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Full Employment Policy in Switzerland  
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Full Employment Policy in Switzerland

Paul Gekker

I. Recent Legislative Developments

Introduction

On October 3, 1951, the Swiss Parliament enacted a law designed to encourage the formation of "unemployment reserve funds" by private enterprises, which would be used to create work during periods of economic depression. 1/ The measure is an attempt to extend to the private sector of the economy the practice of deferring non-essential public works and government investments in accordance with counter-cyclical requirements; the purpose is to reverse the normal tendency of an economy to over-expand in boom times and to over-contract in depressed periods. "The aim is to find means which, without impairing the entrepreneur's free initiative and sense of responsibility, would be suitable to induce and encourage the private economy to exercise moderation during a period of prosperity and to defer non-urgent work, orders and investments in anticipation of a slackening in the business situation." 2/

Legislative provisions

The measure will provide an incentive, in the form of a rebate of federal taxes, to encourage the formation of unemployment reserves. Private companies may claim rebates of taxes paid on earnings which are placed into "reserve funds," on condition that both the reserves and the tax rebate will be used to relieve unemployment in a future recession. An example will illustrate the operation of the measure. If we assume a corporate tax rate of 10 per cent, a firm with a taxable income of 5,000 francs, on which it pays taxes of 500 francs, might set aside 3,000 francs of its earnings in a reserve fund. In a future recession the firm would spend the reserve and would receive a tax rebate of 300 francs. To be eligible for the rebate, the firm must use it as well as the accumulated reserve for the purposes and at the time specified by the Swiss authorities.

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1/ Loi fédérale sur la constitution des réserves de crise par l'économie privée (Du 3 Octobre 1951). The legislation took effect January 10, 1952.

2/ Document N-6090, Message du Conseil fédéral ... concernant un projet ... sur la constitution de réserves de crise par l'économie privée (Du 10 Aout 1951), p. 3.

It is important to note that participation in the reserve plan is entirely voluntary. Private enterprises are not only at complete liberty not to participate in the scheme, but even those who take advantage of the provisions of the law may withdraw the reserves standing to their credit at any time. Moreover, even when the "campaign against unemployment" has begun, a firm need not spend the reserves on projects which are considered to create employment in the sense of the legislation, but may use them for the satisfaction of more immediate needs. In these cases, the right to a rebate of taxes is forfeited.

Under present favorable economic conditions the tax system does not encourage business firms to postpone investment in plant and equipment, and it is hoped that immobilization of these reserves will help to moderate tendencies toward over-expansion by reducing current investment expenditures. At some future time, when the federal authorities decide that circumstances warrant launching a "campaign against unemployment," the funds and a tax rebate may be withdrawn by private enterprises for expenditure on projects which would ordinarily be deferred because of unfavorable business prospects.

Sums set aside in reserves may not be less than 3,000 francs per annum; the maximum may not exceed, at the choice of the company, 50 per cent of either (a) the sum of wages paid per year, or (b) the value of insurance on real estate and equipment, or (c) the value of inventories.

The law requires that at least 60 per cent of the reserve fund be placed in interest-bearing deposit bonds of the Swiss Confederation. The bonds will be issued for fixed periods, but may be redeemed prior to that maturity date, or prolonged after that date.

Whenever the federal authorities announce the beginning of a "campaign against unemployment," private companies may withdraw funds standing to their credit for expenditure on work-creating projects of the following types:

(a) Domestically situated projects of construction, enlargement, transformation and renovation of manufacturing establishments, and building for administrative or social purposes; ventilation and water purification projects, canteens and dwellings for the use of employees of the establishment.

(b) The purchase of machines, equipment, motors, technical installations and means of transport, of Swiss manufacture, 1/ destined for use by the enterprise.

The timing of the future use of reserve funds - the "campaign against unemployment" - will be determined by the Swiss Federal Council after consultation with the cantons and the central economic associations.

