



Growth between fear and euphoria

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Ladies and gentlemen,

Growth – for some represented by a large bank account or joining the ranks of the super-rich; for others a fulfilling situation of modest self-satisfaction. There are worlds between the two and a French children’s rhyme shows well just where unchecked growth can lead: “In a pond, a lily doubles in size everyday. In thirty days it covers the whole pond. It’s growth doesn’t seem threatening as long as enough of the water’s surface can be seen. Even on the twenty-ninth day half the pond is visible. But on the thirtieth day the pond is overgrown.”

Growth fuels fear and anxiety. A fear of rapidly growing markets, the (even) greater divide between rich and poor, the crowding out of SMEs by global players or of competition for the best workers. The fear of being squeezed out or of a deterioration in the economic climate; of crises, recession and unemployment.

Growth also often triggers overwhelming euphoria, the consequences of which are excessive bonus payments, speculation on the real estate, derivatives and commodities markets, and price bubbles. or the forcing up of prices.

In such situations, public confidence in the economy swings between fear and euphoria. A phenomenon that can be observed in the current financial crisis.

Where confidence is lacking, growth can no longer be assured. Recently, the lack of confidence has seriously impaired the functioning of the global financial system. Since the financial system is essential for economic activity of any type, it is in the vital interest of the citizens around the world that their governments are prepared to take the necessary measures to preserve its functioning. Indeed, governments around the world have taken exceptional measures to stabilize the situation. In the same vein, the Federal Council, in cooperation with the Swiss National Bank, have taken measures to strengthen confidence. Specifically, the Swiss National Bank has established the possibility to transfer illiquid assets to a special purpose vehicle (SPV) for orderly liquidation and the Confederation will strengthen the UBS capital base by subscribing to mandatory convertible notes (MCN) to the amount of CHF 6 billion. Moreover, depositor protection shall be increased.

Although it is primarily the business community that has to ensure growth by itself, government cannot just stand idly by. It does not bode well if political aspects are only considered when times are bad. I am well aware that when the economy is growing, it is due to managers – and that when things are bad, the government or the minister is to blame. But with all due respect that is a little too easy:

- It is true that we live in a free market.
- The framework for this success however is set by government policy; that is sustainable. But that framework must continually be adjusted. As the current financial crisis has shown, we have allowed too much freedom and must now correct supervision and inherent mistakes in the system.

As the success of the bilateral agreements with the EU or our education policy show, knee-jerk responses such as impulse or investment programmes or not a cure-all. Economically sensible conditions cannot be created overnight.

- Growth policy is oriented towards long term goals and establishes the conditions for sensible employment, a good quality of life, prosperity and welfare.
- Growth policy helps to balance out fluctuations and generate confidence in firms and in the markets.
- Growth policy ensures fair market access, a level playing field for industrialised nations and developing countries, fair prices and wages, access to resources (water, power, technology, education and know-how) – the hope of a brighter future.

Here in Switzerland, we too have gone through various phases of euphoria and fear. At the beginning of the 19th century, existential fears triggered a surge in emigration. Many people saw no prospect of employment or livelihood in Switzerland. A dangerous level of euphoria triggered the dotcom bubble when the share values of various IT companies shot up in 1999. The Enron scandal also brought to light some creative accounting practices here in this country.

At some point in the course of all these ups and downs, the government is invariably called on to take corrective action. In times of recession, in the form of impulse programmes, which often only take effect when the economy has recovered. In times of growth, to act against excessive bonus payments and bring transparency to executive pay.

Even though our economic policy in the past was often reactive, Switzerland can look back on long periods of growth.

- Since 1848 per capita GDP has grown more than ten-fold . After the Second World War the Swiss economy experienced a real leap; and that despite the fact that after 1975 annual GDP settled at +/- 2% .
- The employment situation has constantly improved and today over 3.9 million people are in work.
- In terms of per capita GDP, we are among the world's richest countries; ranked sixth.
- We are among the world champions in terms of exports; ranked fourth.
- We are one of the most competitive countries in the world, ranked second.
- And according to the World Data Base of Happiness, we are the country with the highest quality of life.

When I look at these developments, I think it is fair to say that we have come quite a long way:

- We are prosperous, but not particularly dynamic.
- We work hard, but could be more productive.
- We have consolidated our strengths, but have not been consistent enough in ironing out our weaknesses.

In order for Switzerland to be perceived as a medium economic power, we have to shift from a reactive, sectoral approach to economic policy to an interdisciplinary, interdepartmental approach. Modular thinking is no longer acceptable. Today, a coherent growth policy across all government departments and policy areas is more important than ever. World economic growth is stalling, the fight for contracts and resources will get tougher, Switzerland is faced with intense locational competition. There needs to be an overarching approach in the general interest. For that we need an economic policy with a sensible profile. We need an economic policy which generates gainful employment combined with a good standard of living. Indeed, we are required to do just that under article 94 of the constitution; (The Confederation and the cantons) together with the private sector, shall contribute to the welfare and economic security of the population.

