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A FEW ECONOMIC TRUTHS.

The latest Bulletin published in English by the Swiss Bank Corporation contains an interesting article in which, under the title " A Few Economic Truths," Mr. Maurice Golay exposes a number of current fallacies and expresses his views on the outlook for Swiss economic development.

He bases his argument on the theme that the world is at present a prey to the delusions of economic Utopias. After dealing in a general way with the gold problem, with that of repeated budgetary deficits and with the delusion that any country can lead, Mr. Golay goes on to consider in greater detail the problems immediately facing Switzerland.

From the public point of view, he writes, two factors are operative, the monetary factor and the factor of public finance. With regard to the *Swiss franc*, we can only reiterate that it is as solid as a rock technically, more than abundantly covered by gold and by no means yet endangered by the budget deficits.

The devaluation of 1936 was not imposed on the country by any sort of inflation. It was an adaptation of the international value of the Swiss franc to the world price level and allowed exports to be resumed. This adaptation was a voluntary one and could therefore be kept under control, causing on the other hand no damage to Switzerland's economy.

As regards the *federal finances*, the first accounts, those of 1849, showed net assets of 5 million francs, after expenditure amounting to 4.4 million francs. Even in 1913, when expenditure, at 106 million francs, exceeded revenue by 5 million francs, the Confederation could still show a net surplus of assets over liabilities amounting to more than 102 million francs.

Although we were not involved in the conflict and miraculously escaped the horrors of two world wars, we have nevertheless twice experienced the disorders of war and their fatal repercussions on the public finances. Indeed, the figure I have just quoted of 102 million francs net assets of the Confederation had, by 1918, been transformed into a surplus of liabilities to the order of 861 million francs. It is well known what dark days the Federal finances went through from then on until the eve of the second world war. The state administration grew to immense proportions, owing to the ever increasing burdens it assumed. The officials of the Confederation and the Swiss Federal Railways number at present some 90,000 as against 62,950 at the end of 1938.

Despite the financial programmes of the Confederation, the first of which saw the light of day as long ago as October 1933, in virtue of an urgent decree " concerning extraordinary and temporary measures for the balancing of the Federal budget," the intended equilibrium has never been re-established. On the contrary, the yearly accounts of the Confederation have not ceased to show deficits since 1932 and at the end of 1938 the surplus of liabilities of the Confederation already totalled more than one and a half milliard francs. As you know, the régime of financial programmes was prolonged, in April 1940, until 31st December, 1945. Now, on 7th September last, the Federal Council addressed to the Federal Assembly a message " concerning a new prolongation of the financial programme of 1939/1941," in which you may read the following passage: " To-day, after the cessation of hostilities, it is evident that the *perspective necessary for the setting-up of a new financial régime is still lacking. In a period so unfavourable to permanent solutions, it would be false to adopt measures of a fundamental nature, whose maintenance would remain uncertain.* That is why it seems opportune to prolong once again the validity of the financial programme."

Switzerland thus started on the second world conflict with state finances needing a serious overhaul. As you know, the state accounts of the Confederation comprise since 1940 an ordinary and an extraordinary account. The former, known as the " *administration account*," includes all the revenue and expenditure relative to the normal activities of the Confederation, whereas the " *extraordinary account* " comprises on the one side all the Confederation's outlays for national defence, war economy, measures for the maintenance of national safety and of the country's neutrality, the expenditure for the creation of opportunities for work, and the cost of interest and sinking fund in connection with extraordinary expenditure, and on the other, the revenue created since 1939 to meet this expenditure.

From 1st January, 1939, to 31st December, 1944, the total deficit of the ordinary account rose to 487 million francs, to which must be added the surplus of expenditure over revenue on extraordinary account amounting to 4,737 million francs. Thus, the net surplus of the Confederation's liabilities over its assets has in five years increased by 5¼ milliard francs and reached 6¼ milliard francs at the end of 1944. Taking into account the deficit of 367 million francs in the Federal Insurance Fund and the debt surplus of the Swiss Federal Railways to the amount of 610 million francs, the total surplus of liabilities over assets or, in other words, the *debit balance of the Confederation* at the end of 1944 amounted to 7.7 milliard francs.

