

# Comparative Country Analysis Switzerland and the United States

Nada Amin  
June 2004

## Main economic indicators, 2002

	CH	US
Real GDP growth %	0.1	2.4
Consumer price inflation	0.6	1.5
Current-account balance (US\$ bn)	1.6	-503
Population (m)	7.3	288.4

## Defining characteristics

- Swiss **open** economy
  - Top exporter per GDP
  - Affected by global dev
    - 9/11
    - safe haven currency
    - financial sectors
    - ...
- US **leading** economy
  - Highest GDP in PPP
  - Low exporter per GDP

## Swiss monetary policy

- SNB's goals
  - price stability (since 11/1999)
  - weak CHF (focus since 1995)
- Recent interventions
  - (2000)  $\uparrow$  interest rate  $\Leftarrow$   $\uparrow$  growth prospect
  - (2001) 9/11  $\rightarrow$   $\downarrow$  growth prospect +  $\uparrow$  CHF  $\Rightarrow$   $\downarrow$
- Cur. ref. interest rates low, at 0.25%

## US monetary policy

- Federal Reserve's top goal: price stability
- Chairman Greenspan's Popularity
  - credited a lot for boom in the 90's
  - criticized a little for not intervening in tech bubble
- Chairman Greenspan's Philosophy
  - “address the bubble's consequences, rather than the bubble itself”
  - “Instead of trying to contain a putative bubble by drastic actions with largely **unpredictable** consequences, we chose, as we noted in our mid-1999 congressional testimony, to focus on policies “to mitigate the fallout when it occurs and, hopefully, ease the transition to the next expansion.”
  - risk management, cost-benefit analysis
  - judgment, at the end
- Thus reducing current-account deficit not goal

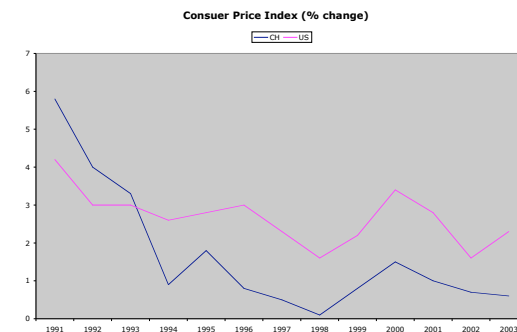
## Swiss fiscal policy

- pension system reform or financing needed
  - ⇐ aging of population (NB: US too)
- “debt brake” (“*frein à l'endettement*”)
  - constitutional commitment to balance fed. budget over economic cycle
  - (85% pop. vote in 12/2001)
- Amended fiscal rules of debt brake for 2003

## US fiscal policy

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• <b>Clinton</b></li> <li>• ↑ tax revenues ←                             <ul style="list-style-type: none"> <li>– ↑ economy +</li> <li>– ↑ fiscal</li> </ul> </li> <li>• Tight expenditure control</li> <li>• → budget <b>surplus</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>W. Bush</b></li> <li>• ↓ tax revenues ←                             <ul style="list-style-type: none"> <li>– ↓ economy +</li> <li>– tax-cut package</li> </ul> </li> <li>• ↑ defense &amp; homeland security after 9/11</li> <li>• → budget <b>deficit</b></li> </ul> |
|---|---|

## Low Inflation



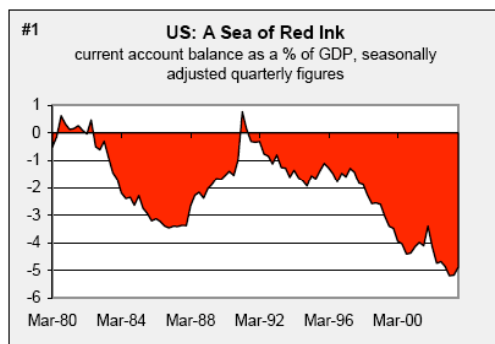
## High (US) & low (CH) growth



## Swiss external sector

- Trades in goods traditionally in deficit
  - Major partners: EU, notably Germany
  - Net importer of food & energy
  - Exporter of HVA goods
  - CHF safe haven currency status destabilizing
- Current-account high surplus
  - ↑↑ in 90's (peak of 14.3% GDP in 2000)
  - Boosted by banking and insurance activities
  - Income from net foreign assets 144% GDP (2003 Q3)
  - Low yield of Swiss assets relative to foreign investment

## US external sector: huge deficit!



## US deficit: good or bad?

- $CA + FA = 0 \Rightarrow CA < 0 \Leftrightarrow FA > 0$
- Deficit → high foreign investments
  - Bad if short term investments (like in Thailand)
  - Good if long-term investments
- Deficit cannot be sustained indefinitely
  - bad if sudden resolution
  - ok if progressive resolution
- Boosts partner economies (who's next?)

