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The role of the swiss franc in Switzerland's European stance

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ABSTRACT

The case of Switzerland appears to be unique with regards to the European economic and monetary integration process, which began in 1957: although the country has had close and growing links with the European Union (EU) over time, it does not want to access full membership. Even though this situation of high integration without full membership entails certain constraints, it is also interesting for Switzerland in many respects. In particular, it allows the country to preserve the sovereignty of its money, which is the backbone of Switzerland's modern existence. That is why I consider that the Swiss Franc is at the core of Switzerland's European stance.

1. Introduction

The current strong tensions in Europe reveal both the success and the difficulties of the economic and monetary integration process that have existed in Europe since the Treaty of Rome in 1957. The monetary issue especially sustains efforts in that direction. If the European Central Bank (ECB) has successfully fulfilled its mandate of price stability, it has faced many problems: its lack of ability, as well as will, to foster growth, its role of lender of last resort, and lack of confidence in the euro. Thus, besides the important necessary reforms and changes concerning the eurozone's functioning and survival (Bibow, 2012), this situation seems also to prove that the "reluctant Europeans" within the European Union (EU), such as Denmark, Great Britain or Sweden, are right, because these countries do not fully partake in economic and monetary European integration. In other words, they are highly integrated into the European single market but they also maintain – to some extent – their monetary autonomy, allowing them to primarily focus monetary policy on the needs of the national economy.

In the same way, perhaps more so, this is true of Switzerland, a country that is strongly linked to the EU and the countries belonging to the eurozone, particularly from an economic and financial perspective, but does not want to become a full member. This *de facto* integration without *de jure* accession reflects the Swiss philosophy towards European integration that has been implemented since 1957. Despite the fact that its main economic partners are EU members, Switzerland wants to preserve its political independence from the EU because the country fears that accession may harm the very economic basics that created the "Swiss exception", often called *Sonderfall.*

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Moreover, from the EU political authorities' point of view, Switzerland is seen as an important partner as a result of its high level of Gross Domestic Product (GDP) per capita, which offers stability in Europe. The EU has therefore accepted a "third way" for Switzerland, between accession and full independence, through the signature of several bilateral agreements since 1972. Although such a stance is precarious, it is also interesting for Switzerland, especially because it secures its European traffic and does not entail any loss of fiscal or monetary sovereignty. For this reason some label Switzerland a European free rider: the country would benefit from European collective goods without giving up any domestic particularity for the whole.

However, it is necessary to go beyond such an assertion, and to deeply understand Switzerland's stance. I argue that the latter is linked to the specificities of the country depending on the preservation of monetary independence. Consequently, we shall demonstrate in the paper to what extent "money matters" in the Swiss case, because it gives access to national prosperity, as well as identity, justifying Switzerland's European reluctance. More broadly, as the latter indicates through the monetary perspective that "where there is a will, there is a way", the Swiss case is a significant example, even a lesson, of the eurozone, of the need to create a "complete currency" (Ponsot, 2013), relying on an economic but overall political base.

This article attempts to tackle this issue from two angles. The first recalls the historic particularities of Switzerland's position in the European integration process, and displays both the advantages and the costs of such a stance. We argue in the second part that Switzerland accepts this situation and does not seek membership because "money matters" in the country for not just economic but also sociological, as well as political, reasons. This leads to a "national will" to preserve the independence of the Swiss franc, showing that whatever its costs, it is essential for the country to preserve its monetary independence.

2. The Swiss reluctance to the EU

In order to comprehend the specific relationship between Switzerland and the EU, it is necessary to understand the characteristics of the Swiss position first, and thereafter to explain why Switzerland is reluctant to proceed to EU membership.

2.1. Switzerland towards the UE: strong links and dependence. . .without full accession

If we refer to Krugman (1991), the countries that are geographically and economically close are used to trading a lot because of such proximity. From a purely economic point of view, there are some gravitational effects between those economies, which are "natural trading partners". This facilitates the setting-up of bilateral agreements because the costs are prone to weakness and trade diversion will be limited (Viner, 1950).

From this perspective, Switzerland, which is located at the core of the EU, and even Europe, is a "natural trading partner" of the EU: one-third of jobs in Switzerland depend on Swiss exportations to the EU, and Switzerland is the second export market for EU countries, just after the United States of America. Also, close to 45 per cent of Swiss foreign direct investments (FDI) go to the EU. Switzerland is the EU's third largest export market and the fourth largest source of all imports too. It is important to highlight that given Switzerland's geographical position in Europe, the EU needs to have access to the Swiss territory for the transport of goods between two countries (Germany and Italy, for example).[1]

Even though relations are bilateral, Swiss dependence on the EU is higher because of the country's relatively small size. Switzerland has even known growing economic and financial dependence towards the EU, particularly the eurozone. The EU's enlargements, as well as deepening, have given the internal market growing importance for Switzerland. Fig. 1 sustains efforts in that direction.

For this reason the country has accepted – despite not being a member of the EU – the need to contribute to the European cohesion funds, which is the price for accessing the EU internal market, even if this amount is lower than full membership

[1] As we explain infra, Switzerland and the EU signed bilateral agreements in 1999. Between them, this question about transport arose.

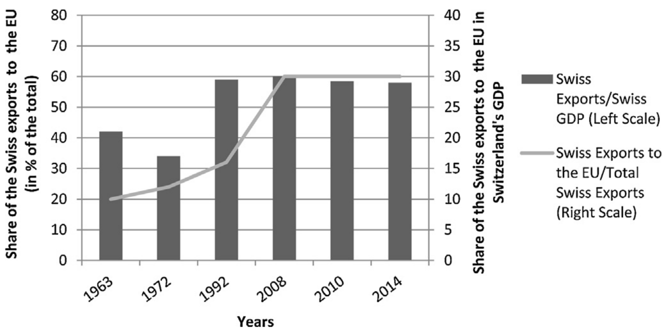

Fig. 1. Swiss exports to the EU (1963/2014).

Source: SNB (2015).