#### Background of the legislation

In the development of Swiss employment policy, a system of unemployment reserves has been discussed on several occasions in the past. The authorities accepted the viewpoint that the relationship between increased business profits in a rising market, higher taxes on these increased earnings and the consequent encouragement to additional expenditures which intensify inflationary pressures made it desirable to consider changes in the fiscal system designed to discourage excessive investment activity during such periods. The object was to make it attractive for firms to postpone less urgent expenditures until they could contribute to braking a downward movement.

Suggestions urging the adaptation of fiscal legislation to the requirements of a counter-cyclical investment policy took form in a federal decree of July 1944, which modified the conditions upon which the reimbursable portion of an earlier tax on war gains could be claimed. The measure provided that the taxpayer could also claim this refund if he intended to use these funds to create employment. In addition, the claimant was obliged to match the reimbursed funds with an equivalent contribution devoted to the same purposes. On the basis of this decree, an ordinance of January 1945 specified in detail the types of work considered to contribute to employment within the meaning of the decree: the replacement and expansion of physical plant, work for stock, construction of workers' dwellings, as well as of buildings designed for social purposes, development or reconstitution of sales organizations abroad, and the organization of courses for professional training or rehabilitation.

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1/ In the previously cited message of the Swiss Federal Council, which accompanied this legislation when it was introduced, the requirement is modified by the statement that "in exceptional cases, duly authorized companies may procure machines or equipment of foreign origin if Switzerland has an interest in improving economic relations with the supplying country or if the machines in question are necessary for the completion of purchases made in Switzerland." Ibid., p. 23.

Desirable as this measure was, however, it was recognized as too limited in scope to make any significant contribution toward moderating the prevailing tendency toward excessive expansion of investment. Only a minority of firms was subject to the war gains tax, and of the sums paid only about 20 per cent was eligible for reimbursement. Nevertheless, the 1944 decree was an important step; it did establish a precedent and a procedure for the creation of reserve funds to be used to create work. 1/

In addition to studying various incentives to encourage the creation of work reserves, the authorities also considered the adoption of accelerated depreciation, with the purpose of encouraging investment during depressed periods. The unemployment reserve idea, however, was considered more desirable. Although accelerated depreciation may be an excellent stimulant, its effectiveness depends to a great extent on the financial condition of particular industries or firms. It can hardly provide any incentive to the enterprise which is not earning profits. On the other hand, firms incurring losses during a depression would have an incentive to spend reserves built up during prosperous times for the purpose of improving their competitive standing.

The authorities realized that should it not prove possible to adopt counter-cyclical fiscal policy measures, direct subsidies would remain the only other means of stimulating a recovery of private activity. They considered, however, that subsidies were less acceptable than the reserves fund scheme from the public finance standpoint. Under a reserve plan the scope of operations is known, whereas subsidies are subject to various pressures which may be difficult to resist. In addition, subsidies were disliked because of the fear that they introduce an element of undesirable government influence over the direction of private investment. Advocacy of the reserve fund idea rested on the assumption that expenditures would be identical with projects previously deferred, i.e., that these would have been made sooner or later. On the other hand, it was feared that subsidies awarded to promote replacement or improvement of equipment might finance extraordinary projects which carry the risk of promoting uneconomic development in some branches of productive activity. 2/

#### Analysis of the legislation

Legal basis - The discussions during the war and immediate postwar periods concerning the creation of a national employment

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1/ The preceding section is treated in greater detail in Rapport ... (Du 12 juin 1950), pp. 31-34.

