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“EQUITY AND ECONOMICS IN SWITZERLAND”

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*It is when equals have or are assigned unequal shares,
or people who are not equal, equal shares,
that quarrels and complaints break out.*
Aristotle

1. Introduction

Because of growing international competition, the Swiss economy is confronted with increasing difficulty in staying competitive in the international market. This paper discusses the question of how this trend will influence relationships among employers, employees, politicians and concerned institutions. Will there be consequences for societal equity ?

The terms « equity » and « international competition » will be illustrated with concrete Swiss examples. A case study of equity will be presented reflecting neo-liberal thinking and antithetic opinions in Switzerland.

2. Equity

Does equity exist? H.P. Young's¹ theory is that arguments against its existence take three different forms.

The first is that equity is merely a word that hypocritical people use to cloak self-interest. It has no intrinsic meaning and therefore fails to exist.

The second argument is that, even if equity does exist in some notional sense, it is so hopelessly subjective that it cannot be analysed scientifically. Thus, it fails to exist in an objective sense.

The third argument is that, even granting that equity might not be entirely subjective, there is no sensible theory about it, and certainly none that is compatible with modern welfare economics. In short, it fails to exist in an academic sense.

In the social aspect, however, equity is concerned with the proper distribution of resources, rights, duties, opportunities and obligations in society at large. Equity is a complex idea that resists simple formulations. It is strongly shaped by cultural values, by precedents, and by the specific types of goods and services being distributed.

The standard model of economic exchange posits that all resources and property rights (including ownership of firms) are fully delineated and vested in individuals. The focus is on the process by which resources are allocated to their most efficient uses through the utility maximising choices of individuals. Thus, right at the outset, the issue of how common property should be divided *ex ante* is side-stepped. By some method, property is divided, and one goes on to analyse how markets allocate resources efficiently. The fact is, that common property is continually being created by the market system through economic expansion, the advancement of technology, and the formation of co-operative enterprises. And many of the most important goods and services in society are allocated by political institutions rather than by the market. So it is fallacious to assume that the allocation of common property occurs once and for all, when it is an ongoing process. The allocation rules that we see in practice usually exhibit one of three broad concepts of equity.

¹ Background literature: H. P. Young. "Equity in Theory and practice", 1993

Parity means that the claimants are treated equally, either because they actually are equal or because there is no clear way to distinguish among them.

Proportionality acknowledges differences among the claimants and divides the goods in proportion to these differences.

Priority asserts that the person with the greatest claim to the goods get them.

There are three general theories of *justice* that figure prominently in discussions about equity.

The oldest and most prominent is Aristotle's *equity principle*, which states that goods should be divided in proportion to each claimant's contribution.

A second theory of justice is *classical utilitarianism*, which asserts that goods should be distributed to maximise the total welfare of the claimants (the greatest good for the greatest number). A third approach is John Rawls theory, with the central distributive principle that the least well-off group in society should be made as well off as possible (*maximin* or difference principle).

This approach provides a theoretical and practical response to the question of how to allocate divisible goods both fairly and efficiently without making inordinate demands on the participants. In problems of local justice, *equity* and *efficiency* often complement each other. Principles of equity are the instruments by which societies resolve distribution problems when efficiency by itself yields ambiguous results.

Six principles can be applied to evaluate whether goods have been equitably distributed.

- 1 ***Acceptability***: Claimants should not be worse off than under previous allotments.
- 2 ***Transparent inequity***: No claimant should receive less than another claimant who is entitled to an equal share
- 3 ***No envy***: Claimants are less likely to prefer another's portion with equitable distribution.
- 4 ***Consistency***: Claimant subgroups would fairly divide property allotted in common to the group.
- 5 ***Replicability***: Allocations for given subgroups would be fair when imitated by similar subgroups in the population.

6 *Monotonic*: When the amount of common property increases, no one's welfare should decrease.

Competitive allocation is the only method that satisfies the first five principles, and there is no method that satisfies all of them. A competitive allocation is one for which exists a set of prices, so that each claimant is satisfied with his portion at the price he can afford. It is the only efficient and consistent way of reallocating property that leaves people at least as well off as they were initially.

