Fiscal Consolidation: Lessons from the Swiss Experience

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Composition and Impact of Fiscal Consolidations

- Real GDP Growth
- Effective Exchange Rate
- Revenue (% of GDP)
- Expenditure (% of GDP)
Government debt levels in OECD countries

Gross financial liabilities as a percentage of GDP (2007-2012)

Four hypotheses

- Switzerland with sound public finances in cross country comparison – also the result of bad experiences during the 1990s
- Debt brake as an important success factor for fiscal consolidation in Switzerland
- Enforceability of the debt brake is crucial
- Tax competition and well-designed system of intergovernmental grants as important institutions to keep public finances in check
Switzerland: Central government debt since 1850

Central government debt as a percentage of GDP

Sources: EFV, Statistisches Jahrbuch der Schweiz, Walter von Burg, own calculations.
Switzerland: Public finances at the federal level

Revenue, expenditure and budget balance in billions of CHF

Source: Federal Finance Administration (FFA).
Swiss debt brake

- Decisive for fiscal consolidation efforts
- Important political support: effective, balanced, simple
- Enforceability crucial aspect in the long-run
- A success story – so far

- Accompanied by sub-federal fiscal autonomy (taxes, credits, …) and system of intergovernmental grants
Switzerland: General government debt (1990-2015)

Levels of government debt in billions of Swiss francs and as a percentage of GDP

Source: Federal Finance Administration (FFA)
Tax competition between Swiss cantons

Average tax rate (Top 1%)  Average neighbor tax rate (Top 1%)
Fiscal equalization in Switzerland

- Annual transfer payments of 4.7 billion Swiss francs (>0.8% GDP)
- Four different funds (data for 2012):
  - Resource equalization (3.57 billion CHF)
  - Socio-demographic cost compensation (0.37 billion CHF)
  - Geographical/topographic cost compensation (0.37 billion CHF)
  - Cohesion fund limited until year 2036 (0.37 billion CHF)
- Confederation responsible for 3.1 billion or two thirds of all transfers
- Cantons: 8 net contributors, 18 net recipients
- Cantons with their own systems of fiscal equalization
  - Different transfer payments among communes of same canton