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The role of firms in overcoming major economic crises

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1. Introduction

Major economic crises have a disruptive effect on the precondition for economic growth, namely the confidence of firms in being able to form reliable expectations about the further course of economic development and make long-term investments. In contrast with the preceding period of growth uncertainty prevails, the time horizon for planning and decision-making shrinks and liquidity becomes more important than profitability. In a major economic crisis firms are forced to revise their strategies and structures as well as their relationship with suppliers and customers, with competitors, banks and other creditors. Corporate governance, that is the routines governing the relations between the management and the other main stakeholders, the shareholders and the employees, may also be contested, and the relationship between the private economic sector and the state will be subject to reforms. Due to the different political attitudes towards state interventions and their shaky foundation in economic theory, any policy intervention will be controversial. For the firms, the impact of economic policies on their room of manoeuvre will be difficult to evaluate and will certainly have unintended consequences. Further more, in small open economies the overall economic context and the policies pursued by the main trading partners in foreign countries may have a greater impact on the firms than domestic policies.

It is usually acknowledged, that the role of the state is crucial for overcoming a major economic crisis, but the role of the firms in coping with economic recessions, their contribution to finding a way out of the crisis is rarely acknowledged in economic theory and history. The aim of this paper is to show that the micro-perspective can lead to important insights into the puzzling and disturbing discontinuities of macro-economic development.

Major economic crises are not understood as market or government failures or caused by some unpredictable events. Instead, endogenous causal factors are stressed, by placing the co-ordinating mechanism of market economies itself at centre stage. Firms should be viewed as governance systems with a major impact on the functioning of the economy, because they initiate and coordinate economic activities. As governance systems, firms are not just players (in the sense of neo-institutional economics), they are also rule and routine setters and have considerable impact on the path of economic development.

In my paper I shall focus on the behaviour of firms during the Great Depression of the 1930s and the major recession of the 1970s in Switzerland. The aim is to describe, how firms in different sectors of the economy coped with increased uncertainty in the context of the crisis, and to show how the behaviour of firms contributed or delayed economic recovery. I shall focus on general traits that can be drawn from a rather large number of case studies, and highlight similarities and major differences between these economic recessions.

2. Theoretical framework

The main argument why market economies evolve in a cyclical pattern is that the behaviour of firms is influenced by the state of the economy. The economic context of growth or depression has a systemic impact on learning processes within firms, because it has an impact on the problems perceived and the way they are resolved. The focus of attention will shape the flow of information and the evolution and distribution of knowledge within the firm and in the market.[1] A period of overall economic growth can be understood as a medium-term macroeconomic equilibrium based on an expectational equilibrium, in the sense that "the outcome does not brazenly contradict the initial expectations that procured the outcome".[2] Expectations as to the prospects of growth will be confirmed, plans will be largely fulfilled and time horizons will widen considerably. The results achieved will largely confirm decision-makers' beliefs that they have sufficient control over the given situation and

[1] Müller (2000). To the difference between 'knowledge' and 'information' see Loasby, 1983, pp. 111 ff.; or Fransman, 1994, pp. 754 ff.

[2] Allen, 2000, p. 153. In his view, the learning literature has not yet got to the point where it can be directly useful to macroeconomics. In the words of Hayek, a macroeconomic equilibrium can be understood as a system of mutually supportive expectations regarding reciprocal action ("ein System wechselseitig tragender Erwartungen hinsichtlich der gegenseitigen Handlungen)", Kirzner, 1984, p. 148, with reference to Hayek.

sufficiently reliable expectations for the future. The management's attention will concentrate on exploiting the ample opportunities for growth and this prevailing and shared confidence in being able to assess the future course of the economy forms the basis of further growth.

There are good reasons to assume that an expectational equilibrium is unstable and that the 'system of mutually supportive expectations' will eventually break down. The perspective of growth will be lost, time horizons shorten and the future gets highly uncertain. Consequently, the scope for decision-making shrinks, the main objectives pursued and the problems perceived change drastically.[3] For the firms, there are only two ways to cope with this *context-specific uncertainty:* concentrate decision-making on the short term, focus on those areas of activities where uncertainty is still low and try to re-establish a basis for forming reliable expectations about future prospects.

