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Switzerland

The soaring Swiss franc and class politics

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On Thursday, January 15, at 10.30 pm, the Swiss National Bank (SNB) decided to abandon the ceiling exchange rate of 1.20 Swiss francs for â‚¬1 that it had defended since 6 September 2011 at a cost of 300 billion francs (of which around 100 billion, it seems, were spent in the last two weeks). This thunderclap preceded by six days the expected decision of the European Central Bank (ECB) to buy in particular the public debts of member states to the amount of â‚¬60 billion per month over 19 months, and by ten days the widely announced victory of Syriza in the Greek elections on 25 January.

The 99 per cent will pick up the bill

Why such a decision? First, to avoid having to buy extra billions of euros to counter the foreseeable soaring ascension of the franc. In reality, the appeal of the Swiss franc is based, at least in part, on a very low level of debt of Swiss public administrations, which has been steadily decreasing since 2004, while that of the eurozone has exploded since 2008. In 2013, public debt accounted for only 36.3 per cent of Swiss GDP, against 92.6 per cent for the eurozone. Furthermore, the quantitative easing announced by the ECB will further increase this differential.

This turn, decided at the discretion of the three members of the managing board of the SNB, will have a negative impact on the daily lives of millions of people, first of all in Switzerland, where it will serve as a pretext for job cuts, as well as for lower outlays by businesses (on wages, taxes, social security contributions) which will justify further cuts in public spending and benefits. Abroad too, where many local authorities, in particular in Germany and France, are going to be affected because they denominated their loans in Swiss francs, and will see interest payments on their debt explode from 3 per cent to 12 per cent or even 17 per cent. The same is true for hundreds of thousands of households in Central and Eastern Europe (Poland, Hungary, Romania, Croatia, etc.) whose mortgages were fixed in Swiss francs.

A family quarrel

No matter! The SNB president, Thomas Jordan, is a dogmatic monetarist, a paranoiac about inflation, coupled with a Eurosceptic of the first hour, whose doctoral thesis in 1993 already criticized the proposed creation of a single European currency. That is why his appointment as head of the SNB in 2012 was applauded by the *Weltwoche* and by Christoph Blocher (nationalist right). His decision to abolish the ceiling exchange rate against the euro is that of the ruling circles in Switzerland, who intend to play their own role on the international stage. For them, to provide support, even indirectly, to the policy of monetary easing of Mario Draghi was inconceivable. This counterstroke, however, has nothing to do with the defence of the general interest.

In Switzerland, employers' circles are brandishing the threat of layoffs and relocations in order to obtain new privileges from the state, as well as new concessions from the trade union apparatuses and the Swiss Socialist Party (PSS). For their part, the leading circles of the PSS and the USS (Swiss trade union confederation) deplore the decision of the SNB and call for action to mitigate the rise of the franc. In reality, their principal intention is for the authorities and employers to negotiate with them the nature of the potion that they are about to prescribe for the people. All this looks like a family quarrel, since no one challenges the fundamental policy choices of the SNB. Besides, is the president of its bank council not also the socialist former head of the NeuchÃ¢tel cantonal government, a champion of lower corporate taxes?

A hyper-competitive economy

In 2013, with the euro at 1.20 Swiss francs, Switzerland's balance of trade showed a record surplus of 28.6 billion Swiss francs (12 per cent), which has grown steadily since 2005, despite the continued appreciation of the franc. Even better... leaving aside the eurozone, where Switzerland exports more than half of its products, its trade surplus was 45 per cent! It therefore seems reasonable to postulate that Swiss industry is able to withstand a further revaluation of the franc by 10 per cent against the euro, if it stabilizes at â‚¬1.05 to 1.10 Swiss francs (which is the objective of the SNB). It will also be weaker – by between 5 and 10 per cent - compared to the US dollar and the Chinese yuan. It should be noted that two thirds of Switzerland's imports, from the eurozone, will be significantly cheaper, while the more than half of its exports which are destined for the rest of the world will suffer less severe price increases. If we take into account services, income and transfers, the current account balance of Switzerland is three times greater than its trade surplus! This achievement bears witness to the outstanding competitiveness of its economy, which has been for several years number one on the World Economic Forum's ranking.

