

Has the Financial Economy Increased Regional Disparities in Switzerland over the Last Three Decades?

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14.1 Introduction

Two processes can be identified in Switzerland over the last three decades. The first relates to the transformation of the financial sector which resulted in activity concentrated in one or two “metropolises” or “global cities”. The second process relates to the decline of these traditionally industrial regions, and more recently the tourist regions. This chapter examines the linkage between these two processes.

The first part of the chapter deals with theories. Early theories of regional convergence/divergence (Myrdal 1957) emphasized the role of capital movements in the process of correcting disparities. But these approaches were very general and boiled down to the issue of the imperfection of financial markets. Few studies sought to examine those imperfections and their repercussions on an economy’s productive and spatial organisation. An exception is the work of Dow (1999). She describes a staged pattern of development in which a financial system initially deals in pure intermediation at the local level between lenders and borrowers. After that comes credit creation and then financial disintermediation. One of the consequences of this disintermediation is the disappearance of regional funding circuits and the emergence of specialized financial centres.

The chapter continues with an application of this representation to Switzerland’s economic and spatial evolution over the period 1975 and 2000. A clear distinction is made between two phases in the relationship between the financial sector and the rest of the economy. The first phase, between 1975 and 1995, was characterised by the international development of the Swiss financial centre(s). This was basically concentrated into a few cities and led to an appreciation of the Swiss franc. In this context, the country’s large enterprises took advantage of a strong currency to internationalise. The appreciation of the Swiss franc nevertheless had some negative effects on exporting regions. The second phase, which started in 1990, resulted from a major recession in the domestic economy and a process of decartelisation. These two factors coalesced and created problems for the domestic banking sector. This resulted in a drying-up of regional business funding circuits and a strengthening of the control of the

domestic economy by the financial markets. The conclusions of the chapter assess the role of the financial sector in the de-industrialisation of Switzerland and in the increase in regional disparities.

14.2 The Financial Sector and Increasing Regional Disparities

14.2.1 Finance and Regional Development: Theoretical Links

Neoclassical convergence theory postulates efficient capital markets, free operation of financial markets and the absence of any barriers to capital mobility. The central idea is that capital movements respond adequately to inter-regional variation in rates of return on capital. This mobility leads to the reduction or elimination of disparities. If demand for goods produced by a region falls, then the price of the region's assets also falls. These assets then reattract investors, thereby stimulating the flow of capital into the region. In such a world, financial institutions are distributed efficiently and capital movements are the vital factor in resolving regional disparities. The financial sector, by enabling adequate capital mobility, is the key factor in resolving disparities. The corollary is that "imperfections" in the financial system reinforce regional disparities.

Cumulative causality theory (Myrdal 1957) takes an opposing view. It suggests that the tendency for factors to converge towards economic centres creates imbalances. Where capital is concerned, the concentration of the banking system results in savings deposits filtering towards the central regions, depriving non-central regions of the capital they need to develop. Little research however has been undertaken linking financial circuits and spatial economic development.

From a post-Keynesian perspective, Sheila Dow (1990, 1992, 1993) is undoubtedly the author who has pushed theoretical thinking furthest relating the spatial structure of the financial sector with the increase in regional disparities. According to her, one result of liquidity preference¹ is that, in non-central regions, economic agents tend to progressively abandon local funding circuits and their poor liquidity, preferring financial products offered by the centres (Dow 1992). Credit rationing in non-central regions adds to the polarisation of financial activities and investments in a country's main financial centres, as economic agents progressively abandon local funding circuits. Liberalisation of capital movements and economic integration inevitably lead to the centralisation of the financial system and to regional divergence.

A similar idea is expressed by Dow (1999) relating to the evolution of the financial sector. She distinguishes six stages of development and their correspond-

¹ From a Keynesian perspective the individual displays a preference for liquidity. In the choice between two assets (financial or tangible), the individual will always prefer the one which is the more liquid (Boncoeur and Thouément 1993).

ing spatial structures (Table 14.1). At the early stages, banks play a single role of pure financial intermediation taking in and lending out local savings deposits. By stage 5 this intermediation is carried out by competitors. At stage 6, securitisation emerges with banks facilitating borrowing by issuing securities rather than by direct lending. Up to and including Stage 5, this system is regional and national. At Stage 5, competition emerges between banks and other non-banking financial institutions, and the system becomes more and more autonomous. Various financial agents seek to capture market shares through a policy of actively canvassing sales. More money is created and the economy is generously irrigated. In Stage 6, deregulation opens up international competition. Financial authorities seek new ways to contain monetary creation and this allows for the development of national financial centres. Spatial concentration takes place on the international scale too. The intermediation function becomes secondary and capital is procured via national and international financial markets. Banks no longer lend, but instead, supply services that enable their customers to get funding on the markets, while at the same time they remain powerful players in those markets.

