How Switzerland fights inflation

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HOW SWITZERLAND FIGHTS INFLATION.

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If there is any way of escape from the inflationary effects of rearmament, its discovery would be ranked by the Governments of all Atlantic Pact countries as news of top-grade significance.

For that reason developments in Switzerland, where the competent authorities are by no means so apprehensive as those in other countries, are of exceptional interest.

The Federal Statistical Office estimates the national income of Switzerland in 1949 at about Fr.17,000 million; the fraction spent on national defence was 2.8 per cent. In 1950 the national income was Fr.17,400 million and the national defence proportion 3 per cent. In 1951, if the national income remains about the same, the fraction spent on national defence will be about 4.1 per cent. of the national income. That indicates a considerable increase both absolutely and relatively, expenditure on national defence being expected to continue at that level for at least another five years.

Per head of population, expenditure on national defence in Switzerland is considerably less at present than in the U.S.A., where, according to official estimates, about 15 per cent. of the national income is being spent now on national defence. But it must be remembered that after World War II, Switzerland did not disarm, so that additional expenditure now is needed only for the modernisation of her equipment. Another decisive fact is that *per capita* income in the U.S.A. is substantially higher than in Switzerland. Once rearmament in the U.S.A. is completed, the amount spent there on maintaining military strength will be greatly reduced.

Nevertheless, the increase of expenditure on national defence in Switzerland during the next five years is so considerable that, at first sight, the inflationary effects would seem likely to be great. Competent authorities in Switzerland, however, declare confidently that, if the right precautions are taken, the rise in the price levels is likely to be much less drastic than in other countries.

Two main reasons are given:

(1) As Switzerland did not devaluate her currency in 1949, she has not suffered any upthrust on prices since then from purely monetary causes. On the contrary, prices have tended to decline, because Swiss producers were forced to lower costs, so as to be able to compete on the world market with exporters in other countries that, in 1949, devalued their currencies by as much as 30 per cent. and more. In 1949, the Swiss wholesale price index (1939=100) averaged 205.9. By the end of June, 1950, the index stood at 196.1. In 1949, the Swiss cost-of-living index (1939=100) averaged 162. At the end of March, 1950, 158.1. By the end of December, 1950, the wholesale index had risen to 218.1, but the cost-of-living index was still only 160.8 — *less* than in 1949. The rise in the wholesale price index was due to the increased cost of imported raw materials, but the index lagged far behind the rise in prices on the world market, largely because Switzerland restocked in time. As the products manufactured from these imported raw materials have not yet come on to the retail market, the cost of living has not risen noticeably, and does not seem likely to do so as long as Switzerland works on her — relatively — low-priced raw materials. Before more materials are imported on a large scale, world market prices may have declined somewhat.

(2) Switzerland has never disarmed, consequently her expenditure on national defence has been spread evenly over a period of years, and the inflationary effect of that expenditure has already taken place. The increase of expenditure in the next few years will be relatively smaller than in countries that disarmed, so that the new inflationary effects will also be comparatively less.

Asked to say how great the rise in prices due to inflation might be, one authority, after pointing out that nobody was competent to prophesy, declared that, if the situation is handled adroitly, the increase should not be more than a few per cent. — definitely less than 10 per cent.

"No comparison between the rise of prices since 1939 and that in the period to come, while rearmament is going on, is justified. After 1939, for six years, the world was at war. Switzerland was surrounded by belligerent countries and had no access to the sea. Imports dropped from a total volume of 8.8 million tons in 1939 — about that of an average year — to 4.9 million tons in 1941 and 1.5 million tons in 1945. By that time, the home market was almost entirely depleted of consumer goods. As money was abundant, inflationary effects on prices were unavoidable. Taking prices at the end of August, 1939, as 100, the Swiss wholesale price index in 1945 averaged 205.0 and the cost-o-living index 152. To-day, the movement of goods in all directions is almost unhampered. Obstacles to the freedom of trade are being removed. There is no reason to fear that in Switzerland the ratio of consumer goods to money in circulation will be upset."

In most countries where full employment exists, rearmament inevitably withdraws workers from the industries making consumer goods and, as earnings are greater because wages rise or more overtime is worked, inflationary effects are unavoidable. Full employment existed in Switzerland before the conflict in Korea broke out. The degree of occupation index (100 = satisfactory) stood at 105 in the first quarter of 1950, at 111 in the second, at 123 in the third and at 134 in the fourth. This meant that the state of "over-employment" that prevailed in 1947-48 had been reached again. This would appear to involve inflationary risks, because the competition of the factories for skilled workers would lead to higher wages. Switzerland, however, is able to import temporary workers, chiefly from Italy, thus counteracting inflationary trends. In September, 1948, the number of factory workers was 531,303, in September, 1949, 496,573, in September, 1950, 492,563. To satisfy the present abnormally high demand, about 30,000 temporary workers are to be imported.

