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The  
**SWISS BANKING LAW**

Study and Criticism of the Swiss Legislation  
respecting Banks of Issue, and especially of the  
Federal Act of October 6, 1905, concerning  
**THE SWISS NATIONAL BANK**

By

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## PREFACE.

The following memoir is the result of many years' examination of the problems of the Swiss note-bank system. In particular, the writer's articles in the *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, 1903, No. 1, the *Revue d'Économie Politique*, 1903, No. 12, and 1904, No. 1, and in many issues of the *Neue Zürcher Zeitung*, 1900, 1901, and 1903, have been utilized in the preparation of this monograph. The passing of the federal law of October 6, 1905, concerning the Swiss National Bank gave the author the incitement to subject these works to a thorough recasting, to arrange them in a systematic order of sequence, and to complete them by adding an account of the parliamentary history and of the contents of the law of October 6, 1905.

The solution of the Swiss bank-note problem not only satisfies definite requirements of Swiss commercial life, but is also of theoretical interest.

The principle, which was recognized in theory long ago, that the system of free banking, while suited to the early stages, does not meet the requirements of the advanced and matured state of the bank-note system, worked its way to the front all along the line in the course of the second half of the nineteenth century, in actual legislation; nor is there the slightest indication of a reaction from this view. On the continent of Europe, Switzerland has been the country

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which, in its banking organization, has longest retained the system of plurality of banks as well as, with certain modifications, the system of freedom of issue, and the causes and results of this bank policy appear to me to be of the highest importance.

The recognition of the superiority of the central bank system does not in any way involve an answer to the question whether the bank-note monopoly should be exercised by the State itself, or whether it should be transferred to a private bank. The great examples given us by foreign countries pointed to a central bank of issue working with private capital; but a state bank appeared to be more suited to the spirit of modern Swiss economic policy; and the demand that an economic function which had been raised to a public monopoly should no longer be allowed to remain in the hands of private capitalists found as many supporters on the one side as it had antagonists on the other. The many years' struggle between these two tendencies reflects in an interesting manner a phase of the social history of our time.

A third element which enhances the interest of the Swiss bank-note question is its significance from the standpoint of currency policy.

It is generally known that Switzerland has recognized for a long time and in a steadily increasing measure the disadvantage of its membership in the Latin coinage union. If she has thus far not availed herself of her right to give notice of termination, the explanation is no doubt to be found in part in the fact that the favorable terms of the liquidation clause of the Latin union permit her, without

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jeopardizing her own position, to postpone her separation from the union until the moment when she is fully prepared to carry through a currency reform; but her backwardness is more particularly due to considerations relating to banking policy. As often as the question of a currency reform was discussed in the federal councils it was acknowledged on all sides that the departure of Switzerland from the Latin union and her adoption of a gold standard was beyond doubt and was merely a question of time, but that the necessary preparations could not be commenced until the decentralized bank-note system had been got rid of, and in its place had been established a strong central bank which also offered, by its discount and exchange policies, sufficient guaranties that the reform would be successfully carried through. The prevailing view among Swiss political economists is that if Switzerland should adhere to her past currency policy, even after the establishment of a central bank of issue, and should not break off with her coinage allies on her own initiative, even then only the solution of the bank question will make it possible for her to await with serenity the future development of the fate of the Latin union.

With the law of October 6, 1905, there appears to terminate the series of attempts which had been made by the friends as well as the opponents of a real state bank, and which vainly sought to secure the approval of the sovereign people and the federal councils. As the result of a compromise this law meets the desire of business circles to participate in the administration of such an institution

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and does justice to the financial interests of the Cantons, as well as to the endeavor to devote to the welfare of the people the profits of an enterprise enjoying a state monopoly. There is no doubt that this latter object will be better accomplished by this law of October 6, 1905, than it would be through a continuation of the present arrangement, which is in violation of the country's constitution, or through a revision of the constitution based on an amendment of the Bank Act of 1881.

It now remains with the organizing power of Switzerland to give such a basis to the organization of the credit system as is in conformity with the people's will. On this, too, will depend the possibility of meeting the wishes of those friends of a central bank who opposed the establishment of a national bank, but who have, nevertheless, striven in their own way to serve the country's welfare.

THE AUTHOR.

BASLE, *October, 1905*

# THE SWISS BANKING LAW.

## CHAPTER I.

### THE SWISS BANKS OF ISSUE TO THE PASSING OF THE BANK ACT OF MARCH 8, 1881.

The first epoch in the history of the Swiss bank-note system, which starts with the beginning of its development and ends with the adoption of the bank act of 1881, is characterized by an absolute lack of unity in its legal regulation, as well as by the absence of any approach to efficient control. Like the history of so many other departments of economic activity, the history of the Swiss banks of issue teaches us that management by cantonal law—with all due deference to its importance even in our time—is an impossibility in any case in which uniformity is an essential requirement of economic intercourse.

The first bank authorized to issue notes was the Cantonal Bank of Berne, established in 1834; after that followed in quick succession the Bank of Zurich (1836), the Bank of St. Gall (1837), the Bank of Basle (1844), and in French Switzerland the Banque du Commerce (1845), and the Bank of Geneva (1848). Legislation respecting the bank-note system was left to the Cantons. In general these confined themselves to requiring a submission of the bank's rules and regulations, and only in a few Cantons was

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a bank council appointed to superintend the note-issuing banks. In no Canton was any special law passed with reference to the note-issuing bank domiciled within its jurisdiction; most of them satisfied themselves with laying down certain legal requirements; and the approval of the bank's rules—a proceeding necessary on the formation of any joint-stock company—served *eo ipso* as a grant of the power to issue notes.

Cantons.	Extent of issue of notes.	Cover for issue.
Berne.....		
Zurich.....		One-third of the issue must always be cash in hand.
Lucerne.....		Forty per cent of the circulation must be covered by specie.
Fribourg.....	The cantonal bank may issue notes up to the total of its capital, private banks up to one-third of their paid-up capital, and "La Caisse d'Amortissement de la Dette Publique" up to two-thirds of its authorized ( <i>dotation</i> ) capital.	
Basle-Country	The amount of the circulating notes and sight drafts shall not exceed 10 per cent of the bank's capital.	One-third of the circulation shall be covered by specie and two-thirds by bills.
Schaffhouse ..	As the grand council may determine.	
Grisons.....		The cantonal bank is obliged to always keep 500,000 francs in gold in its safes.
Argovie.....	Up to one-half of the bank's capital.	
Thurgovie....	Unlimited for the cantonal bank and 750,000 francs for the mortgage bank.	One-fourth of the issue must always be cash in hand.
Tessin.....	The total of the issue of notes and liabilities at short sight shall not exceed treble the amount of the bank's capital.	
Vaud.....	A maximum of 12,000,000 francs for the cantonal bank.	One-third of the issue of the cantonal bank and one-half of the issue of private banks in specie.
Neuchâtel....	Double the amount of the bank's capital.	

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In Zurich, Berne, Lucerne, St. Gall, Grisons, and Thurgovie the Canton was conjointly responsible for any liabilities of its cantonal bank; in Solothurn, where the bank had a mixed character, the Canton was held responsible up to half the amount of the notes in circulation. In most Cantons a special bank-note tax was imposed, which varied from one-half of 1 per cent to 1 per cent per annum on the issue of private banks, but the cantonal state banks were mostly exempt from this tax. Only Neuchâtel did not impose a direct tax on bank-note circulation, but the bank was obliged to hand over to the cantonal treasury 10 per cent of its net profit. The amount of the issue of bank notes, and the manner in which it was covered, was variously regulated in the several Cantons.

On account of this bank organization being devoid of control and uniformity, it was very difficult to popularize these bank notes, the security of which was doubted, not without some reason. Outside their home Canton they could either not be given in payment at all or only at a certain discount. The extent of the circulation of these notes was thus only moderate. With the Bank of St. Gall it reached in the first years of its existence 180,000 to 350,000 florins in round figures; with the Bank of Zurich, 300,000 to 500,000 florins. The number of banks issuing notes increased, however, much more rapidly than the extent of the circulation of the notes.

Year.	Number of banks.	Notes in circulation.	Per capita of notes in circulation.
		<i>Francs.</i>	<i>Francs.</i>
1848.....	8	7,000,000	3.48
1860.....	15	10,000,000	3.98
1862.....	16	13,000,000	4.91
1870.....	24	18,000,000	6.76

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Among the institutions that began to make use of the right to issue notes there were concerns the nature of whose entire business was incompatible with the carrying on of a note-issue business upon correct banking principles. It will suffice to draw attention to institutions so little fitted to exercise the note-issuing power as the Savings and Loan Bank of Nidwalden in Stans and, last, but not least, the Caisse d'amortissement de la Dette Publique du Canton de Fribourg. The freedom of the banks was so complete that even a private banker (the firm of Marcuard & Co., of Berne) issued notes for a time without hindrance, and only gave up this line of business because it did not yield enough profit.

The security for the notes issued by these institutions included hardly more than a nominal specie reserve, and consisted only in an extremely small measure of discounted bills and safe loans on collateral. It consisted in by far the greatest part of mortgage claims, of state bonds, among which the Spanish bonds, carrying a high interest, were especially favored, and also of industrial shares and bonds difficult to negotiate and confined to a very limited market. Some institutions, carrying on a pawnbroking business, held the pawned articles as part of the security for their notes.

The first step toward introducing a healthier system into these affairs was taken by the adoption of the concordat, a result of the endeavors of Bank Manager Speiser, of Basle. Under this agreement, made in 1862, the solvent banks pledged themselves to accept one another's notes in payment, and started a kind of clearing and circulating

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system among themselves. In arranging this concordat the primary object was to put an end to a state of things in which the notes of any bank were accepted only at a discount outside its own Canton. The realization of this object was, however, made as difficult as possible to the concordat, owing to the antagonistic stand that was taken against the concordat banks by smaller concerns in the central and eastern parts of Switzerland, which were not admitted to the concordat. Nevertheless, the conclusion of this first concordat had an important effect, even beyond its immediate sphere of action; it gave rise to the advocacy of an idea which has ever since found strong supporters in Swiss banking discussion, that of adapting the Scotch system to the needs of Switzerland. The aim that inspired this first concordat is the same which all Swiss banks of issue have since endeavored to promote, namely, that of creating in the Swiss banking organization, side by side, a number of participating, independent, and yet closely united institutions, just as Switzerland is politically composed of a number of small and partially sovereign units. Pictet was the first to give expression to this thought in a formulated proposal to organize the existing note-issuing banks in a "bank union" which should be conjointly responsible toward third parties, yet which should remain independent as regards their rules of government and the carrying on of their business.

Pictet, of Geneva, found an opponent in the person of Burckhardt-Bischoff, of Basle, who favored the idea of centralization of the bank-note system as early as about 1865. The proposals of Burckhardt-Bischoff were chiefly

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in the direction of withdrawing from the Cantons the authority to grant concessions for the issue of notes and conferring this authority on the federation, which in turn would grant this right as a monopoly to a private joint-stock company to be formed and whose by-laws would be subject to the approval of the federal authorities. These suggestions were not much considered at first, but the events of the war of 1870 gave the impulse toward the attempt to subject the Swiss bank-note system to federal regulation. The entire lack of elasticity in the Swiss bank-note circulation, coupled with the fact that the policy pursued by the banks was radically wrong, led to a money stringency never before experienced in the country. The banks cashed even the smallest amount of their notes only reluctantly and under difficulties and raised the discount rate to 8 per cent, and even then put obstacles in the way of every discount transaction. In spite of this, they were themselves in a difficult situation, as the financial reservoirs of the Swiss banks, such as the nearer branches of the Bank of France and the large Paris financial institutions, which had until then willingly rediscounted the portfolio of the Swiss banks and had sent the equivalent in gold and silver coin to Switzerland, suddenly ceased to entertain transactions of this nature and left the Swiss money market to its fate. This was caused by the large demand made upon the money market by the French Government and also by the fear of mob violence in Paris.

The banks, which were, first and foremost, concerned for their own safety, tried in every conceivable manner

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to fortify their position; they endeavored to reduce all possible engagements, and accordingly withdrew from the market what little there remained of liquid assets; on the other hand, they refused from the very first day of the crisis to give credit even against the best of securities. The scarcity of money reached at times such a point that no money was to be had to pay out wages, and in some of the cantons the issue of private substitutes for money and of official letters of respite was resorted to, and only the establishment of a scale of values for English gold coins by the Bundesrat put a stop to a further extension of the crisis.

In a number of reports and expert opinions submitted to the Bundesrat the conviction was expressed that steps must be taken to prevent a repetition of events of this nature in the future, and even those persons who, as a rule, were most strongly opposed to the interference of national legislation in the domain of economic activity agreed that it would be only possible to attain this end by means of a uniform organization of the bank-note system all over the Swiss Confederation. Two different points of view were brought to light in these reports and suggestions. Some considered that the chief task of legislation was to guarantee the redemption of the bank notes at all times and expected by improving the quality of a bank note to give it a better credit in the market; whereby also it would be made possible, in times of crisis and in cases in which a suddenly increased demand for currency makes itself manifest, to meet the requirements by simply increasing the amount of the bank-note circulation, and

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this without recourse to legal-tender legislation or the issue of state paper currency. As a means to this end a merely legislative regulation of the conditions of the issue of bank notes and of the duties of the issuing banks appeared to be sufficient. The second view expressed was that a mere legislative reform with the existing multiplicity of banks retained could not possibly lead to the desired result, and accordingly the establishment of a central bank having a monopoly of the power to issue notes was advocated. This view was represented in two expert reports, that of Professor Ruettimann and Nationalrat<sup>a</sup> Feer-Herzog and that of Nationalrat Doctor Kaiser. The first expert opinion was as follows: "The first form which appears worthy of examination is the establishment of a central bank of issue. This term does not necessarily signify a federal bank. One can find a large number of variants between the position of a state bank and that of an independent bank." The expert opinion of Nationalrat Doctor Kaiser advocates a state bank somewhat more openly, but without rejecting *a priori* the idea of a private bank with state participation and without demanding a bank-note monopoly for the central bank to be created.

In the Federal Councils the revision of the constitution was just at this time in the foreground, and it was proposed to make use of this to transfer to the Confederation the power of bank-note legislation. As early as December

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<sup>a</sup>Nationalrat is both the name of a legislative body (National Council) and the designation of any member of that body. The like is true of Bundesrat and Ständerat.—TRANSLATOR.

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6, 1870, the Bundesrat laid a motion of this nature before the Bundesversammlung, while at the same time in the Nationalrat the motion was put that the competence of the Confederation was to be enlarged, and that the authority for the establishment of a federal bank should be granted. The majority of the Bundesversammlung were, however, of opinion that this question was not yet ripe for decision and contented themselves with including in the new federal constitution an article in the direction of the Bundesrat's proposal, in virtue of which power was given to the Confederation to proclaim general rules for the issue and the redemption of bank notes. This article has never attained any practical importance, as the whole of the constitutional legislation was defeated by the referendum of May 12, 1872. In the year 1873, on the occasion of the new revision of the constitution, Nationalrat Doctor Kaiser moved that the following be included in the text of article 39: "Legislation concerning the establishment of banks of issue, as well as the issue and redemption of bank notes on the part of banks already existing, is a matter for the Confederation. The Confederation is authorized to establish a bank which shall have the right to issue notes, without, however, setting up a monopoly." This proposal was now accepted by the Bundesversammlung inasmuch as it granted the Confederation the power of legislation as to banks of issue and enunciated the principle of the inadmissibility of a bank-note monopoly; whereas the authority to create a bank of its own was not granted to the Confederation. Article 39, thus modified, was incorporated in the federal constitution of May 29, 1874,

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and formed the basis of Swiss bank-note legislation until the year 1891. It read: "The Confederation is authorized to proclaim by way of legislation general rules for the issue and redemption of bank notes. It shall, however, not set up any monopoly in the issue of bank notes, nor shall it express any legal responsibility for the acceptance of the same."

In fulfillment of article 39 of the federal constitution the Bundesrat submitted, as early as June, 1874, to the Bundesversammlung the draft of a new bank law, which was accepted by both councils on September 18, 1875. This act conferred upon the Bundesrat the right to grant authority to issue bank notes; it fixed the capital of every bank of issue at a minimum of 500,000 francs; it reduced the amount of the bank-note issue to the total of the paid-up bank capital and to the maximum sum of 12,000,000 francs for any one bank, and it contained a prohibition against the granting of unsecured credit and the carrying out of unsecured time transactions. Its other provisions coincided very nearly with those of the law of 1881, which will be treated later on. Against this first Swiss bank-note law a referendum was called for and on April 23, 1876, the people rejected it by a majority of 73,000 votes.

It seemed, therefore, impossible to arrive at any result by way of legislation, while on the other hand the evils already existing were assuming even larger dimensions. Along with the number of banks the volume of the note circulation steadily increased, and nearly parallel with the increase of the fiduciary substitutes for money went a

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deterioration in their quality and in the securities covering them. A few figures will briefly sketch this development:

Year.	Number of banks.	Amount issued.	Note circulation per capita.
		<i>Francs.</i>	<i>Francs.</i>
1871-----	28	24,800,000	9.20
1872-----	29	44,500,000	16.50
1873-----	29	47,800,000	17.60
1874-----	32	80,100,000	29.00
1875-----	32	77,200,000	28.10
1876-----	32	80,600,000	29.10
1877-----	34	83,100,000	29.80
1878-----	35	82,600,000	29.90
1879-----	36	83,700,000	29.70
1880-----	<sup>a</sup> 36	92,900,000	32.70

<sup>a</sup>Of these 36 banks in the year 1880, 11 were pure state banks, and the remaining 25 were joint-stock companies, some with state participation. Of the state banks, 4 had no paid-up capital and 2 had no surplus.

No doubt the reason for this surprising increase in the issue of notes (notably so in the period from 1871-1875) may partly be found in the Swiss coinage policy, but in far the greatest measure it is to be sought in the policy of the banks, which, disregarding all banking principles, entered into every conceivable transaction for the sole purpose of bringing the largest possible amount of their notes into circulation. Even a new concordat, concluded on July 8, 1876, could not materially alter this situation. By July 1, 1878, 24 out of the 32 then existing banks had subscribed to the concordat, under which they bound themselves to cash each others' notes, to collect matured bills, to cash drafts, and to transmit to each other their weekly and monthly balance sheets. Through these means it was hoped to bring about an improvement. It was, however, impossible for this concordat to achieve a

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thorough success because the banks that did not belong to the concordat went their own way and even the concordat banks were often in their own business not in a position to satisfy the most modest requirements.

The kinds of business carried on by the 24 concordat banks was as follows:

Gave credit in current account against deposit of stocks and shares..	24
Granted credit against personal security.....	19
Gave credit against the pledging of goods.....	11
Gave open credit.....	5
Took over or participated in loans.....	17
Issued bills drawn at long sight on places in and out of the country, granted loans on mortgage security, and accepted drafts.....	13
Contracted loans.....	5
Did contango business in Stock Exchange securities.....	4
Issued bonds with participation in profits.....	1

The funds were sunk in all sorts of enterprises and were not realizable, and the difference in the form, contents, standard, amount, language, size, and color of the bank notes might be looked upon as a true symbol of the variegated character of the banking organization. The way in which business was managed was, if anything, even more irregular. The specie reserve ranged between 92 and 18 per cent of the note circulation; and how little unity there was in the discount policy will be seen from the fact that while a Zurich bank altered its rate seventeen times in 1878, another concordat bank in Geneva only found it necessary to alter its discount rate eight times.

About the middle of the seventies, almost simultaneously with the rejection of the law of September 18, 1875, another feature cropped up in the Swiss bank question. Until that time the question excited real interest only in professional circles; the people were rather passive

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in the matter and at the polls merely followed the advice of their trusted leaders without troubling to form a judgment themselves. Among political leaders the friends of the existing system had a very large majority, and accordingly the parliamentary activity of the supporters of the centralization of the bank-note system was incapable of achieving results. Doctors Joos and Curti, of the Nationalrat, now tried to arouse the people's interest in this question and thus take away the decision from the exclusive control of the cantonal politicians. Their activity was, in the main, concentrated on the repeal of the constitutional prohibition of a bank-note monopoly, the removal of which must necessarily precede any legislation of the kind advocated by the friends of a central bank. These endeavors met with the more approval because the failure of the attempts of several Cantons to make good the lack of federal legislation by means of cantonal laws necessarily tended to strengthen any attempt to remove the restrictions of article 39 of the federal constitution. Joos and Curti first incited the Swiss People's Union (*Volksverein*) to address an appeal to the Federal Assembly to revise the federal constitution in the manner above indicated. After the Nationalrat had pronounced itself, in principle, against a bank-note monopoly and a state bank, in its deliberations of November 28, 1879, and the Bundesversammlung had taken the same position—not, however, without a strong tendency in favor of the appeal having manifested itself in the Nationalrat—Joos and Curti started a popular agitation which led to the result that by August 3, 1880, 54,000

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signatures of Swiss citizens were lodged with the Federal Chancellor demanding a revision of article 39 of the federal constitution, with the aim of removing the prohibition of a bank-note monopoly and providing for the establishment of a state bank.

According to article 120 of the Swiss constitution every petition formulated by the people's initiative must be submitted to a vote of the people. The language of this article, however, provided that only the question whether a revision should take place or not could be submitted to the people, but not the question of the modification of a particular article. Supported by this circumstance, and knowing well that the people, tired of the constitutional struggle which had only recently ended, would be unwilling to reopen the question of revision of the constitution, the opponents of the petition in the National Council formulated the following question to be put before the people: "Shall a revision of the federal constitution take place?" The expected result could hardly fail to come. In the vote of October 31, 1880, the petition was rejected by 260,126 votes against 128,099.

But even among those who, while wishing to retain the system of multiplicity of banks, sought to secure regulation of them by law, there was no agreement. The representatives of commerce desired that in the new law the provision should be embodied that the privilege of issuing notes could only be conferred on pure discount banks; they wanted to restrict the sphere of action of the issuing banks and demanded that the cover of the entire note circulation should consist of specie and bills. The representa-

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tives of the Cantons, on the other hand, demanded that entire freedom of action should be given to the banks and that the cover of the entire note circulation should consist of specie and stocks. The former laid the chief stress on the redeemability of the notes at any time, for which the bills in the portfolio appeared to be the best guaranty; the latter, on the security of the notes, which they thought could be best attained by cover in stocks for such part of the circulation as was not covered by specie. In June, 1880—prior, therefore, to the poll on the revision of the constitution—the Nationalrat laid before the two Federal Chambers a new draft of a law respecting the issue and the redemption of bank notes, in which an attempt was made to respect the various wishes and claims put forward, but which on the whole took up the standpoint of the commercial representatives and thus demanded a cover for the notes and other liabilities at short sight of 50 per cent in specie and the remaining 50 per cent in bills. In addition to this, the draft contemplated the creation of a federal bank, though without the grant of a bank-note monopoly; or at all events it was designed to smooth the way for it. The Ständerat, which had the priority in the consideration of this bill, not only eliminated this last provision, but it so transformed the entire draft of the Nationalrat that the chief object of the bill, namely the creation of a well-secured and always redeemable bank note, was sacrificed to the fiscal interests of a number of Cantons. The restriction of the sphere of activity of the banks of issue contemplated by the Federal Council was set aside; the metallic reserve was reduced

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from 50 per cent to 40 per cent of the circulation, and for the remaining 60 per cent a reserve in securities was decided on. The report of the commission of the Nationalrat commented as follows on the conclusions adopted by the Ständerat: "We are all the less able to approve of the expunging of all the provisions relating to a possible establishment of a federal bank because there appears to be little or no prospect of introducing into the present bill those rules that are recognized by other countries as being the correct ones for the bank-note business. It is, therefore, very doubtful whether the idea of concentrating the issue of bank notes in the hands of the confederation, either with or without monopoly, as the only thorough remedy for existing evils will not sooner or later prevail; and we must admit that, though we are quite willing to deal with the actual position of affairs and to recognize legitimate interests, we should greatly prefer the creation of a central institution on a sound and safe basis—a federal bank which would be a pure bank of issue—to the proposals of the Ständerat, unless these should be modified." The commission itself proposed a number of modifications of the conclusions of the Ständerat, but without again introducing, at this juncture, the provisions of the Bundesrat's bill. It assented to the reduction of the metallic reserve to 40 per cent of the circulation and prescribed as reserve for the remaining 60 per cent the bills in the portfolio of the pure discount banks and for banks of another character either the deposit of securities or a guaranty of the home Canton.

On February 15, 1881, this draft of the commission came up for consideration by the Nationalrat. On the

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same day Nationalrat Dr. Alfred Escher submitted a draft of a bank law which he had worked out conjointly with Cramer-Frey, afterwards a member of the Nationalrat. This draft differed from that of the commission in several particulars. It required the issue of notes to be under a management distinct from that of the other business of the bank; it required the reserve to be composed only of specie and commercial paper; and finally it proposed to impose on the banks the duty of depositing with the Confederation securities equal to 10 per cent of their note issues. By a vote of 68 to 21 the Nationalrat decided to consider the bill introduced by the commission. This Chamber finally adopted the bill on February 28 after certain differences between the Ständerat and the Nationalrat had been reconciled; on March 8, 1881, the law was finally passed by both Chambers, and it went into force on January 1, 1882.

This law, which—as can not be denied—has put a stop to the wildest excesses of the days of cantonal sovereignty, can not be considered as anything else than a compromise between the demands arising from the development of trade on the one hand and the fiscal and political special interests of the Cantons on the other. The act restricted itself to codifying the existing relations and to setting up general rules applicable to all banks, viz, (1) respecting the right of issuing notes and the extent thereof; (2) respecting the obligations of cover and redemption, security, and privileges of the note holder; (3) respecting the relations of the banks of issue among themselves and their sphere of activity; (4) respecting the form of the

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notes and their denominations; (5) respecting the control exercised by the federal authorities; (6) respecting the taxation of the note circulation.

Its chief provisions were the following: Every banking institution with a capital of at least 500,000 francs which pledged itself to observe certain rules had the right to apply to the Bundesrat for permission to issue notes to a total of double the amount of its capital. The bank was obliged to keep in hand cash equal to 40 per cent of the amount of notes in circulation at any particular time, without being at liberty to use this cash for any other purpose than the redemption of its notes. Only the amount of cash in excess of the stipulated 40 per cent of the circulating notes was considered "available funds." The remaining 60 per cent could be covered in one of the following three ways—either by the deposit of stock-exchange securities, or by a guaranty on the part of the Canton, or, finally, by pledging the portfolio as a special security in favor of the note holders. Only those banks that provided cover in the last-named manner were obliged to restrict their business to the regular transactions of a bank of issue—discount, loan, and transfer business, etc.; all other banks were empowered to transact whatever business they liked; they acted as banks of credit, as savings banks, granted advances on mortgage securities, participated in industrial enterprises, took over the issue of industrial and state securities; in short, they fulfilled all the functions of a general bank.

The Confederation superintended the issue of the notes so as to secure the desired uniformity in form and style.

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Another and far more important means of establishing the unity of the note circulation was the provision requiring every bank of issue to accept in payment at full value not only its own notes, but also those of other Swiss banks of issue, so long as these institutions redeemed their notes promptly; and to redeem all notes of other banks presented at their counter, without charge of any kind, within three days at farthest. The balance sheets had to be periodically published under the supervision of the federal authorities. (This control was vested in the Swiss fiscal department by decree of December 21, 1881, and a special board of inspectors for banks of issue was created.) To defray the cost of this control the banks paid to the Federal Treasury 1 per cent of the authorized issue. The Cantons were empowered to impose a tax up to 6 per cent on the same sums.

We shall have an opportunity later on to examine more closely the effects of these regulations. We will confine ourselves for the present to pointing out the chief deficiencies of this law.

Forty per cent of the amount of the note circulation at any time of a given bank was to be always kept ready at the bank in specie, which was booked separately and had to be kept apart from other assets. This fund could not be utilized for any other business of the bank, but was reserved for the redemption of its notes and acted as a special guaranty for the note holders. The reserve, which everywhere else plays the part of a safety-valve, which can be opened in case of need, could not therefore be touched here, and not even the Bundesrat had the

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power to grant the banks the use of it. In the face of cash holdings amounting to 40 per cent of its notes a bank might be compelled to suspend payment. The predominant tendency of the act is manifest in this stipulation; namely, its object was not so much to assure the redemption of the notes at all times as to save the note holders from positive loss in the case of a possible liquidation. The same considerations form also the basis of the provisions of article 12 of the law, according to which the amount of the circulating notes not covered in specie was to be covered either in stocks or by a guaranty certificate on the part of a cantonal government. It being quite difficult enough to realize stocks in critical times, one could even less expect to realize the cantonal guaranty at the moment of a crisis. Nearly all the cantonal banks made use of this illusory method of covering, although there can be no doubt that in the event of a financial crisis not even 10,000,000 francs in specie could have been produced out of all these guaranty certificates had the Cantons been called upon to maintain the solvency of the banks.

The entire cash reserve of 40 per cent of the note circulation served as security for the note holders, and the law contained no provision whatever requiring the banks to cover their other short-sight liabilities in a similar or in any satisfactory manner. In course of time this defect was bound to endanger the continuous redemption of the notes, more especially so as a number of banks had short-sight liabilities amounting to many millions of francs, the meeting of which might in part be demanded by telegraph at any moment without there being, apart from the

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untouchable 40 per cent of the note circulation, more than a few hundred thousand francs of cash on hand. To this has to be added the fact that a large number of the Swiss banks of issue acted as savings banks, which had rather a menacing effect upon the position of the banks, as experience has taught the lesson that savings-bank depositors, if not more dangerous, are at least more pressing in their demands than the holders of bank notes.

Finally we will touch upon the results of the very important provision according to which the Cantons were at liberty to impose a tax up to six-tenths of 1 per cent of the amount of issue. We shall have an opportunity to show in the following chapter how unfavorably the entire development was effected by this provision.

## CHAPTER II.

### DEVELOPMENT OF THE SWISS NOTE-BANK SYSTEM UNDER THE BANK ACT OF MARCH 8, 1881.

#### SECTION I.—EXTENT AND DIRECTION OF THE DEVELOPMENT—DISCOUNT POLICY.

Before describing the development which took place under the act passed on March 8, 1881, we must fix in mind the state of affairs existing at the time that law went into force.

At that moment there existed:

Chief business.	Number of banks.	Authorized ( <i>donation</i> ) capital.	Average amount of notes in circulation.
Discount banks.....	6	30,000,000	39,762,000
Commercial banks.....	10	20,500,000	14,459,000
Mortgage banks.....	8	17,398,000	10,233,000
General banks.....	11	57,700,000	34,208,000
Caisse d'Amortissement de la Dette Publique.....	1	-----	739,000
Total.....	36	125,598,000	99,401,000

Twenty-four of the above 36 banks were in the concordat, with an authorized capital of 116,650,000 francs and an average note circulation of 92,262,000 francs; 11 were state banks, with an authorized capital of 37,398,000 francs and an average circulation of 33,659,000 francs.

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In order to judge the importance and the position of the various banks the following table will be of service:

Banks.	Average circulation of notes (in thousands of francs).	Average cash assets (in thousands of francs).	Proportion of cash assets to circulation.
			<i>Per cent.</i>
* Cantonal Bank of Berne .....	7,257	2,876	39.7
* Bank of Zurich .....	4,502	4,001	88.9
Savings Bank of the Canton of Uri .....	287	111	38.7
* Bank of St. Gall .....	3,995	1,448	36.2
* Bank of Basle .....	7,505	3,751	50.0
* Banque du Commerce in Geneva .....	14,074	4,757	33.8
* Banque Cantonale Vaudoise .....	5,172	2,114	40.8
* Banque de Geneve .....	4,030	1,041	25.8
Savings and Loan Bank in Lucerne .....	982	871	88.7
* Banque Cantonale Fribourgeoise .....	1,703	697	40.9
* Mortgage Bank of Thurgovie .....	725	312	43.0
* Bank of Glaris .....	1,160	370	31.9
Banque Populaire de la Gruyere .....	160	54	33.7
* Banque Cantonale Neuchâteloise .....	5,656	1,601	29.4
Caisse Hypothecaire de Fribourg .....	26	173	665.4
* Bank of Argovie .....	2,326	836	35.9
* Cantonal Bank of Lucerne .....	1,953	881	45.1
* Cantonal Bank of Soleure .....	1,878	855	45.5
Banca Cantonale Ticinese .....	2,060	318	15.4
* Bank in Schaffhouse .....	652	259	39.8
* Bank of Grisons .....	285	180	63.2
Loan Bank in Glaris .....	293	134	45.7
* Federal Bank (Limited) .....	4,783	2,248	47.0
* Banque du Toggenbourg .....	970	336	34.6
Banque Populaire de la Broye .....	18	29	161.1
Credit Agricole et Industriel de la Broye .....	214	74	34.5
* Cantonal Bank of St. Gall .....	5,980	2,374	39.7
Caisse d'Amortissement de la Dette Publique .....	739	163	22.1
* Cantonal Bank of Basle Land .....	690	290	42.0
* Cantonal Bank of Thurgovie .....	1,306	551	42.2
Cantonal Bank of Grisons .....	1,958	657	33.6
* Cantonal Bank of Zurich .....	12,276	7,109	57.9
* Banca della Svizzera Italiana Lugano .....	1,437	516	36.0
Credit Gruyerien .....	165	27	16.4
* Cantonal Bank of Appenzell A.-Rh .....	1,947	704	36.1
Cantonal Savings and Loan Bank of Nidwalden, Stans .....	237	73	30.8
Total .....	99,401	42,851	43.1

N. B.—The banks marked with an asterisk (\*) belonged to the concordat.

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After the law had gone into force 29 of the 36 banks above mentioned requested the Federal Council to grant them the authorization to issue bank notes. This privilege was conferred upon 26 banks which were in a position to prove their compliance with the preliminary requirements, before the 1st of July, 1882; the remaining 3 banks received this authorization only later on, to wit, one in July 11 and 2 on September 1, 1882. From that day 29 banks of issue with an actual circulation of notes to the value of 102,174,055 francs, were subject to this law. The following tables will show the development since that time:

Description.	Year.	Number of banks.	Paid-up capital (in millions of francs).	Proportion of total capital.	Issue (in millions of francs).	Proportion of total issue.
				<i>Per cent.</i>		<i>Per cent.</i>
Cantonal guaranty bonds	1885	17	13.0	19.91	68.5	50.7
	1890	19	71.2	53.00	82.5	47.0
	1904	22	134.7	44.66	146.5	59.9
Deposit of stocks	1885	10	17.3	26.49	11.6	8.6
	1890	10	19.6	15.00	14.1	8.0
	1904	10	30.0	15.30	24.2	9.9
Bill portfolio	1885	6	35.0	53.60	55.0	40.7
	1890	6	43.0	32.00	77.5	45.0
	1904	4	41.0	21.00	74.0	30.2

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Authorized issues.	1885.			1890.			1904.		
	Number of banks.	Amount of issue (in millions of francs).	Proportion of total issue.	Number of banks.	Amount of issue (in millions of francs).	Proportion of total issue.	Number of banks.	Amount of issue (in millions of francs).	Proportion of total issue.
			<i>Per cent.</i>			<i>Per cent.</i>			<i>Per cent.</i>
Up to 2,000,000 francs.....	17	19.6	14.09	19	22.4	12.34	11	11.00	4.49
From 2,000,000 to 5,000,000 francs.....	8	29.5	21.21	8	31.2	17.18	13	53.75	21.97
From 5,000,000 to 10,000,000 francs.....	5	42.0	30.27	4	29.0	15.96	5	38.00	15.52
From 10,000,000 to 20,000,000 francs.....	3	47.0	34.43	3	75.0	41.29	4	64.00	26.15
From 20,000,000 to 25,000,000 francs.....				1	24.0	13.23	2	48.00	19.61
Above 25,000,000 francs.....							1	30.00	12.26
Total.....	33	138.1	100.00	35	181.6	100.00	36	244.75	100.00

N. B.—The above figures have been taken from the reports submitted by the Bundesrat to the Bundesversammlung respecting the annual reports of the board of note-bank inspectors, and from the annual reports of some of the banks themselves.

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Two tendencies in the development are brought to light by these figures. In the first place it is noticeable that banks arranging their cover in the form of a cantonal guaranty bond were gradually on the increase, while on the other hand the number of banks covering by way of stocks or bills was on the decline. The percentage of the former kind of cover increased from 50.7 per cent in the year 1885 to 59.9 per cent in the year 1904, calculated on the total issues. In agreement with this tendency, the number of banks of the former category increased from 17 to 22 and the number of the latter category of banks declined from 16 to 14 in the same period.

The second tendency shows itself in the increase of the share of the large and financially strong establishments at the cost of the smaller ones. In this domain also the process of concentration was steadily going on, the banking business going more and more into the hands of the big banks. The share of banks with a total issue below 2,000,000 francs declined from 14.09 per cent of the total issues in 1885 to 4.49 per cent in 1904; within the same period the share of banks with an issue up to 5,000,000 fell from 35.30 per cent to 26.46 per cent of the total issues, whereas the share of the banks with an issue of more than 10,000,000 francs increased during the same period from 34.43 per cent to 58.02 per cent. If the maximum amount of the authorized issue of a certain bank was 20,000,000 in 1885, this had increased to 30,000,000 by 1904, and this single bank with such an authorized issue plays a more important part than all the 12 banks with issues below 2,000,000 each, put together.

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Since the act went into force the total of the authorized issues has risen from 108,000,000 to 244,750,000 francs. In order to indicate with what degree of probability conclusions as to the effective circulation may be drawn from the amount of the authorized circulation, we give here the figures for the year 1904.

[In millions of francs.]

	Average.	Maximum.	Minimum.
Entire circulation <i>a</i> .....	228.4	241.2	221.7
Effective circulation <i>b</i> .....	213.4	234.1	198.0
Note reserve <i>c</i> .....	20.8	35.9	10.6

*a* The "entire circulation" represents the total amount of notes put into circulation by all the banks, and includes the notes of other Swiss banks of issue (but not their own notes) held by the various banks.

*b* The "effective circulation" represents the amount of notes actually in the hands of third parties.

*c* The "note reserve" is the amount of bank notes in the hands of the banks, including both their own notes and those of other Swiss banks of issue.

This expansion of the bank-note circulation, which was out of all proportion and which was consciously stimulated by the banks by the issue of notes of small denominations, was more or less provoked by the nature of the tax on bank notes, and in its consequences it is so closely related to the discount policy that we think it advisable to treat the three subjects in one group.

The Swiss banks of issue being compelled, as already stated, to pay taxes not on the amount of the effective circulation but on the total of the authorized issue, they were naturally disposed to enlarge the circulation as much as possible, as they had to pay on the total of the authorized issue anyway and leaving a part of this sum idle would have meant a direct loss to them. The banks had to keep

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40 per cent of their circulation in specie in their vaults; and if, for instance, 20 per cent of a bank's issue (i. e., its authorized issue) were not in circulation at all, only 40 per cent of its issue would have been profitably invested, which would have resulted in a profit of about 2 to 2½ per cent of the issue. The bank having to pay six-tenths of 1 per cent of the entire authorized issue to the Cantons and one-tenth of 1 per cent to the Confederation, this would make roughly 1 per cent, which, taken off the profit above shown, would leave a profit of only 1 to 1½ per cent. It will therefore be readily understood that all the banks of issue endeavored to put their entire authorized issue on the market, so that every taxable note should yield a return; and this object was attained, but only at the cost of a violation of two principles of every sound discount policy, namely, the principle of selection of the material for discounting, and the principle of regulation of the bank rate.

According to the reports of the federal board of bank-note inspectors the investments of the Swiss note banks were constituted, upon yearly averages, as follows:

Descriptive titles.	Amount of investment (in millions of francs).			Ratio to total investment.		
	1885.	1895.	1904.	1885.	1895.	1904.
<i>I.—Short-time investments.</i>						
Discounted Swiss bills.....	149.82	163.11	191.07	<i>Per ct.</i> 21.88	<i>Per ct.</i> 15.97	<i>Per ct.</i> 11.22
Discounted foreign bills.....	30.36	15.56	38.40	4.49	1.52	2.25
Bills with collateral.....	31.34	43.50	47.13	4.53	4.26	2.77
Due by other banks.....	1.00	2.88	6.42	.18	.28	.38
Due by correspondents (agents).....	29.28	25.83	51.50	4.33	2.52	3.02
Miscellaneous.....	1.94	2.50	3.31	.32	.24	.20
Total.....	243.74	253.38	337.85	35.73	24.79	19.84

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Descriptive titles.	Amount of investment (in millions of francs).			Ratio to total investment.		
	1885.	1895.	1904.	1885.	1895.	1904.
<i>II.—Long-time investments.</i>						
				<i>Per ct.</i>	<i>Per ct.</i>	<i>Per ct.</i>
Current-account debtors.....	65.23	113.36	251.50	9.60	11.09	14.76
Promissory notes.....	61.61	96.12	156.66	9.07	9.41	9.19
Mortgage investments.....	236.75	408.65	760.55	54.78	39.99	44.65
Stock investments.....	74.99	49.26	194.70	10.74	14.61	11.43
Miscellaneous.....	.24	1.13	2.19	.08	.11	.13
Total.....	438.82	768.52	1,365.60	64.27	75.21	80.16
Grand total.....	682.56	1,021.90	1,703.45	100.00	100.00	100.00

The ratio of the short-time to the long-time investments decreased from 36 : 64 in 1885 to 25 : 75 in 1895, and even to 20 : 80 in 1904. Moreover, the fact must not be lost sight of that the discount and collateral bills designated in the foregoing table as short-time investments do not by any means have that quality in the same degree as the like assets have in the portfolio of a large central bank of issue. A much wider range of bills are regarded as bankable in Switzerland than elsewhere; owing to the fact that the banks were continually hunting for bills, discounting became, so to say, democratic, and accordingly the quality of the Swiss bill portfolio was not by any means of the same standard as the discount investments of the German Reichsbank or of the Bank of France. The best proof of this is furnished by the fact that while the Reichsbank only suffered a loss of 0.08 mark on every 1,000 marks of average investment in bills and the Bank of France lost only 0.02 franc on every 1,000 francs, the Swiss banks of issue in the same year (1904) sustained, on the other hand, an average loss of 0.51 franc per 1,000 francs.

