Protecting true value of savings

MORE than other countries, Switzerland is regarded as a nation of savers. Indeed its rate of saving is way above the international average. This is due basically to the industriousness of the Swiss people, the stable political climate and the comparative stability of the value of money in Switzerland.

However, an analysis of the structure of Swiss saving shows trends that give cause for concern. These are connected with the pressure on business profits, changes in public attitudes to saving and innovations on the legislative front.

Particularly worrying is the decline in the formation of risk capital and the shift from voluntary to collective saving.

Protecting true value

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SAVING in Switzerland, which declined sharply during the phase of high inflation in the mid-1970s, has picked up again in recent years under the impact of the stability-oriented monetary policy of the Swiss National Bank.

Total domestic savings in 1981 amounted to Sfr. 53,2 billion, and the national savings rate – the ratio of gross saving to GNP – rose to 27.4 per cent in that year, after having dropped to a low of 25.5 per cent in 1977.

On an international comparison (see chart 1), the Swiss propensity to save is still bettered only by Japan – and that country, significantly, has for years been achieving the highest growth rate in the industrialised world.

However, the structure of gross saving in Switzerland has been undergoing changes which could create problems for the future development of the Swiss economy. Three main trends can be observed: first, a growing shortage in the supply of risk capital; second, a shift from voluntary to collective saving; and third, a movement from long-term to short-term bank deposits and from equities to bonds.

These structural changes have brought about major shifts in the relative importance of the various classes of saving (personal saving, governmental saving, corporate saving and social insurance) and have also altered the mix of investment media into which savings flow.

Bank saving has a long tradition in Switzerland and is still considerably more extensive than in other countries. At the end of 1981, Swiss residents' funds in savings and deposit books, medium-term notes and time accounts stood at Sfr. 237 billion, almost three times as much as at the end of 1970.

The average growth rate has been a sizeable Sfr. 12 billion per annum. In recent years, however, more than two-thirds of the increase has come from growth in the balances of Swiss residents' time accounts. This fact has a twofold importance. Although customers' funds are still flowing into the banks, they are increasingly taking the form of short-term deposits, and this creates difficulties on the long-term lending side.

But long-term credit is today more important than ever for the wellbeing of our economy. Given Switzerland's heavy dependence on foreign trade – two-fifths of Swiss GNP is earned abroad – the maintenance of our international competitiveness is of supreme importance.

Structural changes in world trade, protectionist trends, new technologies and mounting competition from the so-called "threshold countries" all necessitate intensive research efforts and increased expenditure on new processing and manufacturing techniques. For these purposes, capital must not only be in abundant supply but must also be available on a long-term basis for risk-bearing forms of investment. This is particularly true in view of the ever higher capital outlays involved in the creation of new jobs.

The increased difficulties being experienced by companies in procuring long-term risk capital are also evident in the new issues market. Since 1970, the net funds raised by private enterprise through the public issue of bonds and equities (after deduction of conversions and redemptions but including foreign bond issues) have been averaging about Sfr. 7 billion per annum. However, access to this source of capital is limited almost exclusively to enterprises that have sufficient financial standing to be eligible as issuers, and that generally means companies in the large and medium-size range.

Moreover, in the very recent past, considerable quantities of capital market funds have been taken up by the banks, which have had to resort to bond issues in order to compensate for the shortage of long-term deposits.

The Swiss economy, however, is based to an important degree on small and intermediate businesses, which employ three-quarters of the labour force and often distinguish themselves by their dynamism and flexibility. Such firms are largely dependent for the financing of their investments on loans from the banks, all the more so because the procurement of equity capital appears to be getting more and more difficult. Thus the equity base of Swiss companies is steadily narrowing.

Taking all sectors of industry together, the

# of savings

proportion of equity capital to debt capital in intermediate-size firms is below 50 per cent, and equality between equity and debt financing is achieved only in larger corporations. But the greater a company's indebtedness, the less willing it will be to make venturesome investments and the more difficulties it is likely to encounter in borrowing.

The composition of savings in Switzerland, outlined in the accompanying table, has shown three important changes since the start of the 1970s. First, the corporate sector, whose share of national net savings initially went into decline after the recession of 1975, has since managed to recover its lost ground, though this has been due more to nominal sales growth than to productivity gains.

Second, the importance of social insurance in the formation of savings has been growing continuously, and at the same time, thirdly, there has been a corresponding decline in personal saving.

Whereas between 1971 and 1974 private individuals were the most important savings accumulators in Switzerland, their share of the nation's total net saving has since been halved to about 15 per cent. Conversely, the share of the social insurance sector rose from 21.7 per cent in 1971 to 34.6 per cent in 1981, so that this form of saving is still in first place, ahead of undistributed corporate profits (32.8 per cent in 1981).

The shift from private to collective saving (chart 2) is largely attributable to the extensive institutionalisation of pensions and other forms of social welfare.

There are two major implications here for the national economy. First, the decline in the saving capability of private individuals is further diminishing the already tight supply of risk capital. If this source of funds, so essential for the financing of innovation and forward-looking investments should dry up, then Swiss industry would find it very hard to hold its own in international competition, and that would be bound in the long run to have repercussions on the nation's prosperity.

Second, with the passing of the new federal law on occupational insurance, Switzerland's social safety net must now surely be broad enough. In view of the trends outlined above, it is clear that a limit has been reached in the volume of social welfare contributions that the Swiss economy can bear.

It has therefore become all the more important to preserve, and indeed enhance, the saving propensity and saving capability of private individuals. Within the "three pillar" concept of Swiss social insurance – state insurance, occupational schemes and voluntary personal provisions – increased emphasis must be placed on the personal element. This requires the reduction of the capital-eroding inflationary creep and, above all, the maintenance of stable money value.

Only in that way can the real value of saved funds be protected and the saving habit be encouraged through the incentive of genuine real-term yields.

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