Table 14.1. Regional implications of stages in banking development

	Banks and regional development	Credit and regional development
Stage 1:	Serving local communities Wealth-based, providing foundation for future financial centres	Intermediation only
Stage 2:	Market dependent on extent of confidence held in banker	Credit creation focused on local community because total credit constrained by redeposit ratio
Stage 3:	Banking system develops at national level	Redeposit constraint relaxed somewhat, so can lend wider afield
Stage 4:	Central bank oversees national system, but limited power to constrain credit	Banks freer to respond to credit demand as reserves constraint not binding and they can determine volume and distribution of credit within national economy
Stage 5:	Banks compete at national level with non-bank financial institutions	Credit creation determined by struggle over market share and opportunities in speculative markets. Total credit uncontrolled
Stage 6:	Deregulation opens up international competition, eventually causing concentration in financial centres	Shift to liquidity with emphasis put on services rather than credit; credit decisions concentrated in financial centres; total credit determined by availability of capital, i.e. by central capital markets

Source: adapted from Dow (1999).

Thus Dow's work suggests that the credit creation force in each region is the key to understanding today's spatial imbalances. Innovation in the financial sector (deregulation, concentration, securitisation, growth of pension funds, etc.) and the

capacity of financial centres to transform companies' tangible assets into liquid assets negotiable on the stock market both brings about an estrangement from sites of investment and confers the central location with a capacity for spatial trade-off (Leyshon and Thrift 1997) between regional, national and international scales.

14.2.2 The Drying Up of Traditional Funding Circuits: Consequences for Regions and SMEs

The disappearance of the traditional credit system seems to challenge the unity of national economies. With financial institutions no longer managing to play a regulatory role dual development becomes reinforced. For Michalet (1998), the financial globalisation process thus brings with it a dualism within national space just as it does between nations. How can this process be accounted for?

Traditionally, an economy based on bank credit implies a close relationship between bankers and firms. Loans to small enterprises (SMEs) play in part the role of equity capital. Proximity therefore plays an important role and can partly offset the repercussions of information asymmetry between lender and borrower (Porteous 1995). The reduction in the total amount of loans and their replacement by securities has dramatically reduced the need for proximity, giving way to standardised relationships in which distance is less of a factor. However, these relationships mean that banks are no longer involved to the same extent in the economy. This transformation also obliges the large financial institutions to make their investments more liquid.

For example, financial reforms undertaken in France triggered the formation of a dual funding system (Allégret 2001). The financial changes of the 1980s did not facilitate SME access to external sources of finance, but had the effect of increasing investors requirement for liquidity. Thus, the growing sophistication of financial systems has, paradoxically, not led to easier funding for SMEs. In this context, large firms have a considerably wider range of funding instruments at their disposal - principally financial markets, securitised debt negotiable on the money market and bank loans. SMEs on the other hand have remained dependent on bank funding and cannot take advantage of the modernised financial systems.

Farnetti (1995, 1996) highlights the parallel between, on the one hand, the good performance of Britain's largest companies, particularly their internationalisation and their stock market performance, and the decline in the rest of the country's economy. He dissects the sources of finance for the main mergers/acquisitions in recent years and defends the thesis that the competitive advantage of British firms stems primarily from having privileged access to financial markets that are particularly well-developed and liquid, via heavy recourse to the Euromarkets as well as the discretionary use of pension fund assets. This privileged access has favoured the move towards internationalisation of British multinationals via mergers/acquisitions, to the detriment of areas such as investment in research and development. To sum up, although British multinationals remain connected to the City of London and to the economy of the south-east, because they have their head

offices there, they are no longer truly linked to the rest of the British economy because they hardly invest there.