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Investments in bills with collateral, too, gradually lost their short-time character owing to the practice of extension carried on very extensively by Swiss banks of issue, and in reality these became long-time investments, often difficult to realize on. The circumstance that the Swiss banks of issue now and again lowered their collateral-loan rates below their discount rates—a fact which is unique in the history of banking—materially contributed to the spread of this practice.

Finally, if we examine the rate of increase of the various elements of both classes of investments we obtain the following characteristic results:

	1885.		1895.		1904.	
	Amount.*	1885=100.	Amount.*	1885=100.	Amount.*	1885=100.
<b>Short-time investments:</b>		<i>Per cent.</i>		<i>Per cent.</i>		<i>Per cent.</i>
Swiss bills .....	149.82	100.00	163.11	109.47	191.07	128.23
Foreign bills .....	30.36	100.00	15.56	51.86	38.40	128.00
Bills with collateral .....	30.14	100.00	43.50	145.00	47.13	157.10
Bills of all sorts .....	210.32	100.00	222.17	105.80	276.61	131.72
All investments .....	243.74	100.00	253.38	103.42	337.85	139.03
<b>Long-time investments:</b>						
Promissory notes .....	61.61	100.00	96.12	157.57	156.66	256.82
Mortgages .....	236.75	100.00	408.65	137.16	760.55	322.26
Stocks .....	74.99	100.00	149.26	201.70	194.70	259.60
All investments .....	438.82	100.00	768.52	175.45	1,365.62	311.78

\* In millions of francs.

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While the investments in bills, including bills with collateral, rose from 100 to 131 in the years 1885-1904 and the sum of the entire claims at short sight rose from 100 to 139, the mortgage investments increased from 100 to 322 and the stock investments from 100 to 259 and the entire amount of long-time investments from 100 to 311.

The influence which such a distribution of investments exercises upon the solvency of the banks will come to light in the investigations that follow.

The second of the above-mentioned offenses against the principles of a sound discount policy has reference to the method of fixing the bank rate.

The act of 1881 restricted itself to an external regulation of the note issue; the internal regulation did not come within its scope. The law did not contemplate a general bank rate binding for all Swiss banks of issue; and it was therefore inevitable that the various banks, animated by the desire of putting the greatest possible amount of notes into circulation, underbid each other in their discount rates.

Each banking center published its own rate of discount and it happened not infrequently that one bank lowered its rate of discount while another raised it at the same time. Sometimes even in the same center two banks thought fit to establish two different discount rates. Thus the door was opened for discount arbitrage between the various bank centers, and in connection with this specie was shoved to and fro between these places, without the slightest economic necessity. The situation was aggravated by the circumstance that banks located in the

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smaller towns, but equipped with large note issues, sought investments for that part of their issue which they could not use at home in such great business centers as Basle, Zurich, Geneva, St. Gall, and by their offers of money often depressed the bank rate of these towns.

It was not until the year 1893 that 28 of the then existing 35 banks decided "to keep the discount rate at an appropriate level in order to protect the stocks of cash in the country," and a committee consisting of five of the largest banks was appointed to deal with the question of fixing a general official discount rate, which should serve as a basis for all discount transactions. With the introduction of this uniform and official discount rate there set in a decided tendency toward the betterment of conditions. Very soon, however, this agreement proved inadequate.

Nearly all banks of issue, with the exception of the Bank of England, consider their official rate not as a minimum but as a maximum rate. This makes it possible for them to keep their official rate unaltered for a long time, without incurring any loss, either in the extent or in the quality of their bill portfolio, through the frequent local and temporary variations in the private discount rate based upon no adequate foundation in the actual condition of the money market. This puts them into the position of suiting their discount transactions to the requirements of the local money market without discarding their uniform discount policy. They increase their power of competing with private banking institutions, they enlarge the field of operation for their current funds, they obtain also first-class bank and commercial acceptances for their portfolio

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without subordination to the private institutions and without giving up their commanding position in the money market.

The Swiss banks of issue, which were subjected to very keen competition in the discount market on the part of the powerful credit institutions of Zurich, Basle, and Geneva, were of necessity obliged to maintain a private discount rate also, if they did not wish to run the risk of losing the first-class bill material and obtaining for their portfolio merely bills of a secondary quality. It is clear, however, that this private rate would have to be fixed uniformly also, if all the advantages of the agreement as to the official rate were not to be lost. Accordingly, in May of the year 1894, 22 banks arranged a concordat with a view to fixing a uniform minimum of the private rate of discount. But already in December of the same year this agreement, in which the two banks of Neuchatel and those of Aarau, Solothurn, Liestal, and Coire had not joined, was canceled and the old unregulated condition of things returned.

In view of this failure it is not surprising that the question was shelved for several years, and only the pressure of a continuous depreciation of the rate of exchange brought it again to the front. Not until March, 1898, did the banks of issue endeavor a second time to arrive at a mutual arrangement on this subject; but already in 1900 the regulations that had been laid down had to be modified, so that the minimum of the private rate of discount, as established by the committee, was not to be binding for any particular bank; the established minimum was to be

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telegraphed to the banks, and each bank was then to be at liberty to judge to what extent it would be governed by this rate. The agreement contained the superfluous proviso that each particular bank was only obligated to maintain this minimum limit "as far as possible" and that it had the right to discount up to one-fourth of 1 per cent below the fixed minimum rate bank acceptances, or first-class commercial papers, or for the purpose of keeping its holdings of bills up to the amount prescribed by its rules and regulations.

There existed consequently three "official" bank rates: (1) The so-called official bank discount for the general ranks of commerce and industry; (2) the not less official private rate of discount for the bills of first-class merchants and manufacturers, as well as for those who could obtain for their bills a second and third signature, also for rediscounting bills from smaller banks and bankers; (3) the likewise official minimum rate of discount for first-class bank acceptances.

In the years 1899-1900 these regulations seemed to be effective. The great demand for money which was experienced in these years toned down the competitive fight of the banks of issue on the discount market. A minimum limit was thus created for the private rate, which in turn gave a stronger hold to the official discount rate; and the better grip upon the open money market which was the natural consequence stood the banks in good stead in their endeavor to counteract the evil consequences of the unfavorable rate of exchange. Like all the other agreements of the Swiss banks of issue, this one also suffered from the

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disadvantage of not having a binding character. Not all the banks entered into the agreement, for the alleged reason that they were not in a position to complete their portfolios without going below the minimum rate as fixed by the committee. Even of the 29 banks that had at first entered into the understanding, some were unable permanently to subject themselves to the control of the discount committee and they announced their withdrawal, in consequence of which the competition against the allied banks on the discount market was greatly increased. In addition to this competition on the part of banks of issue that had not entered into the agreement and of other banks, there was the competition of various governmental managements which endeavored to invest their available cash assets in discount bills, while on the other hand the commercial depression since the beginning of 1901 caused a decrease in the discount material. The position of those banks that had remained faithful to the agreement became so difficult that a new revision of the regulations was decided upon, which should give the various banks greater freedom of action. This plan of compromise was, however, frustrated by a large number of banks showing their dislike of the agreement, and in the general meeting of the banks of issue on November 23, 1901, the stipulations respecting the minimum rate of discount were entirely abolished and the old state of freedom from all restriction was thus reestablished.

Nothing much could be done to alter this state of affairs by the "loyal" banks adopting a private understanding, which was ratified in a general assembly of the banks of

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issue held at Basle in 1905. This understanding, which had no binding character, comprised in September, 1905, 20 of the 36 banks of issue, among which there were several large institutions, but there were other large banks which did not join. The understanding fixed a uniform private rate for the banks entering into it, but it left them free to reduce the rate in discount transactions among themselves, and also for first-class commercial paper, to one-fourth of 1 per cent below the uniform private rate.

The effects of these conditions upon the discount business were most clearly shown in the actual course of the discount rates. There are two things which, from this standpoint, deserve particular attention. The first is the fact that it was possible, at times, to discount in the open money market in Switzerland at a lower rate than in Paris, Berlin, or London, without there being any reason for this except the competition of the banks among themselves. The second is that the relation between the average rate of discount and the average rate of profit on bill investments was quite different in Switzerland from what it was in the great note-issuing banks. For instance, while the profits of the portfolio of the Bank of France as per annual report of 1904 were in excess of the average

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rate of discount by 0.17 per cent, the profit-earning capacity of the bill portfolios of the Swiss banks of issue was 0.69 per cent below the average rate of discount. From this it may at least be inferred that in Switzerland a much wider range of bills were discounted below the official rate than, for instance, in France, without any other explanation being possible than the competition between the banks.

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These three principles of their policy—the underbidding of each other on the discount market, the investment of large sums in long-time transactions, and, finally, the discounting of bills or lending on collateral security below the official rate—made it possible for the banks to keep a larger amount of their notes in circulation than was called for by the real requirements of business in Switzerland. This they could only achieve at the cost of the elasticity of the bank-note circulation, which in turn made it impossible to place at the disposal of the money market larger sums of currency at times of increased demand for money. The following table will prove this statement:

Circulation.	Swiss banks of issue (millions of francs).			German Reichsbank (millions of marks).		
	1890.	1895.	1904.	1890.	1895.	1904.
Average circulation.....	152.4	179.2	228.43	983.88	1,095.59	1,288.55
Highest circulation.....	168.3	189.9	241.23	1,131.73	1,320.08	1,599.78
Lowest circulation.....	144.1	169.5	221.75	886.05	968.21	1,137.92
Difference between highest and lowest.....	24.2	20.4	19.48	245.68	351.87	461.86
This difference as percent- age of average circula- tion.....	15.92	11.39	8.54	26.19	32.13	35.84

Putting these figures side by side, it will be seen at a glance that the development of the Swiss banks takes exactly the opposite direction to that of the Reichsbank. While the difference between highest and lowest of the bank-note circulation of Swiss banks declined from 15.9 per cent to 8.5 per cent in the course of the last fourteen years, the figures of the Reichsbank show an increase from 26.1 per cent to 35.8 per cent within the same period. There can be no difference of opinion as to the significance of this

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change when one recalls the undisputed fact that it is one of the chief aims of note-bank policy to give to the monetary circulation, without impairing its soundness, a greater elasticity than can be attained by means of a purely metallic currency. The variations of the demand for money, in longer periods as well as in the course of each separate year, have become extremely great in the present stage of economic development as compared with what took place in former times. The degree in which it is possible for a bank of issue to meet these variations of demand depends upon the degree of elasticity of its note circulation; that of the Swiss banks of issue declined continuously from year to year.<sup>a</sup>

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<sup>a</sup> In the interest of accuracy, it should be mentioned that the figures given for the year 1904 can not be regarded as a fully trustworthy measure of the elasticity of the Swiss bank-note circulation. Already in the second half of the nineties the plan was proposed in banking circles of backing up the discount policy by a direct bank-note policy, in the fight against the unfavorable rates of exchange. In times of great demand for money—it was held—the banks of issue possess a certain control over the money market by high discount rates; when the demand declines the rates of discount fall also, which has a bad influence upon the rates of exchange. In order to prevent this it was proposed that in such times the issues of notes should be reduced; the loss thus resulting could be made good by fixing higher discount rates. This suggestion met at first with lively opposition, especially on the part of the banks, which saw their profits threatened in that way, and only the fact of the exchange rates becoming more and more unfavorable induced them to enter into a special understanding, into which 27 institutions entered on the occasion of the general meeting, held at Basle on June 9, 1900; and by April, 1902, all the banks of issue had joined: "The committee is empowered to put a restriction upon the aggregate bank-note circulation whenever the general position of the money market or the accumulation of notes in the possession of banks of issue may warrant this step. Such restriction can not in the first instance exceed 5 per cent of the authorized issue and a further restriction is not admissible until four weeks have elapsed from the date of the first restriction; the total restriction must not exceed 10 per cent of the authorized

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Kalkmann characterizes this policy very correctly in the following words:

“Inasmuch as the banks of issue, at a time of small demand for currency, press the largest possible amount of their notes into circulation, they render themselves incapable of meeting the requirements of the market when larger demands set in; for the upper limit of the note circulation is rigid; each bank is obliged to confine itself to the quota allowed to it by the Confederation. Under such conditions, the banks, in order to maintain their business connections, are obliged to make use of their specie holdings, which, since their stock of cash is generally not much above the legal minimum, is far from agreeable. In order to obtain cash they present each other's bank notes for redemption, they drive specie away from each other, and they try to draw specie from at home and abroad. There is general complaint of scarcity of bank notes, and some

issue.” The following figures will give an idea of how these arrangements were carried out in the last two years, 1903-4.

There were withdrawn from circulation:

	1903.	1904.
	<i>Days.</i>	<i>Days.</i>
10 per cent.....	134	80
7.5 per cent.....	141	186
5 per cent.....	12	7
2.5 per cent.....		

It is not our intention to deny the favorable effects of this special understanding; but on the other hand we do not place a very high value upon it, as it is an arrangement of a voluntary character only and any bank can withdraw from it at any time, and past experiences with voluntary agreements of this kind on the part of the Swiss banks of issue justify the fear that the agreement may fail to work at the very moment when it is most urgently needed,

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banks regard this as showing the necessity of increasing their share, or authorized (*dotation*) capital, so as to receive from the federal authorities the grant of an increased bank-note quota. Then the game begins afresh; the new notes must be put into circulation and must be held there, and this generally at a time when the demand for currency has diminished; the banks again underbid each other in low discount rates; capital and gold go out of the country; and if then an increased commercial activity demands a larger circulation, a deficiency of notes is felt, which, in turn, gives the signal for a new increase of the issues. Consequently, Switzerland has always too much money when she does not want any, and no money when she requires it. It is the same story for the last fifteen years; in the first half of the year superfluity of money and in the second half of the year scarcity of notes. Year by year the issues are augmented; year by year the effective and the uncovered note circulation increase, and year by year the exchange rate on France, whose discount rate is very stable, is considerably worse in the first half year than in the second.

After this survey of the development of the Swiss note-bank system under the act of March 8, 1881, we will discuss two sides of the question before we pass an opinion on the law itself and its effects; we will study the degree of liquidity of the Swiss banks of issue and then consider the question whether and to what extent they were able to fulfill the highest task of a bank of issue, namely, to uplift and defend the exchange rates of its country.

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## SECTION II.—SOLVENCY.

*Particulars of cover of the Swiss banks of issue as shown in the general balance sheets of December 31 of the years 1885 and 1904.*

[In millions of francs.]

	1885.	1904.
<b>LIABILITIES.</b>		
60 per cent of their own notes in circulation .....	82	140
Other short-time debts .....	89	218
Short-time part of the savings-bank investment .....	39	121
Total cash liabilities .....	210	479
<b>ASSETS.</b>		
Available legal cash .....	13	17
Other cash assets and short-time claims .....	19	74
Total cash funds and short-time claims .....	32	91
Portfolio (discount and foreign bills) .....	191	232
Total banking cover .....	223	323
Cover in available cash for the uncovered circulation . . . . . per cent . . . . .	16	12
Cover in available cash for the uncovered circulation and the short-time liabilities . . . . . per cent . . . . .	6	<sup>a</sup> 5
Cover in available cash and short-time claims for total cash liabilities . . . . . per cent . . . . .	15	19
Total banking cover for total cash liabilities . . . . . do . . . . .	106	67

<sup>a</sup> This should be 4.—TRANSLATOR.

General statement of the Swiss banks of issue on December 31, 1904.

[In thousands of francs.]

	Nature of cover of notes.						All the 36 banks.	
	Cantonal guaranties (22 banks).		Stock deposits (10 banks).		Bill portfolio (4 banks).		Amount.	Per cent.
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.		
<b>LIABILITIES.</b>								
Notes in circulation.....	143,832	9.75	24,050	7.52	73,346	65.50	241,228	12.43
Short-time liabilities.....	273,732	18.55	44,283	13.85	21,786	15.00	339,801	17.51
Total.....	417,564	28.30	68,333	21.37	95,132	65.50	581,029	29.94
Bill liabilities.....	11,841	.80	11,088	3.47	-----	-----	22,929	1.18
Other time debts.....	857,434	58.10	189,671	59.33	2,121	1.46	1,049,226	54.06
Sundry liabilities.....	188,949	12.80	50,626	15.83	47,993	33.04	287,568	14.82
Total.....	1,475,788	100.00	319,716	100.00	145,246	100.00	1,940,752	100.00

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General statement of the Swiss banks of issue on December 31, 1904—Continued.

	Nature of cover of notes.						All the 36 banks.	
	Cantonal guaranties (22 banks).		Stock deposits (10 banks).		Bill portfolio (4 banks).		Amount.	Per cent.
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.		
ASSETS.								
Legal cash funds .....	72,010	4.88	11,289	3.53	32,009	22.04	115,308	5.94
Other cash assets .....	8,799	.60	2,182	.68	1,440	.99	12,421	.65
Short-time claims .....	45,258	3.07	9,567	2.99	7,483	5.15	62,308	3.21
Total .....	126,067	8.55	23,038	7.20	40,932	28.18	190,037	9.80
Portfolio (discount and foreign bills) .....	161,666	10.95	22,394	7.00	47,709	32.85	231,769	11.94
Banking cover <sup>a</sup> total .....	287,733	19.50	45,432	14.20	88,641	61.03	421,806	21.74
Bills secured by collateral, etc .....	24,271	1.64	6,312	1.97	21,706	14.94	52,289	6.69
Other time claims .....	998,610	67.67	222,646	69.64	20,578	14.17	1,241,834	63.99
Total .....	1,310,614	88.81	274,390	85.81	130,925	90.14	1,715,989	88.42
Stocks .....	132,456	8.98	28,549	8.93	12,588	8.67	173,593	8.94
Sundry assets .....	32,718	2.21	16,779	5.26	1,733	1.19	51,230	2.64
Total .....	1,475,788	100.00	319,718	100.00	145,246	100.00	1,940,752	100.00

<sup>a</sup> Cover consisting of legal tenders and commercial paper.—TRANSLATOR.

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As a supplement to the foregoing figures, we add a conspectus of the joint statement of the Swiss banks of issue on December 31, 1904, prepared on different principles from the foregoing table. In the first table, in accordance with the requirements of the bank law, 40 per cent of the note circulation, which was not at the free disposal of the banks, was deducted from the total cash assets and the same amount was deducted from the total of the note circulation. In the second table this item has been duly brought into the account on both sides, which makes it possible plainly to perceive the effects of the legal requirements in question upon the liquidity of the banks. Moreover, it appeared to us desirable not to content ourselves with simply reproducing the general balance sheet of all the 36 banks, as drawn up by the board of note-bank inspectors; this general balance has been supplemented by three additional ones, made up from the various annual balance sheets of the separate banks, each of which permits a judgment to be formed concerning one of the three legally admissible classes of banks.

*Conditions of cover according to the general statement of December 31, 1904.*

	Nature of cover of notes.			All banks.
	Cantonal guaranties.	Stock deposits.	Bill port- folio.	
A.				
Cover by cash funds—	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Of the note circulation.....	50.06	46.94	43.64	47.80
Of the note circulation and the short-time liabilities.....	17.24	16.52	33.65	19.85
Of all debts to third parties.....	5.60	4.19	32.91	6.97
Cover by cash funds, by other cash as- sets, and by short-time claims—				
Of the note circulation and the short-time liabilities.....	30.19	33.71	43.03	32.71
Of all debts to third parties.....	9.79	8.56	42.09	11.49

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Conditions of cover according to the general statement of December 31, 1904—  
Continued.

	Nature of cover of notes.			All banks.
	Cantonal guaranties.	Stock deposits.	Bill portfolio.	
<b>Banking cover—</b>				
Of the note circulation and the short-time liabilities.....	<i>Per cent.</i> 68.97	<i>Per cent.</i> 66.49	<i>Per cent.</i> 93.17	<i>Per cent.</i> 72.61
Of all debts to third parties.....	22.36	16.88	91.14	25.52
B.				
After deducting the 40 per cent from the note circulation and from the cash assets:				
Cover by available cash funds of the note circulation and the short-time liabilities.....	12	11.54	29.09	14.28
Cover by cash funds and short-time claims of the note circulation and the short-time liabilities.....	23.01	31.54	42.75	29.70

The above figures appear to us worthy of attention in more than one respect. Above all, the fact forces itself upon our notice that the banking cover for all short-time liabilities decreased from 106 per cent to 67 per cent, and that the increase of the item "available cash and short-time claims" was slower by about one-half than that of the items "uncovered bank-note circulation" and "short-time liabilities." Another important point is that within the last-named item it was precisely the short-time part of the savings-bank deposits that showed the greatest augmentation, which gives a less favorable impression as regards the quality of the cover than would be derived from a merely quantitative consideration of the ratio of the figures.

As was to be expected, conditions varied very much as between the different classes of banks. While the banks

## *The Swiss Banking Law*

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that covered by bills the 60 per cent of their circulation not secured by specie approached in every respect the condition which may be designated as the normal condition of a bank of issue, the banks that covered by cantonal guaranties deviated most from this normal condition. With the former 33.65 per cent of their bank notes and all other short-time liabilities are covered by specie and with the latter 17.24 per cent; the metallic cover for all liabilities to third parties reaches 33 per cent with the former and only 5.6 per cent with the latter; the banking cover for all debts to third parties is 91.14 per cent with the former and only 22.36 per cent with the latter. After taking off the legally fixed 40 per cent of the note circulation from the total of the cash assets, the remaining 60 per cent of the circulation and the short-time liabilities show a metallic cover of 29.19 per cent in the case of the bill banks and only 12 per cent in the case of the banks with cantonal guaranty.

These dissimilarities were not only a menace to particular weak banks, but they actually endangered the entire system of the Swiss banks of issue. When some of the banks with immediate liabilities of hundreds of thousands of francs had available cash assets of only a few thousand francs, not only did their own solvency become questionable but they endangered the situation of all the banks; for it can not be doubted that if a single bank had been forced to suspend payments, even if only for a short while, the effects of this disaster would have been felt by all the other banks, and this to such an extent that even banks most fully provided with cash assets would have experi-

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enced, if only temporarily, difficulties in promptly meeting their obligations.

Let us once more look into the figures of the joint statement of all the banks, and the fact will at once strike us that for every 100 francs of assets only 6.59 is represented by cash, 11.94 by bills, and nearly all the remainder by investments of a long-time character; among which again 69 per cent consists of investments that are the most difficult to realize on, namely mortgage investments, which are the main part of the item "other long-time claims." It must also be borne in mind that the composition of the investments differed in the several classes of banks. In banks that cover their notes by bills, out of every 100 francs of assets 61.03 are banking cover, while 8.67 are stocks, and of the remaining 30.30 only 14.17 consist of "other time claims;" but banks with cantonal guaranties only show 19.5 per cent banking cover, the investments in stocks account for another 8.98 per cent, and the remainder of 67.67 per cent consists of "other time claims" and principally of mortgage investments. Between these two categories, both in respect of their importance and their condition, were the banks which secured their note holders by depositing stocks for the 60 per cent of their issue which was not covered by specie.

In order to make possible a conclusive judgment on these figures, we set side by side with the joint statement of the Swiss banks of issue for the 31st of December, 1886 and 1904, those of the German Reichsbank and the Belgian National Bank of the same dates, that of the Bank of France of 24th December, 1886 and 1904, and that of the

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Bank of Holland for March 31, 1886 and 1905 (see tables, pages 58-60).

What is first of all forced upon our notice on examining these figures is that the ratio of cover suffered diminution all along the line. With the Swiss banks of issue the metallic cover fell from 53 to 49 per cent; with the Reichsbank from 66 to 58 per cent; with the Belgian National Bank from 27 to 17 per cent, and with the Bank of Holland from 77 to 58 per cent; further, the banking cover for short-time liabilities fell from 111 to 71 per cent with the Swiss banks of issue; with the Reichsbank from 96 to 89 per cent; with the Bank of France from 87 to 86 per cent, and with the Belgian National Bank from 95 to 94 per cent. If we ask after the causes of these changes we get an answer the significance of which, as bearing on the condition of the bank, is different for the different institutions. We thus learn that the Belgian National Bank, which occupies a unique position in more than one respect, may hold a large part of its special note cover in foreign bills instead of in legal cash or bullion; we may likewise pass over the Bank of Holland, for which the deviations are very slight and the condition of which, moreover, shows no important changes. There remain consequently the Swiss banks of issue, the Bank of France, and the Reichsbank, for which this fall in the ratio of cover calls for explanation. A glance at the tables suffices to give the answer. The cause of this deviation in the case of the Reichsbank, as well as of the Bank of France, lies in the fact that the extraordinary increase in the transfer transactions necessitates large sums of cash deposits

SWISS AND FOREIGN BANKS OF ISSUE.

Summary balance sheets for end of 1886 and 1904.

	Swiss banks of issue (million francs).		German Reichsbank (million marks).		Bank of France (million francs).		Belgian National Bank (million francs).		Bank of Holland (million florins).	
	1886.	1904.	1886.	1904.	1886.	1904.	1886.	1904.	1886.	1905. <sup>a</sup>
<b>LIABILITIES.</b>										
Note circulation.....	134	234	1,009	1,600	2,719	4,258	379	694	214	259
Short-time liabilities in current account, etc.....	95	218	295	609	671	822	75	94	27	12
Short-time savings-bank deposits.....	40	122								
Total of short-time liabilities.....	269	574	1,304	2,209	3,390	5,080	454	788	241	271
Savings-bank deposits on time.....	101	271								
Other long-time liabilities.....	298	801	1	3	7	12	1	9		
Total of liabilities to third parties.....	668	1,646	1,305	2,212	3,397	5,092	455	797	241	271
Joint accounts (compensated).....	2		2	1	14	16	4	2	1	1
Own capital and reserves.....	143	<sup>b</sup> 259	144	<sup>c</sup> 245	228	224	71	82	21	25
Total liabilities.....	813	1,905	1,451	2,458	3,639	5,332	530	881	263	297
<b>ASSETS.</b>										
Cash in hand, coin and bullion.....	71	115	670	927	2,391	3,768	101	119	164	150
Other cash assets, without own notes.....	3	2	31	29						
Short-time credits in current accounts, etc.....	22	62	4	9			37	66		20
Total cash and available assets.....	96	179	705	965	2,391	3,768	138	185	164	170

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Domestic discount bills.....	161	200	523	966									
Foreign bills.....	42	31	23	46	555	625	216	394	52	57			
							77	164	-----	20			
Total of banking cover.....	299	410	1,251	1,977	2,946	4,393	431	743	216	247			
Loans on collateral.....	43	45	116	215	268	500	12	32	41	39			
Total cover, including loans on collateral.....	342	455	1,367	2,192	3,214	4,893	443	775	257	286			
Stocks and public securities.....	75	174	63	186	223	213	71	80	5	9			
Other assets of all kinds.....	396	1,276	21	80	202	216	16	17	1	2			
Total assets.....	813	1,905	1,451	2,458	3,639	5,332	530	882	263	297			

<sup>a</sup> Balance sheet of March 31, 1905.

<sup>b</sup> Of which amount 6,500,000 francs are not paid up yet.

<sup>c</sup> Of which 150,000,000 marks are capital, 65,000,000 marks surplus, and 30,000,000 marks paid in for new state bank shares. (Law of June 7, 1899, art. 1.)

Comparisons of the composition and cover proportions based upon the table of summary balance sheets.

	Swiss banks of issue.		German Reichsbank.		Bank of France.		Belgian National Bank.		Bank of Holland.	
	1886.	1904.	1886.	1904.	1886.	1904.	1886.	1904.	1886.	1905.
Note circulation as percentage of—	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>	<i>P. ct.</i>
The short-time liabilities.....	50	40.76	77	72.43	80	83.82	83	88.07	89	95.57
The entire amount of indebtedness to third parties.....	20	14.22	77	72.33	80	83.62	83	87.08	89	95.57
Cash holdings of coin and bullion as percentage of the bank cover.....	24	28.05	53	46.89	81	85.77	23	16.02	76	60.73
Banking cover as percentage of total assets.....	37	21.52	86	80.43	81	82.39	81	84.23	82	83.17
COVER IN PERCENTAGES.										
By cash funds—										
Of the note circulation.....	53	49.15	66	57.94	88	88.49	27	17.15	77	57.91
Of all the short-time liabilities.....	26	20.04	51	41.96	70	74.17	22	15.10	68	55.35
Of all liabilities to third parties.....	11	6.99	51	41.91	70	73.99	22	14.93	68	55.35
By the cash and other available assets—										
Of all the short-time liabilities.....	36	31.19	54	43.68	70	74.17	30	23.48	68	63.10
Of all the debts to third parties.....	14	10.87	54	43.63	70	73.99	30	23.21	68	63.10
Recognized banking cover—										
Of the note circulation.....	223	175.21	124	123.55	108	103.17	114	107.06	101	95.37
Of all the short-time liabilities.....	111	71.43	96	89.49	87	86.47	95	94.09	90	91.14
Of all the debts to third parties.....	45	24.91	96	89.36	87	86.27	95	93.22	90	91.14

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which do not bear interest. This causes a very considerable increase on the debit side of the balance sheet under the head of demand liabilities, while on the other side of the balance sheet there is no corresponding increase in constantly available funds; nor is it necessary, on banking principles, that such increase should take place in the same degree as in the case of bank notes. For it is exactly this transfer business, carried on by means of these non-interest-bearing deposits, which continually enlarges the difference between the total turn-over on the one hand and the total of the currency funds needed for this turn-over on the other, and which, therefore, renders it possible for the bank to alter the composition of its banking cover in favor of its bill portfolio as against its cash holdings. For every 100 francs of the assets which served as recognized cover, the amount of cash in the vaults of the German Reichsbank was 53 francs in 1886 and 47 francs in 1904; in the same period the proportion of the bill portfolio to the total assets increased from 38 to 41 per cent. The explanation respecting the Swiss banks of issue is, however, of a different nature. With a few exceptions the deposit-and-transfer business is not carried on by these banks, and it can therefore be assumed at the outset that not the same factors account for the deviation in the composition of their cover as in the case of the banks previously dealt with. With them the cause lies, on the one hand, in a development of the composition of investments entirely different from that in the case of the other banks and, on the other hand, in the development of their liability transactions. It is true that the total

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of their cash funds and their available outstanding debts rose from 96,000,000 to 179,000,000 francs (or nearly doubled), but, on the other hand, the total of the note circulation and the aggregate of the demand liabilities more than doubled in the same period, while the bill portfolio increased only from 203,000,000 to 231,000,000 francs, and consequently the banking cover for short-time obligations fell from 111 per cent in the year 1886 to 71 per cent in the year 1904. The entirely different character of these changes is clearly brought to light by the fact that, while the banking cover of the bank notes in the case of the Reichsbank was 124 per cent in 1886 and 123.5 per cent in 1904, the corresponding figures for the Swiss banks of issue were 223 per cent for 1886 and only 175 per cent for 1904, and though the notes of the Reichsbank are still 72 per cent of all the short-time liabilities those of the Swiss banks of issue are only 41 per cent. We see, likewise, on the side of assets the most unfavorable composition in the Swiss banks of issue. For every 100 francs of assets the Reichsbank shows 80 per cent in regular banking cover, the Bank of France 82 per cent, the Belgian National Bank 84 per cent, the Bank of Holland 83 per cent, and the Swiss banks of issue only 21.5 per cent.

The only bright side which the Swiss banks of issue present is the ratio of their own means (share capital and surplus) to their liabilities to third parties; this can be explained by the fact that the law of March 8, 1881, put the limit of the issue of notes of each bank at double the amount of its share capital or authorized capital, which brought about in the course of time a large increase in the

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amount of banking capital. The amounts owned by the banks form about 14 per cent of the liabilities of the Swiss banks of issue, with the German Reichsbank only about 10 per cent and with the Bank of France only a little over 4 per cent. It is altogether beyond the range of probability, even if we take a very pessimistic view, that one-seventh of all the assets of the Swiss banks of issue could be permanently lost, and for so much as this their own means furnish security. The *ultimate* solvency of the banks, which was foremost in the minds of the legislators in the year 1881, appears to be assured beyond all doubt. This conclusion will not be impaired upon an examination of the various items as regards their realizability. In point of fact, it has never been questioned.

As regards the other points in question, our comparison shows the following results: (1) As regards the cover in specie for the note circulation, the Swiss banks of issue rank behind the German Reichsbank, the Bank of France, and the Bank of Holland; only the Belgian National Bank shows a still more unfavorable proportion. (2) As regards the cover in specie for all the short-time liabilities, the Swiss banks also take the fourth place and are only ahead of the Belgian National Bank in this respect also. (3) As regards the metallic cover for all liabilities to third parties, the Swiss banks of issue take lowest rank; with them it is 7 per cent; with the Belgian National Bank it is 15 per cent; with the German Reichsbank 42 per cent; with the Bank of Holland 55 per cent, and with the Bank of France 74 per cent. (4) As regards regular banking cover for all liabilities, the Swiss banks of issue again take last place,

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and the difference between them and the other banks named is greatest here; it is 25 per cent against a cover varying from 86 to 91 per cent in the case of the other four banks.

We may sum up the result of these investigations as follows: The object of the act of March 8, 1881, to save the note holders from ultimate loss has been achieved to the fullest extent. Since this law entered into force the Swiss banks of issue have departed more and more from the normal condition of a bank of issue, which assures not only the ultimate solvency of the bank, but also its actual solvency at all times.

### SECTION III.—EXCHANGE POLICY.

The course of Swiss exchange is most clearly illustrated in the development of the rate for bills on Paris. Paris is the center where the largest engagements of Swiss commerce and industry are settled for international and especially over-sea transactions. Most of the supplies of corn, cotton, silk, coffee, oil, petroleum, etc., which come from Italy, North and South America, Roumania, or Russia, can be paid for only by drafts on Paris. For a part of these supplies, indeed, especially from India and South America, payment is due in London, but in reality this is almost always effected through the agency of the Paris market. If we now study the development of the French exchange rate we obtain a surprisingly unfavorable picture.

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*Rates of exchange.*

Year.	Average.	Lowest.	Highest.
1889	100.14	99.90	100.32
1890	100.16	100.00	100.32
1891	100.22	100.00	100.45
1892	100.10	99.85	100.31
1893	100.13	99.90	100.39
1894	100.04	99.89	100.26
1895	100.10	99.85	100.34
1896	100.24	99.85	100.48
1897	100.35	100.00	100.69
1898	100.36	100.12	100.71
1899	100.49	100.22	100.80
1900	100.54	100.29	100.80
1901	100.14	99.75	100.52
1902	100.30	99.97	100.70
1903	100.04	99.82	100.23
1904	100.15	99.85	100.50

These figures speak very plainly indeed. They prove that the exchange rate for bills on Paris had a continual upward tendency from the year 1894 to the year 1900, inclusive. It attained in the year 1900 an average height which is higher than the maximum rate of the years 1889 to 1896, and even the lowest rate of the year 1900 is above the gold point and is higher than the average rate of the years 1889 to 1896, inclusive. With the year 1901 an improvement of the situation set in. At the end of February, 1901, the rate for Paris fell below the gold point—a thing which had not occurred for fully two and one-half years. The reason that since then the line of development differs from that up to 1900 is that in the years 1901-2 and 1902-3 large amounts of Swiss investments were placed in France, and this resulted in the import of large sums of cash funds from France into Switzerland; and that since 1904 an increased demand for Swiss bills, producing

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a like effect, made itself manifest in France; and this in turn is explained by the fact that the French money market was in an abnormal condition, chiefly owing to the effects of having large deposits for Russian war loans lying in Paris. The actual issue of these war-loan bonds had to be delayed, although interest was being paid thereon, and these deposits were consequently used for profit-earning transactions.

If we now proceed to compare the rate of exchange on Paris with that on London and that on the German banking centers we shall find that there exists a parallelism between the two latter rates and the first named.

*Yearly average rate of exchange for bills on foreign banking centers.*

Year.	Paris. <sup>a</sup>	London. <sup>b</sup>	German bank centers. <sup>c</sup>
1892	100.13	100.72	123.54
1893	100.13	100.84	123.63
1894	100.04	100.64	123.38
1895	100.10	100.96	123.51
1896	100.24	100.92	123.71
1897	100.35	100.92	123.88
1898	100.36	101.40	124.06
1899	100.49	101.32	123.91
1900	100.54	101.04	123.48
1901	100.14	100.76	123.33
1902	100.30	100.88	123.29
1903	100.04	100.60	123.06
1904	100.15	100.72	123.36

<sup>a</sup> For 100 francs.

<sup>b</sup> For £4.

<sup>c</sup> For 100 marks.

An explanation of this upward tendency of the foreign exchange rates has been sought chiefly in the long-continued rise of the adverse balance of trade of Switzerland, and the consequent unfavorable condition of the balance of international payments.

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It is known that Switzerland's balance of trade grew materially worse in the years from 1885 to about 1900. Several of the surrounding States adopted protective tariffs, and as a result many articles could no longer be exported in the same quantities, or not at all, to either Germany, France, Austria, or Italy. On the other hand, the imports of foreign products continually increased, and it was inevitable that the adverse balance of trade should grow steadily greater. The excess of imports, which was only 47,000,000 francs in 1885, had increased by 1899 to 363,000,000. In order to judge these figures properly, we must not lose sight of the fact that the increase in the excess of imports is only due in a very small degree to an increased import of manufactured articles; it is chiefly due to the fact that in the second part of the nineties there was a very considerable expansion of Swiss commerce and industry, which brought about the investment of large sums in foreign machinery, etc., increased activity in the building trades, and a very greatly increased demand for foreign raw and partly finished materials. And we can already see the fruit of the establishment of new industries and the development of those already existing. Since the middle of 1898 the exports of Switzerland have uninterruptedly increased from quarter to quarter; the excess of imports fell from 363,000,000 francs in 1899 to 254,000,000 in 1902; since then it has again shown an upward tendency, chiefly owing to the rising tide in general business.

If we now compare the course of the balance of trade with that of the rate of French exchange, we can not help discovering a certain parallelism between the two series of

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figures concerned. The parallelism can not, of course, be uniformly the same throughout, as the rate of exchange on France was also influenced by other factors, which will be dealt with further on.

[In millions of francs.]

Year.	Imports.	Exports.	Excess of imports.	Per cent of excess.	Average rate of exchange for bills on Paris.
1895	915.85	663.36	252.49	38.1	100.10
1896	993.85	668.26	305.59	45.7	100.24
1897	1,031.21	693.17	338.04	48.8	100.35
1898	1,065.30	723.82	341.47	47.2	100.36
1899	1,159.94	796.01	363.93	31.5	100.49
1900	1,111.11	836.08	275.03	32.8	100.54
1901	1,050.00	836.56	213.43	25.5	100.14
1902	1,128.51	874.30	254.21	28.8	100.30
1903	1,196.16	888.52	307.64	34.6	100.04
1904	1,240.07	891.47	348.60	38.8	100.15

There can be no doubt that this parallelism is due to a causal connection between the two phenomena—the change in the balance of trade and the course of foreign exchange. From this indisputable fact a “theory of indebtedness” (*Verschuldungstheorie*) was deduced, which was intended to furnish a complete explanation of the unfavorable state of foreign exchange, and which was best presented by Doctor Geering, who laid special stress on the merchandise balance; he looked upon the merchandise balance as that part of the balance of payments which was statistically most readily ascertainable, and which was for Switzerland by far the most important; and he did not hesitate to declare that the course of the Swiss exchange rates was in great measure, if not exclusively, dependent on the balance of trade.

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Toward the end of the nineties persons who were skeptical about the Geering theory, mostly on account of the Paris rate of exchange remaining steadily above the gold point, made themselves heard. The annual report of the Swiss Handels- und Industrieverein for the year 1898 observes: "It almost seems as though the unfavorable balance of Switzerland's international trade no longer sufficed to explain the unfavorable condition of foreign exchange." Subsequent developments do not support Doctor Geering's theory, as even after the unprecedented improvement of the Swiss balance of trade which set in in the years 1899 and 1900 the yearly average rate of exchange on Paris showed no corresponding decrease, and its course since 1901, as above shown, can not be completely explained by the improvement in the balance of trade.

In a somewhat different manner this "theory of indebtedness" was presented by W. Speiser, who, in contrast with Geering, laid chief stress not on the adverse balance of Switzerland in merchandise transactions, but on its adverse balance in the international movement of capital. He expressed the opinion that the indebtedness of Switzerland to other countries was due to the large share which foreign, and especially French, capital had in Swiss enterprises and the large amount of Swiss securities placed abroad, particularly in France. The French capital which was released through the stagnation of enterprise in its own country caused by M. Méline's economic policy was placed abroad, partly in temporary, partly in permanent investments, and for a number of political and his-

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torical reasons found its way into Switzerland in specially large measure. The payments of interest and dividends on these investments which had to be remitted to France, and also occasional repayments of capital sums, very greatly increased the extent of the payments to France and as a consequence affected the rate of exchange for foreign bills.