An important point is that a change of the overall context from growth to recession entails widespread discontinuity and consequently diminishes path dependence. The notion of path dependency implies not only that history matters, in the sense that all development is shaped by the past. The important and controversial point is that firms, industries and even national economies might get stuck on a sub-optimal path.[4] In economic theory, the importance attached to such lock-in phenomena differs considerably.[5] Within a neo-classical framework, path dependence is rejected altogether or conceived as exceptional and temporary: The past (or sunk costs) will not shape the future, because rational individuals will let bygones be bygones and, therefore, market imperfections will tend to disappear. In a competitive setting the more efficient solution will, sooner or later, supplant the less efficient one, and economic processes will converge on an efficient equilibrium.[6] In the neo-institutional (or evolutionary)

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[3] Since the state of order (or equilibrium) prevailing within the aggregate economy must inevitably affect the behaviour of the single entities within this system, periods of economic depression or stagnation can also be understood as a consequence of the dysfunctional adaptive tendencies in periods of overall economic growth. But the impact of these dysfunctional changes, the precise timing of the turning point or the duration of the depression will depend on a multitude of factors and events and it is difficult to distinguish cause from effect. See Müller, 2000a.

[4] David, 1986, p. 46: The message of QWERTY is that "competition in the absence of perfect futures markets drove the industry prematurely into *de facto* standardization *on the wrong system* - and that is where decentralized decision-making subsequently has sufficed to hold it".

[5] Groenewegen and Vromen, 1997, p. 54, distinguish between three notions of 'path dependence' and corresponding ways in which economic processes may move in inefficient directions, namely the neo-classical, new institutionalist and neo-institutionalist view.

[6] According to David, p. 46, the main reasons for such things like QWERTY to happen are strong technical inter-relatedness, scale economies and irreversibility due to learning and habituation. "In such circumstances 'historical accidents' can neither be ignored, nor neatly quarantined for the purposes of economic analysis; the dynamic process itself takes on *an essentially historical character.*

approach the cognitive boundaries for rational behaviour and the subjectivity of knowledge and learning are taken into account.[7] Path dependence becomes ubiquitous because learning is considered path dependent, and what needs to be explained is why it is not as inflexible as such learning theories would imply. How did firms, industries and market economies in general manage to escape from becoming locked into their idiosyncratic development paths? Neo-institutional theories emphasise 'variety' as a means of escaping from lock-in situations and adapting to new circumstances. The heterogeneity of firms on the micro-level loosens the path-dependence of the economy, because even if some firms are unable to adapt and exploit the new circumstances, other firms, with different routines and capabilities, might be able to do so.[8] If path-dependent learning leads to firm-specific capabilities and routines, why does it not lead to ever more divergence and co-ordination failures? Economic historians have shown convincingly that there have been periods in history where patterns of development tended to converge. There were also remarkable discontinuities or turning points, and the question is, whether they can be related to systematic tendencies of learning in market economies. In neo-Schumpeterian approaches, major discontinuities are explained as resulting from important technical innovations and the succession of technological styles or trajectories[9]. But these explanations have been contested by theoretical and empirical research that stresses the continuous, incremental and contingent character of technological change.[10] In this paper, the focus is on the interdependence between the state of order within the economy and learning processes on the level of firms. The main argument is that learning and decision-making within firms are systematically influenced by the state of the economy. While periods of growth are marked by path-dependence, major economic downturns have a disruptive effect on rules and routines, and widespread, discontinuous change is facilitated. This makes such periods so decisive for the long-term success or failure of economies and so interesting for business historians. Due to the widespread uncertainty they entail, periods of major economic downturns offer an opportunity for firms to reinterpret the past, revise leading visions and beliefs, and question the strategies pursued and the policies applied. In such a context, path

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This message will hardly surprise the historian, but for an economist, it is very disturbing indeed. See for example the attack on QWERTY by Liebowitz and Margolis, Oakland, 1999, pp. 19 ff.

[7]To the path dependence of learning in the neo-classical, new institutional and neo-institutional framework see Noteboom, 1997, pp. 57-78. Rizzello, 1997, pp. 100 ff., stresses the rigidity of path dependence. "The underlying general idea is that the structure of organisations (...) and the structure of institutions (...) derives from a process of sedimentation which influences in a more or less binding way the future development in a precise direction, along paths which are in turn the result of past adaptations of primary conditions, at times resulting from completely casual events".

[8] See, for example, Loasby, 1999, pp. 127 f.

[9] Perez, 1983, pp. 357-375.

