

ETH Zurich
LEE G 116
Leonhardstrasse 21
8092 Zurich, Switzerland

Phone +41 44 632 85 35
Fax +41 44 632 12 18
www.kof.ethz.ch
kof@kof.ethz.ch

Press Release

Zurich, 3 February 2015, 10.30 a.m.

The Bilateral Path – an Economic Stocktaking

Since the success of the Initiative against Mass Immigration (IMI), there has been uncertainty over the framework within which the bilateral agreements may be pursued with the European Union. Against this backdrop, the KOF has carried out a new study in which it analyses the influence of the bilateral agreements on economic development in Switzerland over the last few years. The study focused in particular on the effect of the Agreement on the Free Movement of Persons, which forms part of the Bilateral Agreements I. The KOF takes the view that an end to the bilateral agreements would jeopardise the Swiss model for economic success over the past years.

Over the last ten years, the Swiss economy has been developing encouragingly according to international standards. Whilst this cannot be attributed exclusively to the Agreement on the Free Movement of Persons (FMA), immigration in recent years has led to an increase in “human capital”. According to KOF estimates, in the period from 2002 until 2012, the FMA increased gross annual immigration from the EU 27/EFTA countries by between 16,300 and 26,300 (aged between 15 and 64). However, around half of this increase in immigration was offset by the absence of any immigration from third countries not party to the Agreement on the Free Movement of Persons. Free movement thus appears to have achieved the political goal of prioritising immigration from EU Member States above immigration from third countries. Over this period, free movement increased net immigration of persons aged between 15 and 64 by around 10,000 to 15,000 persons annually. It must be noted that the high levels of immigration to Switzerland over recent years are attributable not only to the FMA but also to other factors such as the relatively good economic development and the increasing interdependence between Switzerland and the enlarged EU.

The immigration mix has changed compared to the period before the FMA, and in particular the proportion of more highly qualified immigrants has increased. Immigrants came from Europe primarily as a result of increased demand on the part of Swiss businesses. Swiss businesses benefited from an increase in the working age population. The expansion of the labour supply by the FMA did not result in any significant displacement on the Swiss labour market: immigrants mostly complemented existing resident employees. The low displacement effect could also be attributable to the fact that immigration and free movement of persons directly contributed to an increase in job vacancies in Switzerland, for example due to higher consumer demand or the increased attractiveness of Switzerland as a place to live.

Following the initiative against mass immigration, it will not essentially be necessary to reintroduce a quota system, as applied in Switzerland prior to the Bilateral Agreements. A historical overview shows that, under these immigration rules, the local economy was more likely to show demand for cheap, unqualified workers, who were employed above all in regions and sectors of the economy threatened by emigration. This meant that the old quota system acted as a brake on structural change in Switzerland. In addition, between 1970 and 2002 the quota system was anything but liberal: a maximum ceiling was placed on migrant numbers and the administrative cost associated with hiring immigrants had a deterrent effect both on businesses as well as on potential migrants. A complex administrative apparatus was established for a relatively small number of permits.

Irrespective of the future form of immigration rules, it may be concluded that the MII is already causing uncertainty for Swiss firms. A repeated survey (spring and autumn 2014) of Swiss businesses indicates that the uncertainty has led to an upheaval, which has already had negative effects on the investment and employment plans of businesses in Switzerland over the last two years.

This damage would increase in the event that further agreements in addition to the FMA were cancelled, such as for instance the agreement on the mutual recognition of conformity assessment. This agreement has cut costs for Swiss exporters and importers. There has been a correspondingly positive effect on trade in the goods covered by the agreement, as was shown by an analysis of data carried out by the Swiss Customs Administration (SCA) relating to trade in more than 5,000 different products over a period of 22 years.

What would the cancellation of the Bilateral Agreements mean for economic growth? According to a KOF simulation, the working age population and the population as a whole would fall by 10,000 persons per year. The most significant negative effects under this simulation are seen on investments, including in particular investment in residential construction. The modelled effects on GDP growth totalled -0.2 per cent points per year.

When compared to the effects of the decision of the Swiss National Bank of 15 January 2015, this amounts to a relatively modest fall – as long as the franc retains its current strength. Nevertheless, these are only a few of the effects of the fall in immigration, and do not incorporate a large number of indirect effects, such as e.g. the increase in “human capital” and the further negative consequences of the cancellation of the FMA. Precisely in view of the “Franc shock”, it would not be sensible from an economic point of view to undermine yet further – and deliberately – the attractiveness of doing business in Switzerland. The KOF requests that all possibilities for pursuing the Bilateral Agreements within the framework of the established political process be explored.

The full study (in German) is available on our website:

<http://kof.ethz.ch/de/publikationen/p/kof-studien/> >>

Contacts

Jan-Egbert Sturm • Phone +41 (0)44 632 50 01 • sturm@kof.ethz.ch

David Iselin • Phone +41 (0)44 632 53 44 • iselin@kof.ethz.ch