A point which speaks from the very first against the "theory of indebtedness" as presented in the views of Geering, is the fact that if Swiss business had really made such considerable deficits year after year as would account for the high rate of exchange in accordance with this theory, this could not have been without effect on the country itself, in two directions; it would necessarily have brought down the country's taxable capacity and it would have led to a reduction of the standard of life of the masses of the people. But on the contrary the taxable capacity of nearly every canton has all along been, and still is, increasing, and it would be difficult to show that the rising demands as to the standard of life have not been satisfied, except in times of crisis.

Quite aside from this indirect argumentation, the two theories, that of Geering as well as that of Speiser, are untenable for the simple reason that they do not really explain the phenomena for whose explanation they were constructed. Both furnish an explanation of the rising rate for foreign bills, but neither can explain the fact that the yearly average rate of exchange on Paris was able to maintain itself in the years 1896 to 1900 at from 4 to 34 points above the gold point—4 in 1896 and 34 in 1900;

nor why the maxima stood above the gold point for a long time and even the minima in the years 1899-1900 did not fall below the gold point.

An explanation of this phenomena was given for the first time by Kalkmann in his *Untersuchungen über das Geldwesen der Schweiz und die Ursachen des hohen Standes der auswärtigen Wechselkurse*, which has been subjected to sharp criticism, but has never yet been refuted. What follows is based in the main on Kalkmann's discussion of the subject.

The system of the gold-premium policy of the Bank of France is well known; it is also known that this gold-premium policy has so far not had any detrimental effect in France, and this simply for the reason that France does not really need such a policy in view of her favorable balance of payments. When, at times, it becomes necessary to make large payments abroad, it is easily possible to withdraw gold from the French circulation, which is saturated with gold, and this puts a limit to the rise of the gold premium; whenever an unfavorable condition of the international money market has been long-continued, the Bank of France has always abandoned its gold-premium policy, and has resorted to a raising of the rate of discount, as the gold-premium policy was incapable of protecting the stock of gold.

The effects of this French gold-premium policy are, however, of a different nature as far as Switzerland is concerned. As a member of the Latin Union, Switzerland stands in very close relationship with the French money market, but as a result of the constitution of her banking

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system she enjoys the disadvantages but not the advantages of this relationship.

For a number of years preparations have been under way in Switzerland to go over to the gold standard and, in view of this prospective change of standard and the marked depreciation of the silver 5-franc pieces, the banks have found it desirable to get rid of their silver holdings. While the total of their metallic reserves increased from 57,000,000 to 115,000,000 francs between 1883 and 1904, their holdings of silver fell in the same period from 35,000,000 to 11,600,000 francs, and actually they now form only about 10 per cent of their total cash holdings.

Now, there are two considerations which influence the banks, in spite of having this large stock of gold—aside from times when circumstances are peculiarly favorable—not to put any gold into circulation, and which lead to the result that variations in the stock of metallic money, above all in critical times, take place almost exclusively in the silver holdings. The banks hold the gold tight, so as to stand ready when the gold standard is introduced, and moreover they are more or less forced into this policy by the French gold premium.

The French and Swiss gold coins and silver 5-franc pieces being unlimited legal tender in both countries according to the terms of the Latin coinage agreement, French commerce would settle the whole of its obligations to foreign countries by way of Switzerland, if there were a premium on gold in France and at the same time it was possible to obtain gold over the counter in Swiss banks without having to pay a premium; the international

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arbitrage business would not fail to take advantage of such a state of affairs; silver coins would be imported into Switzerland from France in order to be exchanged here at par for gold and this gold would then be imported into France and sold there at a premium; and these operations would be repeated until the gold holdings of the Swiss banks had melted away to nothing. If Switzerland is in the debt of either Germany or England, or if differences in the strain of the Swiss and the foreign money market cause the sending of capital abroad and if the total of the payments to be remitted abroad is in excess of the foreign bills held in Switzerland, then the missing amount must be sent off in gold. But since precisely in such times the banks of issue do not give out any gold at par, and since gold is not to be found in the channels of trade and can not, therefore, be withdrawn from trade as in France, it follows that the cost of the export of gold is increased by the amount of the gold premium, which in effect is equivalent to the raising of the gold point by the same amount. As, however, it is always possible to obtain gold from France in exchange for silver coins of the Latin Union by paying the gold premium, an upper limit is placed upon the rate of exchange for bills on any of the states that do not belong to the Latin Union. This maximum rate of exchange can always be ascertained by adding to the cost of sending gold from France to the country that is to receive the payment, and of exchanging it for legal tender currency of that particular state, the cost of transporting silver coin from Switzerland into France and the premium that has to be paid in Paris.

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In the adhesion of Switzerland to the Latin coinage agreement and in the working of the French gold-premium policy is accordingly to be found the explanation of the rise of exchange rates upon all those countries that do not belong to the Latin Union above the gold point. The question now arises, How can it be explained that the rate of exchange for French bills also, in spite of the uniformity of standard, has stood for long periods so considerably above the gold point?

Settlements between Switzerland and France are generally effected by sending foreign bills and checks to France. For reasons already stated, the amount payable to Paris is generally larger than that receivable by Switzerland, and in this case the demand for bills can not be covered and the rate for French bills goes up rapidly. When it reaches 100.25 the export of silver to France becomes profitable.

Most of the great banks of issue, especially the German Reichsbank and the Austro-Hungarian Bank, act in similar cases in the following manner: They throw a part of the foreign bills they hold in their portfolios upon the open market and this causes a depression in the rate of exchange, and the danger of gold export is for the moment averted. The depressing effect on the exchange rate produced by the sale of foreign bills on the part of the central bank is supported by yet another factor: Many years' experience having shown that at the moment when the Reichsbank begins to sell English bills, for instance, the London exchange rate has already reached its maximum and that a further increase is not probable, but that a drop

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in the rate may be expected with certainty, it has become an established custom that as soon as the Reichsbank parts with foreign bills other banks follow suit at once, well knowing that at this moment the best rate of exchange is obtainable. In consequence of this increase in the offers of foreign bills, the rate of exchange falls as a matter of course; and if it was only a question of a temporary unfavorable change in the rate of exchange, the danger of an outflow of gold has passed without the Reichsbank having found it necessary to raise its discount rate.

The policy pursued by the Swiss banks of issue in like cases was in direct opposition to this policy. The cover in specie, as previously stated, amounted to say 50 per cent or at the best 55 per cent, and this includes the 40 per cent of the amount of the circulation which could not be touched. As this cover in specie, moreover, consisted to the extent of about 90 per cent of gold and as the banks did not wish to touch this gold, fearing that it would be exported to France, the whole of the Franco-Swiss payment operations rested in reality on the insignificant stock of silver that was split up among the thirty-six banks. When the rate on Paris exceeded 100.20 or 100.25 and consequently silver was withdrawn for export, then the Swiss banks of issue had to buy bills on France in order not to be entirely without available ready money and in order to reimport, as soon as possible, the silver that had been drawn from them. Accordingly while the German Reichsbank and the Austro-Hungarian Bank, the instant the gold point is passed, offer foreign bills for sale in order thereby to depress the rate of exchange, the Swiss banks of issue,

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in the same situation, figured as buyers of foreign bills and by their purchases drove the rate of exchange still higher up.

This explains why it is possible for the Paris exchange rate to get beyond the gold point in spite of the uniformity of the currency; the relief of the bill market by silver exports was counterbalanced by the purchase of foreign bills on the part of the banks of issue. There was no longer any upper limit for the French exchange rate, because every export of silver to France created an increased demand for French bills, and parallel with this went the rise of the rate of exchange for these bills. As the dependence of Swiss exchange rates upon the height of the French gold premium of itself goes far to explain why the gold point, elsewhere a fixed quantity, has in Switzerland a variable character and rises and falls with the Paris gold-premium, it followed, from the situation just depicted, that the gold point ceased to enter at all into the determination of the rate of exchange for Paris bills, and the Swiss currency consequently in this respect took on the character of a depreciated paper currency.

It was not long before speculators began to turn this situation to their advantage. We do not refer to the export of metallic money for the settlement of business obligations, but to the regular business of sending silver 5-franc pieces across the French frontier, which is known in business circles as "Drainage." The entire process is extremely simple, and involves no risk for the speculator. It does not yield a large profit, but the profit is certain, and through the possibility of frequent repetitions of the opera-

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tion may be made very considerable. The manipulation is carried out in the following manner: The speculator presents at the counter of a Swiss bank of issue Swiss bank notes and demands hard cash for the same, which the banks are legally bound to furnish; this hard money he dispatches across the French frontier, where it is also legal tender. He exchanges it there either for notes of the Bank of France or for checks on Paris. These he brings home to Switzerland, where he never has any difficulty in selling them, pocketing a larger or smaller profit according to the height of the rate of exchange for bills on Paris. The Swiss bank notes received in payment are again presented at the counter of a bank of issue for redemption in hard cash, and the game is played afresh. The "legitimacy" of this "draining" operation could not be questioned, and it was therefore impossible to combat it directly; and the minor difficulties placed in its way at first by the banks could not have the slightest effect.

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The following table will give an idea of the extent of these operations:<sup>a</sup>

Year.	Imports and exports of silver money from, or to, Switzerland (in millions of francs).						Rate of exchange on Paris.	
	Total transactions.			Franco-Swiss transactions.			Average.	Maximum.
	Im-ports.	Ex-ports.	Excess (+) defect (-) of imports.	Im-ports.	Ex-ports.	Excess of im-ports.		
1892	31.3	26.6	+ 4.7	27.9	24.2	3.7	100.10	100.31
1893	33.5	<sup>a</sup> 42.6 (31.2)	- 9.1 (+2.3)	29.7	27.3	2.4	100.13	100.39
1894	26.3	<sup>a</sup> 34.0 (16.5)	- 7.7 (+9.8)	22.6	14.1	8.5	100.04	100.26
1895	44.2	23.9	+20.3	41.9	20.8	21.1	100.10	100.34
1896	49.3	28.6	+20.7	47.6	27.3	20.3	100.24	100.48
1897	67.0	37.2	+29.8	53.3	34.1	19.2	100.35	100.69
1898	76.9	40.5	+36.4	68.9	37.2	31.7	100.36	100.71
1899	110.2	45.3	+64.9	102.9	41.7	61.3	100.49	100.80
1900	84.0	32.0	+52.0	79.5	28.2	47.3	100.54	100.80
1901	34.3	11.3	+23.0	30.2	8.7	21.5	100.14	100.52
1902	61.6	15.7	+45.9	56.3	13.1	43.2	100.13	100.70
1903	25.8	7.5	+18.3	23.2	5.2	18.0	100.04	100.23
1904	41.7	12.7	-29.0	38.7	10.4	28.3	100.15	100.50

<sup>a</sup>The large export figures of the years 1893 and 1894 are substantiated by the fact that about 29,000,000 francs of Italian subsidiary coins were rejected, in accordance with the terms of the convention. The figures in parentheses give the traffic after deducting the Italo-Swiss turnover.

As to the reasons for these extraordinary proceedings in the Franco-Swiss metallic-money traffic we need not lose another word here; the explanation has been given in the

<sup>a</sup>In considering the above figures one must not lose sight of the fact that the figures for the imports are far more reliable than those of the exports. Since, from the nature of the case, it is sought to keep the drainage concealed from official notice, by far the greater part of the exports escape the observation of the officers who gather our trade statistics. While the export figures, accordingly, are not to be trusted, the figures given for the import of silver coins are not only far more trustworthy but may be regarded as furnishing the measure of the outflow of silver, including the entire drainage. In support of this view we cite the figures for the year 1899, in which year the declared exports showed an increase of only 4,500,000 francs as compared with the previous year, while the undeclared exports increased by 30,000,000 francs—that is, rose to nearly double the figures of the preceding year.

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foregoing. As regards their effects and influence we must make a distinction between two sides of the question—the influence upon the Swiss banks of issue themselves, and the influence upon Swiss economic conditions.

This position of affairs meant such a monstrous financial load for the banks of issue that, under the pressure of these circumstances, contrary to their custom, they aroused themselves to protect the currency, and entered into a series of special agreements. How great these losses were for some of the banks may be seen from the fact that, for instance, the Cantonal Bank of Berne was compelled to close its branch office near the French frontier at Porrentruy, and that the Bank of Geneva, which was most exposed to the drainage, renounced its right of issuing notes in the spring of 1899, after having sacrificed from 1895 to 1899 not less than 1,070,000 francs for supplies of silver currency from France aggregating 173,000,000 francs.

As early as the year 1893 the plan was put forward by the concordat banks to distribute the cost of importing silver coins among all the banks in proportion to their note issues, instead of throwing it entirely on the shoulders of the banks of Geneva, Neuchatel, Basle, and Berne, as had been the case owing to the geographical position of these towns. It was held that the importation of specie was being carried on in the common interest, and that the notes, too, which the “draineurs” presented to frontier banks for redemption, emanated from all the various banks. It is not surprising that those banks that were not directly interested in the subject refused to give their

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sanction for a long time, and that only under the pressure of the events of 1899 was a scheme of united action, as drafted by one of the frontier banks, accepted. The terms embodied in this understanding were principally the following: "The banks agree among themselves to make good part of the expenses which those banks that import specie from abroad incur in the process. Such banks as prevent the export of specie by special arrangements have also a claim to such reimbursement. The committee will settle the details of this by special regulations. Every bank agrees to contribute for this purpose a yearly contribution not exceeding one-tenth of 1 per cent of its actual average yearly issue of notes." This agreement went into force on July 1, 1899.

Far more important than the losses sustained by the banks is the injury to the general economic interests of Switzerland and the endangering of her entire system of international payments, caused by a situation unique in the history of banking—a situation, namely, in which the banks of issue of a country with an advanced economic organization are able to maintain their solvency only by continual importations of metallic money from abroad, at great cost, under the most unfavorable conditions, and to the injury of their own constituency. The depreciation of the Swiss exchanges had practically the same economic effect in Switzerland as a prohibitive tariff. In the annual report for 1898 of the Zurich Silk Industry Association it is stated that "the importation of raw silk from the East Indies is handicapped very considerably by Swiss exchange being at a discount as compared with

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French;" and this statement was really applicable to all supplies of foreign goods, though the burden may not have been everywhere perceived. According to the trade statistics, the loss of exchange at the rate of 6 to 7 per mille would mean a yearly average of about 500,000 francs in round figures.

The fact that since the year 1901 the disadvantages described have not made themselves felt to quite as great an extent as formerly does not alter this situation or the judgment which must be passed, on the strength of it, upon the exchange policy of the Swiss banks of issue. This judgment can not be affected by the question whether or not, owing to other causes upon which the banks of issue had absolutely no influence, circumstances finally improved. For our verdict the fact suffices that the exchange policy of the banks of issue was not able to prevent such a state of affairs as that which existed in the years 1896-1901.

We have now, at the close of our investigation of the work of the Swiss banks of issue in the field of exchange policy, arrived at a result just as unfavorable to them as was the result of the investigation of the degree of their solvency. They have not been able to execute the paramount task of banks of issue, that of protecting the country's exchanges and maintaining them at a proper height. Although they can not be held entirely responsible for the unfavorable condition of the rates of foreign exchange, the foregoing investigations have amply shown that by their policy in regard to investments and cover they helped to bring about this condition.

### CHAPTER III.

#### THE FIGHT FOR THE CENTRALIZATION OF THE NOTE-BANK SYSTEM.

##### SECTION I.—THE NEW ARTICLE 39 OF THE FEDERAL CON- STITUTION.

The unfavorable effects of the act of 1881 began to show themselves within a few years after it went into force. Attention was repeatedly drawn, especially by Nationalrat <sup>a</sup> Cramer-Frey, to the unsatisfactoriness of the situation created by the banking law. It was this gentleman who first urged in the Nationalrat the necessity of a reform. The motion he made on June 4, 1885, was as follows: "The Bundesrat is invited to examine the question—and to report thereon as soon as possible—whether article 39 of the federal constitution should not be altered to the following effect: Legislation relating to the bank-note system is a matter for the Confederation. The Confederation is empowered to grant the exclusive right to issue notes to a bank to be placed under its supervision and management." In support of his motion Cramer-Frey first touched upon the evils which were aggravated by the bank-note law—the untenable position of the Swiss banking system and the dangers to which it was subject, dangers created in part by the law. He then went on to show that the evil had its root in the system of

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<sup>a</sup>See footnote p. 16.

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a multiplicity of banks with great differences in the nature of their business and with conflicting interests, which abandoned the most vital interests of business to the play of chance and competition; and finally that the system itself must be given up, as mere alterations of the bank-note act could not remedy the evil.

By a vote of 71 to 43 the motion of Cramer-Frey was defeated. His contentions were, however, not refuted. The figures he brought forward in order to prove that the existing situation was untenable were met with the assertion that "the solvency of our banks was beyond all doubt and that it was better than that of any foreign bank."

Soon enough the opportunity arose for deciding the question whether the complaints made against the Swiss banks of issue were justified or not. Already toward the end of the year 1886 war rumors were current, and at the beginning of 1887 the political outlook was so very grave that the Federal Finance Department saw fit to send out a confidential circular dated March 1, 1887, in which the fear was expressed that the continuous and immediate redemption of notes in critical times was not assured in the case of all the Swiss banks of issue, there being in many of them inadequate cash holdings and sometimes also a lack of other short-time or easily realizable assets. The banks were requested in this circular "to make endeavors to reduce the note circulation and at the same time to strengthen their holdings of cash, so as to have enough funds in case unexpected events should make it impossible to obtain specie from France." The circular

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closed with the statement that the Confederation could not undertake any responsibility for the liabilities of the banks in the event of hostilities breaking out, and that it must strictly observe the terms of the law. At the moment when this circular was sent out the rate of Paris bills moved very closely round the gold point; the importation of metal from France was only possible with considerable loss, and, in spite of the official threat on the part of the military authorities that the export of silver would be prohibited, it was not found possible to prevent several hundred thousand francs flowing out into France. At the same time further withdrawals of money were experienced at the counters of the banks of issue. In the wake of the circular of the Fiscal Department, as though to emphasize it, there followed withdrawals of specie on the part of the Federal Treasury and notice of the withdrawal of deposits which were needed by the federal administration to pay for the purchase of coal, provisions, corn, and fodder; similar withdrawals were also made by other public and private administrations and, in addition to this, great demands were made upon the banks by private individuals and by industrial concerns, some of which exerted themselves, at the very beginning of the threatening political developments, to lay in very large cash reserves.

The history of bank crises furnishes a number of instances in which a strong central bank of issue has kept down an incipient panic of this kind with perfect ease. It is only necessary for the bank to discount liberally and promptly, be it even at a higher discount rate, in order to

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prevent the belief gaining ground that there is no money to be had at all. In words that have become classical and which are still absolutely to the point, the governor of the Bank of England set forth this policy during the days of panic in 1825: "We lent it by every possible means and in modes we had never adopted before; we took in stock on security, we purchased exchequer bills, we made advances on exchequer bills, we not only discounted outright, but we made advances on the deposit of bills of exchange to an immense amount—in short, by every possible means consistent with the safety of the Bank, and we were not on some occasions overnice. Seeing the dreadful state in which the public were we rendered every assistance in our power." After a day or two of this treatment, the entire panic subsided and "the city" was quite calm.

The policy of the Swiss banks was different; several institutions refused all requests for discounts; others made discounting almost impossible by fixing an exorbitant discount rate and by scrutinizing the bills offered with greatly exaggerated care; a number of other banks again made difficulties about the redemption of notes<sup>a</sup> which, though it can not be excused, can at least be understood on the ground that a number of the important banks which had several millions of hard cash lying in their vaults had arrived very near to their 40 per cent cover limit, which they dared not pass. Only after it had become known that the Bundesrat had resolved on the issue

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<sup>a</sup> Cases occurred in which banks of issue, obeying the letter but violating the intent of article 21 of the banking act, refused to send off by post the equivalent in metal of notes sent in for redemption. They declared that they were obliged to redeem their notes only when personally presented at their counter.

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of federal exchequer bills in the event of serious complications did the panic subside; but in the meantime it had become recognized, and was everywhere emphatically felt, that a country at so advanced a stage of economic development as Switzerland could not permanently tolerate a banking system that broke down at the least provocation.

Immediately after the political situation had cleared up the fight for reform was begun with vigor. In April, 1887, the question was debated at Lausanne at the meeting of the Swiss Handels- und Industrieverein, and in October of the same year this society submitted to the Bundesrat an expert opinion on the bank-note system based upon the result of the inquiries they had set on foot. In the course of 1887 the banks of issue were individually invited by the Board of Bank-Note Inspectors to submit proposals for the revision of the law. Expert opinions were obtained from bank managers and economists, and all over Switzerland a number of meetings were held.

There were two opposing views expressed in the report—which reflected views then prevailing—submitted by the Swiss Handels- und Industrieverein. One of these views was partly expressed in the résumé given in the preface. It laid chief stress on the demand for the establishment of a central bank, but it also provided for the case of this demand not being fulfilled, and in that event set forth the amendments of the law which were to be regarded as a minimum. These were as follows: (1) Fixing of the minimum capital of every bank authorized to issue notes at not less than 2,000,000 francs; (2) raising of the special

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metallic cover for the notes from 40 per cent of the amount of issue to 50 per cent of the circulation, together with repeal of the absolute prohibition to touch this cash reserve, the banks being given the right to let it fall to 30 per cent of the circulation for a period of not longer than eight days upon notice to the Board of Bank-Note Inspectors; (3) the remaining 50 per cent of the note circulation and the entire amount of the demand liabilities to be covered by the bill portfolio; (4) restriction of the sphere of activity by excluding business unsuitable for banks of issue; (5) levying the tax payable on notes on the average circulation, instead of on the authorized issue, as hitherto.

The second proposal, notably supported by Cramer-Frey, Joos, and Curti, members of the Nationalrat, set itself the task of establishing a central bank of issue. Joos and Curti favored the creation of a state bank and Cramer-Frey had in view the establishment of a private central bank; for this it was proposed that article 39 of the federal constitution be altered.

The Bundesrat itself delayed the drafting of a bill until such time as the contemplated federal law respecting debt recovery and bankruptcy, a large part of which would serve as basis for the bank-note act, might be completed. In the meantime certain preliminary work was undertaken, a commission was asked to attend a meeting at Berne and a provisional draft was put before them to deliberate upon. Only on July 23, 1890, was a draft of a law respecting the revision of the banking law of March 8, 1881, laid before the Federal Chambers. The Bundesrat recommended in this document a mere revision of the existing law, the sys-

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tem of multiplicity of banks being retained, and the reforms proposed being based mainly upon the report of the Swiss Handels- und Industrieverein; but at the same time there could be observed in the message a tendency in favor of a central bank. It was not surprising, considering that a revision would necessarily affect many and various interests, that the bill found strong opposition in some quarters. It was, however, acknowledged on the whole that the revision of the present law was merely to be regarded as a transitional stage toward the monopolization of the business of issuing notes.

As compared with the act of 1881 the bill of the Bundesrat showed the following novel features: (1) Increase of the minimum amount of share or authorized (*dotation*) capital of a bank of issue to 1,000,000 francs; (2) requirement of a cash reserve of 50 per cent of the note circulation; (3) abolition of cantonal guaranties for the 50 per cent not covered by specie, this to be covered exclusively by the bill portfolio or deposits of securities; (4) requirement that bills serving as cover for notes be kept separate from other bills held by the bank, and that their face value represent 120 per cent of the amount of circulation for which they serve as security; (5) requirement that only securities that are officially quoted be utilized as cover for notes, and that they must be deposited at a federal office; (6) prohibition of the contracting of short-time liabilities; (7) more stringent measures as regards the redemption of notes; (8) increase of the federal bank-note tax to one-tenth of 1 per cent of the circulation and ~~one~~ twentieth of 1 per cent of the value of the cover in

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securities, and increase of the cantonal tax to 1 per cent of the circulation not covered by metal.

This bill, however, never reached the stage of parliamentary consideration; the growth among the people, and in the Bundesversammlung itself, of the sentiment in favor of a central bank shoved it into the background.

The following resolution was carried on the suggestion of Nationalrat Joos at the general Swiss Workmen's Meeting held at Olten in April, 1890: "The Swiss Workmen's Assembly expresses the expectation that the Federal Chambers in the coming June session will subject article 39 of the federal constitution to a revision with the object of introducing a bank-note monopoly. Should this expectation not be fulfilled, the Swiss Labor Federation will take it upon themselves to collect 50,000 signatures in order to bring about the requisite amendment of the constitution by means of a popular movement." The Federal Chambers, already influenced by the message of the Bundesrat, at the June session appointed each a special commission to study the bill that had been prepared by the Bundesrat, but before these commissions had entered on their work, at the autumn session of the Bundesversammlung, the Nationalrat by a heavy majority voted urgency for a motion made by Keller, inviting the Bundesrat to submit a report and proposal on the revision of article 39 of the federal constitution, with a view to a monopolization of the issue of notes and the creation of a central banking institution upon which the note monopoly was to be conferred. The Bundesrat, which was only waiting for the initiative of the Bundesversammlung, pre-

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sented as early as December 30, 1890, a report and proposal of the character contemplated in the motion; and as in the meantime Joos had been actively engaged in collecting signatures with the result that 82,000 Swiss citizens demanded the alteration of article 39 of the Swiss federal constitution so as to permit a monopoly and of a federal bank, the Bundesrat prepared a new article 39 of the federal constitution, which authorized the note monopoly and left to legislation the solution of the problem of its actual establishment. After lengthy parliamentary debates this proposal was laid before the people and on October 18, 1891, the revised article 39 was adopted as part of the federal constitution by 231,578 votes against 158,615, i. e., by a majority of 73,000 votes. The Cantons of Fribourg, Grisons, Tessin, Vaud, Valais, Neuchatel, and Geneva, and the two half Cantons Obwalden and Appenzell Within, gave majorities against the amendment, there being in these Cantons 87,367 votes against the proposal and only 33,140 in favor of its acceptance. In the remaining Cantons the figures were 198,438 votes for and 71,248 votes against the proposal. The new article 39 of the federal constitution is as follows:

“The Confederation shall have the exclusive right to issue bank notes and other currency of a similar nature.

“The Confederation may exercise the exclusive right of the issue of bank notes through a state bank under a separate administration, or may transfer it to a central joint-stock bank to be established, which shall be managed with the cooperation and under the supervision of the Confederation, the right of repurchase being reserved by the latter.

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“The chief function of the bank possessing the bank-note monopoly is to regulate the monetary circulation of the country and to facilitate its exchanges.

“The net profits of the bank, over and above fair interest or dividends upon the dotation or share capital and the necessary transfers to surplus, shall belong to the Cantons to the extent of at least two-thirds.

The bank and its branch establishments shall not be subjected to taxation on the part of the Cantons.

“Except in case of necessity in time of war, the Confederation can not declare a legal obligation to accept bank notes or any similar token money.

“The location of the bank, its basis and organization, and in general all matters pertaining to the execution of this article are to be determined by federal legislation.”

### SECTION II.—THE BILLS OF 1894 AND 1899.

In the message accompanying the revision bill the Bundesrat declared that although it could not escape the conviction that a thorough reform of the Swiss bank-note system could not be accomplished by means of a law based on a system involving a multiplicity of banks, but could be effected only by the centralization of the note issue through the creation of a Swiss state bank exercising a bank-note monopoly, yet it presented only a draft of a revised bank-note act on the basis of the existing system, “because we doubt whether more far-reaching, thorough-going reform propositions, which would have to be preceded by a revision of article 39 of the federal constitution, would stand a chance of being accepted, and we fear that their rejection would result in a long postpone-

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(5) leading thoughts for the execution of article 39 of the federal constitution, submitted to the finance department by Bank-Note Inspector Schweizer; (6) proposal of the Bank of Basle sent in on behalf of the group of pure private banks; (7) opinion of the mixed banks, submitted by the Cantonal Bank of Vaud; (8) organization project of the group of cantonal banks; (9) proposal by Dr. Konrad Escher; (10) proposal by former Nationalrat J. J. Keller.

In these various contributions three points of view are chiefly noticeable. A pure state bank was advocated by the left wing of the Democratic party, represented by Nationalrat Hirter, of Berne; by the socialistic group of the Bundesversammlung, represented by Nationalrat Curti; by the Gruetliverein; and by the Bauernverein. The motives were of the most divergent nature. Some, and, above all, the experts, who advocated a state bank, were moved by legal and economic considerations; others were influenced by a dislike of private capital and by tendencies to state socialism; the great mass by dislike of the stock exchange and of speculation; but it must not be overlooked that vague hopes were also entertained of low interest and easy credit. The idea of a private central bank was especially supported by the circles of high finance and also, under the leadership of the Swiss Handels- und Industrieverein, by the business community. In politics this position was taken by the right wing of the "Freisinnige" party, and, under the leadership of Cramer-Frey, by the liberal center and a portion of the liberal conservatives, who were also influenced by aversion to an

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increase of federal power. Finally, in French Switzerland and among the representatives of cantonal finance, the old antagonists of a central bank made themselves heard and demanded the establishment of a "bank of issue on a federalistic basis." They proposed the erection of a "bank of the confederation," which was to make the notes and distribute them among the established banks of issue. These were to give up their special designations and become branches of the central institution, but aside from this they were to retain their independence and have their own management and administration. They were to act as a unit only in regard to the obligation of note redemption, and would have organs of common action in an assembly of delegates and in a central office.

Very important for the progress of the question was the change that took place in 1891 in the conduct of the Finance Department; Nationalrat Hammer, who was a pronounced friend of the idea of a private bank endowed with the bank-note monopoly, was succeeded by a democrat, Nationalrat Hauser, who was formerly the head of the Fiscal Department of the Canton of Zurich, a man of wide professional knowledge and of great decision of character. After he had carefully examined the various proposals and projects he joined the group of supporters of a pure state bank and as early as November 30, 1893, he submitted to the Nationalrat his proposals for the settlement of the question "state bank or private bank?" In his proposals he pronounced himself in favor of a pure state bank, and at the same time he set forth in a series of theses the way in which the plan should be carried out. These theses,

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which formed the basis upon which the bill was afterwards drawn, were as follows: " Berne is regarded as the proper site for the bank. The chief object of the bank is, by means of a uniform and careful discount policy, to regulate the monetary circulation of the country and to facilitate its exchanges by developing the transfer and draft business. The bank must also transact all the business of the Federal Treasury free of charge. The sphere of activity of the state bank shall, to this end, be restricted to that of a pure note, transfer, and discount bank; such business as that of lending in current account, mortgage transactions, savings-bank business, buying and selling of securities on account of third parties, shall be reserved for the cantonal and the private banks. The cantonal banks, which are all subject to cantonal laws and responsible to the cantonal authorities, and which transact such business as the state bank is not at liberty to engage in, can not become branches of the state bank. On the other hand the state bank will enter into close relationship especially with cantonal banks in regard to the rediscounting of bills, the advancing of money on securities, and the check, transfer, draft, and collection business. The state bank shall also be empowered to acquire, by mutual agreement, existing banks of issue (either public or private) with their assets and liabilities, in so far as the absorption of them is compatible with the functions of the state bank as above prescribed, and these absorbed banks may be organized into branch offices. Negotiations are to be entered upon for these purposes as soon as the act goes into force. The transaction of all treasury business without compensation is not to be con-

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sidered as a mere transfer business, but must be regarded as a duty of the state bank and must be treated as a separate branch of its business; the bank must undertake the obligation of accepting and making payments for account of the Confederation free of any charge, and must cash all drafts of the state treasury at its main office and all branch offices, though only up to the total amount standing to the credit of the state treasury. The bank may also be obliged to undertake the management of securities belonging to the Confederation. Apart from the two-thirds share of the net profits which the constitutional article secures to the Cantons, the latter are also to be permitted to participate in supplying the original capital of the bank. The administration of the bank shall, within the limits to be prescribed by law, be absolutely independent, and free from all influence on the part of the political authorities. But the bank shall be, nevertheless, under the supervision and control of the Bundesversammlung. After the lapse of a reasonable period set down for the withdrawal of the old notes, the state bank shall be obliged to redeem all the remaining circulating notes, and on the other hand the present banks of issue shall hand over to it the equivalent of such notes either in cash or discount bills. The provision of the present bank act, that after the expiration of thirty years the equivalent of such notes as have not been presented for redemption shall be handed over to the Swiss invalid fund, should also be incorporated in the new law."

At the sitting of the Bundesrat of the 24th of January, 1894, Bundesrat Hauser succeeded in having the subject

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brought to a vote, and after 3 members voted against and 3 members for the theses of the Finance Department the president of the Confederation (Col. Emil Frey) threw his casting vote in favor of their acceptance, and the Finance Department was asked to work out a draft of a state bank law. The Finance Department submitted such a draft to the Bundesrat on May 24, 1894, and it was discussed and accepted by the Bundesrat at its meeting of July 5, 1894, and laid by this body before the Bundesversammlung, with a message, on October 23, 1894. The Nationalrat, which had the priority in this matter, decided at the extraordinary spring session of 1895, after rejecting several motions to the contrary, to consider the bill and message received from the Bundesrat, and at the following summer session the deliberations commenced. The chief alterations of the bill made by the Nationalrat consisted of certain grants to the Cantons and concerned their participation in furnishing the bank's capital and in the election of the bank council; the reduction of the rate of interest payable on the capital from 4 per cent to 3½ per cent, and the increase of the share of the Cantons in the net profits from two-thirds to three-fourths. In December, 1895, the project came before the Ständerat, which assented to most of the alterations made by the Nationalrat, but pronounced in favor of the selection of all the members of the bank council by the federal council and the assigning of the entire net profits to the Cantons. At the following extraordinary March and June sessions of 1896 a compromise respecting the points on which they were at

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variance was agreed upon by the two chambers, and it was decided to carry over 25 per cent, instead of only 15 per cent, of the net profit to the surplus and to hand over the entire remaining profit to the Cantons. The Cantons also received the privilege of a special representation in the bank council, consisting of ten delegates to be chosen by an electoral college composed of one delegate each for every Canton and half Canton. This law was passed by the Nationalrat at its sitting of June 16, 1896, by 89 against 27 votes, 3 members not voting and 26 members being absent, and in the Ständerat it was adopted on June 18, 1896, by 24 against 17 votes, 2 members not voting; and under date of June 18, 1896, the law was published in the Bundesblatt on July 10, 1896, under the title of "Law concerning the establishment of the Swiss Federal Bank."

Immediately after the passing of this law the antagonists of a State Bank did all they could to put the referendum into operation, and naturally those who opposed a central bank, whatever its form might be, supported this agitation very heartily. In view of the heated controversies that had raged for years on the bank question, it was not difficult to secure, within a short space of time, more than twice the 30,000 signatures required. Though in the month of October, 1896, 79,123 signatures demanding the referendum had already been received at the Federal Chancellery, the Bundesrat decided on October 30 to fix the poll for the 28th of February of the following year, during which long interval there was a constant stream of speeches and canvassing tours in

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behalf of the law that had been challenged. In spite of these endeavors the law was rejected by 255,984 votes against 195,764, or, what gives a better idea still, by a majority in 16 Cantons and half Cantons. Only the Cantons of Zurich, Berne, Glarus, the two Cantons of Basle, Schaffhausen, Appenzell without, Aargau, and Thurgau voted in the affirmative. French Switzerland voted solidly against the law; in Zurich, Berne, and Aargau there were strong minorities.

The figures of this referendum vote may be interpreted in different ways, according to one's own political views, but one thing is certain—that the 200,000 Swiss citizens who declared themselves in favor of a pure state bank represent a more homogeneous mass than the 260,000 persons who voted against it. Among those that accepted the law, three groups can be distinguished: The Left, which as a matter of principle desires to assign to the Confederation certain duties; the convinced friends of the state bank system; and, thirdly, those—and their number was rather considerable—that simply voted “yes” in order to put an end to existing conditions, although they would have preferred a private bank. Among the rejecters four groups may be distinguished: First, there is the political opposition, which votes “no” on principle at every referendum, and the number of this class is estimated at some 150,000; the second group of the rejecters, chiefly from French Switzerland, feared that the creation of the federal bank would mean an increase of federal power, and saw in the unlimited liability of the Confederation a mixing up of the credit of the Confederation with that of the bank; the third

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group was influenced by considerations of cantonal finance—they feared that the revenues of the Cantons might diminish, owing to reduced profits on the part of the cantonal banks; the fourth group consisted chiefly of adherents of the Swiss Handels- und Industrieverein, who, as a matter of principle, would only give their consent to the establishment of a central bank of issue upon a private basis.

Article 39 of the federal constitution continued, even after this referendum vote, to require the creation of a central bank of issue, and a number of facts pointed to the conclusion that even the antagonists of the bill that had been rejected, or at least a part of them, were, in spite of the people's negative decision, alive to the necessity of centralizing the issue of bank notes.

At the extraordinary March session of 1897 of the Bundesversammlung Assembly, which was held shortly after the referendum vote, two motions were put forward in the Nationalrat from precisely those quarters from which the severest attacks on the state-bank plan had come, and both of these motions aimed at the establishment of a central bank of issue. The first of these motions, presented by Gaudard and his supporters, read as follows: "The Bundesrat is invited to submit at a session in the near future a report and bill concerning the establishment of a national bank which shall have limited liability and a legal personality independent of the state, and whose capital shall be provided by the Confederation, the Cantons, and possibly the cantonal banks. The national bank shall have its seat at Berne. The act shall decide the mode of elect-

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ing the organs of the bank, which shall be under the management and supervision of the Confederation." The second motion, which was submitted by Nationalrat Cramer-Frey, president of the Swiss Handels- und Industrieverein, was as follows: "The Bundesrat is invited to submit, as speedily as possible, and with due regard to the people's decision of February 28, 1897, a new bill concerning the execution of article 39 of the federal constitution."

The Swiss Handels- und Industrieverein, too, had already, during the campaign against the state-bank law, set itself the formal task of drafting a new bill on the basis of the second alternative of article 39 (central joint-stock bank with the cooperation of the Confederation in its supervision and administration), with a view to submitting it to the Bundesrat without delay. In March, 1898, this bill was presented to the Bundesrat after it had been approved, on March 5, 1898, at a meeting of the delegates of the Swiss Handels- und Industrieverein.

The bill of the Handels- und Industrieverein aimed at a mixed bank; two-fifths of the bank's capital was to be found by the Cantons, one-fifth by the existing banks of issue, and two-fifths by private capitalists. The financial participation of the Confederation was entirely left out of the question, and this for the reason that the defeat of the bank bill had been chiefly due to the fact that a large part of the people disliked the idea of the Confederation undertaking financial liabilities and tying up the credit of the Confederation with that of a bank establishment. Zurich was contemplated as the chief seat of the bank; its business

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activity was limited to that of a pure transfer, note-issuing, and discount bank; dividends were limited to a maximum of 4 per cent, and the remaining profit was to be divided among the Cantons. Apart from a general meeting, to which, in the main, only matters of form were to be referred, the bill provided for the creation of two administrative bodies for the bank. The first was to be the bank council, 25 members of which were to be elected by the general meeting, and 20 members, as well as the president, were to be nominated by the Bundesrat. This bank council was to have the duty of making the reports of business and the yearly balance sheet, of preparing the matter that was to be laid before the general meeting, and of deciding upon all business transactions involving more than 5,000,000 francs. The second body was to be a bank committee, to be appointed by the bank council, which was to manage the affairs of the bank conjointly with the board of directors, also to be appointed by the bank council.

At the same time another project was laid before the Bundesrat—"Outlines for the establishment of a Swiss federal bank. Proposal submitted by a group of members of the Bundesversammlung, excluding the employment of private capital." This scheme was worked out by the friends of the rejected project of a pure state bank, namely by Favon, Gaudard, Heller, Hirter, and Jordan-Martin, all members of the Nationalrat. One-third of the capital of this federal bank was to be supplied by the Cantons, one-third by the existing banks of issue which are managed with the cooperation of the cantonal authorities, and the remaining one-third by the Confederation; the latter also

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to take such part of the shares as might not be subscribed for by the Cantons or cantonal banks. In the bank council, to be composed of 60 members, the cantonal banks were to have 5 representatives, the Cantons 25, and the confederation 30.

J. J. Keller, former member of the Nationalrat, submitted a third plan to the effect that a federal bank, with subsidiary guaranty on the part of the Confederation and endowed with the bank-note monopoly, be established; that its total note issue be limited to 250,000,000 francs, of which sum 180,000,000 francs were to be left at the disposal of the existing cantonal banks free of interest, the private banks of issue to lose their privilege of issuing notes and to be declared agencies of the federal bank.

These three plans were laid before the commission of experts appointed by the Federal Finance Department, which held its sessions at Berne from July 9 to November 24, 1898. Already in his opening speech, Bundesrat Hauser declared his position, which was, in substance, that the result of the popular vote of February 24, 1897, could not be regarded as signifying that the only possibility still open was that of a private joint-stock bank endowed with the bank-note monopoly. "You will not take it amiss if I say that I shall not recommend to the Bundesrat anything that I can not justify in my own eyes. The responsibility resting on my shoulders in this matter is far greater than yours, and with legislation of this kind the name of the head of the department remains more or less bound up for all time. I am prepared to make concessions, but the question remains of what nature they are." Chiefly

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influenced by the stand taken by Bundesrat Hauser, the commission made a number of decisions concerning controverted points, which were calculated to satisfy friends of a state bank without altogether excluding private capital from participation in the central bank to be created. On the basis of these results the Finance Department worked out the preliminary draft of a federal law concerning the erection of a central bank of issue, and after this preliminary draft had been approved by a smaller commission of experts the final draft of the bill was handed over on March 24, 1899, to the parliamentary commissions previously appointed.

