

# A Swiss experiment : price compensation

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**A Swiss Experiment:****PRICE COMPENSATION.***"S. I. T.," December 1943.*

Is this experiment specifically Swiss? There certainly exist price compensation funds in other countries, but the particularly striking feature in Switzerland is the extent of the experience, the vast sums involved therein, its diversity of application and, above all, the change of attitude it expresses.

The idea of compensation has been popularized by the success of the Wage and Salary Compensation Funds (for the mobilized).

Instead of giving complicated explanations of abstract definitions and the principles underlying the experiment, we prefer to broach the subject by a brief, direct exposé of the mechanism of the most typical funds now in operation. After which, we shall pass a few comments on what has been achieved.

The following survey has been drawn up according to the different basic types of funds, rather than to the logical sequence of various branches of economy of the degree of financial importance.

*Type of compensating between Swiss products:* Milk and dairy products compensation fund. This fund aims at providing the necessary financial means to supply milk to regions situated far from the production centres at prices not exceeding those prevailing in rural districts (e. g. Zurich, Geneva, etc.).

The sums accumulated also serve to cover part of the margin left for distribution costs, which are higher in certain large urban districts than elsewhere.

The regions where milk production is deficient include not only large towns, but also rural districts such as the Canton of Valais, to which the neighbouring Canton of Vaud delivers 40,000 litres of milk daily.

*Type of compensation between exclusively imported goods:* Cement compensation fund. Whatever the origin and whatever the original buying price of the costs of any kind which accumulate in transactional processes between the importer and the consumer, the prices fixed for the Swiss market are uniform throughout the territory of the Confederation. Thus, the operation of this fund is very simple; importers who obtain goods abroad at a price lower than the established price pay the difference into the fund, whereas importers who have to buy goods at a price higher than the national fixed price are paid the difference from the fund. (Home-produced cement has its own particular market independent of the other.)

*Cotton compensation fund:* The price compensation fund for the cotton industry operates within the framework of a Wartime Textile Syndicate. The object of this particular fund is to stabilize raw material costs over relatively long periods and to diminish, as far as possible, the average buying price of raw cotton, artificial wool and all products of the cotton industry. When imports of cotton can be operated at a cost price lower than the average fixed price, 75% of the difference is paid into the compensation fund, and 25% remains to the importer's benefit as an encouragement.

Part of the receipts of the fund are distributed in the form of bonuses to importers who buy raw materials at prices higher than the average. The bonuses granted are 75% of the difference between the cost price and the average fixed price, but in this case

the importer must first ask the Price Control Bureau for the authorization to import at this higher price. The second task which lies before this compensation fund is to obtain a certain equilibrium between the price of natural raw materials and substitute products.

In the textile industry, there also exist price compensation funds for wool, staple fibre as a wool substitute, flax and hemp.

*Type of compensation favouring imported commodities by taxation of home production:* Sauerkraut compensation fund. Switzerland's production of sauerkraut being insufficient, it proved necessary to import from Hungary, but at higher prices. Therefore, 5 centimes per kilo are levied on the home-produced article. The yield of this tax supplies the means to pay the difference in price of imported sauerkraut, thus ensuring a uniform price level for all sauerkraut consumed in Switzerland. Hides and leather compensation fund: A similar principle has been applied to the organizations of the price compensation fund for hides and leather. Hides of foreign origin are to-day more expensive than home produced goods, and by a tax raised on the sales of Swiss tanneries, the price of imported sheep and goat hides can be reduced.

*Type of tripartite compensation by taxation of foreign imports and a small part of the home output in favour of the remaining home industries of the trade whose production costs are too high:* Window-glass compensation fund. The Swiss window-glass market is supplied by three firms, namely: Moutier, Romont and Dewag in Germany and Belgium. Production costs of the Moutier glass-works are the highest of the three just now, owing to the fact that it employs coal for its furnaces. The Romont works is equipped with electrical plant which, for the time being, represents lower running costs. The German and Belgian works are able to produce at still lower cost. In order to bring the selling prices of these three works into line on the Swiss market, all invoices are controlled by a trade syndicate which establishes uniform prices and also pays the supplementary expenses of the Moutier works.

The charcoal compensation fund operates on the same principle, owing to the fact that home produce, which has had to be encouraged since the war, is more costly than the imported article.

To the import price it added a tax, the yield of which is used to diminish internal production costs in order to maintain a uniform price level on the Swiss market.