[10] See, for example, Pedersen, 2000.

dependence is loosened and discontinuous, innovative change will be easier to accomplish. Consequently, simultaneous and co-ordinated change becomes more likely. But there is no guarantee that such learning processes will steer economic processes to settle at superior solutions than before the crises.[11]

3. The Great Depression of the 1930s

For this period it is possible to rely on quite a large number of case studies on firms in the manufacturing sector, at that time the most important sector of the Swiss economy, as well as of some case studies of firms in the financial sector. Most of theses studies analyse the behaviour of large firms in the export-oriented industries and are based on archival sources.[12] Further more I can rely on several studies on the behaviour of smaller firms, mainly family firms, active in the domestic and in the export-oriented sectors of the economy. [13]

3.1 Perception of the crisis and first reactions

After several years of rapid growth in the 1920s it took some time until the firms realised that the economic downturn was a major economic crisis and that the world had thoroughly changed. That was usually the case by 1931 and it was, in some cases, clearly triggered by the devaluation of the British pound. How did the firms perceive their room for manoeuvre once the crisis had been acknowledge and how did they react?

Planned investments were immediately stopped, and measures were discussed to reduce costs. Due to the Swiss corporate law and corporate governance practices, most firms had accumulated internal reserves, they did not suffer shortage of liquidity and their survival was not immediately threatened.[14] The traditional policy of paying a stable dividend to the shareholders was maintained throughout the crisis, independently of the losses incurred.

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[11] See also Groenewegen and Vromen, 1997, p. 55. In contrast both with the neo-classical and new institutional notion of path dependence, within a neo-institutionalist approach there is no guarantee that economic processes eventually settle at the superior line of action, because: "The source of (possible) inefficiencies here lie in the evolutionary mechanisms themselves."

[12] Müller, 2000b (Rieter, BBC, Sulzer, Ciba); See also: Adank, 2012 (Sulzer); Veigl, 2000 (BBC); von Salis, 2012 (Maschinenfabrik Oerlikon); Metzler, 2004 (Ciba); Rosenbusch, 1995, Geigy; Jacquemart, 1997 (Saurer, a leading producer of textile machinery and lorries); Donzé, 2012 (Aubry Frères SA); Egger, 2006 (Schweizerischer Bankverein SBV); Russenberger, 1999 (Zürcher Kantonalbank);Feldmann, 2012, Schweizer Rückversicherungsgesellschaft; Folini (Zürich Versicherungs-Gesellschaft); Häusler, 2012 (Wander); Lüpold, 2003 (Nestlé). Müller, 2008, pp. 119-127, summarises the behaviour of firms in the main industrie and in the financial sector.

[13] For example Müller, 1996.[13]

[14] Lüpold , 2012.

Labour costs were reduced by working short-time (without wage compensation) and by lay-offs. Firms were, as a rule, very reluctant to dismiss highly qualified, experienced personnel. Early lay-offs concerned mainly unqualified personnel and in particular foreign labour. Wage cuts were also delayed because, In the machine industry, reducing wages was not considered a decision that the firms could take by their own. According to the firms, wage cuts had to be coordinated within the industry, also because there were other options to be considered, like asking for government support. But then the question was, what measures the firms should ask for, and that depended on which strategies the firms wanted to pursue in the future and to what extent they wanted the state to interfere with their business.

So what we can observe in the early 1930s is that some interest groups, mainly the industries focusing on the domestic market, were rather quick in asking for particular measures of support, while others were reluctant to ask for government support. Some agreement was achieved between the two sectors of the economy with regard to the task of the government to promote exports and to control imports by concluding clearing agreements with those countries, Germany in particular, that had implemented a system of controlled foreign trade and payment flows. No important business group asked for the devaluation of the Swiss franc, and all the leading export industries supported the monetary policy pursued by the Swiss National Bank. One of the advantages of the high exchange rate was that import prices were reduced considerably and foreign direct investments were also facilitated. Further more, devaluation would have been of little help for exports to France and Germany, the main destination of Swiss exports. Late devaluation is usually interpreted as the main policy failure in coping with the Great Depression of the 1930s. In a small country like Switzerland, with strong possibilities for business groups to influence government policies, such a conclusion misses the point: The government could hardly have pursued a policy that business interests strongly opposed.[15] In the firms' perspective devaluation was related with considerable disadvantages.[16]

3.2 Re-establishing a vision for the future and develop a new strategy of growth

With hindsight we can distinguish four different industry-specific strategies of the firms for coping with the economic crisis of the 1930s:[17]

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[15] Müller, 2000b and 2008.
[16] Müller, 2008, p. 131-132
[17] The following is based on Müller et al., 2012.

