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On the present state of the Swiss economy

The mood is worse than the situation

The Swiss economy will have to wait for recovery. Things are not as bad as all that, but there are many intractable problems. A worried population is confronted with contradictory economic remedies.

During the first half of 1996 the Swiss economy gave people a definite sinking feeling. The retail trade was in almost total stagnation, and hoteliers saw a collapse in overnight stays by tourists. In the building industry order books were emptying for both business premises and apartments, apprenticeship places were becoming increasingly scarce, the new chemicals giant in Basle – Novartis, which is the result of the merger of Ciba and Sandoz – announced huge job losses, and the big banks gave notice of similar employment cuts in their sector.

*Beat Kappeler**

As often happens the atmosphere was worse than the actual situation. This becomes clear if we compare the latest economic figures with those of other countries, particularly our European neighbours. Generally speaking exports have been doing quite well, the Swiss National Bank has kept interest rates down without reducing the money supply very much, and the jobless rate is only half that of Germany and France.

Persistent problems

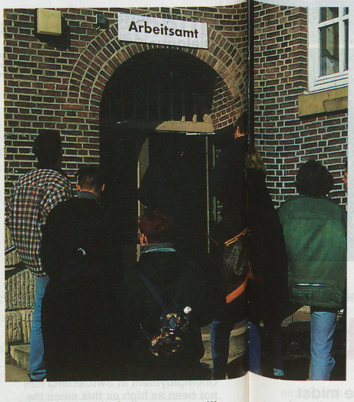
Nevertheless the problems are proving very persistent, and few observers expect economic recovery in the near future.

Opinion polls show that people are most worried about unemployment. With the jobless rate above 4% and once again rising slightly the Swiss are faced with a problem which they thought had been dispelled for ever. Unemployment figures for young people, particularly in German-speaking Switzerland, are much worse than for the population as a whole, and the French-speaking and Italian-speaking cantons have jobless figures almost twice as high as the German-speaking part. In Ticino unemployment is four times as high as in central Switzerland. A number of reasons for the difference have been put forward. The building boom was bigger in western Switzerland, government spending was higher, more people were forced onto the job market there than in the eastern part of the country.

The proportion of foreign nationals amongst the unemployed is increasing steadily and has now reached 45%, while that of the unskilled is 41%. This imbalance still reflects Switzerland's immigration policies during the 1980s. The influx at that time was mainly of seasonal workers who worked for low wages. After four years they were given permanent resident permits, and then employers took on more seasonal workers. Since Switzerland has not joined the European trend towards freedom of movement, the cost of the foreigners who have lost their jobs must be borne here. They resist the temptation to return to their own countries because if they do they will not be allowed back. This is of course Switzerland's own fault.

Austerity measures

Those responsible for monetary policy are faced with a dilemma. While the central bank has been able to loosen the monetary reins while keeping interest rates low – too late in the eyes of some observers – the expansionary effect of this has not been as great as hoped because at the same time the government has been forced to apply a severe brake to its spending. This means that monetary policy and fiscal policy are in conflict, the one furthering purchasing power and the other clawing it back. This situation is likely to continue for a number of years to come; for although many municipal authorities have now got their finances in order, the cantons and the federal government will still have to take major austerity measures. Future interest payments on the public debt which has grown so rapidly in recent years will in themselves put pressure on many other areas of current expenditure.



Young people in front of the labour office. Looking for jobs and apprenticeship places keeps them busy! (Photos: RDZ)

Private consumer demand is unable to make up for this. The effects of the wave of rationalisation in 1994 and 1995 are now fading, and household income is not rising. Indeed real incomes are at present no higher than at the beginning of the decade, and in some cases money available for spending may even have dropped. This is because of the increased price of social security and health insurance and the fact that many workplaces have either disappeared or become part-time. Any noticeable stimulus in the near future would have to come from abroad.

But recession is at present widespread throughout Europe, and any such stimulus from that quarter seems unlikely. Throughout the winter the value of the Swiss franc was much too high, and there were no signs of a return to normal before the spring. The shift of firms and workplaces abroad has been continuing unabated, partly for reasons of cost and partly because of Switzerland's isolation from the European Union. The huge thinning out process which has taken place in German manufacturing is also a source of worry for the long term, since Switzerland is a major supplier to what was until recently a very dynamic economy.

The rate of the Swiss franc is not dependent only on fundamental factors such as comparable purchasing power, but since December 1995 the fact that currency union in the rest of western Europe has become more likely has also driven the value of the franc up. If this leads to instability refuge will be sought in the Swiss franc. But if most of the currencies advancing towards union remain stable and integration seems on the cards international investors will be looking for new sources of currency diversification – which will also be provided by the Swiss franc. The central bank has not yet made clear what the relationship of the Swiss franc with the currency union will be, and this also is a factor of uncertainty at present.

Contradictory remedies

Understandably in these circumstances the atmosphere amongst most economic players is at present rather grim. Something that observers outside Europe find surprising is the increasingly widespread view across the continent that the difficulties might be solved if everybody worked less. The fact is that many people believe that the rapid technological progress at present taking place means that there will never again be enough work, and they are demanding an increase in both regulation and social security.

However, the government is insisting on continued liberalisation of the Swiss domestic market. Competition law has been tightened, recent measures against technical trade barriers and in favour of freeing government procurement are being maintained, and postal, telecommunications and transport services are to be deregulated. Working hours are to be made more flexible, particularly for women and with respect to night work.

The whole of the above means that a fascinating test of the concepts of regulation and liberalisation in a ratio of one-to-one is about to take place throughout the Swiss economy. ■

* The author of this article is an economic expert and regular contributor to "Die Weltwoche" and "L'Hebdo".

"Rooms to let" – tourism too is suffering from the recession and the high value of the Swiss franc.

Interview with Professor Remigio Ratti

"Rediscovering solidarity"

Professor Ratti, Switzerland is going through a crisis: record unemployment, stagnating wages, the budget far in the red. What has happened?
From the economic point of view Switzerland in the 1990s is by no means what it used to be. The decisive difference is less economic than structural. We are at present going through a transitional phase, marked by the globalisation of markets. This applies to the economy as a whole, as indeed to our society. This new situation requires both direct Swiss presence in foreign markets and an opening up of our domestic market. In consequence, the government is trying to loosen the protectionist shackles which block the operation of the free market. While Swiss investment abroad has grown (from Sfr. 110 billion in 1991 to Sfr. 140 billion in 1994) the domestic economy has been losing much of its dynamism.

Remigio Ratti is professor of economics at the University of Fribourg and director of the 'Istituto di ricerche economiche del canton Ticino' in Bellinzona. Last year he was elected to the National Council on the list of the Christian Democratic party.

The crisis has hit French-speaking and Italian-speaking Switzerland harder than the German-speaking part. Do you consider this dangerous to national unity and with it the basic foundation of the country?
I would put the problem like this. The