



WORLD GOLD COUNCIL

THE SWISS NATIONAL BANK AND PROPOSED GOLD SALES

Research Study No. 21

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EXECUTIVE SUMMARY

- Gold forms 40 per cent of Switzerland's central bank (SNB, or Swiss National Bank) reserves. This is a long-standing arrangement; Switzerland's federal constitution requires a partial gold backing for the Swiss franc, one of the world's strongest and most stable currencies.
- A committee of Swiss government-appointed economic experts – the Expert Group – has issued recommendations designed to give constitutional guarantees to the independence of the SNB – an independence which has been long-established and is under no obvious threat.
- As part of this re-organisation of the SNB (in November 1996) the government has passed temporary legislation which reduces the gold cover from 40% to 25%.
- A government-appointed body known as the Working Group has also recommended removing the SNB's constitutional obligation to back the Swiss franc with gold, and an upwards revaluation of the SNB's gold.
- The argument of the Working Group is that as a consequence of these re-organisations, less gold would be necessary to provide the equivalent of 10 billion Swiss francs for the SNB's international reserves.
- There has been widespread confusion as to the precise implications of these proposals.
- Any re-organisation of the SNB and severing of the mandatory gold link with the Swiss franc requires, under the terms of the Swiss constitution, majority approval (of both the population as a whole and the cantons) in a national referendum.
- Even if such a referendum votes in favour of this, the establishment of a so-called Solidarity Foundation (a state-run welfare fund to alleviate hardship both within Switzerland and elsewhere) using the proceeds of any SNB gold sales may have to be approved via another referendum.

- The situation is currently extremely fluid and politically sensitive. Duckenfield states: “In May 1998, the constitutional amendment proposed by the Finance Ministry mentions gold as one component of the SNB’s reserves, but puts no quantitative or proportional restrictions on the amount. It reads: ‘for the discharge of its mandate, the Swiss National Bank holds the necessary monetary reserves, a part of it in gold.’”
- A clear majority of Swiss voters firmly support the principle of the SNB maintaining substantial gold reserves.
- Whatever the outcome, the SNB’s own legal experts believe that gold sales will be impossible before 2001 at the earliest; the timetable is slipping all the time, in the context of federal elections due in October 1999

INTRODUCTION

Mark Duckenfield, an independent political scientist, was commissioned by the World Gold Council to analyse and assess the proposals of the Swiss central bank and ministry of finance. Recent events in Switzerland have concentrated market attention on the Swiss National Bank (SNB) and the government's proposal to make a portion of the country's gold reserves available for sale. The initial horror stories of a tidal wave of Swiss gold deluging the marketplace collapse under careful scrutiny. Even the more modest follow-up stories of a sale of some 500 tonnes inaccurately suggest large gold sales will occur over the course of a very brief period of time.

This paper puts events in Switzerland in their proper perspective. While the SNB will probably be permitted legally to sell gold by the early part of the next century, the calamities envisioned by several market commentators in 1997-98 will not be realised. Specifically, to the extent that Switzerland does sell gold, it will be in modest quantities (50-100 tonnes per year) over a period of 10-20 years.

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ABOUT THE AUTHOR

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BACKGROUND

During the 1939-45 war in Europe many refugees and victims of the Holocaust deposited money and valuables with Swiss financial institutions. In 1996-97 it became clear that some of these institutions had failed to return these assets to the survivors or their descendants. This damaged the solid reputation of Switzerland's financial community. In early 1997 Swiss financial institutions and industry, together with the government, agreed to establish a private fund (comprising several hundred million Swiss francs) solely to compensate victims of the Holocaust. In a separate initiative Arnold Koller, then Federal President, promised the government would establish its own publicly-funded Swiss Foundation for Solidarity with victims of humanitarian disasters, including survivors of the Holocaust, entirely separate from the Holocaust fund.¹ The Solidarity Foundation would be funded with SwFr 7 billion (£3 billion) – this money coming from a revaluation of Switzerland's gold reserves. In other words, this Solidarity Foundation will be financed by the Swiss state.

In the eyes of much of the world's media these two funds have become confused, partly because former President Koller and the chairman of the Swiss central bank – the Swiss National Bank (SNB) – combined the two issues with the proposal that a revaluation of Switzerland's gold reserves would reveal 'excess' gold, some of which (roughly 500 tonnes out of 1400 tonnes 'excess') could be sold to endow the Solidarity Foundation.

However, many Swiss oppose the idea of the Solidarity Foundation. Such opposition is particularly firm among the so-called 'service generation,' who remember the years of the Second World War more as a time of economic privation under threat of foreign invasion than as a time of moral ambiguity, profiteering and collaboration.

