the reduction of tariff and trade barriers here, and with the need to provide increasing outlets for our exports of goods and capital.

The report of the Randall Commission on Foreign Economic Policy is now before Congress. It obvious shortcomings as a basic document on fundamental, long-term, United States international economic policy have attracted more attention in academic circles than its very real contribution to the clarification of urgently needed, and immediately feasible, United States action in the monetary and trade field. The adoption of its major recommendations would provide the necessary spark for further and considerable advances toward the rebuilding of a workable international framework for economic growth and stability.

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Banking in Switzerland

Switzerland is a tiny country, with less than five million inhabitants. It has five cities with populations over 100,000 — Berne (the political capital of the federation), Zurich, Basel, Geneva and Lausanne, the largest being Zurich, with 410,000. The position of Switzerland in the financial world is, however, out of all proportion to these figures; Zurich, Basel and Geneva are among the leading international financial centres of Europe. This high standing is due in part to Switzerland’s neutrality in a half-century of international upheavals. More directly, it is due to the stability of Swiss money, an island of dependability surrounded by countries whose currencies have repeatedly collapsed. With reasonably strong financial institutions Switzerland could hardly have failed to gain ground in international finance.

The purpose of this article is to survey these financial institutions; as they rival those of England in the international respect they command, a view through English eyes may have particular interest (1).

1

At the centre of the system is the Swiss National Bank, an avowedly public institution comparable to the Bank of England in outlook if not in powers. The structure of commercial banking is much more complex in Switzerland than in England: the bulk of the «banking» of the normal English kind is in the hands of five big banks, but these hold only about 30 per cent of the total published banking resources, the remainder being spread over the Cantonal banks, mortgage and other local banks, and Raiffeisen banks. Among the banks of purely local importance are three Italian banks operating in the Ticino. Outside the published statistics there are the Private Banks, which are the oldest of all, going back well into the 19th and even into the 18th centuries. The Cantonal, mortgage and other local banks are concerned largely with the canalisation of thrift into long-term investment in property, but most of them have also an appreciable amount of ordinary banking business. The Raiffeisen banks are co-operative concerns, each confining its operations within its own parish (an important unit in Swiss affairs) and depending upon voluntary work and upon mutual knowledge and trust among neighbours.

The big banks are, in order of size, the Swiss Bank Corporation, Credit Suisse, the Union Bank of Switzerland, the Banque Populaire Suisse and UBS and Company. The last two of these five are very much smaller than the other three, which are frequently alone referred to as «the big Swiss banks». Leu and Company is a particularly small concern, mainly confined to Zurich. The Swiss Bank Corporation has its Head Office in Basel; three of the others are in Zurich (the two cities are only one hour’s journey apart, and relations between offices in the two cities can be close and continuous); the Banque Populaire Suisse has its Head Office in Berne. All these banks are free to open branches and agencies anywhere in Switzerland; they in fact do, and have between them 183 branches and agencies, affording reasonable accessibility for all parts of the country. The Swiss Bank Corporation and the Credit Suisse both have affiliated companies in Montreal and offices in New York; the Swiss Bank Corporation also has an office in London.

(1) The writer has had assistance from Mr. S. Walworth and has had the advantage of consultation with several eminent Swiss bankers.
The Cantonal banks — there are 27 of them — are as a group rather bigger in total resources than are the five «big banks» as a group. They are also very prominent to the traveller’s eye; but they are less active in banking of the English type, their business consisting much more of the collection of savings on the one side and lending on mortgage on the other side of the balance sheet. Each of these Cantonal banks is restricted to operation within the boundaries of its Canton; within these limits, they may have branches, agencies or deposit counters freely. In fact they have, in addition to their Head Offices, 79 branches and nearly a thousand agencies and deposit counters. 23 of these 27 banks are government banks and their liabilities to depositors are therefore guaranteed by the respective Cantonal Governments; others are associated in other ways with their Cantonal Governments. These conditions give them a certain prestige among the people, whose cantonal loyalties are strong. Their privileged position in this and other respects (unlike the big banks, most of the Cantonal banks are exempt from Cantonal taxation) are the subject of some envy on the part of the big banks, who feel that they are subject to «unfair» competition. There are, of course, some circumstances pulling in the opposite direction: the Swiss citizen, who attaches the highest importance to secrecy, sometimes feels his business secrets safer with the independent commercial banks than with these Cantonal banks with their governmental connections, although there is in fact no difference in this respect.

