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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.**

**D**uring 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

Beat Kappeler\*

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.

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.

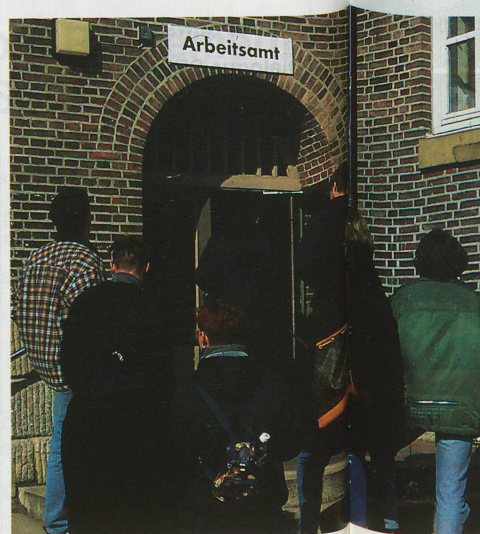
Opinion polls show that people are most worried about unemployment. With the jobless rate above 4% and once again rising slightly the Swiss are faced with a problem which they thought had been dispelled for ever. Unemployment figures for young people, particularly in German-speaking Switzerland, are 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 Ger-

man-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



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

has grown so rapidly in recent years will in themselves put pressure on many other areas of current expenditure.

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 every-

body 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. ■

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.

**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



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.



Swiss Confederation as a state is no longer in a position to say what the relationship between the global economy and local economies should be. This is what lies behind the phenomenon of the new regionalisation. In order to remain competitive things in Switzerland are increasingly rarely being organised at the national level, but rather in supra-regional units made up of several cantons. The Swiss plateau, the Regio Basiliensis, central Switzerland, the Lake Geneva area and eastern Switzerland are trying to face the challenges from abroad by concentrating anew on their own identities. But this process must remain moderate and be kept well under control – otherwise it could indeed weaken our national unity.

#### How can we avoid tearing a hole in our social and federal structure?

The citizens of our country must rediscover solidarity. They must rely on themselves more and do without so much government intervention. This is the real challenge with which we are faced today. Switzerland's success in the industrial revolution of the last century was possible thanks only to our society's ability to grow and to develop. And this was true not only in economic terms. For example, the economy of Canton Neuchâtel shows that the answer must be a collective one. In the 1970s Neuchâtel's watch industry was hit by a dramatic crisis, and 60% of all its jobs simply disappeared. But now the region has recovered – thanks to its capacity to exploit collective know-

how. Companies which used to specialise in precision mechanics have switched over to micro-electronics. This example is something which is in the best tradition of Switzerland.

#### What is the lesson of this for the rest of the country?

The function of Switzerland as a nation is to act as a sort of roof over the regional units and to work against the tendency to drift apart by promoting national cohesion. The supra-regional areas – with between one and two million inhabitants each – must join forces in order to match up to the challenges of the international economy. Switzerland as a state must defend its big regions against the outside world and carry out policies of economic integration at the European, intercontinental and global levels. Nor should it forget its relations with the third world, for if we concentrate only on highly developed countries the world economy will suffer in the end.

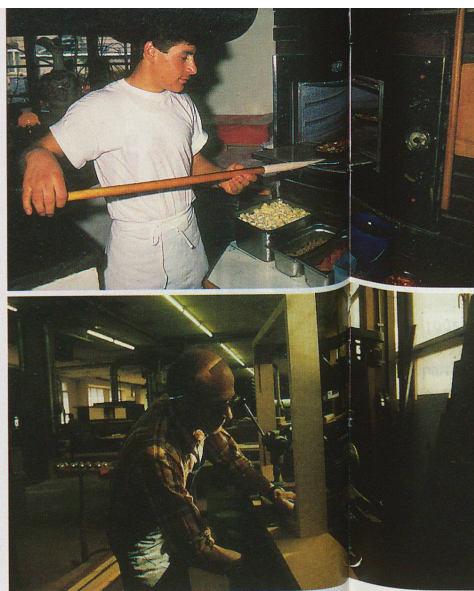
In some cantons the rate of unemployment has already passed the 8% mark. Do you share the opinion that it will continue upwards?

Unemployment in Switzerland is in large measure structural. So we must expect further job losses. All the economic branches which were protected in the past – like textiles and engineering – will see a lot more scaling down. In addition, today work does not have the same role in the international economy as it used to have. The technological revolution permits us to produce wealth without creating jobs. So we shall have to think of new ways of distributing that wealth.