No shortage in the supply of consumer goods arises, because there is no restriction of import, and because Switzerland can pay cash for all she imports, if necessary in gold, of which she has an abundance. In 1950, imports aggregated in value Fr.4,536 million, as against Fr.3,791 million in 1949. Exports in 1950 reached an all-time record at Fr.3,911 million as against Fr.3,457 million in 1949. The surplus of imports over exports in 1950 was Fr.625 million as against Fr.334 million in 1949. But Switzerland could easily support for a time a trade deficit of Fr.1,500 million or more, as in 1947 and 1948. No inflationary effects are to be expected from a shortage of consumer goods. Only a small part of the earnings of imported temporary workers is spent in Switzerland, so do not diminish market supplies.

Nor is increased expenditure on armaments expected to have any inflationary effects. The production of arms in Switzerland is not expected to be substantially greater than normally What Switzerland needs chiefly are tanks and aeroplanes that cannot be made in the country but must be imported. No labour is deflected from industries making consumer goods.

From the Budget figures, people are apt to assume that higher revenue means augmented taxation destined to add to production costs. Experts say this is only partially true. Owing to the boom prevailing since World War II ended, the State revenue has always substantially exceeded the estimates. In 1950, there was a surplus of Fr.244 million, of which more than Fr. 100 million came from increased Customs revenue, because of the replenishment of stocks of raw materials. Owing to the increased retail trade, the receipts from purchase tax were much greater. In 1950, the Confederation was at no time obliged to ask the Swiss National Bank for credit. At the end of 1950, the credit balance of the Confederation at the Swiss National Bank was greater than at the beginning. Although additional expenditure on national defence is shown in the Budget at Fr.267 million, this need not all be raised by taxation. The cantons hold considerable balances accumulated over a period of years for expenditure on national defence, if the necessity should arise. These will now be put at the disposal of the Confederation. At most, only about Fr.110 million will have to be raised by taxation to cover increased expenditure on national defence. About Fr.40 million is to be raised by increasing the tax on alcoholic drinks, until now lower in Switzerland than in any country in the world.

A special commission appointed to study the economic and financial soundness of the Swiss national defence expenditure programme reported positively. To eliminate all inflationary risks, the Swiss Federal Council proposed that the whole amount of the increased expenditure should be raised by taxation. The commission said this would be quite feasible. Many other competent experts, however, recommend that only a part of this additional outlay should be raised by taxation, and the rest in long-term loans. As interest rates now show an upward trend, the demand for State bonds by small investors is increasing. Bonds issued now would, therefore, be taken up mostly by small investors, not by banks, hence would not be presented to the Swiss National Bank as collateral for loans, and thereby increasing the note circulation. But *all* competent authorities in Switzerland emphatically declare that expenditure on national defence will in no circumstances be financed by short-term borrowing.

In post war years, the note circulation has increased somewhat, chiefly because of the repatriation of capital. A large part of the note issue is held by hoarders in neighbouring countries, unable to obtain gold. The Swiss franc banknote is considered safe because almost fully covered in gold. As long as the finances of Switzerland remain sound, no great part of these hoarded notes is likely to come back into circulation. On monetary grounds, there is no visible danger of inflation in Switzerland at present.

As Switzerland lives by processing imported raw materials and as normally more than 60 per cent. of her food supply must be imported, higher prices in other countries must ultimately result in higher prices in Switzerland. Nothing the Swiss Government can do will be able to prevent that. Taking prices in 1939 as 100, the index of home-produced commodities rose to 191.0 at the end of December, 1950, while that of imported goods was 259.3, the index for all kinds of goods together being 218.1. One might, therefore, say that Switzerland suffers from "imported inflation." But she has no inflation of her own. Experts agree that the rise of prices due to rearmament is likely to be only a fraction of that caused by World War II, and will reach a ceiling as expenditure on rearmament in Western countries becomes stabilised.

Mrs. M. MEIER.
(MARIANN.)

Having previously expressed in these columns my sincere appreciation to some of my faithful collaborators for the help they have given me so unstintingly for many years, I wish, to-day to offer sincere thanks to the only regular lady collaborator of our paper, namely Mrs. M. Meier, who for the last 19 years has regularly written articles under the *nom de plume* of "Mariann".

In these she has very efficiently dealt with a number of subjects some of which were closely connected with the life of our Colony; at times she has been very outspoken, especially when dealing with the lack of interest shown by so many of our compatriots in the work of a number of Swiss Societies in this country, a work which has been instrumental in