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Poor Austria, rich Switzerland

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I exaggerate: no question that Austria, in terms of GDP per capita, is one of the wealthiest countries, wealthier than Germany. Nevertheless, Switzerland plays in an entirely different league. If I use today's exchange rate between Franc and Euro, I find that Switzerland's GDP per capita is almost 90 percent higher than Austria's, and twice as high as Germany's, and much higher than America's. How come?

To start, a look at some important common features: each of the two alpine, and thus landlocked countries in the heart of Europe has a population of about 9 million, people speak German – except for the French and Italian parts of Switzerland. According to the Economist Intelligence Unit, Vienna, Zurich and Geneva are globally among the five cities where living is most comfortable – nowhere else is the effective standard of living as high.

In spite of low birth rates the population of both countries grows steadily by a little less than 1% per year, mostly because of immigration. Both are politically neutral, open and stable democracies, with a superb infrastructure, strong social networks, free media and independent courts. They spend less than 1% of GDP on the military. As to fossil fuels, they are fully relying on imports.

Economists have no really good and generally accepted explanation of the wealth creating process. It helps if a country keeps investing a large chunk of its output into its capital stock. This is the case in both Switzerland and Austria which report investment ratios of about 25%. Even better, if this kind of spending comes from domestic sources – which avoids the problem of running up too much foreign debt. Switzerland is in an excellent position in this regards. Its national saving ratio is no less than 32%. This means there are plenty of surplus funds that can be invested abroad. Over time this results in a large foreign capital stock which generates rising incomes for the domestic population – an important aspect in an aging society. Austria's saving ratio is just 25%. A lot must change if the country wants to catch up with Switzerland which has accumulated net foreign assets of €635 bn. Austria's are "only" €74 bn. Soon the Swiss will be able to stop working.

They won't! They seem to like working and studying, as if there was nothing more rewarding. The present labor force participation rate is 84%, one of the world's highest; Austria takes it easy at 77% - which, incidentally, is less than Switzerland's female participation rate of 80%.

In 2021, Swiss patent applications (at the European Patent Office) were almost 970 per 1 million inhabitants, by far the highest number globally. Austria came in at 256, Germany at 310. France (161), the US (140), the UK (83) and Italy (82) were among the also-runs. Another indicator for the present and future quality of human capital are the results of the international PISA-studies: in Science the results are rather mediocre for Switzerland and Austria – they rank at numbers 23 and 28. Looks like a problem area, one of very few.

Switzerland and Austria compared

	Switzerland	Austria		Switzerland	Austria
population (<i>'000 persons, 2022</i>)	8,780	9,127	current account balance (<i>% of GDP, 2021</i>)	9.0	-0.5
population growth (<i>% p.a., 2012-2022</i>)	0.9	0.8	exports plus imports (<i>% of GDP, Ø 2012 - 2022H1</i>)	121.6	106.1
life expectancy (<i>at birth, years</i>)	84.0	81.3	net international investment position (<i>billion euros, 2022Q1</i>)	634.7	74.3
annual net immigration (<i>% of population, Ø 2012 - 2021</i>)	0.7	0.6	SMI and ATX market capitalization (<i>billion. euros, 20.09.2022</i>)	1,259.6	81.4
nominal GDP (<i>billion euros, 2022</i>)	781	453	CPI inflation (<i>% p.a., Ø 2012 - 2022H1</i>)	0.2	2.2
nominal GDP per capita (<i>thousands of euros, 2022</i>)	92.1	49.6	exchange rate against the US dollar (<i>Sep 2012 to Sep 2022, %; minus = depreciation</i>)	-2.3	-22.0
real GDP growth (<i>% p.a., Ø 2012- 2021</i>)	1.6	0.8	10y gov. bond yields (<i>%</i>)	1.2	2.5
productivity growth (<i>% p.a., Ø 2012- 2021</i>)	1.1	0.7	patent applications 2021 (<i>per 1 mil. inhabitants</i>)	969	256
labor participation rate (<i>%, 2021</i>)	83.7	77.2	PISA 2018 - mathematics (<i>rank</i>)	11	23
female participation rate (<i>%, 2021</i>)	79.7	72.6	PISA 2018 – science (<i>rank</i>)	23	28
av. ann. working hours per worker (<i>hours, 2021</i>)	1,533	1,549	Protestants (<i>% of population, 1950 / 1970</i>)	56.3 / 48.8	6.4 / 6.0
gross national saving (<i>% of GDP, 2021</i>)	32.5	27.2	corruption index 2021 (<i>rank</i>)	7	13
gross fixed investment (<i>% of GDP, 2021</i>)	25.6	25.6	military expenditure (<i>% of GDP, 2021</i>)	0.7	0.8

sources: AMECO, Eurostat, Federal Reserve, OECD, IMF, European Patent Office, Bundesamt für Statistik, Statistik Austria, Transparency International, SIPRI, own calculations ©UR

The fact that the Swiss productivity trend is steeper than Austria's (1.1% p.a. vs. 0.7%) is the main reason for Switzerland's faster economic growth and significantly higher standard of living. As shown above, the investment ratios are similar, but economic growth is quite different. I can only speculate why

this is so. One reason could be that Switzerland is perceived as the more stable economy, with an all-party government since 1959, compared to frequently changing coalition governments in Vienna, another that the cost of funds is systematically lower (in terms of p/e ratios and real bond yields). Moreover, the Franc has the status of a safe-haven currency. The euro is there not yet. Switzerland is attractive not least because of its asset managers, its bank secrecy laws, and because the stock market capitalization is about 15 times bigger than that of Austria.

In the final analysis the economic success of the Swiss may have something to do with sociologist Max Weber's thesis that protestant societies simply do better than catholic ones, for various reasons such as incentives to work and save. The industrial revolution took off in Great Britain, the Low Countries, in the US, in Germany, Switzerland and Scandinavia, all of them countries with protestant majorities and good schools. I am also convinced that decentralized societies are fundamentally better prepared for competition and innovation. Switzerland, with its many, fairly independent „Kantons“ and its broadly based economy is a good prove of this thesis, just as the US or Germany, for that matter. A corollary would be that Austria will find it difficult to catch up with its neighbor – structural change takes a long time and meets lots of resistance.

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About Wermuth Asset Management

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The company specializes in climate impact investments across all asset classes, with a focus on EU “exponential organizations” as defined by Singularity University, i.e., companies which solve a major problem of humanity profitably and can grow exponentially. Through private equity, listed assets, infrastructure and real assets, the company invests through its own funds and third-party funds. WAM adheres to the UN Principles of Responsible Investing (UNPRI) and UN Compact and is a member of the Institutional Investor Group on Climate Change (IIGCC), the Global Impact Investing Network (GIIN) and the Divest-Invest Movement.

Jochen Wermuth founded WAM in 1999. He is a German climate impact investor who served on the steering committee of "Europeans for Divest Invest". As of June 2017, he is also a member of the investment strategy committee for the EUR 24 billion German Sovereign Wealth Fund (KENFO).

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