The French economist Paul Jorion is therefore mistaken when he says on his blog that "the Swiss are resolving to sacrifice their last agricultural and industrial activities so as not to be Swiss are resolving to sacrifice their last agricultural and industrial activities so as not to be swept away financially by the mechanical collapse of the eurozone (...)" (January 18). On the contrary, industrial output per capita in Switzerland is still the highest in the world. By maintaining the ceiling rate of 1.20 francs to â‚¬1 for more than three years, the SNB also gave respite for industry to face up to the rise in the value of the franc – by nearly 30 per cent against the euro between the end of 2007 and the beginning of 2011 - and for it to be able to approach the upturn from a position of strength. However, since the long-awaited recovery did not materialize, the SNB took note of the fact that a further decline of the euro was inevitable. It also considered that Swiss industry could deal with a new rise in the value of the Swiss franc, of probably less than 10 per cent over all its export markets, especially since a large part of its activities is already located abroad, where it suffers no disadvantage because of the exchange rate and will on the contrary be able to strengthen its position by taking over competitors cheaply.

Employers' blackmail

Employers expect the authorities to improve the "framework conditions" of the economy. This involves accelerating the third reform of corporate taxation, which should ensure for private companies a new tax saving of 3 to 4 billion francs per year, while reducing unit labour costs, as Federal Councillor Johann Schneider-Ammann, following many others, recently advocated in Davos. To ensure the triumph of their interests, employers can rely fully on divisions among workers, particularly after the vote on February 9 against "mass immigration". Are German, French and Italian border workers not already stigmatized because they gain from the exchange rate? That is why the most exposed sectors of business, particularly in the field of tourism, will seek to make the foreign labour force play the role of variable adjustment.

It is probable that the most fragile sectors of the Swiss economy will experience difficulties, which they will seek to pass on to workers. However, it is not workers who should foot the bill for the decisions of the SNB and the high level of the franc, which is largely the result of international speculation. Have not the ruling circles – the banks in particular – encouraged this speculation for decades by refusing any controls over the movements of capital? That is why trade unions and a left worthy of the name, instead of calling for national unity to defend the Swiss economy, should demand that the federal government and the SNB, who did not hesitate for a second to make tens of billions available to save UBS in 2008, put under public control and refinance companies whose existence could be threatened by the rise of the franc, in order to defend wages and the right to employment.

What answer from the left?

The *Wochenzeitung*, newspaper of the German-Swiss alternative left, recently challenged the position of Daniel Lampart, chief economist of the USS and member of the board of the SNB, who criticized the decision of the managing board of the central bank. For this weekly paper, the exchange rate ceiling against the euro was in fact nothing more than a hidden subsidy to Swiss exporters; which is not wrong, but a bit insufficient ... In fact, by removing the currency ceiling, the SNB now intends to use international speculation on the franc as a lever to further increase the competitiveness of the Swiss financial sector at the expense of workers, users of public service users and recipients of social benefits. As we can see, the debate on the defence or not of the currency ceiling ignores the substance of the matter. To design an alternative economic policy, it is in reality necessary to look beyond the exchange rate policy.

A left worthy of the name should demand that the central bank defend the interests of the big majority of the population. For example, the government and the SNB could have attempted to resist the speculative rise of the franc by accepting debt ratios and deficits comparable, in Switzerland, to those of its main trading partners. Since autumn 2011, instead of spending 300 billion francs to buy euros, the central bank could have lent a similar amount to public authorities to support a large-scale plan of support for research, education, health, pensions, social housing, defence of the environment (insulation of buildings), etc. By bringing the public debt to the level of Germany's, which is still quite "reasonable", the SNB would have helped to slow the rise of the franc while "serving the general interests of the country" (or rather of the "population"), as the Constitution mandates it to do.

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