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SWISS ECONOMIC BOOM

It is doubtful whether there is another such topical subject as the boom which has been dominating Switzerland's economy for the past few years. To be more precise — it is the excessive boom, the "Konjunkturüberhitzung", the "Surchauffe Economique", which has been so much in the public eye. Much has been said and written about curbing it. "Konjunkturdämpfung" is a new word, an expression which would have seemed Utopian, the product of a visionary in the slump years of the 'thirties.

Toni Föllmi wrote in an article on "Industry and Trade in Switzerland" (Swissair Gazette):

"The Swiss economy is at present riding the crest of a boom which is constantly being inflated by the volume of exports, extensive building programmes, rising wages and a high rate of spending. The number of foreign workers in the country now stands at about 800,000, a state of affairs which can only be described as alarming. Economically speaking, the employment of foreign labour in industry and in the crafts can only be justified as long as factories are geared to continue operating should a large-scale return of foreign workers to their native country set in. In many factories this critical limit has, unfortunately, already been exceeded. There is a growing tendency among Swiss workers to avoid certain industrial occupations and trades and leave them to the foreign contingent.

"In terms of finance, too, Switzerland's economic affairs are now only partly based on her own resources. Domestic capital is no longer able to keep pace with current investment demand. The full significance of this disquieting state of affairs is apt to be obscured because, despite heavy over-expenditure on consumer goods the capital market has been kept liquid on the whole by a steady influx of funds from abroad.

"The most striking drawback of Switzerland's continued prosperity are the rising prices which have followed in its wake. The obvious remedy would be to halt or at least curb the wage-price spiral. However, in peacetime the Federal Government has no authority to do so, and, what is more, nobody seriously considers giving it such powers. It is generally recognized that increasing prices are essentially the result and not the cause of the present run-away boom conditions. The same argument is used to prevent the imposition of wage stops.

"Not only does the authorities' deference to free enterprise deny them a completely free hand to pursue economic policies aimed at promoting stability, they are also hampered principally by the complexity of interests concentrated in this tiny country, so deeply involved in international affairs. On the one hand, the Federal Government's

authority does not extend beyond its own frontiers; on the other, it may not encroach on cantonal jurisdiction and instead has to try by negotiation to enlist the support of the sovereign cantons for measures in the general interest. This is not always an easy matter because regional and communal views on the urgency of such decisions frequently do not coincide with those of the Federal Government."

The problems of prosperity have therefore acquired an importance which can hardly be distinguished from those of the slump in the 'thirties. Peter Duerrenmatt, in an article in the "Basler Nachrichten", in February 1963, said that the only difference was in the fact that the word "crisis" in the 'thirties was preceded by a minus sign, whilst today, after all, the accent was on boom and characterised by a plus mark. What must not be forgotten, however, Mr. Duerrenmatt warned his readers, was that this plus could suddenly turn into a minus and bring about a dreadful crisis. He compares the boom to a patient — everybody wishes his recovery, but nobody desires an operation which would result in a deterioration of his state of health.

It is evident to anybody visiting Switzerland regularly since the end of the war that the cost of living has gone up. In June last year, the index passed the 200-mark (August 1939 was taken as 100), and in November it was up by a further 4.8 points. In this connection it may be interesting to compare the rise in the cost of living with that of other countries. In the years 1950 to 1960 (according to the economist Dr. Renner) the cost of living rose by 74% in France, 57% in Sweden, 49.4% in Great Britain, 23.3% in U.S.A., by 22.6% in Western Germany, and only by 14.9% in Switzerland. Figures published by the Union Bank of Switzerland showed that between 1953-1963 Switzerland was last but one — only Belgium was lower. As regards currency stability in 1963, Switzerland was surpassed only by Great Britain and Norway.

Economic boom means "we have never had it so good". Signs of affluence are visible everywhere in Switzerland. It is estimated that the national income in 1963 will have reached fifty milliards, an increase of a nominal 8% over 1962. The material standard of living is high. But the reverse of the medal often looks different, not only in the presence of a vast foreign labour force, but also in a lowering of certain standards of perfection in work and service, an increase in bankruptcy. One can really speak of a "Crise de prospérité". The picture of the thrifty, steady Swiss receives yet another detraction when we hear that eighty million francs were spent on gambling in 1962, figures which do not include money

spent on gambling by Swiss when abroad. On the other hand, it must be said that local banks show in their annual reports a considerable increase in the number of savings accounts.

One of the most frightening signs of inflation is evidenced by the tremendous increase in land prices.

In December 1962, Federal Councillor Schaffner, the Swiss Minister for Economic Affairs, informed Parliament on the state of Swiss economy, the steps already taken to curb inflation and of measures planned to deal with the **excessive prosperity**.

