a few locations around the world. This clearing function was the responsibility of the central banks of those countries with the biggest financial centres. Until 1914 this was London, for the most part. In technical terms, the gold was transferred to custody accounts held by the various central banks at the Bank of England.

2.2 The development of the international currency system after 1914

The gold standard did not survive the First World War.[4] In 1914 most countries unilaterally abolished convertibility, introduced currency controls and supervised the import and export of gold. In order to finance the War, the central banks pursued an expansive monetary policy that resulted in a level of inflation not seen since the Napoleonic wars and that lasted until after the end of the War.

4 Various authors view the abandonment of the gold standard in 1914 not as an exception but as a rule, as the gold standard provided for an implicit safety clause in the event of war. This safety clause did not endanger the system as long as a credible commitment existed to return to pre-war parity after hostilities ceased. See e.g. Michael Bordo and Finn Kydland: The Gold Standard as a Rule: An Essay in Exploration, in: Explorations in Economic History 32 (4), October 1995, pp. 423–464.

Given that the catastrophic monetary conditions in most countries at the end of the First World War coincided with the prevalence of flexible exchange rates, it is not surprising that the latter were held responsible for the chaos. A return to the gold standard appeared to be a good way of remedying the situation. This desire to reinstate the gold standard was stated clearly at two international conferences in Brussels (1920) and Genoa (1922). In order to prevent the risk of a gold shortage, a system was developed in which the central banks would hold their reserves not only in gold but also in convertible currencies.[5] The majority of countries joined this gold-currency standard between 1924 and 1928.[6]

However, the renewed stability of the international monetary system was shortlived. This was due, first of all, to the fact that various countries defined their currencies in relation to gold at a ratio which did not correspond to economic reality. Today, there is a general consensus among researchers that the exchange rate for the British pound was too high while that for the French franc was too low. Secondly, German reparations payments required a considerable trade balance surplus vis-à-vis the victor countries, which the latter hardly favoured as their own production could have suffered as a result.[7] Thirdly, the central banks began to compensate for the inflows and outflows of gold by buying and selling securities. This policy blocked the settlement mechanism and led to a concentration of gold holdings in a few countries.[8] Finally, the economic crisis of the 1930s meant that governments and their central banks oriented their economic and monetary policies to their domestic problems instead of helping to maintain the international monetary system. With the first signs of monetary instability, this policy resulted in currency reserves being exchanged for gold, which, in global terms, corresponded to a depletion of liquidity, thus exacerbating the economic crisis.[9]

5 See League of Nations: International Currency Experience, Lessons of the Inter-War Period, Princeton, 1944, p. 28.

6 The USA had already reintroduced the gold standard as early as June 1919. The first European country to return to the gold standard was Sweden in April 1924. Germany followed in September 1924, Switzerland in November of the same year, Britain in April 1925 and France in June 1928. See Ben Bernanke and Harold James: The Gold Standard, Deflation and Financial Crisis in the Great Depression: an International Comparison, in: R. Glenn Hubbard (ed.), Financial Markets and Financial Crisis, Chicago, 1991, p. 37.

7 From 1924 to 1930 the cumulative German trade balance deficit amounted to 6.2 billion Reichsmarks. The balance of services, including 2.7 billion RM in net interest payments, came to 1.1 billion RM. Taking reparation payments into account (–10.1 billion RM), the result was a cumulative current account deficit of 15.3 billion RM. See Albrecht Ritschl: Die deutsche Zahlungsbilanz 1936–1941 und das Problem des Devisenmangels vor Kriegsbeginn, in: Vierteljahreshefte für Zeitgeschichte 39, 1991, No. 1, pp. 103–123.

8 The USA and France experienced a gold inflow that was partially sterilised by sales of securities by the Fed and the Banque de France. As a result, liquidity and prices were out of synch, and the inflow of gold continued until the USA and France held close to ⅔ of the world's gold reserves by the end of 1932. See Barry Eichengreen: The Gold-Exchange Standard and the Great Depression, in: Barry Eichengreen (ed.), Elusive Stability: Essays in the History of International Finance, Cambridge, 1990, pp. 239–270. Per Jacobsson, former head of the foreign exchange and economics department of the Bank for International Settlements (BIS), reported on these interventions as follows (original quote in English): *"Another experience of mine from the 1930s was the acquaintance with the views of certain prominent central bankers, in particular, the President of the Swiss National Bank, Dr. Gottlieb Bachmann, and the President of the Nederlandsche Bank, L. J. A. Trip, who both insisted that the practice of open market operations was likely to interfere unduly with the equilibrating effects of gold movements from one country to another, and that therefore such practices should not be permitted."* See Per Jacobsson: Some monetary problems international and national, Oxford 1958, p. 45.

9 The share of foreign currency in overall currency reserves thus decreased in 24 European countries between 1928 and 1932 from 42% to 8%. See Eichengreen (cf. footnote 8), p. 242.

No sooner had it been established than the international monetary system based on the gold-currency standard began to crumble. Commodity-exporting countries were the first to depart from this system.[10] Europe was overtaken by events as of 1931, when Germany and Austria introduced currency controls.[11] This stepped up the pressure on the overvalued British pound, which left the system in September 1931, with 25 other countries following in its wake.[12] In April 1933 it was the turn of the USA, which initially allowed the dollar to float. France, Belgium, the Netherlands and Switzerland reacted by establishing the so-called "gold bloc" together with Italy and Poland. The governments of these countries confirmed their intention *"to maintain the unhindered functioning of the gold-based currency in their countries at current gold parities and within the frame-work of valid legislation"*. The central banks agreed to offer each other mutual support for the purpose of defending the gold-based currency and fighting speculation.[13] When, in 1934, the USA pegged the dollar to gold again, following a 40% depreciation, the gold bloc's situation became untenable. Belgium was the first of these countries to devalue its currency by 28%, in April 1935. After consultations with Britain and the USA, France did likewise in September 1936. Switzerland immediately took the same step, as did the Netherlands a short time later.[14]

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10 Canada left the system in 1928 and some Latin American countries in 1929; Australia and New Zealand followed in 1930.

11 Generally speaking, currency control systems called for the proceeds from the export of goods and services to be centralised under a government-run clearing office. In order to ensure that the funds did in fact reach this institution, an export authorisation system had to be introduced. The centralised currency was then distributed according to the various needs (payments for the import of goods and services, interest payments, repayments of foreign debt, etc.). Here, as a rule, commercial transactions were given preference over financial transactions. As it was not possible to implement systems of this kind that included several countries, these measures inevitably led to the conclusion of bilateral clearing agreements. The purpose of these agreements was to fix the terms of trade between each pair of countries. In addition to the bureaucracy involved, the currency control systems led to a reduction in economic advantage in the international division of labour. Owing to their weaker political position, smaller countries often had to accept unfavourable terms of trade. See League of Nations (cf. footnote 5), pp. 162–189.

12 This group of countries was known as the "sterling bloc". It included the Commonwealth countries, Scandinavia and Portugal. Later, Argentina, Japan and – for a short time – even France in 1938 belonged to it.)

13 Schweizerische Nationalbank 1907–1957, Zurich 1957, p. 318. (Unless stated otherwise, all quotes are translations from the German original).

14 The Belgian devaluation was the result of a dispute about the measures to be taken against the over-valuation of the Belgian franc, whereas the French devaluation arose out of a lack of trust on the financial markets towards the economic policy of the Popular Front government. See Charles Kindleberger: The world in depression 1929–1939, Harmondsworth, 1987, pp. 250 ff.

The consultations that preceded the French devaluation led to a final attempt to restore order to the international monetary system. The Tripartite Agreement of 25 September 1936, originally signed by the USA, France and Britain, and which the Netherlands, Belgium and Switzerland joined a short time later, required the signatory states to buy and sell gold at a specific price. Under the Agreement, parity changes were not forbidden, but the participating countries were able to convert their assets within 24 hours at the old rate, thus limiting the foreign exchange risk.[15] The aim of the Agreement was to stabilise the British pound in relation to the dollar (although it was impossible to prevent a slight devaluation of sterling in mid-1938). However, it was not possible to stabilise the French franc, and in May 1938 this currency was pegged to the British pound at a rate 40% below the 1936 parity.

2.3 Swiss monetary policy prior to 1939

In Switzerland too, flexible exchange rates had gained a poor reputation, and after the end of the War the SNB pressed for a rapid return to the gold standard at the old parity. This was achieved de facto in 1924, even though the National Bank Law was only adapted accordingly at the end of the 1920s. During the Great Depression the SNB supported international efforts to reinforce the gold standard while at the same time attempting to take Switzerland's interests into account.

2.3.1 Experiences gained in the First World War

During World War I the SNB, (which had only been established in 1907), faced similar difficulties to the other central banks of the industrialised countries.[16] After leaving the gold standard[17] it lacked the theoretical understanding and practical experience needed to master the problems it faced on account of the new monetary policy environment.

Right at the beginning of the First World War the SNB accentuated the liquidity crisis by pursuing an overly restrictive monetary policy and introducing administrative measures which unsettled the public.[18] Subsequently, the SNB engaged enthusiastically in financing the federal budget by rediscounting a major portion of the federal government's bonds.[19] The resulting increase in liquidity led to prices doubling between 1914 and 1918 (see chart 1).

15 For details of the significance of the Tripartite Agreement, see Dam (cf. footnote 2), p. 49 or Kindleberger (cf. footnote 14), p. 255.

16 For details of Swiss monetary policy during the First World War, see Eveline Ruoss: Die Geldpolitik der Schweizerischen Nationalbank 1907–1929, Zurich 1992, pp. 70–117.

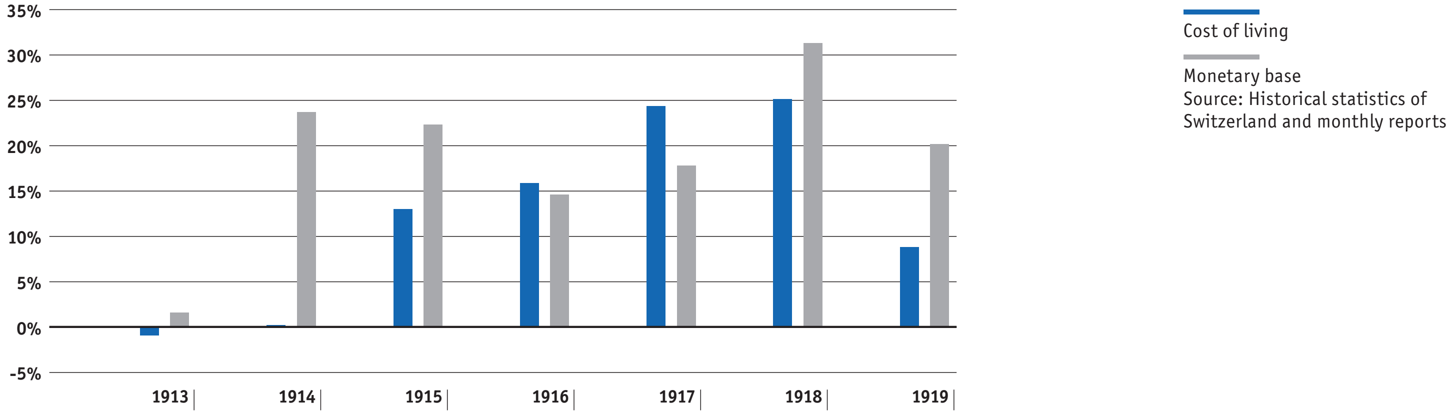
17 The Federal Council announced binding rates for banknotes on 30 July 1914.

18 For instance, the SNB raised the discount rate from 3.5% to 6% within five days. When gold cover for banknotes came dangerously close to the statutory minimum as a result of the drastic increase in demand for banknotes (+50% in one week), the SNB decided to fix a quota for the number of banknotes in circulation and to instruct the banks to limit withdrawals. See: Die Schweizerische Nationalbank 1907–1932, Zurich 1932, p. 106.

19 The federal government's debt rose from 147 million Swiss francs in 1913 to 1.5 billion Swiss francs in 1918. A significant share of this increase flowed into the SNB's account; Confederation securities in its portfolio climbed from 58 million Swiss francs in 1914 to 312 million Swiss francs in 1918, see Ruoss, (cf. footnote 16), pp. 86 and 92.

The high inflation rates resulted in lower real wages, which increased domestic political tension and ultimately culminated in the general strike of 1918.[20] This traumatic event had a lasting effect on the political climate in Switzerland.[21] That this was still fresh in many minds at the beginning of the Second World War can be seen in the following statements by Gottlieb Bachmann (President of the Governing Board until 1939, thereafter President of the Bank Council) at the SNB Annual General Meeting in March 1940: *"The matter of defending and supplying the country forced the Swiss government to rapidly increase its expenditure. It was not possible to cover these needs either with bonds issued in Switzerland and abroad or, even less, with federal taxes – which would first have to be levied. The central bank had to step into the breach. The fact that it did this, and that it received rescriptions (treasury certificates) from the government for the costs of defending the country and for providing its citizens with food and raw materials (which at times amounted to as much as a billion Swiss francs), has not yet been forgotten by the critics.* [...] *At the same time, we must draw our lessons from the experience of the last World War and make proper provisions for a healthy financing of extraordinary government spending."*[22]

Chart 1
Annual growth rates in the cost of living and of the monetary base, 1913 – 1919



Source: Historical statistics of Switzerland and monthly reports

20 The political tensions were not only due to economic factors, even if the social differences were intensified by inflation and shortages of vital supplies. For details on the political dynamics between 1910 and 1922 see Erich Wigger: Krieg und Krise in der politischen Kommunikation: vom Burgfrieden zum Bürgerblock in der Schweiz 1910–1922, Zurich 1997.
21 Most of the decision-makers at the SNB from 1939 to 1945 had joined the bank either before or immediately after the First World War. Gottlieb Bachmann (1874–1947), President of the Bank Council from 1939 to 1947, was Head of Department III from 1918 to 1925 and Chairman of the Governing Board from 1925 to 1939. Ernst Weber (1891–1967), Chairman of the Governing Board from 1939 to 1947, joined the bank when it was established in 1907 and was Head of Department III between 1929 and 1939. Paul Rossy (1896–1973), Vice-Chairman of the Governing Board from 1937 to 1955, joined the SNB in 1921. Fritz Schnorf (1893–1963), Head of Department III from 1939 to 1942, joined the SNB in 1929. Alfred Hirs (1889–1978), who replaced Schnorf in the autumn of 1942 until 1954 as Head of Department III, joined the SNB in 1910 and left it temporarily from 1931 to 1942, in order to take over as Chairman of the Schweizerische Volksbank after its reorganisation. See ICE (cf. footnote 1), Annex 1, biographical details.
22 SNB: Minutes of Annual General Meeting (AGM minutes), 18 March 1940, p. 6.

2.3.2 The interwar period

With a view to the international conferences in Brussels and Genoa, the SNB faced the task of *"equipping its monetary arsenal in such a way that the Swiss franc would be protected from disruption at the time of the changeover to the gold standard and would fluctuate within the gold points at most"*.[23] On 21 November 1924 the Swiss franc was one of the first European currencies to achieve pre-war parity again. The Federal Law on the Swiss National Bank of 20 December 1929 provided for a return to the gold standard by defining the Swiss franc in relation to gold and requiring the SNB to redeem banknotes in gold or gold exchange. Strictly speaking, the latter provision introduced the gold-exchange standard rather than the gold standard. However, it was understood to be a transitional arrangement for a limited period only. *"Restoration of the gold standard currency with unlimited banknote redemption in gold remained* [...] *the ultimate goal of Swiss monetary policy."*[24]

Switzerland's commitment to restoring the gold standard-based monetary system can be explained by its desire to engage in free trade with all countries and by the structure of its balance of payments. Already in the 1930s, Switzerland offset its trade deficit with revenues from the export of services and capital.[25] Under these conditions the shift away from free payments and the transition to clearing transactions was problematic, as goods transactions were not treated in the same way as service transactions and transfers from factor payments. For instance, in the first agreements concluded in the early 1930s with Germany, only claims arising from mutual goods transactions were offset. Only later was it possible to conclude agreements that included certain financial transactions, but not capital movements or insurance payments.[26] The regulation of capital movements and capital income involved lengthy negotiations in both cases. The SNB played an important role in these negotiations as the manager of the Swiss banking committee. It was frequently able to achieve a satisfactory outcome for Swiss creditors, thanks to its good relations with the Reichsbank.[27]

23 Die Schweizerische Nationalbank 1907–1932 (cf. footnote 18), p. 238.

24 Schweizerische Nationalbank 1907–1957 (cf. footnote 13), p. 83. Art. 20bis of the Federal Law on the Swiss National Bank authorised the SNB to exchange its banknotes for gold provided *"the central banks of the countries regarded as essential by the bank authorities do not redeem their banknotes for gold coins"*. Quote from Die Schweizerische Nationalbank 1907–1932 (cf. footnote 18), p. 536.