The breakdown of regional financial channels and the concentration of financial activities in a country's main financial centre results in the growing power of institutional investors who make a considerable contribution to increasing regional imbalances. Martin and Minns (1995) succeed in showing that the increasing power of British pension funds at the end of the 1980s had the effect of strongly magnifying regional imbalances. Savings deposits were collected in a homogenous manner across the whole country, but they were funnelled off into financial institutions that were mainly in the south-east of the country. Next, these funds are invested mainly on the London stock market and only listed companies - basically the large enterprises - benefit from them. In practice, almost nothing is reinvested in the other regions of the country.

Thus financial markets become privileged and exclusive sources of funding for economic activities. As a result, the transition to a financial economy has favoured the economic agents who comprise stock markets (financial institutions, major banks, multinational companies, financial services, etc.) for over 20 years. By giving some economic agents privileged access to capital and to money creation, the development of financial markets reinforces regional disparities and a dual system emerges. This is characterized by the organizations associated with the global city, such as large companies, financial institutions, major banks, financial services on the one hand and SMEs, regional and local banks, and tourist regions on the other.

14.3 The Increase in Regional Disparities in Switzerland

Traditionally, the Swiss economy has been divided into a successful export sector on the one hand and a protected sector orientated towards the domestic markets and much less successful on the other hand (Lambelet 1993). Today, this division is no longer valid. Instead, the dualised economy is comprised of a financial sector, with large industrialised firms and internationalised services and the rest of the Swiss economy, basically comprised of exporting industrial SMEs and a declining tourist sector.

Spatially, the country is divided between financial metropolises and the rest. This raises the question of the linkage between the financial economy and the rest of the economy and between the financial metropolises and the other regions. Empirically, the objective of this chapter is to reveal the new economic and spatial structures in Switzerland.

Two phases can be identified in the relationship between the financial sector and the rest of the economy. The first phase, between 1975 and 1995, is characterised by the international development of the Swiss financial centre. This growth in financial activities was accompanied by an almost continuous appreciation of the Swiss franc on foreign exchange markets. In this context, large enterprises took advantage of a strong currency to establish their strategy of

expansion and relocation while export sectors, made up basically of SMEs, experienced problems. With the recession at the start of the 1990s and the decartelisation of the domestic economy, a second phase began. It led to an opening up of traditionally protected sectors, as well as a drying-up of regional business funding circuits.

A number of regional production systems (RPSs)² (Crevoisier, Corpataux and Thierstein 2001) can be identified in Switzerland and these evolved in particularly contrasting ways. In terms of specialisation, the variations between them are extremely marked (Figure 14.1, Table 14.2). While the finance-structured metropolitan systems of Genève and Zürich experienced increasing prosperity between 1975 and 1995, the other Swiss regional production systems evolved in a contrasting manner. The industrial regions experienced a drastic reduction in job numbers from the 1970s. The tourist regions resisted exchange rate pressures until the funding circuits were ruptured at the start of the 1990s. The Ticino area and above all the Basel region were only partially successful in their metropolisation. Lastly, the regions that survived primarily on controlling domestic flows underwent major growth during that period until they, too, were hit by the crisis in public finance and the decartelisation process.