At the end of 1962, the first discussions took place in Berne with a view to fighting the unhealthy boom and inflation. Economic groups and trade unions were asked to send representatives. It would be idle to pretend that the government's appeal was met with enthusiasm. For the unions of employees it was somewhat embarrassing — for years they had fought for shorter working hours, and now they were forced to admit that their policy had been wrong. Reduced working hours may be a social achievement, but the benefit has become illusory, and any further demands are less and less justified considering the shortage of labour. Mr. Th. Boveri, in an article in the Brown-Boveri House Journal in March 1963, said that by reducing working hours Swiss products were becoming more and more expensive and money more and more devalued. In the interest of peace, the machine industry had agreed to a forty-four hour week, which was not a good thing, though most workers were ready to do overtime. But the latter had to be paid, often double, and again helped to make goods dearer.

The **appeals by the government** of a year and more ago for voluntary measures to restrict expansion would have met with more success, the Swiss Chamber of Commerce stated, if the employees had supported the efforts made by private enterprise and if public bodies had set a better example. Nothing very drastic happened during last year. Being election year for Parliament, it would perhaps not have been the best time to make it a political issue, though any measures taken by the government in a democracy inevitably become a political matter. It was not until November that the Federal Council worked out emergency measures to combat rising inflation and to reduce the exaggerated dependence of the Swiss economy from abroad.

On 20th December, the "Investors Chronicle" summed up the position as follows:

"The Swiss Government is to by-pass normal parliamentary procedure for its anti-inflationary drive. It will intervene directly in the economy by open market operations, some controls on the volume of credit, a form of building control, and a definite limitation of the numbers of foreign workers followed by gradual reduction. Hitherto the Government and the National Bank had confined themselves to appeals to moderation, and to gentlemen's agreements which were of doubtful effectiveness.

"The employment stop on foreign workers decreed last March for twelve months is to be replaced early next year by a firm upper ceiling for the numbers of foreigners to be employed. While the Government expects the banks to adhere firmly (or perhaps more firmly) to the voluntary arrangements about the limitation of new credit and the treatment of foreign deposits it is also determined to introduce compulsory reserves for the commercial banks, apart from open market operations and a so far unspecified form of credit control. These measures require new legislation, and this is to be rushed through.

"Perhaps the Swiss authorities have waited too long before taking action, but the mere fact that they are now doing so may well have a salutary effect. Provided that it gains the wholehearted co-operation of the banks, it may result in a much desired reduction in the influx of foreign money."

This article appeared after the **announcement by the Swiss Bankers' Association** on 11th December of what Reuters in the "Swiss Journal" of California call "Draconic" measures to fight inflation. Their directives have been sent to all banks and savings banks, investment and trust funds in Switzerland. They will have immediate effect and are to be applied for twelve months. The "Times" reported as follows:

"The association's measures include the withholding of credit for buildings in the luxury category and the curbing of speculative transactions in land and property. On other construction work, loans must not exceed 65 per cent of the cost on dwellings or offices, 50 per cent on buildings for artisan uses, and 40 per cent on industrial installations. Credit for other purposes, except short-term commercial needs, is also to be restricted.

"In a letter to the Federal Council the association said banks were profoundly preoccupied by the marked fall in the purchasing power of the franc during the past two years, a trend which was hitting most of all the lower-income categories of the population. It suggested that there be no further reduction in working hours, that saving be encouraged by every means, including fiscal steps if necessary, and that the Central Bank raise its discount and loan rates."

We are interested to learn from a message in the "Echo" that these measures will not affect the Swiss abroad.

Early in January, the Federal Council invited delegations of the cantonal governments to a **discussion**. The President of the Confederation was in the chair. Federal Councillors Bonvin and Schaffner and senior government officials were present, as well as the management of the National Bank. Two or three "Regierungsräte" of each Canton made up the delegations.

Further talks took place with trade unions, employers' and employees' organisations, and a fourth meeting with banks, insurance companies and similar bodies. On 27th January, the government published its **message to Parliament** and released it to an exceptionally well-attended press conference. The message covers sixty-two pages, and the main measures are the following: The Federal Council may ask the banks not to pay interest on foreign capital. It can prevent banking or financial business from investing foreign money in Swiss shares, land and mortgages. The government can fix limits of any increase on inland credits granted between 1960 to 1962. The government can fix the limits on all credits for mortgage loans granted by the banks, insurance companies as well as other financial houses regarding the buying, building, or preparation of buildings in Switzerland. Construction is prohibited for one year of buildings like cinemas, theatres, sports buildings, private houses exceeding Fr.200,000.—. All building will require permission. The Federal Council will grant permits for federal building work, the Federal Railways and national road construction. Business buildings and dwelling houses may no longer be demolished except in special circumstances.

As mentioned before, the restrictive measures also include an upper limit for the number of foreign workers,

i.e. to the record figure of 1963. The yearly increase was 100,000 in 1961, 65,000 in 1962, and this increase should in future disappear. The latest figures available show that in January this year the number of first new working permits was 30,407. This is a decrease of 19% over January last year. The most marked reduction was in metalworkers and building workers.