The following is a summary of the *financial requirements* of the Confederation from 1936, date of the first National Defence loan, to 1944:

	Million Francs		
ORDINARY EXPENDITURE:			
Deficits of the state accounts and other expenses, less sinking fund	432		
Grants in aid to the private railway and steamer companies, less sinking fund ...	81		
		513	
EXTRAORDINARY EXPENDITURE:			
National defence, war economy and measures of public safety	7,014		
Creation of opportunities for Work	127		
		7,141	
			7,654
INVESTMENTS:			
Stocks built up by the organizations for war economy ...	78		
Loans to the Swiss Federal Railways	947		
Other advances (loans granted abroad)	869		
Gold taken over	377		
			2,271
TOTAL FINANCIAL REQUIREMENTS			9,925

How did the Confederation manage to find this sum of nearly ten millard francs — a huge amount when compared with the economic potential of the country.

First of all, it drew upon the funds entrusted to its care, either in the form of deposits bearing normal interest and of credit balances of the holders of post-office cheque accounts amounting to 407 million francs, or in that of special funds administered by the state. These various sources supplied a total of 1,352 million francs, to which must be added 513 million francs of liquid assets, so that the capital utilized and entered up in the Confederation's accounts under the heading of "autonomous finance" reached a total of ... ... Fcs. 1,865 million.

Further, the Confederation raised extraordinary taxes yielding ... ... Fcs. 2,238 million and made use of deposits and credit balances of sundry creditors to the amount of ... ... Fcs. 184 million.

Finally and above all a series of loans was issued for 8,359 million francs nominal value. The repayments of previous loans effected during the same period totalling 2,721 million francs, there remained as of 31st December, 1944, a net increase of indebtedness of ... ... Fcs. 5,638 million.

thus covering the total financial requirements of ... ... Fcs. 9,925 million.

The *total debt of the Confederation*, which was of the order of 2.3 milliard francs at the end of 1938, reached 8.5 milliard francs at the end of 1944.

When discussing the Federal finances, the Swiss Federal Railways must not be forgotten; their debt is a direct liability of the Confederation.

The *total debt of the Swiss Federal Railways* only increased by about 100 million francs during the war, that is from 3.2 milliard francs at the end of 1938 to 3.3 milliard francs at the end of 1944.

The *total Federal debt*, that is to say of the Confederation and the Swiss Federal Railways, thus amounted at the end of 1944 to the awe-inspiring sum of about 12 milliard francs (including the 1,352 million francs of whose discrete existence under the cloak of "autonomous finance" I have just reminded you).

Six years of war economy have thus sufficed to double the national debt, whereas during the two troubled decades from 1918 to 1938, it "only" increased by 70%, that is from 3,421 million francs at the end of 1918 to 5,560 million francs in 1938.

It may not be without interest to compare certain figures in order to trace the main trends followed by the state budget.

In 1913, the total of consolidated and floating debt of the Confederation and the Swiss Federal Railways reached 1.7 milliard francs, that is 447 francs per head of population, in 1944, 12 milliard francs, that is 2,790 francs per head of population.

But that is not all. In order to obtain a more or less faithful and complete picture of Switzerland's public finances, attention must be paid also to the Cantonal and Communal accounts.

Mr. Golay goes on to deal with these latter and then proceeds:

As regards the balance of payments most of the factors for estimating it are unknowns. Such estimates have been made on many occasions in the past and all show a yearly balance in our favour of some hundred million francs. But since the war, many items have shown a decrease. The so-called "invisible" exports, which set off to a very large extent our unfavourable balance of trade, have fallen off considerably, e.g. bankers' commissions from abroad, profits from the transit trade, from patents, etc. Part of the Swiss capital invested abroad has been repatriated and therefore no longer brings in revenue from outside, capital transfers in connection with Swiss claims abroad have decreased or even stopped altogether and the foreign tourist traffic in Switzerland has practically ceased. Nevertheless, Switzerland still possesses pretty considerable interests abroad and also large amounts in gold and temporarily blocked currencies, which — it is to be hoped — will be released within a reasonable lapse of time. These assets will help to favour the formation of fresh capital and our balance of payments will of necessity benefit thereby.

But in the long run, as I have just said, it is our direct exports that must enable us to stabilize our balance of payments. In order to be able to export, our prices must be commensurable with those on the international market. This means that all internal measures such as subsidies, excessive social expenditure and too high salaries endanger our balance of payments and thus, in the end, the stability of our currency.

This brings us to our survey of conditions in Switzerland from the private angle. Here, *social policy* is the dominant factor, in whose name so many reforms are proposed at the moment.

I need only remind you of the enthusiasm with which the Beveridge Plan was greeted in Switzerland in order to show the great interest which we, like others abroad, evince in generous ideas calculated in our belief to better the lot of the economically weak sections of the population. Far be it from me to criticize this tendency or the feelings that inspire it.

