Philipp M Hildebrand: Ten theories on the economic relationship Switzerland - Europe

Summary of a speech by Dr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, to the Arbeitgeberverband Basel, Basel, 8 September 2004.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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The relationship between Switzerland and the EU is close in so many ways that it appears almost stronger than that among many member states themselves. The debate on a possible integration into the EU as a logical consequence should be as broad-based as possible. Economically speaking, the issue has become more pressing since the introduction of the euro, as Switzerland is now surrounded by a single-currency area. Switzerland's weaker economic growth is also frequently quoted as an argument in favour of integration, since the necessary domestic structural reforms would then be easier to realise. However, one tends to overlook the fact that the national authorities would continue to be responsible for implementing reforms and that, moreover, the absorption potential of autonomous monetary and fiscal policies would be forfeited.

Even with an independent policy, Switzerland is in a position to outperform if it again focuses on its strengths of flexibility and openness. The independent monetary policy has helped to keep inflation in Switzerland at a low level for decades. This and the diversification properties of the Swiss franc make capital cheaper in Switzerland by approximately 1.5 percentage points (interest premium). Exchange rate volatility vis-à-vis the euro area has declined, while it would continue to exist vis-à-vis the US dollar even after integration. The as yet more flexible labour market ushered in by the transition period II of the Bilateral Agreements I is the flagship of Swiss economic policy. It keeps unemployment and the resultant national costs low in the long term and strengthens the incentives for individual performance. It is essential to translate openness and flexibility, also with respect to internal structural reforms and external relations, into autonomously implemented reforms and a practical global orientation.