25 According to Eduard Kellenberger, the surplus of capital revenues in the 1930s averaged some 300 million Swiss francs per year. If we include income from tourism (on average 210 million Swiss francs per year) and other services (annual average: 106 million Swiss francs), the capital income offset the heavily deficitary trade balance (on average an annual 640 million Swiss francs). See Eduard Kellenberger: Kapitalexport und Zahlungsbilanz, Vol. II, Berne 1942, pp. 87, 244 and 364. Marc Perrenoud estimates Swiss investments abroad at around 15 billion Swiss francs. There are no comparable estimates of the extent of foreign investments in Switzerland. See Marc Perrenoud: Banques et diplomatie suisses à la fin de la Deuxième Guerre mondiale, Politique de neutralité et relations financières internationales, in: Studien und Quellen, Berne 1988, pp. 3–124.

26 Schweizerische Nationalbank 1907–1957 (cf. footnote 13), p. 291.

27 See the following quote from the final report on German-Swiss border bank regulations from 1938–39: *"In conclusion, it can be said that transactions with the banks in border regions have been settled smoothly and that they have fully recognised the cooperation of the National Bank. At times, some extremely persistent efforts had to be made with the German authorities in order to secure the rights for the border banks to which the latter were entitled. All along the line, the Reichsbank demonstrated a clear will to compromise, at least in the final settlement, which was due in no small part to the personal contact with its delegates at the standstill negotiations in Zurich in September and December of this year."* Final report on German-Swiss border bank regulations for the restitution of claims of Swiss border banks in Austria, of 1938/1939, 22 December 1939 in: SNB Archives 2.9/2124.

During the currency turbulence of the 1930s, the SNB regarded the gold standard as a type of safety net.[28] By March 1933 it scaled back its gold exchange portfolio – that had risen to 600 million Swiss francs in September 1931 – to 10 million Swiss francs, by means of conversions into gold.[29] Following the USA's abandonment of the gold standard, Switzerland joined the above-mentioned gold bloc and campaigned on an international level for Britain and the USA to again peg their currencies to gold.[30]

As described above, the establishment of the gold bloc only succeeded in calming the situation temporarily. As of 1934, the SNB had to sell a large amount of currency reserves in order to defend the Swiss franc's parity. As the capital outflows continued in 1935, the SNB raised the discount rate and concluded a gentlemen's agreement with the banks in order to restrict the public's gold and currency transactions.[31] The pressure did not ease after 1936 either, so that the Federal Council – once the French franc had been devalued – decided, against the will of the Swiss National Bank, to devalue the Swiss franc.[32] The decision taken by the Federal Council on 26 September 1936 relieved the SNB of the obligation to redeem the banknotes in gold or gold currency, but charged it with maintaining the value of the Swiss franc between 190 and 215 milligrams of fine gold. The Federal Council issued a special directive, instructing the SNB to fix the value of the Swiss franc at around 205 milligrams of fine gold, which corresponded to a devaluation of approx. 30%.[33]

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28 In the 1932 Annual Report it stated that *"despite this serious breakdown in international transactions* [...] *there is an increasing consensus that the gold currency is the best currency system"*. See p. 9.
29 These conversions were doubtlessly born out of a desire to return to an integral gold standard but stemmed mainly from fears of devaluation and the related losses. The 1931 Annual Report states that the SNB, although surprised by Britain's abolition of the gold currency, *"had already taken steps to liquidate a large portion of its sterling holdings* [...] *in order to protect the bank from major losses"*. See p. 20.
30 On 10 May 1933, Bachman wrote to the head of the trade section of the economics department that *"at the London* [economic] *conference, Switzerland* [should] *above all demand that Britain and the USA return to gold-based currency stability. It must form a united front together with France and the other gold currency countries and attempt to 'force' this return"*. See Swiss Diplomatic Documents (SDD), vol. 10, no. 269, p. 664.
31 In 1934 the Swiss National Bank outlined its gold and foreign exchange policy as follows: *"Indeed, it can no longer be the purpose of the gold currency that gold coins serve as legal tender or are sold to individuals for hoarding. If a central bank wants to allow market forces to come into play and to prevent the country's international payments from being cast into fetters by forced currency controls, it must have immediate access to an adequate supply of gold. The closer the country's links with the international credit system, the greater this supply must be."* See SNB, 1934 Annual Report, p. 26. Despite its basic acknowledgement of the gold standard, at this point the SNB was no longer prepared to fully comply with the "rules of the game". Its gold policy was typical for a period characterised by the transition from the gold standard to an *"international gold-based payments system"*. See League of Nations (cf. footnote 5), p. 155.
32 The Governing Board was consulted in advance but was unanimously opposed to the devaluation. However, the Federal Council decided to proceed, after having received the French economics minister, who had travelled to Berne especially to discuss this matter. The decisive factors were the fear of fighting a battle against speculation that was destined to fail from the outset, and the prospects resulting from the monetary agreement between France, Britain and the USA. At the extraordinary meeting of the Bank Committee, the majority of speakers regretted that the Federal Council had not consulted representatives of the business community prior to taking its decision and that it had *"capitulated without putting up a fight"*. See SNB, Bank Committee minutes (BC Min.), 28 September 1936, pp. 366 ff.
33 SNB, 1936 Annual Report, p. 19.

In the case of Switzerland, the devaluation cannot be interpreted as a departure from the gold standard. This is further supported by the country's participation in the Tripartite Agreement, which was viewed by the SNB as the beginning of a new form of cooperation in the field of gold-based monetary policy.[34] However, it believed that as long as *"currencies are not firmly anchored in gold and are used by governments as an economic policy tool"* it would not be able to forgo the regulation of capital inflows and outflows running counter to the classic gold standard.[35] The high degree of instability of the Tripartite Agreement – in contrast to the "classic" gold standard – can also be seen in the fact that the willingness to buy or sell gold at a fixed price could be revoked within 24 hours.

In 1937, the capital inflows forced the SNB to reconsider the principle of free convertibility of the Swiss franc. Paul Rossy (Head of Department II), who viewed a return to "normal" monetary conditions as unlikely, suggested limiting the convertibility of assets that had arrived in Switzerland after a given date. However, he met with the resistance of Bachmann and Ernst Weber (Head of Department III until 1939, then Chairman of the Governing Board of the SNB) who favoured less drastic measures (promoting imports to increase wartime reserves, voluntary measures by banks and steps to promote the export of capital), as they assumed that the disruptions to the monetary system were of a temporary nature.[36] In November 1937 the SNB concluded a gentlemen's agreement with the banks to reduce the volume of foreign assets deposited with the banks and to combat hoarding. However, the agreement had only a limited effect.[37] The capital inflow continued until early 1938. In February the Bank Committee refused to comply with the Governing Board's proposal that the Lombard rate be reduced from 2.5% to 2% in order to make investments in Swiss francs less attractive.[38]

The annexation of Austria by Germany in March 1938 caused Switzerland's situation to worsen from one day to the next. There was a reversal in the direction of capital movements; capital outflows from Switzerland remained within narrow limits, however.[39] In August, the SNB management was so unsettled by turbulence affecting the British pound that they considered devaluing the

34 Ibid p. 9.
35 SNB, 1937 Annual Report, p. 12.
36 See BC minutes, 31 July 1937, p. 239 and especially BC minutes, 25 August 1937, pp. 276–295.
37 SNB, 1938 Annual Report, p. 12.
38 BC minutes, 5 February 1938, p. 64.
39 SNB, 1938 Annual Report, p. 14.

Swiss franc if sterling depreciated substantially against the dollar.[40] In the end, the British currency was only devalued by 6%, and the Swiss franc remained at the level fixed by the Federal Council's directive of September 1936. The SNB's concern about the pound's development arose from the fact that one-third of Swiss exports went to the clearing countries, one-third to the sterling zone and one-third to the dollar zone.[41]

The capital outflows accelerated as of 1939. The SNB sold foreign currency to prevent the Swiss franc from depreciating by any substantial amount. *"The prevailing view is that a further appreciation of foreign currency rates must only be allowed to occur slowly and must remain within the limits set by the directive of the Federal Council, i.e. a devaluation of the Swiss franc of no more than 31.5%"* [i.e.: versus the old parity prior to the devaluation].[42] In the period between January and August, sales of foreign currency rose to 536 million Swiss francs. The SNB did not see this as a cause for concern as it assumed that they were due to the repatriation of foreign assets.[43]

In line with the logic of the gold standard, the SNB held gold deposits abroad (see section 2.1). In the 1930s these were located in London, New York, Paris and Brussels. Fears of the imminent outbreak of war led the SNB to close its gold accounts in Brussels (1938) and Paris (1939) and to transfer part of its gold deposits to London and New York. Owing to these transfers, coverage of banknotes by domestic gold fell from 60% (January 1938) to 40% (July 1939).

In the 1930s Switzerland was not yet a significant marketplace for gold. At the end of 1932 only the Bank of Lithuania held gold deposits with the SNB. In early 1933 the Bank for International Settlements (BIS) opened a custody account. As of 1935 several other central banks followed suit, some for only a very short time (the central banks of Austria and Belgium), some for a few years (the central banks of Italy and Czechoslovakia). In June 1939, only the central banks of Romania, Hungary and Yugoslavia – in addition to the BIS – held gold deposits with the SNB.

40 They viewed such a measure not as a departure from the gold standard but as a way of exploiting the scope provided by the Decree of the Federal Council of September 1936. See BC minutes, 16–17 August 1938, pp. 256 ff.

41 BC minutes, 24–25 January 1939, p. 18. In 1937 the clearing countries accounted for 12% of world trade. See League of Nations (cf. footnote 5), p. 182.

42 SNB: Governing Board minutes (Gov. Board minutes) no. 233, 23 March 1939, p. 315.

43 Gov. Board minutes, no. 639, 3 August 1939, p. 768.

2.3.3 Monetary policy strategy on the eve of World War II

After this overview of monetary policy in the interwar period we will now turn our attention to how, with the prospect of war in Europe becoming ever more likely, the SNB believed it could carry out its task of *"controlling the money in circulation in the country and facilitating payments"*.[44] A meeting of the Bank Committee in April 1939 addressed the matter of how to prepare for war on the economic front. These statements give us an idea of where the future difficulties were thought to lie and how they could be dealt with.[45] There are six points to be considered here.

– The first point is that the SNB considered it essential to defend the gold parity both in terms of its monetary policy and for maintaining payments with other countries so as to safeguard Switzerland's vital supplies. Apart from the devaluation, which was viewed as a mistake by the SNB, the Swiss franc had weathered the monetary turbulence of the 1930s without suffering any major damage. It was realised that the War would result in new monetary disruptions but the SNB was thought to be relatively well equipped to deal with them. Ernst Weber, who had recently been appointed Chairman of the Governing Board, said at the meeting in April 1939: "*In mid-April, the bank's gold and currency holdings amount to around 3.2 billion Swiss francs, compared with some 200 million Swiss francs in mid-1914. Cover for banknotes (excluding the exchange equalisation account) comes to 150%, versus 60% (gold and silver) in 1914.* [...] *In the event of war the central bank must of course expect to forgo considerable sums in foreign exchange and gold as a result of capital being transferred abroad, unless restrictions are imposed on the export of capital. It is not possible to predict the extent to which demands will be made on the central bank's gold reserves."*[46]

– Secondly, the SNB was aware that regulatory steps would be required in order to limit the capital outflows. As in previous years, it favoured mutually agreed measures that would not be excessively rigorous. Rossy, who advocated greater intervention, was unable to impose his view.[47] If necessary, however, it was agreed that more drastic measures such as currency and gold trading controls would be introduced. In such a scenario, the SNB was counting on the Swiss franc being weak; the converse scenario of a capital inflow was not considered.

– Thirdly, the SNB intended to avoid a liquidity crisis such as that of 1914 by pumping a large amount of banknotes onto the market. Weber took an optimistic view of the SNB's options in terms of preventing a collapse of the internal payments system. *"The National Bank is well enough prepared to maintain payments even under adverse conditions."*[48]

44 Federal Law on the Swiss National Bank dated 7 April 1921, quote taken from: Die Schweizerische Nationalbank 1907–1932 (cf. footnote 18), p. 532.
45 See BC minutes, 22 April 1939, pp. 237–243.
46 Ibid., p. 239.
47 Weber justified this policy at the 1942 Annual General Meeting as follows: *"While other coun-tries steered their foreign exchange policy by means of currency regulations, Switzerland attempted to reach this goal through voluntary cooperation between its central bank and other banks. Unlike comprehensive currency regulations that render overall payments more difficult, private agreements have the great advantage that it is generally easier to find a solution which meets the needs of the economy."* AGM minutes, 7 March 1942, p. 25.
48 BC minutes, 22 April 1939, p. 240.

– Fourthly, after all the years of instability in terms of monetary policy, the SNB's management had doubts as to the feasibility of establishing a strategy in advance. Instead, the managers had become accustomed to taking a pragmatic approach to new problems as they arose. The following statements by Weber at the Bank Committee meeting in April 1939 are typical of this attitude: *"What action on domestic and foreign payments should be considered in the event of war? It is extremely difficult to define measures today for certain eventualities. Our position will have to be based on the circumstances at the time."*[49]

– Fifthly, the SNB feared losing monetary control if it were called upon to provide direct financing for the war effort. Weber also expressed this concern at the meeting held in May 1939: *"It is thus to be feared that the government will have to make increasing demands on the National Bank in the years to come. This is most likely to be the case if it proves impossible to take up medium- and long-term bonds, as occurred in 1914, for example. In 1915 the National Bank thus had to provide the government with unlimited credit. Fortunately, things have not yet reached this stage now."*[50] In order to ward off this danger, it was necessary to avoid all monetary policy measures that could increase the government's debt.

– Finally, the SNB realised that restrictions on its independence could be imposed in the event of war: *"It should be borne in mind that, if war breaks out, the National Bank will not be as independent as it is today. The National Bank currently has certain powers that could be withdrawn by the government or the general staff in the event of war."*[51]

At the end of the 1930s, therefore, little remained of the international gold standard system with its (more or less) automatic adjustment processes and its largely unhindered economic exchange as existed prior to 1914. The sole aim of those countries that continued to peg their currencies to gold was to secure the stability of their respective currencies. On account of monetary policy instability and increasing restrictions in the international payments system, however, they were forced to adopt ad hoc measures that had nothing to do with the gold standard rules. The outbreak of war did not spell the end of, but rather an additional shock for the already hard-hit international monetary system. Prior to the start of the Second World War, the SNB also adopted a pragmatic stance, even though it hoped that it would not have to implement any fundamental changes to its policy. However, it was aware that a war would result in additional monetary regulations. It also expected its autonomy vis-à-vis the government to be limited. The greatest danger was that it could have been forced to start printing money in order to finance the wartime economy.

We will now attempt to describe how the SNB reacted to the war-related changes in monetary conditions.

49 Ibid.
50 BC minutes, 4 May 1939, p. 277.
51 BC minutes, 22 April 1939 p. 240.

3 Swiss monetary policy in the Second World War

In this chapter we distinguish between five periods. They are organised according to major monetary policy developments and decisions taken by the SNB during the War. From the outbreak of the War until mid-1940 (1st period) the SNB combated the weakness of the Swiss franc by selling large amounts of gold and foreign currency. After the fall of France, the Swiss franc appreciated and was used increasingly for international payments in continental Europe. The German Reichsbank acquired francs for gold at first from the commercial banks (2nd period) and, as of 1941, from the SNB (3rd period). In December 1942 gold trading was regulated, and the SNB was given full control of gold trading with foreign countries (4th period). Nevertheless, gold purchases from Germany did not decline substantially until the second quarter of 1944 and continued until the end of the War (5th period).

3.1 First period: from the outbreak of War until 2Q 1940

In Switzerland, the early part of the War was characterised by substantial hoarding of banknotes and considerable outflows of capital to the United States, both of which weakened the Swiss franc. Nevertheless, the SNB refrained from raising its key interest rates in order to facilitate public-sector financing of national defence. It adhered to this policy throughout the War, keeping the discount rate at 1.5%. By contrast, international political tensions led to a rise in long-term rates from 3.5% to 4.5%.

