

University of Tehran

Lessons from the Swiss Economic Model

Sunday, 28 February 2016

Lecture by H.E. Dr. Johann Schneider Ammann,
President of the Swiss Confederation

Dear Prof. Nili, Chancellor of the University
of Tehran,

Dear Prof. Farhadi, Minister of Science,

Dear Dr. Nematzadeh, Minister of Industries,
Mines & Trade,

Dear Professors,

Excellencies,

My dear Swiss compatriots,

Ladies and Gentlemen.

It is a special honor for me to be here today and to deliver this lecture about possible lessons from the Swiss Economic Model.

Thank you for this invitation.

I would like to start my speech off with two quotes.

The first one is from Malcolm Gladwell, one of the most popular and successful authors and probably the most widely read writer of “true” stories alive today¹:

“The Swiss can be divided into two general categories: those who make small, exquisite, expensive objects and those who handle the money of those who buy small, exquisite, expensive objects...”

I particularly like this quote that Malcolm Gladwell used to open one of his wonderful speeches in 2011.

¹ One of his latest successes is “David and Goliath”; a book about how small can beat big...

It tells us, in a very concise way, that the Swiss economy is well diversified. As long as we can produce “small, exquisite, expensive objects” and handle the money of the people buying these objects in Switzerland and abroad, we will be successful.

I know that the argument about whether specialisation is a good or a bad thing is still very inconclusive when it comes to a country’s long-term performance and ability to withstand shocks.

There is, however, an acknowledgement that more specialised countries tend to suffer from greater volatility.

As the recent past has demonstrated on many occasions (during the first weeks of this year 2016 as well), volatility, in its many forms, is definitively the new norm for the global economy.

If diversification leads to resilience against volatility and if volatility is one of the main key risks of 21st century economies, then, I am convinced, diversification is beneficial to an economy.

The second quote I would like to share with you is from Nassim Nicolas Taleb (the author of “The Black Swan”, amongst other books). This quote illustrates some interesting institutional arrangements in Switzerland (and as you will see, it takes some courage from the current president of Switzerland to read this quote):

“Ask random Swiss citizens to name their president, and count the proportion of people who can do so – they can usually name the presidents of France or the United States but not their own. Its currency works best (at the time of writing it proved to be the safest), yet its central bank is tiny, even relative to its size”.

In the same book
(Antifragile, Things That Gain From Disorder)
Nassim Taleb writes extensively about
Switzerland, in particular
to illustrate different aspects of our federalism,
for instance the fact
that our country does not have a large central
government (unlike many European countries).
There are only seven ministries
and the presidency is rotating annually amongst
the seven ministers of our country.
That's also why most people can't tell
who is the president right now.
And it is not of any major relevance
to their daily life.
The Swiss government can thus well be
described as a bottom-up system,
where municipal and regional entities
are organized in near-sovereign states,
the Cantons (or regions),
which are themselves
united in a "Confederation".
The Cantons have a very important and central
role in our political process.

This means that no important decisions are taken without prior agreement being reached at all levels of government, local, regional and national.

Typically, these processes are time-consuming and costly but they guarantee the stability and resilience of our democracy.

Economic diversification (in particular strong pharmaceutical and watch-making industries, the ability to produce sophisticated textiles or specialist high-quality equipment), and our federalism certainly represent two important pillars of the Swiss Economic Model and explain, at least in part, the economic success of our country over recent decades.

However, when trying to understand the structural development of an economy over the long term, economic growth must be seen as a consequence of the quality of the institutions in place.

Daron Acemoglu and James Robinson show that nations with *extractive political and economic institutions* are likely to be poor, whereas those with *inclusive institutions are likely to be rich*. Inclusive institutions are those that have economic organisations that encourage private innovation and investment.

Inclusive institutions encourage the majority of the citizens to make the best use of their talents and support them in participating in economic activity.

Politics is paramount in this process: the existence of pluralistic political institutions is the key to the sustained existence of inclusive economic institutions.