The new draft sought to make concessions in both directions, though without concealing the preference of its originator for a state bank. Of the 36,000,000 francs of capital which was proposed, one-third was to be supplied by the Confederation, one-third by the Cantons, and one-third by private capital; such part of the capital as had not been taken up by the Cantons or been subscribed for by the public was to fall to the Confederation. The "Swiss Federal Bank" was to have separate legal existence as a person. The business activity of the bank was restricted in a manner similar to that proposed by the Swiss Handels- und Industrieverein. As cover for the notes, 40 per cent in specie was fixed, the remaining 60 per cent to consist of bars, discount bills, and foreign drafts. Of the net profits, 15 per cent, were to go to the surplus in the first instance, until the surplus had reached the height of 30 per cent of the original capital; then a dividend of 4 per cent was to be paid out and all the remainder was to

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be handed over to the Cantons. There was to be no general meeting, and the supreme authority of the bank was to be a general council consisting of 75 members; the Confederation, the Cantons, and the private shareholders appointing each one-third of this number, and the Bundesrat naming its president and vice-president. This general council was given the rights usually exercised by a general meeting. The general council was to choose out of its number 13 members to form, in conjunction with the president and vice-president chosen by the Bundesrat, a bank council of 15 members in all. The bank council was to meet at least once every three months; to it was assigned the duty of making the annual report, of preparing motions, etc., for the general council, and of drafting regulations to be approved by the Bundesrat; it was also to have the right of making nominations to the directorate to be acted on by the Bundesrat. The president and vice-president and 3 other members selected from among the bank council were to constitute the bank committee, which was to exercise supervision and control of the management of the business, to give advice as to the fixing of the bank rate, and to appoint the local committees. The directorate (*Direktorium*), the real executive authority, was to be elected by the Bundesrat for a period of six years, upon the nomination (not binding) of the bank council; it was to consist of from 3 to 5 members and was to operate conjointly with the bank committee. The Bundesrat also claimed the right to nominate the local managers; on the other hand, the audit commission was to be appointed by the general council of the bank. The

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charter of the bank was to run for a period of twenty years, and in the transitional dispositions two and a half years' time was given to the existing banks of issue to call in their notes. Berne was fixed upon as the seat of the bank.

The special commission of the Nationalrat considered this bill in the days of April 19-22, 1899; in the full assembly of the Nationalrat Mr. Scherrer-Fuellemann moved that the proposition of the Bundesrat be not considered, and that the federal council be invited to prepare a bill mainly on the basis of the law of June 18, 1896, but with limited liability on the part of the Confederation. Nationalrat Ador, of Geneva, on the other hand, proposed entering immediately on the subject, but not upon the bill of the federal council, but upon the one submitted by the Swiss Handels- und Industrieverein. Both motions were defeated, and the bill of the Bundesrat, which was warmly recommended by Bundesrat Häuser, was fully considered at the June session, and at the final vote of June 13 it was adopted by 92 votes against 23; 30 members not voting.

The alterations which were made in the bill by the Nationalrat were altogether of a secondary nature. For the expression "chief seat" the term "central seat" was substituted in the bill, it being held that this expression was more accurate and less prejudicial to the importance of the various places; the central seat, i. e., the seat of the central administration, might be legally established in Berne, but such important commercial centers as Zurich, Basle, Geneva, and St. Gall would naturally develop them-

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selves into "chief seats." Besides this, the Nationalrat withdrew from the Bundesrat the right of appointing the vice-president of the general council and conferred this power upon the general council of the bank itself. Moreover, the duration of the charter was reduced to fifteen years.

The commission of the Ständerat had also met in due course to discuss the bill, but recommended, at the beginning of the December session, 1899—after the Nationalrat had passed the bill—that the subject be not taken up at that session. The members of the Ständerat held that the moment was not opportune for discussing the bill, in view of the fact that the exchange rate on France was 50 points above the gold point, and this circumstance was calculated to put their advocacy of the interests of the cantonal banks, and of the banking policy of the Cantons, in an unfavorable light.

Only at the December session of 1900 did the bill come up for consideration in the Ständerat, and it was passed at the same session. In seven points the result arrived at by the Ständerat presented important variations from the bill framed by the Bundesrat and from that passed by the Nationalrat. In the interest of the private and cantonal banks the Ständerat deprived the Federal Bank of the right to accept deposits bearing interest (an exception being made as to dealings with the Federal Administration), and of the right to accept securities for safekeeping and management; it increased the dividend to  $4\frac{1}{2}$  per cent; it charged the bank committee with the appointment of officials and employees under the Direktorium at

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the head office, and it turned over the appointment of the staff of the branch offices to the local bank committees; it lengthened the initial period of the bank charter from fifteen to twenty years, with a prolongation period of ten years; it gave three years' time instead of two and a half for the drawing in of the notes hitherto in circulation, and accordingly altered the quarterly quota from one-tenth to one-twelfth of the issue; moreover, the bank was to assist the existing banks of issue in the drawing in of their notes as much as possible, by granting advances on securities. Finally, the expression "central seat" was again replaced by "chief seat," and it was transferred from Berne to Zurich, in return for which the city of Zurich was to be obliged to provide a suitable site for the bank's building or to make an equivalent payment in money.

In May, 1901, the alterations made by the Ständerat were discussed by the Nationalrat, and at the June session of the same year the existing differences were to be adjusted. The negotiations respecting a settlement were begun in the Nationalrat. This body adhered to its conclusions regarding the term "central seat," the location of the central office at Berne, the acceptance of securities for safekeeping and management, and the dividend of 4 per cent; it assented, however, to the Ständerat's provision forbidding the acceptance of interest-bearing deposits except from the Federal authorities. At the further deliberations the Ständerat gave way regarding the term "central seat," but it adhered to a dividend of  $4\frac{1}{2}$  per cent, to the prohibition to accept securities for safekeeping and

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management, and to the transfer of the central seat to Zurich. Then, after the Nationalrat had declared that its decision respecting these three points was final, the Ständerat yielded to the Nationalrat regarding the first two points, but, with full knowledge that it meant the destruction of the bill, decided once more in favor of Zurich as central seat. The president of the Ständerat thereupon declared, with a sarcastic smile: "You have thus decided in favor of Zurich as the seat of the bank. As the Nationalrat has declared that it stands definitively by its decision, the bill has failed to become a law."<sup>a</sup>

<sup>a</sup> It would thus appear as though the bank bill was defeated solely because of the rivalry of the two cities, Berne and Zurich; but on looking more closely into the figures of the various votes taken, it will be noticed that this rivalry was merely utilized as an instrument by other interests:

Date of vote.	Votes given for—	
	Zurich.	Berne.
Dec. 7, 1900 (Ständerat) .....	24	16
June 18, 1901 (Nationalrat) .....	58	69
June 26, 1901 (Ständerat) .....	29	14
June 27, 1901 (Nationalrat) .....	50	81
June 28, 1901 (Ständerat) .....	24	17

At the vote of the Nationalrat of June 18, Berne received 69 votes, at that of June 27, 81 votes. What accounts for this increase? The advocates of the financial interests of the Cantons, who were strongly represented in the Nationalrat, who controlled a majority in the Ständerat, and who were more or less enemies of the scheme of a central bank and thus desired the defeat of the bill, voted in the Ständerat on June 26 unitedly for Zurich, in the Nationalrat the day following unitedly for Berne, and again for Zurich the day following in the Ständerat. As they, moreover, voted in the Nationalrat that the decisions be declared final, and as a majority for Berne in the Ständerat was out of the question, the end was gained and the bill defeated without the Ständerat being obliged to withhold its assent to the Nationalrat's action in questions of a purely objective nature, which would certainly have created a bad impression.

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The defeat of the bill was variously interpreted within the circles of the Bundesversammlung itself. Some explained the conduct of the Ständerat as the result of a strong dislike to the scheme of a central bank on the part of the majority of its members; others saw an explanation in merely tactical considerations and maintained that the law, against which the referendum would surely have been invoked, would have had no chance whatever of being accepted by the people—that French Switzerland and the left wing, already prejudiced against the bill by the concessions granted to private capital, would have united with the representatives of the financial interests of the cantons in the most vehement opposition to the law; it was consequently held that the Ständerat had seized the opportunity of taking the existing differences between the two chambers as a pretext, thereby bringing about the failure of the bill instead of having it rejected by the referendum, thus saving the country from a second embittered and unedifying struggle.

### SECTION III.—THE MOTIONS OF VON ARX AND SCHERRER-FUELLEMANN—THE FISCAL DIFFICULTY.

Owing to the failure of the bill submitted by the Federal Council March 24, 1899, the struggle for the central bank had arrived at a dead point. Attempts were made to carry into effect the two alternatives set down in the new article 39 of the federal constitution, one after the other, but no progress whatever was made in the matter. In the year 1901 it was still in the same state as immediately after the revision of the constitution in the year 1891. The exclusive right of issuing bank notes, which accord-

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ing to the constitution belonged solely to the Confederation, was still exercised, as before, by the 36 existing cantonal and private institutions; and the abnormal situation was presented that the requirements of the federal constitution and the actual organization of the note-bank system were in direct contradiction with each other.

After the second attempt to enact a bank law had been frustrated by the resistance of the Ständerat, a certain spirit of despondency was noticeable all along the line; in many quarters the question was asked, whether it was possible at all to find a plan which would satisfy all the opposing interests. Among the opponents of the central bank scheme it was asserted that the failure of the bill did not necessarily mean the abandonment of all hope of attaining the objects in view; the shortcomings of the banking system, which doubtless existed, could be removed and a number of improvements could be carried through, if the legislative authorities would only put the creation of a central bank on one side for a moment and would take in hand instead the revision of the bank law of the year 1881. It might be possible, argued the supporters of these views, by improving and establishing by law the organization which had been created by the concordat of the banks of issue, by developing the relationships already existing, by founding and enlarging central clearing offices, etc., to put the decentralized Swiss note-bank system into a position to fulfill the functions which it was usually assumed could be fulfilled only by a central bank of issue. This view found parliamentary expression in a motion presented by Von Arx and

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others to the Ständerat on December 17, 1901, and at the sitting of the Ständerat of April 18, 1902, this motion was declared important and was referred to the Bundesrat.

The motion of Von Arx was as follows: "The revised article 39 of the federal constitution aims at the establishment of a federal bank endowed with the bank-note monopoly. All the efforts that have so far been made to carry out this requirement have been frustrated either on account of the people's resistance or owing to the fact that the authorities failed to agree. Whether an adjustment of existing differences will be possible in the near future is more than doubtful at the moment. On the other hand, our note-bank system presents evils which urgently demand correction and the removal of which should not be postponed for a number of years. The undersigned, therefore, invite the Bundesrat to examine and report to the Bundesversammlung whether the law of March 8, 1881, respecting the issue and redemption of bank notes should not be subjected to a revision, and, in case of an affirmative conclusion, to submit a bill referring thereto. Irrespective of the revision of the bank-note law, the carrying out of the revised article 39 of the federal constitution should be further prosecuted."

As the essential points to be taken into consideration in the event of such a revision, the Ständerat at its meeting of the 18th of April, 1902, designated the following, at the instance of Ständerat von Arx: (1) Limitation of the note issue, either by the Bundesrat or the Bundesversammlung; (2) establishment of the percentage to be assigned to the various cantons in the total issue on the basis of

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their note issue in the past, their population, and their economic importance; (3) the conferring on the Bundesrat of the power to restrict, in case of need, the total issue of notes and to require the various banks of issue to reduce their circulation proportionally; (4) covering of the entire note circulation by cash and bills; (5) obligation on the part of the banks to recognize and respect the decisions of the discount committee; (6) establishment of a central clearing house as an official institution; (7) taxation of the banks of issue according to the extent of their actual note circulation and not, as hitherto, on the authorized issue; (8) creation of a uniform Swiss bank note, for the redemption of which the existing banks of issue would be conjointly responsible.

It was hardly necessary to waste a word as to the usefulness of the reforms here proposed; there could be no doubt that if it had been possible to realize them the worst evils of the Swiss banking organization would have disappeared. That the introduction of an amended form of the bank act of 1881 would not, however, have overcome all these evils, and, above all, that the 36 banks would not have been in a position to fulfill the functions of a central bank as a regulator of the currency, was indicated in the motion of Von Arx itself, in which the revision of the existing bank act was regarded as merely a preliminary to the creation of a central bank of issue.

The motion of Von Arx was, however, beset with such a number of difficulties—constitutional, economic, and political—that it seemed from the first almost out of the question that the Bundesrat and the Nationalrat would take action in pursuance of it.

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Article 39 of the federal constitution of the year 1874 granted to the Confederation the power to establish by law regulations respecting the issue and redemption of bank notes; this article was rescinded through the revision of the constitution in 1891. Since October 18, 1891, the Swiss constitution transfers the monopoly of the issue of bank notes to the Confederation, and leaves it to legislation to decide on the manner of exercising this monopoly, but the article does not contain any provisions that could serve as a constitutional basis for a bank law based on the system of multiplicity of banks. The opinion was expressed on the occasion of the debate upon the motion of Von Arx in the Ständerat that the old article 39 of the federal constitution remained in force until such time as the new article had actually been carried into effect; but this view is entirely at variance with the phrasing of the new article, which says: "Article 39 of the federal constitution is rescinded and in its stead the following article has been passed." The view was also expressed in the Ständerat that the new article 39 of the federal constitution really signified an extension of the powers vested in the Confederation, and it therefore implicitly included *eo ipso* the former competences of the Confederation; but this statement was met with the justified retort that the new article 39 was not an extension of the old one; on the contrary, the two articles had nothing in common. It was out of the question that the Bundesrat or the Nationalrat would consent to a flagrant violation of the constitution, which a revision of the bank law on the strength of a rescinded constitutional article would have been. A revision of the

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bank law would have required as a preliminary a new alteration of article 39 of the federal constitution, and neither in the Federal Chambers nor among the people could a majority have been secured for such a step.

Two other and weighty classes of considerations were in opposition to a revision of the law.

In the first place, there were considerations of a political nature; it is quite clear that such a revision, if it was really meant to bring about healthier conditions, would necessarily have had to be very thorough, as was even acknowledged by the supporters of the idea of revising the law of the year 1881. A restriction of the business activity of the banks, an increase in the metallic cover for the notes, and an alteration of the composition of the investments in favor of the less profitable short-time investments would essentially have been foregone conclusions, and would have resulted in a decrease of the profits of these banks. This would have roused the opposition of the representatives of the fiscal interests of the cantons, who would have objected to such a revision of the law, just as they objected to the plan of a central bank. Not without reason it was pointed out that the eventual advantages of a revision of the law would not be important enough to form a recompense for the expenditure of the political force necessary to overcome this opposition.

Finally, considerations of tactics and of principle spoke against a revision of the law. Even though the hope was expressed in the motion of Von Arx, that a revision of the bank act of 1881 might be had without prejudice to the subsequent execution of article 39 of the federal constitu-

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tion, such a revision would in fact have resulted in pushing the idea of erecting a central bank of issue into the background, if not entirely frustrating the object. An artificial prolongation of the situation that had been created under the influence of the law of 1881 was, however, in accordance neither with the economic interest of Switzerland nor with the result of the popular vote of October 18, 1891. A prominent supporter of the views embodied in the motion of Von Arx, who as early as 1879 prefixed to a paper on the Swiss bank-note question the motto, "The best policy of a country is to continue as far as possible in its existing arrangements," declared again in 1902 that the best way to accomplish an object is "to build on what exists, on what has proved serviceable;" but in reply to this nothing need be said but that in this case what exists has proved most unserviceable, that the conditions at the close of the nineteenth century showed very unhealthy signs, and that to build on what exists would, consequently, have meant to erect the new building on a rotten foundation.

A realization of the purposes embodied in the motion of Von Arx would have encountered difficulties hardly less pronounced than those with which the idea of the establishment of a central bank had to contend. That this idea, however, in spite of all difficulties, did not for a moment lose its hold, even after the second bill for a central bank had been killed, is proved by the reply which was made to the majority of the Ständerat by some members of the Nationalrat after the second bank bill had been defeated.

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After the president of the Ständerat had declared, on June 28, 1901, that the bank bill had not passed, the following motion (by Scherrer-Fuellemann) was put by several members of the governmental left and of the socialistic group in the Nationalrat:

“The Bundesrat is invited to submit to the Federal Chambers, as soon as convenient, a new bill in execution of article 39 of the federal constitution, based essentially on the federal law rejected on June 18, 1896 (pure State Bank) and giving all possible consideration to the interests of the cantonal banks.”

In the March session of 1903 the motion of Scherrer-Fuellemann came up for consideration in the Federal Chambers; in the Nationalrat Scherrer-Fuellemann spoke in support of the motion from the historical and legal point of view, and Hirter from that of economics and of banking principles. The positive demand made in the motion upon the Bundesrat to construct the new bill on the basis of the defeated state bank bill of the year 1896 was objected to by Ador, of Geneva. He recognized the necessity of centralizing the note-bank system, but he desired to have a bill drawn on the basis of the second alternative contained in the federal constitution, the creation of a private bank managed with the cooperation and under the control of the Confederation. Against this demand in the motion of Scherrer-Fuellemann, Bundesrat Comtesse also protested, expressing the opinion that it would offend democratic sentiment to submit again a bill drawn upon the basis of the law that had been rejected by the people. Moreover, he said it would be possible to safeguard the

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general interests without sticking to the form of a state bank, not the manner of providing the capital but the form of the bank management being of decisive significance.

In all this there was to be perceived a note of conciliation and of willingness to make concessions. The supporters of the state-bank scheme, Scherrer-Fuellemann and Hirter, were willing to relieve the Confederation of responsibility as regards the shares, to leave part of the capital to the cantonal banks and if necessary to all the banks of issue, and to take the interests of the cantonal banks into consideration by appropriate limitation of the sphere of activity of the federal bank. On the other hand, the spokesman of the idea of a private joint-stock bank declared that his political friends would agree to the federal authorities being given large powers (election of the president and direktorium by the Bundesrat placing the bank under a far-reaching control through a federal control office, etc.). On all sides the necessity of adequate consideration of the fiscal interests of the cantons was fully acknowledged.

In accordance with this state of feeling, the Scherrer-Fuellemann motion was accepted in a weakened form. The Bundesrat was invited "to submit to the Federal Chambers, as soon as possible, a new bill in execution of article 39 of the federal constitution (bank-note monopoly)." In this wording the motion was also approved by the Ständerat, and that of Von Arx was thereby quietly shelved.

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The task of drafting a new bill, which was thus devolved upon the Bundesrat and with which the Finance Department was entrusted, was not only extremely difficult from a technical point of view, but it was also of far-reaching political importance. It was not merely a question of constructing a new bill, but of constructing the last bill. There was no doubt whatever in the Bundesrat that after the first state-bank law had been rejected by the people and a second bill had failed in the Bundesversammlung the one about to be worked out in execution of the Scherrer-Fuellemann motion would have to be the last; there was no doubt that if this bill should fail to become a law the idea of centralizing the note-bank system in Switzerland would have to be dropped for years to come, if not for decades, and the supporters of the views expressed in the motion of Von Arx would gain the upper hand. And in connection with this the conviction was felt that such a negative issue of years of labor would have a detrimental effect upon Swiss economic life. For these reasons, together with a recognition of the fact that the efficiency and usefulness of a central banking institution does not depend upon its outer forms, but upon its internal arrangements and organization, persons in influential positions were prepared to forego all party preferences and to be satisfied with any type of soundly organized central bank which would be able to perform the functions of a central bank of issue and to unite in its favor at least a majority of the opposing interests and opinions involved.

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If we now look at the grouping of the various elements on which the acceptance of any new measure depended in the first instance, and which would play a decisive part in the event of a popular vote, we find that the situation had changed entirely, as compared with the grouping in connection with the popular vote of February 24, 1897.

Looking first at the group of the "unconditional" opposition, it is evident that they could not be won over for the cause. He who votes "no" at every referendum on a federal law, on principle as a matter of political opposition, will of course do so in the case of a federal bank law, and with this kind of opposition it has always been, and will always be, necessary to reckon.

The opposition which Herr Hauser designated at the time as being led by the Swiss Handels und Industrieverein was no longer as strong as it had been at the time of the popular vote on the first bank law in 1897, for in these circles the conviction had been gaining ground that the creation of a central bank of issue was an economic necessity and that a central bank, even with the participation of the state, would be preferable to the existing system of decentralization. Moreover, these persons might be conciliated in great measure by the admission of private capital. The probability had to be reckoned with, however, that even if a mixed basis were adopted in the bill a certain amount of opposition from these quarters would make itself felt. The fact that the concordat of the Swiss banks of issue joined the Swiss Handels- und Industrieverein goes to prove that it hoped to find friends and defenders there.

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A more optimistic view was justified as regards those groups of the opposition whose attitude in 1897 was a manifestation of the fear that the establishment of a central bank of issue might result in a strengthening of the federal power. This fear, however, has been gradually dying out during the last few years. It has happened on more than one occasion in Switzerland that the demands of economic life and the peculiarities of old habits—the large-scale methods of modern life and the traditional small-scale methods of the state, modern business and ancient customs—have for a time measured forces against each other, and that business has proved itself the stronger of the two. Centralized economic life requires centralized laws and centralized institutions. It may be said that as the urgent necessity of a reform became more and more generally recognized the opposition of the anticentralization groups became correspondingly feeble.

This change of sentiment, however, is not due solely to the pressure exerted by economic needs. It is also largely due to a general change in the internal political situation of Switzerland. Up to a comparatively recent time, say fifteen years ago, there existed, even in rather broad-minded circles, the idea that the Swiss Canton was an institution doomed to ossification and that anything new and live could be looked for only from the Confederation. To this view corresponded, naturally enough, on the other side an intensified feeling of the need of self-defense, and consequently a dread of any strengthening of the federal power. But this position of affairs has vastly changed

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during the last fifteen years. It is becoming more and more generally recognized that a number of improvements appertaining to the civilization and social life of a modern state can be achieved much more rapidly on a cantonal basis than by way of federal legislation; and there is a corresponding diminution of the former sensitiveness of the Cantons, and of their fears of a strengthening of the federal power. While in the neighborhood of the year 1890, at the time of the revision of article 39 of the federal constitution, the opposition used the fear of increasing the power of the Confederation as one of its chief arguments, this fear plays only an unimportant rôle nowadays. It is a significant mark of the change which had taken place, that a man of the political character of Regierungsrat Schmid, of Lucerne, in 1903, in a statement of his position on the question of a central bank of issue, could use the following words: "I am really a pronounced federalist, i. e., I could never agree to the Cantons being swallowed up by the Confederation; but everything that the Cantons can not control should go over to the Confederation, and also everything which is of such a nature as to require unified management in order to secure the greatest benefit to all. This is eminently true of the bank-note system, which should be nationalized by the Confederation."

While the two last-named opposition groups had thus lost in importance since the year 1897, and while the new bill could count upon a greater number of supporters among those who did not consider the question in any political light, but from an economic standpoint, and who would prefer any central bank to a multiplicity of banks—while

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the prospect of a central bank had improved in these ways, there arose on the other hand an obstacle which had to be overcome at all costs. The number of those voters whose attitude is determined by the fiscal interests of the Cantons and who accordingly view the question of the establishment of a central bank of issue from this standpoint, had very materially increased since 1897; indeed to such an extent that, conjointly with the votes sure to be cast against any bank bill whatsoever, they were in a position to defeat any bill that did not give consideration to the cantonal finances.

The financial position of the Cantons had become considerably worse since the year 1897. While in 1885 the administrative expenses were only 66,000,000 francs, they increased to 84,000,000 in 1891, and to 113,000,000 in 1898, and in 1901 they were just double the amount for 1885; in the same lapse of time the population had only increased by about 15 per cent. By far the greatest part of the increase of taxation is composed of new direct taxes, including increased inheritance taxes and a continual advance in municipal taxes. More than half of the Cantons have enacted new tax laws since 1885, and in several Cantons tax reform is being agitated. Though there can be no doubt that taxable capacity has grown much more rapidly than population, the results of the cantonal polls during the last few years show plainly that this increase of taxable capacity had been anticipated by the new tax laws. In many Cantons the taxation screw has been put on to the limit of effectiveness; there any further increase of taxation does not yield increased revenues, but only

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leads to evasion of taxes or, in some instances, to emigration of capital. Even in the Cantons in which taxation has not been carried to extreme heights, the people are restive as to taxation and hostile to reform. In Soleure, Berne, Lucerne, and Argovie the new tax laws have been rejected by the people, while on the other hand the cantonal revenues hitherto received no longer suffice to satisfy the heavy demands made on the Cantons for educational and social objects. While the figures for 1896 still showed a surplus of revenue amounting to about 1,000,000 francs, the accounts of 1898 closed with a deficit of about 74,000 francs and those of 1899 with a deficit of 2,300,315 francs. Since then a little improvement has shown itself. The accounts of the Cantons showed a deficit of 2,300,000 francs in 1902, and of 2,200,000 in 1903. In 1904 it fell to 346,478 francs; but no very great importance is to be attached to this improvement, because in the cantonal budget for 1905 a deficit of over 6,500,000 is anticipated, and though budget figures of deficits must be taken with great reserve, they nevertheless have significance as symptoms, and justify the conclusion that the equilibrium of the cantonal finances is by no means assured.

In view of such a situation it could not (and can not) be expected of the Cantons that they would give up the revenue, small though it be, which they drew from the cantonal bank-note taxes and from the net profits of the cantonal banks. In drafting a new bill for a central bank it was necessary to take account of this fact, of the influential representation of the cantonal interests in the Bundesversammlung, and finally of the fact that the

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cantonal taxpayer is also a federal voter. In order to insure the passing of the bill it was essential to give guaranties that the cantonal treasuries would benefit in some way or other, and would thus be compensated for the loss of the bank-note business.

### SECTION IV.—THE FINANCIAL INTEREST OF THE CANTONS IN THE REVENUES DERIVED FROM THE ISSUE OF BANK NOTES.

The considerations set forth at the close of the foregoing section were, in point of fact, taken to heart by the Bundesrat and by the Federal Finance Department, which was entrusted with the drafting of the new bill; the requirement of a direct compensation to the Cantons for the reduction of revenue which threatened them as a consequence of the establishment of a central bank, which had been brought forward in previous considerations of banking laws, was now recognized in official quarters. The difficulty that now arose was that of ascertaining the amount which would be lost to the cantonal treasuries and which would have to be made good; in other words, of determining the financial value of the privilege of issuing notes—the revenue derived by the Cantons from the banks of issue.

This amount is composed of the following three items: (1) Net profits made and handed over to the cantonal treasuries by the 19 pure state banks and the share of profits from the 3 mixed banks; (2) amount of the cantonal bank-note tax; (3) amount of the cantonal deposit fees from the 10 banks whose notes are covered by deposit of securities.

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The two last-named sources would naturally cease to exist with the discontinuance of the bank-note privilege. In computing the financial interest of the Cantons in the proceeds of the bank-note issues the totals of these two items had to be allowed for.

With the net profits derived by the cantonal treasuries from the pure and mixed state banks it was different; those profits could not be considered as being entirely jeopardized. It is clear—and the fact had, moreover, been amply shown by the experience of the Banks of Zurich and Geneva, which establishments had within a few years voluntarily renounced the right of issuing notes—that the cantonal banks, which, as a result of public guaranty and supervision, enjoy the highest and most general confidence of the people, will remain strong and prosperous even after the withdrawal of the right of issue. One may even go so far as to say that only when freed from the fetters and limitations of the bank law will these banks find it possible to give their attention to more profitable business, from which they have hitherto been debarred. It was out of the question, therefore, to regard all the net profits that were paid by the state and mixed banks to the cantonal treasuries as jeopardized; only such part of the net profits as arose from the bank-note business had to be considered as lost to the Cantons.

The calculation of this specific profit resulting from the issue of notes was, however, a very difficult matter. This is proved by the fact that nearly all those who have undertaken to make such calculations have arrived at different results. In the year 1879, on the occasion of an appeal made by the Bank of St. Gall, the net proceeds of the issue of notes were estimated at from 49 to 145 centimes per

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annum for every 100 francs of issue; the late Bank-note Inspector Schweizer estimated then, ten years later, by two methods, at 36 and 55 centimes, respectively; Bank-note Inspector Sandoz set them down in 1893 at 49 centimes per annum for every 100 francs of the issue; the Banque du Commerce, in Geneva, which had given up its right of issue, declared the net proceeds to be "nothing, or more probably less than nothing;" in the year 1903, at the request of the author of this work, Herr Regierungsrat Schmid, of Lucerne, calculated the profit of the cantonal bank of Lucerne at 90.54 centimes, while Herr Regierungsrat Glaser, of Liestal, and Herr Direktor Peyer, of Lucerne, made it 33.33 centimes for every 100 francs of the bank-note issue. The author himself calculated this profit once in the year 1902 and twice in 1903, each time by a different method, and arrived at considerably higher results, more like those of Herr Regierungsrat Schmid, namely, a net profit of about 1 per cent per annum on the amount of the issue.

The reason for these differences is, however, easily found. The financial basis and the facilities for earning profits for the various banks of issue differ so much from Canton to Canton that it is practically impossible to find a uniform method for calculating the profits derived from the note issues by all the Cantons or by all the banks. It is hardly possible to bridge over by any system of calculation the very marked differences existing among the thirty-six banks, some of which have the character of mortgage banks, others of commercial banks, some a restricted and steady line of business, others presenting all the characteristics of a bank belonging to an active center of trade and speculation.

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In spite of these difficulties it was essential, however, if the leading features of the law were not to be left in the air, to endeavor to fix in figures the loss which the Cantons would have to bear, and which was to be made good to them. The determination of these figures was undertaken by the Federal Finance Department, and the result served as the basis of the settlement to be incorporated in the law. The figures for the year 1902 were taken for this purpose, because 1902 was the last of the years showing temporary withdrawals, the years in which none of those speculative moves had yet been made—increase of note issues, introduction or increase of note taxes, etc.—which were afterwards made by banks or Cantons with a view to the prospective establishment of a central bank. The figures which were taken as the basis of the calculations are reproduced below (see table facing p. 129); and on this basis the Federal Finance Department calculated the profits which accrued from the issue of notes by the cantonal and mixed banks, as follows:

60 per cent of the note circulation.....	Francs.	75, 114, 285
Amount of liabilities falling due within eight days.....	Francs.	250, 978, 707
Deduct the assets which become available within eight days.....		78, 003, 863
Net liabilities due within eight days.....		172, 974, 844
Amount of such liabilities falling due daily.....		21, 621, 855
Total of demand liabilities.....		<u>96, 736, 140</u>
Available cash.....		17, 583, 038
Other cash holdings.....		1, 257, 357
Notes of other banks.....		<u>7, 450, 689</u>
Total cover, not including the 40 per cent cash required by law.....		26, 291, 084

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If we now distribute this sum of 26,291,084 francs over the 60 per cent of the note issue not covered by specie (75,114,285 francs) and the liabilities falling due in one day (21,621,855 francs), amounting in all to 96,736,140 francs, in proportion to the amounts of those two items of daily-maturing debt, by the formula:  $96,736,140 : 26,291,084 = 75,114,285 : x$ , we find, on the supposition of an authorized issue of 129,000,000 francs and an actual circulation of 125,190,475 francs, that the specific note cover exceeds the legally required cash reserve of 40 per cent by 20,414,665.85 francs, or amounts in all, inclusive of that reserve, to 70,490,885.85 francs.

If we now deduct the last-named sum from the actual note circulation, amounting to 125,190,475 francs, we obtain for the cantonal and mixed banks (one-half of each item being taken in the latter case) in all an uncovered note circulation amounting to 54,699,619.15 francs.

On this sum, which alone enters into consideration as productive capital, the gross profit had to be reckoned. The Federal Finance Department proceeded in the following manner:

In order that this sum may always be applicable to the redemption of the notes it is necessary to have it invested in easily realizable assets, and accordingly practically the only investments that are to be considered are those in good discount paper.

The gross profit accruing from these investments is, consequently, to be reckoned on the basis of the discount rates that prevailed. For the year 1902 the average of the official discount rate was 3.77 per cent, and that of the private rate 2.93 per cent. In view of the discount conditions prevailing in Switzerland—under which regu-

Condition of the pure cantonal and mixed banks for the year 1902.

	Authorized issue.	Actual circulation.	Legal cover, 40 per cent	Available cash.	Other cash assets.	Notes of other banks.	Sixty per cent of the circulation.	Liabilities maturing within 8 days. <sup>a</sup>	Assets available within 8 days. <sup>a</sup>
<b>PURE CANTONAL BANKS.</b>									
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
Cantonal Bank of St. Gall.....	14,000,000	13,837,400	5,534,960	1,765,170	131,121	395,417	8,302,440	9,472,967	1,409,230
Cantonal Bank of Basle-country.....	2,000,000	1,975,500	790,200	148,630	14,695	94,119	1,185,300	3,327,177	985,322
Cantonal Bank of Bern.....	20,000,000	18,928,800	7,571,520	5,280,500	165,973	1,484,305	11,357,280	51,521,835	50,834,002
Cantonal Bank of Thurgovia.....	5,000,000	4,929,950	1,971,980	810,905	168,073	396,859	2,957,970	13,172,543	1,120,111
Cantonal Bank of Grisons.....	4,000,000	3,959,750	1,583,900	194,510	30,332	385,998	2,375,850	5,907,567	1,311,335
Cantonal Bank of Lucerne.....	6,000,000	5,823,550	2,329,420	964,450	59,104	740,559	3,494,130	45,838,743	1,767,755
Cantonal Bank of Appenzell Without.....	3,000,000	2,977,900	1,191,160	242,915	37,616	286,321	1,786,740	10,930,626	442,524
Cantonal Bank of Zurich.....	30,000,000	28,375,300	11,350,120	5,162,835	366,405	989,775	17,025,180	50,859,942	9,366,120
Savings Bank of Canton of Uri.....	1,500,000	1,446,800	578,720	112,745	9,122	89,879	868,080	4,124,252	517,882
Cantonal Savings and Loan Bank of Nidwalden.....	1,000,000	977,150	390,860	91,930	5,253	35,839	586,290	823,944	276,732
Cantonal Bank of Neuchâtel.....	8,000,000	7,939,500	3,175,800	146,240	24,658	600,579	4,763,700	14,159,233	2,918,470
Cantonal Bank of Schaffhausen.....	2,500,000	2,429,150	971,660	277,600	13,592	383,474	1,457,490	3,153,226	302,270
Cantonal Bank of Glaris.....	2,500,000	2,474,400	989,760	191,860	41,985	121,653	1,484,640	7,456,225	737,972
Cantonal Bank of Soleure.....	5,000,000	4,953,550	1,981,420	488,925	63,020	462,188	2,972,130	11,048,550	1,022,345
Cantonal Bank of Obwalden.....	1,000,000	970,650	388,260	79,465	12,995	33,015	582,390	510,246	211,890
Cantonal Bank of Schwyz.....	3,000,000	2,947,500	1,179,000	234,630	19,155	55,799	1,768,500	3,107,335	708,244
State Bank of Freyburg.....	5,000,000	4,973,300	1,989,320	171,540	38,700	150,450	2,983,980	3,117,093	848,764
Cantonal Bank of Basle-city.....	10,000,000	9,827,000	3,930,800	723,490	42,872	650,103	5,896,200	5,560,587	1,749,707
Cantonal Bank of Appenzell Within.....	1,000,000	987,750	395,100	37,125	3,629	34,150	502,650	501,223	387,386
	124,500,000	120,734,900	48,293,960	17,125,465	1,248,300	7,390,482	72,440,940	244,593,314	76,918,048
<b>MIXED BANKS.<sup>b</sup></b>									
Bank of Argovie.....	3,000,000	2,979,850	1,191,940	335,490	1,702	45,733	1,787,910	4,965,081	756,076
Cantonal Bank of Zoug.....	1,500,000	1,475,725	590,290	122,083	7,355	14,474	885,435	1,420,312	329,739
	4,500,000	4,455,575	1,782,230	457,573	9,057	60,207	2,673,345	6,385,393	1,085,815
Total of both categories.....	129,000,000	125,190,475	50,076,190	17,583,038	1,257,357	7,450,689	75,114,285	250,978,707	78,003,863

<sup>a</sup> Under these headings is included 10 per cent of the amounts of the bills payable and bills receivable, respectively.

<sup>b</sup> The Cantons holding only half of the capital, only half of the actual items is here set down

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larly only second-class paper was discounted at the official rate, while the first-class paper used as cover for notes was discounted for the most part at the private rate, or even one-eighth to one-fourth per cent below this rate, and even bills secured by collateral at certain times found takers at one-half to 1 per cent below (instead of as much above) the official rate of discount—it is quite evident that the official rate could not serve as a basis for calculating the gross profits of the bill-portfolio; the private rate of discount had to serve as the measure of profitability, and the average of this for 1902 was 2.93 per cent, or approximately 3 per cent. Considering that the six preceding years—which, to be sure, fell into the period of intense business activity and consequently could not be regarded as average years, but as exceptionally favorable years—showed a somewhat higher average of the private rate of discount, a rate of  $3\frac{1}{4}$  per cent was adopted as the basis of the calculation.

	Francs.	
Average profit of $3\frac{1}{4}$ per cent upon 54,699,619.15 francs--	1,777,737.62	
Deduct the following expenses due exclusively to the issue of bank notes:		
(1) Cost of making and renewing the bank-note forms per annum (average for the years 1883-1902)-----	Francs. 41,854.05	
(2) Federal control tax of one-tenth per cent of the average actual issue of notes (amount for the year 1902)-----	122,830.55	
(3) Cantonal taxes upon the issue of notes and upon the stock deposits (amount for the year 1902)-----	657,368.80	
(4) Clearing-house expenses; cost of transport of notes from one bank to another and to the board of inspectors; insurance premiums; transport cost and loss in exchange for the supply of silver; administrative expenses incurred in the execution of all duties connected with the issue of notes-----	451,500.00	
	1,273,553.40	
Net profit-----	504,184.22	

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This sum represents the average yearly net profit that the Cantons derived from the bank-note business of their own institutions and the mixed banks, according to the calculations of the Federal Finance Department.

For every million of the note issue the proceeds would consequently be 3,908.40 francs; or 39.1 centimes (40 centimes in round numbers) would be the net profit for every 100 francs of the issue.

Taking a profit of 40 centimes per 100 francs of the issue, the total cantonal issue of 129,000,000 francs would thus yield a net profit of 516,000 francs. To this sum is to be added the amount which the Cantons drew as cantonal bank-note and stock-deposit taxes, and which, as already mentioned has to be regarded as a total loss; in 1902 this amount was 1,240,547 francs.

The sum of 1,756,547 francs represents, therefore, according to the calculations of the Federal Finance Department, the entire falling off in the cantonal revenues.

This sum was declared in some quarters to be too low, and the method of calculation was subjected to more or less just criticism.<sup>a</sup> This criticism, however, immediately lost its point, since the bill drawn on the basis of these calculations provided from the start a greater indem-

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<sup>a</sup>Ernst, *Eine schweiz. Bundesbank*, pp. 225-6 and elsewhere, especially in the daily press. The results of the calculation reproduced above are less by about 750,000 francs than those given by the author's own investigations (*loc. cit.*, and also *Zeitschrift für Volkswirtschaft, Sozialpolitik, und Verwaltung*, 1903, p. 69). However, the author regards it as unnecessary to go into any explanation of the difference or any defense of his own figures. He considers his own calculations as quite as sound as the one given above, but for the reasons stated in the text he does not attach to either, or indeed to any calculation of this kind, any value beyond that of a probable estimate.

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nity for the Cantons than would have been necessary merely to cover the estimated loss of revenue. The difficulties that would have arisen in the case of any new bill which, in its execution, would jeopardize the cantonal finances were thus brushed aside in a generous manner.

#### CHAPTER IV.

### THE FEDERAL LAW RESPECTING THE SWISS NATIONAL BANK.

#### SECTION I.—THE BILL PRESENTED BY THE BUNDESRAT ON JUNE 13, 1904.

The conciliatory spirit that prevailed in the debate on the Scherrer-Fuellemann motion was again shown in the report giving the reasons for the bill submitted by the Bundesrat to the Bundesversammlung June 13, 1904. This bill, which was prepared under the direction of Bundesrat Comtesse, with the cooperation of a commission of experts, presented a contrast to the two preceding bills, drawn by Bundesrat Hauser, in the spirit of conciliation and compromise which it manifested, both in its fundamental features and in its details. It was based on the conviction that "it would be a great mistake simply for the sake of a theory to make the establishment of a central bank of issue doubtful for many years, if not altogether impossible."

The bill was the result of a compromise between the various opposing interests and desires involved. Accordingly, it found hardly any unqualified approval when it was made public. Indeed, only those declared for it without reserve who were resolved, in seeking a solution of the note-bank problem, to cast aside all personal sympathies and antipathies, all party interests and preferences, and to view the question exclusively from the economic

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standpoint. The bill did not, however, meet with downright rejection in any quarter, as was the case, for example, with the bill introduced in 1894, but the representatives of the various groups hoped that by laying stress on such of their demands as had not, in their view, obtained sufficient consideration in the bill they might still influence the result of the compromise. On all sides it was agreed that a middle course had been pursued and that under the circumstances the solution embodied in the bill would be sure to command a great majority in its support.