3.1.1 Increased hoarding of banknotes and the weak Swiss franc

Due to war-induced fears, banknotes were hoarded in ever greater quantities. In March 1940 Weber estimated the amount to be 600 million Swiss francs.[52] The Governing Board wanted to combat public hoarding of banknotes as it assumed that this was depriving the economy of savings and was an important factor accounting for the high interest rates.[53] Nevertheless, the SNB accommo-

52 AGM minutes, 8 March 1940, p. 24.

53 The concerns of the SNB as regards hoarding – which continued throughout the War – are not justified from today's standpoint. If a central bank faces higher demand for banknotes resulting from greater pre-cautionary holdings, it must accommodate this demand by increasing the supply of money in circulation.

dated the higher demand for banknotes to avoid a liquidity crisis at the beginning of hostilities similar to that experienced in the First World War. The SNB attributed this favourable development to the fact that this time the money and capital markets were not regulated.[54]

The increase in government spending was problematic for the SNB as it feared the inflationary effect of the central bank's continued financing of the public deficit: *"We are very much aware that the greatest danger of inflation lies in financing military spending and the costs of mobilisation with the aid of the National Bank. But there is no country in which the government can do without the central bank in times of war. One of the normal tasks of every central bank is satisfying the temporary cash requirements of the state."*[55]

The weakening of the Swiss franc – the dollar rose to CHF 4.46 after the outbreak of hostilities (parity stood at 4.31) – posed a dilemma for the SNB: given the monetary trend, it should have raised its key interest rates, but it refrained from doing so as it wanted to keep interest rates low with a view to financing national defence. The government depended heavily on the capital market to finance the war effort, and higher interest rates would have placed a greater burden on government spending.[56]

3.1.2 Capital outflows and discussions on the introduction of currency controls

At the beginning of the War, Britain and France introduced currency controls.[57] Most European countries were also forced to take this step. *"In September 1939, currency controls were introduced both in Britain and in France, and similar measures were implemented in subsequent months for other, previously freely traded currencies. By the end of March 1940 only four major currencies were exempt from official regulation: the dollar, the belga, the guilder and the Swiss franc."*[58] As of May 1940 the Swiss franc and the dollar were the only freely convertible major currencies that were still linked to gold.[59]

54 *"In Switzerland* [...] *much has been done as regards goods, and many things have been forbidden, ordered and channelled. Quite the opposite is true of the monetary situation. Neither the government nor the National Bank have issued any regulations or prohibitions. It was probably precisely because of the lack of any payments restrictions that the Swiss population remained calm and sensible over the past few weeks."* BC minutes, 14 September 1939, p. 480. Let us recall that, unlike in 1914, it was not necessary to introduce an obligatory exchange rate for banknotes; this step had already been taken with the devaluation in 1936 (see Chap. 2).

55 AGM minutes, 8 March 1940, pp. 18–19.

56 See Bank Committee minutes, 20 June 1940, p. 183.

57 The British currency restrictions meant that the SNB was no longer able to repatriate its gold reserves as of 1940. By contrast, it was still able to transfer gold from London to the USA.

58 10th BIS Annual Report, May 1940, p. 19.

59 Sweden introduced currency controls in February 1940. Of the minor currencies, the Portuguese escudo, which had previously been pegged to sterling, was linked to the dollar in November 1939 at a rate of 25 escudos. It remained freely convertible throughout the War. See 11th BIS Annual Report, May 1941, pp. 39–41.

At the end of May 1940 the SNB estimated the currency which had flowed out of Switzerland at 650 million Swiss francs. This loss was not only the result of a trans-Atlantic capital flight but also of a higher balance of trade deficit. The SNB considered its currency reserves to be more than adequate but was still concerned about the acceleration in the outflows since April.[60] The need to introduce currency controls became increasingly pressing, even if the Governing Board was basically convinced that this type of measure was contrary to the interests of the Swiss economy. In a letter dated 16 February 1940 to the head of the Swiss Finance and Customs Department, Ernst Wetter, the SNB outlined the disadvantages associated with the introduction of currency controls for a country which had to cover its deficit in visible trade with the surplus in invisible trade. The SNB remarked, among other things, that: *"currency controls would be a serious blow to the Swiss banking and insurance industry as well as for all sectors which maintain active relationships with other countries."*[61] The SNB considered it more appropriate to introduce less far-reaching measures to control currency transactions. As in the 1930s, agreements with the banks constituted the main approach.

On 10 May, after consulting the Finance and Customs Department, the SNB thus asked the banks to pay out currency only for the import of goods and services but to forego selling dollars for investment purposes.[62]

On 23 May the currency outflows had reached such proportions that most members of the Governing Board felt obliged to ask the Federal Council to introduce currency controls: *"The majority (Departments I and II) are in favour of currency regulations being introduced as soon as possible. The minority (Department III) would continue the previous arrangement, perhaps with the added restriction of an obligation to hold a licence for the import and export of goods, for some time, i.e. as long as the current relative calm continues on the currency market and as long as we still have gold and currency holdings of over 2.5 billion Swiss francs."*[63] The Governing Board met with Federal Councillor Wetter two days later to discuss this decision.

The content of the discussion with Wetter is not known, but no further steps were taken to introduce currency controls. It can thus be assumed that the parties agreed to wait. This is not particularly surprising, since the disadvantages deriving from currency controls combined with Switzerland's economic interests (chronic balance of trade deficit, creditor position towards other countries, and an important financial sector) meant that it had a strong preference for maintaining free currency movements.

60 BC minutes, 28 May 1940, p. 308.
61 SDD, vol. 13, no. 239, p. 570. A letter from Erwin Hürlimann of Schweizerische Rückversicherung to the SNB dated May 1940 illustrates how closely the financial inter-ests of the financial sector were linked to the free movement of currency. In his letter he pointed out that *"many agreements of the Schweizerische Rückversicherungs-Gesellschaft with companies in business regions of particular importance to them, such as Britain and the USA, contain provisions whereby the agreements are automatically annulled if the free movement of foreign-currency payments in Switzerland is limited* [...]. *For Schweizerische Rückversicherungs-Gesellschaft and its affiliated companies, this would result in the loss of especially important and profitable business relations"*. See Gov. Board minutes no. 418, 18–19 May 1940, pp. 506 f.
62 Schweizerische Nationalbank 1907–1957 (cf. footnote 13), p. 122.
63 Gov. Board minutes no. 433, 23–24 May 1940, p. 527.

3.1.3 Gold transactions from 3Q 1939 until 2Q 1940

As already explained, the SNB held gold not only in Switzerland but also in other countries. The main deposits abroad were located during the Second World War in New York, London and Ottawa. From the beginning of the War until mid-1940, both monetary and political developments resulted in capital flight, forcing the SNB to sell gold in order to shore up the Swiss franc. For instance, it sold 645 million Swiss francs' worth of gold to the USA. As the SNB feared a German invasion, it transferred part of its gold holdings abroad to safety by shipping gold from Switzerland and London to the USA and by engaging in a swap transaction[64] with the Banque de France. Furthermore, the SNB sold gold on the Swiss market in order to support the exchange rate of the Swiss franc and as a countermeasure to the hoarding of banknotes. Overall, gold held abroad declined by 264 million Swiss francs.

The decrease in gold held in Switzerland resulted in gold cover of banknotes dropping below the statutory 40% mark. At the SNB's request, the Federal Council passed a secret decree on 17 May 1940, whereby gold reserves held by the SNB abroad would qualify as cover.[65]

Chart 2

Purchases (+) and sales (−) of gold by the SNB and change in gold holdings in the period 3Q 1939 – 2Q 1940

64 Swap in this case means that the SNB bought gold in New York in exchange for gold in Switzerland, so that no physical transfers were necessary.
65 See SDD, vol.13, no. 280, pp. 673 f.

3.2 Second period: 3Q 1940 until 3Q 1941

After the defeat of France in mid-June 1940 the situation on the foreign exchange market began to reverse completely. Having been characterised by a flight into the dollar and thus an outflow of currency from Switzerland up to this point, fears that the USA could freeze foreign assets led to a reversal in the currency flows and to an increase in the SNB's currency reserves. As a result, discussions on the introduction of foreign exchange controls lost their topicality.[66] The loss of confidence in the dollar meant that the Swiss franc, which was not subject to any currency restrictions, became the principal instrument for intergovernment payments in Europe, and Switzerland advanced to become Europe's currency and gold conduit. As early as autumn 1940, the political dimension of the gold shipments from the Deutsche Reichsbank was clear. When the gold sold by the Reichsbank to the Swiss commercial banks resulted in steady outflows of gold from the SNB, the Governing Board decided to concentrate the Reichsbank's gold transactions at the SNB.

3.2.1 Falling gold price

In July 1940 the Swiss franc had become so strong that the gold price dropped below the minimum legal level. The Governing Board wondered whether the SNB should attempt to maintain the gold price at the parity level. As gold was no longer in circulation there was no need to purchase the metal from the hoardings of Swiss and foreign citizens at a specific price, thus rewarding speculation. On the other hand, it considered a reduction in the price of gold on the free market – i.e. a firmer Swiss franc – to be highly undesirable. The Governing Board finally decided, against the will of Fritz Schnorf (head of Department III) *"to exercise the greatest caution in accepting gold from hoarded stocks and to forego fixing a purchase price for the moment while awaiting further developments"*.[67] The parity level was maintained, however, in international transactions. This decision reflects a tendency to introduce a 2-tier gold price, which was also seen in later phases of the War.[68]

In order to prevent excessive movements of currency and gold, the SNB subsequently decided only to accept gold offered to it in connection with a business transaction involving Switzerland and only to acquire it at a price of CHF 4,869.80 per kilogram of fine gold. At the end of November Rossy informed the

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66 Rossy still advocated currency controls and *"pointed out that the danger of inflation should compel the National Bank to move swiftly to adopt a cautious approach in accepting the new inflow of gold.* [...]. *From this point of view, the unquestioning acceptance of dollar currency cannot be justified. We have more than an adequate supply of dollars. In any case, it is not the task of the central bank to function as a bureau de change and holder of cash and foreign currency for financial capital which is transferred from the Swiss franc into gold and dollars and then back again into our currency, as the situation and mood demands."* Gov. Board minutes no. 623, 15 July 1940, p. 755. See also Gov. Board minutes no. 578, 26 June 1940, pp. 700 ff. and Gov. Board minutes no. 609, 3 July 1940, pp. 736 ff.

67 Gov. Board minutes no. 629, 15 July 1940, pp. 762 ff.

68 A uniform gold price was a key factor in the gold standard, without which the automatic adjustment processes would have been made more difficult (see section 2).

Bank Committee of this policy and added that *"an exception had been made regarding the Deutsche Reichsbank"*.[69] Germany thus used Swiss francs to make payments to other countries, while payments with Switzerland were settled via the clearing office. To help explain the deviation from this principle, the following section describes the political background to the relations with the Reichsbank in greater detail.

3.2.2 Political dimension of the gold transactions with the Deutsche Reichsbank

As early as autumn 1940, the SNB was forced to realise that its gold and monetary policy also had implications in terms of international politics. Felix Somary, a private banker and economist with a wide network of international contacts in business and politics, was the Federal Department of Economic Affairs' special delegate in the USA at the time. In October, he informed Weber that American newspapers were reproaching Switzerland for *"helping the Axis powers to finance the War"*.[70] This apparently prompted the Governing Board to consult the Federal Council. On 31 October, Rossy reported that he had had an opportunity *"to discuss the gold transactions conducted with the Reichsbank with the Swiss Department of Political Affairs. In essence, the Department was pleased if business with the Reichsbank was conducted smoothly in this respect. However, certain reservations were expressed about America's reaction, and it was suggested that the National Bank might be well advised to open a gold account in South America, for example in Buenos Aires, to which the SNB would have access if the USA froze Swiss assets"*. Schnorf considered the risk of assets being frozen to be remote, as the German and Italian assets had not yet been frozen. Moreover, Weber emphasised *"that the gold transactions in question were purely a business matter and not a political one"*.[71]

It is, however, questionable whether the gold transactions conducted with the Reichsbank in the autumn/winter of 1940 were really completely free of political considerations. The gold purchased from the Reichsbank was not particularly useful to the SNB in monetary policy terms at this time. Furthermore, these purchases contradicted the principle of only accepting gold in connection with business transactions in Switzerland. The willingness to accommodate the Deutsche Reich, with its aspirations of European domination, is also clearly seen in the proposal, expressed in the Bank Committee on 21 November, of opening a gold account with the Reichsbank in Berlin. This idea was not based on a request by the Reichsbank, nor was it motivated by settlement considerations. Rather, it was intended first and foremost as a *"political gesture"* towards Germany.[72]

69 See Gov. Board minutes no. 667, 31 July 1940, p. 820 and BC minutes, 21 November 1940, p. 692.
70 Gov. Board minutes no. 861, 10 October 1940, p. 1073.
71 Gov. Board minutes no. 912, 31 October 1940, p. 1130.
72 The decision was ultimately taken not to set up the account, as Léon Daguet, Vice Chairman of the Bank Committee, urged caution in view of the political nature of the project and wondered: *"How can we reconcile evacuating the gold held in Switzerland to the so-called safety zone with setting up a gold account in Berlin?"* For the debate on the establishment of a gold account in Berlin see BC minutes, 21 November 1940, pp. 692 ff.

The letter dated 25 November 1940 from Per Jacobsson (head of the foreign exchange and economics department of the BIS) should also be mentioned in this context. Jacobsson informed Weber of the view held by the Vice President of the Reichsbank, Emil Puhl, who felt that the liberal movement of currency in Switzerland constituted an important reason for Switzerland's independence. If the SNB required any further proof of the significance of the gold/currency transactions for Germany, it was provided in this letter. Weber forwarded Jacobsson's letter to Federal Councillor Wetter without hesitation. In his covering letter he wrote: *"As you know, the National Bank has always opposed the introduction of currency controls for reasons of economic and monetary policy. The National Bank's position has been guided exclusively by Swiss needs. There can be no doubt, however, that the existence of a free currency, as represented now only by the Swiss franc in Europe, can be an advantage to other countries on this continent as well."*[73]

These "other countries" referred primarily to Germany, which acquired Swiss francs or other foreign currency for gold – mainly from the commercial banks in Switzerland – until the autumn of 1941. Between January and October 1941 only one such transaction was conducted between the SNB and the Reichsbank: on 7 March the SNB bought around 3000 kg of gold from the Reichsbank in exchange for dollars. The SNB had indicated to the Reichsbank that it did not wish to engage in such transactions.[74]

3.2.3 Swiss assets frozen in the USA

On 14 June 1941 these fears were borne out, and the USA froze the assets of the continental European countries, including neutral ones. This unilateral decision placed the SNB in a difficult position. From one day to the next, the share of frozen gold reserves had risen from 25% to 65%, thus severely limiting its room for manoeuvre.[75] As it was obliged to convert dollars from the private sector, the portion of frozen currency reserves threatened to grow even more. To counter this trend, the SNB was ultimately forced to introduce partial currency controls and in September 1941 it concluded a gentlemen's agreement with the banks whereby the SNB would accept only those dollars remaining from the settlement of import and export at the official rate. The Swiss franc-dollar exchange rate was thus split between a rate for goods dollars and a rate for financial dollars, which was considerably lower. As the SNB expected imports and exports to be roughly equal, it believed itself capable of keeping the dollars it accepted within narrow limits.[76]

73 SDD, vol. 13, no. 419, p. 1015.

74 In June 1941 the Governing Board reported on gold sales by the Reichsbank to various commercial banks and continued as follows: *"Over a period of six months it has only approached us once. It knows that we are not eager to engage in this business."* Gov. Board minutes no. 449, 5 June 1941, p. 532.

75 Let us recall that the SNB's gold holdings in London were affected by similar measures (cf. footnote 57). The freezing of Swiss assets in the USA was not absolute. Transfers between various Swiss accounts and between Swiss and Allied accounts were still possible. By contrast, movements between Swiss accounts and accounts in European countries (including neutral countries) were only permitted with the approval of the US authorities. See for example Gaston Jaquemet: Die Goldpolitik der Schweizerischen Nationalbank, Manuscript without reference 1949 (SNB library), pp. 104 ff.

76 On the question of dollar controls, see Marco Durrer: Die schweizerisch-amerikanischen Finanzbeziehungen im Zweiten Weltkrieg. Von der Blockierung der schweizerischen Guthaben in den USA über die "Safehaven"-Politik zum Washingtoner Abkommen (1941–1946), 1984 Berne, pp. 67–88.

3.2.4 Reichsbank gold sales concentrated at the SNB

The US blockade also made the gold transactions between the Swiss commercial banks and the Reichsbank problematic for the SNB, as they resulted in its gold gradually flowing out of Switzerland. The Reichsbank's escudo transactions are one such example: the Reichsbank paid for part of its Portuguese shipments with escudos which it purchased from the Swiss commercial banks in exchange for gold. The latter bought escudos usually by selling Swiss francs to the Portuguese central bank and selling the gold received from Germany on the market. The central bank of Portugal then turned to the SNB to exchange the Swiss francs received from the banks for gold. These transactions resulted in significant gold outflows (60 million Swiss francs by October).[77] The gold sold by the Reichsbank to the commercial banks increased the volume of gold on the Swiss market, which pushed the price down and reduced the amount of money in circulation. It had the same effect as sales of gold on the market by the SNB.