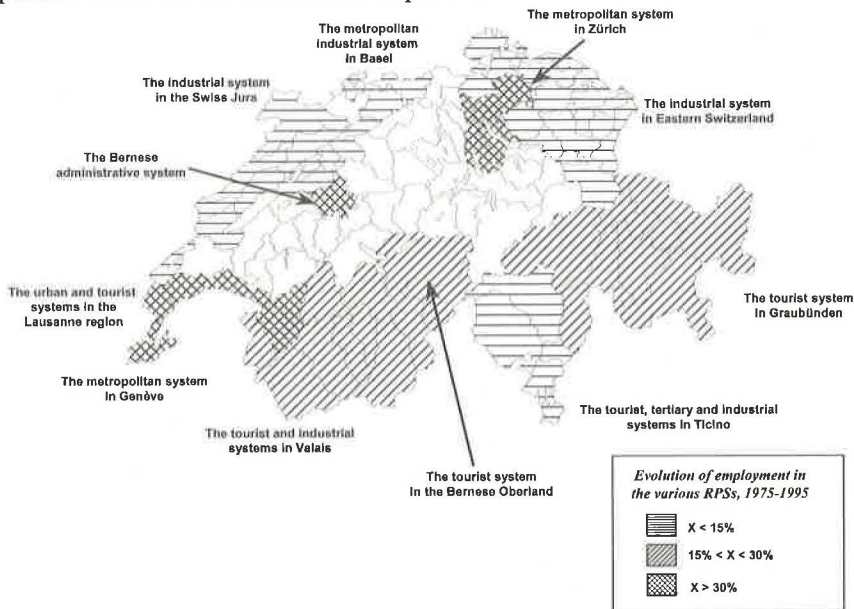


Fig. 14.1. Evolution of employment in the various regional production systems, 1975-1995

² A regional production system (RPS) is defined as a geographical zone of productive specialisation(s) including a number of regional agents (companies - small or large - institutions, authorities). They interact with each other on the basis of technical complementarity, competition and/or cooperation. An RPS receives and generates specific resources (in particular know-how) and this forms the basis of its competitiveness. Finally, a RPS possesses a certain degree of autonomy in its evolution.

Table 14.2. Evolution of employment in the various RPSs*, 1975-1995

RPSs identified in Switzerland	Number of jobs in 1975	Number of jobs in 1995	Variation in jobs
Metropolitan system in Genève	53,584	81,781	53%
Urban system in Lausanne conurbation	40,444	64,261	59%
Tourist system in the Côte, Riviera and Vaudois Alps	6,480	7,978	23%
Systems in Lausanne region	46,924	72,239	54%
Industrial system in Swiss Jura	100,453	70,206	-30%
Tourist system in Valais	35,436	44,650	26%
Industrial system in Valais	11,922	11,834	-1%
Systems in Valais	47,358	56,484	19%
Bernese administrative system	54,029	85,822	59%
Tourist system in Bernese Oberland	16,125	18,878	17%
Metropolitan industrial system in Basel	67,636	76,539	13%
Tourist system in Ticino	32,108	34,229	7%
Tertiary system in Ticino	6,466	9,073	40%
Industrial system in Ticino	8,449	4,762	-44%
Systems in Ticino	4,023	48,064	2%
Metropolitan system in Zürich	189,561	263,948	39%
Industrial system in Eastern Switzerland	106,889	88,958	-17%
Tourist system in Graubünden	36,105	41,849	16%

* Total jobs does not correspond to total jobs in the region. It corresponds to total jobs in those specialized sectors that comprise the RPS.

Source: IRER.

14.3.1 First Phase (1975-1995): From Export-Based Economy to Internationalisation of Large Enterprises and Decline of SME Systems

During this phase, Switzerland evolved towards a “head office economy” specialising in the management and organisation of multinational production and the control of international financial flows. This was centred on the financial metropolises of Zürich and Genève, and grounded in the internationalisation of large enterprises. The result was negative repercussions via the appreciation of the Swiss franc, for the systems made up of SMEs (Corpataux, Crevoisier and Thierstein, 2002). The spatial scale most relevant to this study is the RPS. These are based on MS regions.³ In Switzerland, statistical data is generally collected and calculated at canton level. There is therefore a discrepancy between the RPS and the statistical division of the country into politico-administrative units. Effort has been made to verify results obtained for RPSs against available statistics prepared at canton level. Regional per capita income at the canton level is a primary indicator of canton performance (Table 14.3).

³ MS regions are spatial entities based on commuters movements. There are 106 MS regions in Switzerland. By grouping some of them together on the basis of economic specialisations, it is possible to establish coherent RPSs.

Development of International Financial Centre and the Financial Metropoles

Since the 1970s, the Swiss banking economy expanded its international dimension and specialization in international financial activities and services. Asset management, particularly for private customers, demonstrates the international role of the Swiss financial centre as an exporter of services (Blattner et al. 1996). According to estimates by Chase Manhattan Bank,⁴ Switzerland manages 35 percent of the world's transborder asset management involving private customers, while Great Britain in comparison has only 21 percent and the USA a mere 12 percent.