That was recognised by the Federal Council which, in response to the stagnation of the 1990s, launched a package of 17 economic measures in February 2004, which extended across all government departments. This was however a one-off policy designed to strengthen the growth trend in Switzerland. In contrast, the growth policy 2008-2011 is designed to introduce a continuous process.

If we want to act according to the principle of 'gouverner c'est prévoir', then we have to shift away from a selective approach.

- Only then will we be able to face the long term challenges head on.
- Only then will we be able to take advantage of the opportunities presented by globalisation.
- Only then will we have an answer to Switzerland's demographic ageing and all the associated implications it has for the state's finances and social welfare.

The important thing to note is that the continuation of the growth policy – in contrast to the package of growth measures during the last legislature – is explicitly not limited to measures that the Federal Council is entitled to submit to parliament. The new growth policy concept incorporates the international level, the federal level and, for the first time also the cantons.

We want to set priorities in three areas:

- Firstly, we want to bring down high prices/costs and strengthen competition on the domestic market; by revising the Federal Act on Technical Barriers to Trade (introduction of Cassis de Dijon principle) or through a free trade agreement with the EU in the field of agriculture and food.
- Secondly, we want to enhance the Switzerland's appeal as a location for business – by extending the network of free trade agreements with partners outside the EU, through our efforts in the Doha Round or a more business-friendly tax policy.
- Thirdly, we want to assure rewarding labour participation. A high volume of labour participation is needed if we are to meet the challenges of demographic ageing.

The implementation of these reforms would lead to an increase in production and real wages of 8% and raise the number of people in employment by 1.5%. We expect that the growth policy 2008-2011 will be able to contribute between 5% and 10% to gross domestic product over the course of the period and beyond.

There is an old Jewish saying that illustrates just how important growth is. The sense is that if you don't grow, you get smaller. But as far as I'm concerned it's not just a matter of bigger, faster and stronger. It's about controlled and sustainable growth. Only with sustainable growth are we able to adequately finance our social insurances – old age, invalidity and pension funds and health insurance – at present levels. Only with sustainable growth can we ensure, for example, that our land is not concreted over in 20 years or that the necessary measures have been taken in terms of climate policy.

Our policy of (market) opening is closely linked to this growth philosophy. It leads to greater competition, and thus to greater prosperity. It also means that we are better positioned, particularly also in difficult times. It prevents the allocation battles between the social partners and the generations from becoming even harder. It ensures that we are able to offer an attractive business location for firms and an interesting living environment for citizens. The proof of this can be seen in the number of highly qualified people who have moved to Switzerland in recent years. According to the latest study published by Avenir Suisse, they have contributed over proportionately to this country's growth.

Ladies and gentlemen, if we want to promote the kind of economic growth, that generates neither fear nor excessive pay and price bubbles, then the State has to exercise its role in a timely and provident manner and in so doing answer the following three questions:

- In a global context: are our procedures fit-for-purpose in a globalised world?
- Time relevance: do we act quickly enough; is our democratic system in a position to implement reforms in good time?
- Ethical/moral support: can we maintain a balance between a liberally-oriented economy and our social and environmental responsibilities?

We have demonstrated through our policies that we can act in a liberal AND socially-responsible manner; for example with our liberal labour market AND at the same time our well-developed social unemployment insurance.

Economic growth is only possible in a balanced climate.

A climate in which

- conditions do not stifle private initiative, yet at the same prevent a free-for-all and
- in which capable entrepreneurs, innovative researchers and creative workers can exercise their responsibility.

Confidence in political actors AND management is also essential.

- Without confidence there is no creditworthiness.
- Without confidence there is no commitment.
- Without confidence there is no innovation.

If people do not have confidence in the system, if they have the feeling of being treated unfairly, then any growth policy is merely a waste of time. Growth cannot be forced! That has been demonstrated quite plainly on the financial markets over the last few weeks. First euphoria reigned, today fear dominates.

Exorbitant bonuses do not inspire confidence. Neither does blatant party political grandstanding at the cost of ordinary workers and savers.

Instead of demanding a sensational masterstroke, what we need is a balanced, proven policy, which leaves no-one behind. Instead of getting wrapped up in mutual blame exercises, it would be more worthwhile to sit together and review the procedures and adjust the framework conditions, otherwise the children's rhyme cited at the beginning risks becoming reality, leaving us economically marginalised due to the growth achieved by others.

Thank you.