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Switzerland in a Changing World

Lecture by Mr. Etienne Junod, President of the Vorort de l'Union suisse du commerce et de l'industrie, at Saddlers' Hall, London, on 30th October, 1973.

Hemmed in like a walled garden between the Alps and the mountains of the Jura, which block the horizon wherever one looks, Switzerland is a country made up of a few lakes, modest stretches of grassland, rocky alpine pastures and a largely granite terrain, with *no* natural resources other than hydroelectricity: at first glance hardly a country predestined for the role of a trading nation or for industrialization.

And yet we have only to look at the facts to see that she ranks twelfth among the countries of the world in terms of industrialization and commands financial resources that have earned her a place of eminence in the sphere of international finance.

One could doubtless adduce many different reasons for this situation. I shall confine myself to mentioning just one or two. *Firstly*, it is, I believe, in the nature of man to strive to conquer difficulties. *Secondly*, curiosity, the taste for adventure and the call of the unknown all play a not inconsiderable role in his struggle for existence. And *thirdly*, his behaviour is undoubtedly shaped by the particular topography of the country in

which he lives. Diffuse though it may appear, this brief catalogue of stimuli and constraints seems to me to characterise, very imperfectly I know, the basic structure of financial and industrial development in Switzerland.

In the early years of her existence, from the Middle Ages to the Renaissance, Switzerland was through her geographical situation constantly caught up in the quarrels of the great powers of the time, and to preserve her identity she was obliged to make a virtue of necessity and espouse a military role: she became a nation of mercenaries and the exploits of her sons on countless different battlefields had profound repercussions on what was with the passing centuries to emerge as Europe. The smell of gunpowder sharpened the taste for adventure and this in turn stimulated curiosity. The Swiss began to feel cramped in the confines of their valleys, and armed only with the robust qualities inherited from their soldier forebears, they set off to seek their fortune in the outside world. And so it was that in addition to the German, Italian and Romansch populations a fifth breed of

Swiss emerged — the pioneers of their country's entry into the world.

I will spare you a more lengthy historical discourse: suffice it simply to add that once the Napoleonic wars were over and calm had returned to Europe, Switzerland was formally recognized as a politically neutral state — in fact she had observed a policy of neutrality since the 16th century — with the result that she was able to stay out of subsequent conflicts and in the words of Voltaire "cultiver son jardin", whilst her neighbours followed the dictates of their thirst for power and pursued their quarrels.

The political neutrality of Switzerland at this time undoubtedly had a significant effect on her industrial development: freed of military preoccupations — save the maintenance of an army for her own defence — she was able to devote all her energies to the establishment of commercial undertakings at the very point when technical advances were shaping the transition of European civilization from the age of the artisan to that of mechanization.

The fact that her neutrality

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subsequently spared her involvement in the two great wars of the present century only served to strengthen her economic position and in this way she was able to evolve into the force that she is today.

In this sequence of pictures I have done no more than just sketch the broad outlines of a profile which by rights should be far more detailed, but I hope that in so doing I have said enough to give you some idea of Switzerland's historical development.

The world has changed radically since 1945. Commercial intercourse between the nations, formerly conducted on a bilateral pattern in consequence of the economic crisis that preceded the Second World War, has gradually assumed a multilateral character. The establishment of the General Agreement on Trade and Tariffs (GATT), the Marshall Plan, the Organization for European Economic Cooperation, The European Economic Community, the European Free Trade Association and the Organization for Economic Cooperation and Development, linking the countries of Europe and North America and Japan, have all in their turn laid the foundations for economic cooperation on a world-wide scale, especially when one considers in addition the role of the Economic and Social Council and the Conference on Trade and Development of the United Nations. In face of this catalogue of organizations it could scarcely be claimed that the nations of the world lack the means to trade and communicate one with another — far from it. However, greed, egotism and envy, to name but a few of the shadows which taint man's most noble aspirations are constantly at work to prejudice the laudable endeavours engendered by the desire for friendly cooperation.

An unbiased attitude

Nonetheless whenever interests coincide, we can advance some way along the road: progress is sometimes very slow, but even the smallest achievement is enough to restore hope, as I am sure the golfers among you will appreciate.

Accordingly even though we may often be tempted to regard these international organizations (bogged down by their familiar internal wranglings) with scepticism, we cannot for all this deny their value out of hand.