The place of the banks in the Swiss economy grew considerably until the start of the 1990s. In 1995 the banking sector in Switzerland accounted for a very high share of the total gross value added created (9 percent), with a corresponding figure of 7.2 percent in Great Britain. 4.6 percent in the US and 4.1 percent in Germany (BAK 1998; ASB 1999).

Table 14.3. Annual increase at the canton level of per capita income (1975-1995), in Swiss francs

Cantons	Annual average increase of per capita income, 1975-1995	Cantons	Annual average increase of per capita income, 1975-1995
Zug	2431	Ticino	1193
Basel-Stadt	1797	Luzern	1186
Zürich	1708	Solothurn	1173
Glaris	1525	Fribourg	1151
Genève	1427	Graubünden	1130
Vaud	1352	Thurgau	1117
Schaffhausen	1340	Bern	1111
Basel-Landschaft	1338	Neuchâtel	1088
Nidwalden	1287	Obwalden	1027
Aargau	1271	Appenzell Ausserrhoden	979
Schwyz	1258	Appenzell Innerrhoden	970
St. Gallen	1217	Jura	919
Uri	1214	Valais	830

Note: 1 Euro is more or less 1.55 SF

Source: Federal Statistical Office (OFS).

The traditional advantages of Swiss economy and financial system such as banking secrecy, political stability and neutrality of the country and a qualified workforce coincided with the monetary policy conducted by the Swiss National Bank. In the first half of the 1970s the central bank decided to let the franc float on external markets and to pursue a monetary policy aimed at stable growth in the

⁴ Cited by the ASB (1996).

domestic money supply. The outcome was an almost continuous appreciation of the Swiss Franc on foreign exchange markets between 1973 and 1995. Figure 14.2 illustrates this appreciation compared to a basket of currencies that includes Switzerland's 15 main trading partners.

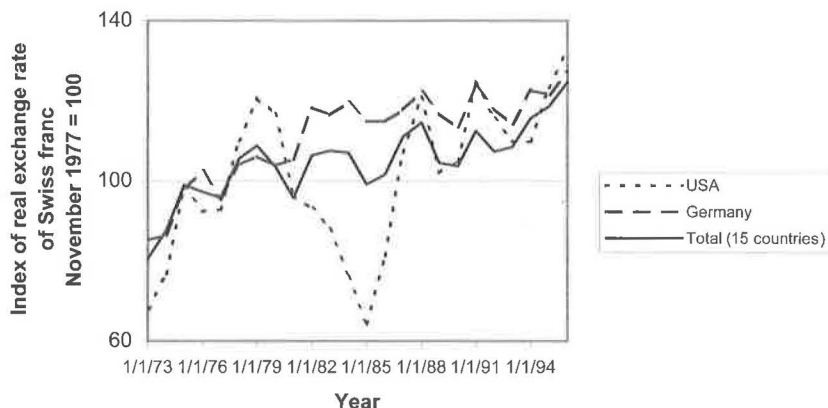


Fig. 14.2. Evolution of exchange rate of Swiss franc, 1973-1995

Source: Swiss National Bank (BNS).

This increase in financial activities was not concentrated on a limited number of metropolises. Of the total value added created by the Swiss banking sector in 1995, almost 60 percent came from the regions of Zürich and Genève. Zürich was clearly dominant, with a figure of 37.4 percent. Thus, the importance of the Zürich financial centre within Switzerland is relatively comparable to that of London (41 percent) within Great Britain (BAK 1998; ASB 1999).

The metropolitan systems of Zürich and Genève, whose activities are basically centred around finance, have as a result experienced very strong growth. Zürich combines the functions of being a refinancing centre for Swiss large enterprises and a centre for institutional and private asset management. Genève specialises in private asset management and international trade finance (Roth and Béguelin 1992). This financial centre is first and foremost a service exporter and has very few links with the rest of the Swiss economy. However, it displays characteristics that are strongly complementary with the main sectors of the Genève economy especially in the areas of international trade/negotiation and international organisations. It should also be noted that the development of financial and banking activities, in both Genève and Zürich, has resulted in a very pronounced decrease in industrial activities.

These observations are confirmed by an analysis of the evolution of per capita income (1975 to 1995) in the cantons concerned (Zug and Zürich for the Zürich-area RPS and Genève for the Genève-area RPS). These three cantons rank in the top five places (Table 14.3). Zug turns in by far the best performance, with an annual average increase of 2431 Swiss francs. The canton of Zürich is third

(+1708) and the canton of Genève fifth (+1427). The gap between the results obtained by Zürich and Zug can be explained, in part, by the latter's very competitive fiscal policy.