#### Has the decision not to take part in European integration had negative consequences for the Swiss economy?

In the short term, yes. But we should not exaggerate this. The No to the EEA is not to be seen as final but as an invitation to the government to think about the situation again. In the past Switzerland's success was based on the capacity to face up to the world with its strong inner cohesion founded on democracy and dialogue between all the various interest groups. Today the prerequisites for these strategies at the national level no longer exist. Switzerland must adjust to the new requirements, but without losing its identity in the process.

Interview: Ilaria Bignasci



In both the services sector and in manufacturing small and medium-sized businesses are the backbone of the Swiss economy (Photo: RDZ)



SMEs – the backbone of the Swiss economy

## Small businesses – but pillars of industry

Switzerland is in the midst of structural change. Small and medium-sized enterprises (SMEs) could cushion the negative consequences. But politicians and businessmen cannot agree how.

Switzerland has an absolutely textbook SME structure\*, says Rudolf Walser of the Swiss Federation of Commerce and Industry, Vorort. He is referring to small and medium-sized enterprises employing up to 500 people.

Judith Raupp \*

Statistics support his view, and nearly 98% of all Swiss businesses in the manufacturing and servicing sectors are small and medium-sized. They account for between 60% and 65% of all workplaces.

This is why economists think that small and medium-sized enterprises have a stabilising effect. They contribute to maintaining employment and help

\* Judith Raupp is economics editor of "Basler Zeitung".

ensure that the economic structure is regionally balanced. It is not without reason, for example, that Basle is hoping to attract more such enterprises in the future. They would be able to replace some of the roughly 3,000 workplaces which will be lost by the merger of CIBA and Sandoz to form the new pharmaceutical giant, Novartis.

Walser points out that the Swiss economy has always had a high proportion of small and medium-sized enterprises, but their number has been increasing in recent times. The Vorort spokesman sees the reason for this in the conduct of big businesses. These have been shifting an increasing part of their production abroad so as to profit from lower wage and wage-associated costs. In addition, large firms are contracting out more work than before in order to concentrate on their core activities. Both these factors – the shift abroad and outsourcing at home – offer small and medium-sized companies big opportunities.

#### Structural change

Evidence of this may be found in the trade register. Rudolf Walser reports that in spite of the difficult economic situation with a lot of companies going out of business many new ventures are

being started. He believes this indicates that SMEs are playing an important part in changing structures.

But what exactly is structural change? As early as 1954 the French economist, Jean Fourastié, prophesied that as national economies developed agriculture (the primary sector) and manufacturing (the secondary sector) would shrink and be replaced by services (the tertiary sector). He forecast that by the end of the twentieth century 80% of all jobs would be in the service sector, while the two others would be down to 10% each.

#### SMEs need promoting – but how?

Fourastié's figures have not – yet – proved entirely correct. Present statistics show that in Switzerland now there are 161,000 jobs in agriculture and forestry (about 4%), 1,109,000 in manufacturing (about 29%) and 2,531,000 in services (about 67%). But Fourastié was certainly quite right about the trend. And in terms of gross value added the tertiary sector accounts for 66% at Sfr. 234 billion, with manufacturing providing 31% at Sfr. 110 billion and agriculture just 3% at Sfr. 10 billion.

Although small and medium-sized companies are best represented in the two sectors with the highest value added, Walser believes they still need help. For it is precisely here that the long-sought economic revival could start. But there is much controversy between Swiss politicians and businessmen on the subject. The politicians keep saying they want to support SMEs, while the owners of small and medium-sized businesses bitterly complain that they are confronted with new obstacles all the time.

"If an SME wants to fulfill all its obligations under tax, labour and licensing law and auditing it has to work for the government only for about two months", says Rudolf Walser and quotes in evidence a Vorort research project carried out in 1986. He claims that the burden has grown even more since then, and he names new labour and environmental protection legislation as examples.

He is of course touching on a very delicate point. Do we really want to overcome economic recession at the cost of environmental and social achievement? In the next few years Swiss citizens will have to give much consideration to this question.

#### Graduates without jobs: one way of helping

More than 6% of university graduates are still without a job a year after the end of their studies. Many students have no idea how to set about looking for work. To help remedy this situation the International Association of Students of Economics organises a forum at the University of Lausanne each year. This enables more than 200 students from various faculties to meet potential employers from the private sector. These start by describing their work and their requirements, and in exchange they receive the curricula vitae of the future graduates and are able to select those they would like to interview. This is followed by a period of preparation for the students and finally the interviews themselves – which are usually for about 100 jobs.

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