2/ Ibid, pp. 80-81, 121-123.

policy - and the adoption of fiscal measures in particular - were conducted on the basis of authority contained in two emergency decrees of July 1942 and August 1943 regulating measures to be taken for the creation of employment in the anticipated postwar depression. 1/

These emergency powers were superseded and regularized by a number of constitutional articles dealing with economic matters, which were adopted by popular referendum on July 6, 1947. Article 31 (5) contains the following mandate:

"The Confederation, jointly with the cantons and the private economy, will take measures designed to prevent economic depressions and, if required, to combat unemployment. The Confederation will prescribe regulations on the means of providing employment." 2/

These constitutional amendments therefore assured the continued formulation of employment policy, and serve in particular as the legal basis for the recently enacted law on unemployment reserves. 3/

Comments on the legislation - From a number of considerations already noted, it is evident that the procedure now adopted has been accepted as preferable to either accelerated depreciation or reliance on subsidy programs as a last resort. The principal advantage claimed for the new measure is that it is expected to moderate tendencies toward over-expansion in boom periods and to stimulate activity during a depression through one and the same instrumentality. The creation of reserves in good times sterilizes funds which, if expended, would intensify inflationary pressures; conversely, the utilization of these reserves when economic activity is declining would stimulate demand and through it the level of employment.

Another advantage claimed for the scheme is that work provided for by the expenditure of accumulated reserves would most probably be work which was deferred in an earlier period. These projects would be the same as those which the entrepreneur himself would have selected.

A corollary advantage follows, namely, that projects executed by the expenditure of reserves under the direction of the enterprise will be part of the normal scope of economic activity, and will be indistinguishable from projects customarily engaged in by private interests. A public works program, for example, benefits principally the building and allied trades, and other branches of activity only indirectly. The expenditure of reserves by private firms, on the other hand, is expected to be of immediate and direct benefit to a much larger group of producers than the expenditure of public funds

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1/ See Part II, p. 8 below.

2/ Votation populaire du 6 juillet 1947 (I. Articles de la constitution fédérale relatifs au domaine économique). p. 3

3/ Rapport ... (Du 12 juin 1950), pp. 97-8.

for building. Furthermore, the use of reserves makes it possible for workers and salaried persons threatened by unemployment to continue at their accustomed jobs in their habitual places of work. In this way the waste of trained skills involved in a public works program is largely avoided. This consideration is of some importance in Swiss thinking on employment policy. 1/

A number of general remarks can be made concerning the legislation discussed in this paper. To begin with, the law is to be implemented in the near future by a decree which will contain administrative and technical provisions. In addition, there is in preparation more general legislation on employment policy, which will provide especially for consultative machinery at all levels of responsibility. For this reason, certain features of the present measure relating to its eventual application have been left in a tentative form. The legislation therefore gives no indication of the manner in which the existence of an economic situation calling for its application is to be determined, except that this decision requires the federal authorities to consult with the cantons as well as with representatives of private economic associations.

The voluntary character of the reserve plan has already been noted. This is in conformity with the legal basis of the measure - the constitutional provisions adopted in 1947, which specifically provide that the federal authorities in adopting measures to stabilize employment must observe the principle of freedom of commerce and industry. 2/

The final point of interest in the legislation relates to the requirement that at least 60 per cent of the unemployment reserves be invested in Government bonds. On the one hand it was desirable to prescribe for as large as possible a sterilization of reserves in the interests of the policy itself, which aims at removing the incentive to investment. At the same time, the authorities feared that to make complete sterilization compulsory would have discouraged too many firms from creating reserve funds. Accordingly, it was thought more effective to provide for sterilization of only a part of the reserves, with the expectation that a large number of firms would be induced to participate in the scheme, than to risk defeating its purpose by requiring that all reserves be blocked in some form.

It is not clear either from the legislation or the accompanying explanatory text precisely in what form the other 40 per cent portion of the unemployment reserves is to be held. The general aims of the measure would appear to require that these

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1/ Ibid., pp. 64, 75; also page 11 below.

2/ Ibid., pp. 70-73; Message ... (Du 10 aout 1951), p. 15.

funds, if not placed in Government bonds, be held in some form of bank deposit. It is possible, however, that the authorities might permit this portion to be represented by inventories. <sup>1/</sup> The partial investment of reserves is therefore a compromise between these conflicting considerations.