Due to large deficits in trade between Switzerland, on the one hand, and Portugal and the Balkan countries, on the other, the SNB lost additional gold. These countries wanted to receive gold as partial payment towards balancing the trade deficit.[78] To counter the outflow of gold, the SNB attempted to free gold which had been frozen in the USA in order to ship it to Portugal to help finance its trade deficit. As the US authorities did not permit this, the SNB faced the difficult situation of seeing its gold reserves in Switzerland decline while those in the USA continued to increase but remained frozen. The outflows of gold had reached such proportions by August 1941 that the Governing Board of the SNB again raised the issue of introducing currency controls. Weber pointed out *"that if the gold reserves in Switzerland continue to decline and if it is impossible to have access to the gold inventories in the USA, it may become necessary to take measures in the direction of currency control"*. Schnorf firmly rejected this idea and instead proposed a ban on gold trading.[79]

As a result, neither of these two measures was implemented; instead the SNB informed the Vice President of the Reichsbank *"that we would prefer it if the Reichsbank would deliver the gold to us instead of to the banks, although it may continue to engage in escudo transactions with the banks. We have informed him that as a result of these transactions we have already lost gold amounting to 60 million Swiss francs. Mr Puhl gave his assurance that this request would be considered, and also expressed his willingness to support our gold shipments to Lisbon if necessary"*.[80] This was an attempt by the SNB to prevent part of its gold finding its way indirectly into private hoards. The Reichsbank reacted promptly and from then on conducted its gold and Swiss franc transactions only with the SNB.[81]

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77 See BC minutes, 21 August 1941, p. 474 and Gov. Board minutes no. 706, 2 October 1941, p. 876.

78 The balance of trade deficit of these countries rose from 41 million Swiss francs (1940) to 256 million Swiss francs (1941). See table 1, section 4.3.

79 Gov. Board minutes no. 585, 13 August 1941, pp. 709 f.

80 Gov. Board minutes no. 706, 2 October 1941, p. 876.

81 This exchange was not a good deal financially for the Reichsbank, as the commercial banks had bought the gold at a price of 4,970 Swiss francs from the Reichsbank, while the SNB paid 4,869.80 Swiss francs. BC minutes, 21 August 1941, p. 474.

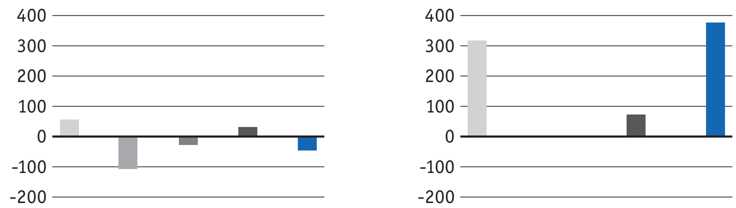
The concentration of Reichsbank gold sales at the SNB was the beginning of the three-way trade between the Reichsbank, the SNB and the Banco de Portugal (see section 3.3.2). Gold purchases already rose sharply in the fourth quarter of 1941, exceeding 120 million Swiss francs. Given the political significance of these transactions, one would have expected the SNB – as in the autumn of 1940 – to have consulted the Federal Council. So far, however, no sources have been discovered which permit this conclusion to be drawn. It is possible that informal talks were held, or that the SNB felt justified in taking this step in October/November 1940 based on discussions with Federal Councillors Wetter and Marcel Pilet-Golaz, head of the Department for Political Affairs.

3.2.5 Gold transactions from 3Q 1940 until 3Q 1941

From mid-1940 until the 3rd quarter of 1941, the three-way transactions between the Reichsbank, the Swiss commercial banks and the central bank of Portugal led to a further reduction in the amount of gold held by the SNB in Switzerland. This trend was accentuated by the rapid deterioration in Switzerland's balance of trade. In contrast to domestic gold holdings, those abroad began to increase; in 1941 the SNB began to convert the dollars it had received as of mid-1940 into gold in the USA.

Chart 3

Purchases (+) and sales (–) of gold by the SNB and change in gold holdings in the period 3Q 1940 – 3Q 1941



Gold held in Switzerland
in CHF millions

Germany 54

Neutral countries and Romania –102

Market –23

Others 26

Change holdings –46

Neutral countries: Spain, Portugal, Sweden, Turkey

Gold held abroad
in CHF millions

Allies 311

Confederation 0

Others 70

Change holdings 381

Allied countries: USA, Canada, Britain

3.3 Third period: 4Q 1941 until end–1942

From the fourth quarter of 1941 until the end of 1942 the Swiss franc remained firm in relation to the dollar – especially on the free market, where the financial dollars were traded at a much lower rate than merchandise dollars.[82] The gold transactions between the SNB and the Reichsbank reached considerable proportions, on account of the centralisation. The triangular transactions between Germany, Switzerland and Portugal continued until the summer of 1942; subsequently, Portugal bought gold directly from the Reichsbank's deposit in Berne. As the USA was still refusing to allow the SNB to transfer gold to other neutral countries, considerable tension arose between the SNB and the US authorities. In Switzerland, the hefty increase in demand for gold coins pushed up the price. As the SNB's gentleman's agreement with the banks failed to solve this problem, the gold market was regulated in December 1942 by a Decree of the Federal Council.

3.3.1 Development of the triangular transactions with Portugal ...

In Europe the Swiss franc increasingly became an international means of payment. As the Reichsbank now sold its gold directly to the SNB, the German triangular transactions no longer resulted in a reduction in the SNB's gold inventories in Switzerland. Instead, whenever the countries receiving Swiss francs refrained from exchanging them immediately for gold this resulted in a commensurate increase in Swiss gold reserves. The SNB was aware, however, that this increase was only temporary and that the substantial volume of Swiss francs held by foreign central banks weighed on its domestic gold inventories.[83]

The USA reproached the SNB for its role in the escudo transactions and refused to send part of the gold stored in the USA to Portugal to pay for Swiss imports. It justified its negative attitude by stating that it did not want to provide the SNB with further funds for escudo transactions. Responding to the American criticism, Schnorf explained Switzerland's position to the Bank Committee as follows: *"As you know, the substantial escudo transactions which Germany is conducting in Switzerland play a certain role in the Americans' dispatches relating to the difficulties they are causing us regarding our payments to Portugal and Spain. We have stated our position in a dispatch to our delegation in New York, and have stated that the foreign currency and gold markets in Switzerland are free. Anyone who holds gold can sell it in Switzerland and receive Swiss francs in exchange, which he can then use to make payments or purchase foreign currency. If Germany sells gold in Switzerland, this is proof that it is acquiring goods in third countries in exchange for gold or currency. Since, on the other hand, Germany can ship and sell gold to all countries in continental Europe, it is clear that use of the*

82 For instance, 3.44 Swiss francs in December 1941. See Gov. Board minutes no. 904, 4 December 1941, p. 1140.
83 BC minutes, 23–24 April 1942, pp. 26 and 31.

Swiss market cannot be the reason for Germany acquiring these goods. The countries selling the goods may be better served at a later date by having the German gold sent to them directly. This would only represent a change in the settlement of payments, and would not be an obstacle to Germany acquiring the goods."[84] This line of argumentation, which was also put to the Americans, refrained from going into the reasons which may have induced Portugal not to accept gold directly from Germany but to opt for the indirect Swiss franc route instead.[85]

3.3.2 ... until the summer of 1942

The triangular transactions between Germany, Switzerland and Portugal continued unhindered until the summer of 1942: in exchange for gold shipped to the SNB, the Reichsbank received Swiss francs or escudos which it used to pay for imports from Portugal. Although the Reichsbank periodically used the Swiss commercial banks to exchange Swiss francs for escudos, it did not supply them with any more gold.

The situation changed in mid-1942. International financial circles then began to suspect that the gold shipped by the Reichsbank came from occupied territories. In June the SNB thus considered melting down gold bars received from Germany, as it feared that the European governments in exile could publish lists of bars confiscated from Germany, making it impossible to resell these bars. This plan was not carried out, however; most of the bars in question were already in the vaults of other central banks which the SNB had informed of the bar numbers.[86] Only a few days after this decision was taken, the SNB was told that Portugal did not want to buy gold directly from Germany due to legal concerns as to the gold's provenance.[87] Portugal's conduct was contradictory, however, as in August of 1942 it began accept gold payments from the Reichsbank. These payments were settled via the central bank of Portugal's account in Berne. This change in stance was connected with a new agreement on tungsten transactions between Portugal and Germany, whereby the surplus was to be settled in gold.[88] As a result, SNB gold transactions relating to German-Portuguese trade dropped off sharply. At this point, we do not know who caused Portugal to abandon its legal concerns and for what reasons.

84 BC minutes, 26–27 March 1942, p. 28.

85 The route via the Swiss franc generated costs for both Germany and Portugal corresponding to the margin between the purchase and selling price calculated by the SNB (50.83 Swiss francs per kg of purchased and sold fine gold). On the other hand, it was easier for Germany to gain access to a means of payment (Swiss franc) with which letters of credit could be opened in all countries in Europe instead of having to arrange for bilateral gold transfers. Finally, however, the legal and political motives that may have induced Portugal to accept payments in Swiss francs from Germany until mid-1942 should not be forgotten (cf. footnote 87).

86 See Gov. Board minutes no. 418, 11 June 1942, p. 523 and Gov. Board minutes no. 450, 18 June 1942, pp. 563 f. For further information on these discussions see also Fior (cf. footnote 1), pp. 55 ff.

87 On 21 June 1942, Rudolf Pfenninger, the representative of the SNB at the Swiss economic delegation in London, wrote to his supervisor Schnorf that he had been told that the Portuguese were not accepting any gold directly from Germany because they were "under British pressure" or because "this was stolen gold, the further use of which may be called into question at a later date", SDD, vol. 14, no. 173, Appendix, p.547.

88 See ICE (as footnote 1), p. 84.

There was also another reason why Portugal's gold purchases from the SNB decreased. In the course of 1942, Portugal complained increasingly of the substantial balance of trade surplus with Switzerland and urged Switzerland to settle this surplus in goods rather than in gold.[89] In the summer of 1942 Portugal finally went so far as to refuse export licences for Switzerland. Between 26 October and 5 November 1942 negotiations were held between Switzerland and Portugal, resulting in a squaring of the balance of trade between the two countries.[90]

Although Germany had supplied Portugal directly with gold since August, it continued to acquire Swiss francs to use in trade with other European countries (Sweden, Balkan countries, etc.). In this regard it is interesting to note that Sweden preferred to maintain substantial holdings of Swiss francs in Switzerland[91] instead of converting them into gold. Ivar Rooth, governor of the Swedish Riksbank, justified this policy by pointing out the wide margin between the selling and buying price for gold in Switzerland. Rooth proposed that the SNB lower this margin but the SNB refused, stating that *"Switzerland, furthermore, has no interest in making it easy for the Swedes to continue accepting Swiss francs from the Deutsche Reichsbank"*.[92]

3.3.3 The difficulties involved in stabilising the gold price in Switzerland

The concentration of gold sales at the SNB in October 1941 meant that a major source for the Swiss gold market dried up. As demand had increased substantially in the course of 1941 and remained high, the gold price on the market began to rise. The SNB initially attempted to satisfy this demand by selling coins and gold bars on the market at regular intervals, in order to prevent an excessive rise in the gold price. From the fourth quarter of 1941 until the third quarter of 1942, coins worth 200 million Swiss francs were sold, of which a large portion doubtlessly went abroad, in particular to France.[93] As the supply of Swiss coins

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89 See, for example, the letter dated 26 February 1942 from the Swiss embassy in Lisbon to the Department of Political Affairs in: SNB Archive 2.9/2125.

90 On the negotiations see Swiss Federal Archives E 7110(–)1973/135 vol. 19, memo to Director Hotz regarding negotiations in Portugal Nov. 1942. In 1943 imports to Switzerland from Portugal declined by almost 50% compared with 1942, while exports from Switzerland to Portugal increased from 19 million Swiss francs to 35 million Swiss francs, such that Switzerland's trade deficit fell from 94 million Swiss francs to 22 million Swiss francs. See Ritzmann-Blickenstorfer (ed.): Historical statistics of Switzerland, Zurich 1996, p. 698 and p. 706

91 In April 1942 these assets amounted to 95 million Swiss francs. See Gov. Board minutes no. 319, 30 April 1942, p. 394.

92 Gov. Board minutes no. 350, 7 May 1942, pp. 429 ff.

93 *"The French population is currently hoarding gold coins in particular, as it is not forbidden to own them and there is no obligation to surrender them."* BC minutes, 2–3 July 1942, p. 9.

was running out, the SNB halted the sales and asked the banks to limit their gold transactions. In August 1942 a gentlemen's agreement was concluded between the SNB and the banks, requiring the latter not to sell bars above a price of 4,970 Swiss francs. A maximum price of 30.50 Swiss francs was set for the "Vreneli". Furthermore, the banks were supposed to limit their sales of Swiss coins to the holders of non-frozen accounts, refrain from sending any more coins abroad and exercise caution in the sale of foreign coins. The agreement did not prove particularly effective, however. The market did not become calmer, and the price of coins skyrocketed. The SNB urged that gold trading be regulated by law. The Decree of the Federal Council of 7 December 1942 introduced gold trading licences in Switzerland, subjected the import and export of gold to the express approval of the SNB and set a maximum price for gold.

3.3.4 Gold transactions from 4Q 1941 until 4Q 1942

In the period from the 4th quarter of 1941 until the end of 1942, the SNB's gold transactions in Switzerland were characterised by the triangular transactions. Accordingly, gold purchased from the Reichsbank increased from 54 to 551 million Swiss francs compared with the previous period; at the same time, the gold sold to neutral countries and Romania rose to 432 million Swiss francs. However, as considerable trade deficits still existed with a number of countries that had to be partially compensated with gold, and as the SNB had to sell gold coins in order to limit the rise in price, the amount of gold held in Switzerland remained at its low level. The SNB was thus interested in transferring gold from its overseas accounts to Europe in order to increase its gold holdings in Switzerland and thus also its room for manoeuvre. In April and May the SNB succeeded, after several attempts, in carrying out two swaps (each involving two tonnes of gold) with Portugal, which received gold in Canada in exchange for gold in Switzerland.[94] In subsequent months the SNB again attempted to conclude a similar transaction with Portugal, Sweden and Spain, but to no avail.[95] Overseas, it purchased gold primarily from the USA[96], Britain (as of 1Q 1942) and Canada (as of 2Q 1942).

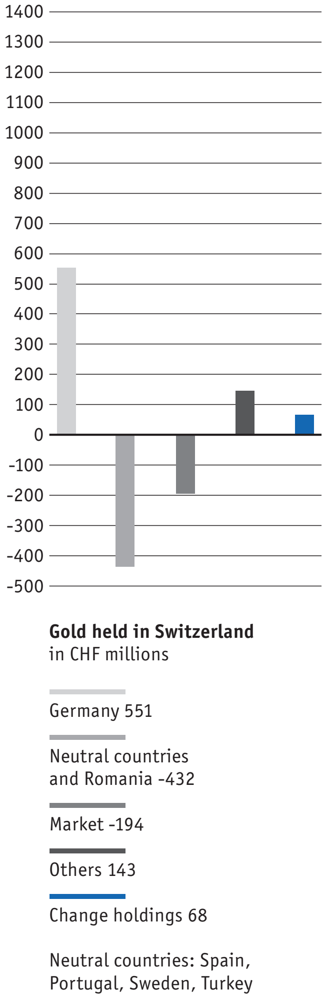
94 These transactions involved significant costs: the SNB paid Portugal a commission of 1.5% for the first swap and 2.5% for the second one. This shows that the other neutral countries, despite concerns about the provenance of the gold, still preferred to acquire freely available gold in Switzerland rather than partially frozen gold in Canada. See Gov. Board minutes no. 251, 9 April 1942, p. 306; Gov. Board minutes no. 279, 23 April 1942, p. 349; Gov. Board minutes no. 350, 7 May 1942, p. 424. For information on these swap transactions from a Canadian perspective, see also the report of the Bank of Canada: Duncan McDowall: a report on the Bank of Canada's handling of foreign gold during World War II, Canada 1997.

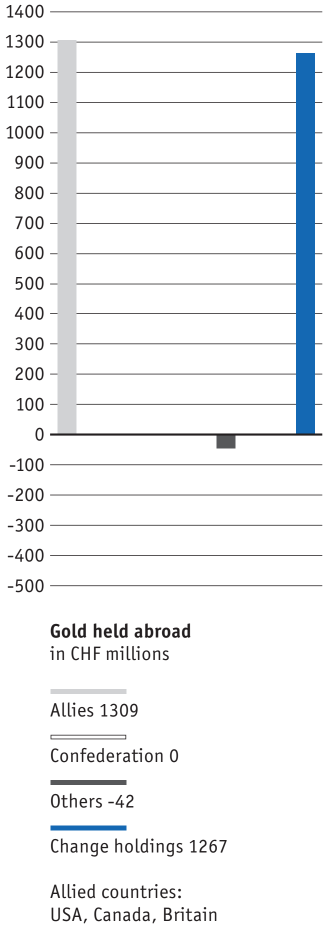
95 See Gov. Board minutes no. 428, 11 June 1942, p. 536; Gov. Board minutes no. 471, 25 June 1942, p. 586; Gov. Board minutes no. 658, 17 September 1942, p. 825 and Gov. Board minutes no. 769, 5–6 November 1942, p. 979.