But to return to the Beveridge Report, a critical examination of the proposals it contains has fortunately proved that these have already been carried out to a great extent in Switzerland. I think we may say without false modesty that from the point of view of social services, Switzerland can stand comparison with any country in the world. This of course does not mean that we must rest on our laurels if we have the possibility of doing better still.

That is why I would merely like to show that today the practical possibilities are limited and that, if we want to do useful and permanent work, we must take these limits into account.

It is on the basis of these considerations that judgement must be passed on the heavy new burdens to be imposed at short notice in Switzerland on the state and on private industry in particular. The most considerable of these new tasks is without doubt the introduction of a *general and obligatory scheme of old-age insurance and insurance of dependants.*

The plan prepared by the commission of experts provides for an annuity of Fcs. 1,500 for single persons (unmarried, widowed or divorced) and of Fcs. 2,400 for married couples at an average yearly expense of 518 million francs. The magnitude of this sum may be grasped if we realize that the total expenditure of the Confederation on ordinary account during 1944 amounted to approximately 530 million francs. According to the plan, half the necessary funds would be obtained by means of a 4% tax on all incomes to be met in equal parts by employers and employees, according to a system similar to that already practised in the case of the compensation funds for loss of salary or profit during the war.

The other half would have to be borne by the body politic, two thirds by the Confederation and one third by the Cantons. This would mean a yearly charge rising progressively from 190 million francs for the period 1948/1967 to 270 million francs from 1968 to 1977 and to 330 million francs from 1978 onwards. [1])

In order to procure these sums, the Confederation will have to find new resources, for those already reserved for the purpose, that is the tobacco tax, the profits from the alcohol monopoly and the interest on the funds already constituted are insufficient and leave uncovered a yearly deficit estimated at 30 million francs for the first 20 years, at 83 million francs for the period 1968/1977 and at 123 million francs from 1978 onwards. In order to bridge the gap, it is proposed to utilize a part of the proceeds from the turnover tax and to introduce estate duties immediately.

The plan gives no information on the manner in which the Cantons and the Communes will finance their contribution to the old-age pension scheme. They, too, will have to find new revenues, despite the fact that it will be possible to economize certain sums now spent on poor relief. Thus a fresh financial burden of some 90 million francs will have to be shared by the Confederation and the Cantons yearly as soon as the general old-age insurance scheme is introduced.

There is, I think, no need to stress that I am not attacking the principle of the old-age pension in quoting these figures. If it is drawn up on sound lines, the arrangement will be a great step forward in the social sphere and we must hope for its prompt realization. On the other hand, it must be frankly declared that the proposals brought forward from various quarters demanding much higher annuities still must be rejected, for they would , if put into execution, only lead to a lamentable fiasco.

I have already said that exports are a question of life and death for us. If we burden our production with too heavy costs, we take the direct road to stagnation in business and foreign trade and, therefore, to the classic way of escape from these difficulties, monetary devaluation, but this time with all its harmful consequences, especially for the small capitalists, that is for the future beneficiaries of the old-age insurance scheme. The re-adaptation of foreign exchange parities cannot be repeated often. Let us not forget that if we make life too hard for the young, the enterprising, the men of initiative, that is for the very class of the population that, by its unceasing efforts, is alone able to support the cost of long-term social services, we thereby undermine all the benevolent institutions that depend, not on some imaginary source of capital, but exclusively on the surplus yield of the nation's work. If we do not pay attention to such elementary truths, we are in danger of crushing all initiative and readiness to run risks and assume responsibilities. Already complaints of this sort are reaching us from countries that were obliged to introduce excessive taxation during the war. Even in our own country, many plans for the creation of new industries have been abandoned because the possibilities of making profits are no longer such as to justify the running of the corresponding risks.

I feel I am all the more entitled to speak freely on this subject as it is one which is closely connected with the economic destinies of our people for many long years to come. It will be our children and future generations who will, in the main, have to suffer the consequences of our actions. It is therefore our duty not to bequeath to them a completely inextricable situation and not to make them vain promises. Otherwise, we shall see the best elements of our population setting out for foreign parts in order — rightly or wrongly — to try their luck under conditions offering a better chance of satisfactory remuneration for their efforts and capabilities.