(1) Direct investments in foreign countries combined with exports

(2) Direct investments in foreign countries as substitutes for exports

(3) Exports without FDI

(4) Focus on the domestic market

Responses (1) and (2) depended on the possibility to export capital freely, and due to the monetary policy pursued by the Swiss National Bank, this option was available to all Swiss firms. In effect, foreign direct investments had become even more attractive, given the overvaluation of the Swiss franc. Export-oriented firms had become highly uncertain about whether their home country would remain a promising location for exports in the future. Location-specific disadvantages in Switzerland were partly due to barriers to trade in the neighbouring countries, their main export outlet, but also to the policies pursued by the federal government during the depression of the 1930s (adherence to the gold standard and failure to compensate the high exchange rate of the Swiss franc by reducing the level of prices and wages). Further more, the longer the crisis persisted, the more the political parties were divided on the question about the adequate political response to the crisis. This political struggle was only settled by popular vote in 1935. The firms in the machine and chemical industries with a strong manufacturing basis in the home market and some FDI were rather reluctant to shift from strategy (1) pursued in the past to strategy (2). Towards the end of 1935, leading firms of the machine industry (BBC, Sulzer, MFO) had regained faith in Switzerland as a promising location for an export-oriented firm. In the *chemical industry* this learning process was concluded already by 1934. It seems that the international dye-stuff cartel contributed to early recovery in this sector.[18] The main advantage of the cartel was that the decline of sales prices was stopped, enabling the member firms to re-establish sufficiently reliable expectations for the future. In order to remain competitive with exports from Switzerland, the firms in both industries specialised in innovative high-quality products and shifted the manufacturing of mass products and intermediate goods abroad or relied more on imports. For such a strategy to be successful, it was essential to maintain low import barriers for raw material and intermediate products, and in this respect the popular vote in 1935 was a very important one, because it rejected plans to introduce far reaching regulations of the Swiss economy. Geographical diversification of sales was also an important strategy for sustaining a pronounced export-orientation. Disposing of the capabilities to meet demand in very different and often distant markets was an important asset for the firms, a necessary complement to

[18] A similar phenomenon of early recovery can be perceived in the case of Rieter, having jointe the cartel of the British textile machine producers in ...

their technical know how, but it also limited their possibilities to adopt mass production techniques and reduce production costs.

The *watch-making industry* was the only export industry that followed the third strategy: exports without FDI. The industry went through a severe crisis in the interwar period, it turned to cartelisation, mainly to impede the transfer of manufacturing capacities and capabilities abroad. But the impact of these restrictions should not be overvalued, because the firms had deliberately chosen to stick to exports and resist FDI before these controls were implemented. They were probably aware of the fact that their extraordinary comparative advantage on an international scale was largely due to non-transferable location-specific advantages. The firms active in various branches of the *textile industry* reacted differently: some concentrated more on the internal market and joined other domestic industries in asking for tariff protection and import quotas, others remained internationally competitive and export-oriented. Very few firms effectively managed to specialise in high quality and innovative products. With regard to staple products, firms turned either to the domestic market or shifted production abroad. All other industries concentrated on the domestic market and became, as a rule, highly cartelised. That was also the case for the *food industry*, mainly because due to the protectionist policies supporting agricultural production in Switzerland, the competitiveness of products produced in Switzerland for exports was largely lost. The multinational companies (Nestlé, Wander) chose strategy (1): Manufacturing capacities in Switzerland were reduced and capacities in foreign countries increased.

In the *financial sector* the impact of the crisis remained rather limited. Firms in the insurance sector maintained their main strategies of growth, smaller firms continued to focus on the domestic market and a few large firms were already well placed in foreign markets by the 1920s. The *banking sector* was affected by the failure of foreign banks in the early 1930s, but it certainly benefited from monetary stability and the overvaluation of the Swiss franc. The large Swiss banks expanded their activities considerably, but they remained firmly located in Switzerland, and the number of foreign subsidiaries remained very low.