Equity is important, therefore, to coordinate and legitimize distribution choices. Equity principles are the language with which we discuss and justify such choices.

How is equity related to economics and its key players? Three key economic players (employers, employees and politicians) and their interest in equity and economics will be discussed in the following.

Employees now expect job security. And they seek fair compensation for their work, for example after an increase in real wages, or in compensation for price increases. They also want a share in profits or a right to share in decision-making, etc. But it is increasingly difficult to discuss these issues with employers, as the current situation in most employment markets allows the employers to shortcut employee demands.

Employers try to ensure the survival of their companies when faced with strong international competition. Therefore, they seek cost efficiency with labour and production, especially in the saturated markets of industrialized countries.

Politicians are not directly involved with increased international economic competition. Nevertheless, because of re-election requirements, they are indirectly influenced to provide economic conditions allowing national industries to compete successfully in the marketplace. They are especially interested in low unemployment rates and a stable tax base to be able to fulfill the tasks of a social welfare state. They have to find a compromise between low unemployment rates and low company taxes to keep companies in Switzerland.

3. Growing International Competition

Switzerland's economic, social and political advantages compared to other countries, are diminishing. Growing international competition and the

globalisation of markets are fundamentally changing the framework in which Swiss industry was so successful in the past. The distance to foreign countries shrinks and it is more difficult to keep competitive advantages. The most important factors changing this international economic framework are:

- 1 *General technological development* forces companies to offer products and services with higher quality for lower prices.
- 2 The rapid technical progress of the *information technology* enables companies to extend their international business with a speed never before seen. National boundaries are no longer important, and protective measures are diminishing rapidly.
- 3 The *competition between countries* to attract new companies and industries increases as companies move to wherever they find the best offer. Companies are no longer as loyal to their location as they were in the past. This development accelerates competition among countries trying to attract as many international operations as possible.
- 4 Furthermore, business *mergers and acquisitions* lead to larger, more internationally oriented companies with growing power in national economics and politics (e.g. lobbying, playing off one country against another).

These developments influence the Swiss economy by reinforcing the gulf between national and internationally-oriented companies. This division is even stronger than in other countries, as the Swiss economy is, after Japan, the most protected world-wide.

Domestic-oriented companies were, until now, very successful in buffering themselves from foreign competition. They protected themselves with association agreements, cartel-like practices and special standards. The domestic sector of the Swiss economy includes agriculture, large sectors of trade, and various service sectors.

The *internationally-oriented economic sector* includes the watch industry, textiles, machine and metal-works, chemicals, banks and tourism. These industries also strongly dominate Swiss foreign policy.

The internationally active Swiss companies operate successfully abroad. Because international companies employ a relatively small percentage of Swiss employees, the domestic firms are of much more importance for the Swiss economy, especially the workplace. Many of them increasingly realize that national market protection will soon cease and they will be confronted with

international competition. The many still existing national economic protections (cartels, import protective duties, etc.) have supported the national companies to date. However, these protections will disappear since Switzerland signed the WTO contracts and has begun to enforce more EU Directives (the so called autonomous subsequent execution²). This further opens the Swiss market, worsening the situation of nationally active companies.

To summarise, this situation leads to economic, political and social conflicts in Switzerland. For example, job security and competition in international markets are difficult to integrate as now high flexibility and adaptation to changing markets define the success or failure of industries (therefore, job security cannot be guaranteed). This pressure is handed over to the politicians: the pressure against real policy (to change the national frameworks) and internal policy (e.g. unemployment policy) is increasing.

This development can be illustrated with a recent, highly motivated discussion on equity in economics in Switzerland, as shown in the following case study.

4. Case Study: "White Book" versus "Black Book"

The "conflict" between equity and economic competition is illustrated by the recent publication of the "White Book" and the "Black Book".

In December 1995, the publication of the second "White Book" of Swiss economics, titled *"Mut zum Aufbruch, eine wirtschaftspolitische Agenda für die Schweiz"*, caused intensive, still on-going discussion on the economic and political future of Switzerland. The "White Book" has been published by economic and academic leaders, representing their ultra neo-liberal way of thinking.