As can well be imagined, the government's proposals had a **mixed reception**. In principle, most Cantons and most organisations approved them and agreed that inflation must be arrested. But there were a great many vested interests which had to be defended; the poorer Cantons felt they could not be considered the same way as the wealthier ones; the Swiss Chamber of Commerce agreed on condition that all demands for a further cut in working hours should be stopped at last, and that all restrictions applied equally to public institutions; there was opposition regarding building and road construction restrictions; agricultural circles would agree only after some concessions, which they felt were overdue, had been granted to them.

There were critical voices regarding the new proposals of an increase in pay for the federal employees — how were these compatible with exhortations to reduce spending? Milk, bread, beer had become more expensive, rents had gone up and would rise further on complete relaxation of rent control. Excellent reasons were put forward for the fear that the restrictive measures would result in a damaging reduction of Switzerland's vital exports. Even the Swiss National Exhibition was considered incompatible with the efforts at reducing the number of foreign workers.

On 17th February, an **extraordinary parliamentary session** opened, the first in six years. Over forty speakers took part in the marathon debate which showed clearly that there was no single effective remedy to cure the evil. The hope expressed by the Chairman of the special Commission, Prof. Max Weber, that a sound middle path should be found was not realised as a proposal with regard to mortgage interests in agriculture was accepted and thus opened the door to special wishes. The first proposal referring to financial measures was accepted with 124 against 17 votes, with several abstentions. The second proposal concerning building restrictions was accepted more easily; the credit for this went to Federal Councillor Schaffner for resolutely leading the debate.

The **ordinary parliamentary spring session** opened on 2nd March. The Council of States proposed to call the new Bills "measures to fight the increased cost of living", which was later accepted by Parliament. The Council of States accepted the government's first proposal with 36 : 0 and the second with 33 : 1 votes.

On 13th March the two Bills to check inflation were accepted by the National Council by 160 : 18 and 143 : 35 respectively. They became law upon publication in the official Gazette. In a year's time the electorate will have to vote. By then it will show whether the measures are successful.

It is not a question of strangling, but of **helping Swiss economy**, to a steadier development. Victor Snell, in an article in the "Schweizerisches Kaufmännisches Zentralblatt" reminds us of how much the individual owes to the "Hochkonjunktur", and that it would be wrong to denounce it completely, however necessary some restrictive measures may be. And to quote once more one of Peter Duerrenmatt's descriptive pictures: "Free enterprise has not failed. If a farmer has cultivated apple trees which produce an excess of fruit so that some branches threaten to break and have to be supported, nobody could main-

tain that the fertility of the tree has failed. All that is needed is suitable help". He suggests that with objectivity and common sense and under the sword of Damocles of an acceptance of the measures by the electorate it should be possible to help to success the efforts at restraining the economic boom.

(All sources on which this article is based are already mentioned except the news received by courtesy of the Agence Télégraphique Suisse.)

SWISS TECHNICAL CO-OPERATION WITH MADAGASCAR

Madagascar is at present up against very serious problems with regard to her exports, which are of course an essential factor in the achievement of the government's plan for the economic development of the island.

Consequently, at the request of the government of Madagascar, the Technical Co-operation Section of the Swiss Federal Political Department appointed a Swiss expert last summer to help organize Madagascar's foreign trade; the expert chosen was Mr. Albert Masnata, Head of the Swiss Office for the Development of Trade (O.S.E.C.) and Reader at Lausanne University.

At the end of his three months' stay, Mr. Masnata at the government's request submitted a report on the problem of foreign trade as a whole and at the same time presented concrete proposals for the creation of a Madagascan Export Office, its statutes, organization and scope. Thus, as pointed out by Mr. Tsiranana, President of the Madagascan Republic and President of the government, in a recent speech to Parliament, it was on the basis of the preparatory work carried out by the Swiss expert that the Madagascan Cabinet was able, on 21st November last year, to adopt the decree founding and organizing a Madagascan Export Office.

In pursuance of this decree, a manager has just been appointed and the Export office has started to function; the manager is assisted by a number of civil servants whom the Swiss expert helped to train for their new job. As the starting up of this organization and the tasks awaiting it raise a considerable number of problems, the government of Madagascar has asked the Swiss Department of Technical Co-operation to continue to collaborate. This request has been accepted in principle, but the actual form this co-operation is to take is still being studied.

[O.S.E.C.]

OPEN-AIR "LANDSGEMEINDEN"

In several mountain Cantons of Switzerland the male citizens still muster, as their forefathers did for centuries, in an open-air assembly to elect officials and vote on public matters. On Sunday, 26th April, this impressive demonstration of democracy will take place in the towns of Trogen and Appenzell, the capitals of the two Half-Cantons of Appenzell, Ausserrhoden and Innerrhoden and in the Half-Cantons of Obwalden and Nidwalden, Central Switzerland, in the towns of Sarnen and Stans. The Canton of Glarus, which commemorates a historic event on 9th April with its "Näfelerfahrt", has set aside 3rd May for the "Landsgemeinde".

[S.N.T.O.]