*Type of fund raising import prices in order to eliminate black market operations:* Egg compensation fund. In this case, it must be noted that the tax is levied on imported egg powders, whereas the yield is used not for the egg powder market, but for that of fresh eggs. The funds thus obtained enable the Government to pay farmers a fair price, thus preventing a drainage of this commodity to the black market without causing a corresponding rise in retail prices.

*Charcoal compensation fund:* The price compensation system for charcoal operates on approximately the same principle. Imported charcoal is less expensive than the home-produced article, but the volume of imports is insufficient. To encourage home-production, therefore, the tax added to imported charcoal prices is employed to reduce the cost price of home-production.

There are now fifty important compensation funds in operation, among which may be mentioned those organized for non-ferrous metals, oils and fats, fuels, casein, pulse, sugar, grape concentrates, soya flour, starch, artificial manures, certain chemical products, raw rubber, bitumen, etc.

These funds serve especially to synchronize prices in consumer goods producing industries which are in direct contact with the buying public; uniform prices and fixed maximums throughout Switzerland are an essential factor of the ration system.

Price compensation is less widespread among industries manufacturing producer goods, for here the Price Control Bureau fixes prices for each individual case on the basis of the production costs of each firm. The resultant price disparity can have no social consequences, as these industries never come into direct contact with the consumer of finished products.

To sum us: with the exception of certain funds which raise the import price of certain raw materials, price compensation operates at the end of the scale nearest the consumer.

However, it would be unwise to systematize too rigidly, for each fund is organized individually according to the particular needs of the industrial branches to which it is applied.

The most important of these funds have materialized at the express desire of all industrialists concerned, and by their mutual agreement. We certainly have here a fine example of self-discipline. Other funds have been created by order of the Government, but it must be recognized that even in these cases all official efforts would have been vain, had there not existed a minimum of team-spirit among the executives concerned. One must realize how high a degree of civic maturity is implied by the internal or tripartite compensation as practised, say, in the glass industry. Is it not at least remarkable that industrialists should pay part of their profits to their competitors in order to enable the latter better to maintain their position on the market? These transfers from one individual or trade group to another involve tens of millions of Swiss francs annually, and this between groups formerly supposed antagonistic and who still remain trade rivals. Before the war, no one would have thought of contesting these profits, although they already existed, price uniformity then being a result, not of Federal control, but of free competition. Several foreign economists have expressed their amazement at the way in which this skimming of profits has been put into practice for the sake of professional, and even inter-professional, co-operation.

However, it is not only the employers who deserve praise. The labour-syndicates have also contributed to the success of this compensation system which is characterized by a spirit of adaptability and self-discipline. Without our horizontal system of great labour syndicates, without the spirit of intercantonal solidarity they have spread among Swiss working classes, the experiment of compensation would have failed; in fact, the workers of certain firms know perfectly well that their employers have to pay large sums to their competitors. If they did not know this, if they did not feel that their fate was bound by their unions to that of their fellows working in rival firms, those workers might well adopt a far bolder policy of re-vindication. Social peace and trade union stability are conditions essential to the technical success of the com-

penetration system; one can well imagine, for instance, how difficult it is to distinguish between contributory and beneficiary firms. It is quite evident that this requires wage and manufacturing conditions which will not fluctuate wildly from month to month.

Certain commentators on the "Swiss experiment" feared that the compensation funds would encourage a spirit of sloth in certain submarginal firms. Fortunately, no such thing has occurred, for, as was to be expected, the firms are obliged to contribute financially to the funds, and they severely control such rationalisation as proves necessary to bring the firms benefitting by the compensation system into economic alignment.

How long will this experiment last? Its prolongation in the post-war period is to be desired, for, if we have to maintain a minimum of economic State control, the compensation system is the only form of State intervention and discipline which can be realized without widespread State organization. The funds accumulated by compensation will in future allow Switzerland to reduce the effects of cyclic fluctuations without detriment to the sensitiveness of individual firms to the turn of the market. For a little country like Switzerland, which cannot adopt an integral system of blocking and controlled economy, which cannot pretend to follow a policy of isolation, there remains only one possible solution, which is: to equip itself socially and financially in such a way as will enable it to survive trade depressions without having recourse to collective measures. To spatial compensation can succeed temporal compensation in the form of reserve funds representing a sort of helm to guide certain branches of industry as a whole.

It is certain that the principle of compensation will be fought against in the immediate post-war period. It is to the employer class what the labour peace is to the trade union movement. On all sides, attempts will be made to deny what is termed "a period of painful concessions." We hope, however, that once this dangerous reaction has worn itself out, we shall again reinstate the best which has evolved from the experiences the war has to-day imposed upon us.

C. F. DUCOMMUN,

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