

**Zeitschrift:** The Swiss observer : the journal of the Federation of Swiss Societies in the UK  
**Herausgeber:** Federation of Swiss Societies in the United Kingdom  
**Band:** - (1933)  
**Heft:** 627

**Artikel:** "Ein Frontenbrief"  
**Autor:** [s.n.]  
**DOI:** <https://doi.org/10.5169/seals-694555>

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## GOING OFF THE GOLD STANDARD — IS IT A REMEDY? \*

By Dr. D. SCHINDLER-HUBER, Chairman of the Oerlikon Company.

### 1. The effect of depreciation of currency on trade and industry.

In a previous article, we showed that the belief that a depreciation of currency would help the export trade and bring relief to industry, had proved up to now, in other countries, to be a delusion. How would Switzerland herself fare with a depreciated currency? As, at the present day, the most important currencies of the world are depreciated and evil communications corrupt good manners, now is surely the time to examine this question. There are, even in Switzerland, among the two most hard pressed groups of interests, the exporters and debtors, certain people who are inclined to think that going off the gold standard would ease their position. Is this hope justified?

It is a well-known fact that Switzerland imports far more than she exports. In 1932, for instance, the imports amounted to about 1,800 million Frs. and the exports to only about 800 million Frs. According to calculations, if the Franc were to be depreciated by 20 per cent, the sum to be paid for the same imports would be increased by 25 per cent, that is to say, by 450 million paper Frs., while under the most favourable conditions, the amount received for the exports would be increased by 200 million Frs. In the event of a depreciation of the Franc, many import and export items would be, of course, somewhat displaced; it may, however, be safely assumed that, even with a depreciation of the Franc, Switzerland would import far more than she exports, and the position would be much more unfavourable for her than the Trade Statistics would lead to suppose.

The rise in prices, which always follows a depreciation of currency, spreads to the different classes of goods at a very varying rate. It affects most quickly the commodities on the world market, handled by the produce exchanges. Wheat, cotton, wool and silk sugar and coffee, rubber, oil and metals are handled all over the world at the same prices, which only differ from country to country, to the extent that duties and transport costs entail a difference in price. Every depreciation of currency gives rise in the case of these commodities to an immediate increase in price. The American consumer must pay for the wheat grown in his own country a price which is higher to the extent the dollar has been depreciated. England must purchase the raw materials and foodstuff from colonies at the same gold prices, as would also obtain elsewhere on the world market. Exceptions are only possible, if the price fixing is isolated from the influences of the world market by protective tariffs, cartels, monopolies or other factors. Thus, iron, in America, has hardly risen in price up to now, as owing to the protective tariffs its price is a monopoly price. In Sweden, the price of agricultural produce, which is protected by tariffs, has not only not risen, but has, in fact, dropped further, in spite of the depreciation of currency, as the depreciation of currency reduced the purchasing power of the consumer. In Switzerland too, the prices of milk and meat, which are kept up artificially, would be nearly unaffected by the depreciation of currency. On the other hand, Switzerland would have to pay more immediately for all the raw materials of industry, including coal, petrol and oil, and for wheat, fodder, coffee, sugar, cocoa, etc.

In the case of manufactured goods, however, the rise in price due to depreciation of currency only sets in slowly and gradually. A depreciation of currency always starts at a time of crisis, when work and profits are scarce, so that the consumer is very easily affected by rises in price. The manufacturer of finished goods is far more dependent upon his customers than the supplier of raw materials. A ship's cargo of wheat or cotton can be sent by its owner to any port in the world, where the best price is obtainable at the time, and he does this. Factories producing shoes or sowing machines, oat flakes or flour paste products, breweries or soap factories cannot suddenly throw their production on to another market, when prices in Switzerland are unprofitable. They have to adapt themselves to the wishes and purchasing power of their clients. Furthermore, retail prices offer much greater resistance to changes. It is not possible to alter daily the prices of each pound of flour or coffee, of each tablet of soap and pair of shoes, of each piece of furniture and of every machine, according to the rate of exchange; in view of this, the depreciation of currency is not at all or insufficiently taken into account in the retail prices, as shown over and over again by experience. Statistics show that, at the present day, the wholesale price index in England is higher by thirty per cent, than that in Holland, while the retail price index is only about ten per cent, higher.