96 These purchases were mainly the result of dollars being converted into gold in the course of 4Q 1941 and 1Q 1942. The SNB statements indeed show that the foreign exchange portfolio diminished by 980 million Swiss francs between 30 September 1941 and 31 March 1942.

Chart 4

Purchases (+) and sales (-) of gold by the SNB and change in gold holdings in the period 4Q 1941–4Q 1942





3.4 Fourth period: 1Q 1943 until 1Q 1944

From the first quarter of 1943 to the first quarter of 1944 the Swiss franc tended to be strong compared with the dollar. In December 1943 it traded at 2.40 Swiss francs to the dollar on the free market in New York.[97] In Switzerland the "Vrenelis" were trading at the maximum price of 30.50 Swiss francs set by the Decree of the Federal Council of 7 December 1942. Until the summer of 1943, however, they were fetching considerably higher prices on the black market.[98] The Decree of the Federal Council of 7 December 1942 gave the SNB full control of the gold transactions with other countries. On account of Allied warnings, the gold transactions with the Reichsbank were becoming increasingly problematic in political and legal terms, and the SNB attempted to protect itself by consulting the Federal Council. The growing export surplus with the Allies forced the SNB to provide more and more Swiss francs in exchange for gold frozen in the USA. Fearing the inflationary consequences of a resulting increase in liquidity, the SNB was prompted to adopt a restrictive policy. Moreover, the Swiss franc was still used extensively for payments in continental Europe. The SNB again raised the question of currency controls. *"Department I takes the view that, the longer the War lasts, the more appropriate it would seem to introduce controls on the Swiss franc so that every transfer of Swiss francs abroad would only take place with the approval of a central authority. This question must be addressed. Department II shares this view and feels it would be better to introduce controls as long as a certain amount of freedom of action exists."*[99] But once again, the SNB decided against proceeding with such a step.

3.4.1 Limited acceptance of dollars as payment for clock and watch exports

The issue of accepting dollars or gold for Swiss francs in the USA increasingly became a bone of contention between the SNB on the one hand and the government and industry on the other. Rossy's view was as follows: *"Accepting blocked assets and handing over free Swiss francs in return goes against the principles of a sound monetary policy. If we decide to accept dollars for other reasons, this no longer has anything to do with monetary policy. This is then a matter of economic policy, which is not the domain of the central bank but of the state, and more precisely of the Federal government."*[100] In the SNB's eyes, moreover, the exports to the USA – which boosted the frozen currency reserves – had the same consequences as the exports to Germany which were financed with clearing credits. Besides the inflationary effects, Rossy considered it problematic for a specific

97 Gov. Board minutes. no. 1220, 20-21 December 1943, p. 1322.
98 "[...] *the black market price for the 20 franc piece, which is thought to have fluctuated between 40 and 50 Swiss francs for a certain period, has now dropped to an asked price of 36 Swiss francs"*. Gov. Board minutes no. 818, 26 August 1943, p. 868.
99 Gov. Board minutes no. 587, 10 June 1943, pp. 596–597.
100 Gov. Board minutes no. 171, 18–19 February 1943, p. 153 ; see also Gov. Board minutes no. 258, 11 March 1943, pp. 256 f.

industry (the watchmaking sector) to profit from the dollar purchases, thus making it difficult to deny similar requests from other industries. In August 1943 the SNB thus decided to set quotas on the dollars to be purchased from the watchmaking industry. In the first quarter of 1944, however, it was obliged by the government to adopt a less restrictive stance.[101] In March 1944 an agreement was concluded which provided for an increase in the watchmaking industry's quota on condition that the government accept 40% of the dollars for its own account.

Other substantial gold purchases were effected on account of Britain's high demand for Swiss francs.[102] After a financing agreement was concluded with Britain on 1 January 1944, the gold holdings resulting from the procurement of Swiss francs were no longer frozen. However, the transport costs initially proved too high to bring large quantities into Switzerland.[103]

3.4.2 Resumption of gold coin sales

In the course of 1943, the situation regarding banknotes in circulation began to give the SNB cause for concern. *"Although there was some stability last month, Department I is not reassured by the way banknotes in circulation are developing.* [...] *Our gold holdings in Switzerland have already risen back to 865.3 million Swiss francs. The steady increase indicates that the Swiss franc is currently preferred to gold.* [...] *If this trend continues, we may have to consider the question of selling gold coins."*[104] In mid-July the SNB actually began to sell coins on the market. As it had hardly any "Vrenelis" left, it used large quantities of Latin Monetary Union coins (Lators) purchased from the Reichsbank from January 1943 onwards.[105] Although the resumption of gold coin sales was not an indispensable tool for the SNB's monetary policy, it still served to address several of the problems facing the bank. Firstly, it was a means of limiting the undesirable expansion of liquidity. It also provided a way to combat the hoarding of banknotes.[106] Thirdly, the SNB hoped in this way to eliminate the black market and restore the parity of the Swiss franc in dealings with the public.[107] Fourthly, the sale of Lator coins was a source of profit for the SNB without which the 1943 and 1944 annual accounts would have closed with a loss.[108] Finally, there are also indications that the SNB was attempting to use these sales as a means of disposing of suspect coins.[109]

101 Gov. Board minutes no. 31, 6 January 1944, pp. 31 f.

102 In 1943 some 170 million Swiss francs were made available to Britain, of which imports from Switzerland accounted for 58 million, the British Legation for 63 million, diplomatic outlays for 17 million and insurance benefits for 3 million. See Gov. Board minutes no. 18, 6 January 1944, pp. 17 f.

103 BC minutes, 17 February 1944, p. 80.

104 Gov. Board minutes no. 559, 2 June 1943, p. 559.

105 Between January 1943 and April 1944 the SNB purchased over 5 million Lator coins worth 140 million Swiss francs. After the War, it was established – on the basis of documents submitted by the Belgian central bank – that the coins had come from Belgian gold holdings. See SNB Archives, 0014.

106 For instance, Gov. Board minutes no. 860, 2 September 1943, p. 919.

107 Gov. Board minutes no. 818, 26 August 1943, p. 869.

108 The sale of Swiss gold coins on the market was at this time the main source of revenue for the SNB. As of summer 1942, however, the SNB had exhausted its supply of "Vreneli". Lators were thus an attractive substitute for the SNB. According to our calculations, the sale of Lators earned the SNB approx. 11.2 million Swiss francs. This corresponded to 70% of the bank's income from gold and foreign exchange transactions or 43% of its total income in 1943 and 1944. The remaining gold transactions with Germany generated earnings of 7.2 million Swiss francs.

109 See the discussions in the Bank Committee of 25–26 November 1943 (pp. 378 f.).

3.4.3 The SNB's reaction to Allied criticisms of its gold transactions with Germany

At this time Switzerland again came under heavy fire on account of its gold transactions. On 9 June 1943 the Financial News published an article demanding that gold which had been confiscated in occupied countries and sold to neutral ones be returned without compensation. When the Deutsche Reichsbank enquired at the SNB whether it could buy Swedish krona for gold, the Governing Board again discussed the problem of purchasing gold from Germany. It could not see any way to refuse the gold transactions without violating the principle of neutrality. The krona transactions were refused, however, and the Reichsbank was asked to sell gold directly to the countries in question in future and to cease using the Swiss franc for these transactions.[110] The Bank Committee was also consulted, and Weber justified the gold purchases from Germany by citing Swiss neutrality and the gold parity of the franc. Bachmann was not convinced by these arguments and suggested to consult with the Federal Council in view of the political dimension to the problem.[111]

The letter to the Federal Council was subsequently delayed as the Governing Board first wanted to establish Sweden's and Portugal's positions.[112] The SNB finally wrote a fairly uninformative letter which did not contain any figures on the extent of the gold transactions with the Reichsbank[113], but merely stated: *"[...] the Deutsche Reichsbank [transfers] gold in the form of bars and coins to the National Bank from time to time"* and went on to repeat Weber's above-mentioned arguments.[114] The Federal Council replied one month later and *"declared its agreement with the guidelines established* [by the SNB]. *In particular, it would welcome it if, in line with your own efforts, these gold purchases were to remain at a more modest level in future".*[115]

The question of the opportuneness of the gold transactions with the Reichsbank was also raised at the Directors' Conference of the SNB in December 1943. On this occasion, Max Schwab, legal advisor to the SNB, expressed legal reservations. In particular, he was concerned about accepting *"gold coins not minted in Germany"* and pointed out that the Hague Convention concerning the laws and customs of war on land prohibits the confiscation of private property.*" It is now an established fact that property belonging to individuals was confiscated in the occupied territories (e.g. belonging to deported Jews or people affected by particular sanctions, etc.). We do not know whether gold was taken from individuals in these or other cases; however, it is a possibility."*[116] Rossy countered these concerns. He remarked that the Deutsche Reichsbank had always had a large

110 Gov. Board minutes no. 674, 8 July 1943, pp. 683 ff. and Gov. Board minutes no. 699, 15 July 1943, pp. 721 ff.

111 BC minutes, 22–23 July 1943, pp. 182–187.

112 Based on movements in foreign gold safekeeping accounts, the SNB established that both the Portuguese and Swedish central banks were buying gold from the Deutsche Reichsbank in July, August and September. Ivar Rooth, governor of the Swedish Riksbank, pointed out that the Reichsbank was still able to ship gold to Sweden. However, he added that *"the governing board of Sveriges Riksbank* [...] *naturally had quite major reservations about accepting gold, among other things for reasons of monetary policy, and these reservations have been accentuated by the present situation"*. Gov. Board minutes no. 885, 8 September 1943, pp. 965 f.

113 This does not mean, though, that the Federal Council had no information about the extent of the gold transactions. On the contrary, the Swiss Finance and Customs Department possessed customs statistics containing the gold shipments from Germany to Switzerland.

114 SNB Archives, 117.8.

115 Gov. Board minutes no. 1099, 25 November 1943, p. 1200.

116 Minutes of the Directors' Conference, 2 December 1943, p. 17.

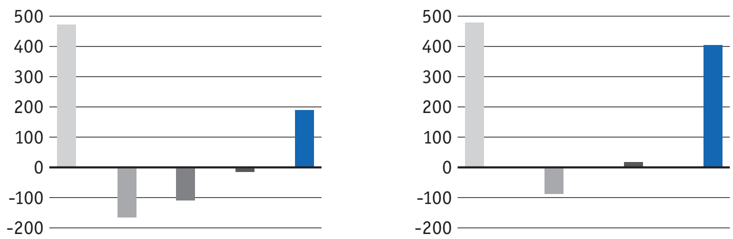
reserve of gold coins and that the Germans had never requisitioned gold from individuals in France. Furthermore, from a legal point of view, Anglo-Saxon gold was not necessarily better than German gold: *"It is not possible to predict the outcome of the War. In the event of a German victory, the gold stemming from the exile governments could also be disputed. We have no way of verifying whether the gold sold to us in London, Ottawa and New York comes from the governments of occupied countries."*[117]

3.4.4 Gold transactions from 1Q 1943 until 1Q 1944

In the first six months of 1943 the SNB's gold holdings in Switzerland grew by 100 million Swiss francs.[118] This was due in part to the Decree of the Federal Council of 7 December 1942 which conferred control of the Swiss gold market on the SNB and also to the development of the trade deficits with various countries, which declined substantially in 1943.[119] Portugal, which in earlier periods had always bought the most gold, thus became a net seller as of the 4th quarter of 1943. Gold purchases from the Reichsbank continued at a high level, although the triangular transactions with Portugal had come to a standstill. The growing volume of gold reserves in Switzerland enabled the SNB to sell gold on the market again after an almost year-long hiatus. Gold purchases overseas continued. They resulted from the conversion of dollars received by the SNB due to the US and British governments' substantial demand for Swiss francs and the high level of exports from Switzerland to the USA.

Chart 5

Purchases (+) and sales (-) of gold by the SNB and change in gold holdings in the period 1Q 1943 – 1Q 1944



Gold held in Switzerland
in CHF millions

Germany 473

Neutral countries and Romania –165

Market –106

Others –12

Change holdings 190

Neutral countries: Spain, Portugal, Sweden, Turkey

Gold held abroad
in CHF millions

Allies 480

Confederation –86

Others 10

Change holdings 403

Allied countries: USA, Canada, Britain

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117 Ibid. pp. 18 f.

118 The SNB statements only state an increase of 40 million Swiss francs, as a portion was entered in the balance sheet under "Other assets". See Gov. Board minutes no. 559, 2 June 1943, p. 556.

119 In this way, the deficit with Portugal, for instance, was reduced from 93.6 to 21.9 million Swiss francs and the deficit with Romania from 69 to 49 million Swiss francs. See table 1, section 4.3.

3.5 Fifth period: 2Q 1944 until the end of the War

From the 2nd quarter of 1944 until the end of the War, the SNB's gold transactions in Switzerland decreased significantly; gold purchases from Germany dropped off sharply in quantitative terms but continued almost until the end of the War. They were now used for payment transactions. The gold sterilisation operations conducted with the government enabled the SNB to step up its purchases of export dollars.

3.5.1 Gold sterilisation operations with the Federal Government

The biggest monetary problem for the SNB in the first half of 1944, as already at the end of 1943, was the inflow of dollars deriving from exports to the USA. The National Bank had to accept large quantities of dollars (especially from the watch-and-clock-making industry, which was profiting from a war boom) and exchange them for Swiss francs. In order to ward off the resulting threat of inflation, the Federal Government took over the blocked gold from the SNB and raised the required amount of Swiss francs by means of a bond issue. This arrangement was tantamount to an advance (backed by gold) on exports to the USA.[120]

3.5.2 Decline in gold transactions with Germany and new use of Swiss francs received in exchange for gold

The SNB attempted to reduce the amount of gold received from the Reichsbank (and from the Axis countries in general). Thus Alfred Hirs, successor to Schnorf in Department III from October 1942 onward, reported to the Bank Committee at the end of March 1944: *"During the reporting period we had to ward off a veritable flood of gold from the Axis countries; we had to ask Berlin to cut back its metal transfers considerably, to request Hungary and Romania to reduce their planned shipments, to point out to Slovakia that larger gold deposits served little purpose and even to decline Japan's request."*[121] However, gold purchases began to diminish without the SNB having to exert too much pressure, as Germany was cut off from essential sources of raw materials as a result of the Allied advance and thus did not need so many Swiss francs. Due to Switzerland's policy of neutrality, the SNB did not see fit to declare a general refusal to accept gold from the Reichsbank.[122] Warnings from the Allies with respect to gold purchases from Germany had the effect, in 1944, that the SNB increasingly consulted with the Federal Government on the political aspect. At the end of October, Bachmann defined the responsibilities between the SNB and the Confederation as regards gold transactions with the Reichsbank. He stated that only the legal question

120 This arrangement can be compared to a clearing credit granted by the Swiss government to Germany in the context of German-Swiss payment transfers. The sterilisation transactions carried out by the Confederation had the same effect in terms of money supply as an issue of gold certificates by the SNB. However, the latter would have incurred a financial loss for the SNB as the certificates could only have been sold at a discount on the market.
121 BC minutes, 30–31 March 1944, p. 18.
122 See BC minutes, 3 March 1944, p. 134.

– i.e. whether the gold had been acquired legally or illegally – was of decisive importance for the SNB. In addition to deciding whether to halt gold shipments from Germany for political reasons, the Federal Government would also have to bear the responsibility for such a decision.[123]

In the course of 1944, the SNB's gold and foreign exchange policy vis-à-vis the Reichsbank saw another change aside from a reduction in volume. Whereas the Swiss francs received in exchange for gold had previously been employed largely for the payment of goods and services in third countries, an attempt was now made to induce the Reichsbank to agree *"that gold would only be supplied for purely Swiss purposes (payment of current expenses arising from the maintenance of diplomats, interned persons, payments to the Red Cross, for the inmates of sanatoriums, etc.) and that the counter-value no longer had to be used for payments to other countries"*.[124] In December 1944 Puhl pointed out that the Reichsbank would only be able to keep up payment transactions with Switzerland if the latter continued to provide Swiss francs in exchange for gold. The Reichsbank thus intended to wind up its gold account in Berne, i.e. to sell the balance to the SNB. In addition, the Reichsbank wished to export 6000 kg of gold to Switzerland, *"with half of the counter-value serving for the repayment of funding bonds"*.[125]

The transfer of these 6000 kg of gold was also a subject of discussion during the meeting with the Permanent Delegation for economic negotiations with foreign countries[126] on 14 December 1944. Jean Hotz, from the trade section of the Department of Economics, and Heinrich Homberger, director of the "Vorort" (Swiss federation of trade and industry), demanded that the question of gold purchases by the National Bank and the continuation of payment transactions with Germany should be part of the economic negotiations. To this, Weber replied *"that the National Bank was of the opinion that, as a matter of principle, monetary policy should not be linked with trade policy."* The National Bank, however, was prepared *"to accept the 6000 kg of gold under discussion with the definite expectation that Germany would not hinder the intended development of the merchandise trade with Switzerland. Moreover, the National Bank took note of the fact that the counter-value of the gold to be acquired would be used mainly for meeting Swiss claims (e.g. for interest payments on gold mortgages, for payments in insurance trade and small-scale frontier trade, for the payment of interest on new loans and also for the redemption of the funding bonds falling due on 1 January 1945)"*.[127] The President of the Confederation, Walter Stampfli, regarded it as *"a fortuitous idea"* to link gold purchases with Swiss aspirations for the goods trade because

123 See BC minutes 1944, 26–27 October, p. 342.

124 Gov. Board minutes no. 930, 31 August 1944, p. 1049. As early as March, the Reichsbank was told that *"it should no longer purchase escudos or Swedish krona in Switzerland"*. Gov. Board minutes no. 318, 23 March 1944, p. 356.