The announcement of the proposed Solidarity Foundation coincided with Switzerland's reassessment of the constitutional position of Switzerland's central bank, the Swiss National Bank (SNB). As part of a far-reaching evaluation of the SNB's operations, a committee of economic experts issued a series of recommendations designed to enshrine in the Swiss constitution the long-practised independence of the SNB. This Expert Group (as it became called) also suggested the removal of the central bank's constitutional obligation to back the currency in circulation with gold, and the revaluation of the SNB's

¹ For the differences between this private fund and the proposed Swiss Foundation for Solidarity see Appendix A.

gold stocks at a level closer to market value. The Expert Group argued that with gold valued closer to market levels, less gold would be necessary to provide SwFr 10 billion in gold for the SNB's international reserves. The remaining gold could be classified as 'excess' and used for other public purposes. It is the so-called 'excess' gold from this proposed revaluation that President Koller suggested mobilising to fund the Solidarity Foundation.

The reorganisation of the SNB and the severing of the mandatory gold link will require approval in a national referendum; it is likely that the creation of a Solidarity Foundation from the proceeds will also have to be approved in a referendum.

There has been a great deal of public confusion about the relationship between these two proposals. Most observers have tended to link the two, emphasising the funding of the Solidarity Foundation; they are, in fact, distinct. The constitutional changes to the central bank must be approved before gold can be sold for any purpose, including the compensation of the victims of humanitarian disasters. Indeed, if the referendum on the central bank is approved, then the way is clear for the eventual sale of gold from the SNB's reserves regardless of the fate of the Solidarity Foundation's funding. In the meantime, the SNB cannot sell gold; though it has already begun lending gold to increase its rate of return.

THE SWISS FRANC'S LINK TO GOLD

Because of constitutional and legal rules, Switzerland's gold reserves have been immobilised since the collapse of the Bretton Woods system in 1971. Switzerland's federal constitution (*Bundesverfassung*) requires a partial gold backing for the Swiss currency. It states that "issued bank notes must be covered by gold and bills of short-term redeemable value."² There is no constitutional requirement for a specific franc-gold ratio – the constitution leaves that important decision to the legislature.³ The Swiss parliament's implementing legislation, the 'Federal Law on Coinage', gives the Federal Council the power to set the gold parity of the franc in consultation with the directorate of the SNB.⁴ Under a government decree of 1971, the value of the Swiss franc has been set at SwFr 4,590 per kilogram (SwFr 142.90 per ounce, currently \$96.40 per ounce) of gold.⁵ The SNB can buy and sell gold only within $\pm 1.5\%$ of the official price.⁶ With the collapse of the dollar-gold exchange standard in the early 1970s, the international price of gold rose well above the official fixed rate; no purchases or sales have been possible for 25 years.

A clause in Article 39 provides a further mechanism to prevent an outflow of gold from Swiss reserves. It stipulates: "The State may not remove the duty of cover...except in time of war or *under conditions of currency turbulence*."⁷ With the collapse of the Bretton Woods system, the legal obligations to convert the franc to gold outlined in the Swiss national currency law and the constitutional mechanisms that underpin it were suspended due to the 'currency turbulence' of a floating exchange rate system. This has prevented the sale of any gold since 1973. Switzerland's 2,590 tonnes of gold have been effectively frozen as the SNB is precluded from buying or selling gold under current market conditions. When Switzerland joined the International Monetary Fund in 1992 (following a national referendum) it promised to bring its laws into compliance with IMF regulations, including those which allow a country to set the exchange value of its currency through any means other than tying it to gold.⁸ The proposed amendments to the monetary constitution are designed in part to fulfil this promise.

² Bundesverfassung Article 39, Section 7.

³ As of 1 November 1997, the mandatory gold cover is 25%. Prior to that it was 40%.

⁴ Bundesgesetz über das Münzwesen, Article 2, Section 1.

⁵ Bundesratsbeschuß über die Festsetzung der Goldparität des Frankens, 9 May 1971.

⁶ Bundesratsbeschuß betreffend den gesetzlichen Kurs der Banknoten und die Aufhebung ihrer Einlösung in Gold, 29 June 1954.

⁷ Bundesverfassung, Article 39, Section 6 (emphasis added).

⁸ 'Currency and Gold — Towards a Reform of the Swiss Currency Ordinances', Speech by Dr. Peter Klausner at the Post-Education Meeting of the HSG, 19 November 1996; Second Amendment to the Articles of Agreement of the International Monetary Fund, Article IV, Section 2(b).

RECOMMENDATIONS OF THE WORKING GROUP AND THE EXPERT GROUP

In recent years the Swiss government and the SNB have faced two problems. The first is that many officials see a need to modernise the increasingly archaic relationship between the government and its central bank, the SNB. The second is a concern that the SNB's assets are not providing as high a rate of return as they could. Many SNB officials attribute this alleged under-performance to the immobilised gold in the SNB's vaults. In their view, if the SNB could sell this gold the proceeds could be invested in interest-bearing securities.