The same would happen in Switzerland too. A depreciation in currency begins, as a rule, with a declaration on the part of the Government that

there is no cause for an increase in prices, and the larger part of the population and all the consumers are only too ready to believe this. The consumer wishes rather to get more for his money than less and will therefore not admit that his money has depreciated; he takes his stand upon the principle that Francs equal Francs, Marks equal Marks, pounds equal pounds, which the State tries also to enforce by every means, in its legal decisions.

Even manufacturers and traders succumb to the general suggestion that the depreciation of currency does not necessarily lead to a rise in price. Anyone who does not know that Francs convertible into gold and Francs that are not convertible into gold are two different things, must necessarily be led away by this dangerous suggestion. In the case of a metal currency, coins are rejected if they are two to three per cents underweight. In the case of paper money, which is quoted on the exchange twenty to thirty per cent, lower than before, is accepted without hesitation as if it had its full value. This does not seem, in fact, so dangerous, as most of the cost items in production, interest, taxes and railway freight rates, charges for gas, water and electricity, and also, as a rule, the wages and salaries, and the prices of most of the products of the country itself remain, first of all, the same in paper money as in gold money. The rise in price of goods imported from other countries is thus regarded by the retailer as one of the occasional and usually temporary fluctuations in price which the cautious tradesman has always to reckon with and therefore take into account in advance in the prices. He thus believes that he can continue to sell at the old prices, in spite of the depreciation of the currency. This is a great mistake which, during the German inflation, caused real devastation among fortunes.

The fact that, as a result of a depreciation of currency, the wholesale prices would rise at once, while the retail prices would remain stable, would place nearly all the unsheltered businesses between hammer and anvil. Sugar, flour and coal would be more expensive for the baker and confectioner, iron and other metals would cost more for the blacksmith, the bookseller would have to pay more for the books, which he has to obtain in greater part from abroad; this would also apply to the wines and spirits, the cigars and many classes of foodstuff, and also to the heating, in the case of the hotel keeper, to the paper, in the case of the printers of newspapers and books, to most of the purchases, in the case of groceries and co-operative stores. The brewers would have to pay more for nearly all the raw materials they require, to the extent the Franc is depreciated; this would also be the case for the chocolate industry, the makers of flour paste products, the industry concerned with cooking fat and edible oil, gas works, the cotton, wool and linen industry, and also nearly the whole metal and machine industry. As Switzerland herself produces practically no raw materials, she has to purchase coal and iron abroad and a depreciation of currency would be reflected immediately in a rise in price of all raw materials. If the selling prices cannot or can only insufficiently be raised in relation to this general rise in cost, most industries, and specially those working for the home trade, could no longer make their business pay, and, if they continue to sell at the old prices, would lose capital and reserves.

Industry and trade cannot, of course, work permanently at a loss. It, however, usually takes a long time until they realise that they have to reckon differently with paper money than with gold money and it takes still longer time until they can summon up courage to defy the combined forces of the consumer, of the State and of public opinion, and to demand higher prices. It is usually necessary to wait until the last member of trade realises that he cannot continue business with the existing prices, before prices can be raised with a prospect of success. Thus, the German industry has, nearly during the whole period of inflation, sold at a loss. The prices, enormous as they might seem, which they reached at home and abroad, did not, in fact, cover the production costs and the German industry as well as the banking world were so weakened financially at the end of the period of inflation, that they had to borrow money all over the world, in order to be able to carry on business. Nobody in Switzerland wishes inflation on the German model, but unfortunately nobody can be sure that, when a depreciation of currency is started, it can be arrested with certainty at a given point. Even such powerful countries as England and the United States discover this now. It must also be matter for reflection, that a depreciation of currency is only asked for where it has not been had before. In the countries which have had inflation, the industry will not hear of a repetition of a depreciation of currency, in spite of the crisis.