The «Private Banks» stand apart from the main structure of Swiss banking, though among them there are quite large and wealthy concerns with a large international business. Unlike the «big banks», these private banks have unlimited liability. They publish no accounts, though they submit confidential balance sheets to the National Bank. In their age and in the origination of their business they may be compared with the merchant banks of the City of London; their business and their customers of today are, however, rather different. They specialize in essentially personal, family business, their customers generally being wealthy people in Switzerland or neighbouring countries, or indeed from anywhere in the world. They act particularly in the administration of estates, as investment brokers and advisers and in foreign exchange business. They are most prominent in Geneva, which traditionally had close associations with French finance and has thriven on the untrustworthiness of the French franc since 1914. They, and the others in Zurich and Basle, depend completely upon their world reputation for secrecy and attention to the interests of wealthy men of all nations.

II

Besides these institutions, all of which are banks in the sense that they accept deposits and make loans of some kind or other, there is the Postal Cheque System, run by the State in connection with the Post Office. This provides a medium of payment, and incidentally to this service holds deposits by people wishing to use it for making payments. It does not, however, even to twelve months; banker, its assets consisting of government obligations of various kinds. It is convenient, efficient and extremely cheap, and is therefore widely used for all but the smallest payments; the availability of this service inevitably limits the scope for banking of the English type, where the extent of banking resources is largely dependent upon the use of current accounts for a broad range of payments. The ability of a service in question of the importance of this service in limiting their own scope, and they have in recent years made great efforts to provide comparable service, in the hope of attracting more deposits to themselves.

Notes—issued only by the National Bank—are, apart from coin, the sole means of payment used by many people whose only resort to banks is in placing their small savings in the national or local savings banks. These notes are also used by all classes for the general run of everyday small transactions, including much retail trade, though the convenient postal cheques are sometimes used for transactions which in England are still largely settled with notes and coin. Even after allowing for this qualification, however, the use of notes is so much more common in Switzerland than in the Anglo-Saxon countries that the proportion of notes to National Income is in Switzerland about double what it is in the U.S.A. and the United Kingdom. As the postal cheque and the note are used much in Switzerland when an ordinary banking account would be used in England, current accounts with the big banks and the Cantonal banks are mainly kept by the large and medium-size business firms and by the wealthier individuals. One of the big banks claims that many people with only middling or small resources do keep current accounts with it; but more commonly such people keep only deposit or savings accounts at the commercial banks, and draw on these accounts to replenish their working balances with the postal cheque system. The deposit and savings accounts at both the big banks and the Cantonal banks are elaborately differentiated—an elaboration that has no parallel in England. «Time Deposits» are fixed for periods varying from three to twelve months; they include accounts of quite large concern as well as individuals, and represent temporarily unemployed business funds or accumulations awaiting favourable investment opportunities. It is important to note that the biggest banks are «Savings Deposit»; these are of great social importance, ownership being very widely spread among the population. The smaller balances carry stamps of legal protection, having a prior claim in the event of the bank’s liquidation. The smaller balances also carry a higher rate of interest (3.5% per cent at present) than the excess balance above a certain amount. The turnover of these deposits is very slow: the banker expects the customer to leave the balance undisturbed except for such calls as the education of children, provision for old age, etc. There are also «Deposit Books» for small savings deposits, carrying a rather lower rate of interest; from these only limited withdrawals may be made in any one month.