## II. The Evolution of Employment Policy in Switzerland

### Introduction

The recently enacted legislation on unemployment reserves marks a first attempt to provide the basis upon which the private economy may be encouraged to stabilize investment outlays and to contribute to a moderation of cyclical swings. It is related, however, to the continuing evolution of employment policy in Switzerland, which has been the subject of intermittent official concern over the past decade.

From a number of official documents released during the last few years it is possible to obtain some idea of continuity in the Swiss approach to full employment policy. <sup>2/</sup> The background of this development is given in some detail in the report prepared by the Swiss Federal Council in June 1950, which discusses employment policy from both theoretical and practical points of view.

### Preliminary measures

Swiss thinking on employment policy in the early 1930's was that direct aid (the dole) was less costly than the provision of work for idle laborers. <sup>3/</sup> In common with developments elsewhere, Swiss opinion now subscribes to the belief that Governments have the obligation and the means of combatting unemployment, which now finds expression in national and international full employment resolutions supplemented by more or less definite plans of an anticipatory nature.

As early as 1938, the Federal Council recognized an obligation, in addition to that of strengthening Swiss national defenses, "to apply, to a greater degree and more methodically than at present

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<sup>1/</sup> Ibid., p. 21.

<sup>2/</sup> The most important documents are: Rapport intermédiaire du Conseil fédéral ... sur les mesures préparatoires prises en vue de la création de possibilités de travail (Du 20 mai 1944), Feuille Fédérale, 1944, Vol. I, pp. 417-480, and Rapport intermédiaire ... sur les mesures propres à créer des possibilités de travail (Du 12 juin 1950), Feuille Fédérale, 1950, Vol. II, pp. 21-166.

<sup>3/</sup> Rapport ... (Du 20 mai 1944), Feuille Fédérale, 1944, Vol. I, p. 417.

the resources and energies of the State with a view to surmounting the evils of the economic situation: unemployment, engendered by the long crisis of seven years." 1/ In the summer of 1940, when it appeared that the European military stalemate might be resolved by an armistice, which raised prospects of renewed unemployment following demobilization, the Council again voiced its intention of pursuing an active policy of creating work opportunities in Switzerland. In the same year, it appointed a small committee charged with studying the problem of creating employment and considering measures for implementing this aim. This body submitted a detailed report in October 1940, in which it stressed the necessity for better coordination of public projects and of creating an organization to deal with these problems. Acting upon these recommendations, the Federal Council in the spring of 1941 appointed an Employment Officer charged with the duty of coordinating all measures taken in the field of employment policy. This official was assisted by a consultative commission composed of representatives of the federal government, scientific and economic associations as well as of delegates from employers' and workers' groups. 2/

Two federal decrees of July 1942 and August 1943, issued under emergency wartime powers, regulated the duties of the Employment Officer and of the Committee appointed to assist him in considering the formulation of measures for employment in anticipation of a postwar business crisis. The Employment Officer is given general responsibility for preparing a general plan for combatting unemployment. In addition, he indicates the sectors in which excess manpower is to be found and coordinates measures which appear necessary in order to maintain employment at a stable level. He is not responsible, however, for the application of measures; he and the commission assisting him are concerned exclusively with the task of coordinating the efforts of all groups dealing with employment policy. They undertake a continuous study of economic conditions, both in Switzerland and abroad, and especially of the level of employment in various sectors of the economy, and they examine measures which the existing economic situation might require together with federal and cantonal authorities as well as with the private economy.

The Employment Officer thus maintains liaison with all official and unofficial bodies concerned with employment policy. At more or less regular intervals, he assembles representatives of the cantonal governments in order to examine the general principles of employment policy as well as projects considered necessary in order to maintain employment at satisfactory levels. The same

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1/ Ibid., p. 417.

2/ Ibid., p. 417; Rapport ... (Du 12 juin 1950), Feuille Fédérale 1950 Vol. II, pp. 100-102.

procedure is followed in maintaining relations on a continuing basis with the Union of Swiss Cities and with representatives of private business associations.