The White Book is divided into three main parts:

- 1 A description of the position of the Swiss economy within the structural revolution of the world economy.
- 2 An evaluation of the steps undertaken so far for renewal of the free-market economy. These include opening of the economy, introduction of the value-added tax, deregulation of the employment market, improvements of the stability oriented money policy, opening of the telecommunications market,

² As Switzerland is not member of the European Union

and change of the educational system. It also cites drawbacks: Insufficient reforms in finance and tax policy, no system change in the social policy, missing perspectives of research and education policy, missing deregulation in planning, intervention in the energy sector.

- 3 "Agenda des Aufbruchs", contains strategies for the future in the sectors of infrastructure (telecommunications, transport and energy); finance and tax system (ensuring a balanced budget, supporting the tax system, economic growth and employment); social policy (including general welfare and old-age pension plans); education and research (improvement of higher education, deregulation of university system, prioritising research); reform of the employment market; opening of the market (internal and external); priorities for parliamentary sessions to 1999.

The part on social welfare, with respect to social policy caused the strongest reactions. It was heavily discussed, as this part suggests a change of the existing social policy and welfare system, which affects equity issues.

In addition, part three deals with the following seven politico-economical issues:

- 1 Settlement of current accounts on a federal level
- 2 Creation of an innovative tax structure
- 3 Formation of free competition in all telecommunication markets including full privatisation of the Swiss Telecom company
- 4 Separation of the Swiss public railway company into the department's infrastructure, passenger traffic and freight traffic
- 5 Reorganisation of the obligatory pension fund
- 6 Market opening and privatisation in the energy sector
- 7 Deregulation of academic education

In reaction to the "White Book", the Swiss socialistic opinion leaders published a "Black Book", titled *"Le livre noir du libéralisme"*, in May 1996. It analyses many of the statements of the "White Book" and uncovers their inconsistencies. Opponents of neo-liberal thinking published several articles describing their reactions to the publication of the "White Book" and their thoughts about its neo-liberalism.

The "Black Book" attacks what it calls arrogance and contempt of the authors of the "White Book", e.g., that they consider it sufficient to develop a list of wishes (or demands) for parliament instead of doing the "detailed work". The democratic

process would serve them and not the other way around. They would "prescribe" to both chambers of parliament what they must do during the next four years.

The "White Book" states that the level of professional education and training, the quality of craftsmanship and the strength of research are the only real riches of Switzerland. According to their critics, the neo-liberals demand, in the same breath, both reorganisation and weakening of the existing systems.

It is further criticized that the "White Book" demands changes which could lead to 19th century conditions. The ultra-liberals would try to impose upon the country those strategies they deem necessary for the preparation of an economic war which they fear the country could face. The main point of this economic theory is that the "state of war" forces alliances in the international marketplace. The famous free market offers only one freedom (to submit to its laws), and everybody not accepting that will be eliminated. Strategists of this new world-wide conflict developed the following six statements:

- 1 The world-wide unification of finances, capital, markets and companies is irrevocable and irreversible.
- 2 It is necessary to adapt immediately to technological developments.
- 3 It is necessary to be always the stronger and the winner (not only for individuals, but also for companies and even countries).
- 4 National markets should merge to a single one in which persons, goods and services can freely circulate.
- 5 National economies should be completely deregulated.
- 6 All public tasks should be privatized.

In summary, the "White Book" is criticized for its equivocal attitude. The "god of competition" would merit any sacrifice. The answer to the current economic crisis would be a shift of the costs of this crisis towards employees. The "White Book" would reveal almost like a caricature the strategy of economic and academic ultra-liberal leaders and opinion makers, i.e., that they use the argument of growing international competition to introduce a policy of liberalisation of the Swiss economy and to justify a deregulation of Swiss working conditions. The human aspect is not part of these reflections.

Further, the authors of the "White Book" are criticized for playing with democracy. A prerequisite of democracy is that there is a minimum of social security and a minimum of institutionalised solidarity. The authors of the "Black

Book" emphasize that the state as the guarantee of collective interests and social development must be defended.