In the following exposé we shall not enter into all the details of the bill; this is partly unnecessary, because nearly all its provisions passed into the law without alteration, and these will be treated in the analysis of the law itself. At this point only the fundamental features of the bill will be considered—viz, its attitude toward the question of state or private bank, its proposals as to the indemnification of the Cantons and the division of the net profits, and, last but not least, its attitude toward the question of the seat of the bank.

### I. CHARACTER OF THE BANK.

Of the two alternatives which article 39 of the federal constitution provided for the kind of bank to be established, the idea of a pure state bank had to be abandoned at once by the author of the bill as being an impossibility. If the remembrance of the popular vote of February 28, 1897, and of the effectiveness among the people of the arguments against a state bank put forward during the campaign preceding that vote, had not sufficed to show that a parliamentary majority, and above all a popular majority,

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for a new state bank law was out of the question, the determined stand taken by the representatives of French Switzerland against the programme of the Scherrer-Fuellemann motion in its original form would certainly have set at rest all existing doubts. On the other hand, however, the preference shown for the idea of a state bank, and still more the aversion to turning over to private capital the profits of the bank-note monopoly, was so widespread that if the bill was to escape rejection in the Bundesversammlung, it could not embody the second of the constitutional alternatives—that of a central joint stock bank, carried on with the cooperation and under the supervision of the Confederation—unless the words “cooperative” and “supervision” were to be given the widest possible interpretation. The problem was to interest private capital to such an extent that the institution could be called a joint stock bank and to secure the cooperation of men of business experience and business standing for its administration, but at the same time to make it impossible for the private capital ever successfully to place its interests in opposition to the public interests, and in such cases to control the bank.

The organization proposed in the bill of the Bundesrat coupled the character of a private bank with that of a state bank, as was rightly indicated in the accompanying report of reasons. It had the character of a private bank in that private capital was to participate, in a definite proportion, in furnishing the capital; that the bank was given a status that was autonomous and independent of the State; and that the shareholders were to have in the general meeting an organ by means of which they could have a

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definite influence on the election of the bank authorities, and through this on the management of the bank. At the same time the organization proposed by the Bundesrat met the wishes of the advocates of a pure state bank in so far as the greater part of the capital was to be provided by state bodies; the net profit of the bank was to go entirely to the Confederation and the Cantons, to the exclusion of the owners of the private capital; and the naming of the majority of the members of the boards conducting the affairs of the bank was to be put into the hands of the Bundesrat.

Going into details, the bill contained the following specific provisions:

(a) *Bank capital.*—The capital of the bank was fixed at 50,000,000 francs, divided into 100,000 shares of the nominal value of 500 francs each. Only half of the capital was to be paid in at first. The bill did not call for a direct participation of the Confederation in providing this capital; it assigned two-fifths of the capital to the Cantons in proportion to their population, one-fifth to the existing banks of issue in proportion to their actual note circulation on December 31, 1902, and the remaining two-fifths, together with such amounts of the share issue assigned to them as were not taken up by the Cantons or the banks of issue, to subscriptions of private capital.

The proportions of this division of the capital between the Cantons, the banks of issue, and private shareholders were in accordance with the mode of division proposed by the Swiss Handels- und Industrieverein in its bill submitted in March, 1898, and it presented a number of advantages to all concerned.

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By the reservation of two-fifths of the capital to the Cantons the latter secured a not inconsiderable share in the organization of the bank, and also were given a small financial advantage, quite apart from the direct indemnification, of which we shall speak later on; the Cantons would be able to obtain all the money necessary for taking up the quota of the fundamental capital reserved to them at a rate of interest which would be at least one-half per cent below the guaranteed dividend of the national-bank shares, and the gain resulting from this difference between the two rates of interest would be a continuous revenue for their treasuries.

The reservation of one-fifth of the capital to the banks of issue was calculated to create a more favorable attitude toward the bill in two directions. As the bill made no difference between state and private institutions, and the latter were thus entitled to participate in the one-fifth assigned to the banks in proportion to their note circulation, the one possible method had been found for drawing the existing private banks of issue into some degree of cooperation with the future bank and of participation in the proceeds of its business. The influence which these private banks, as well as the cantonal banks, can secure on the strength of their holdings of shares is sufficient to insure to the existing banks of issue a representation of their interests in the managing boards of the future central bank corresponding to the importance of the various banks. Moreover, the advantage derived by the cantonal treasuries from the difference between interest payable and interest receivable, mentioned above, will be increased, if only

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slightly, through the shares that fall to the cantonal banks in proportion to their note circulation.

Finally, the share assigned to private capital is sufficiently below half of the bank capital to make impossible the control of the bank boards by representatives of the private shareholders, while, on the other hand, it is just large enough to assure a fair rate of interest for the private capital and to secure for the bank management representatives of trade, industry, and agriculture, who by their experience and knowledge will contribute to the success of the bank.

(b) *Election of the bank authorities.*—It is well known that the real character of a bank does not depend so much upon the proportion in which the private capital stands to the total bank capital as upon the influence which the private capital is allowed to have upon the internal administration of the bank. In this direction, too, the Bundesrat's bill took off the point of all fears. We can not at this place deal with the organization of the general meeting. Of the 40 members of the bank council, 25 are to be nominated by the Bundesrat and 15 by the general meeting of the shareholders; the president and vice-president of the bank council are to be chosen by the Bundesrat; these exercise also the functions of president and vice-president of the bank committee, which is to consist of 7 members, elected by the bank council. The members of the real managing and executive authority, the direktorium, the subdirectors, and the members of the local managements, are also to be elected by the Bundesrat.

Those who feared that if the bank-note monopoly were conferred on a central joint-stock bank there might result so preponderant an influence of private capital upon the administration of the bank as to endanger the rights of the State had their fears set at rest by the two leading features of the bill as above set forth—the participation of private capital only to a limited extent, and the reservation to the public authorities of a decisive influence upon the internal organization of the bank. At the same time the controlling influence was secured to the State—and herein lies the difference between this bill and that of 1894—without imposing extensive responsibilities on the State and without identifying the nation's credit with that of the bank.

## 2. INDEMNIFICATION OF THE CANTONS.

In the fourth section of the third chapter it has been shown how the Federal Finance Department, which was intrusted with the drafting of the new bill, calculated the loss <sup>a</sup> that the cantonal treasuries would suffer through the monopolization of the issue of bank notes at 1,756,547 francs. This is less than what has been calculated by others; it is also below the figures arrived at by the cantonal finance directors; nevertheless the author of the bill counted on being able to satisfy the financial claims of the Cantons as long as they did not go beyond reasonable limits. And this for two reasons. In the first place, the bill proposed to pay to the cantonal treasuries as a

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<sup>a</sup> The "loss" here and elsewhere referred to is annual loss; and likewise with the indemnity.

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direct indemnity not only the 1,756,547 francs calculated, but nearly 280,000 francs in excess of this sum; and, secondly, this sum represented only a part—an installment, so to say—of the indemnification which was to be received by the Cantons, since it was to be increased by the share of the Cantons in the net profits of the central bank of issue.

A distribution of the estimated total loss of 1,756,547 francs over the various Cantons in a manner corresponding to the estimated loss of each would have led to criticism from many quarters. Such criticism was forestalled in the following passage of the report stating the reasons for the bill:

In the first place, those Cantons that own no bank of issue or that have no bank of issue at all in their territory might have complained of unfair treatment, and this not without justification, if the Cantons that own banks had exclusively received indemnities for years to come for the loss of a privilege which they had fully taken advantage of, and had at times exploited to an excessive and detrimental degree.

And not only do inequalities exist in regard to the profits of the bank-note business, but an indemnity for the loss of bank-note taxes, based on the amounts hitherto derived from these taxes by the Cantons, would have led to as great, or even greater, unfairness. There existed then, and there still exist, great differences in the utilization of the right of levying bank-note taxes. The Cantons of Uri, Schwyz, Obwalden, Nidwalden, Appenzell Within, and Appenzell Without levied no bank-note taxes on the

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banks in their territory in 1902; among the others the rate varied between 0.3 per cent and 0.6 per cent.<sup>a</sup>

Naturally, all those Cantons that have their own banks and which levied a bank-note tax at the rate of 0.6 per cent would have approved the bill. In other words, precisely those Cantons would have been given preference which have carried to the extreme limit of the law their right to tax bank notes and which have thus forced the banks to obtain the greatest possible profit from their privilege of note issue, to the detriment of the currency and credit system of Switzerland. Those Cantons that have made only a nominal use of their right of taxation, and especially those that have levied no tax at all, would naturally have felt injured. And the greatest disadvantage would have been experienced by those Cantons which had no bank of their own or those in which, like Valais, there existed no bank of issue at all.

Practically all the Cantons, however, are in a difficult economic position, and they are consequently all in need of financial support in approximately the same degree.

Again, all the Cantons without exception, though in unequal measure, will assist in creating the profits of the National Bank, out of which, after all, in the last instance these indemnities must come.

Owing to these considerations, and also to the fact that according to article 9 of the bank act of 1881 the grant of "a right of note issue constitutes no basis for a claim to

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<sup>a</sup> Zurich, Berne, Lucerne, Glaris, Zoug, Soleure, Basle-city, St. Gall, Grisons, Thurgovie, Tessin, Vaud, and Neuchatel levied a tax of 6 per cent on the authorized issue of notes, and Basle-country, Schaffhouse, and Argovie 5 per cent; Fribourg 4 per cent, and Geneva 3 per cent.

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indemnity"—so that the sums to be paid to the Cantons had not so much the character of specific indemnities as of a distribution of money to the Cantons by the Confederation—the author of the bill arrived at the conclusion that it would be neither consistent nor just to carry out this distribution in a manner varying from Canton to Canton, according to calculations of the specific losses supposed to be sustained by each, but that it would be better to divide the sum in a more uniform way and one that would give all possible consideration to each of the Cantons.

The most obvious mode of distribution, and the one that agreed most with what was customary in Switzerland in affairs of this nature (e. g., in the distribution of the proceeds of the alcohol monopoly, in the calculation of the subvention for the elementary schools, etc.) would have been that of distributing the indemnity among the Cantons in proportion to their population. This mode of distribution was consequently adopted in the bill. Certain special considerations, however, influenced the author of the bill, in fixing the scale of distribution, to take into account, for a transition period of fifteen years, not only the element of population but also that of trade.

A distribution of the indemnity to the Cantons based only upon the proportion of their respective populations would have led to the result that such Cantons as were small but contained large commercial and industrial centers would have received less than the Cantons that had a larger number of inhabitants but which were of less commercial and industrial importance, and the indemnity

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received by the latter would have been in excess of the losses actually sustained, while on the other hand such Cantons as Basle-City or Geneva would have come out considerably worse. Such a situation would have certainly led to the result that those Cantons which came out worst in the distribution would have opposed the bill; and it was necessary, therefore, in order to insure the acceptance of the bill, to obviate this danger by the device of a slow transition.

The bill solved this problem by taking into consideration during the transition period not only the population but also the intensity of business activity, and it took as a measure of this intensity the amounts of the cantonal issues, i. e., the amounts of the authorized note issues of the cantonal, mixed, and private banks doing business within the several Cantons.

It was further necessary to estimate the loss of the various Cantons by a uniform method. This was done by setting down the actual loss resulting from the withdrawal of the bank-note privilege, in accordance with the calculation given above (p. 130), at 40 centimes for every 100 francs of the authorized issue and the loss of the note tax at an average of 0.5 per cent on the actual issue. This led to the following result:

Table of losses sustained by the Cantons, estimated by a uniform method.

Cantons.	Authorized issue of the cantonal and mixed banks. <sup>a</sup>	Total actual issue, average of the years 1898-1902.	Profit on notes, 40 centimes per 100 francs of authorized issue.	Taxation of notes, 0.5 per cent on the actual issue.	Total loss of the Cantons.
	Francs.	Francs.	Francs.	Francs.	Francs.
Zurich .....	30,000,000	27,334,000	120,000	136,670	256,670
Berne .....	20,000,000	18,999,000	80,000	94,995	174,995
Lucerne .....	6,000,000	10,741,000	24,000	53,705	77,705
Ur .....	1,500,000	1,474,000	6,000	7,370	13,370
Schwyz .....	3,000,000	2,930,000	12,000	14,650	26,650
Obwalden .....	1,000,000	984,000	4,000	4,920	8,920
Nidwalden .....	1,000,000	977,000	4,000	4,885	8,885
Glaris .....	2,500,000	2,433,000	10,000	12,165	22,165
Zoug (one-half capital) .....	<sup>a</sup> 1,500,000	2,445,000	6,000	12,225	18,225
Fribourg .....	5,000,000	7,043,000	20,000	35,215	55,215
Soleure .....	5,000,000	4,913,000	20,000	24,565	44,565
Basel (city) .....	10,000,000	<sup>b</sup> 33,088,000	40,000	165,440	205,440
Basel (country) .....	2,000,000	1,945,000	8,000	9,725	17,725
Schaffhouse .....	2,500,000	5,478,000	10,000	27,390	37,390
Appenzell (without) .....	3,000,000	2,928,000	12,000	14,640	26,640
Appenzell (within) .....	1,000,000	<sup>c</sup> 1,000,000	4,000	5,000	9,000
St. Gallen .....	14,000,000	31,087,000	56,000	155,435	211,435
Grisons .....	4,000,000	3,915,000	16,000	19,575	35,575
Argovie (one-half capital) .....	<sup>a</sup> 3,000,000	5,297,000	12,000	26,485	38,485
Thurgovie .....	5,000,000	5,465,000	20,000	27,325	47,325
Ticino .....		8,051,000		40,255	40,255

Vaud.....		11,737,000		58,685	58,685
Valais.....					
Neuchatel.....	8,000,000	15,618,000	32,000	78,090	110,090
Geneva.....		22,776,000		113,880	113,880
Total.....	129,000,000	228,658,000	516,000	1,143,290	1,659,290

<sup>a</sup> As regards Zoug and Argovie only half of the issues, corresponding to the share of these Cantons in the capital of the banks.  
<sup>b</sup> Average of issues during 1901 and 1902.  
<sup>c</sup> Average of issues of the year 1902.

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This table presents a list of the losses that the Cantons would sustain according to the uniform basis of estimate; or, in other words, the figures showing how much each Canton should receive (so far as possible as a minimum) in compensation for its loss in respect of the note business in its territory; but it still remained to be determined how much should actually be awarded to each Canton, after taking into the fullest possible consideration the total loss as shown in the above table in relation to the population and to the intensity of business activity—the latter measured, as above stated, by the amount of the authorized note issue. This task led to a number of trial calculations on the basis of variable assumptions as to both of the factors that had to be taken into consideration. It was necessary to hit upon such assumptions as did not, on the one hand, result in too great a total for the entire indemnity, and on the other hand gave to each individual Canton a compensation that was adequate in the light of the foregoing considerations.

Finally, with the approval of the Commission of Experts, the following basis was adopted for calculating the compensation payable to the Cantons:

(a) Fifty centimes for every 100 francs of the issue authorized within the territory of each Canton on December 31, 1902.

(b) Twenty-five centimes for every head of the population of each Canton, as shown by the figures of the last census.

The following table shows the amounts of the cantonal indemnities as calculated on this basis:

Table of indemnities for the various Cantons.

Cantons.	Authorized issue of the various Cantons.	50 centimes per 100 francs of note issue.	Population of the Cantons (Census of 1900).	25 centimes per head of the population.	Total indemnity.
	<i>Francs.</i>	<i>Francs.</i>		<i>Francs.</i>	<i>Francs.</i>
Zurich .....	30,000,000	150,000	431,036	107,759	257,759
Berne .....	20,000,000	100,000	589,433	147,358	247,358
Lucerne .....	11,000,000	55,000	146,519	36,630	91,630
Uri .....	1,500,000	7,500	19,700	4,925	12,425
Schwyz .....	3,000,000	15,000	55,385	13,846	28,846
Obwalden .....	1,000,000	5,000	15,260	3,815	8,815
Nidwalden .....	1,000,000	5,000	13,070	3,267	8,267
Glaris .....	2,500,000	12,500	32,349	8,087	20,587
Zoug .....	3,000,000	15,000	25,093	6,273	21,273
Fribourg .....	7,250,000	36,250	127,951	31,988	68,238
Soleure .....	5,000,000	25,000	100,762	25,191	50,191
Basle-city .....	34,000,000	170,000	112,227	28,057	198,057
Basle-country .....	2,000,000	10,000	68,497	17,124	27,124
Schaffhouse .....	6,000,000	30,000	41,514	10,379	40,379
Appenzell Without .....	3,000,000	15,000	55,281	13,820	28,820
Appenzell Within .....	1,000,000	5,000	13,499	3,375	8,375
St. Gallen .....	33,000,000	165,000	250,285	62,571	227,571
Grisons .....	4,000,000	20,000	104,520	26,130	46,130
Aargovie .....	6,000,000	30,000	206,498	51,625	81,625
Thurgovie .....	6,000,000	30,000	113,221	28,305	58,305
Tessin .....	9,250,000	46,250	138,638	34,660	80,910
Vaud .....	12,000,000	60,000	281,379	70,345	130,345

Table of indemnities for the various Cantons—Continued.

Cantons.	Authorized issue of the various Cantons.	50 centimes per 100 francs of note issue.	Population of the Cantons (Census of 1900).	25 centimes per head of the population.	Total indemnity.
	<i>Francs.</i>	<i>Francs.</i>		<i>Francs.</i>	<i>Francs.</i>
Valais.....			114,438	28,609	28,609
Neuchatel.....	16,000,000	80,000	126,279	31,570	111,570
Geneva.....	24,000,000	120,000	132,609	33,152	153,152
<b>Total.....</b>	<b>241,500,000</b>	<b>1,207,500</b>	<b>3,315,443</b>	<b>828,861</b>	<b>2,036,361</b>

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The entire amount payable to the Cantons was consequently 2,036,361 francs, while the original estimate of the loss was only 1,756,547 francs.

Accordingly the amount of 279,814 francs was to be paid to the Cantons over and above the estimated falling off in their revenues.

Now it became necessary that the factor of trade intensity which was introduced for the transition period should gradually be got rid of. For this purpose a sliding scale was decided upon in the following manner: Beginning with the sixth business year of the bank an alteration in the mode of distribution was to take place; namely, the portion based upon the issue of notes was to be reduced by 5 centimes every year and this 5 centimes was to be added to the portion based upon the population. In the fifteenth business year the portion based on the amount of note issue would have fallen away entirely, and after that the payment to be made by the bank would be simply 75 centimes for every head of the population. The progress of this change in successive years is shown in the table opposite.

An examination of the table shows that the proposed sliding scale would not only get rid of the factor of trade intensity, but would also bring about an increase in the total of the payments. The compensation, which was set down at 2,036,361 francs for the first five years, would have increased continually and would have reached 2,486,580 francs in the fifteenth year. At all events, these rates were high enough to entirely satisfy all the expectations of the Cantons. Even as recently as the

*Indemnity payable to the Cantons on the basis of their respective bank-note issues and their populations.*

Cantons.	Author-ized issues in thou-sands of francs.	Population as per census of 1900.	First to fifth year.			Sixth year—45 centimes for every 100 francs of issue and 30 centimes per head of population.	Seventh year—40 centimes for every 100 francs of issue and 35 centimes per head of population.	Eighth year—35 centimes for every 100 francs of issue and 40 centimes per head of population.	Ninth year—30 centimes for every 100 francs of issue and 45 centimes per head of population.	Tenth year—25 centimes for every 100 francs of issue and 50 centimes per head of population.	Eleventh year—20 centimes for every 100 francs of issue and 55 centimes per head of population.	Twelfth year—15 centimes for every 100 francs of issue and 60 centimes per head of population.	Thirteenth year—10 centimes for every 100 francs of issue and 65 centimes per head of population.	Fourteenth year—5 centimes for every 100 francs of issue and 70 centimes per head of population.	Fifteenth year—75 centimes per head of population.
			50 centimes for every 100 francs of issue.	25 centimes per head of population.	Total com-pensation to the Cantons.										
Zurich.....	30,000	431,036	150,000	107,759	257,759	264,311	270,863	277,414	283,966	290,518	297,070	303,622	310,173	316,725	323,277
Bern.....	30,000	589,433	100,000	147,358	247,358	266,830	286,301	305,773	325,245	344,716	364,188	383,660	403,131	422,603	442,075
Lucerne.....	11,000	146,519	55,000	36,630	91,630	93,456	95,282	97,108	98,934	100,760	102,585	104,412	106,237	108,063	109,889
Uri.....	1,500	19,700	7,500	4,925	12,425	12,660	12,895	13,130	13,365	13,600	13,835	14,070	14,305	14,540	14,775
Schwyz.....	3,000	55,385	15,000	13,846	28,846	29,115	31,385	32,654	33,923	35,193	36,464	37,731	39,000	40,270	41,539
Obwalden.....	1,000	15,260	5,000	3,815	8,815	9,078	9,341	9,604	9,867	10,130	10,393	10,656	10,919	11,182	11,445
Nidwalden.....	1,000	13,070	5,000	3,267	8,267	8,421	8,574	8,728	8,882	9,035	9,188	9,342	9,495	9,649	9,802
Glaris.....	2,500	32,349	12,500	8,087	20,587	20,955	21,322	21,690	22,057	22,425	22,792	23,159	23,527	23,894	24,262
Zug.....	3,000	25,093	15,000	6,273	21,273	21,028	20,783	20,537	20,292	20,046	19,801	19,556	19,310	19,065	18,820
Fribourg.....	7,250	127,951	36,250	31,988	68,238	71,010	73,783	76,555	79,328	82,101	84,873	87,646	90,418	93,191	95,963
Seoleure.....	5,000	100,762	25,000	25,191	50,191	52,729	55,267	57,805	60,343	62,881	65,419	67,957	70,495	73,033	75,571
Basle-city.....	34,000	112,227	170,000	28,057	198,057	186,668	175,279	163,891	152,502	141,114	129,725	118,336	106,948	95,559	84,170
Basle-country.....	2,000	68,497	10,000	17,124	27,124	29,549	31,974	34,399	36,824	39,248	41,673	44,098	46,523	48,948	51,373
Schaffhausen.....	6,000	41,514	30,000	10,379	40,379	39,454	38,530	37,605	36,681	35,757	34,833	33,908	32,984	32,060	31,135
Appenzell Without.....	3,000	55,281	15,000	13,820	28,820	30,085	31,348	32,612	33,876	35,140	36,405	37,669	38,933	40,197	41,461
Appenzell Within.....	1,000	13,499	5,000	3,375	8,375	9,550	8,725	8,900	9,075	9,249	9,424	9,599	9,774	9,949	10,124
St. Gallen.....	33,000	250,285	165,000	62,571	227,571	223,585	219,600	215,614	211,628	207,642	203,657	199,671	195,685	191,700	187,714
Grisons.....	4,000	104,520	20,000	26,130	46,130	49,356	52,582	55,808	59,034	62,260	65,486	68,712	71,938	75,164	78,390
Argovie.....	6,000	206,498	30,000	51,625	81,625	88,949	96,274	103,599	110,924	118,249	125,574	132,899	140,224	147,548	154,873
Thurgovie.....	6,000	113,221	30,000	28,305	58,305	60,966	63,627	66,288	68,949	71,610	74,271	76,933	79,594	82,255	84,916
Tessin.....	9,250	138,638	46,250	34,660	80,910	83,216	85,523	87,830	90,137	92,444	94,751	97,058	99,365	101,671	103,978
Vaud.....	12,000	281,379	60,000	70,345	130,345	138,414	146,483	154,552	162,621	170,690	178,758	186,827	194,896	202,965	211,034
Valais.....		114,438		28,609	28,609	34,331	40,053	45,775	51,497	57,219	62,941	68,663	74,385	80,106	85,828
Neuchâtel.....	16,000	126,279	80,000	31,570	111,570	109,884	108,198	106,512	104,825	103,140	101,453	99,767	98,081	96,395	94,709
Geneva.....	24,000	132,609	120,000	33,152	153,152	147,783	142,413	137,044	131,674	126,304	120,935	115,565	110,196	104,826	99,457
Total.....	241,500	3,315,443	1,207,500	828,861	2,036,361	2,081,383	2,126,405	2,171,427	2,216,449	2,261,471	2,306,494	2,351,516	2,396,536	441,558	2,486,580

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year 1900 the Cantons would have been satisfied with a compensation amounting to less than half this sum.<sup>a</sup>

In order to guarantee absolutely to the Cantons the payment of these sums, certain provisions were included in the bill which make the compensation payments independent of the amount of the net profits of the bank. The details of these provisions will be taken up in connection with the analysis of the law.

### 3. DISTRIBUTION OF THE NET PROFITS.

The Bundesrat's report giving the reasons for the bill estimates the net profit for the first few years of normal business of the central bank of issue at 4,000,000 francs. This result was arrived at in the following manner: The average amount of the actual circulation of notes is about 200,000,000 francs, which, assuming a metallic cover of 50 per cent, would leave a productive note circulation of 100,000,000 francs; as other productive resources were reckoned 20,000,000 of the share capital and 35,000,000 of noninterest-bearing deposits in the cheque and transfer business. This makes an estimated total of 155,000,000 francs of productive funds, and the gross profit on this sum is put down, certainly with sufficient caution, at 3½ per cent.

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<sup>a</sup> A minority in the Commission of the Ständerat put a motion in December, 1900, on the occasion of the debate on the second bank bill, as follows:

"The Bundesrat is required, for the purpose of compensating the Cantons for the loss entailed upon them by the withdrawal of their privilege of issuing bank notes, to levy a yearly tax of one-half per cent upon the entire amount of bank notes issued by the central bank, which sum is to be handed over to the various Cantons in proportion to their population."

The proceeds of such a tax were estimated at 1,200,000 francs per annum. It was repeatedly pointed out that it was only the rejection of this proposal that sealed the fate of the bill.

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Accordingly, we have the following estimate of probable results:

	Francs.	
Actual note circulation.....		200,000,000
50 per cent cover in specie.....		100,000,000
Available for profit-earning purposes.....		100,000,000
	Francs.	
Productive part of the capital.....	20,000,000	
Noninterest-bearing deposits (cheque and transfer accounts).....	35,000,000	
		55,000,000
Total of profit-earning funds.....		155,000,000
Gross profits reckoned at the rate of $3\frac{1}{2}$ per cent.....		5,425,000
Deduct expenses of management, including yearly amount of amortisation of the cost of producing the bank notes, etc..		1,425,000
Balance remaining as net profits.....		4,000,000

The foregoing estimate can hardly be designated as too optimistic. It may rather be assumed that after the expiration of the time allowed for the withdrawal of the old notes the yearly net profits will, on an average, exceed the sum of 4,000,000 francs.

This assumption is especially justified by the consideration that the estimate of 35,000,000 francs for the non-interest-bearing deposits is far too low (good judges of conditions have placed the minimum of these deposits at 50,000,000 francs), and that a gross profit of  $3\frac{1}{2}$  per cent corresponds perhaps to the returns of the discount portfolio, but certainly not to those of the collateral loan business.

According to the provisions of the bill the distribution of the net profits was to be as follows: A quota of 10 per cent was to be transferred yearly to the surplus, but in no case more than 500,000 francs; a dividend of 4 per cent was then to be assigned to the paid-up capital; out of the

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amount remaining the compensation payable to the Cantons was first to be provided and the dividend might then be increased to a maximum of 4½ per cent, and the remainder was to go to the Cantons and the Confederation, two-thirds to the former and one-third to the latter.

Taking the net profit at 4,000,000 francs, a distribution according to the terms of the bill would have resulted as follows:

Net profits.....	Frans.	4, 000, 000
	Frans.	
Carried over to surplus (10 per cent).....	400, 000	
4 per cent dividend on 25,000,000 paid-up capital..	1, 000, 000	
Indemnity handed over to the Confederation for distribution to the Cantons (amount for one of the first 5 years).....	2, 036, 361	
Additional dividend (½ per cent).....	125, 000	
Total.....		3, 561, 361
Amount remaining.....		438, 639
Two-thirds goes to the Cantons.....	292, 426	
One-third goes to the Confederation.....	146, 213	
		438, 639

#### 4. THE QUESTION OF LOCATION.

Although of far less intrinsic importance than the financial difficulties, the difficulties that every new bank bill encountered from the rivalries regarding the seat of the central bank bulked much bigger outwardly and were far more calculated to inflame political passions.

The state bank bill of 1894, which was rejected by the people in 1897, placed the central seat of the bank at the capital of the Confederation, Berne. Owing to circumstances then existing, this point attracted little or no attention during the debates that preceded the vote. The ene-

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mies of the bill concentrated their attacks upon the principle of the state bank and the tying up of the nation's credit with that of the bank.

In the bill, however, which was presented to the Bundesrat, after the rejection of the state bank scheme, by the Swiss Handels- und Industrieverein, an organization representing all the great commercial and industrial interests of Switzerland, Zurich was named as the seat of the bank; and from that time dates the contest between these two cities for consideration in the choice of the location of the bank. Both found supporters in all parts of the country. A part of French and northwest Switzerland, and especially Basle, supported Berne in her claims, while on the other hand the highly industrial country districts of the Canton of Zurich and northeast and eastern Switzerland were in favor of Zurich.

The substantial arguments which could be brought forward in favor of Zurich found expression in the session of the Bundesversammlung of June, 1899, when the late Nationalrat Keel, of St. Gall, introduced the subject in an important and remarkable speech. These arguments were all more or less elaborate variations on the indisputable fact that if a central bank of issue is really to regulate the monetary circulation of a country and to meet its needs in the matter of exchange and discount policy, then the management of the bank must be in the closest touch with the money market, and must therefore be located at a place where the fluctuations of demand for money and the upward and downward tendencies of economic activity can be watched daily and hourly. If

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this be admitted, it follows that the chief center of business is the natural seat of the central bank of issue.

In the case of the central note-banks of other countries, the practical application of this principle offered no difficulty; for the dominating position of such cities as Paris or London, Berlin or Vienna in the economic life of their countries could not be seriously questioned, and each of these cities was at the same time the political capital of its country. But in Switzerland matters were different. There is still force in the point that was made by "Anonymus" in 1835, when, discussing the difficulties of carrying out the idea of establishing a "General Swiss National Bank," he said: "Moreover, business in Switzerland is not so preeminently concentrated in one place as it is in other countries at their capitals." Cities like Basle and Geneva, the old strongholds of Swiss high finance, jealously defend their rights and their importance as against the great industrial center of Switzerland and its chief banking town, Zurich, whose magnificent development is of recent date; and in addition to this the economic metropolis does not coincide with the political capital of the country. Consequently, nothing else could be expected than that the claims of Zurich to be made the seat of the central bank would find opponents on two sides.

As against the claims of Zurich, Berne presented her own. She was able to point out, with a certain outward show of reason, that the seat of the central bank of every foreign country is at the political capital of the country, and she supported with great skill the demand that this example should be followed in the organization of the

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Swiss Central Bank of issue. And she drew attention to the unquestionable fact that the possibility of keeping continually in touch with the heads of the Federal Government could not fail to be of advantage to the bank.

The demands of Berne were warmly supported in Geneva and Basle. It was thought that Berne, being insignificant as a banking center, would offer a better guaranty of impartial consideration for the interests of all parts of the country, while on the other hand it was feared that if the seat were transferred to Zurich there would result an increasing preponderance of that city in the banking field, at the expense of the other chief banking centers. Berne, as well as Basle and Geneva, resolved to refuse assent to a bill that fixed Zurich as the seat of the bank, while on the other hand Zurich and its adherents threatened the rejection of any proposal that placed the seat of the bank elsewhere than at Zurich. In this contest, which was hardly pleasant for either party, Zurich was justified in putting forward the claim that considerations of local patriotism and fears of a possible preponderance of the central seat in the commercial world must give way to the fact that the right of existence of the central bank depends upon the possibility of its being able to acquire a dominating position in the Swiss money market, and that this dominating position could be attained by Zurich only. The objection that the development of the bank might be unfavorably affected by its management being exposed to the influence of the business world of Zurich was met by the retort on the part of Zurich—with quite as much justification—that while the

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history of banking offers several instances in which banks of issue suffered from the consequences of too much state interference in their management, no case was known in which an unfavorable effect was produced by a close contact between the activities of economic life and the bank which promotes these activities and which, in turn, is supported by them. Angershausen, who was above all influences of local politics, doubtless had this fact in mind when he said: "Switzerland should feel herself fortunate in having the possibility of fixing the seat of the board of management at the chief business center, which is not at the same time the political capital, and thus making more certain the freedom of the bank management from the influence of politics or governmental finance."

In the course of years the rivalry of Zurich and Berne had continually assumed a more pronounced character, and the fact that this rivalry was supposed to be the cause of the failure of the bank bill of 1899, though in reality there were other motives to account for it (see p. 109), goes to show how very important the question of the bank seat was considered.

The bill of June 13, 1904, found, however, a way out of this dilemma also; the Bundesrat proposed that the designation of the central seat should not be made in the law itself, but reserved for special determination by the Confederation. The Bundesrat was led to this conclusion by the following considerations:

The realization of the object contemplated in article 39 of the federal constitution should not depend upon the fixing of the seat of the institution, and this detail must not nec-

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essarily be included in the law. It does not form part of those questions of principle which are an essential part of the problem to be solved and which must therefore be settled by the law itself. The law concerning the establishment of a central bank of issue can be complete and form a whole, without the seat of the institution and of its local managements being specified in it. Just as a law providing for accident, invalid, and old-age insurance may be imagined in which the seat of the institution in charge of it is not fixed upon in advance, so it would be possible to accept a law respecting the bank, and thus accomplish a legislative result which would leave nothing to be desired in point of completeness, without touching the question of the seat of the bank.

Furthermore, the Bundesrat felt that when the Federal Chambers had once given their approval to a bill which meets all practical objections and satisfies the justifiable claims of the Cantons, the subsequent contest over the seat of the bank would hardly result in the undoing of the progress made.

Accordingly, article 3, paragraph 1, of the Bundesrat's bill read as follows: "The seat of the National Bank shall be determined by a special resolution of the Confederation."

### SECTION II.—THE PARLIAMENTARY CONSIDERATION OF THE BILL.

Like the bill itself, the parliamentary debates on it, aside from a few moments of excitement, testified to the general recognition of the fact that the work of carrying into effect article 39 of the federal constitution could be

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brought to a successful conclusion only through mutual concessions; and as in the preparation of the bill, so in the debates there prevailed a desire to eliminate, as far as possible, those features that contributed to the defeat of preceding bills.

The Ständerat had the priority in the consideration of the bill and dealt with the subject on the 13th, 14th, 15th, 16th, and 21st of December, 1904. The Nationalrat, on the other hand, only took up the consideration of the bill on March 28, 1905, continued it on March 29 and 30 and June 14 and 15, and brought it to a close June 26, 1905. The decisions arrived at by the Nationalrat were assented to by the Ständerat at its meeting of September 28, 1905, and after the differences—merely differences of form and of editing—existing between the two chambers had been removed in the joint sittings of October 3 and 4, 1905, the law was in a position to be published in No. 42 of the *Bundesblatt* (October 11, 1905) as the “Federal law of October 6, 1905, respecting the Swiss National Bank,” subject to the referendum proviso.

In the Ständerat the question of entering upon the consideration of the bill did not lead to any real discussion. At the very beginning of the consideration of it Ständerat Winiger declared, in the name of those groups in the Ständerat which had opposed the previous propositions of the Bundesrat, that as he and his political friends had not opposed the new article 39 of the federal constitution, but on the contrary had helped to secure its adoption, so they had not wished to question the necessity of carrying out the requirements of this article,

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and their opposition had been directed only against the particular methods that had been proposed. On the contrary, however, as to the new proposition, it was the intention of himself and his political friends to assist in putting it through. After brief preliminaries the Ständerat entered upon the consideration of the bill, article by article.

In the Nationalrat, on the other hand, the question whether the chamber should take up the bill led to a lengthy discussion. Nationalrat Scherrer-Fuellemann, as leader of the social-reform group, moved: "That the chambers do not enter upon the consideration of the bill and that the Bundesrat be invited to recast the bill as promptly as possible so as to provide for a pure state bank, or a bank preponderantly of state character; the interests of the Cantons and the cantonal banks to be safeguarded in the same manner as in the present bill." In support of this motion, Herr Scherrer-Fuellemann presented the old arguments of the friends of a state bank. He maintained that the result of the popular vote of February 28, 1897, could in no way be regarded as a rejection of the idea of a state bank on the part of the people; on the contrary, more than 195,000 Swiss citizens had decided in favor of a state bank and the chief group of opponents of the law, the friends of the cantonal banks, represented precisely the interests of state institutions. It would be possible to introduce into the state-bank law all those provisions that had been adopted in the interest of the Cantons and the existing banks of issue; it would also be possible to restrict the responsibility of the Con-

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federation for the obligations entered into by the bank. The question of how the capital was to be divided between the Confederation and the Cantons was only of secondary importance; from the point of view of social policy the exploitation of a bank-note monopoly belonging to the State could not, as a matter of principle, be left in the hands of an institution in whose financial creation private capital entitled to dividends has participated and in whose management private capital is allowed to have an influence.

In opposition to the demand for a state bank as a matter of principle, Nationalrat Hirter, who was known as a staunch supporter of a state bank, as well as Bundesrat Comtesse, pointed out that it was impossible to sacrifice the idea of a central bank to a theory. "M. Scherrer-Fuellemann," said Bundesrat Comtesse, "only admits the solution of the problem of article 39 of the constitution by the establishment of a pure state bank; he recognizes, with us, that it is more and more necessary for the development and the solidity of our credit to create an institution of this kind and that the absence of this institution is prejudicial to the interests of our country. But, gentlemen, the protection of the commercial interests of our country and the safeguarding of our credit—all those interests which dominate the entire question—Mr. Scherrer-Fuellemann subordinates to the satisfaction of a theory, a doctrine, to the theory of a state bank, even to the extent of the complete exclusion of private capital. His formula is uncompromising—no National Bank of issue if it does not conform to his view; the interests of commerce and industry will continue to suffer, the country

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will continue to be deprived of a bank which it needs so long as you do not consent to create this institution as a state bank. \* \* \* M. Scherrer-Fuellemann contends, in the first place, that the negative vote against the first bank bill does not correctly represent the views held by the majority of the people and that if the people were to be consulted to-day on this subject the elements constituting that majority would not be present and that consequently the people's verdict need not be considered. For my part, as a democrat, I entertain greater respect for the manifestations of popular suffrage, and I am not one of those who bow before the verdict of the people, but design at the very first opportunity to have their revenge and to carry out their purpose in spite of all. One can always claim, no doubt, that the people's opinion has changed, but I can only reply to M. Scherrer-Fuellemann that up to now I have seen no unequivocal signs, no clear indications, that might make one believe that the opinion of the people on this subject has been altered."

The other speakers in favor of the Bundesrat's bill spoke in a similar spirit. Especially as against the apprehensions of Herr Scherrer-Fuellemann concerning the participation and influence of the private capital, it was justly pointed out that the organization of the bank offered adequate guaranties of the impossibility of a preponderance of this influence; that the share allowed to private capital in the institution to be established was in itself not great and that especially in view of the extremely low limit placed upon the dividends, which, moreover, were not guaranteed, there could be no talk

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of an exploitation of the bank-note monopoly by private capital. Attention was also drawn to the self-contradiction involved in the position represented by Scherrer-Fuellemann; in view of the enormous difficulties which his proposal would have to encounter, and the overcoming of which would require, upon the most favorable supposition, years of effort, the acceptance of his motion would only result in the 36 banks of issue continuing to make use of the bank-note monopoly, which, ever since 1891, had rightfully belonged to the Confederation. "Herr Scherrer-Fuellemann," said Nationalrat Vigier, "hunts down private capital and the private banks in all directions. What is the effect of his proposal? That private capital will retain its actual privileged position for another six years at least. For this very reason and in order to let private capital drop out of the case, or at least to restrict its influence in the management and administration of the bank as far as possible, I am of opinion that it is better to take what is offered us here. It is a compromise, and the policy of compromise has thus far brought about not evil but good fortune in economic questions."

In the division the Scherrer-Fuellemann motion was rejected by 117 votes against 22, with 26 members absent. Thereupon the Nationalrat entered upon the consideration of the bill article by article.

In these proceedings the bill was not subjected to any fundamental alterations. The compromise character of the bill was preserved. It may even be said that the law which was the result of these parliamentary discussions bore the character of compromise even to a higher degree than the bill itself.

## *T h e   S w i s s   B a n k i n g   L a w*

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A number of provisions in the bill gave rise to no animated discussion, especially those under the following headings:

“General observations;” “Sphere of activity of the National Bank;” “Issue, redemption, and cover of the bank notes;” “Organs of the National Bank;” “Cooperation and supervision of the Confederation;” “Penal provisions;” and “Transitional dispositions.”

These had been taken over from the two previous bills with hardly any alteration, and the chambers were agreed upon these points after years of discussion. Only the penalty clauses were referred back to the commission by the Ständerat, so that they might be brought into agreement with the provisions of a bill establishing a uniform penal code for Switzerland, which task, however, was finally left unaccomplished in view of the very great technical difficulties involved.

