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"Swiss Review" journalist Rolf Ribi interviews Federal Councillor Pascal Couchepin.

Ailing Swiss economy

ROLF RIBI

Economic growth in Switzerland is flagging, and there is no sign of an upswing. Are we merely suffering from temporary stagnation, as Federal Councillor Pascal Couchepin claims? Or are there more deep-seated reasons for the ongoing downturn in the Swiss economy?

THIS AUTUMN the Swiss public were astonished when the "Neue Zürcher Zeitung", the standard-bearer of the free market economy, announced drastic cost-cutting measures. The newspaper was aiming to save CH 20 million and cut the workforce by 80. Twenty-seven employees were laid off. Such measures were unparalleled in the 200-year-old history of this world-renowned publication. The flagging economy, accompanied by a drop in employment ads and commercial advertising had dealt the "old lady" a severe blow.

Switzerland's economy is in a poor state. The economic engine is stalling, growth has long been meagre, and recovery is still some way off. In line with this, the State Secretariat for Economic Affairs (seco), the Economic Research Centre of the Swiss Federal Institute of Technology (ETH) in Zurich and Switzerland's major banks drastically adjusted their year-end growth forecasts downwards. Economists at the Federal Department of Economic Affairs (DEA) are reckoning on a 0.2 percent drop in growth for 2002 and only one percent growth for the current year, with an annual average unemployment rate of 3.2 percent.

Is Switzerland suffering from an economic recession or merely stagnation? In an interview last year with the "Swiss Review", Federal Councillor Pascal Couchepin, Head of the DEA, said: "We are suffering from zero-growth stagnation. This could turn into a recession if the global climate deteriorates." In a cartoon published by the "Blick" newspaper, an eye doctor points to a board bearing the letters "RECESSION", which our bespectacled Minister of Economic Affairs reads as "RECOVERY". Criticising the Minister, the "Neue Zürcher Zeitung" suggested that it takes "a little courage" to call an economic spade a spade, and went on to state that "Switzerland is in recession – the minus factor is the key."

Stagnation or recession, one thing is clear: Switzerland has a growth problem, irrespective of economic ups and downs. As Federal Council Couchepin puts it: "Our economy has suffered from weak growth for ten years. We have not kept pace with other countries." Indeed, at an average annual growth rate of 1.1 percent between 1992 and 2001, Switzerland lagged behind all the states of the European Union and the European Economic Area. If this trend continues, by 2015 our country will be less affluent than Germany, Austria or Finland.

Switzerland's unsatisfactory economic performance is mainly attributable to home-grown factors, according to two interesting documents: the growth report published last year by the Federal Department of Economic Affairs, and a new study by the Avenir Suisse think tank on Switzerland's stand-alone status in Europe. The authors even talk of a "lost decade" following voters' rejection of the European Economic Area ten years ago, and of "missed opportunities of going it alone". Economic growth is dictated by five main factors: competition, productivity, human know-how, government policy, and an outward-looking approach.