Two different joint committees were established in 1996 and 1997 to review these matters and make recommendations for reform. The first, the 'Expert Group', examined proposed constitutional amendments for modernising the banking clauses of the constitution. The other, the 'Working Group', examined the SNB's management of its assets. Five of the eight members of the Working Group also served on the ten member Expert Group (See Appendix B). The compatibility between the goals outlined in the two reports reflects the overlapping personnel on the two committees.

The Working Group

In June 1996 the Federal Ministry of Finance and the SNB established a joint Working Group with a mandate to review the SNB's investment policy and suggest alternative ways to increase the profitability of its foreign exchange holdings.⁹ The technical nature of the issue and its specific applicability to the SNB dictated that members of the committee were limited to affiliates of these two institutions. The Working Group recognised the constitutional impediments to its work, pointing out that gold was in a legal limbo until the government changed the constitution.¹⁰

With this restriction in mind, the Working Group sought to exploit what was legally permissible. Swiss law prior to 1997 mandated a 40% gold cover for currency in circulation. Since gold sales and purchases were effectively frozen, the growth in the money supply meant that the proportion covered by gold began to fall. By late 1996 it had dropped to 43%, extremely close to the 40% threshold. As money supply has grown at around 2% per year, the legal barrier would probably have been broken within two years if the government did not take action. In November 1996, the Working Group

⁹ SNB. 1997. 89th Annual Report 1996, (Berne: SNB), p. 42.

¹⁰ *Bericht der Arbeitsgruppe: 'Anlagepolitik und Gewinnausschüttung der Schweizerischen Nationalbank'*, (Bern: SNB and EFV, 18 November 1996), Section 6.7.1.

proposed a plan for temporary legislation that would lower the gold-currency ratio from 40% to 25%, which would remove the danger of a breach of the currency laws.¹¹ Lowering the gold cover was within the powers of the government – indeed a massive reduction to any proportion would have been possible – but public reaction to a wholesale reduction in the gold cover from 40% to a very low figure made such a move politically inadvisable and moreover not technically necessary. Dropping the cover by 15% provided the government with 10-15 years before the growth of the money supply would again begin to approach the new legal limit. By then, the constitutional changes foreseen by the government would have superseded the legal coverage requirements.¹²

Since the lending of gold does not actually involve selling gold it is a simple way to mobilise some of the SNB's excess gold for more profitable uses. Once the legal requirement of a 40% gold cover was removed, the SNB could loan a portion of the 'freed up' gold. The Working Group anticipated that the SNB could make additional yearly profits of SwFr 50 million if it loaned 10% of its 2,590 tonnes of gold.¹³ Their plan was implemented in legislation on 1 November 1997 and the SNB immediately began leasing gold, lending 99 tonnes before the end of the year, bringing SwFr 2.6 million in revenue.¹⁴

The Expert Group

In April 1997 the Finance Ministry and the SNB set up an Expert Group to evaluate the constitutional and legal framework of Swiss monetary policy and to make recommendations for reforming the system. The SNB, in particular, had been in favour of amending the constitution for several years.¹⁵ As with the Working Group, the Expert Group was under the joint leadership of Dr. Ulrich Gygi and Dr. Peter Klausner. Because its mandate encompassed broad constitutional issues, three academics (a German-speaker, a French-speaker, and an Italian-speaker) supplemented the SNB and Finance Ministry members of the Expert Group. Even with this expanded membership, the conclusions and recommendations of the Expert Group were broadly in line with the advice of the Working Group. Indeed, Dr. Klausner laid out a similar plan to the one proposed by the Expert Group in a speech he gave the day after the Working Group issued its report (18 November 1996) – that is, six months before the appointment of the Expert Group (April 1997).

¹¹ *Bericht der Arbeitsgruppe: 'Anlagepolitik und Gewinnausschüttung der Schweizerischen Nationalbank'*, Section 6.7.2.

¹² *Bericht der Arbeitsgruppe: 'Anlagepolitik und Gewinnausschüttung der Schweizerischen Nationalbank'*, Section 7.3.

¹³ *Bericht der Arbeitsgruppe: 'Anlagepolitik und Gewinnausschüttung der Schweizerischen Nationalbank'*, Section 4.3.

¹⁴ SNB. 1998. *90th Annual Report 1997*, (Berne: SNB), pp. 41-2, 95.

¹⁵ SNB. 1997. *89th Annual Report 1996*, (Berne: SNB), p. 36-37.

The proposals of the Expert Group focused on three issues:

- **Independence for the SNB**
- **The priority of price stability**
- **Severing the constitutional link between the Swiss franc and gold**

The SNB has always operated independently, but this freedom did not have a constitutional guarantee. The fact that Switzerland has had an excellent record in the fight against inflation raises questions about the relevance of such a guarantee. Nevertheless, the new proposals of the Expert Group serve to formalise a relationship that has existed in practice for many years.