The White Book contains many neo-classical and neo-liberal development concepts. However, it fails to prove evidence for conclusive success: the Anglo-Saxon variations of capitalism, although having realised already a lot of this neo-liberal thinking, fail to persuade. Real wages of the majority of population have diminished since the seventies, whereas the top 20% of population have raised not only their incomes, but also their fortunes. In the United Kingdom, a spectacular revival of economy failed to materialise despite Thatcherism. It has to be considered that the globalisation of national economies has just started. What will happen when competition and economic pressure rise even more, when more and more people become unemployed ? When the environment says "no" to more economic growth ? How can than the work be divided ?

Efficiency and equity are often contrary to each other. The danger of « utility maximising cannot be neglected. The economy must be directed by a social value system. Our society also has other values as, for example, the Christian social doctrine or the "*contrat social*" prescribing a balanced distribution of rights and duties.

6. Conclusion

Neo-liberalists believe in the self-healing powers of the market. They think in terms of deregulation, privatisation and flexibility (as demonstrated in other countries under the names of Reagonomics and Thatcherism). They no longer believe in the welfare state, as it does not seem to have the answers to the problems of the new age (it resists changes and adaptations and is not flexible enough to react to challenges). They would like to say goodbye to one of the biggest achievements of the 20th century: the welfare state, a social order which aims for a maximum living standard for as many citizens as possible. Reaction to the publication of the second "White Book" concentrated mainly on this social political topic, proving that this issue is still one of the most sensitive areas for reform.

Neo-liberal thinking among economic leaders, politicians and academicians is very strong in Switzerland. This is reflected by the rising fear of workers and

trade unions that their collective bargaining agreements will be weakened. The neo-liberal thinking attacks the social peace for which Switzerland is well known and which still remains one of the most important factors of Swiss international economic competitiveness.

The changing cultural environment, especially the rising internationalization and economic liberalisation and immense development of information technology, confronts the key Swiss economic players with the following situations:

- 1 Due to the direct democracy and the constant threat of plebiscites, the options of *politicians* are highly limited. This can be illustrated by the current negotiations with the EU, e.g., to liberalize personal exchange between the EU and Switzerland. The political and economic establishment promotes this liberalisation, but the majority of Swiss citizens are against it. As decisions of this kind are decided by referendum, no agreement with the EU can be reached without the agreement of the population. Thus, this situation is very complicated and difficult to solve.
- 2 Whereas *internationally* active employers want better frameworks for their businesses, *domestic employers* demand better protection of their markets. The international oriented companies are very mobile and have shifted many jobs to other countries, thereby weakening the position of employees and trades in Switzerland.
- 3 *Employees* desire mainly job security and social security (unemployment insurance etc.).
- 4 The pressure of *international organisations* (as WTO and EU) and foreign countries for opening the Swiss economy is constantly rising. Worldwide, after Japan, Switzerland has the most protected economy. This protectionism costs Switzerland potential influence in international developments, including recent EU legislation.

The following *hypothesis* might be made: The conflict between equity and economics is no longer extant, as now only the economic side determines discussions and further developments. Equity is disappearing, leaving the place to "darwinian" survival fights.

A new *Swiss social contract* is being developed. However, its contents are not consistent with the goals that a sustaining development path of Switzerland would require. It is a new model of social development which is not justifiable from the social point of view, not ecologically maintainable and not

democratically supported. It aims to tie up the most important social parties to carry through a neo-liberal policy. Social and political stability will be a rare benefit, although this is a central factor of an attractive industry location.

The attempt of a new social contract is already failing as it excludes too many parties. Further, a revival of the connections between economy and policy is needed as the differences between a global industry and a nation-oriented policy are rising. raising.

The Swiss direct democracy, being a *concordance democracy*, forces politicians, employers, trade unions and other groups to develop new, more effective effective solutions to the current societal and economic problems. But international pressure on Swiss industry makes this extremely difficult.

Humane values must remain central. A divided society, with employed against versus unemployed, is not acceptable. The economy cannot value only business goals, thereby forgetting the social and ethical framework. Switzerland could play a major role as a leader in recognising and handling discrepancies between equity and economy in developing new models.

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