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Comments on present

SWISS ECONOMIC PROBLEMS*

by

MARCEL HEIMO

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MONSIEUR MARCEL HEIMO

As you have probably noticed, the subject of my talk tonight is "Swiss Economic Problems". At first sight, one might shrink from the idea that Switzerland is faced with economic problems. Is she not prosperous, isn't her situation booming even? Yes, undoubtedly, and I am precisely going to show not only that her situation is bright, but also that it has been so for a long period. But this does not in any way mean that our country is not confronted with many problems, some of which are of great significance for her future not only as an economic entity, but even as a political one. But I do not want to justify the title of my lecture beforehand, as this justification is going to be demonstrated — I hope — as I proceed.

I. The performance of the Swiss Economy in the post-war period.

First of all let us look at Swiss prosperity. Its best indicator and measuring rod is the evolution of the net national product and the net national income *in real terms*. This expression needs some explanation. Statistics of the Swiss national income are expressed in value, in Swiss francs. This might disguise reality, as increases or decreases in value could reflect movements in prices which conceal opposite trends in the production of goods and the supply or services. The figures I am going to mention discount the movement of prices. To be more precise, they make allowances for the rise in consumer prices which has occurred parallel to the rise in the national income. They also take into account the increase in population, which by the way has been quite substantial. This being said, the following comparisons can be made:

	Net Real National Product Frances = 100	Per caput		Real Personal Available Income Frances = 100	1938 1946 = 100	1938 1946 = 100
		1938	1946			
		2116	100			
1938	2116	100		1725	100	
1946	2279	108	100	1751	102	100
1950	2446	116		1836	106	
1953	2672	126		2014	117	
1960	3493	165	153	2508	145	142

(Net National Product = Net National Income + Indirect Taxes.)

(Available Personal income = Personal Income — Direct Taxes.)

The overall increases have been remarkable. The yearly increments since the war have been some 3.8% for the Net Real National Product and some 3% for the Available Real Personal Income.

This represents quite a performance, even if considered not in absolute terms but *by international standards*. Since 1953 — this year has been chosen because the task of reconstruction in Europe, as opposed to development, had by then been more or less accomplished — Switzerland has achieved a rate of increase in production which is amongst the highest in the world. The most reliable figures for comparison are the following:

Volume indices of gross National Product per caput, 1953 — 1960. (1953 = 100)			
1. Austria	155	6. The Netherlands	130
2. West Germany	148	France	128
3. Italy	144	Sweden	124
4. Greece	139	Portugal	124
5. Switzerland	(131)	Denmark	123
		United Kingdom	117
		United States	105

These figures, to be sure, though very satisfactory from a Swiss point of view, are relative: they indicate real increases in production during a limited period.

Comparisons can also be made in absolute terms for a rather recent year: 1958. Such comparisons are, as you know, a tricky and even treacherous matter. Still,

* This is the text of a lecture delivered by Monsieur Marcel Heimo, Economic Counsellor at the Swiss Embassy, to the members of the Swiss Mercantile Society at the Monthly Meeting held on 10th January 1962.

if one considers the figures I am going to mention as indications of an "ordre de grandeur" rather than as instruments of mathematical precision, there is no reason why one should not use them. Anyhow, in 1958, Switzerland was third in the list of countries ranged according to their gross National Product per capita, at current prices and exchange rates:

	(in dollars)
1. United States	2527
2. Canada	1960
3. Switzerland	1441
4. Sweden	1429
5. France	1253
6. United Kingdom	1234
7. Belgium	1228
8. Germany	1059
9. The Netherlands	850
10. Italy	547

I could, of course, enumerate and enlarge on many other indicators of Swiss achievements during the last few years, and of present Swiss prosperity. But I think that figures relating to the national product and income sum them all up and, accordingly, give the best synthetized picture of the economic prosperity and wealth of our country.

II. Inflation round the corner?

Though wealthy and prosperous, Switzerland has her problems. Or should I say, because Switzerland is prosperous she has some problems? At least, this must be true of one of them. Switzerland is at present in danger of over-expansion. What does this mean? A horse held by too loose a rein can always bolt, and when it does bolt it is in danger of crashing nobody knows where. The same is true of the economy.

According to a recent report by the Organisation for Economic Co-operation and Development in Paris, economic activity in Switzerland is reaching a peak:

1. *The National Product* (at current prices) seems to have increased by 4.2% in 1958, 4.5% in 1959, and 7.5% in 1960.
2. *Investments* are booming. For instance, in the private sector, industrial construction (+6% in 1959; +23% in 1960; +30% — estimate — in 1961) and industrial equipment (+15% in 1959; +25% in 1960; +30% 1961) are making rapid progress in spite of the growing scarcity of building materials and labour.
3. *Industrial production* as a whole is rising fast. During the 2nd quarter of 1961, it was almost 8% higher than during the same period of 1960.
4. *Unemployment* hardly exists any more and foreign labour is increasing: from 251,000 in February 1959, the number of foreign workers rose to 394,000 in February 1961, which means an increase of 39% in two years. Based on the August figures of those two years, the result is 365,000 and 548,000, that is, an increase of 50%. This last figure represents 20% of the total working population of Switzerland. This proportion is of course considerable and raises problems for both the present and the future. Can one expect further increases at the same rate in the coming years?

5. *Demand* follows the same trend: the turnover in retail sales has increased by 11% between the first quarter of 1960 and the first quarter of 1961, as against 7.5% during the same period of 1959 and 1960.