125 Gov. Board minutes no. 1318, 14–15 December 1944, p. 1465. The funding bonds were German Treasury bonds relating to pre-war bonds (Dawes and Young bonds).

126 The delegation was set up in 1939 by the Federal Council with a view to the economic negotiations with Germany.

127 With respect to the following, cf. the Gov. Board minutes no. 1318, 14–15 December 1944, pp. 1467 f.

"gold purchases [...] *could thus to some extent be justified in the face of attacks from third parties by proving that these gold purchases helped to provide the country with work and income"*. On this score, however, Stampfli would be proven wrong; although the Allies' trade delegates basically appreciated the need for these payments, they could not consent to further purchases as the gold in question was stolen property.[128]

In February and March 1945 negotiations took place in Berne between Switzerland and the Allies (Currie negotiations). The Allies wanted Switzerland to break off all relations with Germany.[129] The gold transactions with the Reichsbank were also discussed. Switzerland had to declare its willingness only to accept gold from Germany that would be used to finance official expenses (payments for diplomatic representations, prisoners of war, Swiss payments to the protecting powers, and outlays for the Red Cross). Only a few days after the conclusion of the Currie Agreement, negotiations began between Switzerland and Puhl. On 11 April an agreement was signed whereby additional gold would be accepted from the Reichsbank. This latest gold transaction with the Reichsbank was motivated by Swiss financial interests which could not otherwise have been satisfied.[130] According to Durrer, Switzerland thus violated the purpose and spirit of the Currie Agreement.[131] When the agreement with Puhl became public knowledge in the USA, it unleashed a storm of indignation. The Americans were convinced that Switzerland had violated the Currie Agreement but refrained from terminating it.

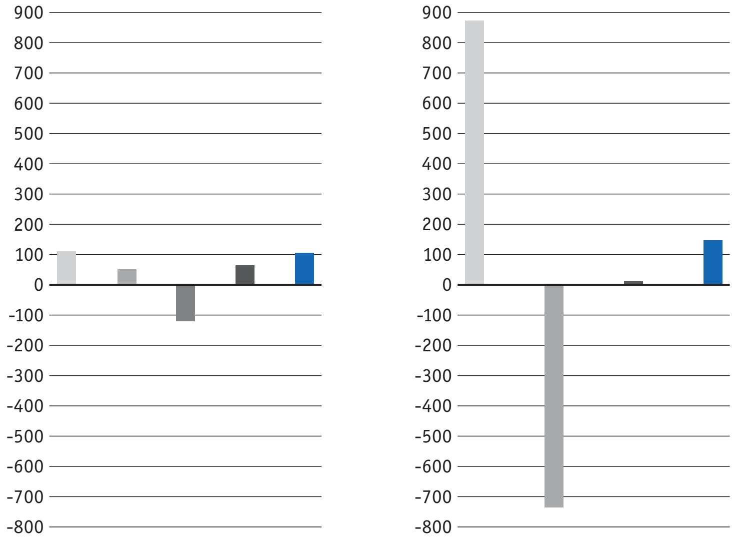
128 BC minutes 1945, 22–23 February 1945, p. 62.
129 With respect to the following, cf. Durrer (cf. footnote 76), pp. 184 ff.
130 For information on the role of insurance companies in this agreement see ICE (cf. footnote 1), pp. 187 ff.
131 With respect to the following, cf. Durrer (cf. footnote 76), pp. 227 ff.

3.5.3 Gold transactions from 2Q 1944 until 2Q 1945

As the Allies advanced across Europe during 1944, Germany's links with major neutral trading partners were disrupted, reducing the Reichsbank's demand for Swiss francs and causing gold sales to the SNB to decline dramatically from the second quarter of 1944 onwards.[132] They fluctuated between 14 and 20 million Swiss francs per quarter. Abroad, the SNB bought gold mainly from the USA and Britain, which it then sold to the Confederation for sterilisation.

Chart 6

Purchases (+) and sales (-) of gold by the SNB and change in the gold holdings in the period 2Q 1944 – 2Q 1945



Gold held in Switzerland
in CHF millions

Germany 107

Neutral countries and Romania 52

Market -114

Others 60

Change holdings 105

Neutral countries: Spain, Portugal, Sweden, Turkey

Gold held abroad
in CHF millions

Allies 874

Confederation -732

Others 2

Change holdings 144

Allied countries: USA, Canada, Britain

132 See BC minutes, 31 August–1 September 1944, pp. 33 f.

4 Interpretation of monetary policy during the Second World War

The monetary policy decisions during the Second World War resulted on the one hand from the way the SNB's management of the time understood its task and, on the other, from the changing external circumstances. The disparate aims – maintaining the gold parity of the Swiss franc, containing inflation, facilitating financing of the federal deficit, keeping up payments with other countries – partially explain the Governing Board's manoeuvring and hesitation when faced with the problem of gold purchases from the Deutsche Reichsbank. The following section addresses the SNB's monetary policy with regard to the external stability of the currency, maintenance of purchasing power, and international payments. As the chronological section also dealt with the various political motives, we shall look at these again, too.

4.1 The external stability of the currency

The National Bank management attempted to overcome the monetary difficulties during the War by making as few fundamental changes as possible to the policy it had pursued since the 1920s. Its first priority was to retain the gold parity and convertibility of the Swiss franc, as it believed this to be crucial in maintaining confidence in the currency. The prospect of the post-war monetary order very likely played a part here. The various plans developed by the Allies as of 1943 (White, Keynes, Morgenthau plans) in the runup to the Bretton Woods conference were based on stable exchange rates and convertibility, with gold playing a certain role. These plans were taken seriously at the SNB and studied intensively.[133]

In terms of maintaining the gold parity of the Swiss franc, a distinction must be made between operations geared towards international payments that were settled by the SNB with other central banks and those that served to stabilise the market price in Switzerland.

When dealing with central banks, the SNB managed to maintain the parity of the Swiss franc throughout the War.[134] In general, it exchanged Swiss francs for gold at parity, without restrictions, to the extent that it could dispose of it freely. Its original intention of only conducting those gold transactions that directly concerned Switzerland was not systematically implemented for political reasons (accommodating stance towards Germany), monetary policy reasons (limiting the gold outflows triggered by the Reichsbank's gold sales to the banks) and technical reasons (difficulty of verifying the use of Swiss francs without imposing currency controls). Without doubt, the SNB also feared that limiting the gold purchases would be interpreted as a sign that the Swiss franc's convert-

133 Cf. for instance SNB: Minutes of the Bank Council, 16 June 1944, pp. 199 ff. Gold also played a part in the conceptions of certain representatives of the Axis powers regarding international payments. Its purpose here was to settle payments balances between economic blocs whose currencies were to be centrally coordinated in internal transactions. See, for example, the speech given by Per Jacobsson on "Gold and Monetary Problems", at the Annual General Meeting of the Swiss Bankers' Association in St Moritz in 1942, in: Jacobsson (cf. footnote 8), p. 147. For information on the official National-Socialist foreign trade policy, see the notes in section 4.4.

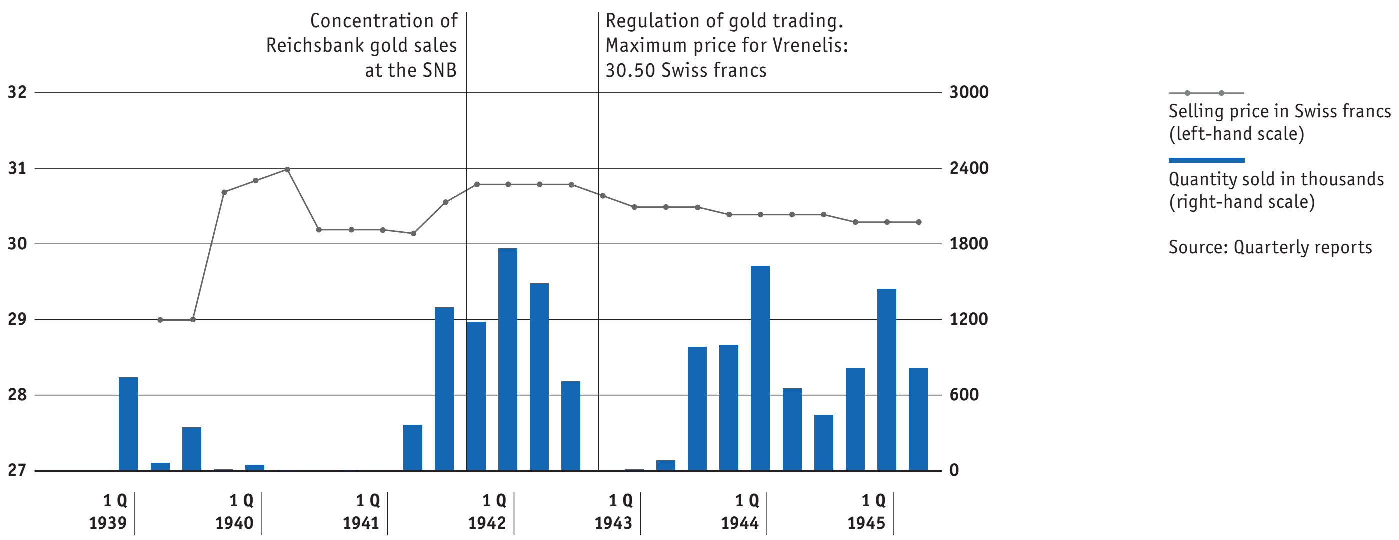
134 It bought gold in Berne from other central banks at a price of 4,860.90 Swiss francs per kilogram of fine gold and sold it at a slightly higher price (4,920.63 Swiss francs per kilogram).

ibility was about to be relinquished, which in turn would have induced the central banks to convert their (at times considerable) holdings of Swiss francs at the SNB into gold. It should also be mentioned that the widespread use of Swiss francs for international payments posed a certain threat for the SNB only in the long term (risk of unstable demand for Swiss francs, legal and political risks in connection with gold purchases from the Reichsbank), whereas it involved short-term advantages, such as the financing of imports (see section 4.3).

The SNB refrained on various occasions from stabilising the price of gold in Switzerland. The first such occasion was in the summer of 1940, when the gold price dropped below parity. As of mid-1942, the gold price on the market deviated substantially from the official rate. The reasons for the rise in price for gold coins were explained in section 3.3.3; on the one hand, demand (especially from abroad) remained very high, because – until the end of 1942 – Switzerland was the only country in Europe where individuals could buy gold freely; on the other hand, the centralisation of the Reichsbank's gold transactions at the SNB eliminated a major source of gold for the market. Owing to the almost insatiable demand and an alarming decline in the gold holdings, the SNB interrupted the sale of gold coins on the market and demanded that the gold market be regulated. For over one year there was a considerable discrepancy between the official gold price and the black market price. This gap was only closed once the SNB had acquired a sufficiently large reserve of coins and was thus able to resume selling as of the summer of 1943.

The close relationship between the development of currency reserves and money supply (banknotes in circulation and sight deposits of the banks with the SNB) shows that the gold purchases constituted the main source for

Chart 7
Price and supply of coins sold on the market (Vreneli and Lator)



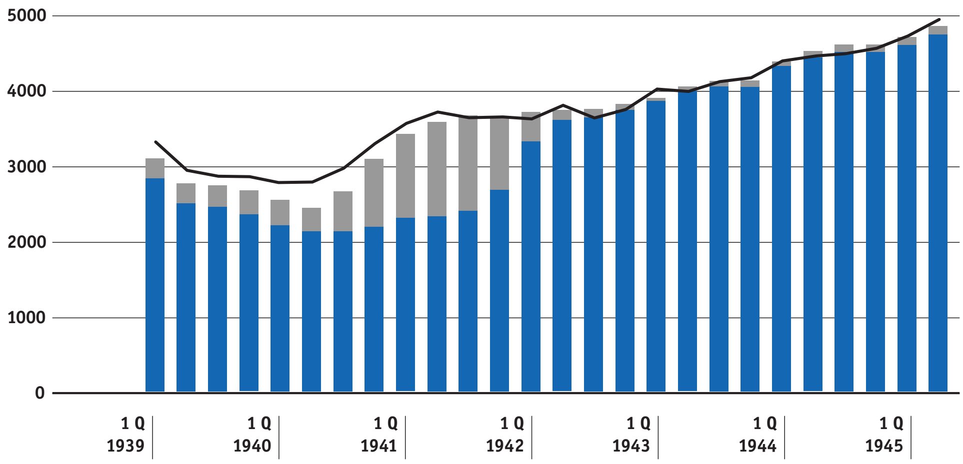
Source: Quarterly reports

procuring Swiss francs (see chart 8). This does not imply, however, that the trend in the monetary base resulted purely from the maintenance of the gold parity. In actual fact, the SNB – as can be seen in section 4.2 – resorted to a number of administrative steps to minimise the liquidity fluctuations resulting from maintaining the parity.

What consequences did maintaining the gold parity have for the Swiss franc exchange rate? The administrative measures introduced by a majority of countries caused the number of bilateral exchange rates to multiply. It was possible for considerable differences to exist between the official parity rate in fine gold, the clearing rate or the "free"[135] rate. By maintaining the parity, the SNB stabilised the official rate of the Swiss franc. By contrast, it did not intervene to stabilise the "free" rate of a currency. The administrative measures taken by the various European countries made it easier for the SNB to maintain the parity of the Swiss franc. Speculative capital movements such as those seen in the 1930s were no longer possible under these circumstances.

With its dual strategy of maintaining the gold parity in dealing with the central banks while exercising flexibility in stabilising the price of gold in Switzerland, the SNB was able to create the impression – both in Switzerland and abroad – that the Swiss franc was permanently pegged to gold. It was thus possible to maintain the external stability of the currency. Consequently, the Swiss franc remained firm against the dollar and appreciated slightly against the currencies of the other neutral countries.[136]

Chart 8
Currency reserves and monetary base of the SNB, 1939–1945



Gold reserves in CHF millions
Currency reserves in CHF millions
Monetary base in CHF millions
Source: Monthly reports

135 It should be remembered that Switzerland and Portugal were the only countries in Europe not to introduce currency controls. Nevertheless, the currency controls imposed by other countries had an impact on the exchange rate of the Swiss franc. Furthermore, Switzerland had concluded clearing agreements with a number of other countries (including Germany, Italy, Hungary, Bulgaria, Romania, Greece, Turkey, Belgium, Finland, France, the Netherlands, Norway and Spain). These agreements provided for special exchange rates (clearing rates) that often corresponded to the earlier parity rates but sometimes deviated greatly from the "free" exchange rates, as expressed for instance in the price of foreign banknotes in Switzerland. The latter were subject to considerable fluctuation and were usually priced markedly below the clearing rates. For example, at the end of 1944, the Reichsmark clearing rate was still 1.73 Swiss francs, while the rate for banknotes was just 6.75 centimes. As a result of partial currency controls with the dollar zone, the "free" dollar rate also deviated from the parity rate; the discount at end-1943 was more than 40% (see section 3.3).

136 Between 1939 and 1945 the value of the Swiss franc rose by 4% against the Swedish krona, by 7% against the Turkish lira, by 9% against the Portuguese escudo and by 20% against the Spanish peseta. The appreciation against the currencies of the occupied countries was much more pronounced. See BIS, 15th Annual Report, 1945, p. 98.

4.2 Stabilisation of purchasing power

At the end of the War the measures taken by the SNB in the fight against inflation met with widespread recognition.[137] The SNB's management took the view that the inflation experienced by Switzerland since 1941 was generated mainly by costs ("cost-push inflation") and had resulted from the explosion of import prices and supply bottlenecks.[138] This view was not undisputed. The advocates of Stamp Scrip (so-called "Freigeldbewegung") assumed that the inflation was attributable mainly to the sharp rise in liquidity.[139]

Expressed in modern economic terms, the outbreak of war generated both a negative supply shock (rise in import prices, loss in earnings from international division of labour, less available manpower due to wartime mobilisation) and a positive demand shock (increase in public spending), resulting in a drop in production and a rise in prices. By emphasising that inflation was a result primarily of war-related production and supply difficulties, the SNB implicitly acknowledged the need to allow some of the price pressure by increasing liquidity so as to avoid provoking too sharp a decline in the economy. However, it also realised that excessive money supply growth would also increase inflationary pressure.