These reasons show why the export industry has nowhere derived from a depreciation of currency the advantage which popular opinions expected. The export industry has, in the case of a depreciation of currency, to bear the same high costs of materials as the other industries, and cannot sell in paper Francs at the same prices

as in gold Francs, without coming to grief. With a depreciation of currency of 20 per cent., in Switzerland, the production costs would increase, for instance, by 9 per cent., as an average, in the machine industry, and by 14 to 15 per cent. in the silk industry, these figures being based on the assumption that the extra cost is merely due to materials and that wages and salaries and other items of expenditure remain the same. In all large enterprises, the costs would thus rise by hundreds of thousands of Francs and such amounts are not easy to recover, even in the export trade, with the present low level of prices and surplus supplies on the world market. The Americans have also found out, in the meantime, that their hopes of an improvement of the export trade as a result of a depreciation of currency were illusory. Since the beginning of the depreciation of the dollar, the imports into America have risen much higher than the American exports. In Denmark too, the depreciation of the Krone to less than fifty per cent. has so terribly deceived the farmers dependent on export to England and other neighbouring countries, that it nearly led to a revolution and that the country has had to make the greatest sacrifices to appease the revolt among the farmers. The attempt to stimulate exports artificially by a depreciation of currency has up to now failed everywhere in Europe and America.

(To be continued).

\* Translation of an article published in the "Neue Zürcher Zeitung," Nos. 1763 and 1764 of October 1st, 1933.

### "EIN FRONTENBRIEF."

Our eminent contemporary the "National Zeitung" has published the following letter, which recently appeared in the "Neue Aargauer Zeitung" in Aarau:

"Wir jungen Deutschschweizer fordern heute das, was wohl unser heiligstes Recht ist: Die Wiedervereinigung aller deutschschweizerischen Stämme mit dem Heiligen Deutschen Reiche, die Wiedervereinigung mit unseren Stammesbrüdern nördlich des Rheins, die Aufteilung der künstlich zusammengeklüfteten Schweiz also in ihre nationalen Bestandteile. Genau so, wie die französischen Welschschweizer uns während des Weltkrieges als Deutsche beschimpfen durften, ohne dass unsere Behörden dagegen eingeschritten wären, genau so nehmen wir uns jetzt das Recht heraus, Deutsche zu sein und noch mehr: stolz zu sein auf unser Volk, und auf seinen Erretter Adolf Hitler, zu dem wir als deutsche Volksgenossen in unwandelbarer Treue stehen und kämpfen, bis unser grosses Ziel erreicht ist: Grossdeutschland mit einer Südgrenze von den Walliser Alpen über den Gotthard und den Lukmanier bis zum Stilfserjoch!

Bis dahin:

Nieder mit allen Verrätern in den Reihen der nationalsozialistischen Schweizerjugend!

Es lebe Grossdeutschland!

Es lebe der deutsche Gau Schweiz!

Ein dreifaches Heil Hitler!

Hans Vonwyl."

The "National Zeitung" makes the following comments, which are, we consider, much to the point:

Nun wäre es ja sicherlich für die Öffentlichkeit von ausserordentlich geringem Interesse, was der Herr Hans Vonwyl, ein allem nach etwas vorlautes Studentlein, für Briefe schreibt, wenn man nicht gleichzeitig aus dem "Landboten" erführe, dass dieser Herr zum *Pressechef* des neugegründeten "Volksbund" der Herren Ex-Generalstabschef Sonderegger, Leonhardt und Konsorten auserkoren ist. In diesem Zusammenhang allerdings wirft das Elaborat schon ein gewisses Licht auf die Frage, ob dort Landesverrat getrieben wird oder nicht.

### NEWS FROM THE COLONY.

#### UNION HELVETIA MEMORIAL SERVICE.

A large congregation of members of the Union Helvetia, met at the Hendon Park Cemetery, on Sunday, October 15th, at the Annual Service in honour of their members who have passed away.

This Society is the only one, amongst the Swiss Societies in London, who thus honour their members, who have departed from this world; and they are to be congratulated on the spirit of unity and fellowship, which continues after death has called many from their ranks.

Pasteur Hoffmann-de Visme and Pfarrer Hahn conducted the service, which left a deep impression on all those, who assembled at the grave sides of their former colleagues and friends.

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