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**Autor:** Eckert, Heinz / Borner, Silvio  
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## "The Swiss economy is in good shape"

The bursting of the American property bubble caused a financial crisis which has resulted in a global economic crisis. How bad is this crisis? And how will it affect Switzerland? We asked Silvio Borner, Professor of Economics from Basel. Interview by Heinz Eckert.

**"SWISS REVIEW":** *Were you surprised by the crisis?*

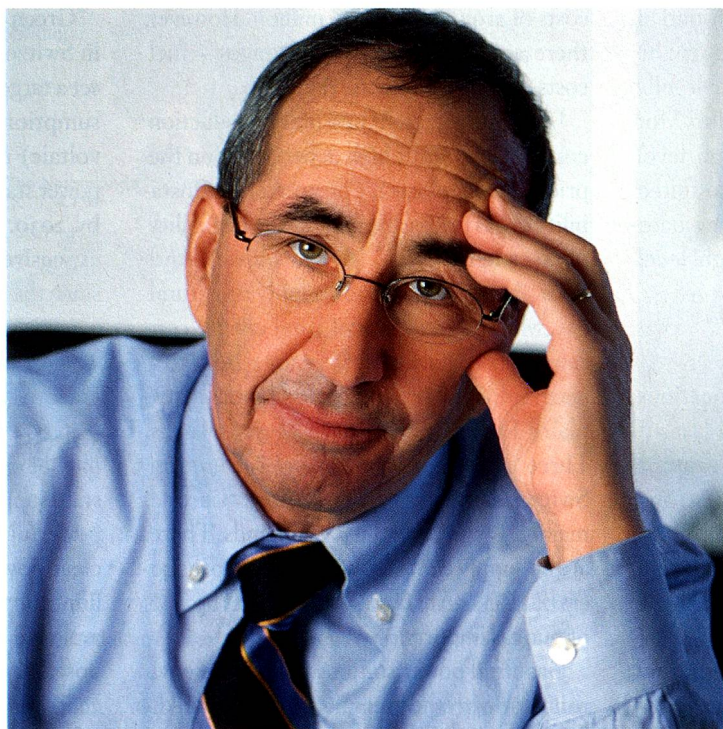
**SILVIO BORNER:** Yes, I was actually. Even though as economists we were aware that there were speculative bubbles, we did not predict that they would burst. The scale of the crisis was surprising, too. Had I known, I would have sold my modest share portfolio at the right time.

*Which bubbles were you aware of?*

The property bubble, for one. Though the fact that it managed to trigger a global crisis when it burst came as a huge surprise. People had been aware of the bubbles in the USA, UK and Spain for some time. But I constantly have to remind people that in Switzerland too we had to write off CHF 100 billion in the property sector at the beginning of the 1990s. The size of the property crisis in the USA is actually not so big in comparison. The speed at which the crisis spread and the depth of it was surprising.

*Is anyone to blame for the crisis?*

Economists are not moralists. I don't want to point the finger at excessive greed or swindlers or claim that the regulators failed. That doesn't tell the whole story. There have been and always will be financial crises. The entire financial market had simply become so big and complicated with different investment products that those responsible could no longer see the bigger picture. The financial crisis then be-



**SILVIO BORNER**

Silvio Borner, born in 1941, is a Professor of Economics at the University of Basel and Head of the Economics and Politics Department at the Center for Economic Sciences (WWZ) in Basel. He has been lecturing in economics and politics in Basel for more than 30 years and describes himself as one of the last all-rounders in the field. He is also a member of the Steering Committee of Avenir Suisse, Zurich, Chairman of the Board of Directors of Patria Genossenschaft, Basel, and Chairman of the Board of Trustees at Helvetia Patria Jeunesse.

came a banking crisis and that is the biggest problem now. If it had just been a matter of a lack of liquidity, the central banks could have solved the problem. But the banks took a hit to their assets. They had no money left and had to be recapitalised. In this case, there is also a shortage of private investors. This is why some banks went under and others had to be rescued by the government.

*How relevant are comparisons with the crisis of 1929?*

Comparisons with the first global economic crisis can only be made to a limited

extent. Everything was very different back then. The central banks now have new, efficient tools at their disposal that didn't exist then and currencies are no longer tied to the gold standard. The general setting was also very different to today. The economy had not yet become globalised and it is unclear how that crisis was overcome. Was it really Roosevelt's new deal or was it perhaps the Second World War with the need for new weapons manufacture?

*Is the current situation being blown out of proportion? Lots of major Swiss companies seem to be in great shape.*

That is certainly true. The Swiss economy is in very good shape and will come through the crisis okay. While the EU is forecasting a 1.9% fall in gross domestic product

(GDP) for 2009, we shouldn't forget that we have consistently achieved growth rates of 1 to 2% over recent years. We are currently at a very high level. I sometimes think the government has almost done too much and panicked. We shouldn't over-exaggerate the problem.

