# Flash Economics

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# How to explain Switzerland's case?

Switzerland has an income per capita twice that of France, a wage per capita 76% higher than that of France and a very strong currency. How is this 'miracle' possible?

The explanation for Switzerland's case can be found in:

- The quality of its education system;
- The high level of research and development, which has enabled Switzerland to maintain a large-scale industry;
- The large amount of hours worked and the taste for work.

**Patrick Artus**
**Senior Economic Advisor**
patrick.artus-ext@ossiam.com
@PatrickArtus

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## Switzerland's desirable position

Chart 1a shows GDP per capita for Switzerland and France.

Chart 1A
Nominal GDP per capita (EUR)

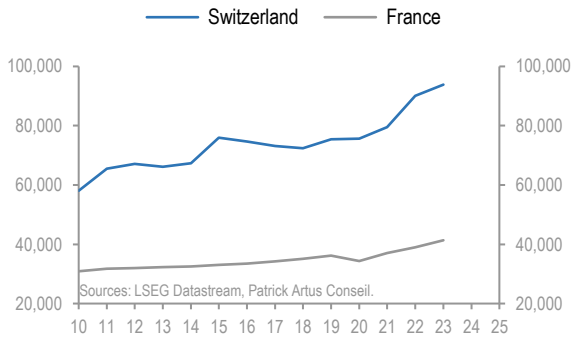
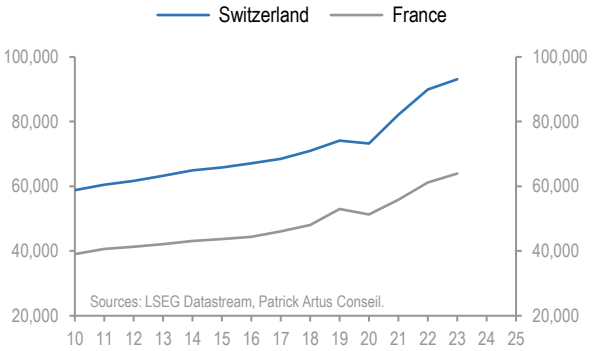



Chart 1b shows GDP per capita at purchasing power parity for these two countries.

Chart 1B
Nominal GDP per capita (PPP $)




One can see that per capita income is much higher in Switzerland than in France, even when measured at purchasing power parity, i.e. adjusted for the difference in price levels. Moreover, the appreciation of the Swiss franc against the euro (Chart 2) means that the standard of living abroad for the Swiss is very high.

Chart 2
Euro to Swiss Franc exchange rate (EUR 1 = CHF...)



How can we explain Switzerland's very favourable situation?

## There are three main explanations for Switzerland's economic performance

### 1. A high-quality education system

Table 1 shows the overall scores for Switzerland and France in the OECD's PISA surveys (on the skills of 15-year-olds).

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

| Country | 2012 | 2015 | 2018 | 2022 |
|---|---|---|---|---|
| **Switzerland** | 518 | 506 | 498 | 498 |
| **France** | 500 | 496 | 494 | 478 |

Source: OECD

Table 2 shows the overall score in the OECD's PIAAC survey, which represents adults' skills, for Switzerland and France.

Table 2: Results of the OECD PIAAC survey (2023, by decreasing score)

| Country | Literacy | Numeracy | Adaptive problem solving |
|---|---|---|---|
| **Switzerland** | 266 | 276 | 257 |
| **France** | 255 | 257 | 248 |

Source: OECD

One can see that the skills of young people and, unsurprisingly, adults, are much higher in Switzerland than in France.

### 2. Research and Development effort

Chart 3a compares the share of total R&D expenditure in GDP in Switzerland and France; Chart 3b compares the share of corporate R&D expenditure.

Chart 3A
Total R&D spending (as % of nominal GDP)

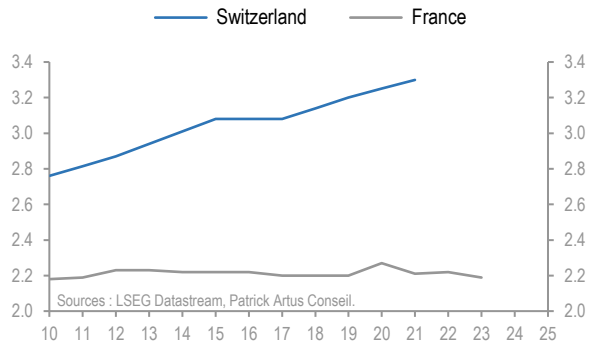
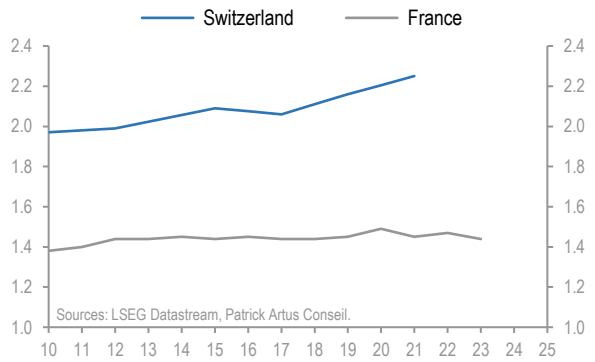
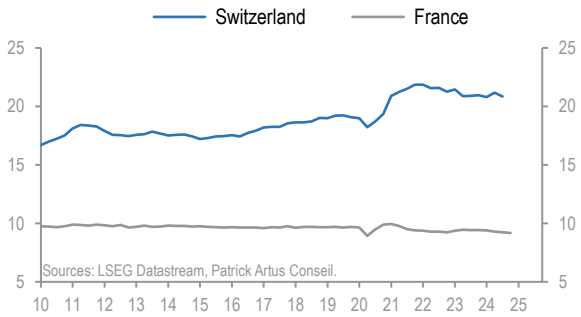