4. The multiple shocks of the early 1970s

The early 1970s were marked by a succession of major shocks to the Swiss economy, some home-made, like the credit restrictions, implemented with the objective to slowdown the boom in the construction sector or constraints for immigrant workers, others were linked with the state of the world economy, in particular the difficult transition from fixed to flexible exchange rates, entailing a rapid and enduring appreciation of the Swiss franc. The oil price shock, usually assumed as having been the main turning point from growth to recession in the 1970s, was perceived by the firms and their associations as being of minor importance.[19] The overall context of the 1970s was very different in comparison with the 1930s. While the large European countries and the US were raising imports barriers in the 1930s, the trend of reducing barriers to trade persisted in the 1970s. The trade agreement concluded between the EFTA-countries and the EEC in 1973 made it quite clear, that there would be no new tariff walls within Europe. Due to the currency appreciation within the new monetary regime of flexible exchange rates, the higher level of prices and wages in comparison with those of the surrounding European trading partners and competitors was again an important constraint for the export oriented firms.

For the 1970s we can again rely on several case studies of firms in the outward–oriented manufacturing industries chemicals and machinery[20] as well as on a number of studies dealing with the behaviour of firms of different size, mainly family firms, active in the domestic and in the export-oriented sectors of the economy. [21]

4.1 Perception of the crisis and first reactions

An interesting result of the case studies dealing with the larger firms in the main export industries machinery and chemicals is that notwithstanding this succession of major shocks to the economy, the firms acknowledged that they had to cope with a major economic downturn only towards the end of 1974. Even then, they reacted mainly defensively. The firms were largely unprepared and unwilling to question their strategies of growth and the long-term visions these strategies were based on. Such delayed responses to the crisis were only possible, because after several years of high profits, mainly retained within the firms, accumulated internal reserves were much higher than in the 1930s. Losses were covered up and not communicated to the shareholders and to the wider public. Consequently, in several

[19] Hiestand, 2004.
[20] Müller et al., 2012; Müller, 2007, on the internationalisation of the chemical industry; Jacquemart, 1997 (Saurer, a leading producer of textile machinery and lorries); Wildi, 2012 (BBC); Müller, 2000a, compares the behavior of three firms in the machine industry (BBC, Rieter, Sulzer) in the crisis of the 1970s with their behaviour in the 1930s.
[21] For example Müller, 1996; Peng, 1996; Wiesmann, 2012.[21]

companies the necessity to change was denied by the top management, and learning processes were delayed. Changing the long upheld strategy of growth implied a major reorientation within the firms and it seems that, at least in those cases, where it was possible to analyse this process, it was a very difficult one. In the case of Saurer, rising uncertainty and the shortening of time horizons can be perceived in spring 1975. The views of the top executives differed considerably, and a common interpretation of the current situation and longer-range prospects did not emerge, because an open discussion of the precarious situation of the firm was not allowed. The management concentrated on short-term measures, long-term decisions were avoided and losses covered up by internal reserves.[22] BBC even managed to stick to the belief, that the firm was not really concerned by the economic recession for several years. The top management was sheltered from any doubts by an extremely strong belief in long-term growth, implying a continuously growing demand for electricity, and this belief was even strengthened by the oil-price crisis in 1973. The first signs of a thorough change of perspective can be perceived only at the beginning of 1978, when the Swiss economy was already slowly recovering. Within a very short time, uncertainty almost overwhelmed the firm in most areas of decision-making. Making plans for the future became more and more difficult. But also in this firm, communication within the firm and with the public was seriously disturbed. For some time, the ample reserves accumulated during the period of growth allowed the firm to transform effective losses into modest profits, but no major decision was taken between 1982 and 1985. Only with the appointment of a new president to the board in 1985 did internal communication change and a thorough process of reorientation and reorganisation was initiated.[23] In both firms, the leading persons at the top resisted change, because it implied admitting that the strategies pursued in the past had been much less successful than upheld within the firm and vis-à-vis shareholders and the general public. And the firms were not forced to change, because of the high "silent reserves" they disposed of. The stakeholder-model of corporate governance, so adequate for reacting to the crisis of the 1930s, had turned into a management-dominated model and become an impediment for change.

4.2 Re-establishing a vision for the future and develop a new strategy of growth

When restructuring was eventually initiated, the main thrust was on establishing or re-establishing competitiveness in foreign markets. Firms that had chosen the first strategy (FDI

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[22] See Müller, 1999, pp. 215-216, and Jacquemart, 1997.

