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The Impact of the Euro Crisis on Switzerland

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Economic Freedom Network

Torino, 6 October 2011

The Euro: A Realistic View

- A “bad idea” and a “road to serfdom”
- Inflexible labor markets
- Cultural and language barriers
- High political costs of fiscal transfers
- Diverging economic structures

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Swiss Analysis 12 Years Ago

- The euro as a political project
- Less accountability
- More centralization
- Government cartel at the expense of citizens
- Conclusion: CH should keep CHF

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A Story of Interdependence

- Geography (landlocked between 4 EU member states, north-south route)
- Traditional openness: 0.001% of world population, 1.7% of world exports
- Free trade agreements with EU
- Free movement of people

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Current Relations

- 68% of Swiss trade with EU (80% of imports, 60% of exports)
- 1 million EU citizens live and work in Switzerland (12.5% of resident population), 200,000 EU commuters
- Third EU trade partner after U.S. and China, before Russia and Japan

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Euro Crisis

- CHF appreciation 2009-2011
- Exports still strong despite predictions
- Built-in resilience with highly specialized, price-insensitive products
- Investments abroad at favorable conditions, imported inputs
- Increased competitiveness

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SNB Reaction

- “Massive overvaluation”
- September 2011: Minimum CHF/EUR exchange rate of 1.20
- High costs: inflation, asset bubbles
- Catering to special interests
- Scrapping corporate taxes and ending farm protectionism as better answers

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The Uncertainty Ahead

- EU member states budgetary policy?
- EUR breakup?
- Tax centralization?
- More transfers?
- Restoring sound money as the true challenge

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