It would be wrong, however, to ascribe a monetarist strategy to the SNB before the term was even invented. The bank's management at the time did not believe in a stable and lasting relationship between money supply and price trends. Instead, it attempted to limit overall economic demand by means of the following measures[140]: first of all, it did not participate in financing the public debt, and the government was thus obliged to finance its expenditure through taxes (forced drain on purchasing power) and/or bonds (voluntary drain on purchasing power). Secondly, it limited the conversion of export dollars into Swiss francs, except for where these were sterilised by the government. Thirdly, it attempted to sterilise households' purchasing power by selling gold coins on the market.

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137 See for instance the statements by Federal Councillor Ernst Nobs in the National Council in September 1945: *"If it was possible to finance war-related spending of the Confederation with inflation-free funds, if it was possible to avoid the central bank having to make substantial loans to the government – which hardly any state bank in any country has been able to do; if it was possible to effectively combat inflation in the trade of goods (though here of course, price controls, rationing and various control measures also played a part), then the success achieved – in terms of long-term price stability – is also largely due to the activity and cooperation of the Swiss National Bank."* See Gov. Board minutes no. 1159, 11 October 1945, p. 1215.

138 A report by the Governing Board addressed to Ernst Wetter is interesting in this regard as it contains various measures aimed at fighting inflation. For the Governing Board it was clear that "[…] *the most important measures to prevent inflation* […] *must come from the goods side. These consist in increasing production and limiting and controlling consumption"*. See BC document 3c 1941.

139 The dispute between advocates of Stamp Scrip and the SNB was not new but dated back to the First World War.

140 This did not rule out measures on the supply side. In August 1940 Max Schwab spoke out in favour of partial demobilisation, as he expected this to result in positive effects for the economy in general and the monetary situation in particular. See ICE (cf. footnote 1), pp. 79 f.

From today's point of view, it may seem surprising that the SNB did not try to slow overall demand by raising interest rates. There are a number of reasons why this was so. Firstly, the SNB had considerable doubts about whether this method would be effective in a wartime economy.[141] Secondly, an interest rate hike would have made it more difficult to finance public debt, which would possibly have increased pressure on the SNB to participate directly in financing it.[142] Finally, a rise in interest rates would have conflicted with the goal of the Swiss franc's external stability, as the currency would have been more likely to appreciate.

4.2.1 No long-term financing of Confederation spending by the SNB

Between 1939 and 1945, government spending for the military and economic defence of Switzerland amounted to 11.2 billion Swiss francs.[143] According to the government's financial accounts, total spending came to 14.6 billion Swiss francs. This was financed primarily by taxes and customs revenues (37%) as well as by public debt (54%).[144]

In contrast to the First World War, the SNB's contribution towards financing the government's expenditure always remained at a modest level. The SNB never held more than 300 million Swiss francs' worth of government rescriptions, and the fluctuations in the portfolio highlight the transitory nature of the loans. It is remarkable that the Federal administration shared the SNB's views on this point and did not exert any pressure on the SNB to adopt a less disciplined policy.

However, the question does arise whether the SNB contributed indirectly towards financing the public-sector debt by keeping interest rates low. Here, it is important to remember that the SNB was only able to set short-term rates. The remarkably low level of long-term interest rates during the War (3.5% on average, while inflation was running at 7%) was due mainly to confidence in the Swiss franc, restrictions on consumer spending and the lack of investment alternatives.

4.2.2 Curbing foreign demand

The SNB regarded Switzerland's current account surplus as inflationary, as it boosted Swiss purchasing power and accentuated the shortage of goods. By contrast, it viewed the inflationary effect of the repatriation of Swiss capital as less of a threat.[145]

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141 In its letter to Wetter, the Governing Board wrote: *"Raising the official rates would not be effective, simply on account of the private sector's minimal liabilities towards the central bank. Besides, experience shows that raising interest rates in order to exert pressure on prices is not effective in extraordinary situations."* See footnote 138, p. 3.

142 See Weber's statement on this subject in section 2.3.3.

143 See Jakob Tanner: Bundeshaushalt, Währung und Kriegswirtschaft. Eine finanzsoziologische Analyse der Schweiz zwischen 1938 und 1953, Zurich, 1986, p. 379.

144 See Schweizerische Nationalbank 1907–1957 (cf. footnote 13) pp. 74 f.

145 In its letter to Wetter, the Governing Board stated the following in relation to the inflation potential involved in transferring capital back from the dollar zone: *"Furthermore, this is mostly commercial money that is not used for merchandise but rather for temporary investment, until a use is found for it again in commerce."* See footnote 138, pp. 3–4.

Switzerland's continued surplus vis-à-vis Germany resulted in an increase in the clearing credit, which had risen to 1.1 billion Swiss francs by the end of the War. The SNB expressed its concern about the inflationary implications on several occasions. But how about the inflationary potential of the 1.2 billion Swiss francs provided to the Reichsbank by the SNB in return for gold? The SNB assumed that this money would not increase demand as it was to be used by Germany mainly for payments in other countries.[146] These countries were able to accumulate Swiss francs, exchange them for gold or use them for payments to settle their accounts with other countries, but they were not able to use them to purchase goods in Switzerland, as the exchange of goods with Switzerland was generally governed by bilateral agreements.[147] The question still remains of the inflation potential of the Swiss francs used by the Reichsbank outside the clearing system in Switzerland. As already mentioned, the SNB assumed that this was of negligible importance.

The problem of the Swiss francs made available to the Allies was a completely different matter, however, as this money was used largely to buy products in Switzerland. The SNB's restrictive stance on the exchange of dollars or gold for Swiss francs was based on the inflationary consequences and a desire to prevent an excessive increase in the amount of frozen reserves. The SNB only ceased to put up resistance after concluding an agreement with the Confederation that provided for the sterilisation of Swiss francs sold in return for dollars. Of the 1.9 billion Swiss francs made available to the Allies from the freezing of assets in June 1941 until the end of the War, 810 million Swiss francs were sterilised by the government.[148]

146 Based on research to date, it is not possible to determine what volume of Swiss francs was used by Germany in Switzerland and what volume in other countries. Clearly, however, the SNB believed that the Reichsbank used the Swiss francs received in exchange for gold primarily in other countries. The SNB thus declared in August 1944 *"that the entire payments system, to the extent that it concerns the exchange of goods with Germany, will be settled in the German-Swiss clearing system. Gold remittances will not be used either for any free exchange peak nor for deliveries of goods. As far as the Swiss National Bank can judge, the gold imported from Germany has been used either directly or in its equivalent value in Swiss francs via Swiss banks in favour of other countries, probably in connection with letters of credit"*. See Gov. Board minutes no. 930, 31 August 1944, pp. 1046 f. On the occasion of his visit on 18 September 1944 Puhl confirmed this view. The Reichsbank had allegedly *"so far not made any foreign currency available for goods imports outside of the clearing system"*. Note from Hirs on the visit of Vice-President E. Puhl, Deutsche Reichsbank, Berlin, 18 September 1994, in: SNB Archive B3/105.7. Only in November 1944 was this view corrected by the Swiss federal administration when it explained to Weber *"that Germany has paid for a considerable quantity of goods in Swiss francs which it somehow was able to obtain. The possibility therefore exists that Swiss francs acquired by the Reichsbank in exchange for gold were subsequently used to pay for goods from Switzerland"*. Weber was surprised to learn of this. See Gov. Board minutes no. 1214, 21 November 1944, p. 1214.

147 Switzerland's trade with most European countries was based on a clearing agreement (cf. footnote 134). In addition, it concluded trade agreements with a number of other countries, in particular with Britain and Portugal (cf. footnote 90).

148 According to Governing Board minutes dated June 1945, the SNB purchased dollars worth 988 million Swiss francs from the time Swiss assets were frozen in the USA until the end of 1944. Of this amount, 398 million Swiss francs were attributed to Switzerland's export surplus versus the USA, 100 million Swiss francs related to American support payments, 99 million Swiss francs concerned special needs of the US government, 363 million Swiss francs were due to British and Canadian requirements, and 28 million Swiss francs were earmarked for Argentinian needs (see Gov. Board minutes no. 681, 14 June 1945, p. 767). These figures do not include the dollars or gold accepted by the Confederation or by the SNB after 1945. According to the ICE, the Confederation accepted gold worth 810 million Swiss francs during the War, of which 467 million Swiss francs was attributed to Swiss exports, 209 million Swiss francs to US government requirements, and 106 million Swiss francs related to support payments. See ICE (cf. footnote 1), p. 148. In order to calculate the total dollars accepted by Switzerland in favour of the Allies, these figures would also have to include the dollars accepted by the SNB in the first half of 1945, totalling 76 million Swiss francs; however, no information is available on how they were used.

4.2.3 Sales of gold coins on the market

From 1941 until the end of the War the SNB sold 420 million Swiss francs' worth of gold coins on the market. It did so primarily in order to maintain the gold parity of the Swiss currency (see section 4.1). However, in addition to the reasons stated in section 3.4.2, it was also interested in absorbing some of the liquidity in circulation.

The anti-inflationary effect of the sale of coins is questionable, however.[149] To the extent that the gold coins were only a substitute for banknotes stored under people's mattresses, the sale of coins did result in fewer banknotes being hoarded, but did not, however, succeed in further sterilising purchasing power and thus had no impact on inflation. In the case of coins that found their way out of Switzerland the anti-inflationary effect would only have come into play if the exchange had absorbed liquidity that would otherwise have been used either directly or indirectly for purchasing goods in Switzerland. This hypothesis is rather implausible, however, given that Switzerland's trade with neighbouring countries was regulated. It should also be pointed out that the sale of coins reduced the SNB's domestic gold holdings, thus jeopardising the country's vital supplies (see section 4.3). The SNB ultimately had other ways of absorbing liquidity, for instance by issuing gold certificates. It considered this alternative on a number of occasions[150], but did not put it into practice. As a result, the sale of coins was certainly a useful means of underscoring the SNB's desire to maintain the Swiss franc's gold parity. However, it was not an indispensable method of fighting inflation.

4.2.4 Effects of the stabilisation of purchasing power

Between 1939 and 1945 the cost of living in Switzerland rose by 51%. Inflation peaked in 1941 and then began to tail off. The trend supports the view of the Governing Board that inflation was initially due to the war-related supply and demand shocks that were partially accommodated by the SNB. The drop in inflation from 1942 onwards can be ascribed to the SNB's attempts to gain control over money supply.

The increase in the cost of living in Switzerland was roughly comparable to that in Sweden. Other neutral countries experienced more pronounced inflation, however.[151] Owing to the fact that most European countries had implemented administrative measures to control prices and wages, the performance of the various central banks in fighting inflation can only be compared to a limited extent.

149 The SNB too, appears to have had certain doubts shortly after the War (1949) as to the effectiveness of selling coins, as shown in the following quote from an internal study: *"The attempt made by Switzerland to curb the effective money supply by limited sales of gold coins was also implemented by other countries during the Second World War and afterwards. For instance, Egypt, China, India, Iraq, Iran, Mexico and Siam occasionally brought gold coins onto the market in an attempt to fight inflation. Nothing particularly unfavourable is known about the success of this measure, used only as part of a larger plan."* See Jaquemet (cf. footnote 75), p. 199.

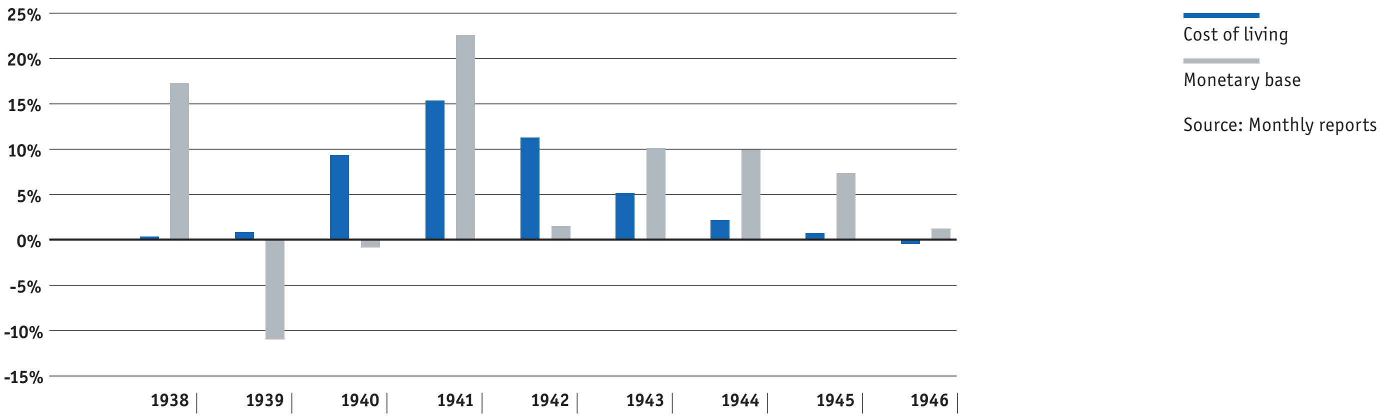
150 See for instance Gov. Board minutes no. 161, 3 February 1944, p. 156.

151 Between 1939 and 1945 the cost of living rose by 43% in Sweden, by 92% in Spain, by 96% in Portugal and by 262% in Turkey. See BIS, 16th Annual Report, 1946, p. 11.

In 1957 Robert Triffin attempted to determine the size of the liquidity overhang in the European economies at the end of the War.[152] In some of the countries surveyed, liquidity increased dramatically from 1938 to 1947.[153] In Switzerland, this increase roughly reflected the trend in production (+12%) and prices (+80% measured in terms of the GDP deflator). By contrast, Sweden, Denmark, Britain and in particular Norway experienced an increase in liquidity that was not due to the trend in prices (which was halted by administrative measures) and production.[154] This was excess liquidity that had to be absorbed if an inflationary trend was to be avoided following the unfreezing of prices and wages.

Overall, however, the SNB managed to keep money supply growth under control. This was due mainly to the fact that it refused to finance National defence by printing money. Maintaining the Swiss franc's convertibility also had a positive effect, as it obliged the SNB to pursue a monetary policy that excluded any involvement in financing the government deficit and because it was thus possible to maintain confidence in the Swiss franc.

Chart 9
Annual growth in the cost of living and of the monetary base



Source: Monthly reports

152 See Robert Triffin: Europe and the money muddle, Binghamton, 1957, pp. 31–86.
153 The monetary base increased as follows in the countries listed here: Switzerland 2.1-fold, Sweden and the Netherlands 2.6-fold, Denmark and Britain 3-fold, Belgium 3.3-fold, Norway 4.4-fold, France 8-fold, Italy 33-fold and Greece even 60-fold.
154 According to the quantity equation, an increase in the monetary base goes hand in hand with 1) higher prices, 2) a rise in production and/or 3) a drop in the velocity of circulation. Therefore, the monetary development in European countries during the War can also be seen as reflecting a sharp drop in the velocity of circulation, although this decline was due to the exercise of greater caution and the lack of consumption opportunities.

Nevertheless, the purchases of gold from foreign central banks boosted the volume of Swiss francs in circulation. However, the SNB rightly assumed that this rise in liquidity would only be inflationary if the money re-entered the Swiss economic cycle.[155] Accordingly, Swiss francs used outside Switzerland would not create any inflationary pressure unless they were used to purchase goods and services in Switzerland. This fundamental difference explains why the SNB adopted a more restrictive stance when making Swiss francs available to the Allies than to Germany.[156]

4.3 Maintaining the payments system to safeguard vital supplies

Besides monetary policy considerations, the SNB was also interested in maintaining Switzerland's solvency vis-à-vis other countries. As a rule, this was not a problem, as Switzerland's traditional status as a creditor country resulted in an inflow of funds. However, the growing fragmentation of the international payments system during the War made this task more difficult for the SNB. After Swiss assets were frozen in the USA, the Swiss balance of payments was no longer a single entity but was subject to a number of systems that were not reconcilable with each other.[157]

1. The credit balance between Switzerland, on the one hand, and Germany (including certain occupied countries) and Italy, on the other, was expressed in the clearing credits granted by the Confederation.