An important feature of the Swiss system is the «Cash Bond» (Bon de Caissier), having no parallel in England, but now being developed elsewhere in Continental Europe. This is in essence a long-term fixed deposit of a round sum (generally 500 francs or a multiple thereof). The sum is repayable after 3, 4, 5, or exceptionally 7 or 8 years; meanwhile it bears interest, payable on half-yearly coupons, at rates somewhat higher than those paid on any of the classes of «depose» mentioned above. A customer holding one of these bonds and needing the cash before maturity can sometimes sell the bond to the issuing bank, but more generally the bank concerned (especially if a Cantonal bank) will lend up to 95 per cent of the value of the bond, at a relatively high rate of interest and without enquiring into the origin of the customer’s need. These bonds have tended to decline in relative importance in recent years, but still bulk large in the balance sheets of many banks: in the Cantonal banks, they are still about 20 per cent of the total liabilities.

III

In the employment of their resources, contrasts between the various classes of banks reflect the contrast on the Liabilities side of their balance sheets. The big commercial banks, more than half of whose liabilities are payable on demand, aim at a high degree of liquidity. They hold about 10 per cent in various kinds of «cash», and another 30 per cent in bills of exchange and other highly liquid items. 25 to 30 per cent is represented by advances to customers on current account, and these advances are nearly all for purely short-term purposes. Their loans on mortgage are only 5 to 6 per cent of their total assets. On the other hand, the Cantonal and local banks, with higher liabilities as little as 10 per cent of the total, have cash and all other liquid assets totalling less than this. Their current account advances to customers are not often much more than 10 per cent, but they generally reckon to have about 60 per cent of their resources in mortgages.

(4) Some smaller banks issue bonds running up to 20 years.
The emphasis laid in the big banks upon short-term lending has strengthened considerably during the last quarter of a century. Traditionally some of these banks — and more particularly others which they absorbed — were deeply involved in financing some of the great industrial developments and public utilities. But in difficult times — not least in those of the nineteenthcenturies — there were some badly-burnt fingers, and these banks now reckon to have less than 10 per cent of their total resources in any sense "locked up" in long-term finance; they have very little indeed in the way of actual "participations" in industrial and commercial concerns. They are, indeed, more English than the English in their insistence that a commercial banker's duty is to stick to the very short-term proposition. They do hold a small proportion of their resources in mortgages, but much of this business is purely temporary pending a customer's arrangements elsewhere for permanent finance. Occasionally also a big bank will lend on mortgage to a customer of long standing who expresses a preference for keeping all his business with the one bank. It is in these odd ways that the big banks come to hold their small percentage of mortgages; their general policy is to leave mortgage business to the Cantonal and savings banks.

Both the English and the Swiss banks, like the English banks in their general avoidance of mortgage business, there is nevertheless a sharp contrast between the two countries in the placing of most of this business. In England the big banks have a much larger share of mortgage business — especially on house property — in the hands of "building societies", whose main work indeed this is; the insurance companies also hold large amounts, while much is still privately placed by solicitors with individuals. In Switzerland no less than half the total mortgage business is with the banks, more than half of this half being held by the Cantonal banks, the remainder being largely with local savings banks and similar institutions. The form of mortgage is not, of course, different in Switzerland from the forms prevalent in England. In Switzerland generally no term is fixed for the loan, but it is callable at six months' notice on either side.

All the banks, and particularly the Cantonal banks, go to considerable trouble for the sake of small borrowers. The "Kleinkredit" or "Little Credit" is a loan in a class by itself; in providing this service, the banks regard themselves as performing a public duty, from which the direct profit is clearly negative. The Kleinkredit bears a relatively low interest charge — usually only 4 per cent — and it frequently causes an amount of work out of all proportion to its size. In making these loans, the banks do not restrict business to self-liquidating transactions; they lend to small firms and individuals for long-term purposes such as the extension of industrial buildings or the purchase of new machinery, and they look for repayment over a term of years, varying according to the case.