As regards gold the Expert Group, which consisted entirely of economic technocrats (central bankers, finance ministry officials and academics), noted that the gold clauses in the constitution had been effectively suspended for 25 years. In their view this tied up a valuable asset – 2,590 tonnes of gold. They did not consider the view that it might have been beneficial to Swiss policy to ‘tie up’ gold in order to keep it out of the hands of Swiss politicians. They suggested removing the gold backing clause from the constitution and thus give the SNB the freedom to buy and sell gold. They argued that in order to provide confidence in the Swiss financial system and forestall the risk of a ‘run’ on the banks, the SNB needed to be able to cover some of the difference between the short-term foreign liabilities and short-term foreign assets of the Swiss financial system with foreign currency and gold. At the end of 1996, the short-term foreign liabilities of Swiss banks (SwFr 411 billion) outstripped short-term foreign assets (SwFr 256 billion) by about SwFr 155 billion. Although the Expert Group took care to point out that in their view it was not the purpose of the SNB to cover the position of Swiss banks, the strength of the SNB’s reserve position would boost confidence in Switzerland’s role as a stable world financial centre. As part of this confidence-building measure, they argued that Switzerland needed SwFr 10.7 billion in gold (slightly less than the SwFr 11.9 billion kept on the SNB’s books at the old valuation levels) for reserve purposes, in addition to the SwFr 29.4 billion they recommended in foreign currency holdings. They proposed an upwards valuation of the existing gold stock from SwFr 4,590/kg (\$96.40/oz) to SwFr 9,000/kg (\$189/oz), roughly 60% of the prevailing market price. While this is still a conservative valuation it would make the gold on the SNB’s asset sheet worth SwFr 23.3 billion. The SwFr 12.6 billion (about 1,400 tonnes) of gold above the amount deemed necessary for monetary policy (SwFr 10.7 billion, or about 1,200 tonnes) would

be declared 'excess' and could be returned to the Confederation and cantons.¹⁶

The Expert Group's proposal for a constitutional amendment made no specific mention of gold; members of both houses of Parliament expressed some concern at this omission. In response to parliamentary opinion the government inserted a phrase into its proposed text for the central bank amendments which preserved a constitutional role for gold in the composition of the SNB's reserves. In May 1998, the constitutional amendment proposed by the Finance Ministry mentions gold as one component of the SNB's reserves, but puts no quantitative or proportional restrictions on the amount. It reads: "for the discharge of its mandate, the Swiss National Bank holds the necessary monetary reserves, a part of it in gold."¹⁷ To do this requires emendation both of the Swiss constitution – itself requiring popular approval in a national referendum – and of the national bank and coinage laws.

¹⁶ *Bericht der Expertengruppe "Reform der Währungsordnung"*, (Bern: EFV, 24 October 1997), pp. 58-73.

¹⁷ Bundesbeschluss über einen neuen Geld- und Währungsartikel in der Bundesverfassung, Article 39, ¶ 5 (May 1998).

WHAT TYPES OF REFERENDUM?

There are four types of referendum in Switzerland; only two concern the proposed revaluation of gold reserves. They are:

- (i) **mandatory constitutional amendments**
- (ii) **optional referendum for federal legislation**

Constitutional Amendments: mandatory referenda

All amendments to the Swiss constitution must be put to a national referendum. Proposed government amendments are formed after lengthy discussions from expert groups, organised interests and political parties. They must receive majority approval of both the lower and upper houses of the Swiss parliament (the *Nationalrat* and the *Ständerat*). The government then schedules a referendum date, usually when several other referenda on unrelated issues are also being held. The government distributes an information pack to all voters regarding the proposed constitutional amendment; opponents have the opportunity to contribute to the pack, making the case for their opposition. Supporters and opponents of the proposed legislation are given equal time on national television to promote their cause. Private spending in excess of this official treatment can be made – and frequently is.

After the referendum, a constitutional amendment is considered to have been approved only if it receives a ‘double majority’ of people and cantons. That is, more than half the Swiss electorate must vote in favour of the proposed amendment and more than half the twenty-six cantons must express support. This is complicated somewhat as six of the smallest cantons are counted as only one-half a canton for the purpose of approving constitutional amendments. Thus, only 23 canton votes are available – currently 12 canton votes constitute a majority of the cantons. Between 1866-1993, Switzerland staged 414 referenda. In only six instances did an amendment that received popular approval fail to receive approval from a majority of the cantons. In only two cases did an amendment that received approval from a majority of the cantons fail to receive the majority support of the national electorate. If an amendment overcomes the double hurdle of people and cantons, it is approved. Swiss referenda are binding on the government.

The proposal of the Expert Group on monetary policy suggested that the Swiss constitution be changed to modernise the structure of the Swiss National Bank. Much of the legislation that it operates under is extremely old (some of the constitutional restrictions date back to 1874) and the SNB can only function at all by adopting rather flexible interpretations of many articles.