Focus and approach

At numerous places in the published documentation, one is made aware of political and social considerations which result in limiting the practical application of an employment policy. There exist political barriers to acceptance of a national policy; the cooperation of the individual cantons is necessary for the success of any measure. There are constitutional safeguards against any abrogation of economic freedom. These political and legal limitations, however, are only the formal expression of a popular distaste for Government intervention in the economic field. The following statement is perhaps typical:

"Whatever importance is attached to the maintenance of satisfactory levels of employment and incomes, the citizen of a free and democratic country is not inclined to admit that the State, in aiming to prevent a depression or to moderate its effects, can resort to means which he considers incompatible with his conception of liberty. This attitude excludes at the outset certain methods whose application, in theory at least, would bring us nearer to the desired aim: full employment. If, for example, we accepted the principle of automatic transfer of workers into areas and occupations in which they were most needed -- without regard for ties that bind them to their work and their families -- it would no doubt be easier to fight local and regional manifestations of a depression and to combat 'frictional' unemployment. It is evident that if the State possessed the power to prescribe for each individual, not only his place of employment but his choice of a profession as well, a policy designed to stabilize employment would meet with fewer difficulties. If the population in addition relinquished the right of free purchase and consumption, it would give the State the possibility of manipulating consumption and production effectively enough to prevent significant declines in demand and in the level of employment....

"There can be no doubt that the Swiss people, like those of other democratic countries, do not appear disposed to give up the liberty of free choice of their professions, their employment and their domiciles, and still less the liberty of spending their incomes as they see fit and of buying that which seems desirable....

"... in a democratic federal State, and one which prizes liberty as does ours, the authorities responsible for employment policy must take account of the fact that, in its overwhelming majority, the population is unwilling to submit for long to measures which suspend the working of natural economic laws and which deprecate traditional principles. At the same time it would be incorrect to liken this aversion which extensive economic controls inspires in the Swiss people... to a mistrust of the State and its authorities. This feeling is nourished by a profound conviction - which is both rational and irrational - that the renunciation of certain essential economic freedoms has for its inevitable corollary a growing limitation of political and individual liberties. In a state whose citizens place these liberties above all else, in which they are unwilling to renounce even the principle of commercial and industrial liberty, the authorities responsible for employment policy must refrain from resorting to methods and measures which are incompatible with the principles which govern a society of free men."<sup>1/</sup>

#### The full employment goal

In the 1950 Interim Report of the Swiss Federal Council the authorities note that it is evidently impossible, given the political and legal limitations on the power of the State, to eliminate all unemployment. Seasonal fluctuations of employment in the building trades can be counteracted by an expansion of public works, but it is still a fact that periods of very cold or intemperate weather can interrupt the progress of these efforts. The public employment service can also contribute to reduce or eliminate frictional unemployment; but changes in demands and tastes make necessary industrial adaptations which are accompanied by a volume of unemployment too large to permit absorption of all workers during the adjustment period.

In their report, the Swiss authorities examine various estimates of the volume of unemployment considered compatible with the maintenance of full employment - the International Labor Office Report, Lord Beveridge's estimates, the United Nations National and International Measures for Full Employment, and a 1943 Report of the National Resources Planning Board. The latter in turn referred to an estimate of the Fourth Fortune Round Table Conference in 1939 that unemployment in the United States varying between 5 and 8 per cent was the price required to assure maintenance of a sufficiently

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<sup>1/</sup> Ibid., pp. 70-72, passim.

flexible productive apparatus. 1/ The Swiss Report remarks in this connection that a more rapid rhythm of technological progress and a higher standard of living in the United States than in Great Britain, for example, mean that the "normal" level of employment must probably be higher in the former country. But the Swiss note that "evidently, a comparison between the labor markets in the United States and Switzerland calls for reservations. The Swiss worker is much more attached to his place of work and his occupation than the American worker. He values security more highly than the latter.... On the other hand, the unemployed Swiss worker feels himself in a more threatened position than the American. For this reason alone, we cannot consider as acceptable a proportion of unemployed as high as that considered as normal for the United States." 2/

Nor do the Swiss authorities consider the Beveridge criterion - a rate of unemployment amounting to 2-1/2 per cent - acceptable in Switzerland's case. "It is evident that the Swiss people will never accept such a high degree of unemployment as either normal or compatible with its accepted idea of full employment." 3/

Two independent reports made by Swiss experts are examined; both of these studies accept higher full employment targets, than what is considered the optimum in other countries. One report sets a full employment target which involves unemployment, including seasonal, of between 1-1/2 and 2 per cent of the total employed; the stricter estimate limits this tolerance to between 1.1 and 1.2 per cent.

