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Autor: Müller, Jürg
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Major assault on executive remuneration

It is one of the most significant referenda on economic policy in recent history – on 24 November 2013, the Swiss people will vote on the 1:12 initiative proposed by the Young Socialists. This calls for the highest salary to be restricted to twelve times the lowest salary in the same company. Is this an attack on Switzerland's model for success or an urgently needed top-down redistribution of wealth?

By Jürg Müller

It came as a real bombshell when the referendum result was announced on the afternoon of 3 March 2013. Just under 68 percent of the Swiss people had voted in favour of the fat-cat initiative, effectively declaring that they were no longer willing to accept million-franc salaries and bonuses. Business representatives in particular were deeply shocked, among them the Free Democrat National Councillor Ruedi Noser from Zurich. He painted a gloomy picture of the destruction of Switzerland's model for success and without further ado established the association "SuccèSuisse". This aims to protect the liberal economic system.

Noser's alarmism is not without foundation. Left-wing parties have a whole host of far-reaching salary and tax policy initiatives in the pipeline: the 1:12 initiative from the Young Socialists (Juso) will be put to the vote on 24 November 2013. Further popular initiatives concerning the minimum wage, inheritance tax and flat-rate taxation for wealthy foreigners are also pending. This has not all happened just by chance. What lies behind it is a "strategic counter-project to the neo-liberal discourse", as Juso puts it. National Councillor Noser describes it in different terms, accusing the left of "unadulterated class warfare".

HIgh earners out in the cold: The Young Socialists do not shy away from condemning people like Brady Dougan, Daniel Vasella and Marcel Ospel, whom they see as "fat cats". They have been taken to court by Vasella.

Heated debate over distribution of wealth

The two political camps are only in agreement on one point – a fierce debate over the distribution of wealth is taking place in Switzerland in 2013. Arguments are being formulated, underpinned by statistics, which appear diametrically opposed depending on the benchmarks used and the political background. Those on the left point to a constantly widening gap in terms of income and assets, while business federations and conservative parties claim the opposite is true. "By international standards, Switzerland is among the nations with the smallest disparities in prosperity," indicates the liberal think-tank "Avenir Suisse" in summarising its findings.

The left-wing policy institute "Denknetz" takes a different view, claiming that top earners have reaped greater and greater rewards in recent years at the expense of the lower and middle income brackets. Thirty years ago, the earnings of a CEO were around six times that of the average Swiss salary, while the ratio had grown to 1:13 by the end of the 1990s. In 2007, the best-paid managers received 56 times the average salary. That also comes out top internationally. However, it is not just the top earners but also a broader spectrum of high-wage recipients who have benefitted from this redistribution. "The best-remunerated percentage of employees has seen salaries rise by over a third in real terms since 1994, while the average salary has only increased by around seven percent," writes "Denknetz".

The economy as a "self-service store"

SP National Councillor Cédric Wermuth believes that "our economy has turned into a veritable self-service store". The former Juso leader and intellectual father of the 1:12 initiative estimates that the number of salary millionaires has more than quadrupled since 1997. Today, one percent of the Swiss population possesses greater net assets than the remaining 99 percent put together.

"Avenir Suisse" has a completely different standpoint. It argues that wealth is in fact broadly distributed in Switzerland. The nation is in the top third in terms of income by international comparison while enjoying a very high level of prosperity. And the income gap is not widening, on the contrary: "Disparities in income have actually declined in recent times. The proportion of top salaries is at the level of the 1960s while the poverty rate has fallen slightly," writes the liberal think-tank in a brochure entitled "Distribution". If both the level of income and the broad distribution among households are taken into account, Switzerland occupies a top position. "In no other OECD country (and probably no other country in the world) are full-time salaries distributed as equally as in Switzerland." Patrik Schellenbauer, the author of the "Avenir Suisse" study, even suggests that inequality in Switzerland has decreased over the last three years: "What concerns me is something else – the interventions in the labour market being called for (minimum salary, 1:12) risk biting the hand that feeds us."

Switzerland on the way to becoming the "North Korea of Europe"?