Once parliament finishes evaluating the Expert Group's report it will propose appropriate constitutional amendments. One of these will sever the link between the Swiss franc and gold, although this has long been inactive; its main purpose for the past 27 years has been to ensure that Switzerland neither bought nor sold gold. Switzerland's membership of the IMF probably renders the gold-franc connection invalid as international treaties take precedence over national legislation, and the current IMF Statutes explicitly prohibit tying the external value of a currency to gold. This question is controversial, but the suspension of convertibility has meant that the issue has never needed to be tested. For all practical purposes, Switzerland fulfils the terms of IMF membership, even though the constitutional amendments relating to gold contradict it. The primary focus of the new amendments will be to ensure the SNB's independence and make price stability the priority. The amendments will probably also be compatible with the Statute of the European Central Bank, so as to ease any possible future Swiss membership of the EU. These proposals will be subject to a referendum, governed by the rules for approving a constitutional amendment.

**Federal
Legislation:
optional
referenda**

Regular federal legislation and decrees can also be subject to a referendum. Once the government passes legislation, its implementation is delayed for 90 days to allow time for opponents to attempt to gather enough signatures to mount a referendum challenge. If those desiring a referendum gather 50,000 signatures the government will schedule the piece of challenged legislation for a referendum vote. Alternatively, a request by the governments of eight cantons will also trigger a referendum. The vote must take place within nine months. In practice, this means that legislation can be delayed by up to one year. Government decrees lasting less than one year are not subject to referendum and the government can declare some measures 'urgent' and immediately begin implementation. In the case of 'urgent' legislation, a referendum vote will have the effect of repealing the measure. A simple majority suffices to win an optional referendum; there is no separate tally of the cantons.

In this context, any legislation governing the transfer of the profit from revalued gold reserves to the funds of the Solidarity Foundation would most likely be challenged in an optional referendum. With SwFr 200,000 for an anti-Solidarity Foundation referendum already pledged, and the highly emotive issues of gold and alleged Swiss war guilt to campaign on, obtaining 50,000 signatures should not pose an insuperable problem. This would have to occur after the approval of the constitutional amendments enabling such legislation, as the constitution currently precludes such actions.

Private spending plays an important role in this sort of referendum, as opponents will first have to obtain 50,000 signatures in 90 days and then mount a campaign against the legislation. The Swiss media tend to follow closely the effort to collect signatures; the relative ease (or struggle) to obtain 50,000 is an important indicator of the potential popularity of a referendum campaign.

Modernisation of the status of the central bank will be subject to a mandatory constitutional referendum; creation of the fund for the Solidarity Foundation will probably face an optional referendum for federal legislation.

The constitutional amendments regularising the SNB's relationship with the state – about which there must be a referendum – could provide the focus of opposition to both measures. Officials at the SNB are quite worried that the two issues will be linked and that this linkage will derail their efforts to alter the constitutional basis of the SNB.

THE CURRENT SITUATION

The government is presenting the proposed changes to the statutory basis of the SNB as quite conservative, rather technical and in line with both current Swiss practice and well-established international standards. If nothing untoward intervenes, these amendments will probably be approved in a referendum in either November 1999 or March 2000. Once in place, the Coinage and Central Bank laws will need to be amended in light of the constitutional amendments.

Finance Ministry officials intend to run the implementing legislation on a parallel fast-track alongside the constitutional amendments; the new legal framework could come into effect in spring or summer 2000, 90 days after the approval of the constitutional amendments (the mandatory time period for gathering signatures to launch a referendum challenge). This is the earliest that the SNB or the special investment fund could begin selling gold.

However, this is an optimistic schedule; it is unlikely that the legislature will be able to act with such alacrity. The timetable has already slipped eight months, from a referendum originally planned for March 1999 to one now scheduled for November 1999. Even as this document went to print (October 1998) Finance Ministry officials were planning on a referendum date on the other side of the Millennium, March 2000.¹⁸ A complication in the timing of the Solidarity Foundation fund legislation is the federal election scheduled for October 1999. No controversial legislation is likely to be introduced in parliament during the election year. The probable consequences for the Solidarity Foundation's legislative timetable are that everything after the committee stage (and perhaps the committee stage as well) of the Solidarity Foundation will be delayed until after the elections. That would add 9-12 months to the schedule for the Solidarity Foundation, bringing the final referendum date to late 2000 or early 2001.

While the constitutional amendments have some priority in the legislative program, the enabling legislation (national bank and currency laws) will probably not move so quickly and may only come into effect in the middle of 2000. Legal experts in the SNB think gold sales will not be legally possible until late 2000 or early 2001.