The substance of the parliamentary debates and their influence upon the bill will be presented in the following account. It should be remarked, however, that this account does not attempt to go into details, and that it does not seem necessary for our purpose to follow up the development of every question in the various stages of the parliamentary deliberations or to report on the fate of every amendment that was offered. The object in view is to fix upon the changes that the Bundesrat's bill underwent in points that have an important bearing on its character, and the motives that led to these changes.

These alterations may be divided into six groups; they concern (1) the financial foundation, the capital of the bank; (2) seat of the bank; (3) branch offices and agen-

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cies; (4) indemnification of the Cantons; (5) distribution of the net profits; (6) liquidation of the bank. These subjects will be treated successively, in the order named.

### I. THE CAPITAL OF THE BANK.

Against the proposal made by the Bundesrat to allot two-fifths of the capital of the bank to the Cantons and a like share to private capital and one-fifth to the existing banks of issue, no counter proposal was made by the Ständerat. The opinion was nevertheless expressed, even there, that it was "not worthy" of the position of the Confederation to be excluded from financial participation in the bank, and it was held that it might also prove to be an advantage for the Cantons if the Confederation were interested in the proceeds of the bank; but these suggestions had more the tone of "might" than "must." With one accord, the representatives of the French-Swiss Cantons declared that the entire exclusion of the Confederation from financial participation constituted for them the chief point of the compromise, as it prevented the mixing up of the credit of the Confederation with the bank's credit, and that if this point should in any way be tampered with the whole compromise would collapse. It was also stated that, as the Confederation was to have control of the general conduct of the bank and supervision of its management, it would not be becoming to make it a shareholder of the bank at the same time.

In the Nationalrat matters were different. Herr Scherrer-Fuellemann put the motion that the distribution of the capital of the bank proposed in the federal

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bill be altered as follows: That two-fifths be allotted to the Confederation, two-fifths to the Cantons, and one-fifth to private capital. Herr Scherrer-Fuellemann urged in support of his motion that the adoption of this proposal would be calculated better to safeguard the prerogative, the rights, and the power of the Confederation in relation to the bank and that it would also conciliate the supporters of the state-bank scheme, so that in the event of a referendum the bill would stand a better chance of passing. As regards the first argument, Nationalrat Vigier emphasized the fact that even if the proposal of Scherrer-Fuellemann should be adopted, the Confederation could not be given any further rights in the administration than the Bundesrat had already assigned to it in its bill. The second argument lost very much of its effectiveness through the following declaration, made immediately after the conclusion of Herr Scherrer-Fuellemann's speech, by M. Ador: "If the proposal put forward by our honorable colleague, M. Scherrer-Fuellemann, is to be accepted by this council, I desire to state on my own behalf and on behalf of my friends, who, as advocates of the second alternative of article 39 of the Constitution, demand a private joint-stock bank, that we would energetically fight a plan in which the idea of the Confederation participating in the capital of the bank was again introduced, as we consider that this would be equivalent to an undisguised return to the principle of a state bank."

In order to explain the position taken by those members who had previously supported a state bank and had

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voted against a private joint-stock bank, but who now, in contrast with the members of the social-reform group, favored the Bundesrat's bill, Nationalrat Hirter drew attention to the fact that the ideal of himself and his political friends had never been the embodiment of the form of a state bank, but the establishment of a national bank under the administration of the Confederation, which would serve the public interests exclusively and the proceeds of which would also go to the public. These requirements were certainly realized in the present bill.

The Scherrer-Fuellemann motion was rejected by 75 votes against 29, and thus the scheme of distribution of the share capital of the bank proposed by the Bundesrat was accepted by both chambers.

The alterations made by the chambers in the provisions regulating the distribution of the capital were without great importance. At the suggestion of the commission of the Ständerat the proviso was added to the bill that those shares which had not been taken up by the Cantons should be allotted to the cantonal banks. In the Nationalrat Herr Buser (Basle-Country) moved that the proposal contained in the Bundesrat's bill respecting the distribution of the one-fifth of the share capital reserved for the banks of issue, which was to be assigned in proportion to the actual note circulation on December 31, 1902, be changed and that the figures of December 31, 1904, be used. This motion was duly carried. This was done out of consideration for those Cantons that had increased their issues since 1902. We shall not here dis-

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cuss the question whether and to what extent those increases were due to the consideration that greater bank-note issues would result in the obtaining of heavier indemnities in the event of the establishment of a central bank.

Another question belonging to this branch of the subject which gave rise to discussions in the chambers related to the temporary taking over of national-bank shares by the Confederation. There were two possibilities and both were provided for in the Bundesrat's bill. One of these was that the part of the shares which was reserved for private capital might not be fully subscribed for; the other that the National Bank might purchase an existing bank of issue and might thus come into possession of its own shares. The Bundesrat's bill provided that in both these cases the shares in question be taken over by the Confederation, which, however, was required to sell them as soon as possible at the stock exchange at the market price, but not below their face value.

The second of those possibilities was reduced practically to nullity by the provision adopted at the instance of the commission of the Ständerat that any Canton within whose territory a bank of issue acquired by the National Bank is situate be given the first refusal of any shares of the National Bank owned by that bank. The commission of the Nationalrat approved this action of the Ständerat, but it altered the bill of the Bundesrat to the effect that the shares not subscribed for by private capital and taken up by the Confederation, and also the shares belonging to banks absorbed by the National Bank in regard to which

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the Cantons might not exercise their right of purchase, should go over to the Confederation permanently, instead of being required to be immediately sold by it.

Those who wished to exclude the Confederation completely from participation in the share capital of the national bank, as a matter of principle, made their opposition to this proposal strongly felt. On motion of Herr Ador, both the proposal contained in the Bundesrat's bill and that suggested by the commission of the Nationalrat were rejected by the vote of the Nationalrat, in which the Ständerat concurred.

This result is really in accordance with the true position of affairs. The proposal of the commission of the Nationalrat was in conflict with the principle underlying the bill, and the provisions proposed on this head in the bill itself were superfluous.

For the possibility that the shares assigned to private capital might not be fully subscribed for may be disregarded altogether. "We are establishing the central bank," said Nationalrat Fazy, "on the basis of capital furnished by the Cantons and by private individuals. It is absolutely grotesque and almost inconceivable that at the very moment when we are about to found this establishment on private capital we should be looking forward to the possibility of private capital not responding to the invitation. There certainly exists here a contradiction." Herr Heller, who made the report of the commission of the Nationalrat, likewise said: "It is not to be supposed that the Bundesrat would undertake to establish the bank without being positively assured that all the shares will be

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subscribed for and taken up, for the matter involves not only the credit of the National Bank but the credit of the whole country. It would be an irresponsible act on the part of the federal authorities to undertake the foundation of the bank without being completely convinced that the entire amount of the shares will be subscribed for. For this possibility, therefore, there is no occasion to make provision in the law; we may say with certainty that the case will not arise."

For the second of the two possibilities for which the Bundesrat had made provision in its bill, any special regulation was even less necessary. Should the case ever occur that a bank of issue which held National Bank shares was bought up by the National Bank and that the Canton concerned did not see fit to make use of its preferential right to purchase the shares, it will not be at all necessary for the Confederation to take over the said shares for the time being, as the case is fully met by the provisions of article 628 of the Civil Code, by which a joint stock company is required to sell without delay any of its own shares that may have come into its possession.

The last question appertaining to the subject of the share-capital which engaged the attention of the chambers was the distribution of new issues of shares in the event of a subsequent increase of capital. On this subject the Ständerat adopted the motion of Usteri, according to which the general meeting of the shareholders, when it determines upon an enlargement of the bank capital (subject to the approval of the Federal Chambers) must also decide in what proportions the new capital is to be

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divided among the three groups of shareholders—the Cantons, the banks, and private capital. As a substitute for this provision the commission of the Nationalrat offered the proposal that the power to determine the method of providing future increases of the bank's capital be withdrawn entirely from the general meeting of shareholders and be vested in the Bundesversammlung. This motion was adopted by both Chambers.

### 2. SEAT OF THE BANK.

The only question for which the federal bill had found no solution was that of fixing the seat of the bank, and this was the question that most agitated the members of the Bundesversammlung. It was only when this subject was under discussion that the debates assumed a character of passionate excitement. Finally this question, too, was settled by a compromise.

In place of the proposal of the Bundesrat not to designate the seat of the bank in the bank act itself, but to leave it for subsequent action by the Confederation, the commission of the Ständerat, by 6 votes against 5, substituted a motion that the seat of the bank be named in the law. This proposal touched the question only as regards the principle; it left open the question whether Zurich or Berne was to be designated by the law as the seat of the bank.

In support of this proposal by the commission it was not only argued that the fixing of the seat of the bank was an essential point bearing on its organization, which had consequently to be decided in the law itself, but it was more-

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over asserted that such a procedure was tactically preferable to that proposed by the Bundesrat. "I am of the opinion," said Ständerat Hildebrand, "that the bill has a much better chance of being accepted by the majority of the people, in the event of a referendum, if the central seat is decided upon in the bill. If, for instance, we select Berne, we must be prepared to find Zurich and part of eastern Switzerland in the opposition, but on the other hand we may expect that Berne and the western Cantons will display more enthusiasm for the acceptance of the law. The reverse will happen if Zurich is chosen; probably Berne and western Switzerland will offer some resistance. But if we leave the question open, a complete want of clearness will prevail, and this may be made use of to create such distrust as may easily cause the defeat of the whole scheme. If the law is not clear, if the central seat is not designated, this will breed indifference, which will be manifest at the polls. Neither Berne nor Zurich, neither eastern nor western Switzerland, will show any enthusiasm for the acceptance of the bill. \* \* \* And those who are opposed to the bill will take advantage of this indifference and will get the upper hand."

It may be said that this view of the situation had as much claim to consideration as did that of those who maintained the proposal of the Bundesrat as against that of the commission of the Ständerat. "If you pursue the course that we propose," said Nationalrat Hirter, "you will at least reach the result of giving the two chambers a complete bank law, and if, as may be expected, the referendum is invoked, the people will be able to pronounce

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upon the basis, the organs, and the character of the bank without mixing with these the question of the seat of the bank. When such a law has once passed the referendum stage and gone into force, the chief questions will have been cleared up; and then, to be sure, the question of the seat will have to be settled. \* \* \* And I am confident that when the main question has been settled, the question of the seat of the bank will not remain for a long time a subject of difference between the federal chambers, and even if the referendum should be demanded we may expect that the great majority of the Swiss people will say: 'We accept the proposal of the federal chambers and assent to it, so as not to delay any longer the establishment of the bank.' "

The Ständerat approved the proposal of its commission, and the bill that came from this chamber consequently contained the clause, "The National Bank has its central seat at ——," the Ständerat being of the opinion that after an agreement had been reached upon the bill as a whole it would again have the priority in the designation of the seat of the bank.

The question of the admissability of this procedure, which was discussed in the Nationalrat, need not be considered here. As regards the subject itself, a number of views were expressed in the Nationalrat. A minority of the commission of the Nationalrat recommended assent to the conclusion arrived at by the Ständerat; the majority desired to restore the wording of the Bundesrat's bill, but with the modification that the seat of the bank should not be determined by a special

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resolution of the federal legislature, but by a federal act subject to the referendum. During the debate a third proposal was made by Nationalrat Zoller, who moved that "the seat of the National Bank be determined, after a report by the Bundesrat, by a secret joint ballot of the two chambers of the Bundesversammlung."

Neither the proposal of the Bundesrat and of the minority of its own commission nor the proposal of Zoller was adopted by the Nationalrat. Their rejection was to be ascribed chiefly to two reasons.

In the first place, there was a reason of a tactical nature. The Bundesrat's proposal was based on the assumption that when the law itself has been passed by the chambers and approved by the people the question of the seat would be settled in an amicable spirit. The character of the debates and the passion that had been manifested even in the preliminary consideration of this point seemed to confirm the fear that this expectation might not be realized; on the contrary, that the distrust on both sides might seriously endanger the bill in the event of a referendum.

The second reason was based on principle. The view that the fixing of the seat of the bank was really an essential part of the law, which was strongly supported in the Nationalrat by Herr Paul Speiser, appears to have gradually gained the upper hand. With special pertinency it was pointed out that the character of the compromise arrived at would be affected by the selection of the seat of the bank. "Shall we," said Herr Speiser, "establish the bank which we are now creating on the

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basis of a compromise at the chief seat of the federal administration or at a place where it would be entirely independent of the federal administration—at one of our great banking centers? I purposely put the question not in a personal way but as a question of principle, and I therefore say: ‘At one of the banking centers.’ The character of the bank will differ according as its chief seat is at Berne, the seat of the federal administration, or at one of the great banking centers, let us say Basle, Geneva, Zurich. This question, which is highly important, must be solved now, in order that it may be made clear whether the future National Bank will bear more of an official or more of a private character. \* \* \* The influences—I do not in the least mean improper influences, but the personal influences affecting the business manager—are entirely different in the one place from what they are in the other. \* \* \* We have concluded a compromise under which we seek to establish a private bank with a state character, or, as we may equally well say, a state joint stock bank with a private character—it is not easy to find a perfect designation, but at all events it is a delicate compromise, which has been very carefully planned. Shall we give greater influence to private individuals or to the Confederation? Everything has been very cleverly contrived; only the question remains to be answered: ‘Where shall the bank be placed?’ Shall it be ‘federal administration oil’ or ‘high finance oil’ that is to flow to the new bank? This depends upon your decision on the bank seat question. It is certain that so long as we do not know the central seat of the bank

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we shall not be clear as to the character of the future National Bank. This is not a side matter; no, the human element—and that is what is here in question—never has been and never will be a side matter.”

Although the question of the seat of the bank was, therefore, taken up in the law, the chambers were nevertheless relieved of the task of passing judgment on the relative weight of the claims put forward by the two rival cities and choosing between them. After protracted negotiations between the representatives of Berne and those of Zurich in the Nationalrat, it was found possible to settle this dispute also by a compromise, for which a model was furnished in the organization of the “Crédit Lyonnais” or of the “Darmstädter Bank” (Bank für Handel und Industrie) and which was urged by Nationalrat Stoffel.

The compromise, which was first brought before the Nationalrat in the form of a motion by the commission, consists in a division of the seat between Zurich and Berne. The administrative and legal seat of the bank was to be at Berne, while the Direktorium was to be located at Zurich. The compromise rests on the idea that everything that concerns supervision and control should be concentrated at Berne, viz: The general meetings of the shareholders, the sittings of the bank council, and, as a rule, also the meetings of the bank committee. The business management of the bank, on the other hand, should be located at Zurich, and it is there that the meetings of the Direktorium should be held. This Direktorium was divided into three departments, of which two, namely, the department for the discount and

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transfer business and the department of control, or the heads of these departments, were to be at Zurich, while the head of the third department, which was to have charge of the issue of bank notes, the management of the cash in hand and the transaction of business with the Confederation, was to be located at Berne. The branch offices for Zurich and Berne were to have their own local managements, so that the Direktorium (or board of management) of the National Bank, to which the Bundesrat's bill had assigned the conduct of the branch bank at its seat, was no longer intrusted with the direct management of any branch institution. A further point of the compromise, which, however, did not appear in the printed text of the law, consisted in the understanding that of the two directors residing at Zurich one should also be the president of the Direktorium.

This compromise plan of the commission was accepted by the Nationalrat, and in September, 1905, by the Ständerat also.

### 3. BRANCH OFFICES AND AGENCIES.

The changes made by the Bundesversammlung in the Bundesrat's bill in regard to branches and agencies had their origin in the desire to conserve the interests of the cantonal banks as far as possible.

Seeing that the rejection of the first bank bill had been brought about in large measure by the fear that the central bank of issue would interfere with the prosperity of the cantonal banks, the interests of those banks were taken into the fullest consideration in the later bills, and

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this by way of restricting the sphere of business activity of the National Bank. This restriction, accordingly, was a feature of the last bill; and the tendency to further limitation was also shown in the resolution (passed first by the Ständerat and then by the Nationalrat) by which, in the fundamental statement of the functions of the bank—regulation of the circulation, facilitation of payments, and care for the utilization of available capital—taken over in the Bundesrat's bill from the German bank law, the last-named function was struck out.

The representatives of the interests of the cantonal banks demanded, however, in addition to the positive limitations of the competitive powers of the National Bank, a special guarantee against undesirable local competition. Ständerat Python made known these wishes. He urged that if the law did not designate the places at which the National Bank was to be at liberty to establish branches it should at least guarantee that no branch would be established against the expressed will of the cantonal government concerned, and furthermore that in the establishment of agencies of the National Bank the cantonal banks would be given preference.

To both demands the Chambers acceded by recasting the article of the bill in question. An account of the details of these provisions will be given to better advantage in connection with the account of the entire law.

#### 4. DISTRIBUTION OF THE NET PROFITS.

The alterations considered by the Bundesversammlung in the mode of distributing the net profits proposed by the

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Bundesrat was due to the motives we have already treated—the desire to grant to the private capital as small a share as possible in the proceeds of the bank and the desire to increase the payments of the banks to the Cantons as much as possible.

The proposal of the Bundesrat provided that next after the transfer of 10 per cent of the net profits to the surplus there should be paid a dividend of 4 per cent on the share capital. After this the indemnities due the Cantons were to be paid, an additional dividend of at most  $\frac{1}{2}$  per cent on the capital was to be distributed, and the remainder was to be divided between the Confederation and the Cantons, one-third going to the former and two-thirds to the latter.

The resolution of the Ständerat providing that the whole of this remainder go to the Cantons was not adopted by the Nationalrat; the Confederation therefore remains entitled to one-third of this remainder of the net profits of the National Bank.

On the other hand the proposal that the additional dividend be struck out, originally moved by the minority of the Ständerat's commission, was accepted by both chambers. It was held that it was not right to guarantee to private capital for its participation a rate of interest which was higher than that customary in the country, and that the proceeds of the bank should go to the public without unnecessary curtailment.

The effect of striking out the additional dividend of the shareholders is of course to make a corresponding increase in the amount to be divided between the Confederation and the Cantons.

5. INDEMNIFICATION OF THE CANTONS.

The plan of compensation for the Cantons proposed by the Bundesrat on the basis of the calculation given in the report on the Bundesrat's bill was declared by the Federal Assembly to be acceptable in general and advantageous for the Cantons. In particular the plan of the Federal Council to consider the amounts of note issue as a factor to be taken into account in reckoning the indemnity amounts only during a transition period met with almost unanimous approval; especially because the receipts of the Cantons and the cantonal banks from their note business were by no means guaranteed, but, on the contrary, for nearly twenty-five years there had existed legislative provisions according to which compensation for the withdrawal of this privilege was excluded.

Of the small Cantons with highly developed trade, for which the indemnity calculated on the basis proposed by the Bundesrat would mean a financial disadvantage as compared with the revenues hitherto received, only the Canton of Basle-City attempted through its representatives in the Bundesversammlung to bring about a change in the proposed method of indemnification. Herr Scherrer spoke on behalf of his Canton in the Ständerat and Herr Mueri in the Nationalrat, but without result in either chamber. The rejection of the Basle propositions was unavoidable if the large Cantons with comparatively small business activity were not to be placed at a disadvantage, which in turn would have handicapped the chances of the bill passing. The proposal of Basle was to give greater consideration to the

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factor of note issue, or to give that consideration for a longer period.

The proposal of the Bundesrat was, however, modified in two points.

Under the Bundesrat's plan the Cantons were to receive an indemnity equal to 50 centimes for every 100 francs of their authorized issues on the 31st of December, 1902, and a further indemnity equal to 25 centimes per head of the population. Beginning with the sixth business year of the bank, the rate payable upon the issue figures was to be reduced by 5 centimes annually, but on the other hand the indemnity based upon the number of inhabitants was to be increased by the same amount. In fifteen years the former kind of compensation would disappear entirely and the indemnity would then be calculated uniformly at the rate of 75 centimes per head of the population of every Canton. The Ständerat, in pursuance of a petition from the cantonal finance directors, raised the rate per head from 25 to 30 centimes. This alteration was approved by the Nationalrat, which body also replaced the figures of the 31st of December, 1902 (as it had done in the case of the distribution of the capital), by those of December 31, 1904; and the Ständerat concurred. As a result of these modifications the indemnity payable to the Cantons was increased from the first year by 5 centimes per head of the population, and after fifteen years the rate is 80 centimes per head.

Let us now ascertain the total amount that will flow into the cantonal treasuries, in the new order of things, under the various heads. The calculations will relate to the fourth business year of the bank, this being the first

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year of the actual exercise of the banknote monopoly, after the complete retirement of the old notes. In accordance with the estimate of the Bundesrat we shall take the net profits of the Bank to be 4,000,000 francs.

The first item of revenue that will go into the cantonal treasuries is the difference between the rate of dividend they receive upon their investment in National Bank shares (4 per cent) and the rate of interest at which they can obtain the necessary funds for that purpose (say  $3\frac{1}{2}$  per cent). As 20,000,000 francs of the capital of the National Bank is to be allotted to the Cantons and moreover at least half of the 10,000,000 francs reserved for banks of issue will fall to the cantonal banks, the entire amount of bank shares that will then be held by the Cantons is 25,000,000 francs, half of which is paid up, and the above-mentioned difference of one-half per cent on 12,500,000 francs will go into the cantonal treasuries.

The second item of the cantonal revenue is the direct indemnity. In the fourth business year of the National Bank this will amount to 2,202,173 francs, taking into account the increase of the per capita rate from 25 to 30 centimes.

The third source of revenue is found in the share of the cantons in the net profits. On the basis of the Bundesrat's estimate and of the foregoing figures, the amount of this may be computed as follows:

Net profits (see p. 151).....	Frans.	4,000,000
	Frans.	
10 per cent to go to surplus.....	400,000	
4 per cent dividend on 25,000,000 francs.....	1,000,000	
Indemnity to the cantons .....	2,202,173	
	<hr/>	3,602,173
Balance available for distribution.....		397,827

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Of this amount the Cantons receive two-thirds—that is, 265,218 francs.

If we now put together these cantonal revenues, we have for the fourth business year:

	Francs.
One-half per cent difference on 12,500,000 francs share capital..	62,500
Indemnity .....	2,202,173
Share in the net profits .....	265,218
	2,529,891

This sum is, consequently, already in the fourth business year of the bank considerably higher than the estimated loss to the Cantons, as given in the report of reasons accompanying the Bundesrat's bill. The total revenue will, of course, increase from year to year. At all events, it may be assumed that it will be impossible to bring forward in good faith as against the National Bank any claim of loss suffered by the Cantons.

### 6. LIQUIDATION.

The last alteration which we shall discuss here relates to the treatment of the surplus in the event of a liquidation at the expiration of the bank's privilege, or the nationalization of the bank, i. e., the redemption of the private capital.

The Bundesrat's bill provided that in such an event two-thirds of the surplus shall be handed over to the shareholders, while the remaining one-third shall become the property of the Confederation; this is in agreement with article 41, paragraph 2, of the German Bank Act. The Ständerat altered this proposal to the effect that one-third of the surplus was to go to the Confederation, one-third to the Cantons, and one-third to the shareholders. This change was approved of by the Nationalrat with the under-

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standing that any profit that remained after repayment of the share capital at its face value and a dividend at the rate of 4 per cent for the time of the liquidation was to become the property of the new federal bank.

The other alterations made by the Bundesversammlung in the Bundesrat's bill—for example, the provision that members of cantonal governments shall not be permitted to belong to the direktorium, that the power of acquiring existing banks of issue, which the Bundesrat had vested in the bank council, shall belong to the general meeting of the shareholders, etc.—do not call for detailed consideration.

### SECTION III.—LEGAL CONTENT OF THE ACT.

In the following account of the law its provisions will be grouped under four heads: (1) Legal and financial basis of the federal bank; (2) its sphere of activity; (3) organization and administration; (4) transitional dispositions. In view of the fact that the wording of the law itself is reproduced in the appendix the following account may be made very brief. Only in the description of the organization and administration has a more detailed account appeared to be desirable, as the organization really gives the bank its character, and the preponderance of the state interests as against those of the private capital participating in the foundation of the bank is most manifest in this organization.

#### I. LEGAL AND FINANCIAL BASIS.

1. *Legal basis.*—The federal act of October 6, 1905, creates a "Swiss National Bank," which is endowed with the

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rights of a legal person and which is, consequently, as regards property rights, entirely separate from the Federal Treasury. Its constitution is determined by the provisions of the act itself and by regulations to be approved by the Bundesrat; the provisions of article 26 of the Civil Code, relating to the organization and administration of joint stock companies, apply to the National Bank only in so far as they are not in conflict with the provisions of the bank act.

2. *Financial foundation.*—The capital of the National Bank consists of 50,000,000 francs, divided into 100,000 shares of 500 francs each, which are registered in the names of the owners. This capital must be entirely subscribed, and half of it paid up, when the bank commences its operations. No minimum dividend is guaranteed, but, on the other hand, the dividend is limited to a maximum of 4 per cent.

Two-fifths of the share capital will be reserved for subscription by the Cantons in proportion to their population. In the event of the Cantons not making full use of their right to subscribe, the cantonal banks have a claim to the assignment of the shares not subscribed for.

One-fifth of the share capital is reserved for banks exercising the right of note issue under the law of March 8, 1881, in the ratio of the amounts of their authorized issues on December 31, 1904.

The remaining two-fifths of the share capital and any shares assigned to the Cantons and cantonal banks that may not have been taken up by them shall be offered for public subscription.

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Only Swiss citizens, or such firms and legal persons or corporations as have their chief domicile in Switzerland, are allowed to subscribe. The same qualification is necessary for entry, as owner, on the share register. Persons whose names do not appear on the share register are not recognized by the National Bank as shareholders, even if they are in possession of shares.

In the allotment of shares small subscriptions are to be given the first consideration, and every subscriber shall receive at least one share.

3. *Bank-note monopoly and resulting obligations.*—The Confederation confers upon the Swiss National Bank, for a period of twenty years in the first instance, the sole right of issuing bank notes, which privilege belongs to the Confederation exclusively according to article 39 of the federal constitution. In return for the grant of this monopoly the National Bank undertakes to fulfill the duties assigned to it by the law, and further, by way of concession tax, to make an annual payment to the Confederation, which, in turn, is obliged to distribute the amount of this payment to the Cantons. The mode of calculating this amount is set down in article 28 of the law (see pp. 180, 213); after the expiration of a fifteen years' transition period it will be 80 centimes per head of the Swiss population, as fixed by the last census taken.

The concession tax represents the return, fixed in advance, which is to be given by the National Bank for the bank-note monopoly transferred to it by the State; and a further consideration for the granting of this monopoly is to be found in the cooperation and supervision

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of the Confederation provided for in the constitution of the bank and in the participation of the Confederation and the Cantons in the net profits.

4. *Share in the net profits.*—As regards participation in the net profits, the law lays down the following rules: Of the annual earnings shown in the profit and loss account, 10 per cent—but in no case more than 500,000 francs—shall be transferred to surplus, until the surplus shall have reached a total equal to 30 per cent of the bank's share capital. Next, a dividend of 4 per cent on the share capital is to be paid out. After this the cantonal indemnity is to be handed over as a concession tax to the Confederation. Of any remaining net profits two-thirds go to the Cantons and one-third to the Confederation, in accordance with article 39, section 4.

The entire amount of the concession tax, which is payable to the Cantons as indemnity, is guaranteed to the Cantons by the Confederation. In the event of the annual earnings of the bank not being sufficient, after provision for surplus and distribution of dividend, to cover the concession tax, the amount of the deficit will be advanced by the federal treasury. Such advances must be repaid to the treasury by the bank, with interest at the rate of  $3\frac{1}{2}$  per cent, as soon as its net profits make this possible. This reimbursement must be made in the years next following, before the distribution of the net profit remaining after payment of the concession tax.

5. *The cooperation and control of the Confederation* are embodied in the selection of the bank authorities by the Bundesrat; in the subjection of the regulations, the balance

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sheets, and the annual reports of the bank to the approval of the Bundesrat; in the provision for reports by the Bundesrat to the Bundesversammlung; and in the powers of control granted to the Federal Department of Finance.

### 2. SPHERE OF BUSINESS ACTIVITY.

The function of the National Bank is to regulate the monetary circulation of the country and to facilitate the effecting of payments; its sphere of activity is consequently restricted to the business of a pure bank-note, transfer, and discount bank. The law clearly provides that the bank shall transact "only" such business as is specified in the law itself; this provision was adopted for the purpose of allaying the fears of the cantonal banks that the National Bank might become a keen competitor; but, as is the case with the German Reichsbank, it is calculated to serve as a welcome support to the directors of the bank when confronted with the agitation of opposing interests.

The kinds of business which the National Bank is at liberty to carry on are separately named in article 15 of the law (see p. 209); it is consequently unnecessary to repeat the list here. The following points, however, are to be noted: (1) Unlike the French Bank Act, the Swiss Bank Act does not absolutely require a third signature upon the home and foreign bills to be discounted by the national bank; (2) in accordance with a petition of the Bauernbund, a provision was incorporated in the law to the effect that "bills arising out of agricultural business, if based upon a genuine business operation," shall be put

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on an equal footing with other bills; (3) foreign bills and checks may be bought only if they are drawn upon countries having a metallic basis for their currency system; (4) shares can not be taken as collateral for loans (a prohibition that applies likewise to the German Reichsbank); (5) aside from its dealings with the Confederation and with administrations under the supervision of the Confederation, the National Bank is not permitted to receive deposits on interest; (6) the purchase of securities (and these only government loans) can not be resorted to for the permanent but only the temporary investment of the moneys of the National Bank; (7) the National Bank is not allowed to participate in the permanent taking over of loans of the Confederation or the Cantons; (8) the National Bank is obliged to receive at all its branch offices payments for the account of the Confederation and of its administrations, and must likewise effect payments on behalf of the Confederation up to the amount standing to the credit of the Confederation; and upon request by the federal authorities the bank is also obliged to accept for safe-keeping or management securities and other articles of value belonging to the State, free of any charge.

The issue of bank notes by the National Bank is not limited to any maximum sum, and no tax is levied either upon the note circulation as a whole, as in the law of March 8, 1881, or upon the uncovered circulation or upon the amount of the uncovered circulation in excess of a certain limit, as is the case in the German Bank Act. The National Bank is thus placed in a position to increase or reduce the issue of bank notes without regard to any con-

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siderations other than those relating to the requirements of business.

Bank notes are to be issued in denominations of 50, 100, 500, and 1,000 francs. The issue of 20-franc notes may, in extraordinary cases, be temporarily permitted by the Bundesrat. The manufacture, delivery, withdrawal, and destruction of the bank notes is to be under the control of the Federal Finance Department.

Unconditional and immediate redemption of its notes, in legal tender, in unlimited quantity, is required of the National Bank at its seat at Berne only; at all other branch offices and agencies immediate redemption is required only so far as the cash holdings of the branch or agency and its own need of cash permit; but in no case shall there be more delay in redemption than is necessary for obtaining the cash from the central office.

Contrary to the terms of the English Bank Act and in accordance with article 39 of the federal constitution, the notes of the Swiss National Bank, like those of the German Reichsbank, are not given the quality of legal tender. With the exception of times of war, only the National Bank itself and the public offices of the federal treasury are obliged to accept these notes at all times at their face value.

The requirements of the national-bank act concerning the cover for the notes go far beyond those of the law of March 8, 1881, and place obligations upon the National Bank to which neither the banks organized under that law nor institutions such as, for instance, the Bank of England, or the German Reichsbank, were subjected, for while in the case of all those banks the law regulates only the

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manner of covering the notes, the national-bank act prescribes not only this, but also the manner of covering short-time liabilities.

The metallic cover for the notes must amount to at least 40 per cent of the circulation and shall consist of legal tender, gold in bars, or foreign gold coins. For the remaining 60 per cent not covered by metal there must be a cover consisting either of Swiss discount bills or foreign bills.

In addition to the foregoing the National Bank is obliged to keep all short-time liabilities (i. e., liabilities falling due or demandable within ten days) covered by their equivalent in legal tender, gold bars or foreign gold coins, Swiss discount bills or foreign bills.

### 3. ADMINISTRATIVE ORGANIZATION.

1. *Seat, branch offices, and agencies.*—Unlike the great central banks of issue of foreign countries, as, for instance, the German Reichsbank or the Bank of France, the Swiss National Bank has no actual central seat; there exist only seats of the various bank authorities. Neither the Zurich nor the Berne office is under the immediate management of the Direktorium of the National Bank; those offices have, like all the other branch offices, their own management; unlike the German Reichsbank, for instance, according to the constitution of which the main bank in Berlin is under the immediate management of the Reichsbankdirektorium. Among the branch offices there is no distinction of chief office and subordinate offices; they are all coordinate and have the same degree of independence; and these branch offices, grouped together under a uni-

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form management and control, constitute the National Bank.

The legal and administrative seat of the National Bank is at Berne. The general meetings of the shareholders, the sittings of the bank council, and as a rule also the meetings of the bank committee, take place at Berne. The seat of the board of management (Direktorium) of the National Bank is at Zürich.

The National Bank is empowered to create, apart from the branch offices at Berne and Zurich, branch offices in the more important business places of Switzerland, but the sanction of the respective cantonal governments must have been previously obtained. Prior to starting operations the National Bank must have organized at least four branch offices.

The National Bank is authorized to acquire, by private treaty, such existing banks as carry on business similar to its own (consequently chiefly existing banks of issue) and, after the liquidation of such business as is inappropriate for the National Bank, to continue them as branch offices. The Canton in whose territory a bank thus acquired is situated has the right of preemption of the National Bank shares held by such bank.

The National Bank is authorized to establish agencies in places where no branch offices have been instituted. Every Canton or half-Canton in whose territory no branch office has been established, has the right to ask for the establishment of an agency within its boundaries. The cantonal bank is to be made an agency if the cantonal government so requests.

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Any difference of opinion that may arise between the National Bank and the cantonal governments on the question of the establishment of branch offices or agencies is to be referred for decision to the Bundesrat, without appeal.

The law contemplates the creation of the following bank authorities: The general meeting of the shareholders; the bank council; the bank committee; the local committees, and the audit commission as organs of supervision and control; the board of management (*Direktorium*) and the local managements (*Direktionen*) as executive organs.

2. *The general meeting of the shareholders.*—At the general meeting, which must be held at least once a year and not later than in the month of April, and which is convoked and presided over by the president of the bank council, every share entitles the holder to one vote, but a single private shareholder shall not be entitled to more than 100 votes in all. At a general meeting, the presence of at least 30 shareholders, representing in all at least 10,000 shares, is necessary to make it competent to act. In the event of no quorum being present at the general meeting, the following extraordinary general meeting, which shall be convoked immediately after the failure of the first meeting, shall be deemed competent to act, quite irrespective of the number of shareholders present or the total number of shares represented by them. So far as consistent with the provisions of the Civil Code and any further principles established by the act, the action of the general meeting is determined by an absolute majority

of the share-votes present; the tellers are chosen by the general meeting. Extraordinary general meetings must be convoked when called for by resolution of a general meeting or whenever shareholders whose shares aggregate at least one-tenth of the entire capital request it, stating the object of the meeting. The order of the day of the general meeting is binding on its deliberations; on subjects not included in the order of the day, with the exception of motions for the calling of an extraordinary general meeting, no action can be taken.

The powers vested in the general meeting are of a very limited character. The meeting receives the annual report and the balance sheet and decides on the division of the net profits, in accordance with the rules laid down in the act. It has the right—and this is the most important power it has and the only means by which it can influence the management of the bank's business—to select 15 members of the bank council. It elects the audit commission; it decides, subject to the approval of the Bundesversammlung, on the acquisition of existing banks by the National Bank and on the increase of the capital of the bank. It decides on the renewal or dissolution of the company and on such questions as may be laid before it by the bank council. Finally, it may lay before the Bundesrat proposals for the modification of the bank law. For general meetings in which such proposals are to be considered or which are to deal with the question of the renewal or dissolution of the company, there are special rules as to the constitution of a quorum and of an effective majority.

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In the organization of the general meeting, as described above, two principles accepted by the legislative authorities in the elaboration of the bank's constitution are manifest. The first is that in regard to their rights all shareholders without distinction stand on the same level, quite irrespective of the question whether they are Cantons, former banks of issue, or private individuals. The second is that of the limitation of the powers of the general meeting to a minimum.

3. *The bank council.*—Much greater powers than those assigned to the general meeting are conferred upon the bank council, which is charged with the general supervision of the course of the business, and the conduct of the business, of the National Bank. The bank council is composed of 40 members, of whom 15 are elected by the general meeting and 25 by the Bundesrat, all for the period of one year. Among the 25 members appointed by the Bundesrat shall be the president and the vice-president of the bank council. Of the remaining 23 members only 5 may belong to the Bundesversammlung and only 5 to the cantonal governments, and in the choice of them special consideration must be paid to a proper representation of the centers of banking, industry, and trade. The members of the bank council must be Swiss citizens resident in Switzerland.

The bank council must meet at least once every quarter. Extraordinary meetings may be called by the president at any time, and must be called upon the request of 10 members.

The bank council elects 5 members of the bank committee. It nominates the local committees and submits

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proposals to the Bundesrat respecting the choice of members of the direktorium, as well as the local managements. These proposals are, however, not binding on the Bundesrat. The bank council examines and passes upon the necessary rules and regulations, annual reports, and balance sheets, which are prepared conjointly by the direktorium and the bank committee and which are subject to the approval of the Bundesrat. It also makes regulations respecting the transfer of shares, and on the basis of proposals by the direktorium and the bank committee (which proposals are not binding) fixes the salaries of all the officials and employees of the National Bank within maximum and minimum limits to be established by a regulation. The motions to be put before the general meeting are to be previously deliberated upon and put into form by the bank council. Finally, any business transaction involving more than five million francs, and the fixing of any credit limit beyond three million francs, must be referred to the bank council for decision or determination.

In the case of any decision or determination the subject-matter of which involves an amount exceeding one-fifth of the capital of the bank, and in the case of any decision looking to the increase of an existing credit by which this credit shall reach an aggregate exceeding one-fifth of the capital of the bank, the affirmative vote of at least thirty members of the Bankrat is required. In all other cases an absolute majority is sufficient.

While the duties of the general meeting and the bank council consist mainly in fulfilling certain formalities and in the exercise of a periodical control of the management

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of the bank, to which, in the case of the bank council certain powers of election and administration are added, the authorities we are now to consider are charged with the actual management of the bank; these are, for the National Bank, the direktorium and the bank committee; for the various branch institutions, the local managements and the local committees.

4. *The Direktorium.*—The direktorium, a board consisting of 3 members, is the actual managing and executive authority. It is elected, upon the (nonbinding) proposal of the bank council, by the Bundesrat for a term of six years, and the Bundesrat determines which of the members of the direktorium are to serve as its president and vice-president.

The functions of the direktorium are divided between three departments—the department of discount and transfer [giro] business, the control department, and the note-issue department. The two members of the direktorium who are at the head of the two departments first named, and one of whom is the president of the board, are located at Zurich; the head of the note-issue department, who has charge of the management of the cash holdings and of the business transactions with the federal authorities and federal railways, resides at Berne.

The direktorium has power to carry into effect the aims and purposes of the National Bank by all acts that serve the realization of this object other than those reserved by the law either to the Bundesrat the general meeting, the bank council, or the bank committee; the most important instance of such power is that of fixing

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the rate of discount and the rate of interest upon loans on collateral; before determining these rates, the direktorium must obtain the opinion of the bank committee and the views of the managers of the leading branch offices. The direktorium appoints all officials and employees of the central administration whose selection has not been reserved either to the Bundesrat or to the bank committee. For the choice of officials whose appointments rest with the bank committee, the direktorium has the right to make proposals, which are, however, not binding on the bank committee.

5. *The local managements* are immediately under the direktorium. Every local management is composed of a manager and a submanager, who are appointed for a period of six years by the Bundesrat, upon (nonbinding) proposal of the bank council and after ascertainment of the views of the respective local committees. These officials are responsible for the business management of the branch offices entrusted to them.

All the rest of the organization of officials is under the direktorium or the local managements. The powers of the various authorities and their relationship to one another, and also the minima and maxima of the salaries, are laid down in special rules and regulations, which are drawn up by the bank council, subject to approval by the Bundesrat. The fixing of the minimum and maximum salaries requires the approval of the Bundesversammlung.

All officials and employees of the National Bank who receive a fixed salary are considered federal officials, and as such they are subject to the provisions of the federal

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legislation respecting the obligations of the federal authorities and federal officials. In respect to the method of their appointment, they fall into the following groups:

(a) The members of the direktorium, the submanagers assigned to the direktorium, the managers and submanagers of the local managements are chosen by the Bundesrat upon the proposal (not binding) of the bank council.

(b) Officials and employees of the central administration whose salary is above 4,000 francs per annum are chosen by the bank committee. For all these posts the direktorium has the right to propose nominations (not binding). As regards the election of officials for the branch offices, the same right of making proposals belongs to the local managements and local committees. If the proposals of the direktorium, the local management, and the local committee relating to the appointment of any official of a branch office all agree they become binding on the bank committee.

(c) Officials and employees of the central administration whose salary does not exceed 4,000 francs are chosen by the direktorium.

(d) Officials and employees of the branch offices whose salary does not exceed 4,000 francs are chosen by the local management.

All officials and employees of the National Bank, including the members of the direktorium and of the local managements, may be deprived of their positions by the appointing authority, the cause of the removal being stated.