Chart 3B
Corporate R&D spending (as % of nominal GDP)



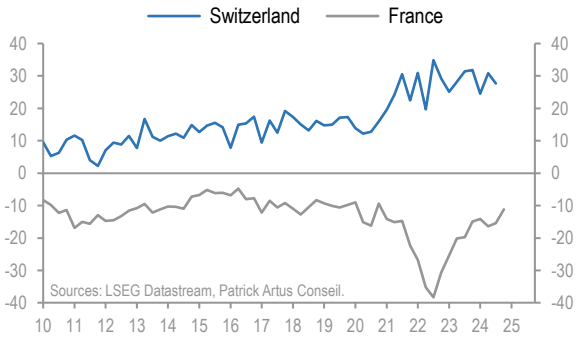
The scale of Switzerland's Research and Development effort explains why, despite the appreciation of the Swiss franc, **Switzerland has been able to maintain an industry that is much larger than France's in terms of GDP** (**Chart 4**).

**Chart 4**
**Real value added in manufacturing**
**(as % of real GDP)**




If we look at **the trade balances for goods** (**Chart 5**), we see France's growing deficit and Switzerland's growing surplus, which largely reflect the differences in the weight of industry.

**Chart 5**
**Trade balance in goods**
**(quarterly data, EUR bn)**




### 3. A taste for work

**Chart 6** shows **the number of hours worked per week**.

**Chart 6**
**Average number of hours usually worked per week by a full time employee**

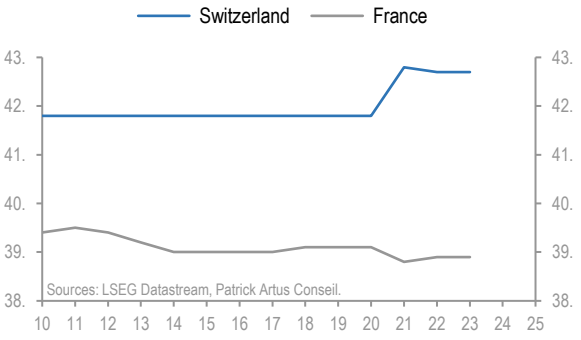


Chart 7a shows the employment rate for 15–64-year-olds, while Chart 7b shows the employment rate for 55-64-year-olds in both countries.

Chart 7A
Employment rate of population aged 15 to 64 (as %)

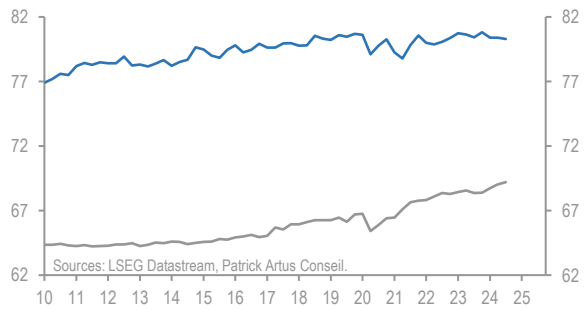
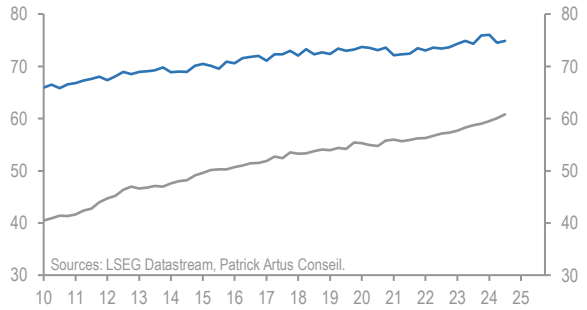



Chart 7B
Employment rate of population aged 55 to 64 (as %)




One can see, on the one hand, that the Swiss work substantially more than the French per year and, on the other, that they work later in life.

## Summary: the fundamental reasons for Switzerland's outstanding economic performance

Switzerland enjoys a much higher level of per capita income than France.

This is not surprising, given that in Switzerland:

- The education system is of very good quality, and the skills of the working population are high;
- The Research and Development effort is substantial and has contributed to maintaining a large-scale industry;
- The taste for work is widespread, leading to an elevated level of yearly worked hours and a high employment rate.

We could add to this list the smooth running of political institutions, which is necessary in a country with a plurality of cultures and languages.

Switzerland is governed by a seven-member Federal Council, which represents the main political parties and takes its decisions by consensus. The members of the Federal Council are elected every four years by the Federal Assembly.

There is a clear division of roles between the Federal Council, the 26 cantons and the 2172 communes. The principle of subsidiarity (decisions are taken at the most competent level) is applied systematically: the cantons manage education (except for the federal universities), hospitals, road maintenance and the police. Swiss citizens are also called upon to vote directly in referendums on the approval of legislation passed by the communes, cantons or Confederation, or resulting from popular initiatives. The existence of this direct democracy means that political parties must negotiate compromises to avoid laws being challenged by referendum later.

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