¹⁸ Compare Federal Department of Finance. 1997. "Konferenzielle Vernehmlassung: Reform der Wahrungsverfassung," p. 6 (dated 22 December 1997); with Swiss Federal Finance Administration 1998. "Provisional timetable for the Swiss Solidarity Foundation," (dated 5 October 1998).

TABLE 1
PRELIMINARY LEGISLATIVE TIMETABLES

Plan	Constitutional amendments	Currency/Central Bank legislation	Solidarity Foundation
Official consultation		Nov 1998-Jan 1999	Autumn 1998
Government proposal	27 May 1998	May 1999	Winter 1999
Committee meetings and discussion	6/7 June and 31 August/ 1 September 1998	Summer 1999	Winter 1999
Debate in 1st Chamber of Parliament	Nov-Dec 1998	Autumn 1999	Autumn 1999
Debate in 2nd Chamber of Parliament	March 1999	Winter 1999	Winter 1999
Referendum	November 1999 or March 2000	Spring 2000 (if challenged)	

Source: Swiss Federal Finance Administration

Crucially for those concerned about the impact of gold sales upon the market, the Solidarity Foundation is unlikely to survive a referendum challenge. In 1997 opinion polls showed divided support, with 37% in favour and 24% opposed.¹⁹ In August 1998 a fresh survey of Swiss opinion, conducted by the Swiss-based organisation GfS, revealed that opinion has shifted strongly against funding the Solidarity Foundation with gold sales. While 40% of respondents agreed (12% “strongly agreed,” 28% “agreed”) with the government’s proposal, 46% disagreed (24% “strongly disagreed,” 22% “disagreed”) with it. In the same poll 59% of respondents said they believed the level of gold held by the SNB is “adequate”; only 25% said they believed the country’s gold holdings to be “excessive”. A further 3% said they found the level of Swiss reserves to be “insufficient”. These figures suggest that public opinion is more inclined towards politicians arguing against selling gold reserves for public purposes than there are for politicians who advocate such action.

There are several further reasons for believing that in a referendum popular opinion may be more negative than positive. While the major political parties are all in favour, many individual politicians – including Christoph Blocher, of the Swiss People’s Party – are opposed.

¹⁹ Longchamp, Claude and Peter Kraut. 1997. *Noch ist nichts entschieden*, (Bern: GfS-Forschungsinstitut).

The programme itself did not originate in the usual Swiss fashion, through extensive consultation, but was sprung upon the general public as a complete surprise in March 1997 by the then Federal President and the chairman of the SNB. Moreover, the origins of the Foundation spring from suggestions that Switzerland needs to undergo a form of expiation for having acted immorally during the Second World War, an imputation which many Swiss strongly reject. Furthermore, the existence of the Holocaust Foundation – a large private foundation set up by banks and insurance companies – also diminishes the chance of popular support for a public fund. The Swiss population has generally resisted legislation they view as resulting from foreign pressure; the creation of the Solidarity Foundation is widely seen as a response to pressure from abroad. Finally, other proposals for using the gold (which include Alpine tunnels, social security, deficit, jobs programmes, etc.) are widely favoured. The Solidarity Foundation is a classic example of the sort of political project that the Swiss population would reject in a national referendum.

However, if the Solidarity Foundation survives a referendum challenge, the SNB will have to transfer gold to the value of approximately SwFr 7 billion to the Foundation. The gold transfer would take place within one of two different institutional settings. If an investment corporation is set up, then it would manage two separate portfolios: one for the Solidarity Foundation and another public portfolio for the Confederation and cantons. If only the Solidarity Foundation receives a distribution of gold (and the rest of the ‘excess’ reserves remain under the management of the SNB), then a private asset management administration would be set up to deal solely with the portfolio of the Solidarity Foundation. The portfolio aims to have an annual return of at least SwFr 350 million, although the gains during the initial years will be below this figure until a substantial amount of gold has been sold. The Foundation intends to operate off the investment income and leave the initial principal intact.

Whatever the institutional framework, sales of this gold would be spread over a long period of time, estimated by many observers at 5-10 years, and would be co-ordinated with the SNB and the investment corporation. The Solidarity Foundation’s sales would take precedence over any gold these others might want to sell. An expert commission on the financing of the Solidarity Foundation was mindful of the effect of gold sales on international gold markets, concluding that sales would have to be spread out over several years. The fluctuations in the price of gold make an exact gold amount for the SwFr 7 billion endowment difficult to calculate, but an estimate of about

500 tonnes seems likely.²⁰ Since this would occur over approximately 10 years, it might reasonably be expected that 50-100 tonnes of Swiss gold could come onto the market every year from 2001 until 2010 – less during periods of relatively low prices and more during times of higher prices. The commission on the financing of the Solidarity Foundation included a sample schedule of cash flows; this liquidates the Foundation’s gold holdings in five years with sales of SwFr 1.40 billion per year.²¹ This is based upon gold holdings of about 400 tonnes and a world price of around \$356/oz, which considerably exceeds recent experience. Still, sales of 80 tonnes a year would be consistent with other public statements of the Swiss government.