Too little competition

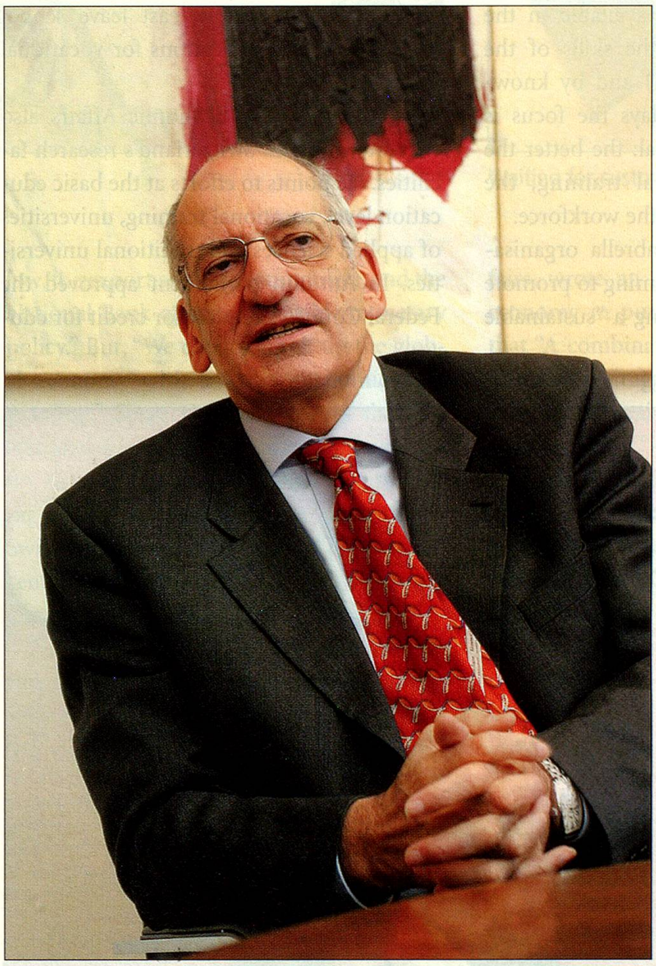
Intensive competition at home and competition from abroad enhance the performance of enterprises, act as an incentive to innovation, and promote productivity and lower prices. The statistics paint a clear picture: for decades the Swiss economy has suffered from too little competition. In many areas of the private sector, agreements on prices, quantities, standards and sales markets ensure the status quo, and the regulated sector enjoys assured profits. In the public sector, administrative prices, tariffs, charges and taxes provide authorities with fixed incomes and entail extra costs for the economy and private householders.

What are the reasons behind this long-standing lack of competition in the domestic economy? "Inflexible prices set by a cartel are always backed by interest groups," declared Couchepin, citing the problems of agricultural reform, state-controlled prices in the healthcare sector and tenancy laws and zoning regulations in the real estate market.

Admittedly the 1996 law on cartels is now being tightened up, telecommunications and the postal service are deregulated and the meat market is being opened up a little. But the goal of a competitively-driven, dynamic home market is still a long way off. "There are still obstacles in people's minds," says Couchepin. This thought is echoed by Bruno Gehrig, Vice President of the Directorate of the Swiss National Bank, when he speaks of a "weak competitive will in the domestic economy", which costs us a "substantial price due to of significant loss of wealth."

High prices

The direct consequence of a lack of competition is obvious: domestic products cost significantly more in individual Swiss markets and are generally much more expensive



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Federal Councillor Pascal Couchepin: "We are suffering from zero-growth stagnation. This could turn into a recession if the global climate deteriorates."

than abroad. This is a drawback for our export business and for the tourist sector, and is the reason why living costs in our country are so high.

According to a Europe-wide study by the European Union's Office of Statistics, Switzerland ranks alongside Denmark, Iceland and Norway when it comes to price levels. Food products, for example, cost 50 percent more in Switzerland than in EU countries (meat costs as much as 89 percent more, fish 59 percent more and vegetables 57 percent more).

Productivity too low

How can a national economy produce more goods and services? By putting in more hours or increasing production per working hour (productivity). The Swiss work longer hours than elsewhere, and with 82 percent of the population in employment, our country leads the field. When it comes to productivity, however, the picture is different: "Productivity in the domestic economy is unsatisfactory, and is well below the performance of the export sector" (Bruno Gehrig, Vice President of the National Bank). "The ongoing drop in working productivity is a key source of declining growth," according to the State Secretariat for the Economy. However, Serge Gaillard, Chief Economist at the Swiss Association of Trade Unions, disagrees: "Working productivity has risen sharply over the past decade." →

Addressing the problem of productivity, Couchepin said: "We have a high level of employment with few jobless, which reduces productivity. In other countries there are more unemployed persons drawing welfare benefits, thus raising the productivity of those in employment. We have areas with low productivity such as agriculture and tourism." And productivity is virtually impossible to measure in the financial and administrative sectors. Nevertheless, the USA is showing how high-level productivity can be achieved with a relatively low rate of unemployment.

Important human capital

The productivity of a working hour is determined by the equipment available in the workplace (real capital), the skills of the workforce (human capital) and by know-how (technology). Nowadays the focus is primarily on human capital: the better the professional and technical training, the higher the productivity of the workforce.

