

Bretton Woods and a country outside it

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The conference held at Bretton Woods, New Hampshire, in July 1944 set up the International Monetary Fund and the International Bank for Reconstruction and Development, the two institutions that were to organise the monetary order of the post-war world.¹ Switzerland did not take part as a founding member and remained outside both institutions until 1992. The reasons were a mixture of the political and the practical. A neutral state that had spent the war surrounded by the Axis powers was regarded with suspicion by the Allies. In 1945 and 1946 they pressed it hard over German assets and looted gold, a story told in the preceding chapter. Swiss governments, for their part, disliked the idea of submitting the franc to an international body in which the country would have little weight, valuing the freedom of action that non-membership preserved. The economic historians Ernst Baltensperger and Peter Kugler put the matter succinctly: Switzerland did not join the Bretton Woods institutions after the war, but it fixed its exchange rate de facto according to the rules of the Bretton Woods system.²

The franc was held at roughly 4.37 francs to the United States dollar, a rate that stayed practically unchanged until the spring of 1971.³ This parity, which the Swiss National Bank defended by buying and selling dollars in the market, made the franc a Bretton Woods currency in everything but name. It also meant that the country imported the monetary conditions of the dollar area whenever capital flowed in, a problem that would become acute in the 1960s and dominate monetary policy in the early 1970s. The very fact that Switzerland was not bound by the Fund's rules gave the Swiss authorities one freedom that members lacked. They could, at least in principle, change the parity without the Fund's consent, a possibility that played a role in the revaluation of May 1971.

The Swiss position in the immediate post-war years was unusually strong. The Historical Dictionary of Switzerland notes that the franc had been,

during the war, the only internationally freely convertible currency, which allowed Switzerland to carry out significant financial transactions at a time when rival centres such as Amsterdam and Brussels had been pushed to the margins.⁴ The rest of Western Europe emerged from 1945 with exchange controls, inconvertible currencies and bilateral clearing arrangements. In this environment a currency that could be freely exchanged, held and moved was worth a premium. The Swiss banks that dealt in it enjoyed a natural advantage over their competitors in London, Paris and Frankfurt.

The first steps towards multilateral payments in Europe did involve Switzerland. The country joined the European Payments Union in 1950, the clearing system through which the members of the Organisation for European Economic Co-operation settled their balances with each other. When the Payments Union was replaced by the European Monetary Agreement at the end of 1958 and the major European currencies became convertible for current transactions, the special position of the franc began to erode. The Swiss National Bank records the changeover to currency convertibility on 27 December 1958.⁵ From that date sterling, the Deutsche Mark and the French franc competed with the Swiss franc on more equal terms, at least for trade payments. For capital, however, Switzerland remained unusually open. This openness, combined with political stability and banking secrecy, drew the money that the 1960s and 1970s would bring.

A telling detail of the Bretton Woods years is that the World Bank, an institution of which Switzerland was not a member, borrowed repeatedly on the Swiss capital market. In March 1961 the Bank announced a public issue of 100 million Swiss francs, carrying a coupon of four per cent and a term of eighteen years. The underwriting group was headed by the Swiss Bank Corporation, the Swiss Credit Bank and the Union Bank of Switzerland. According to the press release, this was the Bank's tenth public issue in Swiss francs, alongside four private placements in Switzerland, which would bring its aggregate Swiss franc debt outstanding to about 787 million francs.⁶ The Swiss capital market was thus part of the Bretton Woods order long before the Swiss state was, with the big Zurich and Basel banks at the centre of that relationship.

Formal integration came only gradually. Cooperation with the Fund grew through the General Arrangements to Borrow, the credit lines through which the leading industrial countries stood ready to lend to it. On 10 April 1984 Switzerland became a participant in those arrangements, with the Swiss National Bank committing 1.02 billion special drawing rights without a federal guarantee. Membership of the Fund and the World Bank

itself required a popular vote. In May 1992 the Swiss electorate approved accession by about 55 to 45 per cent, a result that contemporary observers read as a sign that the reflex of isolation had weakened after the end of the Cold War.⁷ Accession became legally valid on 29 May 1992 with the signature of the agreements.⁸ Switzerland has since led its own voting constituency in the two institutions. The Federal Council describes membership as particularly important for an open economy with a major financial centre.⁹

For the history of Zurich, the half-century of non-membership has a practical meaning. The monetary order of the post-war world was built without Swiss participation, yet Swiss banks became some of its most skilful users. They offered clients from countries with exchange controls a currency that could be freely held, while borrowers found in Switzerland a capital market with low interest rates. The Swiss National Bank, meanwhile, had to defend a parity it had chosen voluntarily, against inflows it had not invited, with instruments it had to negotiate with the banks. The pattern of informal agreement between central bank and commercial banks, which became characteristic of the Swiss financial centre, has its roots in that constellation.

1 Notes

1. Swiss National Bank, “Chronicle of monetary events”, entry of 22 July 1944 (“Bretton–Woods agreement (International Monetary Fund and World Bank)”), <https://www.snb.ch/en/the-snb/organisation/history/geld-und-waehrungspolitische-chronik>. ↩
2. Ernst Baltensperger and Peter Kugler, “The historical origins of the safe haven status of the Swiss franc”, *Aussenwirtschaft* 67.2, https://ux-tauri.unisg.ch/RePEc/usg/auswrt/AW_67-02__01_Baltensperger-Kugler.pdf. The authors also describe the pronounced “Swiss interest rate island” of the Bretton Woods years, with Swiss rates systematically below those of the other major economies. ↩
3. Wikipedia (German), “Schweizer Franken”, section on exchange-rate history, https://de.wikipedia.org/wiki/Schweizer_Franken. The article states that the franc was tied to the dollar from 1945 until the collapse of the Bretton Woods system in 1973 and gives a rate of about 4.37 to 4.38 francs per dollar for the period after 1949. ↩
4. Historisches Lexikon der Schweiz (HLS), “Finanzplatz”, version of 27 September 2017, <https://hls-dhs-dss.ch/de/articles/045549/2017-09-27/>. ↩

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5. Swiss National Bank, “Chronicle of monetary events”, entries for 1950 (“Switzerland joins the European Payments Union. RO 1950 1209.”) and of 27 December 1958 (“Changeover to currency convertibility”), <https://www.snb.ch/en/the-snb/organisation/history/geld-und-waehrungspolitische-chronik>. ↩
6. World Bank, press release of 22 March 1961, “World Bank offers SwF 100 million 18-year bond issue”, <https://www.worldbank.org/en/news/press-release/1961/03/22/world-bank-offers-swf-100-million-18-year-bond-issue>. ↩
7. Christian Science Monitor, “Swiss Vote to Join World Bank and IMF Opens Door to EC”, 19 May 1992, <https://www.csmonitor.com/1992/0519/19032.html>. ↩
8. Swiss National Bank, “Chronicle of monetary events”, entries of 10 April 1984 and 29 May 1992, <https://www.snb.ch/en/the-snb/organisation/history/geld-und-waehrungspolitische-chronik>. ↩
9. Swiss Federal Council, media release “20 years of Swiss membership of IMF and World Bank”, 4 September 2012, <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-45812.html>. ↩

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