2. The surpluses with Allied countries resulted in an increase in the SNB's frozen reserves.

3. The deficit in the balance of payments with the Balkan countries and neutral states had to be settled with gold from the SNB's reserves in Switzerland.[158]

Spain, Portugal and the Balkan countries were an important source of supplies for Switzerland during the War: in 1941 and 1942, Switzerland's imports from these countries were 513 million Swiss francs higher than the value of its exports to them. This deficit highlights the importance of possessing an adequate supply of available gold or a currency recognised for international payments such as the Swiss franc. However, at the same time as net imports from

155 Even today, the assets of non-residents are excluded from the money supply aggregates. Accordingly, the monetary base does not include sight deposit accounts of foreign banks with the SNB. Bank deposits of non-residents are also excluded from the broader money supply aggregates.
156 This overturns the hypothesis of the ICE, according to which the Confederation's sterilisation transactions could have provided the SNB with additional monetary scope to continue purchasing gold from the Reichsbank, as it would thus not have needed to fear any inflationary potential. Besides, by the time the sterilisations had reached substantial proportions, the gold transactions with Germany had already fallen to a level which no longer constituted a risk in monetary policy terms. See ICE (cf. footnote 1), pp. 156 f.
157 For information about this trend, see the statements by Rossy at the Annual General Meeting of March 1944 (AGM minutes 1944, p. 12).
158 As long as other countries were sure of the Swiss franc's gold convertibility, it was possible to settle debit balances in Swiss francs. However, the SNB had to have sufficient gold available in order to deal with unforeseen currency conversions.

Table 1

Switzerland's trade balances with neutral states and the Balkan countries in CHF millions

	1939	1940	1941	1942	1943	1944	1945	Total
Spain	−1	−2	−2	−24	−37	−33	6	−93
Portugal	1	−1	−92	−94	−22	17	29	−162
Sweden	30	30	−4	−10	−15	60	64	155
Turkey	−4	−5	−46	−39	−13	−5	0	−112
Bulgaria	−1	−8	−4	−2	6	−4	−3	−16
Hungary	−14	−24	−37	−19	−31	−37	−5	−167
Romania	−15	−31	−71	−69	−49	−42	−9	−286
Total	−4	−41	−256	−257	−161	−44	82	−681

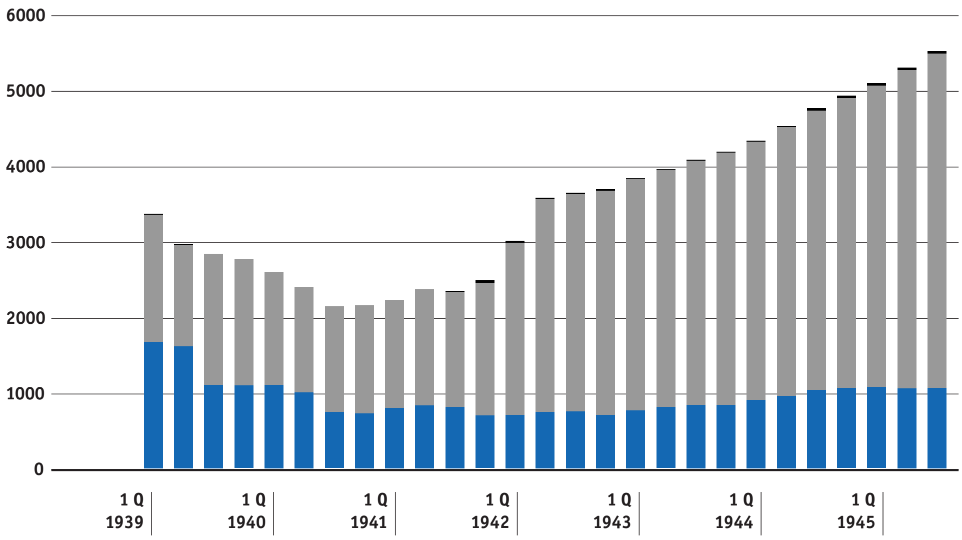
Source: Historical statistics of Switzerland

these countries peaked, the amount of gold available in Switzerland was also at its lowest level, i.e. below 700 million Swiss francs (see chart 10). The SNB's concern at its gold losses and the decision taken in October 1941 to centralise gold transactions with the Reichsbank must be seen in this context. In this way, the SNB was provided with a much-needed source of gold for maintaining the international status of the Swiss franc, which was also important in terms of foreign trade.

The situation changed as of 1943 when Switzerland – despite being solvent – had serious difficulties in obtaining goods from neutral countries and the Balkans. The volume of gold held in Switzerland, which increased again when gold trading was regulated in December 1942, was thus no longer such a problem in terms of obtaining supplies.

Chart 10

Development in Swiss gold holdings (SNB, Confederation and exchange equalisation fund) from 1939 to 1945 in CHF millions



Gold held in Switzerland

Gold held in London, New York and Ottawa

Gold held in Paris, Stockholm and Buenos Aires

Source: quarterly reports

Convertibility was advantageous not only as regards trade with neutral states and the Balkan countries. It also proved to be a trump card in the difficult economic negotiations with Germany. Although trade and monetary policy in Switzerland were only loosely coordinated prior to the end of 1944, Germany insisted on the so-called free exchange peak (freie Reichsbankspitze) in the economic negotiations. This involved a certain percentage of the clearing transactions that were made available to the Reichsbank in "free" Swiss francs. The fact that Switzerland acceded to this request meant that it was able to assert claims relating to other matters more forcefully.

The significance of convertibility for economic negotiations can also be seen in the talks that led to the agreement of June 1943. Based on certain German sources, it appears as though Germany refrained from engaging in an economic war with Switzerland mainly because of the Reichsbank's foreign currency transactions with the SNB.[159]

Overall, it must be acknowledged that the SNB and the Swiss Clearing Office succeeded in mastering the difficulties arising from the impossibility of offsetting the various payment systems against each other. Although it had become difficult to obtain supplies, owing to Switzerland's geopolitical situation and the different international monetary systems in use, at no time were they actually jeopardised by a lack of funds. In the critical period from 1941–1942 the convertibility of the Swiss franc and the gold transactions with Germany contributed towards maintaining Switzerland's solvency. Furthermore, it can be assumed that they at times represented a considerable trump card in the difficult economic negotiations with Germany, even if Switzerland only played this card directly in the negotiations towards the end of the War.

159 On this issue see, for instance, Daniel Bourgeois: Les relations économiques germano-suisses 1939–1945, in: Revue d'histoire de la Deuxième guerre mondiale, 1981, p. 57.

4.4 The issue of the political motives

Being responsible primarily for monetary policy, the SNB was not required to link its decisions to (foreign) policy considerations. As we saw in the chronological section, monetary policy clearly had a political dimension in the wartime context, and the SNB was aware of this. The Governing Board thus talked with individual Federal Councillors about the political issue of gold transactions with the Reichsbank on a number of occasions.

Relations between the SNB and the Federal Council are at present still an unexplored area, but based on the information currently available, it appears unlikely that the Federal Council could have been kept in the dark about the main aspects of the gold transactions with the Reichsbank. Aware that the SNB's independence would be restricted in wartime, the Governing Board maintained both formal and informal contacts with the head of the Finance and Customs Department and the head of the Department of Political Affairs. The SNB was also on the board of various wartime committees. The supervisory bodies of the SNB (Bank Council and Bank Committee) included a number of figures occupying key positions in political and economic circles. It should be borne in mind that the customs administration registered the import and export of gold and that Allied criticism of the gold transactions with Germany was addressed directly to the Political Department.

Some historians assume that the SNB's policy was aimed mainly at warding off a German attack on Switzerland.[160] In considering this "deterrent"[161] function of the gold shipments it is important to distinguish between the German and the Swiss perspectives.

From the German point of view, the decisive factor is the additional benefit provided by the gold/foreign exchange transactions for foreign trade, and the opportunity costs that Switzerland would have incurred without this "service". If Germany had had other means of paying for its imports and if these had only had a minor impact on the wartime economy, Germany could easily have foregone the services of the Swiss financial centre. However, if the other neutral countries or the Balkans had only accepted Swiss francs, Switzerland's role as a conduit would have been of key importance for the German wartime economy. Although the German sources hint at the importance of the gold and foreign

160 See also Philippe Marguerat: La Suisse face au III^e Reich, Lausanne 1991, and more recently: Or allemand, BNS et Dissuasion 1940–1945, manuscript, 1998.
161 In this context we find the term deterrent misleading. Usually, this refers to military power aimed at deterring an opponent from attacking on account of the expected high losses. Gold operations in the volumes needed to increase the benefit for Germany of an independent Switzerland tipped the scales against an attack. In this sense the gold transactions had the same effect as deterrent measures increasing the cost of an attack. In terms of their nature, however, they are quite different. The fact that the decision-makers of the day at the SNB were aware of this difference can be seen in the discussion about setting up a gold safekeeping account with the Reichsbank in Berlin (see section 3.2.2). Establishing such an account was rejected, as it was argued that this contradicted the aim of evacuating the country's gold holdings to the "inner fortress" within Switzerland.

currency transactions with Switzerland, it should not be forgotten that Germany had concluded clearing agreements with neutral countries and the Balkan states and that until 1944 these countries accepted direct gold shipments without the detour via the Swiss franc. Based on research to date, it is impossible to say how important the Swiss franc actually was for the German wartime economy.

From the Swiss point of view, the key question in terms of clarifying the political dimension of the gold transactions is the importance of the statement by Puhl[162] – and reported by Jacobsson – for the SNB's gold and foreign exchange policy. Indeed, the importance of Jacobsson's letter is difficult to interpret. On the one hand, it is clear that the Federal Council and the SNB could no longer have had any doubts after this letter about the significance the Reichsbank attached to a Swiss franc that was not subject to any restrictions (Puhl was not president of the Reichsbank, but still wielded most of the power). On the other hand, the SNB knew that Hitler did not allow himself to be influenced by his administration in matters of warfare. It also knew that German economic policy centred around autarchy and multilateral clearing agreements, and that the position of the Reichsbank in German economic policy was no longer so strong following the resignation in 1939 of Hjalmar Schacht, who was not prepared to accept the Reichsbank's loss of authority. By the autumn of 1940 Puhl's opinions on the importance of gold and foreign currency policy in the international payments system in Germany were a minority view .[163] Finally, it should not be forgotten that the SNB assumed that Germany had other means at its disposal for paying for imports from third countries.[164]

Political considerations did play a certain role in the SNB's strategy. Based on research to date, however, we believe that the intention of saving Switzerland from a German invasion was not the main rationale behind the SNB's monetary policy.

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162 Puhl had told Jacobsson that the fact that Switzerland had not introduced currency controls was an important reason in favour of allowing Switzerland to remain independent (see section 3.2.2).

163 For a comparison between the official German position and that of Puhl, see Walther Funk: Wirtschaftliche Neuordnung Europas!, in: special issue of the "Südost-Echo" dated 26 July 1940, and Puhl: Das Clearing im internationalen Zahlungsverkehr, in: Die Staatsbank, 23 June 1940. Copies of both articles are to be found in the Bank Committee documentation.

164 This was the standpoint taken by Schnorf when he justified the gold transactions with the Reichsbank to the Allies in 1942. See section 3.3.1.

5 Conclusions

Reconstructing the background of the gold transactions during the Second World War in terms of monetary policy is no easy task. This is due partly to the fact that the international monetary system no longer had much in common with the gold standard and that the domestic environment had changed significantly as a result of the wartime economy (segmented markets, rationing, etc.). The SNB now had to attempt to carry out its task of *"controlling the money in circulation in the country and facilitating payments"* in a more difficult operating environment. Faced with a plethora of objectives, the SNB was forced to prioritise. These priorities can be identified using the available sources, but evaluating their relative importance remains a question of interpretation. Our analysis leads us to conclude that during the War the SNB was mainly interested in preserving confidence in the Swiss currency, controlling inflation and maintaining Switzerland's solvency in order to safeguard vital supplies. At times, political considerations also played a significant role in the SNB's strategy.

In order to achieve these goals, it adhered to the cornerstones of the gold standard. Whenever it felt that one of its objectives was threatened, however, it was prepared to violate the principles of the gold standard.

In our view, the following three factors explain why the SNB adhered to the gold parity of the Swiss franc even during the War:

– In contrast to the First World War, the international monetary system did not collapse in one fell swoop with the outbreak of hostilities. Serious problems had already arisen in the course of the 1930s. The SNB expected that it would be able to overcome the monetary policy problems generated by the War with its tried and tested strategy (which after all had enabled it to weather the turbulence of previous years without any significant damage). Monetary policy in the period 1939–1945 thus constitutes a surprisingly smooth transition from that of the 1930s. This continuity also reflects the deep-rooted liberal economic policy considerations of the decision-makers of the time with regard to international goods and capital transfers, and their hope of returning to a gold-based international monetary system after the War.

– In addition, the SNB believed that a monetary policy geared towards maintaining the parity would limit the risk of being called upon to finance the government's debt. It wanted to avoid the errors made during the First World War, when it triggered a surge of inflation with such a policy.

– Finally, the Swiss economy had a great deal to lose by introducing foreign currency restrictions, as its balance of payments was characterised by a structural trade deficit, financed by a surplus in services and capital income.

Maintaining the convertibility of the Swiss franc was discussed on numerous occasions during the War but was only seriously called into question once. Owing to the massive outflow of capital, the SNB discussed the introduction of currency controls with the Federal Council in May 1940. Soon afterwards, this far-reaching step proved redundant, as the capital outflows ceased with the ceasefire between Germany and France. The Swiss franc remained strong until the end of the War, and the introduction of currency controls was no longer a matter of such urgency in terms of monetary policy.

There were a number of cases when the convertibility of the Swiss franc threatened to endanger other goals. The SNB was then prepared to deviate from its strategy, though without renouncing the principle as such:

– In the summer of 1940 the SNB stated its principle of only exchanging gold for Swiss francs if the latter were to be used for economic transactions in Switzerland. In this way, it hoped to limit gold and foreign currency movements in Switzerland. That autumn, however, it made an exception for Germany. Political considerations were of key importance: Federal Councillor Pilet-Golaz had impressed on the SNB that the gold transactions with the Reichsbank should be conducted smoothly.

– As of October 1941 the exception made for Germany became the rule, once the SNB had requested the Reichsbank to sell its gold in Switzerland only via the central bank. This step was taken as the gold losses incurred by the SNB as a result of the gold transactions between the Reichsbank and the Swiss commercial banks took on threatening proportions, given the SNB's low gold reserves in Switzerland. By centralising the gold transactions with the Reichsbank, the SNB bought itself some time. However, it also pushed up the price of gold, as the market was cut off from an important source of gold.

– As Switzerland was the only country in Europe where gold could be traded freely, limitless demand forced the SNB to sell increasingly large volumes of gold on the market in order to keep the price stable. The prospect of dwindling gold holdings led the SNB to intervene again by requesting the regulation of the gold market. The Decree of the Federal Council of 7 December 1942 enabled the SNB to control the import and export of gold and to set a maximum price for gold on the Swiss market. In its dealings with the central banks, however, it adhered to its previous gold policy.

– Fears that excessive growth in the money supply would increase inflationary pressure induced the SNB to only cautiously provide the Allies with Swiss francs for purchasing Swiss products. So as not to limit exports to the USA, the Swiss government was prepared to sterilise the Swiss francs created in return for dollars. By contrast, the SNB correctly assumed that the Swiss francs made available to Germany for purchases outside Switzerland in return for gold would have no inflationary impact under the commercial conditions in force at the time, as they would remain outside the Swiss economy.

As regards maintaining confidence in the currency, price stability and essential supplies, the strategy of adhering to gold convertibility even during the War was basically correct. The resultant purchases of gold from the Reichsbank and the fact that its provenance was becoming increasingly dubious were the other side of the coin, however. The question thus arises whether the SNB could not have pursued a strategy that would have taken political, legal and moral aspects into account without at the same time jeopardising its monetary goals.

– Prior to regulation of the gold market in Switzerland in December 1942, a more restrictive practice in accepting gold from the Reichsbank would certainly have resulted in the latter obtaining Swiss francs from the commercial banks. The SNB would thus have lost a significant amount of gold at a time when (owing to its substantial trade deficits with various countries) it depended on the yellow metal as a means of payment. Bearing in mind the German threat and the as yet unclear origin of the gold delivered by the Reichsbank, the SNB did not have much leeway for restricting gold shipments from Germany until the end of 1942.

– From 1943 onwards, however, the SNB gained more room for manoeuvre in terms of monetary policy, which would have enabled it to throttle the gold transactions with the Reichsbank more swiftly. Such action would have been justified because, thanks to its new powers, the SNB was now able to control the volume of gold holdings in Switzerland (which no longer needed to be so large owing to the decline in import opportunities). The SNB was not dependent on gold from Germany to siphon off excess liquidity. Besides, the lion's share of the gold/Swiss franc transactions with the Reichsbank were purely financial transactions for payments to be made by Germany to other countries. These were in fact financial transactions in which the SNB did not wish to engage as a matter of principle. It is, of course, difficult to say today how Germany would have reacted to such a move.

During the first half of the War, a substantial reduction in the gold purchases from Germany would thus have possibly endangered one or the other of the SNB's goals. But in our opinion, it would have been possible for the SNB – as of 1943 – to limit its dealings with the Reichsbank without suffering any significant monetary risk. The question as to why no swifter change in policy was implemented despite Allied warnings goes beyond the scope of this paper. It is possible that foreign policy considerations played a certain role. The decisive factor in the bank's hesitance, however, is the fact that the SNB management incorrectly assessed the political, legal and moral aspects of gold transactions with the Reichsbank.

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