

Scenario 2: Hollowing out

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The second scenario, "Hollowing out", describes a gradual erosion of Basel's position. American pressure persists beyond 2028 and becomes institutionalised through legislation that links market access, tariff relief and pricing concessions to the location of manufacturing and, increasingly, of research and management in the United States. Companies conclude that the most efficient response is to move more functions across the Atlantic. Research centres in the United States grow faster than those in Basel, senior management spends more time in New Jersey, Massachusetts or California, and intellectual property is gradually held and developed in American entities.

In this scenario, the elements described in Part G, Chapter III come under strain. Profits attributable to Swiss intellectual property and principal company functions decline, which reduces the tax base on which the cantonal minimum tax and the location package depend.¹ Basel-Stadt faces fiscal stress, which forces it to reduce spending, to raise other taxes or to draw down reserves. The diversification of the cantonal economy, which Part D described as a long-term aim, proves too slow to compensate. The scenario does not require a formal move of headquarters, which would be costly and politically visible. A slow drift of functions is sufficient to change the economic substance of Basel's role.

The speculative character of this scenario should be emphasised. It assumes a degree of continuity in American policy across administrations that is by no means certain, and it assumes that companies would respond to pressure by relocating substance on a large scale. Historical experience suggests that pharmaceutical groups are reluctant to dismantle established research centres, because scientific teams are difficult to move. The signposts for this scenario would be announcements of research site closures or reductions in Basel, transfers of intellectual property to American entities, changes in the composition of executive committees, a falling share of

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cantonal profit tax revenue from the life sciences, and the use by companies of American incorporation for new holding structures.

1 Notes

1. On the attribution of profits to Swiss principal and intellectual property companies and the role of transfer pricing, see Part G, Chapter III, section "Transfer pricing of pharmaceutical intellectual property". To be verified. ↩

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