

The post-war boom, the “gnomes of Zurich” and the Euromarkets — overview and summary

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The quarter of a century that followed the Second World War made Zurich a household name in finance far beyond Switzerland. Before 1939 the city had been one important centre among several on the Continent, respected for its big banks, its insurers and its stock exchange. Politicians in London or Washington hardly used its name when they wanted to describe the forces that moved currencies. By the middle of the 1960s that had changed. A British cabinet minister could blame the troubles of sterling on the “gnomes of Zurich”, confident that his audience would understand the allusion at once. By the early 1970s the three largest Swiss banks, each with its principal Zurich premises on or near the Bahnhofstrasse and the Paradeplatz, handled a large part of the world’s newly mined gold. Swiss banks had also become indispensable intermediaries in the offshore dollar markets that grew up in London and Luxembourg. The Swiss franc, meanwhile, had turned into the currency that frightened investors bought.

This chapter follows that development from the Bretton Woods conference of 1944 to the end of the 1980s. It begins with a paradox that shaped everything else: Switzerland stayed outside the International Monetary Fund for almost half a century, although it ran its currency as if it were a member and its banks profited greatly from the system that the Fund was meant to guard. The second section describes the post-war boom and the growth of Zurich as an international asset manager, a development that the figures of the Historical Dictionary of Switzerland allow us to trace with some precision. The third section examines the phrase that attached itself to the city during the sterling crisis of 1964, its earlier history in the House of Commons, and the reaction of the Swiss bankers who found themselves cast as villains. The fourth section turns to gold. When the London gold pool collapsed in March 1968, the three Zurich big banks seized the opportunity to buy the South African output directly, and for more than a decade Zurich became the leading market for physical gold.

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The fifth section is devoted to the Euromarkets and to two Swiss instruments that connected Zurich with them. One was the fiduciary deposit, which allowed foreign clients to earn interest on money placed abroad through a Swiss bank without Swiss withholding tax. The other was the Swiss franc foreign bond, whose issuance the Swiss National Bank controlled for decades. The sixth section deals with the 1970s. The end of fixed exchange rates, the floating of the franc in January 1973 and a torrent of foreign money led the Swiss authorities to impose negative interest on foreign deposits, to ban the payment of interest to non-residents and, in October 1978, to set an exchange-rate target against the Deutsche Mark. A short seventh section sketches the Zurich stock exchange and the creation of SOFFEX in 1988. The chapter ends with the legacy of these decades. It shows Zurich as a global asset manager and gold centre whose reputation has never quite shed the image of the gnome, before tracing a safe-haven dynamic that returned in 2011 and 2015 with almost uncanny fidelity to the pattern of the 1970s.

For the practitioner of today, the period matters because much of the vocabulary and institutional habit of the Zurich financial centre was formed in it. Several features of today's market are creations or elaborations of these years. They include the informal agreements between the Swiss National Bank and the banks, known in Swiss usage by the English term “gentlemen's agreement”, the fiduciary deposit as a standard product, the role of the big banks as a syndicate for bond issues and gold, and the reflex of the central bank to defend the franc against inflows. So is the uneasy public image of Swiss banking abroad, which later chapters on money laundering, dormant accounts and the end of banking secrecy for foreign clients will show in its sharper forms.

1 Conclusion

The post-war decades transformed Zurich from a respected European banking centre into a global byword for money. The transformation rested on a paradox. Switzerland stayed outside the institutions of the Bretton Woods order until 1992, yet it pegged its currency within that order, lent to its institutions through the Swiss capital market and profited from the openness of the franc in a world of exchange controls. The big banks of Zurich and Basel became the principal custodians of cross-border private wealth, their foreign liabilities rising within a decade to well over half of their balance sheets. By the time the sterling crisis of 1964 broke, Zurich had become so closely associated with footloose international money that a British minister could blame the “gnomes of Zurich” and be understood everywhere.

The gold market and the Euromarkets extended the reach of Zurich. The collapse of the London gold pool in March 1968 allowed the three big banks to take over the marketing of South African gold within a fortnight, and for a decade Zurich was the leading market for physical gold, drawing Soviet sales as well through the Wozchod Handelsbank. The Euromarkets, meanwhile, offered Swiss banks an outlet for foreign money that the Swiss authorities did not want in the domestic system. Through the fiduciary deposit, Swiss banks placed hundreds of billions of francs in London and Luxembourg on behalf of their clients, free of Swiss withholding tax. Through the Swiss franc foreign bond, subject to the central bank's control, they lent to borrowers all over the world. Through Credit Suisse White Weld and its successors, they entered the Eurobond market as leading participants.

The 1970s tested this model. The end of the Bretton Woods system, the floating of the franc on 23 January 1973 and waves of speculative inflows led the authorities to impose a series of emergency measures: commission charges on foreign deposits that reached ten per cent a quarter, bans on the payment of interest to foreigners, a hundred per cent reserve requirement on new foreign deposits and restrictions on foreign purchases of Swiss securities and property. None of these measures stopped the franc's rise. What finally worked was the exchange-rate target of October 1978, backed by the SNB's declared readiness to buy unlimited amounts of foreign currency. The same choice, with the same instruments and a similar outcome, confronted the SNB again in 2011 and 2015. By the end of the 1980s, with the creation of SOFFEX and the dismantling of controls, the post-war model was giving way to a more open and competitive financial centre. Its legacy in the form of the asset-management business, the gold refineries, the habit of informal cooperation between central bank and banks, the safe-haven franc and the stubborn image of the gnome remains visible in Zurich today.

2 In five sentences

1. Switzerland stayed outside the International Monetary Fund until 1992 but pegged the franc de facto to the dollar, while its banks, above all the big banks in Zurich, used the convertibility and strength of the franc to become the world's leading custodians of cross-border private wealth.
2. The phrase "gnomes of Zurich", used by Harold Wilson in the Commons in 1956 and made famous by George Brown in the sterling crisis of November 1964, fixed an image of anonymous and hostile financial power that has accompanied the Zurich financial centre ever since.

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3. When the London gold pool collapsed in March 1968, the Union Bank of Switzerland, the Swiss Bank Corporation and the Swiss Credit Bank formed the Zurich gold pool, captured the marketing of South African gold and made Zurich the leading market for physical gold in the 1970s.

4. Through fiduciary deposits placed in London and Luxembourg free of Swiss withholding tax, through Swiss franc foreign bonds issued under the SNB's control and through the Eurobond business of Credit Suisse White Weld, Zurich became closely connected with the Euromarkets.

5. After the franc began to float on 23 January 1973, the Swiss authorities fought appreciation with commission charges of up to ten per cent a quarter on foreign deposits, bans on interest and capital-import controls, and finally with the Deutsche Mark target of October 1978, a pattern that repeated itself in the minimum exchange rate of 2011 and the negative interest of 2015.

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