Switzerland can be proud of being a good example of very inclusive and democratic institutions.

By “institutions”, we have to understand in particular the political stability, the government’s effectiveness and the quality of public services.

The quality of the regulatory environment, the ability of the government to formulate and implement sound policies and regulations that allow and promote private sector development also belong to the concept of institutions.

And equally the quality of contract enforcement, property rights, the control of corruption and the ease of doing business.

This presentation of the “Swiss Economic model” would remain incomplete without a particular mention of our prestigious universities, of our well-structured education system and our willingness to cooperate on international research and innovation.

Switzerland's higher education environment, with its cantonal universities and the Federal Institutes of Technology, its universities of applied sciences and its universities of teacher education, offers a comprehensive and diverse range of high-quality institutions.

Our universities achieve results that are highly regarded internationally and make certainly a significant contribution to the country's economic, cultural and social development and success.

Young people and adults can follow in Switzerland either a vocational or an academic educational path, depending on their skills and talents.

The education system is characterised by a high degree of permeability both within and between the vocational and academic strands.

Companies benefit from highly qualified specialists and managers along the whole value chain.

Of course, high quality institutions,
high quality education
and a well-functioning democracy,
will never prevent an economic crisis
in a market economy, but the quality
of the institutions in place
will raise the odds that a society can cope with
and recover from a crisis and continue
to progress on its long term trajectory
(i.e. increase the resilience).

I would now like to turn back to the recent past
and to the apparent resilience
of the Swiss economy during the great recession,
this in spite of a very strong appreciation
of our currency.

Various issues come up whenever we try
to answer the question
of the relatively “good” performance
of the Swiss economy in 2009
and in the years thereafter.

The degree of exposure of the banking sector
to the financial crisis is certainly not an
explanatory factor.

Swiss financial institutes were highly exposed and did pay a high price.

The structure of the production systems in Switzerland could be an explanatory factor.

The worldwide drop in demand was very large during the great recession, in particular for the production of consumer durables and investment goods (less so for chemical and pharmaceutical products or for luxury goods).

The absence of specific difficulties and imbalances in Switzerland during the years before the crisis (no real estate bubble or credit crunch, no excessive lending problems) and the healthy economic situation of the non-financial sector during the period 2004-2008 has certainly helped to mitigate the negative effects of the crisis in my view.

The labour market was and is still today very resilient to the slowdown of external demand during a crisis notwithstanding the strong appreciation of the Swiss franc.

The real estate market has turned out to be quite robust.

It has remained astonishingly stable throughout most of the last 20 years, even in areas that have experienced a substantial increase in price levels over the last five to ten years (such as Zurich and Geneva regions).

The comparatively attractive labour market has certainly played a role in the robust real estate market and in the resilience of the whole economy since 2009.

Continued and high levels of inflow of foreign employees and their families has sustained domestic demand.

However, because it is difficult to understand all the factors that lead to a higher level of resilience in the Swiss economy during the great recession, we are left with what we already know and what I mentioned earlier in this conference:

countries having better structures and institutions tend to show a higher level of resilience to external shocks.

The quality of public services and different infrastructure and the low level of public debt have certainly encouraged the continuous inflow of well-educated foreign workers and citizens that in turn has sustained domestic demand during the crisis.

Good institutions and good principles do not prove their worth when everything is going smoothly.

They are at their most important when the skies darken and a storm is brewing.

Only then can we see whether our institutions and policies are based on the right principles. I am convinced that we have built our economic, research and education policy on the right principles.

They have played a significant part in our success – and I am confident that they will provide a valuable framework precisely when we need them to help us navigate because the way ahead is unclear or risky.

All of what I just said is an essay to explain the reasons of the relative strength of the Swiss economy, and of course it is due to many circumstances that can't be replicated easily in other contexts. I am proud of what we achieved, but Iran must – and will – take its own path.

Much of what I have seen during the last days, and many of the people I spoke to make me feel optimistic about that journey and I sincerely wish all the best for the future of this country and its inspiring people.

I thank you for your attention.