Household budgets reflect a trend

THE Swiss are everywhere regarded as a savings-happy people. In international comparisons of bank savings deposits, Switzerland always heads the list of countries with the highest savings per head of population.

The strong willingness to save is not only reflected in bank balance sheet figures, but can also be detected in the household budgets of more than 400 Swiss households which are surveyed every year by the Federal Office for Industry, Commerce and Labour.

According to the latest survey, the surplus of household income over household expenditure (savings rate) amounted to average 7.56 per cent in 1979. This means that the savings rate rose slightly against the previous year, after it had dropped from 9.16 per cent in 1975 to 7.05 per cent in 1978.

The comparatively high savings formation in the recession years of 1975 and 1976 was undoubtedly due to restrained consumer spending and greater provision for the future in view of the gloomy economic prospects at the time. The decline in the savings rate during the following years was mainly caused by the bigger tax load imposed by government authorities at all levels.

A breakdown by household size, income and profession of the head of the household shows, as expected, that the propensity to save depends primarily on the amount of income.

The savings rate tends to go up with higher incomes. For example, while households with incomes between Fr. 36,000 to Fr. 48,000 had an average income surplus of 3.7 per cent in 1979, the equivalent figure for households earning between Fr. 60,000 and Fr. 72,000 was 6.3 per cent and that for incomes between Fr. 84,000 and Fr. 96,000 stood at 19.9 per cent. Conversely, the savings rate drops as the size of the family goes up.

Savings are often higher if both members of a two-person household earn an income. In an interregional comparison, households in German-speaking Switzerland scored higher savings rates than those in the French-speaking part of the country. The larger surplus savings recorded in the case of households in the German-speaking part of Switzerland can quite likely be attributed to the above-average incomes that prevail in most parts of this region and to the slightly below-average size of the households as compared to the other areas of the country.

How much of the household surpluses goes into savings accounts is largely dependent on the development of interest rates. The share of the net change of bank savings deposits in household income declined rapidly after a temporary climb to 4.3 per cent in 1976, amounting in 1979 to only 1.3 per cent. In the same period, interest rates on savings deposits fell from nearly 5 per cent to 2 per cent.

It can be concluded that cash on hand was increased or that income surpluses were used for other investments, such as stocks, bonds and other securities.

Contributions to life insurance schemes, pension and provident funds and the old age and invalidity insurance are booked as expenditure in household budgets. The relationship of this expenditure item to the total income of the households changed very little between 1975 and 1979, rising only from 8.64 per cent to 9 per cent. The share of insurance saving is largely independent of the amount of income, professional status and size of the household.

Union Bank of Switzerland

Three wise men look to the future

THE group of experts appointed by the Federal Department of Public Economy and the Swiss National Bank published its 1979/80 report on "Situation and Problems of the Swiss Economy".

The "three wise men" — Professors G. Bombach (Basle), L. Weber (Geneva) and H. Würgler (Zurich) — place the growth in Switzerland's real gross national product at 1 per cent to 1.5 per cent for the years 1980 and 1981. In other words, they neither expect a new crisis like the one in 1975/6, nor a repetition of the economic miracle experienced before 1974 with annual growth rates of more than 4 per cent.

Economic growth is anticipated to remain rather modest in Switzerland in the coming years as well. The main reasons for this development are the negligible increase in the population, declining productivity gains and the above-average increase in energy import prices.

Three major problems

Owing to the expected weak growth of the economy, the experts distinguish three principal sets of problems which have to be solved in the early Eighties.

- Since growth is anticipated to be slim, the additional economic cake will become steadily smaller and the resulting problem of income distribution more serious: the danger of controversy over the division of the added value accentuates.
- As to the financing policy of the Federal Government, the task at hand will be "to balance a budget during an era of economic weakness which incurred a deficit during an era of surplus".
- Weak economic growth will widen the gap in economic performance between the various regions. This requires drafting a new regional policy which is no longer confined to improving the general background and infrastructure expenditure for marginal areas.

As far as the distribution of added wealth is concerned, the experts see the possibility for a solution to lie, above all, in the index mechanism. It would be unrealistic to try to offset the decline in the standard of living due to the oil price increases by more domestic growth, a renewed revaluation of the Swiss franc or higher export prices.

Though the elimination of the distribution problem from political discussions by means of full indexation poved useful during the growth period according to the experts, it quickly leads to "fictitious and inflationary controversy" in times of moderate expansion.

In the opinion of the three wise men, a modified cost-of-living adjustment must form the basis of a solution to the following conflict: if complete compensation is granted for the rise in the cost of living, high-income earners would receive unjustified income increases.

Conversely, an extensive ceiling or a cost-of-living adjustment which declines in proportion to the rising income would lead to an "automatic" leveling. Since the experts wish that their report be regarded only as suggestions leading to further investigations, they do not submit any detailed proposals for partial indexation.

The report does not even touch upon other forms of wage adjustment, such as investable wages, profit sharing or linkage to the productivity increase of the enterprise or industry. It is, however, especially these forms of salaries and wages that would not only take the problem of price stability into better account but also facilitate the necessary structural changes in the economy.

As far as the restoration of a healthy Federal budget is concerned, the experts judge the present times favorable for "installing a lasting balance in the Federal finances, so that the Federal budget may in future be actually used as an instrument in a policy of stabilisation".

Based on this point of view, the experts regard "the planned restructuring programme as being acceptable, i.e., without any unwelcome recessionary consequences for the Swiss economy". On the income side it is suggested that the proposed tax on heavy-goods traffic should not only take account of financial aspects but also consider general policy aims within the framework of the overall transportation planning.

Regular tax payments

Regarding the Federal income tax, the group of experts proposes an annual tax declaration with regular payments on account. This would not only enable the government to benefit with shorter delay in the income sector during a period of economic upswing, but the annual assessment would also be better adjusted to cynical developments than at the present bi-annual rhythm.

Since a value-added tax cannot be introduced as a replacement of the turnover tax in the next few years for political reasons, the team of experts suggests that the replacement of the presently applied single stage tax on the wholesale turnover by a retail trade turnover tax should be subject to a thorough examination.

Such a system would allow unified taxation without any influence on competition which is a by-product of the present system of a pseudo-capital goods tax.

The slowdown in economic growth anticipated for the coming years will increase regional differences, according to the three wise men. The outlook for growth is particularly unfavourable for those industrial sectors which are already over-represented in the marginal areas, use simple production procedures and are especially exposed to competition from low wage countries or are severely affected by the introduction of new technologies.

Given present circumstances, the structural change will have to take the form predominantly of geographic mobility.

However it is not only the workforce concerned which will oppose such a development; misgivings must also be voiced from an economic viewpoint. The loss in economic power inherent in an exodus of industry could jeopardize the viability of individual marginal areas and thereby even endanger the federalistic system of government over the long term, while high environmental protection costs might result in growth-favoured agglomerations.

It must therefore be the aim of a regional policy to induce a structural change primarily by means of vocational mobility.

In the view of the experts this would, however, presume that regional policy does not only take disadvantage over the medium or long term, but also does not limit itself exclusively to the improvement of overall environmental conditions and the basic infrastructure of such regions.

Closer co-operation

Rather, such a regional policy should aim at creating a differentiated demand for labour in the peripheral areas themselves, which also comprises challenging positions and a more extensive range of training facilities.

However such a policy would not only necessitate considerable financial funds but also closer co-operation between the state and the corporate sector. What form such co-operation should take or how the Federal Government should raise the necessary funds in view of the precarious financial situation of the Federal budget are questions which are passed over in silence by the three wise men.

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