Economiesuisse, the umbrella organisation of Swiss business, is aiming to promote human capital by launching a "sustainable offensive based on growth policy". This powerful association of interest groups is calling for expenditure on training and research to be increased by an annual rate of 6.5 percent between 2004 and 2007. Politicians on the left are singing the same tune: "The DEA holds the key to increased productivity," says SP National Councillor Rudolf Strahm, who likewise calls for more investment in training and further education to enhance human capital. Union economist Serge Gaillard cites the upgrading of polytechnics to universities of applied science and the adaptation of vocational training courses to cater to new professions and technologies. Not forgetting the basic education provided by state schools: "Every young person must at least leave school with sufficient qualifications for vocational training."

The Minister for Economic Affairs also wants to invest in Switzerland's research facilities. He points to efforts at the basic education level, vocational training, universities of applied sciences and traditional universities. In Autumn parliament approved the Federal Council's request for credit for education and research. "This is the only way forward. Under the terms of the federal constitution, the state has a key part to play in this respect."


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Even the service sector has not been spared the consequences of the sluggish economy.

The role of the state

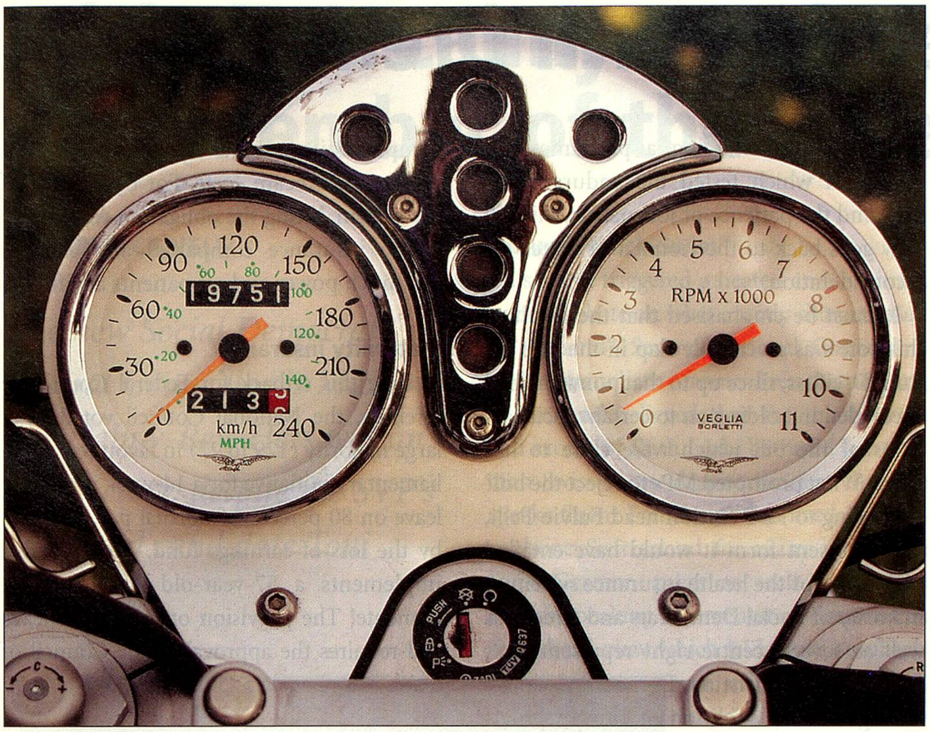
The state plays a pivotal role in economic growth. But to what extent? How high should the government expenditure rate (proportion of the national product accounted for by state expenditure including social insurance) and taxation ratio (proportion of national product accounted for by tax income) be? State expenditure on infrastructures such as transport and telecommunications or on education and research benefit the economic growth rate over the long term. The social security system helps to keep the peace in the job sector and contributes to economic stability. On the other hand, the private economy is more dynamic than the public sector; state services are often too expensive or rapidly become exorbitant, while excessively high income and corporate taxes impede incentive and innovation.