Internationalisation of Large Enterprises

Over the period of appreciation of the Swiss franc, the large enterprises opted for a relocation of production and for multinationalisation via takeovers of foreign companies. They also invested massively abroad. Statistics published by the Swiss National Bank (BNS 1996) and Deloitte Touche (1997), concerning Switzerland's outward foreign investment and inward foreign investment confirm this unilateral opening up to the exterior. Out-bound investment totalled over 42 billion Swiss francs over the period 1993-1995, while inward investment latter struggled to reach 7 billion Swiss francs. Of course, the strength of the Swiss franc, which is at once an incentive to invest abroad and a disincentive to produce in Switzerland, does not explain everything. But the strength of the franc undoubtedly favoured the external growth of large Swiss firms. Foreign companies who wanted to set up in Switzerland, were forced to "pay the price". In the Swiss chemicals sector, for example, total outward direct foreign investment was in excess of 11 billion Swiss francs over the period 1993-1995, while inward direct foreign investment for the sector was 731 million Swiss francs!

Reaction of Industrial SME Systems

Over the same period, regional SME systems specialising in industries such as watchmaking, machine tools, textiles were penalised on the export front and made increasingly vulnerable by the appreciation of the Swiss franc. Without the financial capacity nor the organisation to expand successfully abroad through external growth, SMEs reacted by specializing in high value added products and developing competitive advantage other than price. This behaviour characterizes the watch-making industry (Crevoisier 1993) for example. The huge machines sector also restructured itself and specialised in top-of-the-range machines, highly specialised and often bespoke. These "successes" however resulted in considerable job losses across the Swiss territory. Between 1970 and 1982, watch-making lost two-thirds of its jobs. Other activities, such as textiles, practically disappeared. Thus, this process of specialisation in high-value-added market segments had serious limitations.

Those RPSs that specialised in industrial activities saw their job numbers evolve more slowly than the national average. The industry of the Jura Arc for example, was strongly hit by the appreciation of the Swiss franc. All its industrial areas were orientated towards niche markets and high-value-added markets, involving limited production runs. The large firms restructured themselves (rationalised production, relocation, etc.) and many SMEs disappeared. Jobs in jewellery-watchmaking, for example, went from over 48,000 in 1975 to around 23,000 in 1995. The remaining companies nevertheless profited from an environment that was conducive to the development of a microtechnology industry, using

a combination of the region's technologies and skills. The cantons of Jura, Neuchâtel and Solothurn (which make up, entirely or in part, the industrial system of the Jura Arc) registered weak growth in their per capita income, compared to the rest of the country. The Jura ranked 25th and next-to-last with an annual average increase of 919 Swiss francs. Neuchâtel ranked 21st (+1088) and Solothurn 16th (+1173) (Table 14.3).

In eastern Switzerland, traditional specialisation in textiles and clothing was very exposed and took refuge in producing for niche markets, experiencing considerable job losses. The machine sector, in particular textiles machines, largely relocated its production abroad while maintaining jobs at home. The cantons belonging to the eastern Switzerland industrial system had diverse fortunes. Schaffhausen (7th with an annual average increase of 1340 francs) and St. Gallen (12th with an annual average increase of 1217 francs) emerged relatively well. But the other cantons were less fortunate: Thurgau ranked 19th (+1117) and the two half-cantons of Appenzell are 23rd and 24th (+979 and +970) (Table 14.3).

