Economic Cycle & Growth

The pricing mechanism ***ensures supply even in times of crisis***

19.08.2026

At a glance

- Low water levels on the Rhine are hampering freight transport, but do not automatically lead to a supply crisis.
- Companies are shifting shipments to road, rail, or alternative routes and adjusting inventory levels and fleets over the long term.
- The price mechanism enables these adjustments — higher prices create incentives but also impose costs on the economy and consumers.

Do you remember the early days of the pandemic? Back then, there was a shortage of disinfectants, masks, gloves, protective gowns, and ventilators. There was a huge outcry, and the fear of a supply crisis was even greater. Government agencies solved some of the problems, but private companies solved a large part of them: They leveraged their contacts, reorganized their operations, resumed production, or ramped it up. After just a few weeks, many items were available again.

The pandemic is over. However, the current low water levels caused by the drought are once again a cause for concern. There are warnings that international shipping routes on the Rhine could be disrupted. Is Switzerland facing a supply crisis due to the low water levels? After all, about 10 percent of all goods enter Switzerland via the Port of Basel each year.

The answer is: No. Because companies are responding quickly, Switzerland is not facing a supply crisis. Goods from northern ports are being rerouted and transported to Switzerland by road or rail instead of via the Rhine. The alternative route via Genoa is gaining importance, and the Gotthard Base Tunnel enables rapid onward transport to the northern side of the Alps.

Pricing Mechanisms as Drivers of Problem-Solving

But why do such adjustments occur automatically, without the government having to take over the planning? The price mechanism is key: Rising prices are necessary. Only then does it make economic sense to operate ships with lighter loads—and thus shallower drafts—to use alternative routes, or to switch to other modes of transportation, where the additional demand also drives up prices. Higher prices make solutions profitable that were previously uneconomical. They enable diversions, adjustments, and even reduced consumption. This is how the market regains its balance after a shock.

The price mechanism is thus the key driver of problem-solving. Government interventions intended to prevent price increases—as has recently been the case with energy sources in many countries—distort the market and hinder its self-regulating process. The consequences are shortages, long delivery times, distribution disputes, and long lines.

Companies are also preparing for the long term, anticipating that low water levels could occur more frequently. They are forecasting how the situation will develop in the coming years and are already taking action today accordingly. When ordering new cargo ships, for example, those with shallower drafts are preferred. The shallower ships can stay afloat longer.

In addition, companies will increase their inventory levels in the spring so that sufficient goods are available in the summer. However, this measure also comes at a cost.

Expanding Transportation Infrastructure Is Key

The market's ability to adapt through the price mechanism also has its downsides: Consumers and businesses must pay more for transportation, imported goods, or higher inventory levels. This erodes profit margins and reduces consumption of other goods and services.

The government still has an important role to play: it should drive the expansion of transportation infrastructure. Rail, road, and waterways must have sufficient capacity. In addition, redundancies are needed to ensure that traffic jams, power line failures, or low water levels do not lead to a complete collapse of the transportation system. Even then, the price mechanism balances the market, but significant—or even enormous—costs are incurred.

However, when it comes to expanding transportation infrastructure, companies are waiting for solutions from the governments. In Switzerland, for example, expansion is proceeding only slowly. The situation is particularly acute in Germany, though. As in Basel, shallow-water sections in Germany should also be dredged, particularly in the German Kaub area. In addition, companies are still waiting for the expansion of north-south rail capacity in Germany. Although promised long ago, this expansion is constantly being delayed, much to the chagrin of the business community and consumers.

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