*Even the President of the Swiss National Bank has said that the Swiss economy will withstand the crisis well.*

Overlooking the fact that it would not be right for the President of the National Bank to fan the flames of the crisis with



negative statements at the moment anyway, I would have to agree. Not only do we have a strong economy, we do not have a property crisis. The problem in Switzerland is only actually centred on the financial sector.

*How do you mean?*

We are all wiser with the benefit of hindsight, but the Swiss banks should have concentrated on their core business of asset management. They are good at it and it is part of the Swissness that has been lost at the major banks in recent years. Switzerland as a financial centre cannot sustain two investment banks that are among the biggest in the world. That's having delusions of grandeur. I don't want to downplay the crisis, but let's not dramatise it either. If the large Swiss banks shrink, that can only be good for Switzerland as a financial centre.

*As a neo-liberal, you must be horrified by the state intervention in recent times.*

Even a neo-liberal doesn't want to see management of the economy without the state, especially not in the banking sector. Nothing is as heavily regulated as the financial sector. This means the state has failed too in the financial crisis. We don't need more regulation, but better and more efficient supervision of the banks. Those calling for more regulation should not forget that the banks are so creative they always find a way around new legal provisions and barriers. It's like with doping – the tests always lag behind medical advances.

*So, was it the wrong response for the state to give UBS CHF 68 billion?*

We really have to ask ourselves whether Switzerland needs two large banks. The nation is no more dependent on UBS for its survival than it was on Swissair. "What we need is an international airport. Everything else will take care of itself", is what we said at the time of the Swissair crisis and we were proven right.

I wouldn't like to have made the decision on the CHF 68 billion. What concerns me is not the fact that the state bought distressed assets from UBS, but that it acquired CHF 6 billion in share capital. This pushes private investors away. Very few

people want to buy shares in a state-owned company.

*What do you think of government programmes to stimulate the economy?*

I doubt whether they help much. By the time they have been finalised, it's often too late. Unfortunately. And what they are actually used for is a key point. If they are invested in long-term infrastructure, that's okay. However, economic programmes are a dream come true for powerful interest groups. They can finally get their pet projects, which have previously been rejected as uneconomical, financed or at least subsidised by the state. I don't believe in investing in social or ecological romanticism.

*What do you mean?*

For example, trying to convert Basel into a solar city.

*The USA has also saved the car industry from bankruptcy. Do you believe this intervention was justified?*

This is an anathema to me. State intervention in the financial sector has whetted the appetite of other sectors in trouble. However, it is important not to get in the way of structural change. The US car industry has been struggling for some time. Its products are no longer contemporary and there is no trace of innovation. It's doubtful that it has now turned the corner long-term.

*State intervention primarily aims to save jobs. Isn't that a strong argument for it?*

No, otherwise we should have saved the stagecoach as well. The American stock exchange was founded in 1896. Of the founding companies, only General Electric still exists. Big companies will always disappear, like the airlines Pan American and Transworld Airlines. And not just in the USA. The Austrian economist Joseph Schumpeter saw "creative destruction" as an opportunity. And Basel's modern-day chemical multinationals emerged from the city's silk-ribbon industry.

*Why then does the financial sector deserve special treatment?*

The collapse of the financial sector poses a threat to the system, which means the entire economy runs the risk of collapsing. But structural development mistakes are also made in the financial sector, as the UBS example shows. There is much to suggest that there should be a scaling-down process across the board. Care must be taken to ensure government fire-fighting measures do not hold back necessary restructuring in the medium term. With the benefit of hindsight, you have to ask whether UBS should have been scaled down immediately and whether it would have been better to sell off the investment business. But in the middle of the crisis that was no longer possible.

### THE THREE CRISES

Prof. Dr. Silvio Borner: "The financial crisis aside, the economic cycle had peaked in 2007/2008 anyway. This situation coinciding with the greatest disaster on the financial markets is threatening a spiral into a bad recession. Some people believe we could even face a depression like in the 1930s. I believe the financial crisis is slowly stabilising thanks to the huge state financial injections from central banks and finance ministries. The state programmes to stimulate the economy,

which are also huge by historical comparison, lead us to hope that we will come through the lowest point in the economic cycle in the second half of 2009 or in 2010 at the latest. Both estimations are optimistic but not unrealistic. Will the problem be over then? Unfortunately not, as the growth crisis might only then really start to take hold. This risk exists precisely because of, and not despite, the historically unprecedented state intervention. The reason is the state may have overstretched itself

financially and run up huge mountains of debt which will make things difficult in the future and in extreme cases could lead to new financial crises, this time state ones. The state has also taken large holdings in previously private financial companies, making investment management politically motivated. Nationalised banks have caused lots of problems in the past. Financial aid and economic injections obstruct or even prevent urgently needed restructuring within and outside the financial sector."