Growth and Decline of the Tourist RPSs

The tourist RPSs (mainly the regions of Valais, the Bernese Oberland and the Graubünden), did not respond like industries to the appreciation of the Swiss franc because it was not possible to increase productivity to the same degree as in industry. By its very nature, tourist activity has little scope for automation and innovation. Competitiveness was mainly attained by squeezing costs and this was done in two ways. First, by huge recourse to poorly-qualified, poorly-paid foreign labour, explaining the relatively strong performance of these regions on employment. Second the tourist industry reduced costs by moving from hotel-based tourism to non-hotel based accommodation and services. The result was the development of the construction sector and the property business. However, this evolution came to an abrupt halt at the start of the 1990s when the Swiss franc appreciated once again. At this time, the structural limits of these systems were reached. It was no longer possible to avoid crisis by squeezing costs. Investment was needed. But it was also at this point that bank loans, the traditional source of funding for SMEs in this sector, were drastically rationed. This jolt was one too many and the tourist RPSs went into crisis, with particularly serious repercussions in the construction sector. The per capita income statistics for the Valais canton increased, on average, by a mere 830 Swiss francs per annum. This was the lowest growth in the country. The canton of the Graubünden did a little better and ranked 18th in per capita income change (Table 14.3).

Partially-Successful Metropolisation of Composite Systems

The Basel metropolitan industrial system experienced lower growth than the country's other large urban regions. Employment in chemicals, which structured the whole regional economy, fell by 12 percent between 1975 and 1995. The rising costs of research and manufacturing in Switzerland coincided with the attraction of relatively low investment costs abroad: the strength of the Swiss franc

was used as a lever and helped the internationalisation of Basel's large industrial groups. From the end of the 1970s, acquisitions and direct investments multiplied to a point where jobs abroad today represent two-thirds of the jobs in these companies. The concentration of decision-making power on the international scale did not however lead on to a real metropolisation of the Basel region. The tertiary activities, and in particular the financial centre, did not follow. Per capita income of the half-canton of Basel-Stadt is ranked 2nd best, with an annual increase of 1797 Swiss francs (Table 14.3). This result is due to the presence of the big chemical companies' head offices.

The Ticino financial centre, with its specialisation in private asset management, grew strongly between 1975 and 1995. Nevertheless, its foothold at local level remained very embryonic and some commentators regard it as a large outpost of Zürich, owing its existence purely to its geographical, linguistic and cultural proximity with Italy (Chopard 1991). Other activities experienced problems. Shippers, totally dependent on the evolution of the Swiss franc, underwent "a process of decline" (Ratti and Baggi 1993). The tourism, clothing, textiles and leather sectors all collapsed. In other sectors, however, Ticino industry developed strongly such as industrial machines, electrical and electronic manufacturing and chemicals. Per capita income increase 1979-1995 ranked this canton 14th in Switzerland (Table 14.3).

Increase in Domestic Flows and Growth of Central Places

The RPSs specialising in a domestic activities have little sensitivity to currency fluctuations. They are basically regional markets or domestic centres in activities such as services (health, government, higher education, the media, etc.). The RPS of the greater Lausanne area for example, profited from its central position, at the heart of French-speaking Switzerland, through the development of public services (health, education, etc.) and in the provision of private services (French-speaking head offices of banks and insurance companies, etc.). The canton of Vaud, which includes this RPS, ranked 6th in income growth in the country (+1352). Bern also experienced considerable growth in its activities. The funds that flowed in came, of course, from the whole of Switzerland, the public sector (government, health, etc.), the Federal State-owned companies (post office, national railway, etc.) as well as from the service providers that these entail.

These centralised markets profited from both the increased productivity of the industrial systems and from the increase in financial systems by attracting the flow of funds generated by exports. However, these systems experienced more serious problems from 1992 onwards as a result of the crisis in public finance and of the revitalisation/liberalisation programme.

14.3.2 Second Phase: Decartelisation and Drying Up of Regional Funding Circuits

At the start of the 1990s, high growth came to an abrupt halt. The domestic market was particularly affected by a series of institutional reforms such as decartelisation and the banking sector experienced a process of dualisation with large internationalised institutions pitted against regional and local banks. The outcome of this was a drying-up of regional funding circuits and, more globally, a pronounced disjunction between the large enterprise/sector and the domestic economy and SMEs.

Banking Sector Dualisation

Two internal factors strongly influenced the restructuring of the banking sector. The first was the distribution of banking conventions in the early 1990s. This encouraged lively competition but penalised small establishments with regional markets. At the same time, the turn-around in the economic situation and the ensuing period of high interest rates (1991-1993) depressed the mortgage loan market, one of the main markets for regional and local banks. In this new context, the major banks simply accelerated their internationalisation, the private banks confirmed the trend, the major cantonal banks sought to follow suit and foreign banks continued to set up on Swiss soil. The regional banks, the local savings banks and the small and medium-sized cantonal banks found themselves in a more difficult position.