[23] The merger with ASEA in 1987-88 and the formation of ABB was undertaken from a position of regained strength. Müller, 1999, p. 216, and Wildi, 2012.

as substitutes for exports) already in the 1930s were the least affected, because the 1970s was a major economic crisis for Switzerland, but much less so in other countries. Firms that had re-established themselves as export industries combined with FDI, began to realise that product diversification (one of the main strategies of growth pursued since the 1930s) had become a burden in a globalising world. It was acknowledged that international competitiveness had changed considerably and that product diversification should be reduced, but no serious restructuring was carried through. There was a general tendency towards increasing internationalisation by the means of exports and FDI, but for the large companies of the chemical and the machine industries the home country remained an important location and the main centre of the firm, especially for the manufacturing of new products and for R&D. Seriously affected were firms, which had chosen the third strategy (exports without FDI), that is the watch industry and some large firms in the machine industry, but quite generally also for the large number of SME that had continued to concentrate on the domestic market. In clear contrast with the 1930s, the fourth strategy, focusing on the domestic market, had become less attractive due to increased import competition. Firms without or with limited experience in foreign markets tried to export their goods and activities, often with little success and in some cases with huge losses.[24]

The impact of the state was limited to managing the repercussions of the flexible exchange rate, but that was primarily the task of the National Bank and of the banking sector. Business did not ask for further help, because with the focus on foreign markets domestic policies did not seem very useful and raising import barriers was no option, except for the agricultural sector. Major institutional reforms were initiated in the 1970s (revision of cartel legislation, of corporate law, of agricultural policies), but all remained stuck in the process of political evaluation.

5. Conclusions

If we approach the history of economic crises from the perspective of the firm, the macro-fluctuations are largely confirmed. But we get a more differentiated view of the turning points

[24] Some of the larger firms in the building sector tried, for example, to engage in large construction project in the rich, oil-exporting countries of the Middle East.

from growth to depression and of how firms restructure their activities under conditions of increased uncertainty.

An economic depression is not perceived immediately, and available 'signals' are interpreted in different ways. The immediate reactions after having acknowledged the crisis were quite similar. Investment plans were postponed or cancelled, and the focus was on reducing costs. This type of short-term restructuring was insufficient for coping with the crisis, because it did not reduce uncertainty. In a context of uncertainty, neither the firms nor the state or the large number of social intermediaries (experts, medias) have sufficient knowledge for coping with the crisis. It is therefore basically false to expect guidance and the “right” decisions from the government. With hindsight, any government’s policy will always have failed, firstly, because it has not been able to prevent the crisis and secondly, because it may be able to manage the crisis more or less well, but it cannot lead the way out of the crisis. In a market economy it is the task of the firms to discover, create and invest into new business opportunities. But the precondition for such investments is that uncertainty is reduced and that decision-makers develop a new, reliable vision of the future path of the economy. The new strategies of the firms were the outcome of interrelated processes of learning and decision-making, and the outcome varied between firms and industries.

The crisis of the 1930s was crucial for the Swiss economy, because it laid the ground – on a broad scale – for Switzerland’s particular export specialisation in the high-priced, high-technology segments of international trade, which was compatible with an expanding domestic sector, largely sheltered from foreign competition and often cartelised. The traditional low-technology industries (textiles and food products) had definitely lost their status as important export industries. The domestic sector increased in size – in proportion to the export sector – and it was able to influence economic policies to its advantage. In contrast with what could be expected for a small open economy highly dependent on international trade, the export sector failed to exert a strong enough pressure on internal wages and prices, instead it gave up mass production and chose to specialise in high-quality/high-technology market segment. These choices contributed to Switzerland’s exceptional prosperity and high standard of living, but also to the pronounced and enduring disequilibrium between the internal levels of prices and wages and those of the surrounding European trading partners.

The impact of the crises of the 1970s on the outward-oriented sectors was to some extent similar to the 1930s, but the firms were clearly less able to reorient themselves and draw the necessary conclusions. The innovative potential of the crisis stopped halfway, it unleashed major changes in particular industries, especially in the watch industry, but largely failed to change the further course of the Swiss economy or to open up new avenues of growth. The major change beginning in the 1970s was the relative decline of the industrial sector and the concurrent expansion of manufacturing capacities in foreign countries, measurable with the rapid increase of FDI and the number of foreign subsidiaries. In some sectors of the domestic economy, cartelisation and other forms of regulation became less effective, due to increased import competition, but overall the domestic sector, and in particular the public sector, continued to prosper and grow, untouched by the deregulation and privatisation movement in other European countries. The highly cartelised building sector remained almost exclusively oriented towards the domestic market and together with the expanding banking sector became the main force driving growth in the 1980s and, subsequently, triggered the crises of the early 1990s.

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