The existence of these special services for the small business man may perhaps be taken as indicative of the spirit of Swiss banking. The services for the small man have always been the special concern of the Cantonal banks, which are avowedly public institutions. Their existence, their energy, and their hold upon the strong local loyalties of the people combine with the availability of a cheap and efficient postal check system to limit severely the scope for the big commercial banks. To make a place for themselves these great commercial institutions have to compete keenly for business; they have to be up early in the morning, both literally and figuratively.

(3) The spirit of competition is very lively through the whole system: the big banks compete keenly with each other, and with the Cantonal banks. Because the Cantonal banks provide special loan facilities for small men, the big banks act similarly, and have come to think of this service as expressing the spirit of the bank. They take the business whenever they can get it, regardless of its low yield and high cost — they take a long view, knowing that some small business men of today will be among the giants of tomorrow or the day after, and always knowing that one piece of business can easily bring other business, perhaps more profitable business, in its train.

In their relations with bigger customers, the banks show the sharpness of competition among themselves in a number of ways. They feel compelled, for example, to defer to the customer's secretiveness about his precise financial position, and do not even feel that they can insist on the customer's confining his main banking business to a single bank. The Swiss business man is apt to object to a request for his balance sheet; and the bank will then have to tread warily, lest the customer should transfer his account to a competitor. For similar reasons the banks do not exchange credit information about business firms with the freedom to which London is accustomed. These conditions — and the use of the postal cheque service — all tend to leave the banks less knowledgeable than are English banks about many of their customers, and this has an important bearing on their habits in making advances. The Swiss banker, like his English parallel, knows that his judgement of borrowers is more important than any formal security he can take, but, as knowledge of his customer is apt to be limited, he more often feels compelled to insist upon formal security. Towards customers of long standing, whose position is well known to the bank, the banker naturally has an altogether more flexible attitude; this again is assured by the keenness of competition between the bankers. For these established customers the availability of bank loans — the terms, the flexibility, and the purposes for which they are granted — is in all respects comparable at the big Swiss banks with what happens in the English banks.

His business of lending to customers, while most important in the big banks which have about one-third of their resources in this class of assets, is undertaken by all the banks, even the Cantonal banks using about one-fifth of their funds in this way. Bills, on the other hand, are very largely concentrated in the hands of the big banks, whose balance sheets show about 25 per cent of the assets under this heading. Traditionally these bills were largely bills of exchange arising in the course of foreign trade and other large trading business, and as such business falls very largely into the hands of the big banks, these banks have been able to obtain bills most easily and have always held most of them. During the last quarter of a century there has been, in Switzerland as in England, a great decline in the use of bills of exchange. Their place has been partly taken by Treasury Bills, which now form about one-third of the total bill portfolios of the banks. An innovation of the 1939-45 war, and again important since the Korean War, is the special three months' bill used to finance compulsory holdings of raw materials by Swiss industry, 90 per cent of these bills are guaranteed by the Swiss Confederation and are discounted by the banks at a privilege rate of 1½ per cent; the remaining 10 per cent are discounted at ordinary market rates. These special bills are all automatically eligible for rediscount at the National Bank, whereas other commercial paper is subject to the discretion of the National Bank (as explained below).

The Investments of the banks, of all classes, are relatively larger in number of sheet items than has become customary in English banking. The big banks show only 13 to 14 per cent of their assets in this class, which includes not only holdings of government securities but also their participations in their subsidiary investment companies and other small items of this kind. The Swiss banker does not regard these bonds as a really attractive banking security, but a part of the mortgage business to those with fairly short lives. Ordinarily he will not hold any bonds with more than five years to run; exceptionally his investment manager may have discretion to "go rather longer" in small amounts, but in no case would be held paper longer than 15 years from maturity.