The process penalised the banks with a regional orientation that supplied the regional funding circuits, and the SMEs. In 1985 the number of regional banks and savings banks stood at 216. This number fell to 204 in 1990, and then plummeted to 127 in 1995. By way of comparison, foreign banks, orientated mainly towards asset management, went from 120 in 1985 to 142 in 1990, reaching a total of 155 in 1995.⁵

Drying Up of Regional Funding Circuits

Traditionally, regional business funding circuits were based on a number of mechanisms. First, ever since WWII the Swiss economy had become accustomed to having heavy recourse to bank loans. Until the start of the 1990s, the latter were plentiful and cheap. Where equity capital was concerned, the local stock exchanges (which existed in most Swiss cities) were all shut down and their operations concentrated in the Swiss Stock Exchange in Zürich. Unsuccessful activity in the property sector and a reversal in the economic situation led to a restrictive lending policy on the part of the banks. The total amount of bank loans plummeted: between April 1993 and March 2000, loans taken up by industry went from a little under 57 billion Swiss francs to around 32.5 billion Swiss francs. In this context, the SMEs were left to their own devices and it was at this time that

⁵ BNS, annual publication, various years.

diverse experiments were tried with regional risk-capital funds, or involving proximity capital. However, these were always very limited and never did provide SMEs with any satisfactory answer as to how to wean themselves off bank loans. Today, a limited number of companies have succeeded in entering the stock exchange or self-funding through effecting an employee takeover/buy-out operation.

In the final analysis, regional funding circuits have practically disappeared. Consequently SMEs can expand in one of two ways. One option is through being traded on the stock exchange, with all the technical problems that poses for a small organisation and all the dangers that it poses to firm independence. Alternatively, a firm can sell out to one of the big international groups (Crevoisier, 1997). For example, the decade of the 1990s saw all the brand names in the watchmaking sector sell-out to the big groups.

14.4 Conclusions

What lessons can be drawn from the Swiss case with respect to regional disparities in other small countries? What are the regional consequences of a strong specialisation in international financial activities rather than industrial activity? As has been shown, the Swiss economy was characterised at the outset by the development of financial metropolises, the internationalisation of large firms and the decline of SME systems specialised in industry or tourism. At a later stage, a process of decartelisation reinforced these spatial disparities by (a) targeting those regions orientated towards controlling domestic flows and (b) dismantling regional funding circuits. Therefore the dominant financial sector in Switzerland has tended to reinforce regional economic disparities.

To what extent has the appreciation of the Swiss franc reflected the strong performance of the Swiss economy and the need for adaptation in its less competitive branches, such as industry and tourism? While the competitiveness and dynamism of the financial sector led to the strong Swiss franc, the strength of the Swiss franc was conversely the cause of the competitiveness of the financial market. Of course, there are other reasons for the development of the Swiss financial metropolises. Some centres such as Zürich, Genève and to a lesser extent Lugano have been able to combine Switzerland's traditional advantages with their own specific resources. However the Basel region has not succeed in promoting its financial market, despite the presence of important national and international organisations (Association of Swiss Bankers, Bank for International Settlements, etc.).

The industrial and tourist RPSs have had to adapt in order to survive an unfavourable macro-economic situation. The evolution of the Swiss franc eliminated all mass production in Switzerland. In areas of industry that were very competitive on the international scale, such as chemicals and watchmaking, there were massive job losses and major relocations. The large firms got out in good time, often to the detriment of their native regions. Thus only those regions that

had sizeable capacities in the financial sector at the outset, succeeded in transforming themselves.

It can be said that Switzerland has evolved towards a metropolitan system of controlling European - even global - financial flows and that this is an enviable position. However it still remains to be seen whether this success is based on a sustainable competitiveness in these economic areas or if it is nothing but a reflection of specific, possibly transitory, conditions. What will happen when the European Union prevents Switzerland from acting as a refuge for capital or from making good use of its fiscal legislation? Moreover, how many people can survive in an economy that specialises in these activities? The financial services sector is undoubtedly a valid option for a micro-state such as Luxembourg. But is it equally valid for a small country of 7 million inhabitants?

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