It is true that many believe that our social reforms can be carried out at the expense of the rich and

[1])

	Confederation ($\frac{2}{3}$)	Cantons ($\frac{1}{3}$)	Total
		million francs	
1948/67 ...	127	63	190
1968/77 ...	180	90	270
1978 and after	220	110	330

that it is merely a matter of taking away from those who have too much and giving to those who have too little.

In this connection, I should like to give you the results of certain calculations I have made and which prove how fallacious this argument is.

I refer to the statistics the Federal revenue authorities have just published on the National Defence Tax during the first period of its collection (1941/42).

Of a total population of 4,265,703 in 1941, 779,009 persons (excluding all legal persons such as corporations, etc.) or 18.26% were subject to the National Defence Tax. Of these 779,009 taxpayers, 14,467 had an income of fcs. 20,000 or more, and these incomes added up to a total of fcs. 676,950,000.

Now, supposing that in a completely egalitarian state persons having an income of more than fcs. 20,000 had to pay the surplus (I take this figure quite arbitrarily for the sake of example) into a central fund to be distributed equally amongst all citizens having an income of less than fcs. 20,000, we find that the 14,467 taxpayers mentioned above would have to sacrifice a sum of fcs. 387,610,000 in favour of the incomes below fcs. 20,000.

Further, if this sum were distributed amongst all the persons in Switzerland having some sort of income, that is about 2,150,000 (after deduction of the 14,000 odd persons providing the amount) each of them would only receive fcs. 180 annually.

The calculations, based on the official statistics, give some idea of the very relative increase of income that would result from such a share-out.

Would it be worth while, for so small an advantage, to risk seeing the spirit of competition and the love of effort disappear from our economic life ?

I do not by any means wish to say that all is for the best at home and that there is nothing more for us to do in the social sphere. But when we look at the ever increasing social burdens of the state, a certain uneasiness comes over us. Is it really necessary for the Confederation to busy itself with so many things that really belong to the sphere of private economy ? The system by which the state is forced to impose ever increasing taxation in order to re-distribute part of the yield through a very costly administration is by no means a rational one.

Would it not be more simple to develop the spirit of solidarity within the commercial undertaking, in order to enable the latter to assure the material support of its workers in accordance with the results obtained ? This would have the advantage of increasing collaboration and the sense of mutual responsibility between owners, clerks and workers, things more precious by far than the mere uniformity in the regulations governing social security. In this domain, too, we must try to free ourselves from the guardianship of the state. We must react at all costs against the danger of appealing to the state to solve all our economic and social problems. Recent world events show only too well what are the deadly consequences of abandoning all initiative, both in economic and social and in political matters, to the executive. We do not want everything to be done by the state in Switzerland. The spirit of independence is precious for the moral health of a nation. It must continue to exist and must be able to manifest itself in finding individualist and original solutions for the problems industrial and social development is constantly bringing up. The intervention of the state is only justifiable when private initiative has proved itself to be incapable of taking the necessary measures or when these can only be carried through by legislation.

Doubtless, there is still much to be done, especially where the relations between employers and employees are concerned. For the social question has its moral as well as its material side and the former has up till now been only too often neglected.

Contacts from man to man must be multiplied and the interest for the human side of the relations between the various members of a community must be awakened. More understanding and mutual confidence will contribute much to the calming of troubled minds and will lessen conflicts of interest.

Furthermore, we must realize that, whatever may be the material conditions under which the working class live, employers and workers will always be in opposition to one another, for this is a natural consequence of their divergent interests. This struggle may be beneficial, if it is kept within reasonable limits and carried on loyally. But it is no use asking for the impossible. We must bow before the might of permanent economic laws.

In conclusion we may deduce a few general rules that must be observed :

1. Economic laws, such as the law of supply and demand and Gresham's Law, do exist and are not merely decreed by man. They must be observed on pain of first relapsing into chaos and then of having to respect them all the same in the end, for they are stronger than human will.
2. No economy can prosper in the long run if the state spends more than it receives, for money loses its value despite all decrees, restrictions and foreign exchange controls.
3. Now, fiduciary currency is indespensable for the development of the exchange of goods, which, according to the theory of turnover, are the most important source of real wealth.
4. The stability of a currency is the surest means of maintaining, increasing and especially, of distributing wealth fairly.
5. The instability of a currency diminishes to a great extent the creation of real wealth and tends to concentrate it in powerful or unscrupulous hands.
6. Therefore I shall renew in parody the message of the Roman Senate to the consuls in times of danger :
   " Caveant consules praecipue ac populus."

A few copies of the English text of this Bulletin are still available upon application to the Bank.