Economic Cycle & Growth

Switzerland doesn't need to slam on the brakes; it needs to shift into the right gear

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At a glance

With the “10-Million-Switzerland Initiative,” the public has shown politicians a yellow card. Forty-five percent voted against excessive growth, saying, “Enough is enough.” This concern is understandable and must be taken seriously. However, when it comes to the lessons we should draw from this, two common misconceptions are misleading.

First, there is a risk of acting rashly. The logic behind some of the comments is this: If Switzerland is made unattractive enough—through higher taxes or the elimination of business incentives—the problem will resolve itself. That's true—but the collateral damage would be enormous. Because growth isn't about expensive vacations and luxury cars. It's about prosperity. It's about financing our "island of the blessed," where—despite all its flaws—we are still fortunate enough to live: the high incomes, the exemplary healthcare system, the excellent education, the punctual trains, the well-maintained roads, and the strong social safety net. Those who cut off the root shouldn't be surprised by withering leaves.

Second—and this surprises many—Switzerland's economy isn't actually growing that strongly. In terms of absolute economic power, we do rank among the world's leaders. But in terms of economic growth, we're nearly at the bottom of the list compared to other developed countries (OECD). There's a lot to be said about the economy—but certainly not that it's growing too fast in Switzerland.

Growth in Breadth—and Depth

The debate confuses two distinct concepts. Broad-based growth simply results from having more people—more people, more economic output. It makes Switzerland economically larger as a country and helps in all areas where volume matters, such as in the financing of large-scale projects. Deep growth, on the other hand, results from higher value added per person—in economic terms: from rising productivity. It determines how much prosperity remains for each individual.

Whether one needs, accepts, or rejects broad-based growth is a matter open to debate; it is a form of growth with side effects. With depth-based growth, however, the case is clear: the only people who might oppose it are those who, in the spirit of the green "degrowth" ideal, desire a lower standard of living. And the beauty of it is that depth-based growth knows no bounds. With every technological advance, the potential increases. For example, the economy has doubled its value creation while simultaneously halving CO_2 emissions. Doing more with less is indeed possible.

Where does Switzerland stand? Over the past ten years, 50 to 80 percent of growth has been in depth and 20 to 50 percent in breadth. The good news: We're growing in depth. The bad news: We're also growing more in breadth.

The rocky ground

If we imagine the economy as a plant whose roots spread out horizontally or grow deep into the ground, then we have a problem with the depth. Regulation and bureaucracy are on the rise, there is a lack of energy security, infrastructure expansion is being blocked, and protectionism in many countries is hindering market access—rocky ground that the roots can penetrate only with great difficulty. The data confirms it: Our productivity lags behind that of other developed countries. Ironically, it is the manufacturing, pharmaceutical, financial, and digital sectors—which generate significant prosperity with little immigration—that are faltering. We are seeing the first signs of deindustrialization, as Germany has already experienced. And even the pharmaceutical industry, once the quintessential engine of deep-rooted growth, is faltering.

To achieve an urgently needed boost in productivity, we need bold measures: a free trade agreement with Mercosur, a reduction in the tax burden—for example, through the Young Liberals' "administrative brake"—as well as genuine security of supply, for which lifting the ban on nuclear energy and the electricity agreement are central.

As a country, we must learn the right lessons from the yellow card without resorting to dangerous pseudo-solutions. Switzerland must do the homework we set aside during the boom years: focus on productivity and strengthen qualitative growth. The yellow card is no reason to slam on the brakes—it should be the impetus to finally shift into the right gear.

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