

The present operation is limited in scope, though. It cannot be easily enlarged indefinitely. It shows, however, that the idea of exchange rate guarantees between central banks should be given very serious thought.

Central banks, in general, are loath to expose their reserves to exchange risks except perhaps in common emergencies. This is true for the Federal Reserve as well as for European central banks. As soon as confidence in a currency becomes doubtful they will withdraw from it. If central banks under the gold exchange standard are expected to hold each other's currencies, ways and means must be found to eliminate the exchange risk.

If central banks go on in their present imaginative spirit, I do not doubt that suitable techniques could be developed.

I personally feel, with respect to the gold certificates which were mentioned before, that such techniques may be an essential prerequisite for the continued functioning of the gold exchange standard. At the same time they will permit United States to balance her accounts at somewhat lower rates of interest than would otherwise be required.

POSSIBLE LIMITATIONS OF ACCESS TO U.S. CREDIT MARKETS

The second point has to do with possible limitations of access of foreign borrowers to the U.S. credit markets. One of the bigger drains on American reserves, amounting to hundreds of millions of dollars in the first half of 1962, is from foreign bonds issued in the United States.

At present, access to this market is perfectly free. Foreign borrowers were repeatedly urged to develop their own facilities instead of having recourse to New York, but gentle admonition does not always seem to be effective enough.

Now it is true that any form of exchange control or any lapse from convertibility would do much more harm than good to international confidence in the dollar. There are, however, certain ways of restricting access of foreign borrowers to credit markets which are usually considered to be entirely compatible with free exchanges and full convertibility.

I am sure nobody would accuse Switzerland of practicing exchange control. Still under present banking legislation all foreign bond issues and similar transactions of more than 10 million Swiss francs have to be submitted to the central bank.

The central bank may refuse approval depending on the state of the credit market, of international payments, and of the economic situation as a whole. In general, the national bank exercises this control in a rather gentle way in close cooperation with commercial banks.

Restrictions take the form of a stretching out or spacing of planned issues over a longer period rather than of an absolute veto. On the whole, this arrangement is now working to the satisfaction of all parties concerned for almost three decades, even if there may be occasional differences of opinion in individual cases.

It is agreed to be one of the most useful instruments of Swiss credit policy. It might be worth while thinking about the possibility of