It is surprising that Swiss discussions of full employment should postulate a lower "normal" tolerance of unemployment than that which is considered the minimum acceptable elsewhere. The difference may be due to a simple miscalculation involved in applying the Beveridge formula to total labor force statistics which are more inclusive than the British employment figures, thereby giving a higher figure for average unemployment.

It should be mentioned that Switzerland enjoys a certain advantage from the existence of a considerable reserve of Italian immigrant labor, whose absorption by Swiss industry and agriculture in expansionary periods restrains the upward movement of wages and salaries and contributes to a moderation of inflationary pressures. 4/

1/ "The Fourth Fortune Round Table," Fortune, XX (October 1939), p. 42.

2/ Ibid., p. 64.

3/ Ibid., p. 64.

4/ Ibid., p. 38.

In the reverse situation, when economic activity declines, experience has shown that immigrant labor is the first to be released, wherever that may be feasible. 1/

Apart from these considerations, however, the Swiss authorities are not willing to base a decision regarding the appropriate time at which to apply measures to combat unemployment solely on the overall unemployment figures. It would be necessary to consider the distribution of unemployment between different branches, as well as the duration and nature of the phenomenon. In particular, the authorities are not disposed to rely on an automatic formula such as was suggested by the Commission of United Nations Experts in 1949, namely, that countries should adopt automatic compensatory measures which would come into operation "whenever unemployment exceeds the range defined in the full-employment target... for three consecutive months." 2/

#### Measures to reduce unemployment

Apart from the reluctance to accept either a specific full employment target expressed in terms of an acceptable, normal level of unemployment or a formula to determine the appropriate time at which to apply counteracting measures, other limitations exist to the application of unemployment policy. "Repeated experiences and observations verify the fact that in Switzerland disturbances originate primarily in building activity and the export industry sector; and disturbances originating in the latter are generally the more serious." 3/

The authorities believe that it will always be possible to counteract a decline in private building activity by the activation of public works projects. They believe it unlikely, however, that building activity can be adversely affected so long as a high and stable level of exports is maintained. On the other hand, there are limits to the measures that could be taken to offset unemployment in the export industries consequent on a decline in foreign demand - limits to the domestic capacity as alternative markets for many of Switzerland's traditional export commodities, and limits to the wisdom

1/ Ibid., pp. 52-54, Chap. III(V), "Le marché du travail en période de fléchissement."

2/ United Nations, Department of Economics Affairs, National and International Measures for Full Employment, Lake Success, New York, 1949, p. 81. Compare Rapport... (Du 12 juin 1950) pp. 77-80.

3/ Ibid., p. 67.

of employing skilled workers and artisans on projects in which their technical training is wasted. If there should be a repetition of the world-wide depression of the 1930's, however, the Swiss consider it their obligation to attempt to absorb their unemployed by interval expansionary means. 1/

While the Swiss authorities have considered various policies which might be designed to counteract unemployment, and have urged the cooperation of cantonal and local units in coordinating their endeavors with those of federal agencies, main reliance is placed on enlisting the voluntary collaboration of private interests. 2/ The success of any employment policy, when the test arises, may well depend on the degree to which private concerns avail themselves, in their own interests, of the fiscal privileges permitting them to adopt a counter-cyclical investment policy of their own.

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1/ Ibid., pp. 67-68, 75-77.

2/ Ibid., pp. 81-85, "Les responsabilités de l'économie privée."