There is no need to go as far as FDP National Councillor Ruedi Noser, who believes Switzerland will go from being "the most liberal economy in Europe" to the "North Korea of Europe" if the initiative is adopted. However, business representatives are forming a broad front against the popular initiative. Valentin Vogt, President of the Swiss Employers' Association, estimates that billions of Swiss francs will be lost in tax revenues and social insurance contributions each year in the event of a yes vote. Switzerland has lots of international companies in relation to its size: "If we want to continue playing in this league, we must anticipate salaries of five to eight million Swiss francs," revealed Vogt in an interview with the "SonntagsZeitung".

Philipp Müller, President of the FDP-Liberals, also warns that the initiative constitutes "an incursion into economic freedom that is incompatible with our principles" and would have "a detrimental impact on the nation's standing as a business location". In contrast, the left-wing "Denknetz" authors Beat Ringger and Hans Baumann see no risk of that happening and believe that Switzerland will remain an attractive location. Tax benefits, well-qualified staff, first-rate academic and research institutions, political stability, legal certainty, state and private services that perform well, excellent transport and communications infrastructure and proximity to the financial markets are the factors that really guarantee a high level of productivity, they say.

Hans-Jürg Fehr, former SP President and National Councillor, believes that fat-cat bonuses and top salaries are no longer based on differences in performance levels but instead on the "power of a small, exclusive network of managers from the financial industry and other multinational groups who are keeping a lid on one another's sinecures". This is why performance differentials are no longer given as the reason for the enormous salaries but instead competitive conditions on the international labour market are cited.

Million-franc salaries are commonplace

However, million-franc salaries are not just commonplace at major corporations, even though the public are familiar with the names of just a few fat-cats, such as the former Novartis CEO Daniel Vasella and Brady Dougan, CEO of Credit Suisse. Even "smaller" companies pay their chief executives and managers salaries in excess of a million Swiss francs (see graphic on the right).

But why 1:12 of all numbers? And not 1:6 or 1:24? Concepts such as social justice, fair distribution and acceptable salary levels are difficult to define. Gerhard Schwarz, Director of "Avenir Suisse", quite rightly points out: "The crux of the matter is that there are no objective benchmarks for what is excessive or inadequate in terms of income and assets." However, there are indicators, particularly in a system of direct democracy, as to what extent perceived or actual inequalities will be tolerated by the majority of the population. The approval of the fat-cat initiative in March of this year underlines that distribution is no longer just an issue for those on the left of politics; it is also a concern for people in mainstream society.

The Swiss remain business-friendly

However, Adrian Vatter, Professor and Director of the Institute of Political Science at the University of Berne, does not believe a paradigm shift is occurring. The approval of the fat-cat initiative "cannot be interpreted as an expression of general public criticism of business", Vatter tells "Swiss Review". The traditionally rather business-friendly, liberal outlook of the Swiss is not a thing of the past. The fat-cat initiative was in fact not about a state solution but essentially about strengthening shareholder rights. Furthermore, the popular initiative was not submitted by the left but by an individual campaigner from the right-wing, conservative camp, Thomas Minder, who is now Council of States member for Schaffhausen. The traditional left-right split did not therefore come into play. Vatter is "relatively certain" that the old left-right divide will come to the fore again over the 1:12 initiative, with the left supporting the proposal and the conservative majority opposing it. Viewed from this perspective, the Young Socialists' bill has much less chance of succeeding than the fat-cat initiative.

JÜRG MÜLLER is an editor at "Swiss Review"

INFORMATION on the other votes from 24 November 2013: see see bottom of next page.

Companies are far away from 1:12

Enterprise	Lowest salary in 2011	Proportion	Highest salary in 2012
Roche	59000	1: 236	13900000
ABB	44980	1: 227	10200000
Novartis	59000	1: 219	12900000
CS	50000	1: 212	10600000
Nestlé	52260	1: 188	9800000
UBS	50000	1: 178	8900000
Lindt & Sprüngli	46540	1: 148	6900000
Zürich Versicherungen	52800	1: 144	7600000
Swatch	45500	1: 136	6200000
Clariant	63000	1: 95	6000000
Oerlikon	53506	1: 88	4700000
Schindler	54600	1: 73	4000000
Swiss Life	54600	1: 62	3400000
Implenia	49400	1: 40	1970000
Swisscom	45500	1: 37	1700000
Post	44823	1: 21	924000 *
Migros	49400	1: 17	860000 **

TA-Diagram / Source: Travailsuisse (Salaries in CHF)

* 2011
** Angabe «Bilanz»

Illu: TA-Grafik