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LETTER FROM SWITZERLAND

THE SWISS ECONOMY ON THE THRESHOLD OF 1963

From the economic point of view, last year seems to have been a favourable one for Switzerland as far as production and consumption are concerned. But, actually, it is precisely the expansion of these two factors that has led to certain phenomena whose persistence is causing real concern to those responsible for the Swiss economy: a steady increase in the adverse balance of trade, a bigger deficit in the balance of revenues (which were still out of the red as recently as 1960), a continuation of the shortage of manpower and the use of foreign capital to cover investment needs, a practice tending to make the country too dependent on other countries, with possible unfortunate consequences in the long run.

Trade

The figures for the balance of trade have set new records, the adverse balance having reached the all-time high of S.Fr. 3,400 million (1961 = 2,800 million), imports 12,900 million (1961 = 11,600 million) and exports 9,500 million (1961 = 8,800 million). The proportions of imports covered by the value of exports thus dropped from 75.8% in 1961 to 73.8% in 1962. By way of comparison it is interesting to note that in 1958 the figures was as high as 90.6%. The rise in imports slackened slightly in 1962 as compared with the previous year, but it was nevertheless higher than that of exports, which remained stationary; this movement is not sufficiently marked, however, for it to be possible to point to a precise trend. It may, on the other hand, be inferred that the production potential is already being used to the maximum, in view of the fact that the increase in the value of imports during last year is due not to raw materials but to foodstuffs, beverages, animal fodders and above all manufactured products. This trend is also evident from the figures indicating the part played by the three main categories of goods in the total Swiss imports: foodstuffs, beverages and animal fodders did not vary between 1961 and 1962 (= 15%) while raw materials dropped during the same period from 29% to 26% and manufactured products rose from 56% to 59%.

Balance of revenues

The adverse balance of trade (3,400 million) could not be offset this year by the credit balance of services and the revenue from capital, totalling S.Fr. 1,900 million, so that the balance of revenues also shows a deficit (S.Fr. 1,500 million).

In this connection it should be pointed out that the influx of foreign capital, estimated at S.Fr. 3,200 million — part of which is re-exported in the form of subscriptions to foreign loans raised in Switzerland — made it possible to deal with the situation created by the deficit in the balance of revenues, since exports of capital amounted to only S.Fr. 1,055 million.

Thanks to the foreign funds entering Switzerland, it was therefore possible to keep sufficient amounts available on the capital market, in particular to meet investment needs. But it must not be concealed that if conditions were to change, the situation on the money market might become serious.

Shortage of manpower

The delicate position in which the Swiss economy is situated at present is also reflected in the acute shortage of manpower, caused by the situation of over-employment characterized mainly by the large use that has to be made of foreign workers. At the height of the season, their number last year amounted to some 650,000 men and women, i.e. almost 20% more than the previous year; foreign labour thus represented about one-fourth of the working population of the country and practically 12% of the total population. In addition to its economic consequences, this influx of foreigners, coming not only from Italy but also from Spain and more recently Greece and Turkey, raises social and demographic problems which cannot be ignored much longer.

The big influx of foreign labour and the considerable increase in the purchasing power of the masses have naturally created a demand for additional investments, especially in the housing sector, which has in turn led to a further increase in manpower needs. Unfortunately, the situation has been aggravated still further because this increase in demand occurs at a time when there is a general move to reduce the number of working hours. This has led to a swelling of production costs, including wages, which are no longer in proper relation to real lasting conditions on the world market. The way in which revenues and prices are constituted today is therefore deceptive and it would be unwise to take it as a pretext for new investments other than those designed to reduce production costs and save manpower.

It must not be forgotten, however, that Swiss industry has for a long time been building up reserves with a view to creating opportunities for work in case of a recession or slump. At the end of 1962, these reserves amounted to over 500 million Swiss francs, half this amount coming in almost equal parts from the machinery, apparatus and instruments industry and the chemical industry.