Besides their main business of receiving deposits and making loans, the big Swiss banks all reckon to provide quite substantial other services for their customers. These include every kind of foreign exchange business, which is probably more easily transacted in Switzerland than anywhere else in the world — at any rate by the smaller firms.
and individuals. The banks also serve their customers as advisers and brokers in all investment matters—they are all members of the Stock Exchanges (as is common in other Continental countries, in contrast to English custom). In connection with all these ancillary functions the big banks have elaborate information services which they are eager to offer to customers.

In one important ancillary function the banks depart from their usual competitiveness. This is in the making of capital issues. There are no specialist "issuing Houses" comparable to the merchant bankers of London, and all public issues of capital are in the hands of the banks, organised in two syndicates—one including all the big banks and the other the Cantonal banks. In all large domestic issues both these syndicates normally participate, and the business of selling and underwriting the securities is shared out among the participating banks in each syndicate according to proportions applicable to all issues over a considerable period. Issues for foreign borrowers (including in recent years the International Bank for Reconstruction and Development) are handled by the syndicate of the big banks only. The degree of cooperation with which this business is handled is particularly notable: If one member of the syndicate does not like a proposed issue, the other members reject it rather than proceed without participation by the whole syndicate.

The banks look to such ancillary functions as this handling of capital issues and dealings in securities as an appreciable part of their gross profits. In the main, however, they must depend upon the margin between the interest they pay and the interest they charge. The high liquidity of the system since the war has made the whole range of interest rates very low. The official Bank Rate stands at 1½ per cent, but is ineffective. On government bonds yields range from 1¾% on 4-year's bonds to about 2½% on the long-term bonds. Rates charged on ordinary bank advances are not published, but are understood to be in the range 3 to 5 per cent, most of the better grades earning appreciably less than the current English rates of 4, 4½ or 5 per cent. On mortgages 3½ is the usual rate.

On the other side of the account, time deposits of various classes mostly carry 2 to 2½ per cent; in 1932 4½ per cent of all "savings deposits" were at 3½ per cent. Cash Bonds carry 2½ to 3½ per cent, according to length of life. In these conditions all classes of banks have been enjoying rising profits during post-war years; the big banks have roughly doubled their net profits since the end of the war, and have been able to raise their dividends substantially.

IV

The most important restrictions imposed upon the commercial banks are those embodied in the Banking Law of 1934. This resulted from the difficulties of the early thirties, and was not inspired by the intention to subject the commercial banks to control by the central bank but was designed to maintain a high degree of banking liquidity for the protection of the depositors. All liabilities due at sight or within one month are for this purpose classed as Short-Term Liabilities, and against these liabilities the banks (of all classes, including the private banks) are obliged to hold cash and highly liquid assets in certain minimum proportions. The required percentages depend upon the proportions which the banks' Short-Term Liabilities bear to their total liabilities, the effect being that the required percentages are lower for Savings Banks and much higher for the big banks in which sight deposits are much more important. These liquidity requirements may be set out in tabular form:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Type of Liabilities as % of Total Liabilities</th>
<th>Cash &amp; highly liquid assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>up to 25%</td>
<td>3½%</td>
</tr>
<tr>
<td>II</td>
<td>25-35%</td>
<td>4½%</td>
</tr>
<tr>
<td>III</td>
<td>35-50%</td>
<td>5½%</td>
</tr>
<tr>
<td>IV</td>
<td>over 50%</td>
<td>6½%</td>
</tr>
</tbody>
</table>

These stages are applied to all banks: that is to say, a bank with total liabilities of 100, of which say 40 are short-term, is required to hold in cash 2½% of 10, plus 3½% of 55, plus 4½% of 5, plus 5½% of 15 (15 being the excess of 10 over 5). While it is important to note that these liquidity requirements were imposed for the protection of depositors, and in reflection of the view that a deposit bank's liquidity should be higher than a "savings bank"'s liquidity, the requirements were made to serve the purpose of the central bank in restraining inflationary developments. There has not been, so far, any attempt to control the system in this way; indeed the banks have for some years been highly liquid and the central bank, unable to absorb by open market operations this surplus liquidity, has not been in a position to force the commercial banks to limit the expansion of credit. Nevertheless, the existence of these liquidity requirements might in some circumstances be an important restraining factor in the whole system, besides serving their original purpose of restraining an individual bank from tying its resources unduly in illiquid uses.

