

Disinflation — The Swiss Experience 1973 — 1983

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During the past ten years, the Swiss National Bank has followed a comparatively strict policy of money stock control aimed at controlling the rate of inflation. It is the purpose of this paper to review and interpret the experience of the Swiss economy with this policy pursued by its monetary authorities. The Swiss experience provides one example to judge the weight of the costs of a disinflation policy.

1. Introduction

During the past ten years, the Swiss National Bank (SNB) has followed a comparatively strict policy of money stock control aimed at controlling the rate of inflation. It goes without saying that the transition to flexible exchange rates in January 1973 was of crucial importance for this policy of the SNB. Only after this fundamental change in monetary regime, the SNB had the freedom to pursue an independent monetary policy and thus an independent policy of inflation control. Prior to 1973, the commitment to maintain a fixed parity of the Swiss franc vis-a-vis other currencies had made this impossible, given the inflationary policies prevalent abroad, resulting in high rates of monetary growth and inflation comparable to those abroad. The opportunity for a more independent money stock and inflation policy created by the transition to flexible rates in 1973 was decidedly used by the SNB. This was not too surprising, given that there was a broad consensus in favor of such a policy of inflation control in Switzerland at the time and that Switzerland had experienced virtually no unemployment problems during the entire post-war period up to that time.

The monetary policy pursued by the SNB since then can be roughly divided into two phases. The first of these encompasses the years 1973 to 1978 and was characterized by an active policy of disinflation, i.e. by an attempt to lower monetary growth and thus inflation rates from the high initial levels inherited from the fixed exchange rate period to levels more consistent with price level stability. The second phase, on the other hand, includes the years after 1978 and was characterized by the effort to preserve what had been achieved in the meantime, namely the price level stability which had more or less been restored by