Switzerland has played an active part in the organizations directed at the economic rehabilitation of Europe and is currently a member of the OECD. Though still reluctant to join the United Nations as full member she has nevertheless participated in many of the conferences organized under its aegis to foster economic cooperation. The independence which she enjoys in consequence of her neutrality makes it possible for her to approach problems without political bias and concentrate on working towards practical solutions. I would not be surprised if this were *one of the main* reasons why other countries

have shown themselves ready to listen to her voice.

The foreign labour problem

Switzerland would however scarcely command such attention if she could not demonstrate, by facts, that a pragmatic approach to the problems besetting any national economy is in the last analysis *the only one* that brings tangible results.

What then is the economic position of Switzerland today?

Surrounded in 1945 by a Europe faced with a massive task of reconstruction it was logical that, as a country with powerful industrial resources untouched by the war, she should take an active part in re-establishing normal conditions, and natural too that through so doing she should gain in prosperity, as she has continued to do over the last 28 years.

Her gross national product in 1950 was 20 billion francs. By 1960 it was 37 and by 1972 115 billions, which per head of population represents 18,100 francs; of these 9,208 francs, i.e. more than 50% flow out of foreign trade. Swiss investments abroad are estimated at 90 billion Swiss francs: namely 15,000 francs per person or six times more than the corresponding amount in the US. These figures speak for themselves.

Every industrialist knows the price of expansion. At the national level the demands placed on the foundations of the economy become heavier and the burden upon the labour force steadily increases. Not to mince words, success must be paid for.

Switzerland, with a population of only six million, was unable of herself to meet the demand for goods placed upon her: to do so she had to secure the help of foreign labour, for the most part Italian, with the result that by the mid-sixties foreign workers accounted for more than 15% of the total population.

This gave rise to a difficult political dilemma which was only resolved by the introduction of *special contingency measures* aimed at stabilizing the foreign labour force domiciled in the country at a level of around 600,000 people, to which 190,000 so called "saisonniers" and some 100,000 "frontaliers" must be added, which brings the total to close on 900,000 *working* foreigners or more than 15% of the total population.

I have mentioned this particular issue in discussing the problems raised by the expansion of our economy because it is one that will in all probability have a not inconsiderable effect on the country's future development. I shall return to it in a few moments. On the brighter side, however, it is worth pointing out that the shortage of labour presently besetting Switzerland has forced industrial enterprises to rationalize and modernize their production techniques and thus improve the competitiveness of their operations. There is evidence too that the lack of manpower is stimulating rapid

change in the structure of the economy in that industrial undertakings whose competitive position is weak are tending either to disappear or to join forces with more powerful enterprises.

On the debit side, there can be no denying that the shortage of manpower has resulted in a serious spiralling of wages, the demand for labour greatly exceeding the supply.

To this must be added the inflationary pressure exerted on the world economy by the enormous liquidity that has played havoc with the international monetary system, and it will be seen that Switzerland has been experiencing an economic boom which puts her among the countries with the highest rate of inflation.

An ageing population

If I approach the question of Switzerland's position in the world today from the manpower angle, it is because this appears to us to be the most difficult problem the country faces. It is all the more difficult in that it has taken on a highly political flavour: the threat to our national and local traditions that foreign labour is alleged to represent serves, in fact, as a war-horse for a number of demagogues who, doubtless exploiting the disquiet caused by overrapid industrial growth, are seeking to place the onus of the evils of our time on the backs of the foreign workers.

Thus, for the second time in less than three years, the Swiss people will be called upon to vote next spring on an initiative designed to reduce, in the various Cantons, the number of foreigners entitled to live in Switzerland — whether they work or not — to 500,000 or to 12% of the Swiss population in each Canton whichever is the lowest by 1978. A "Yes" from the electorate would cause the exodus of more than half a million people who had confidence in our country and took up residence there.

The moral odium that would attach to such a decision would strike a blow at the Swiss economy from which it would have difficulty in recovering. It appears, in fact, that the growth of the population in Switzerland is following a declining curve which will reduce the annual increase in the indigenous population to 20,000 persons by the year 2000. At the same time the number of people aged 65 years and over is growing very much faster. The foreigners, more prolific than the Swiss, have so far helped to offset the declining national birthrate. But if a substantial proportion of these foreigners is obliged to leave our country, prospective statistics indicate that by the year 2000 the working population will have diminished, as against 1970, by some 200,000, while the non-working population will have increased by more than 400,000.