The Banking Act also lays down, for banks other than "Private Banks", certain requirements for capital, in relation to total liabilities, and for the allocation of some percentage of the deposit as reserves until the banks have become reasonably strong. There are other requirements ancillary to these provisions: for example, the form of balance sheet is stipulated, and arrangements are made that the National Bank is provided with this information on the position of all banks, including the Private Banks whose balance sheets are not published. There are similarly provisions for auditing by independent auditors, in addition to the usual internal auditing. Finally the Act established a Banking Commission of five members (appointed by the Government) whose duty it is to receive the auditors' reports and in this and other ways to ensure that the liquidity and other requirements of the Act are being observed by every bank.

The central bank is the Swiss National Bank, is a shareholders' bank; 55 per cent of the shares are held by the Cantonal Governments and Cantonal Banks and the remainder is widely distributed among private holders. The dividend it pays is limited and certain allocations to reserve are prescribed by law. In addition, it pays to the Cantonal Governments 80 cents a year for each inhabitant of the Canton (the total payment jumps every ten years when the payment is adjusted to the latest Census return); this payment originated as compensation to the Cantons when their note-issue was replaced by the monopoly issue of the National Bank.

The government of the National Bank is a complex organisation, at least in appearance—probably the reality is simple enough. The Bank Council is a large body of representatives from all parts of the country as well as representatives of various economic activities. This Council elects eight members who, with the President and the Vice-President, form the Executive Committee. The Board of Management consists of the President, the Vice-President and one other, all of them appointed for terms of six years by the federal Government acting with advice from the Bank Council. This Board of Management is the active day-to-day administrative body of the Bank. Meetings of the full Bank Council are held quarterly and afford to the Bank's management some opportunity to ensure that the Bank's policy is understood and appreciated. Even more important from the point of view of public relations is the President's speech at the annual meeting of the Bank's shareholders; it is on this occasion that the National Bank is provided with detailed views of the Bank known to the whole country. The Bank enjoys substantial freedom from government interference, but in these meetings and in other ways it is to be careful to secure genuine public support for its actions. It has to make an Annual Report to the Federal government, which has the right to (and sometimes does) return the Report to the Bank for amendment. The National Bank is unusual in having two Head Offices, one in Berne and the other in Zurich. This division is not to be compared with the twelve Federal Reserve Banks in the United States; if the Bank of England divided its main business between two offices, one in the City of London and one at Westminster. At Zurich matters of general policy and most actual
Banking in Switzerland

Banking in Switzerland

In view of the recent developments, it is important to note that the Swiss National Bank is the central bank of the country and plays a crucial role in the financial system. It is responsible for maintaining the stability of the Swiss franc and managing monetary policy.

The Bank of England is considered a state bank, while the Swiss National Bank operates independently. The Bank of England has been involved in multiple financial crises, while the Swiss National Bank has remained relatively stable.

The Swiss National Bank is known for its cautious approach to monetary policy, which has helped to maintain low inflation rates and strong economic growth. However, there have been criticisms regarding its independence and the potential for political influence.

In the context of the current global financial crisis, the Swiss National Bank has taken steps to support the banking system and maintain confidence in the Swiss franc. It has also been praised for its early recognition of the risks associated with the coronavirus pandemic and has taken measures to mitigate the economic impact.

Overall, the Swiss National Bank plays a significant role in the Swiss economy and is respected for its stability and prudence.

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