Measures to combat the excessive boom

It is only right to point out that as a result of various appeals by economic personalities and organizations, and agreements between producers for the purpose of putting a brake on the upward trend, the rate of increase in employment has fallen off slightly by comparison with the figure for the previous year. The measures undertaken (credit restrictions, slowing up of the influx of foreign capital, price stabilization agreements, limitations on the employment of manpower, etc.) have certainly had positive results, but they will have to be reinforced and made more general; as the Head of the Federal Department of Public Economy, Federal Councillor H. Schaffner, has stated: "Instead of availing themselves of their strong position to use their own capital for disproportionate investments or of taking advantage of their ability to compete to make excessive calls on a manpower which is rapidly becoming increasingly scarce, those sectors which have an activity above the average should rather lower their prices and in this way contribute to a general easing up of the situation."

Adjustments in agriculture

A survey of the evolution of the economic situation in Switzerland during the past year would not be complete

without a few words dedicated to agriculture. In spite of the general over-expansion, this branch was in a rather special situation, its revenue remaining appreciably lower than that of other economic activities and than it was entitled to expect according to the law on agriculture passed by popular vote. However, in 1962 it was possible, by general and systematic steps, to raise the revenue from the basic production without too serious repercussions on the index of the prices of foodstuffs. The results obtained seem likely to allow agriculture to contribute from now on to the stabilization of prices. The gross revenue from agricultural produce in general increased by 5% as compared with 1961 and amounted to S.Fr. 3,217 million.

Smooth running of production

The above remarks must not however be allowed to obscure the positive side of the Swiss economy. Generally speaking, industrial activity has been highly satisfactory. Industrial production, except for a few branches of the textile and chemical fibres industries, remained at a peak throughout the year. Foreign orders have nevertheless begun to fall off slightly since the summer, but although the orders on the books of firms have decreased a little, the reserves of work remain considerable on the whole.

For the building industry, 1962 was a particularly busy year. It is in fact the sector in which the state of over-employment was the most marked: at the end of August, the building trade employed some 163,000 foreign workers, i.e. 21,000 (14%) more than the previous year. It should be pointed out that this increase corresponds to the ceiling of growth laid down in the spring within the framework of the measures intended to put a brake on excessive economic activity.

For agriculture, last year was on the whole a good one; although the very dry atmospheric conditions seriously compromised the supply of fodder; on the other hand they made possible a record crop of cereals and satisfactory fruit crops. We have already mentioned above the measures of agricultural policy that have helped raise the economic level of Swiss farmers and agricultural workers.

Receipts from taxation

Finally, let us mention that the Confederation's receipts from taxation exceeded by some 440 million francs the forecasts, which had obviously been on the cautious side. The total amounted to S.Fr. 3,600 million, i.e. almost 650 million more than in 1961. Customs duties accounted for S.Fr. 1,600 million of this total (1961 = 1,500) in spite of the reduction in tariffs introduced within the framework of EFTA.

In conclusion, it may be said that Switzerland's general situation is quite strong enough to stand the slackening of pace required by caution, without the economy suffering too heavily in the majority of its branches.

(OSEC, Swiss Office for Expansion of Commerce and Trade.)

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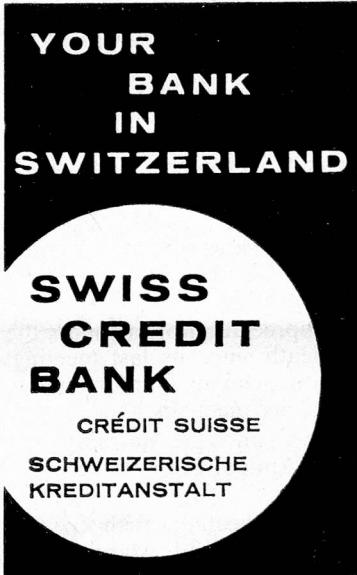
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