## US deficit: Why?

- Higher tendency to import per income
  - G partners  $\ll$  G US  $\rightarrow$  US CA  $>$  0 (60-70's)
  - G partners  $\sim$  G US  $\rightarrow$  US CA  $<$  0 (80's)
- Gap domestic investments & savings
  - private (1995-2000), budget deficit (2002)
- China & Japan purchase of US assets
- EU partners absorb shock of  $\downarrow$ US\$

## US deficit: Greenspan OK

- Peak of 1986 diffused benignly
- Institutional strengths of US
- Finance of deficit in reserve currency  $\Rightarrow$   
 $\uparrow$ capacity to incur foreign debt
- Benign resolution hoped for  $\leftarrow$ 
  - $\uparrow$ globalization +  $\uparrow$ flexibility (no protectionism)
  - $\uparrow$ use of euro as reserve currency
    1. 65% US\$
    2. 15% euro

## Swiss low growth: Why?

- Lack of competition in *internal* market
  - “2-vitesses” productivity (external vs. internal)
  - Price of goods 40% higher than in US
  - Top uncompetitive markets (diff with 15 of EU)
    - Rent, health, public spending ( $>$ 60%)
    - public transportation, food ( $>$ 40%)
  - NB: mostly sectors influenced by State
  - $\gg$  for mere qualitative or income differences
- Why competition influences growth
  - $\downarrow$ prices (for both consumers and companies)
  - $\uparrow$ innovation

## Swiss low growth: agenda

- $\uparrow\uparrow$ competition in internal market
  - **Law on cartels** (summer 2003)
- Possible reforms for  $\downarrow$ price
  - Introduction of competition in health sector
  - Deregulation of public infrastructure
  - Liberalization of agricultural sector  
(“**Politique agricole 2007**”)
  - More transparency in public markets at all state levels
  - Liberalization of external trade  
(**bi/multi-lateral agreements**)

## Swiss slow pace of reforms

- Weak powers of federal government
- Slow, even hindered, legislation process

## Performance Data, 2002

		USA	Switzerland
<i>Economic</i>			
<b>GDP</b>	PPP US dollar billions	\$10,446.3	\$233.4
GDP per capita	PPP US dollars	\$36,300	\$32,000
GDP by expenditure	% of GDP		
Private consumption		69.90%	60.60%
Government consumption		18.90%	15.20%
Gross fixed investment		15.20%	18.90%
Stockbuilding		0%	-1.50%
Exports of goods & services		9.70%	42.20%
Imports of goods & services		13.80%	35.50%
Lending <b>interest rate</b>		4.7%	3.9%
Deposit interest rate		1.7%	0.9%
Money-market interest rate		1.7%	1.1%
Long-term bond yield		4.6%	2.4%
real <b>GDP growth rate</b>	% change year on year	2.4%	-0.1%
<b>Inflation rate</b> - Consumer prices		1.6%	0.5%
<b>Unemployment rate</b>		5.8%	1.9%
Central government debt	US dollar or CHF billions	\$7,216.37	CHF 123.71
	% of GDP	60%	30%
<i>Social</i>			
<b>Income distribution</b>			
GINI index		40.8	33.1
% of income by top 10%		30.5%	25.2%
% of income by bottom 10%		1.8%	2.6%
<b>Fertility rate</b>	children born/woman	2.07	1.48
<b>Net migration rate</b>	migrants/1,000 population	3.52	1.37
<i>International</i>			
<b>Balance of payments</b>			
Current-account balance	US dollar billions	-503.4	26.0
	% of GDP	-4.82%	11.14%

## Conclusion

- Living standards in both US and CH
  - High GDP per capita (US #2, CH #7)
  - Inequality more marked and rising in US
- Political disturbance on economy
  - US rising government debt
  - CH status as safe haven currency
- Main worry of economy
  - US deficit resolution
  - CH slow growth // aging population