



EIDGENÖSSISCHES FINANZ- UND ZOLLDEPARTEMENT
DÉPARTEMENT FÉDÉRAL DES FINANCES ET DES DOUANES
DIPARTIMENTO FEDERALE DELLE FINANZE E DELLE DOGANE

22 February, 1978

Dear Mr. Secretary,

Please accept my best thanks for letting me have a number of documents interpreting for the United States Congress the objectives and means of economic policy of your Government for the current year. This carefully elaborated and well-balanced program will permit - I am confident - to keep the American economy in steady and healthy growth. The American people will not be the only ones to benefit from the program. Considering the world-wide importance of the U.S. economy and your country's share in international trade, the success of the program in question will provide economic support to the trading partners of the United States so far as the currency of these partners has not undergone, over the last months, too high a revalorization by comparison with the dollar. Personally, I have been impressed by the measures envisaged by your Government in the field of energy. When in force these measures will contribute to alleviate fears that the oil deficit of the United States may negatively affect the long-term growth prospects of your country and also the international payments system.

Outlining the objectives and the ways and means of its economic policy, your Government stresses the opinion that the United States should not be alone in propping up the international

W. Michael Blumenthal
Secretary of the Treasury of the
United States of America

Washington D.C.



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economy and its expansion, but that countries with a healthy balance of payments should make their own contribution.

As far as Switzerland is concerned, its present current account surplus of \$ 4 billion will no doubt lead to a lifting of eyebrows in the international community. This surplus is, however, not due to a trade surplus, the direct bearing of which on the economic activity and on employment abroad might be criticized. Approximately in equilibrium in 1976, our trade balance has taken a turn for the worse last year, whilst the rate of real growth of our imports has been twice higher than that of world trade. The current surplus of Switzerland is mainly due to capital revenue, the net balance of which represents nearly 4 per cent of our GNP. This balance originates partly from the considerable volume of Swiss foreign investment and from Swiss financial participation abroad. It is also related to the general imbalance of world economy and of the international monetary scene as it reflects the disproportionate part Switzerland has to play in international capital recycling as well as the wide disparity between Swiss and foreign interest rates.

What can be done in the light of this situation ? We see our responsibility first and foremost in keeping the access to the Swiss market open and you will be undoubtedly aware that with respect to industrial products, we have refrained despite considerable internal pressure from the adoption of any pro-

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tectionist devices. Secondly we continue our efforts to stimulate capital exports and are ready to participate to a disproportionate extent in international financial schemes such as the Witteveen Facility of the IMF. Remains the question whether Switzerland could substantially increase her trade deficit by means of massive economic stimulation. A number of obstacles - not foreseen in the textbooks - prevent us from applying such a policy. They are linked with the fact that the Swiss economy holds its equilibrium on the employment and price sectors.

The rate of unemployment in Switzerland amounts to 0,4 per cent. Several branches are short-staffed. Under these conditions, an economic upswing would not fail to bring about a rise in salaries and prices. Such an evolution would have serious political consequences in a country which has managed to check inflation. It would consequently be socially perilous to have greater recourse to foreign labor to keep inflation down, all the more so as foreigners are making up already about a fourth of the active population.

The Swiss Government closely follows developments, of course, in order to act without delay, - as happened 1975/76 already - to counter-balance adverse economic trends and increasing unemployment. This year, vigilance is very much called for. After a real growth rate of 4,3 per cent in 1977, taking third rank among the Group of Ten, Switzerland may get affected - above all in the field of investment - by the

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uncertainty prevailing again in the world economy and in the international monetary field.

Such a contingency would ask for great care in choosing the means of action. Experience has shown that the Swiss economy poorly responds to the classical means of stimulation. With momentary economic setbacks, savings would absorb, in Switzerland, the largest part of a rise in income of households benefitting from tax reliefs. Growth in public investments is hampered by a lack of suitable projects and by a certain level of saturation. Ecological opposition has blocked the construction program of nuclear power plants, a program which had opened promising developing perspectives to increase domestic demand. The same ecologists haggle over every mile of national highways. A considerable stock of empty flats still prevents an upswing in housing construction. Dissatisfied with the excesses committed in the early seventies, the Swiss voters who have to pronounce themselves on all public investments of a certain importance refuse most of the proposals submitted to them. Under these circumstances, the sector from which a possible improvement might be expected is the investment sector of enterprises. In this respect we have a program in preparation to stimulate advanced technology. Other measures, fiscal incentives included, might also be envisaged if necessary.

It follows from the above that the Swiss Government is prepared to do everything in its power to maintain full employment,

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but that it appears difficult to resorb rapidly the predominantly financially based surplus of the Swiss current account.

It is precisely because they are conscious of this difficulty that the Swiss authorities make every effort to help deficit countries by granting them substantial balance of payments credits within a multilateral or bilateral framework.

I have taken this opportunity to explain to you our situation, which may be less familiar to you than that of the leading industrial nations with whom you entertain frequent contacts. I would like to stress in conclusion that a more stable monetary environment is an essential condition for a sound economic policy in Switzerland. The steep deterioration of the situation on the foreign exchange markets is becoming unbearable for a country as closely linked to the world economy and the international division of labour as ours. That is why we would welcome new genuine progress in the field of international monetary cooperation. Switzerland is, for her part, willing to participate to reasonable measures which could be agreed upon in this respect.

Believe me to be,

Dear Mr. Secretary,

Yours very sincerely,

G.-A. Chevallaz