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The effectiveness of the body of officials in the directorium and the local managements employed at fixed salaries and, unlike what is the case in the German Reichsbank, receiving no percentage compensation of any kind, is supplemented by means of the bank committee and the local committees. These supply a supervision of the bank by representatives of the parties in interest and of the general public, through which a guaranty is afforded to the bank's creditors, and which constitutes a safeguard against the possibility of making use of the hierarchical organization of the bank management for secret purposes. Moreover, by this means the bank officials are kept in constant touch with the representatives of the commercial and industrial world, so that the rise of a purely bureaucratic bank management is prevented, to the advantage of the bank's customers.

6. *The bank committee.*—While the bank council exercises only periodical control of the bank and certain other powers of no great importance assigned to it by the law, the continuous and specific control and supervision of the management of the bank devolves upon a standing committee of the bank council, designated as the bank committee.

The bank committee is composed of the president and vice-president of the bank council, who also exercise the functions of president and vice-president of the bank committee, and of 5 other members who are elected by the bank council for a term of four years. The bank council also elects 3 substitutes.

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In addition to the general "supervision and control" of the management of the bank delegated to it, the bank committee exercises the powers of election already mentioned and also has special duties. It must consider, in advance of action by the bank council, all matters of business that are to come before that body and any proposition made by the direktorium for a change of the rate of discount or of the rate of interest upon loans on collateral. Business transactions and determinations of credit limits which involve a sum in excess of 1,000,000 francs are to be laid by the board of management before the bank committee for its approval, if they do not require the approval of the bank council. The bank committee also grants the power of attorney to officials to sign in the name of the National Bank. In the case of officials of the central administration, this is done upon the proposal of the direktorium, which proposals are, however, not binding; in the case of officials engaged in branch offices, upon an understanding with the local management and the local committee.

7. *The local committees.*—As the bank committee is placed alongside the direktorium, so there is placed alongside the local management of each branch institution a local committee. According to the importance of the place in question, such committee is composed of 3 or 4 persons, chosen by preference from among the important merchants and manufacturers of the place and its neighborhood. They are elected by the bank council for a term of four years.

In addition to the above-mentioned rights of proposing names for election, the "supervision" of the branch

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institutions is assigned to the local committees, which meet at such times as may be necessary.

8. *Supervision.*—In addition to the supervision exercised by the bank council, the bank committee, and the local committee, there exist two further organs of supervision for the National Bank—the audit commission and the supervising officers of the Bundesrat.

(a) *The audit commission* is a supervisory organ of the general meeting. It consists of 3 members and 3 deputy members, who are annually chosen by the general meeting; it is empowered to examine the entire working of the National Bank at any time; it is obliged to examine the annual balance sheet and to report to the general meeting the result of this examination, which is also to be communicated to the Bundesrat.

(b) *The supervising officers of the Bundesrat* are named by it and are subordinate to the Federal Finance Department. They are responsible to the Bundesrat, and their functions of supervision are designed to supplement those performed by the audit commission, which is responsible to the general meetings. While the mandate of the audit commission includes principally the supervision of the management of business, the attention of those charged with supervisory functions by the Confederation is to be fixed upon the administration of the bank as a whole, upon the relations of its various organs to each other, and upon the economic interests of the nation, especially those connected with the currency. The law gives the Bundesrat a free hand as to the actual organization of these supervisory agencies. It may develop the board of note-bank

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inspectors, which was created under the law of March 8, 1881, into a board of inspection of the National Bank, either giving it powers of supervision to be exercised in regard to this institution in the same way as they have been hitherto exercised in regard to the existing banks of issue or conferring upon it more extensive powers of representation, supervision, and prohibition.

#### 4. TRANSITIONAL DISPOSITIONS.

Of the transitional provisions of the law, which also regulate the mode of proceeding as regards the organization of the National Bank (arts. 79-84, p. 232), we need, at this place, only treat such as deal with the question of how the liquidation of the issues made under the law of March 8, 1881, is to take place.

According to the law of March 8, 1881, every bank which complies with the regulations laid down in that law is entitled to apply to the Bundesrat for the authority to issue bank notes, and the Bundesrat must grant this request. From the day on which the national-bank law goes into force the Bundesrat is empowered to refuse such applications.

On the day that the National Bank is opened for business, the legal obligation arises for all the banks of issue organized under the law of March 8, 1881, to withdraw all their notes within the following three years, reckoned from that date. The banks are obliged, during this period of three years, to surrender to the control authority appointed by the Confederation, at the end of every quarter, at least one-twelfth of their entire authorized

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ment of even those improvements of the present situation which a mere revision of the law is capable of bringing about."

This supposition did not prove to be wrong. During the many years of the fight for the execution of article 39 of the federal constitution it often looked as though a revision of the act of 1881 would have been preferable to a reconstruction of the note-bank system on a centralized basis, and that such a revision would at least have sufficed to prevent the deficiencies and evils of the Swiss bank-note system from resulting in downright economic disaster.

The principle of the bank-note monopoly was established. The question of a state or private bank remained to be decided by legislation. This question caused a passionate fight, which soon found its way into the political camp. In numberless pamphlets and newspaper articles the question was discussed. The great associations representing various economic interests—the Gruetliverein, the Bauernbund, and the Swiss Handels- und Industrieverein—took a very active part in the agitation. The Bundesrat itself at first took the position of watching events and offered an opportunity to the representatives of the various views to put forward their respective ideas. Not less than ten different proposals were submitted to the Bundesrat: (1) Proposals submitted by advocates of a pure state bank (introduced by members of the Bundesversammlung); (2) observations and proposals by Herr W. Speiser; (3) opinion by Nationalrat Forrer; (4) suggestions made by the board of inspectors of banks of issue;

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issue of notes, for the purpose of having them destroyed; for any deficiency in this quota, cash must be handed over to the National Bank. The National Bank, in its turn, is obliged to assist the banks of issue in the liquidation of their bank-note business, as far as possible, by granting advances on securities.

Until the liquidation of this bank-note business is entirely completed, the terms of the law of March 8, 1881, remain in force for the banks of issue. Their notes will also be accepted in payment by all the branch offices of the National Bank during the three-year period set down for their withdrawal, and the National Bank will arrange for the redemption of such notes within three days, free of charge.

At the expiration of the three-year withdrawal period the National Bank accepts the obligation, on its own behalf and on behalf of its legal successors, to cash any of the notes of the banks of issue that may still be in circulation, within the following thirty years. In the case of banks that have handed over to the National Bank the cash equivalent of their outstanding bank notes prior to the expiration of the three years the National Bank accepts the above obligation from the day of receiving the cash equivalent in question. At the expiration of the thirty years above mentioned, the obligation of redeeming the old notes ceases to exist and the cash equivalent of the notes not presented for redemption goes to the federal invalid fund.

APPENDIX I.

FEDERAL LAW RELATING TO THE SWISS  
NATIONAL BANK.

(October 6, 1905.)

The Federal Assembly <sup>a</sup> of the Swiss Confederation, in execution of the revised article 39 of the federal constitution of May 29, 1874, and after consideration of a message of the Federal Council <sup>b</sup> of June 13, 1904, decrees:

I. GENERAL.

ARTICLE 1. The Confederation assigns the exclusive right of issuing bank notes to a central bank of issue to be established in conformity with this present act under the style of "Schweizerische Nationalbank" ("Banque Nationale Suisse," "Banca Nazionale Svizzera"), endowed with the rights of a legal person and which will be administered under its cooperation and control.

ART. 2. The chief function of the National Bank is to regulate the monetary circulation of the country and to facilitate the operations of payment. Furthermore, the bank must take over the exchequer business of the Confederation free of charge, so far as it may be called upon to do so.

ART. 3. The National Bank has its legal and administrative seat at Berne, where the general meetings of the shareholders, the meetings of the bank council, and usually also those of the bank committee must be held.

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<sup>a</sup> Bundesversammlung.

<sup>b</sup> Bundesrat.

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The seat of the direktorium is in Zurich.

The cities of Berne and Zurich are required each to place at the disposal of the National Bank, without compensation, a suitable site for building the necessary offices, or to make an equivalent money payment.

ART. 4. The National Bank is authorized to establish branches in Berne and in Zurich, and, after having obtained the consent of the cantonal governments, to establish branches also in the other important towns of Switzerland, and to create agencies for the remaining places. In case of disagreement between a Canton and the National Bank concerning the establishment of a branch or agency, the Bundesrat decides the question without appeal.

Any Canton or half Canton that has no branch may request that an agency be established in its territory.

At the request of the cantonal governments concerned, the cantonal banks are to be made such agencies.

The National Bank is authorized to acquire, by way of purchase by private treaty, existing banks whose business is of similar character, and, upon liquidation of such part of the business as may be unsuitable, to carry them on as branches.

ART. 5. The capital of the National Bank is 50,000,000 francs, divided into 100,000 registered shares of 500 francs each.

The share capital must be fully subscribed, and half of it (25,000,000 francs) paid in, by the day of the opening of the bank for business. The payment of the remainder must follow at a date to be made known by the administration of the bank six months in advance.

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Shareholders who are in arrears in their payments must pay interest at the rate of 6 per cent, and after the three formal notices by registered letters required by law have been sent them without result, the rights arising from their subscriptions and from the payments already made may be declared forfeited.

In place of the shares thus canceled new shares will be issued.

ART. 6. The capital of the National Bank will be raised as follows: Two-fifths will be reserved for subscription by the Cantons, or in their stead the cantonal banks, in proportion to their population; one-fifth will be reserved for subscription by the present banks of issue, in proportion to their actual issue of notes on the 31st of December, 1904.

In case of the absorption of a bank of issue by the National Bank the Canton concerned will have a preference right to buy the shares in the possession of the bank of issue at the market price of the day.

The last two-fifths and any remainder of shares reserved to the Cantons or banks of issue and not taken up will be offered for public subscription.

ART. 7. The following are the conditions for the right of subscription and subsequent possession of shares of the National Bank.

Only Swiss citizens or such firms and legal persons or corporations domiciled in Switzerland as have their principal domicile in Switzerland are allowed to subscribe for shares or can subsequently be entered in the share register as owners of shares.

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In allotting the shares, the first to be considered are the smaller subscribers, so that each subscriber shall receive at least one share.

The same procedure is to be followed in the case of any later increase of capital.

ART. 8. The capital of the National Bank may be increased by a resolution of the shareholders in general meeting (art. 41, par. 4, and art. 42), but this resolution requires the approval of the Bundesversammlung, which must also determine how the new capital shall be raised.

ART. 9. Transfer of shares of the National Bank is effected by indorsement.

Every transfer requires the approval of the bank committee. If this approval is not unanimous, the matter must be referred to the bank council for decision.

In case of approval, the bank committee causes the transfer to be entered in the share register kept at the seat of the National Bank in Berne, and to be marked on the share certificate.

Upon the entry of the transfer of a share in the share register, such transfer becomes legally binding as against the National Bank, and all rights and obligations of the former owner of the share pass over to the new purchaser.

ART. 10. Only such persons as are entered in the share register are recognized by the National Bank as shareholders; in particular, only these persons have a right to vote.

Only one holder is recognized for each share.

Should one share belong to several persons, they must name a common representative.

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ART. 11. The shares of the National Bank must bear the signatures of the president of the bank council and of the president of the direktorium in facsimile print, and, furthermore, the written signature of the official who has charge of the share register.

ART. 12. Notices to the shareholders will be valid if sent by registered letter to the address last entered in the share register and published in the Schweizerische Handelsamtsblatt (Swiss Commercial Gazette).

For notifications within the meaning of articles 665 and 669 of the Civil Code, the Schweizerische Handelsamtsblatt is designated as the official organ of publication.

A single publication in the Schweizerische Handelsamtsblatt, without the sending of registered letters to the shareholders, is sufficient for notice of the payment of a dividend.

ART. 13. The National Bank and its branches shall be exempt from all taxes in the Cantons.

A reservation is made, however, for the provisions of cantonal laws relating to transfer duties and also those relating to stamp taxes on bills and other evidences of indebtedness. Exemption from these last applies only to instruments proceeding from the National Bank, including receipts issued by it and bank drafts and checks drawn upon it. (Arts. 830-837 of the Civil Code.)

ART. 14. The provisions of chapter 26 of the Swiss Civil Code relating to joint stock companies apply to the National Bank in so far as special provisions for its organization and administration are not contained in the present act.

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## II. SPHERE OF OPERATIONS OF THE NATIONAL BANK.

ART. 15. The National Bank, as a pure note, transfer, and discount bank, is allowed to transact only the following business:

(1) Issue of bank notes, according to the provisions of this law.

(2) Discounting of bills on Switzerland maturing in not more than three months and bearing at least two signatures of known solvency. Bills arising out of agricultural business which are based on a commercial transaction are to be placed on the same footing as other bills.

(3) Purchase and sale of bills and checks on foreign countries the currency of which is on a metallic basis. The bills must mature in not more than three months and must bear at least two signatures of known solvency.

(4) Granting of loans bearing interest for not more than three months against deposit of securities and title deeds. Shares are not accepted as security for loans.

(5) Acceptance of moneys upon deposit without interest, and in the case of the Confederation and of the administrations under its supervision also of deposits bearing interest.

(6) Transfer and clearing business; issue and cashing of drafts.

(7) Purchase of interest-bearing bonds of the Confederation, the Cantons, or foreign countries, vesting in the holder and easily realizable; this, however, only for the purpose of a temporary investment of moneys.

(8) Purchase and sale of precious metals in bars and coin, for its own account and for account of third parties, and the granting of loans on the same.

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(9) Issue of gold and silver certificates.

(10) Acceptance of securities and valuables for safe-keeping and management.

(11) Receiving of applications for loans of the Confederation and the Cantons, on commission; all participation in the permanent taking over of such loans being forbidden to the bank.

ART. 16. The National Bank is under obligation: (1) Wherever it has branches to accept payments, free of charge, for the Confederation or any of its administrations and also to make payments free for the same, to the extent of the credit balance of the Confederation; (2) as far as it may be requested, to take over, for safe-keeping or management, free of charge, securities and valuables belonging to the Confederation or placed under its management.

ART. 17. The National Bank must regularly make known its rate of discount and of interest on loans. It must also publish an annual balance sheet and a weekly statement of its assets and liabilities.

### III. ISSUE, REDEMPTION, AND COVER OF BANK NOTES— COVER OF OTHER SHORT-TIME LIABILITIES.

ART. 18. The National Bank is authorized to issue bank notes according to the needs of business and under the conditions laid down in this law, the bank alone bearing all responsibility for the notes.

The manufacture, delivery, withdrawal, and destruction of bank notes is done under the control of the Federal Department of Finance.

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ART. 19. The notes are issued in denominations of 50, 100, 500, and 1,000 francs.

The Bundesrat may authorize temporarily, in extraordinary cases, the issue of 20-franc notes.

ART. 20. The equivalent of the entire amount of notes in circulation must be in possession of the bank in lawful money or in gold bars calculated at the market value, or in foreign gold coins, in Swiss discount bills, and drafts on foreign countries.

The metallic reserve must amount to at least 40 per cent of the notes in circulation; the bills must always bear two signatures independent of each other.

ART. 21. The National Bank is further obliged at all times to keep the equivalent of all short-time liabilities covered in Swiss discount bills, in drafts on foreign countries, in lawful money, foreign gold coins, or gold bars.

Short-time liabilities are those which fall due or become demandable within ten days.

ART. 22. The National Bank is obliged to redeem its notes at par in lawful money: (a) At its seat in Berne, in any quantity, immediately on presentation; (b) at its branches and agencies so far as the cash in hand and their own requirements will permit, but in any case within the time required to get the necessary cash from the head office.

At the branches and agencies the service for the redemption of notes is to be arranged for according to the needs of the place.

ART. 23. The National Bank is obliged at all times to receive its own bank notes at par both in payment and on deposit account.

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The federal treasury offices are also obliged to accept the notes of the National Bank at par in payment.

A more extended legal obligation to accept the notes of the National Bank can not be declared except in case of necessity in time of war.

ART. 24. The National Bank must redeem damaged notes at par, if the owner of the note produces a portion of it larger than one-half, or, in case he produces a smaller part, if he furnishes proof that the other part of the note has been destroyed.

The bank is not obliged to give compensation for destroyed or lost bank notes.

ART. 25. Damaged or worn-out notes must not again be put into circulation by the National Bank or by its branches or agencies.

### IV. KEEPING OF ACCOUNTS—NET PROFITS—SURPLUS.

ART. 26. The accounts of the National Bank must be submitted for approval to the Bundesrat before being presented to the general meeting.

The accounts are closed at the end of each calendar year.

The balance sheets must be made out according to the principles of the Civil Code.

ART. 27. Of the profits shown by the profit and loss account, 10 per cent, but in no case more than 500,000 francs for one year, is transferred to the surplus.

After this, a dividend up to 4 per cent of the paid-up share capital is distributed.

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The remainder of the net profits is divided as follows: (1) The Cantons receive the indemnity assigned to them under article 28; (2) any excess still remaining is distributed, subject to the reservation of article 29, one-third to the Confederation and two-thirds to the Cantons. The distribution among the latter is made in proportion to the population, according to the last census.

ART. 28. The yearly indemnity, which, according to article 27, paragraph 3, the National Bank must pay to the Confederation, to be handed over to the Cantons, is as follows: (a) Fifty centimes per 100 francs of the authorized issue of notes in each Canton on the 31st of December, 1904; (b) 30 centimes per head of the resident population of each Canton, as stated in the last census.

During the three years' period allowed for the withdrawal of the old notes (art. 86 of this act) the indemnity provided under letter *a* is not reckoned on the amount of the note issue, but on the amount of the notes delivered to the control authorities to be destroyed, and this only from the time of delivery of the same. Deficiencies paid in cash are reckoned the same as delivered notes. Only at the end of the three-year withdrawal period does the 50 centimes per 100 francs become payable on the full amounts of the former authorized issues.

With the sixth full business year of the National Bank, i. e., the third working year after the close of the period assigned for calling in the notes, an alteration in the calculation of the indemnity for the Cantons begins. The quota based on the note issue is reduced yearly by 5 centimes and the quota based on the population is increased

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by 5 centimes, so that with the fifteenth full business year the portion of the indemnity based on the note issue disappears entirely. From the fifteenth year on only an indemnity of 80 centimes per head of the population remains to be paid to each Canton.

The definitive determination of the amount of indemnity due yearly to each Canton is made by the Bundesrat.

ART. 29. Should the profits of the National Bank in one year not be sufficient to pay the full indemnity to the Cantons, the deficiency must be supplied by the Federal Treasury in the form of advances. Such advances by the Confederation, together with interest at  $3\frac{1}{2}$  per cent per annum, must be repaid as soon as the net profits of the bank permit. Until the claims of the Confederation for advances are settled, the further distribution contemplated in article 27, paragraph 3, No. 2, can not take place.

ART. 30. To cover any possible loss in the capital, a surplus is established and is added to until it amounts to 30 per cent of the capital.

The surplus forms part of the working capital of the bank.

Should the surplus, after reaching its maximum of 30 per cent of the paid-in capital, be drawn upon to cover losses, the process of adding to it must be resumed, and continued until the surplus again amounts to 30 per cent of the capital.

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## V. ORGANS OF THE NATIONAL BANK.

ART. 31. The organs of the National Bank are:

(a) For supervision and control:

The general meeting of the shareholders.

The bank council.

The bank committee.

The local committees.

The audit commission.

(b) For management:

The Direktorium.

The local managements (*localdirectionen*).

### I. THE VARIOUS ORGANS.

a. *The general meeting of the shareholders.*

ART. 32. Every shareholder whose name is entered in the share register has a right to take part in the general meeting, or to be represented by another shareholder duly empowered to act in his place.

All the shares registered in one person's name must be represented by one person only.

The form of authorization required for representation by proxy must be prescribed by the bank council.

ART. 33. The general meeting should be called at least three weeks before the day of the meeting by the president of the bank council.

In cases regarded by him as urgent, he may reduce this time to eight days.

The call must contain the order of the day. The order of the day must include any proposals submitted to the

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bank council in writing by at least 10 shareholders prior to the issue of the call.

Subjects which do not figure in the order of the day can not be acted upon at the meeting. This rule does not apply, however, to proposals made in the general assembly itself looking to the calling of an extraordinary general assembly. For the making of proposals, and for proceedings requiring no decision by vote, notice in the order of the day is not required.

ART. 34. The chair at the general meeting is taken by the president of the bank council, or, if he is prevented, by the vice-president, or, in case of necessity, by some other member of the bank committee designated by the bank council.

The tellers are elected by the general meeting for the duration of that meeting by an absolute majority of those present and by an open vote. Members of the bank council are not eligible as tellers.

The proceedings and resolutions of the general meeting are authenticated by records which must be signed by the chairman, the recording secretary, and the tellers.

Extracts from these records must be certified by the president and another member of the bank council.

The recording secretary is appointed by the bank council.

ART. 35. A list must be kept of all shareholders present or represented at the general meeting, giving their names and addresses and the number of shares represented by them.

This list must be signed by the chairman, the recording secretary, and the tellers.

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In the case of any act for whose validity the law requires the drawing up of a legal document, a notary public must be called in to put the document into proper form.

ART. 36. Shareholders must apply for their cards of admission to the general meeting at the branch offices or agencies at least three days prior to the meeting. The cards of admission are made out according to the share register.

ART. 37. The general meeting is competent to act as soon as at least 30 shareholders are present, representing in all at least 10,000 shares.

If the first call does not result in a general meeting competent to act, then a new general meeting must be called at once, which will be competent to act without regard to the number of shareholders present or the number of shares represented. Reservation is made of article 42 of this act.

ART. 38. Each share gives the right to 1 vote, but no private shareholder can have more than 100 votes.

ART. 39. With reservation of article 42 of the present act, resolutions of the general meeting are passed by an absolute majority of the share votes represented. In the case of a tie the chairman has the casting vote. In general the voting is open, but it is by ballot if the chairman so orders or if 5 shareholders present propose it. The members of the bank council to be named by the general meeting and also the members of the audit commission and their substitutes are elected by secret ballot.

ART. 40. The ordinary general meeting is held every year, not later than in the month of April, to receive the yearly report and balance sheet and to determine upon

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the disposition of the net profits, in accordance with articles 27 and 28.

The audit commission's written report must be read before action is taken.

The acceptance of the accounts without reserve operates as a discharge for those entrusted with the management in regard to their conduct of the business during the period covered by the accounts.

Extraordinary general meetings are held whenever the bank council or the auditors find it necessary.

Besides this, extraordinary general meetings must be called upon resolution passed by a general meeting, or whenever shareholders whose shares aggregate at least one-tenth of the capital request it in a petition signed by them and stating the object of the meeting.

ART. 41. In addition to the matters enumerated in article 40, paragraph 1, which must be disposed of by the yearly ordinary general meeting, the general meeting has the following further powers:

- (1) To elect 15 members of the bank council.
- (2) To elect the audit commission.
- (3) To decide all affairs of the bank which have been laid before the general meeting by the bank council on its own motion or which are brought before it in pursuance of article 40, paragraph 5.
- (4) To decide upon an increase of the bank's capital, subject to the approval of the Bundesversammlung.
- (5) To propose to the Bundesrat, for submission to the Bundesversammlung, modifications of this act.
- (6) To decide as to the renewal or the dissolution of the company at least one year before the expiration of

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the privilege (art. 76, par. 4), in the former case taking regard of the limits prescribed for the exercise by the National Bank of the bank-note monopoly.

(7) To decide as to the acquisition of existing banks (art. 4, par. 5).

ART. 42. Resolutions providing for an increase of capital, as well as proposals to the Bundesrat looking to the alteration of this act, can not be adopted by the general meeting unless at least one-fourth of the entire number of shares is represented; and resolutions providing for the renewal or the dissolution of the company, according to article 41, paragraph 6, can not be passed unless at least one-half of the shares are represented.

If the first call does not result in a meeting competent to act, a call must be issued for a general meeting to assemble at a new date at least thirty days later. At this meeting, even if the number of shares required in the preceding paragraph again fails to be represented, the actions there contemplated may nevertheless be taken. Attention is to be drawn to this in the call for the second general meeting.

A resolution for the renewal or the dissolution of the company, after the expiration of the period of the privilege, requires for its passage two-thirds of the whole number of votes cast.

### *b. The bank council.*

ART. 43. The bank council consists of 40 members elected for the term of four years, of whom 15 are elected by the general meeting of shareholders and 25 by the Bundesrat. By a year is to be understood the period between

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the close of one ordinary general meeting and the close of the following ordinary general meeting.

ART. 44. The members of the bank council must be Swiss citizens resident in Switzerland. In its composition regard should be had not only for the professional element, but also for commerce, industry, and agriculture.

ART. 45. The choice of the 40 members of the bank council takes place in the following manner:

First, the Bundesrat names the president and the vice-president.

Next, the general meeting elects 15 members and advises the Bundesrat of its choice. The Bundesrat then proceeds to the election of the remaining 23 members, of whom 5 at most may belong to the Bundesversammlung and 5 at most to the cantonal governments.

In the choice of these 23 members, special consideration should be given to the proper representation of the principal centers of banking, industry, and commerce. The members of the bank council are not obliged to deposit any shares.

ART. 46. The bank council is charged with the general supervision of the course of the business, and the management of the business, of the National Bank.

It decides questions relating to all affairs of the National Bank that are not expressly referred by this law to other organs of the bank.

In particular, it has the following duties:

- (1) To elect 5 members of the bank committee.
- (2) To appoint the local committees.

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(3) To submit to the Bundesrat proposals (which are not binding on the latter) for the election of the direktorium and the local managements.

(4) To examine and adopt definitively the regulations, business reports, and annual accounts drawn up by the bank committee conjointly with the direktorium and to be submitted to the Bundesrat for its approval.

(5) To make rules concerning the transfer of shares (art. 9).

(6) To fix salaries in conformity with article 64.

(7) To determine on and to prepare proposals to be made to the general meeting.

(8) To make all decisions concerning the conclusion of business transactions involving more than 5,000,000 francs or the determination of the credit limit of customers of the bank when this is more than 3,000,000 francs.

In the case of business transactions or determinations of credit limits involving a sum greater than one-fifth of the bank's capital, the action of the bank council requires for its validity the assent of at least 30 members. The same number is necessary for every new grant of credit if the total credit exceeds the above sum.

In all other cases an absolute majority of votes governs; in case of a tie, the chairman has the casting vote.

ART. 47. The proceedings of the council of the bank are to be kept in a record which, after approval, must be signed by the chairman and by the recording secretary. The recording secretary is chosen by the bank council.

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ART. 48. All orders and documents issued by the bank council must bear the signature of the president of the council and of a member of the direktorium.

ART. 49. The members of the bank council may retire at any time, but the council must be informed of their intention three months before.

Vacancies made by the departure of members of the bank council chosen by the general meeting are filled at the next following ordinary general meeting. If the number of members elected by the general meeting is, however, reduced to 12, an extraordinary general meeting must be convoked for the purpose of filling the vacancies.

When members elected by the Bundesrat are to be replaced, that body elects their successors as soon as possible.

Elections to fill vacancies are always for the remainder of the current term of office.

The periodical renewal elections are to be carried on according to the rules above laid down for the formation of the bank council.

Outgoing members are eligible for reelection.

ART. 50. The bank council meets at least once per quarter, but it can also be convoked for extraordinary sessions by the president or upon the request of 10 members.

For the validity of proceedings the presence of a majority of the members is necessary.

If a quorum of the members of the bank council can not be brought together, the president is authorized to call in as substitutes members of local committees; in this case an equitable rotation must take place.

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### *(c) The bank committee.*

ART. 51. A bank committee of 7 members, elected for a term of office of four years, in its quality as delegate of the bank council, exercises the detailed supervision and control of the management of the National Bank.

This committee is composed of the president and vice-president of the bank council and 5 other members to be named by the bank council. One Canton can not be represented on the committee by more than one member.

The bank council further names 3 substitutes who will replace members prevented from attending.

Meetings of the bank committees will be held as often as may be necessary, and at least once a month.

In cases of business which the president considers especially urgent, or, on the other hand, of too little importance to justify the calling of an extraordinary meeting, votes may be taken by means of circulars. All decisions arrived at in this way must be subjected to discussion at the next meeting, and must be embodied in the record.

ART. 52. It is the duty of the bank committee to consider in advance all business that is to be acted on by the bank council. It cooperates in an advisory capacity in the fixing of the official discount rate and of the rate of interest on loans.

Business transactions or assessments of credit above the sum of 1,000,000 francs, and which, according to article 46, paragraph 8, need not be referred to the bank council for action, must be submitted to the bank committee for its approval.

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The bank committee must submit to the bank council, for transmission to the Bundesrat, nonbinding proposals for the election of the direktorium and of the local managements.

The bank committee, on the proposal of the direktorium, but without being bound by those proposals, appoints all officials of the National Bank having a salary of over 4,000 francs, except those chosen by the Bundesrat. In the case of officials of branch offices, the bank committee must, before making its choice, receive the proposals both of the local committees and the local managements concerned. If the proposals of these two bodies coincide with those of the direktorium, they are binding on the bank committee.

On the proposal of the direktorium, but without being bound thereby, the bank committee will grant powers of attorney—

(a) In the departments of the direktorium.

(b) In the branch offices, after having taken the advice of the local committees and the local managements concerned.

(d) *The local committees.*

ART. 53. Supervision of the branch offices is exercised by the local committees. These committees consist, according to the importance of the place, of 3 to 4 members, named by the bank council for a term of four years, and chosen, by preference, from among the principal merchants and manufacturers of the place and its neighborhood.

The local committees have a consulting voice in the appointment of the local managements. When officials of

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their branch office with a salary above 4,000 francs are to be chosen, they must send in proposals to the bank committee, which proposals, however, are not binding.

Members of the bank council residing in the place where a branch is located are eligible as members of the local committee.

The bank committee selects from among the members of the local committee the chairman of this committee and his substitute.

The local committees meet as often as necessary; they are competent to act when an absolute majority of the members are present.

### *(e) The audit commission.*

ART. 54. The general meeting, at its ordinary session each year, elects the audit commission for the following year. This commission consists of 3 members and 3 substitutes. Persons who are not shareholders are eligible as well as shareholders. The audit commission must examine the yearly accounts and the balance sheet and must make a written report to the general meeting respecting the state of the accounts.

This report must always be also communicated to the Bundesrat.

The audit commission has the right at all times to examine the entire business working of the National Bank, observing, however, the prescriptions contained in article 61.

### *(f) The direktorium.*

ART. 55. The direktorium is the authority charged with the actual management and execution of the business of

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the bank; under reserve of articles 46 and 52 of this act, and subject to the rules and regulations, it takes all measures necessary for the fulfillment of the functions and purposes of the National Bank. In particular, after obtaining the opinion of the bank committee and the views of the managers of the principal branches, it fixes the official rate of discount and the rate of interest on loans.

The direktorium chooses the officials and employees of the central administration, so far as these have not to be chosen by the Bundesrat or the bank committee.

The direktorium represents the Swiss National Bank in reference to outside parties; it is the authority placed immediately over all the officials and employees of the central administration, as well as over the local managements.

ART. 56. The direktorium is composed of 3 members, of whom 2 reside at Zurich and 1 at Berne.

The members of the direktorium are appointed by the Bundesrat on the (nonbinding) proposal of the bank council, for a period of six years.

The Bundesrat chooses from among the members of the direktorium the president and vice-president thereof.

The business is divided among 3 departments; the department of discount and deposit business and the department of control have their seat at Zurich; the department for the issue of notes, for the management of the cash holdings, and for the transaction of business with the federal administration and the federal railways, has its seat at Berne.

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In the administration of their respective departments, the several members of the direktorium must carry out the decisions and instructions of the direktorium.

More detailed directions for the separation of business contemplated in this article will be laid down in an order of the Bundesrat, subject to the approval of the Bundesversammlung.

(g) *The local managements (lokaldirektionen).*

ART. 57. The local managements consist of one manager (*direktor*) and one submanager, appointed by the Bundesrat for a term of six years, on the (nonbinding) proposal of the bank council, and after consultation with the local committees concerned. They are charged with the responsible management and the business conduct of the branch offices of the bank, pursuant to the instructions of the direktorium and in accordance with the rules.

The local managements appoint the officials and employees of the branch offices, so far as these appointments are not made by the bank committee. All the officials and employees of the branch offices are placed under the direct orders of the local managements.

### 2. GENERAL PROVISIONS.

ART. 58. The members of the local committees, of the audit commission, of the direktorium, and of the local managements must be Swiss citizens domiciled in Switzerland.

ART. 59. Members of the Bundesversammlung, of the cantonal governments, or of the bank council can not

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belong either to the direktorium or to the local managements.

ART. 60. For a binding signature in the name of the National Bank the joint signature of two persons duly authorized to make the signature is requisite. Particulars on this point, within the requirements of article 52, paragraph 5, will be laid down by regulation.

ART. 61. All the members of the bank authorities as well as all officials and employees of the National Bank are bound to strict secrecy as to the business relations between the bank and its customers.

ART. 62. All officials and employees of the National Bank with fixed salaries have the quality of federal officials and are subject as such to the federal legislation concerning the responsibility of federal authorities and officials.

The members of the direktorium and of the local managements, as well as all other officials and employees, can be dismissed by order of the authority that appointed them, the cause of dismissal being stated.

ART. 63. Rules and regulations proposed by the bank council and approved by the Bundesrat will fix the powers of the bank authorities and their relations to one another, establish the minima and maxima of salaries, and govern the conduct of business in general.

The determination of the minima and maxima of salaries requires the approval of the Bundesversammlung.

ART. 64. Within the maximum and minimum limits named in the rules, the salaries of all officials of the National Bank are fixed by the bank council, on the (non-binding) proposal of the bank committee and of the direktorium.

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The payment of commissions (*tantièmes*) is not allowed in any case.

### VI. COOPERATION AND SUPERVISION OF THE CONFEDERATION, IN THE MANAGEMENT OF THE BANK.

ART. 65. The cooperation and supervision in the management of the National Bank assigned to the Confederation by article 39 of the federal constitution is effected—

(1) By its representation (chosen by the Bundesrat) in the authorities of the bank.

(2) By the election of the direktorium and of the local managements.

(3) By the approval, reserved to the Bundesrat, of the rules and regulations, the report of business, and the annual accounts.

(4) By the report of the Bundesrat to the Bundesversammlung.

(5) By the special organs subordinate to the Federal Department of Finance, whose appointment is reserved exclusively to the Bundesrat and whose functions are determined by the law respecting the organization of the Federal Department of Finance.

### VII. PENAL PROVISIONS.

ART. 66. Any person who makes counterfeit bank notes with the intention of using them as genuine ones, will be punished by imprisonment in the penitentiary for a period not exceeding twenty years.

ART. 67. Any person who alters the face value of a genuine bank note to a higher value, with the intention of putting the note into circulation at that higher value,

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will be punished by imprisonment in the penitentiary for not more than five years or by imprisonment in jail for not less than six months.

ART. 68. Any person who knowingly puts counterfeit or altered bank notes into circulation as genuine ones will be punished by imprisonment in the penitentiary for not more than three years.

Any person who has received counterfeit or altered bank notes as genuine, and, after discovering their spuriousness, puts them again into circulation, will be punished by imprisonment in jail for not more than one year or by a fine not exceeding 5,000 francs.

ART. 69. Any person who makes or procures for himself engravings, plates, blocks or other forms, with the object of counterfeiting or altering bank notes, will be punished by imprisonment in the penitentiary for not more than five years or by imprisonment in jail for not less than six months.

ART. 70. Any person who makes or circulates, as advertisements or as mere jokes, printed matter or pictures resembling bank notes will be punished by imprisonment in jail for not more than three months or by a fine of not more than 500 francs.

ART. 71. Counterfeit or altered bank notes must be destroyed, and likewise the engravings, plates, blocks, or other forms used or intended for their production.

ART. 72. Any person who, contrary to the revised article 39 of the federal constitution, issues bank notes or other similar money representatives will be punished by imprisonment in jail for not more than one year or by

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a fine of five times the face value of the unauthorized notes, but in any case not less than 5,000 francs.

ART. 73. The provisions of articles 66 to 72 are also applicable in reference to gold and silver certificates. (Art. 15, No. 9.)

ART. 74. The penalties set down in articles 66 to 73 of this act are also applicable to acts performed in foreign territory. Moreover, the general terms of the federal penal code are applicable.

The trial of penal cases falls under the federal system of criminal justice.

### VIII. DURATION OF THE PRIVILEGE OF THE NATIONAL BANK.

ART. 75. The duration of the privilege of the National Bank for the issue of bank notes is fixed at twenty years, beginning with the day of the opening of the bank.

ART. 76. The decision as to the renewal or nonrenewal of the privilege of the National Bank, as well as the possible taking over of the bank by the Confederation, is made by way of federal legislation.

In case the Confederation desires to renew the privilege, the duration of the renewed privilege shall, each time, be ten years.

In case the Confederation does not desire to renew the privilege, it reserves to itself the right of taking over the whole business of the National Bank with all assets and liabilities, after having previously given one year's notice, on the basis of a balance sheet made up by mutual consent or, in case of disagreement, by judgment of the federal court.

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If the general meeting decides on the liquidation of the company (art. 41, No. 6) the Confederation can take over the National Bank in the same manner.

ART. 77. In case of the transfer of the National Bank to the Confederation the shares are repaid at their nominal value, together with 4 per cent interest during the time of liquidation.

The surplus, so far as it is not required for covering losses, is divided as follows: One-third to the Confederation, to be paid to the new note-bank; one-third to the Cantons in proportion to their population; one-third to the shareholders.

Any remaining excess of assets goes over to the new note-bank of the Confederation as its property.

### IX. SETTLEMENT OF LAWSUITS.

ART. 78. The federal court tries, as the only court of judicature: (a) All private lawsuits arising out of the issue of bank notes; (b) disputes between the Confederation, the Cantons, and other owners of shares of the National Bank among themselves or with the National Bank in reference to the net profits or the proceeds of the liquidation; (c) disputes concerning the drawing up of the balance sheet in the event of the National Bank being taken over by the Confederation. (Art. 76, No. 3.)

All other lawsuits against the National Bank are tried in the ordinary way.

### X. TRANSITIONAL DISPOSITIONS.

ART. 79. After this act has gone into force, the Bundesrat will ask the Cantons and the banks of issue to state to

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what extent they desire to participate in providing the capital of the National Bank, according to article 6.

The Bundesrat will fix the time for subscription for the two-fifths of the capital reserved for private individuals.

ART. 80. After the capital has been subscribed, the Bundesrat elects the president and vice-president of the bank council, according to article 45.

When the first installment of the capital has been paid, the shareholders will be convoked by the Federal Finance Department to a constituent general meeting, which will be presided over by the chief of that department as the representative of the Bundesrat and which will choose 15 members of the bank council, as provided in articles 41, 43, and 45 of this act.

ART. 81. As soon as the Bundesrat on its part has completed the bank council by electing 23 other members, making the prescribed total of 40 members, the bank council will be called together for the purpose of appointing the bank committee.

ART. 82. The bank committee will take up its functions immediately, so far as this is possible. In particular, it must submit to the Bundesrat, with the least possible delay, proposals for the election of the members of the direktorium.

ART. 83. After at least two members of the direktorium have been chosen, the bank council must, on the basis of proposals made by the direktorium, and reported on by the bank committee, take all the measures necessary for the further organization of the bank and for its opening for business.

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With the exception of the first installment called for by the Bundesrat, all further payments on the shares subscribed for will be called for by the bank council, the approval of the Bundesrat having previously been obtained.

The expenses incurred during the period of organization will be advanced by the Confederation, to be refunded afterwards.

ART. 84. As soon as it is entered in the commercial register (*Handelsregister*), the National Bank will be considered established. Its operations can begin as soon as (1) half of the capital is paid in; (2) the central administration and branch offices at not less than 4 Swiss banking centers have been organized.

The other appointments contemplated in this act, of supervisory authorities, officials, and employees, are also to be made at this time.

The first term of office of the supervisory authorities, officials, and employees already appointed, and also of the other organs of the National Bank, begins at this time.

ART. 85. From the day on which this act goes into force, the Bundesrat is authorized to refuse any demand for new issues, or increase of existing issues, of bank notes, on the basis of the bank note act of March 8, 1881.

ART. 86. The withdrawal of the notes of the banks of issue hitherto existing must be effected in a period of not more than three years from the day of the opening of the National Bank for business, in the following manner: Every bank of issue is obliged to deliver for destruction at the end of each quarter, bank notes equal to at least

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one-twelfth of the nominal amount of its actual (*effektiv*) note issue in circulation on the day of the opening of the National Bank; or, if a less amount is sent in, to make up the deficiency in cash.

However, if the amount of notes delivered by a bank of issue in the course of a quarter exceeds one-twelfth, the excess will be carried forward to the next quarter's account.

The notes to be destroyed will be sent to the control authorities instituted by the Confederation and the cash to the National Bank.

The National Bank will facilitate, as much as possible, the liquidation of the bank note business of the existing banks of issue, and the withdrawal of their notes, by granting advances on securities in accordance with article 15, No. 4.

ART. 87. On the date fixed for the last delivery, each bank of issue must send in to the National Bank an itemized list of its notes which are still in circulation. The National Bank undertakes, for itself and its possible legal successors, to redeem such notes during a period of thirty years from the above date. Upon the expiration of this time the equivalent of the notes that have not been presented for redemption will go to the federal invalid fund.

In the case of any bank that delivers the equivalent in cash of its outstanding notes before the expiration of the full period, the National Bank unconditionally undertakes the redemption of its notes from the day on which such delivery is made.