6. Since 1959, *external trade* has grown at an unprecedented pace: in three years, the total value of imported and exported goods has risen by 40%. As expansion has accelerated, the rate of increase of exports has been falling compared with that of imports, so that the traditional *trade deficits* have been tending upwards:

1959:	994 million Swiss francs
1960:	1517
1961 (estimate):	2500

This tremendous increase in the trade deficit will probably be reflected in the *current balance of payments*: the surplus of the balance of invisible trade will not be sufficient to cover the trade gap in 1961, so that Switzerland is going to have a deficit on current account as against a surplus in preceding years:

1959:	+758 million Swiss francs
1960:	+409
1961 (estimate):	-500

or more.

This deficit is as such no cause of alarm. Very large amounts of foreign capital have at the same time entered the country, so that, in spite of large foreign borrowings in Switzerland, which by the way have been encouraged by our authorities, the Swiss National Bank's *gold and convertible currency reserves* have been continuously increasing during the last few years:

End of 1959:	8,904 million Swiss francs
End of 1960:	10,038
End of October 1961:	11,833

This means that the Swiss currency is safely backed.

From the picture I have just sketched before you, it seems that only one conclusion could be drawn: the state of the Swiss economy is very satisfactory. Why worry then?

For many reasons, I think. But for the sake of simplicity, and because of lack of time, I will mention only one, the more disquieting one. The conjunction of high inland activity, rising exports, scarcity of labour, increasing income, high imports of goods, strong capital imports, high capital exports is an explosive combination. It could easily start an inflationary process by setting in motion the infernal spiral of higher wages, higher costs, higher prices, and lead to economic and monetary breakdown as well as social injustice. One of Switzerland's main achievements during the post-war period — moderate increases in prices and wages in spite of an exceptionally high level of demand at times — should not be jeopardized. Indices of hourly wage rates as well as of consumer prices have risen much less in Switzerland than in other countries from 1953 to 1960;

1960: Hourly wage rates		Consumer prices
	(1953=100)	
Switzerland	117	108
Italy	134	115
Austria	136	116
Belgium	138	110
United Kingdom	140	121
Germany	147	114
France	158 ¹	134

¹1959.

Whatever the real cause of this good result — large-scale use of foreign manpower, liberal import policies, moderate policy of trade unions, general compensatory economic policy on the part of the authorities or general attitude and behaviour of the main groups of the population towards rising wages and prices — it *should be preserved*, I would say, *at all costs and this especially at the present juncture*:

1. First of all, I must recall that Switzerland did not devalue her currency in 1949, as many other countries — U.K., France, etc. — did. So our price level was relatively high in the following years. This perhaps does account partially for our good performance in relation to price movements. From an external point of view, though, slower price rises in Switzerland have — probably — contributed to the lessening of the disparities due to devaluation in other countries without giving us a positive competitive lead.
2. Relative stability in wages and prices over a period, quasi non-existent unemployment and high productive activity have brought a higher standard of living, social peace, political stability, confidence — internal as well as external — in our currency, and the ability to compete on international markets, all things which are for the good of the entire population.
3. Furthermore, Switzerland is now faced with integration issues, the outcome of which is still uncertain. She must therefore be in a position to overcome possible difficulties. The Swiss price level was, and probably still is, rather higher than in many other countries. So if present disparities in prices were further enlarged, this would make it more difficult to resist increased competition, surmount new tariff barriers, to outweigh other advantages accruing to integrated competitors, in other words to solve any problems we might have to face.

There is no doubt that a danger exists. From September 1960 to September 1961, the circulation of notes has increased by more than 11%, bank overdrafts by 24%, bank credits by 25%. Wages have risen by 4% from October 1960 to October 1961, consumer prices by 2%; the increase in prices in November 1961 alone was 1.4%. These figures reflect our acceleration, which is ominous and requires careful handling. Whereas Switzerland had the best record for the post-war period up to 1960, there has been a progressive deterioration in her position since 1959;

Indices of consumer prices		
	July 1959 — October 1961	December 1960 — October 1961.
1. Belgium	+0.9%	+0.9%
2. West Germany	+2.7%	+2.7%
3. U.S.A.	+2.8%	+0.9%
4. Canada	+2.8%	+0.0%
5. The Netherlands ¹	+4.2%	+1.7%
6. Italy	+5.4%	+1.7%
7. Switzerland	+6.2%	+3.4%
8. United Kingdom	+6.7%	+2.4%
9. Sweden	+6.7%	+1.6%
10. France	+8.6%	+2.2%

¹September.

²November.

Under those conditions, one can understand why the Direction of the Swiss National Bank has felt it necessary to warn the population against the danger of inflation and why Members of the Government (Mr. Schaffner and Mr. Bourgknecht) have done the same in their most recent public speeches. What can be done about it? That is another matter, which I cannot deal with tonight. I would like, however, to add that mere admonitions and warnings may not, in my opinion, be sufficient to cope with the problem.

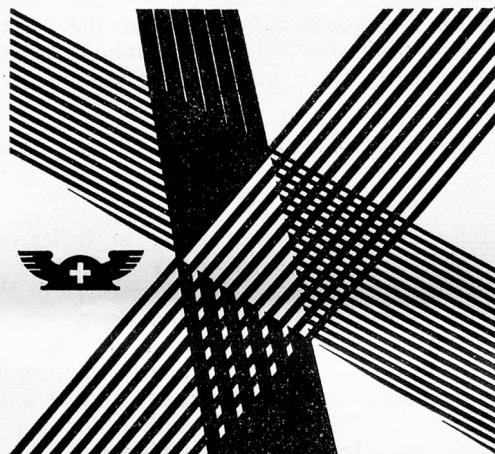
(To be continued.)

IN OUR NEXT ISSUE

THE INTEGRATION PROBLEM:

- EEC: its economic and political significance.
- The Stockholm Convention and the external activities of EFTA.
- Joining the Six, from a Swiss viewpoint.

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