TABLE 2
CENTRAL BANK GOLD RESERVES AS A % GDP, 1997

Country	GDP \$ billion	Gold million ozs	Gold \$ billion	% of GDP
Switzerland	280.6	83.28	24.984	8.9
Netherlands	324.5	27.07	8.121	2.5
Belgium	222.0	15.32	4.596	2.1
France	1198.6	81.89	24.567	2.0
Italy	1148.0	66.67	20.001	1.7
Germany	1736.1	95.18	28.554	1.6
Austria	172.4	8.14	2.442	1.4
United Kingdom	1095.5	18.42	5.526	0.5

Sources: IMF 1997. *International Financial Statistics*, Vol. 50, No. 9 (September), p. 36 [Gold]. OECD. 1998. *Main Economic Indicators*, No. 3 (March), pp. 218-21 [GDP]. Based upon gold valued at \$300/oz.

²⁰ This is based on a calculation of gold valued at \$312/oz. The amount involved should range between a high of 520 tonnes of gold (at a market value of \$300/oz) to a low of 390 tonnes of gold (at a market value of \$400/oz). A government report suggests approximately 400 tonnes at a market price of around \$357/oz, see *Bericht der Arbeitsgruppe über die Finanzierung und Vermögensbewirtschaftung der Schweizerischen Stiftung für Solidarität*, (Bern: EFV, 31 October 1997), p. 11. The most recent government statement suggests 500 tonnes, see Reuters, “Swiss to cap Fund gold sales at 500 tonnes,” 2 June 1998.

²¹ *Bericht der Arbeitsgruppe über die Finanzierung und Vermögensbewirtschaftung der Schweizerischen Stiftung für Solidarität*, table 4.

CONCLUSION

Given the Swiss population's historic attachment to gold, it is likely that the SNB will retain at least as much gold as a percentage of GDP as any other nation. It is unlikely that Switzerland will sell gold in a quantity that would reduce its reserves to less than 4.0% of GDP. In other words, Switzerland could sell more than 39 million ounces (1,200 tonnes) of gold for the Solidarity Foundation and other public purposes and still have gold reserves as a proportion of GDP at substantially above that of the Netherlands, the next country on the list.²² This is in the neighbourhood of the proposed 1,400 tonne transfer suggested by the Expert Committee in October 1997.

But the Expert Committee has only an advisory position; its recommendation is, in this case, likely to be reduced by Parliament since the large amount first proposed triggered public anxieties about the nation's financial security. The government would find it politically impossible to request more gold than the experts have suggested is prudent. At the moment, the only firm plan for using the gold revaluation is to capitalise the funds of the Solidarity Foundation. Swiss Finance Minister Villiger has suggested that instead of transferring the full 1,400 tonnes to the government, the central bank should transfer only gold in the amount of SwFr 7 billion (about 500 tonnes of gold) dedicated for use in funding the Solidarity Foundation. The remaining gold (approximately 900 tonnes) would be placed in an account actively managed by either the SNB or an asset management group ('trusted third parties') with the goal of generating additional income from the central bank's reserves.²³ Some of this gold would probably be loaned to other banks and securities houses, a practice the SNB has been involved in since November 1997.

²² As the Netherlands and Belgium sold some gold in recent years, this would fit in with the recent trend where industrial countries whose central banks hold high proportions of gold have sold some of their 'surplus' gold. Other central banks, particularly in the developing world, have purchased gold. Since 1994, industrialized countries have reduced their position in gold from 768.05 million troy ounces to 739.9 million ounces in June 1997. In contrast, developing countries have increased their gold holdings from 149.93 million ounces to 157.10 million ounces over the same time period. See IMF. 1997. *International Financial Statistics*, Vol. L, No. 9 (September), p. 36.

²³ 'Revision Währungsverfassung: Stellungnahme EFD zum Expertenbericht', (Bern: Press and Information Service of the Finance Ministry, 24 October 1997), press release.

APPENDIX A

Swiss Fund for Needy Victims of the Holocaust/Shoah	Swiss Solidarity Foundation
<ul style="list-style-type: none"> ● Financed by the private sector (banks, insurance companies, business community, individuals and the SNB acting in a private capacity) ● Operates under an international executive ● Funds will eventually be exhausted ● Individual aid for needy victims of the Holocaust ● Active since 1 September 1997 	<ul style="list-style-type: none"> ● Financed through the management of the proceeds from sales of gold after a revaluation of the SNB's gold holdings ● Will operate under Swiss leadership ● Principal will remain intact ● Programmes to help prevent poverty hardship and violence. Designed to benefit the needy both in Switzerland and abroad ● Will become active in 2001 at the earliest

Source: Swiss Ministry of Finance's Project Group on the Swiss Solidarity Foundation.