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ART. 88. So far as these transitional provisions do not necessitate modifications of the federal act of March 8, 1881, on the issue and redemption of bank notes, that act and the rules and regulations made in pursuance of its requirements continue effective as to the control authority and the hitherto existing banks of issue, until these latter have freed themselves of all their obligations to the note holders.

ART. 89. During the period fixed for the withdrawal of the notes, the National Bank and all its branch offices will accept in payment the notes of banks of issue and will provide for their redemption within three days free of cost, so long as these banks of issue punctually redeem their own notes and reciprocate with the National Bank.

ART. 90. It is the duty of the Bundesrat, in pursuance of the provisions of the federal law of June 17, 1874, concerning the taking of the popular vote on federal laws and resolutions, to promulgate this law and to fix the date of its going into effect.

So resolved by the Ständerat, Berne, the 6th of October, 1905.

The President:

E. ISLER.

The Secretary:

SCHATZMANN.

So resolved by the Nationalrat, Berne, the 6th of October, 1905.

The President:

SCHOBINGER.

The Secretary:

RINGIER.

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The Bundesrat resolves:

The above federal law shall be made public.

Berne, the 7th of October, 1905.

In the name of the Swiss Bundesrat:

The President of the Confederation:

RUCHET.

The Chancellor of the Confederation:

RINGIER.

Date of publication: The 11th of October, 1905.

Expiration of referendum period: The 9th of January,  
1906.

### APPENDIX III.

#### THE NEW SWISS CENTRAL NOTE BANK.

By Dr. ALEXANDER ERDÉLY.

[Translation.]

The establishment of a central note-issuing bank has occupied Swiss public opinion for the last twenty-five years. Three bills had been submitted before the Federal Council was able to sanction the law passed by the Federal Assembly on January 16, 1906. The chief obstacles which had to be surmounted existed in the pecuniary interest which the Cantons had in the continuation of a state of decentralization as well as in the choice of the central seat for the new institution and in the decision as to the system to be adopted. The Cantons were indemnified in a manner satisfactory to them; with regard to the seat, a compromise was concluded, and as to organization, an agreement was ultimately arrived at which provided that the new bank should combine the character of a private banking institution with that of a state bank.

The authorized capital of the bank is 50,000,000 francs, divided into 100,000 registered shares of 500 francs each, on which so far 50 per cent, say, 25,000,000 francs, has been paid up. No minimum dividend is guaranteed; on the other hand, the dividend is limited to a maximum of 4 per cent. But in spite of this and other limitations, the subscription to the capital was secured without difficulty. A syndicate comprising several cantonal banks offered to advance to the Cantons, at the rate of 4 per cent per

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annum and free of commission or any other charge whatever, the moneys necessary for the call of the first 50 per cent, of which offer, however, the Cantons did not avail themselves. The Cantons, together with the then issuing banks, took over the quota of three-fifths of the capital, say, 30,000,000 francs, reserved to them by the new act; the remaining 20,000,000 francs were offered for public subscription, and, notwithstanding the fact that only subscriptions from Swiss citizens or firms domiciled in Switzerland were accepted, the issue was three times oversubscribed.

The Swiss National Bank is purely a note-issuing, transfer, and discount bank. Its note issue is not limited, neither is there a tax levied on it; but the federal act explicitly confers upon the National Bank the right of issuing notes according to actual needs. The only restriction imposed upon the bank is that a minimum of 40 per cent metallic cover against the notes must be maintained. This metallic cover must consist either of bar gold, foreign gold coin, or Swiss legal tender. The last mentioned may be either in gold or silver, and the National Bank is compelled to redeem its notes at any time in legal tender. The notes have not been declared legal tender; only the bank itself and the public offices are obliged to accept them in payment.

The 36 note-issuing banks which previously existed in Switzerland, with a capital of about 250,000,000 francs and a note issue of the same amount, have to liquidate this branch of their business within three years from the day of the commencing of operations of the National

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Bank—i. e., from June 20, 1907. The previously existing banks of issue had the right to issue notes only up to double the amount of their own capital, and the cover for the notes could consist of metal, bills, securities, or cantonal guaranties, so that the newly created state of things constitutes a distinct improvement on the previous one. The Swiss National Bank has already been able to show results during the first period of its existence, as eleven issuing banks have renounced their right of issue, so that their note circulation, amounting to 91,750,000 francs, has fallen to the National Bank. The right was renounced by all those banks which used to cover with bills of exchange that portion of their notes not covered by metal, and nearly all those which covered a portion by securities, so that at present, with two exceptions, only banks with cantonal guaranty are still issuing notes.

The weekly returns give an idea as to how the Bank has so far developed. The first statement, issued June 30, 1907, shows the following movement compared with that of December 31, 1907, and October 31, 1908:

### ASSETS.

	June 30, 1907.	Dec. 31, 1907.	Oct. 31, 1908.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
Cash:			
Gold.....	31,026,290	75,483,429	116,478,471
Silver.....	4,745,395	5,860,620	8,791,905
Notes of other banks.....	7,893,300	2,486,000	3,653,965
Bills receivable.....	40,959,812	105,553,205	77,167,934
Bills with collateral security.....	1,813,238	2,715,725	6,818,301
Securities.....		3,811,012	8,606,542
Other assets.....	16,457,050	18,868,400	14,522,368
	102,895,086	214,778,392	236,039,486

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## LIABILITIES.

	June 30, 1907.	Dec. 31, 1907.	Oct. 31, 1908.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
Capital paid up .....	25,000,000	25,000,000	25,000,000
Note circulation .....	57,646,550	159,220,050	179,327,300
Short-time liabilities .....	19,398,244	26,753,447	20,875,785
Other liabilities .....	850,291	3,804,894	10,836,401
	102,895,086	214,778,392	236,039,486

The cash assets of the whole of the Swiss issuing banks amounted in 1906 to from 110,000,000 to 120,000,000 francs in gold and 10,000,000 francs in silver, a total already exceeded by the new note bank, whereas its note circulation does not nearly equal that of the old issuing banks in the year 1906. The proportion of the cash reserves to the amount of the effective circulation of the old issuing banks used to vary between 51 and 61 per cent; for the new note bank the proportion averaged for the year 1907 66.26 per cent, while the maximum was 80.38 per cent, in July, and at the end of December the proportion was about 51 per cent. This year, in the month of February, the metallic cover worked out at 72¼ per cent of the circulation; on August 23, 1908, the notes were covered as to 91.17 per cent by metal, and even during the great stringency in October, 1908, the metallic cover amounted to 69.86 per cent. The Bank's metallic reserve, which at first was about 36,000,000 francs, has already reached the considerable sum of 125,000,000 francs.

The development of the relations between the National Bank and the older issuing banks, and the influence which the National Bank exercised upon the whole character of

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the Swiss note circulation, may be gathered from the following table:

### I. NOTE CIRCULATION.

	Swiss National Bank.	Older issuing banks.	Total.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
June 30, 1906.....		235,512,000	235,512,000
December 31, 1906.....		242,469,000	242,469,000
June 30, 1907.....	57,646,000	190,041,000	247,687,000
December 31, 1907.....	159,220,000	129,011,000	288,231,000
June 30, 1908.....	146,278,000	99,640,000	245,918,000
September 30, 1908.....	165,800,000	86,196,000	251,996,000

### II. METALLIC RESERVE.

	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
June 30, 1906.....		116,400,000	116,400,000
December 31, 1906.....		117,656,000	117,656,000
June 30, 1907.....	35,772,000	88,850,000	124,622,000
December 31, 1907.....	81,344,000	59,420,000	140,764,000
June 30, 1908.....	98,769,000	45,694,000	144,463,000
September 30, 1908.....	125,507,000	39,781,000	165,288,000

### III. UNCOVERED NOTE CIRCULATION.

	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
June 30, 1906.....		119,112,000	119,112,000
December 31, 1906.....		124,813,000	124,813,000
June 30, 1907.....	21,875,000	101,191,000	123,066,000
December 31, 1907.....	77,876,000	69,590,000	147,466,000
June 30, 1908.....	47,509,000	53,946,000	101,455,000
September 30, 1908.....	40,293,000	46,415,000	86,708,000

In consequence of the Bank having fully lived up to its real mission, especially by its discounting bills exclusively at the bank rate and its refusal of finance bills, its rate of discount, even during the crisis, did not rise very high, as compared with the rates of other countries, and only toward the middle of November, 1907, was it raised from 5 to 5½ per cent, when a bank rate of 7 per

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cent in London and of  $7\frac{1}{2}$  per cent in Berlin was ruling. The effect of the discount policy of the National Bank in the year 1907 appears from the following table:

The yearly average of the official rate of discount was:

	1906.	1907.
	<i>Per cent.</i>	<i>Per cent.</i>
In England.....	4.26	4.92
In Belgium.....	3.84	4.94
In Switzerland.....	4.78	4.93
As against England.....	+0.52	+0.01
As against Belgium.....	+0.94	-0.01

Thus Switzerland not only managed to get through the bad winter of 1907 with a comparatively moderate rate of discount; it was also able to immediately enjoy the monetary relaxation which made itself felt in the new year. On January 16, 1908, the rate of discount was lowered from  $5\frac{1}{2}$  per cent to 5 per cent; on February 2, from 5 per cent to 4 per cent, and on March 19, from 4 per cent to  $3\frac{1}{2}$  per cent.

Since March 19, 1908 (the date of writing this article), no further alteration has taken place.

On repeated occasions leading officials of the Swiss National Bank have declared that a proper discount policy should not only consist in securing low rates of interest for the country, but also in keeping interest rates as stable as possible. It is hoped that the rate of  $3\frac{1}{2}$  per cent can be kept in force until the end of the year (1908).

The high rate of exchange on Paris, however, could only temporarily be lowered, as, owing to the active business intercourse existing with France and Germany,

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Switzerland was not able to protect itself against the influence of dear money prevailing in those countries. Especially bills on Paris are greatly in demand, although the practice of settling international and even over-sea debts by acceptances payable in Paris, which obtained even up to ten years ago, is now no longer adhered to. Part of the acceptances which used to be domiciled in Paris are now covered directly via London, Hamburg, Amsterdam, etc. The high rate ruling on Paris is due to the fact that a considerable portion of the federal, as well as of the numerous cantonal loans, has been placed in France, so that large credit balances have continuously to be kept up in Paris for the coupon payments. The amount of the Swiss indebtedness to France to-day may be estimated at one and a quarter billion francs at least, which includes French participations in Swiss enterprises and French ownership of real estate in Switzerland.

The monthly average of the rate of exchange on Paris was:

	1906.	1907.	1908.
January .....	100.228	100.188	100.234
February .....	100.281	100.030	100.133
March .....	100.225	100.028	100.094
April .....	100.205	100.156	100.175
May .....	100.015	100.155	100.135
June .....	99.911	100.047	100.000
July .....	99.886	99.997	99.912
August .....	99.900	100.022	99.922
September .....	99.965	100.071	100.077
October .....	99.984	100.143	100.071
November .....	99.933	100.352	-----
December .....	100.015	100.371	-----

In general, however, the state of the exchange on one foreign country only can not be accepted as a criterion

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for the exchanges on the whole. If the average condition of all foreign exchanges of importance for Switzerland (on France, England, Italy, Germany, Belgium, Holland, Austria-Hungary) is taken as a basis, then the exchanges in Switzerland are continually at a premium. Thus the state of the Swiss money value was:

[Per thousand francs.]

	1906.	1907.	1908.
January.....	+0.9	+0.01	Par.
February.....	+0.5	+0.8	+0.5
March.....	+0.5	+0.2	+0.09
April.....	+2.0	Par.	+1.2
May.....	+2.3	+1.2	+1.3
June.....	+3.1	+2.3	+2.4
July.....	+3.7	+2.0	+2.6
August.....	+2.7	+1.8	+2.0
September.....	+1.6	+1.6	+1.0
October.....	+1.5	+1.0	+1.9
November.....	+1.8	-1.1	-----
December.....	+0.8	-0.9	-----

It follows that except during the most acute stage of the crisis in November and December, 1907, the Swiss exchanges were continually at or above par.

On November 11 the situation was the following:

*Bid price of foreign exchanges.*

	Bid price on Nov. 11, 1908.	Legal parity.
On Paris.....	100.00	100.00
London.....	25.10	25.2215
Italy.....	99.88	100.00
Germany.....	122.72½	123.457
Belgium.....	99.63	100.00
Holland.....	208.28	208.3193
Austria.....	104.73¾	105.01
New York.....	5.16	5.182

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Therefore only exchanges on Paris are at par, whereas those on all the other countries are to be had below par, and even at a very considerable discount in favor of Switzerland.

The influence of the Swiss National Bank will show itself fully only from the moment when it will have absorbed all the remaining issuing banks. It would be of interest to hear what has now become of the practice of exporting 5-franc pieces across the borders of Switzerland, which was carried on by unscrupulous speculators and known under the name of "drainage." France and Switzerland, as members of the Latin Coinage Union, accept, as is known, each others 5-franc pieces as legal tender. Some knowing people near the western frontier soon found out that on this basis a good business might be done. According to Swiss banking law, nobody is obliged to take notes. These so-called "draineurs" therefore went to the bank counters in order to have the notes exchanged into coin. With the hard cash so obtained they traveled across the boundary into France, where they exchanged the 5-franc pieces for French notes. Then the French notes were brought back to Switzerland and sold at a premium. These notes were again exchanged for hard cash, and the business repeated itself. This manipulation, however, is remunerative only if the premium exceeds the necessary expenses plus a fair profit; that is to say, if that premium is at least 0.25. If the rate of exchange is higher, then the profit will be larger.

This business practice, however, seems to have lost ground since the new note bank commenced its opera-

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tions, as the importation of coined silver into Switzerland amounted (in millions of francs) to:

1897.....	66.9
1898.....	76.0
1899.....	110.2
1900.....	84.1
1901.....	33.3
1902.....	61.6
1903.....	25.8
1904.....	41.7
1905.....	43.7
1906.....	26.5
1907.....	27.6

At a higher premium, say already at about eight-tenths of 1 per cent, speculators could make use of postal money orders. As the remittance of 1,000 francs to Paris costs 5.50 francs, and the credit balance so obtained could be sold for 1,008 francs, another small profit results, which the speculator does not disdain. The loss arising from such operations has to be borne by the post-office department when the balance resulting from this international business intercourse is settled. The postal authorities have since taken steps to prevent such fraudulent manipulations by raising the cost of postal money orders to France for large amounts.

The same advantage of the premium in exchange is taken in Roumania and Bulgaria; that is to say, when the premium rises remittances are directed by post to Paris, and the parties interested in these transactions manage things in such an astute way that the postal authorities, even with the greatest vigilance, can not prevent these manipulations without encroaching upon individual rights.

The note banks established in the frontier towns of Switzerland were affected by this "drainage" to such an

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extent—since they were obliged to fetch back the silver from France, a measure involving considerable expense—that some of them renounced their right of issue.

The central note bank will be able to carry on its business with an amount of notes smaller than the aggregate of the issues of the old note banks, notwithstanding the ever-growing needs of Swiss commerce. For this purpose the cheque, transfer, and clearing service is a very welcome instrument, rendering possible a considerable saving of currency. The smaller banks, on the other hand, had a pecuniary interest in keeping as many notes in circulation as possible; these notes then weighed heavily on the market, depressing the private discount rate and driving cash out of the country, thereby also exercising an influence which should not be underrated upon the rates of exchange and damaging the whole economic life of the country.

The idea of the foundation of a central note-issuing bank sprang chiefly from the prevailing unsatisfactory condition producing a continual depreciation of the currency. To protect the value of the currency is therefore one of the principal objects in the National Bank's programme.

The National Bank has covered the whole country with a net of branches and agencies, which are all connected with the transfer service.

It now possesses branches in Basle, Berne, Geneva, Lausanne, Lucerne, Neuchâtel, St. Gall, and Zurich, and agencies in Aarau, Altorf, Bellinzona, La Chaux-de-Fonds, Coire, Fribourg, Lugano, Schwytz, Sion, Solothurn, and Weinfelden. The turnover of the transfer

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business from June 20 to December 31, 1907, amounted to 5,019,000,000 francs, and in the first nine months of 1908 to 7,612,000,000 francs. The National Bank has moreover taken over the clearing houses which existed at the commencement of its operations at Berne and Zurich, and has opened new clearing offices at Basle, Geneva, and St. Gall. The aggregate turnover of the clearing offices amounted in 1907 to 2,465,989,925 francs. The monetary intercourse is further facilitated by—

(a) The facility of paying in to any correspondent of the National Bank free of charge any sum of money for the credit of clients having transfer accounts.

(b) The right conceded to every transfer client of having paid out to nontransfer clients at any business place of Switzerland any amount to the debit of his transfer account.

(c) The establishment of a gratuitous transfer service between the transfer clients of the National Bank and the holders of Swiss postal cheque accounts.

(d) The creation of a Swiss general money order, which is obtainable from the National Bank and its branches in unlimited amounts, free of charge, and which is payable at every branch and agency of the National Bank.

APPENDIX IV.

EXCERPTS FROM THE FIRST REPORT OF THE  
SWISS NATIONAL BANK FOR THE PERIOD FROM  
JUNE 20, 1907, TO DECEMBER 31, 1908.

By resolution of January 16, 1906, the Federal Council decreed that the federal law of October 6, 1905, regarding the *Banque Nationale Suisse* should enter into force. The Federal Department of Finance was charged with the execution of the preliminary work of organization.

Under date of February 9, 1906, the Federal Council addressed to the Cantons and to the banks that enjoyed the privilege of bank-note emission in accordance with the act of March 9, 1881, regarding the emission and redemption of bank notes, a circular letter inviting them to inform the Federal Department of Finance up to March 25, 1906, whether and to what extent they intended to participate in the formation of the capital fund of the Bank. The department subsequently informed the Cantons, under date of February 12, 1906, that a syndicate formed by a number of cantonal banks was ready to advance them the necessary funds at the first payment of 50 per cent on the shares, at the rate of 4 per cent per annum without any expense or commission charge. No Canton was obliged to avail itself of this liberal offer.

After having ascertained on the basis of the declarations received that the 60 per cent of the capital fund, i. e., 30,000,000 francs, which the law reserves for the Cantons and the banks of issue had been fully subscribed by the

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interested parties, the Federal Council submitted for public subscription from June 5 to 9, 1906, the remaining 40 per cent of the capital, i. e., 20,000,000 francs.

This subscription was submitted with the assistance of 194 Swiss banking houses that had declared their willingness to act as subscription offices without any charge for commission. In order to insure in any case the subscription of the capital, the department of finance made arrangements with a syndicate of 13 Swiss banks, according to which these banks bound themselves to take at the terms of the prospectus, without any indemnity as to expense or commission, all shares which had not been disposed of by public subscription or for which for any reason the subscription could not be accepted.

The number of subscriptions amounted to 12,266 and reached a total of 67,855,000 francs. The distribution of the available 40,000 shares took place according to a schedule which the department of finance had established for this purpose, and which the Federal Council had approved. It followed as much as possible the directions of the third paragraph of article 7 of the bank act: "As regards the distribution of shares, preference shall be given to the small investors." After the distribution had been effected the capital of the Banque Nationale was distributed according to the register of shareholders, among—

	Shares.
3,438 shareholders each possessing .....	1
5,459 shareholders each possessing .....	2
1,749 shareholders each possessing .....	3
75 shareholders each possessing .....	4
796 shareholders each possessing .....	5
337 shareholders each possessing from .....	6 to 10
325 shareholders each possessing from .....	11 to 25

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	Shares.
45 shareholders each possessing from.....	26 to 50
8 shareholders each possessing from.....	51 to 100
8 shareholders each possessing from.....	101 to 200
7 shareholders each possessing from.....	201 to 300
8 shareholders each possessing from.....	301 to 400
1 shareholder possessing more than.....	400
<hr/>	
12,256 shareholders (individual) holding a total of.....	40,000
23 Cantons holding a total of.....	38,764
37 banks of issue holding a total of.....	21,236
<hr/>	
12,316 shareholders holding a total of.....	100,000
*            *            *            *            *	

It was necessary to secure the proper localities for the Bank. This task was considerably facilitated by the fact that in four of the places for which the establishment of a branch of the Banque Nationale had been taken into consideration the banks of issue with restricted operations which were established there and which relinquished their privilege of bank-note emission either at once or a few months after the opening of the Bank, ceded their buildings to the Banque Nationale, which could also take over the greater part of the force of these Banks.

During the establishment of these branches, as well as that of the first and third department of the general office at Zurich, the Bank has acquired at Bâle the building of the Banque de Bâle; at Geneva that of the Banque du Commerce de G n ve; at Neuchatel that of the Bank Commercial Neuch teloise; at St. Gall that of the Banque de St. Gall; at Zurich that of the Banque de Zuerich.

The Federal Department of Finance stipulated the amount of the first payment at 20 per cent of the par value of the shares; the law demanded that this be made before the first general meeting of shareholders. The individual stockholders had to make this payment by July 10, the

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Cantons and the banks of issue by July 17, 1906. The Federal Council made interest-bearing investments with the 10,000,000 francs paid with a number of Swiss banking houses, for account of the Banque Nationale.

The second payment of 30 per cent was, with the approval of the Federal Council, called by the bank authorities for May 21, 1907.

\* \* \* \* \*

Up to the close of 1908 the governments of 10 Cantons had made use of the privilege conferred by article 4, paragraphs 3 and 4, of the act upon the Cantons which had no branch, by demanding that an agency be established in their territory and that this agency be intrusted to their cantonal bank. During 1908 the following agencies have been opened:

On May 1, the agency at Aarau, at the Banque d'Argovid.

On May 4, the agency at Fribourg, at the Banque de l'État de Fribourg.

On May 14, the agency at Coire, at the Graubuendner Kantonbank.

On May 25, the agency at Soleure, at the Solothurner Kantonbank.

On June 5, the agency at Weinfelden, at the Thurgauische Kantonbank.

On September 5, the agency at Altdorf, at the Ersparniskasse des Kantons Ur.

On September 10, the agency at Schwyz, at the Kantonbank Schwyz.

On September 16, the agency at Bellinzona, at the Banca Cantonale Ticinese.

On September 21, the agency at Lugano, at the Banca della Svizzera Italiana.

On November 3, the agency at Sion, at the Caisse Hypothécaire et d'Épargne du Canton du Valais.

The opening of an agency at Herisau, which will be confided to the Appenzell Ausserrhodische Kantonbank, will probably take place in March, 1909.

\* \* \* \* \*

The brilliant business period which began throughout the world in 1904 and which reached its culmination in the course of 1906, was nearing its end at the time the

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Banque Nationale Suisse opened. In consequence of the increase in price of all raw material and of manual labor, as well as in the money rate, a decrease in consumption had succeeded the feverish activity of commerce and industry and had caused a general slackening of business. The first task of our central establishment consisted of ameliorating the disagreeable consequences of this critical period in Switzerland and to prevent it from developing into a more serious crisis. The bank authorities considered as the most efficient means the creation of a very strong metal reserve, which alone would permit the obtaining of a larger elasticity of circulation. The calm observed in Switzerland during the stormy period from October to December, 1907, has been the outcome of this measure.

For the year 1908 a general business depression was making itself felt which was aggravated by serious political complications. Almost all Swiss industries suffered from this state of affairs and if at present one has the impression that the situation has somewhat improved this has been less due to actual results than to the hope which begins to be revived. The fact that our industries which have been strengthened by the favorable period which has preceded these critical times, could live through it without great injury, must be a source of joy to us, because it proves that our commercial enterprises did not permit themselves to be carried beyond the limits of a normal optimism and that most of them knew how to adopt a degree of prudent moderation. It must be added that in spite of the economic depression, the agricultural revenues have been generally satisfactory, thanks to the

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food crops; this has contributed toward ameliorating the severity of the industrial crisis

During this period the Bank has demanded the following rates for discount and for loans against securities:

	Rate of discount.	Rate of loans against securities.
	<i>Per cent.</i>	<i>Per cent.</i>
From June 20 to August 14, 1907, during 56 days.....	4½	5
From August 15 to November 6, 1907, during 84 days.....	5	5½
From November 7 to January 15, 1908, during 70 days.....	5½	6
From January 16 to January 22, 1908, during 7 days.....	5	5½
From January 23 to February 19, 1908, during 28 days.....	4½	5
From February 20 to March 18, 1908, during 28 days.....	4	4½
From March 19 to December 31, 1908, during 288 days.....	3½	4

The average discount rate in Switzerland for the year 1908 amounted to 3.73 per cent against 4.93 per cent in 1907. The years 1887-1889 and 1892-1895 are the only ones during a period of twenty years which show a lesser average than that of 1908.

The Bank has always tried to let the country enjoy rates of discount as low as the general interest, our foreign trade balance, the international money market, and the rates of exchange would permit.

The following are the official averages for the years 1907 and 1908 in—

	1907.	1908.
	<i>Per cent.</i>	<i>Per cent.</i>
France.....	3.46	3.04
England.....	4.92	3.00
Germany.....	6.03	4.75
Belgium.....	4.94	3.55
Holland.....	5.10	3.38
Austria.....	4.89	4.24
Italy.....	5.07	5.03
Average of the 7 foreign countries.....	4.91	3.85

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The official rate of discount in Switzerland for 1907 has therefore been 0.02 per cent above the average; in 1908, 0.12 per cent below the average of the rates of the above-mentioned foreign countries. During the years from 1904 to 1906 the Swiss discount rates had been on an average one-half of 1 per cent above foreign rates.

The average of the rate of discount in foreign countries in 1907 has been: In France 4 per cent, in England 7 per cent, in Germany 7½ per cent, in Belgium 6 per cent, in Holland 5 per cent, in Austria 6 per cent, and in Italy 5½ per cent. These rates represent an average of 5.86 per cent, while the highest rate demanded in Switzerland was 5½ per cent.

The average bid rates for foreign exchange in Switzerland have been—

	1907.		1908.	
	Rate.	Above (+) or below (-) par.	Rate.	Above (+) or below (-) par.
		<i>Per cent.</i>		<i>Per cent.</i>
For France.....	100.13	+1.300	100.67¾	+0.775
England.....	25.22½	+ .140	25.15¾	-2.736
Germany.....	123.06¾	-3.195	123.06¾	-3.155
Belgium.....	99.86¾	-1.375	99.82½	-1.750
Holland.....	208.45	+ .627	208.08¾	-1.112
Austria.....	164.58½	-4.047	104.72	-2.761
Italy.....	100.12½	+1.250	100.04¾	+ .425

The rate of exchange offered by foreign countries on Switzerland has therefore exceeded par in 1907 by three-fourths of 1 per cent, in 1908 by 1½ per cent. The

## *The Swiss Banking Law*

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average of the years 1904 to 1906 has been 0.721, i. e., about three-fourths of 1 per cent above par.

In 1908 Switzerland has benefited by a particularly advantageous rate of exchange on foreign countries which was even more favorable in view of the fact that commercial statistics indicate a volume of imports exceeding by 549,000,000 francs the volume of exports.

\* \* \* \* \*

In accordance with the temporary ordinances of the bank act, the notes of the old banks of issue must be recalled within at most a period of three years from the date upon which the Bank commenced its operations. The banks were required to deliver at the close of each trimester, in bank notes to be destroyed, at least one-twelfth of the nominal amount of their actual issue on the day of the opening of the Banque Nationale; in case of insufficiency of bank notes the amount must be completed in specie. As the Bank opened its doors on June 20, 1907, the withdrawal of the first six-twelfths took place on September 20 and December 20, 1907, and on March 20, June 20, September 20, and December 20, 1908.

As a certain number of banks relinquished their privileges of note emission prior to the time fixed by law, the circulation of the bank notes of the banks of issue diminished much quicker than the law had provided for, and the circulation of the notes of the Banque Nationale has increased in the same proportion.

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Chronological tables of the banks which renounced their privilege of emission were—

Name.	Date of renunciation.	Issue authorized on Dec. 31, 1906.	Actual issue according to last statement published before day of renunciation.
		<i>Francs.</i>	<i>Francs.</i>
Banque de Bale.....	June 20, 1907	24,000,000	23,000,000
Banque du Commerce de Geneve.....	do.	24,000,000	24,000,000
Bank in Luzern.....	Aug. 1, 1907	5,000,000	5,000,000
Banca della Svizzera Italiana.....	do.	3,000,000	2,878,400
Banque Commerciale Neuchateloise.....	Sept. 20, 1907	8,000,000	8,000,000
Credito Ticinese.....	do.	2,250,000	2,250,000
Bank in St. Gallen.....	Dec. 20, 1907	18,000,000	16,210,000
Toggenburger Bank.....	Dec. 31, 1907	1,000,000	800,000
Bank in Schaffhausen.....	Jan. 2, 1908	3,500,000	2,900,000
Thurgauische Hypothekenbank.....	Jan. 31, 1908	1,000,000	750,000
Banca Cantonale Ticinese.....	Sept. 17, 1908	2,000,000	1,210,000
Total.....		91,750,000	86,998,400

The banks mentioned have remitted to the Banque Nationale the security for the amount of their circulation at the date of renunciation; that is, the 40 per cent (legal minimum) in legal tender, the balance in specie, in bills of exchange, or securities. The Bank has in return pledged itself to redeem their notes which figure in its statements and in its balance sheets equally with its own circulating notes.

On the morning of the opening (June 20, 1907) the circulation of the Banque Nationale amounted to 44,169,750 francs.

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It increased as follows:

Average:	Francs.
1907-----	88,866,000
1908-----	145,870,000
<b>Maximum:</b>	
1907 (December 31)-----	159,220,050
1908 (December 31)-----	204,055,550
<b>Minimum:</b>	
1907 (June 25)-----	46,997,450
1908 (February 26)-----	119,553,400

On the date of the statements published the average proportion of the various denominations compared to the total circulation was:

	1907.	1908.
	<i>Per cent.</i>	<i>Per cent.</i>
Bank notes of—		
1,000 francs-----	4.25	4.22
500 francs-----	5.73	5.40
100 francs-----	54.87	52.70
50 francs-----	35.15	37.68

The following tables illustrate the total circulation of bank notes in Switzerland, and the comparative position of the Banque Nationale and the banks of issue according to the statements published on June 15 and 30, 1907, December 31, 1907, June 30, 1908, and December 31, 1908:

Dates.	Note circulation of the Banque Nationale Suisse.	Actual note circulation of Swiss banks of issue.	Total circulation of Switzerland.
	<i>Francs.</i>	<i>Francs.</i>	<i>Francs.</i>
June 15, 1907-----		235,144,050	235,144,050
June 30, 1907-----	57,646,550	190,041,400	247,687,950
December 31, 1907-----	159,220,050	129,010,750	288,230,800
June 30, 1908-----	146,278,450	99,640,300	245,918,750
December 31, 1908-----	204,055,550	73,654,350	277,709,900

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The proportion of the notes of the Banque Nationale compared to the total circulation of Switzerland was:

	Per cent.
June 30, 1907.....	23.27
December 31, 1907.....	55.24
June 30, 1908.....	59.48
December 31, 1908.....	73.48

\* \* \* \* \*

The cash holdings serving as metal security, in accordance with the bank act (legal tender, gold in bullion, and foreign coins), amounted to:

	Francs.
Average:	
1907.....	58,420,000
1908.....	106,419,000
Maximum:	
1907 (December 27).....	82,731,720
1908 (November 19).....	128,034,717
Minimum:	
1907 (June 20).....	33,355,385
1908 (January 3).....	81,827,241

\* \* \* \* \*

	1907.	1908.
	<i>Francs.</i>	<i>Francs.</i>
Average circulation of notes.....	88,866,000	145,870,000
Average metal security.....	58,420,000	106,419,000
Circulation not secured by legal tender.....	30,446,000	39,451,000
Proportion of metal security:	<i>Per cent.</i>	<i>Per cent.</i>
Average.....	65.74	72.95
Maximum.....	80.69	91.45
Minimum.....	51.09	51.97

The receipts of the bank from June 20, 1907, to December 31, 1908, are summarized as follows:

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	Francs.
Discount .....	3, 536, 744. 84
Interest on loans against security .....	117, 477. 36
Interest on security holdings .....	428, 208. 93
Interest paid by correspondents .....	527, 766. 27
Profit on own securities held .....	68, 298. 40
Commissions, charges for safekeeping, and other income .....	93, 753. 40
Income on real estate .....	209, 865. 85
Total .....	4, 982, 115. 05
Less debit interest .....	472, 959. 27
Gross profits .....	4, 509, 155. 78
Deduct from gross profits:	Francs.
Administration charges .....	2, 067, 500. 79
Expense on import of specie .....	162, 397. 45
Amortization on:	
Expense of organization to be written off .....	Francs. 226, 059. 84
Furniture .....	29, 388. 03
Securities .....	6, 689. 60
	262, 137. 47
	2, 492, 035. 71
Net profits .....	2, 017, 120. 07
Less 10 per cent to be paid into the reserve fund in accordance with the provisions of the bank act .....	201, 712. 00
Leaves at the disposal of the general meeting .....	1, 815, 408. 07
Distribution of dividend of 18 francs per share, which represents an income of 2½ per cent for the period comprised between the date of the payments made and that of June 20, 1907, the day of the opening of the Bank, and of 4 per cent from June 20, 1907, to December 31, 1908 .....	1, 800, 000. 00
Balance remaining at the disposal of the Federal Treasury according to the ordinances of the bank act .....	15, 408. 07

The amount of indemnity to be paid to the cantons for the first period past amounted to 2,441,267.05 francs.

The net profit realized does not, therefore, permit the Bank to pay this amount to the Federal Treasury.

When considering this result one must remember the unfavorable trend of commerce and industry during the

## *National Monetary Commission*

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year 1908. One must also take into consideration the fact that during the transitory period in question the circulation of the notes of the old banks of issue still amounted to an average of 12,1600,000 francs, thus competing with the notes of the Banque Nationale. Article 29 of the bank act stipulates, particularly with a view to this transitory period, that should during a period the profit realized by the Banque Nationale be insufficient to cover the indebtedness to the cantons, the Federal Treasury will advance the amounts necessary. These loans will be refunded to the Confederation with interest at  $3\frac{1}{2}$  per cent per annum as soon as the net profits of the Bank shall permit it.

From the present results we may hope that a greater profit will be realized in future. The regular payment of the maximum dividend of 4 per cent is assured. The Bank will also be in better position to furnish the indemnity to be paid to the cantons and to refund the loans made by the Federal Treasury after it will have the exclusive control of the issue of notes and after the economic situation will have improved.

APPENDIX V.

Balance sheet of December 31, 1908.

ASSETS.		Francs
Capital not paid in.....		25,000,000.00
Cash:	Francs.	
Gold coins of the Latin Union.....	91,065,685.00	
Gold in bullion.....	24,537,223.70	
Foreign gold coins.....	1,878,194.90	
Dollars (silver).....	7,227,050.00	
Odd coins.....	303,613.59	
Swiss bank notes.....	2,823,000.00	
Foreign bank notes.....	365,242.25	
Other cash items.....	21,434.33	
	<hr/>	128,221,443.77
Bills discounted:		
Swiss bills.....	63,746,299.31	
Foreign bills.....	44,680,729.85	
	<hr/>	108,427,029.16
Bills for collection.....		450,853.05
Due from correspondents.....		8,182,188.48
Sundry debts.....		458,134.88
Loans upon collateral.....		10,445,180.50
Government securities.....		6,171,307.55
Coupons.....		131,847.40
Bank buildings.....		4,465,037.40
Furniture.....		362,000.00
Interest in arrears:		
(a) Loans.....		4,397.95
(b) Government bonds.....		26,923.65
(c) Buildings of the Bank.....		17.15
Expenses of organization.....		527,000.00
		<hr/>
Total.....		292,873,360.94

LIABILITIES.		Francs.
Capital.....	50,000,000.00	
Notes in circulation.....	204,055,550.00	
Demand deposits.....	21,131,622.13	
Federal administration and deposit accounts.....	13,898,848.66	
Sundry creditors.....	773,643.91	
Drafts in circulation.....	694,557.67	
Rediscounts.....	302,018.50	
Net profits.....	2,017,120.07	
	<hr/>	
Total.....		292,873,360.94

APPENDIX VI.

ADDRESS OF M. R. COMTESSE,

*Federal Councilor, Head of Federal Department of Finance.*

At the first meeting of the stockholders of the Swiss National Bank on August 23, 1906, M. R. Comtesse said:

GENTLEMEN: I feel sure that no one will contradict me when I assert that wonderful results have been achieved in our country by the law which decreed that a bank of issue be established under the name of Banque Nationale Suisse, and that the day on which the first general meeting of shareholders is held in order for the first time to avail themselves of the authority which the law conveys to them, marks an important epoch in our financial and economic life.

This result had been long desired and expected by all those who were justly of the opinion that the system of various banks of issue, although amicable relations existed between them, and in spite of the commendable efforts which they made to regulate our circulation, could not respond any more to the growing commercial requirements and were not able to accord us sufficient guarantee for a satisfactory paper circulation and for the security of our credit.

Experience had taught this elsewhere. The necessity for unification in this field of paper circulation and in the methods of circulation had made itself felt elsewhere; it was bound to make itself felt with us. All of the States which surround us have successively gravitated toward

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centralization in the emission of bank notes. It is this tendency which has led to the creation of the Bank of France, which has given a new direction to the paper circulation of England, which has in Belgium replaced the Société Générale and the Banque de Belgium with the Banque Nationale, which has extended for another period the privilege of the Banque de Hollande, which prompted the rulings of the Austrian law and put an end in Germany to the segregation of the States as far as the banks of issue and their competition among each other were concerned; it is this tendency which has also caused the American banks to enter upon a new period of uniformity and conservatism regarding the issue of paper money.

We are, therefore, conforming ourselves to an experience which has been made in other countries, where it has been recognized for a long time that uniformity and security of circulation could only be assured by intrusting to one single financial institution authority to circulate paper, and to regulate this circulation according to the requirements of the national market.

The circulation of bank notes must be governed by the demands of commerce and the exchanges; bank notes are the medium of the exchanges and markets. If the markets decrease, the circulation of the mediums of exchange must also be reduced; when they multiply, this circulation must be increased in consequence.

The circulation is limited by the demand, and these limits should not be exceeded. The paper circulation must always have the precious metal as a solid and stable basis, and it must expand and contract in the same meas-

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ure as does the metal circulation. The bank note can only serve as an auxiliary, always attached to the principal medium—the metal. Therefore it is not possible that a number of banks that are often competitors that obey various impulses, that have no other aim but their own interest, and that operate within their limited sphere of action, could regulate the increase and contraction of paper circulation in accordance with the requirements of the country and the condition of the metal circulation. Only a central bank with branches and with agencies covering the territory should be endowed with the power necessary in order always to be able to ascertain and to judiciously estimate the requirements of the market, to watch and regulate the circulation, and to build up at the same time a reserve sufficient to meet all emergencies.

It must therefore act as a highest and disinterested arbiter, opening or closing the valve in order to regulate the flow of circulation in accordance with the level of requirement, so that at certain times there will not occur a superabundance of paper and at others a stringency. The interest of the country must always be the first incentive for its determinations, and it must never forget that the monopoly which has been granted it has not been conferred for the purpose of realizing big profits, but above all for the purpose of letting the public profit by the establishment of the Bank, of letting it enjoy the benefit of an efficient paper circulation, and of everything that may favor the development of commercial discount.

The establishment of the discount rate follows closely upon the question of paper circulation—that is, upon the

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privilege of issue with which the Bank is invested. It goes without saying that the Bank must try to provide commerce with a discount rate as stable and as favorable as possible, having its attention always fixed upon the general monetary situation, on the situation of the exchanges, on business activity, on the general tendency of affairs, on all the exterior or interior economic conditions which decide either the extension or contraction of demand. But it must never forget that the only way to check any possible abuses of paper or credit circulation will be found in the discount rate and that the increase of the rate of discount is the most efficient means of protecting the metal reserve, of preventing currency from leaving the country, and also of preventing an exaggerated extension of credit and imprudent speculation. In this way the Bank will be able to maintain the stability of its credit and of that of the country, and to prevent and to ameliorate the crises to which we may be exposed.

May the Banque Nationale thus understand its task. May it always handle judiciously the mighty mechanism which it will control through the bank note and discount, and whose power must grow with the years. It will then render to our peoples on the field of commerce and finance constantly increasing services, and it will soon win in the country a place beyond all expectation, a confidence which can not be destroyed and which will permit the Bank to exercise a great and beneficent influence on the trend of affairs. Then in a few years even those whose ideas as to the organization of the Bank differed from ours will be convinced that a Bank established upon any

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other basis could not have accomplished the great variety of service and amount of activity that the institution does which has been at last given to the country.

Upon all of us now rests the duty to assist in making this institution an all-powerful one, in securing for it the respect of the country, so that it may be enabled to render it the most efficient service in the interest of prosperity. We ask the cantons to form a stronghold around it, for then they will share in its profits and will find the Bank a valuable factor for their budget, and one whose value will surely increase with the years. We ask of our people to give it their confidence, secure in the knowledge that such a force, well directed, will have upon the fortunes, the credit, the future of our country, a tremendous influence, and that with its resources, with its metal reserve, with its entire organization, it represents the most powerful bulwark for our credit, the security of our people, and the resources of our country in times of a crisis and danger.

In conclusion let me give expression to the hope that the men who will be called upon to administer its affairs may always, as regards their intelligence, their special aptitude, their watchfulness, and their patriotism, be fully worthy of the delicate mission intrusted to them.

## APPENDIX VII.

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