Thanks to its economy, Switzerland's government expenditure rate and taxation ratio are slightly lower than the average for leading industrialised countries. Yet the umbrella association for Swiss business points out that the government expenditure rate rose by 4.7 percent between 1990 and 2000, with the taxation ratio even rising to 5.3 percent. "For every one percent increase in the government expenditure rate, there is a 0.15% drop in growth," says Rudolf Walser of Economiesuisse. One stubborn problem remains: as the population continues to age, the social burden on the state will be difficult to reduce.

The consequences of going it alone

As already reported, Switzerland is last on Western Europe's ladder of economic growth. Is there a connection with Swiss politics following the No to the EEA in 1992 and the aversion to joining the European Union? "Not entirely," counters Federal Councillor Couchepin, citing weak competition at home. But, he adds, "We could have achieved a great deal within the EEA. The people decided against it. This is regrettable, but in democracies the electorate is always right."

At approximately forty percent, Switzerland's export business accounts for a larger proportion of the economy than other



The engine of the Swiss economy is stalling.

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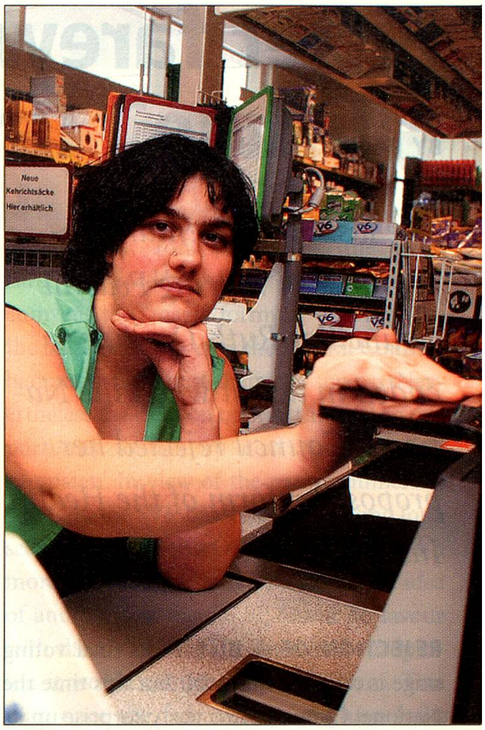
Waiting for customers in a Swiss foodstore.

countries. While our export products are regarded as competitive on international markets, the fact is that in recent years Switzerland has been unable to increase its share of the global export market, and other countries have been more successful.

Switzerland's stand-alone status in Europe has its consequences: "The fact that Switzerland is not automatically obliged to liberalise markets as required by the EU is a drawback," says Aymo Brunetti, Chief Economist at the State Secretariat for the Economy. "The bilateral accords with the European Union have not had as comprehensive an effect as membership of the EEA would have had."

Not always competitive

Despite all the alarm signals, our national economy is still internationally competitive and rated by the Lausanne Management Institute as the seventh most economically attractive country (with the USA ranking top), and is even ranked the sixth most competitive country by the World Economic Forum (which also puts the USA in the lead).

Is there hope for a return of the economy to its potential growth rate (i.e. possible economic performance) of two percent? Pascal Couchepin is confident: "Our labour market is flexible, interest rates on investments are low, the export sector is competitive, and the National Bank operates a flexible monetary policy." But, "We cannot crank up the global economy with a Swiss economic programme." Serge Gaillard believes that the National Bank bears the main responsibility for economic stabilisation and for preventing a further increase in the value of the Swiss franc against the euro. "The current central bank management team is doing a good job."

The "Neue Zürcher Zeitung" had another surprise up its sleeve last year when Gerhard Schwarz, Editor-in-Chief for Economic Affairs, wrote an article entitled "The Swiss economy in purgatory", where he claimed that "A combination of ineptitude and immorality is dragging down the Swiss economy." Many major companies, he said, were suffering from "a form of prolonged crisis". Strategic mismanagement, poor corporate governance and moral confusion had lead to a "galloping loss of public confidence in business leaders". "What the Swiss economy needs," he went on, "is a Dantean inferno." Never before have such sentiments been expressed by Zurich's "old lady" of Falkenstrasse.

Literature

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