APPENDIX B

The Working Group Asset Management

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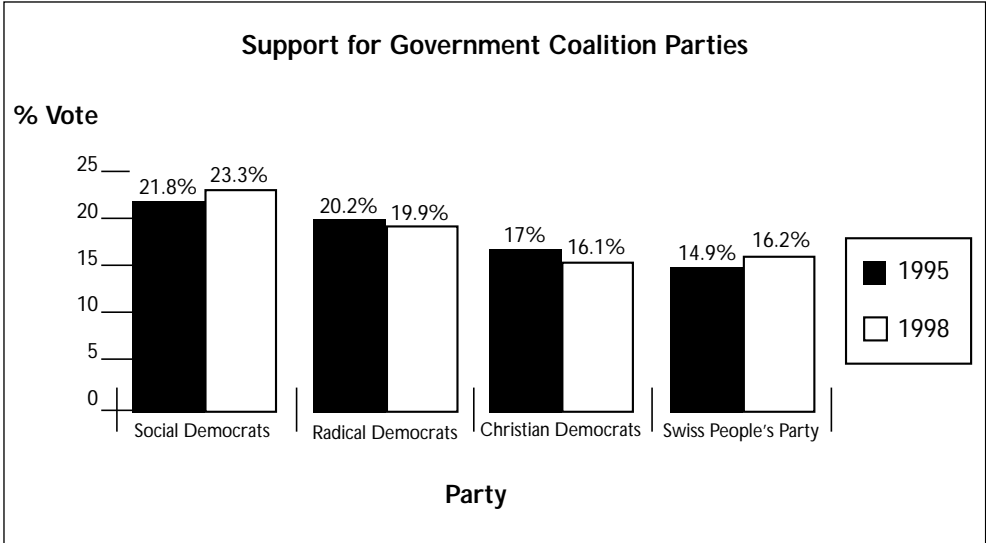
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Members of both groups are italicised.

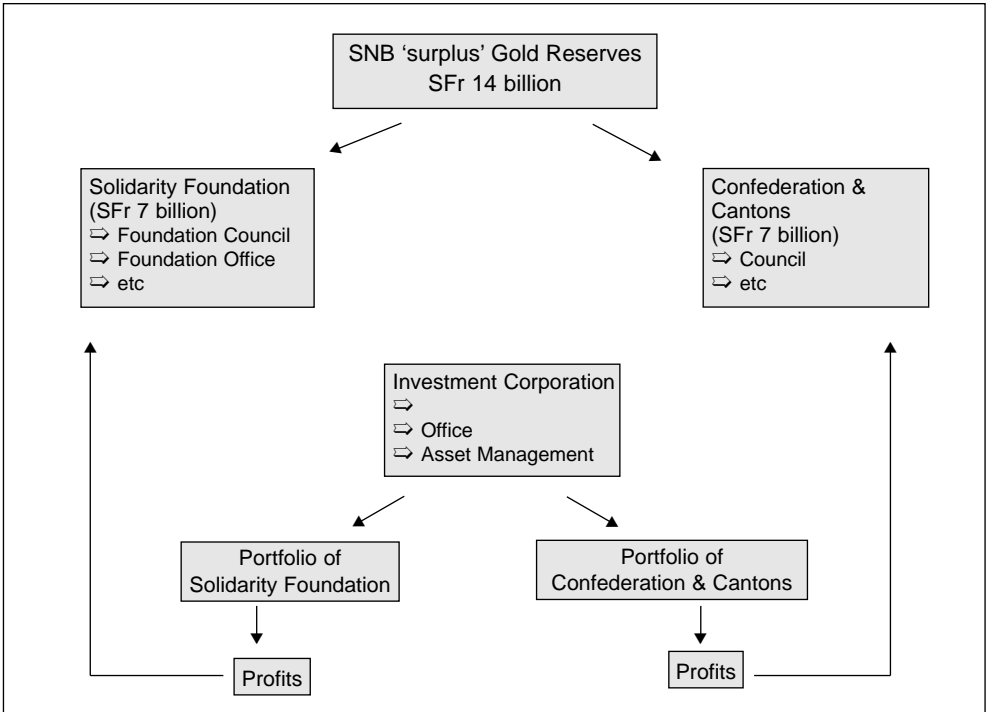
APPENDIX C



Sources: 1995 data. Federal election results (22 October 1995).
1998 data. GfS-Forschungsinstitut. "Parteien-Barometer", 20 April 1998.

APPENDIX D

Possible Destination of Swiss Gold Reserves: Investment Corporation with Solidarity Foundation Option



Source: Swiss Finance Ministry, 1998. *Bericht der Arbeitsgruppe über die Finanzierung und Vermögensbewirtschaftung der Schweizerischen Stiftung für Solidarität.*

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