Thus, if Switzerland were to satisfy the demands to limit the population explosion advocated in the celebrated report "Limits of Growth" issued by the



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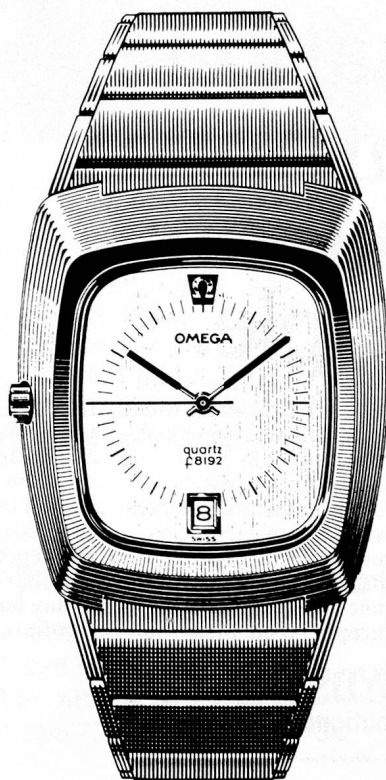
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Club of Rome, it would well find itself showing a negative growth rate. This hypothesis is too pessimistic in my opinion and need not detain us.

There is however no getting away from the fact that, with only the forces provided by the present stabilized foreign labour contingent added to the active national population, my country faces a period of modest real growth, marked by inflation of the cost of living, given the virtually complete drying up of the labour market.

Industrial re-grouping

Rationalization of production, the classical remedy in such a situation, has already progressed to a considerable degree. Certainly, there is still more that can be done, but the room for manoeuvre is relatively small. A further amount of restructuring will doubtless be inevitable in the branches of industry subject to strong competition from abroad, such as textiles, shoes, watches and others. Some regrouping is likely to be necessary within the most threatened sectors, to strengthen the financial basis of those that wish to survive. They will certainly only be able to do so by going in for specialization and advanced technology production with high added value. Indeed, it is in these very branches where such a policy has been followed for a number of years that the sturdiest and the most prosperous companies are to be found.

Large size is not, however, essential.

Switzerland has quite a number of small and middle-sized firms with less than 500 people that have managed to assert themselves on the export markets. The struggle for survival is thus not without hope. But it demands a great effort, especially as regards research and even more so development.

So far Swiss industry has financed its own research effort and has not asked for state support. But under the pressure of foreign competition which, for its part, will often be able to count on financial support from the public purse, the need for intervention on the part of the Confederation is coming to be felt more and more strongly in some sectors.

Plans are afoot to create, within the Swiss National Research Fund, which until now has financed only basic research at universities, a section concerned with aid to research for industrial purposes. The intention is, however, to support only basic research at universities, and possibly in private research institutes, so as to provide industry with the necessary basis for new developments which for their part would have to be entirely financed by private funds. This is a first step in a direction that is not to everybody's taste, for it has been found that state financing of research which one day leads to the support of development is very costly and must be paid for by an increased burden on the taxpayer. Taxes are still very reasonable in Switzerland and make no small contribution to our competitive power. For this reason, many have raised

their voices in support of the status quo, even though they would then have to bear the weight of research and development themselves. The future alone will tell us whether this policy is tenable or not in the long run for small and medium-sized undertakings.

Resistance to state aid is most in evidence in the largest firms. And with reason indeed, when one sees the success of the large chemical companies and the metal industry, which have established themselves on the world markets by their own resources. But for them too, the problems of manpower are beginning to create a number of difficulties, especially in the field of research: young research workers and laboratory staff are becoming more and more difficult to find in Switzerland itself. There is thus a strong temptation for the more strongly multinational firms to emigrate abroad and to set up new production and research units there. But in so doing, they help to encourage an irreversible phenomenon, that of the shift of new technologies abroad with no hope of return to Switzerland. This is certainly going to become a growing problem, and one to which there is no simple solution. For, apart from the aversion among certain sections of the working community to the reduction in the number of jobs in the long term, there is also the weakening of the management headquarters in Switzerland to consider.

(CONTINUED IN NEXT ISSUE)

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