

# **Fiscal Federalism in Switzerland**

## **Characteristics of Swiss Federalism and Reform Issues**

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# Subjects

- General characteristics of federalist Switzerland
- Tasks and funding of the sub-national level
- Reform of federalism between confederation and cantons
- Organization and role of Municipalities

# General Characteristics of Federalist Switzerland

# Facts and Figures for Switzerland at First Glance

- Area: 41,300 sq km
- Population: 7.7 M
- Density: 185 persons per sq km
- 3 Official Languages: German, French, Italian
- Foreigners: 1.735 M ~ 22.1% of pop. <sup>1</sup>
- Labor Force: 4.8 M <sup>2</sup>
- Unemployment Rate: 2.9% <sup>3</sup>
- GDP: \$ 666.3 B <sup>4</sup>; 535 B CHF
- GDP per Capita: \$ 86,532; 69,500 CHF
- Government Debt: 38.8% of GDP <sup>5</sup>

*1) April 2011*

*2) End 2010*

*3) Mai 2011*

*4) 2008, at current exchange rate*

*5) End 2009*

# Map of Switzerland



# Three levels of Government in Switzerland

National  
Government

26 Cantons  
20 full, 6 half

~2700 Municipalities

# Characteristics of National Government

- Federal State (Republic)
- Strong federalism: principle of subsidiarity
- Direct democracy at federal level:
  - Initiative: 100,000 signatures
  - Referendum: 50,000 signatures
- Organization of Government: Big Coalition, currently center right (2 SP, 1 CVP, 2 FDP, 1 SVP, 1 BDP); Election by Parliament; Term of office: 4 years
- Parliament: Two-Chamber-System: National Council (Representatives of citizens; elected proportionally)  
Council of States (Senate; two representatives per Canton)

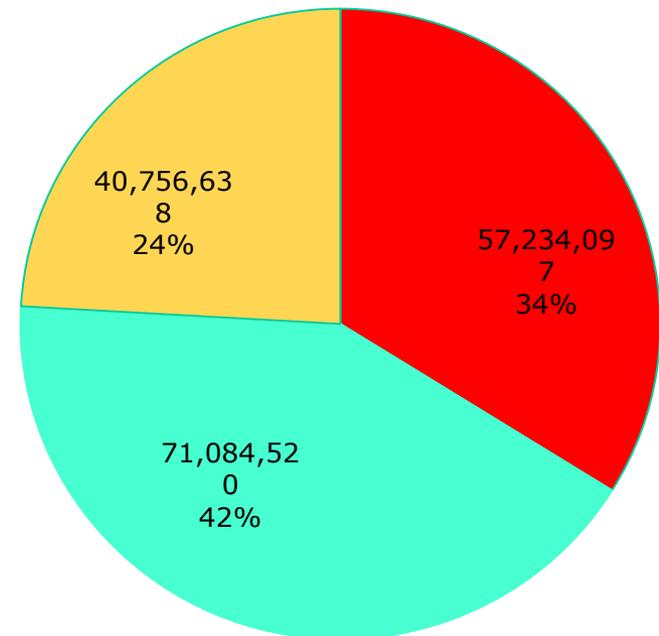
# Principles of the Distribution of Power between the Cantons and the Confederation

- Federal authority only if stipulated in federal constitution
- Federal constitution must enumerate all federal powers individually and completely
  - New public tasks are initially within the authority of the cantons
  - New federal powers require an amendment of the federal constitution
  - An amendment of the federal constitution always demands a referendum with a double majority, majority of states and citizens
  - This rule on the assignment of power eliminates confusion.

# State Entities and Para-State

## State Entities

- Confederation: central government
- Cantons
  - o 20 Full Cantons + 6 Half Cantons
  - o With cantonal laws and high level of autonomy
- Municipalities
  - o ~ 2700
  - o Tasks / Position depends on canton
  - o Average size of municipality: 2400 persons
  - o Local autonomy (within limits): organization, funding, execution of mandatory and voluntary tasks



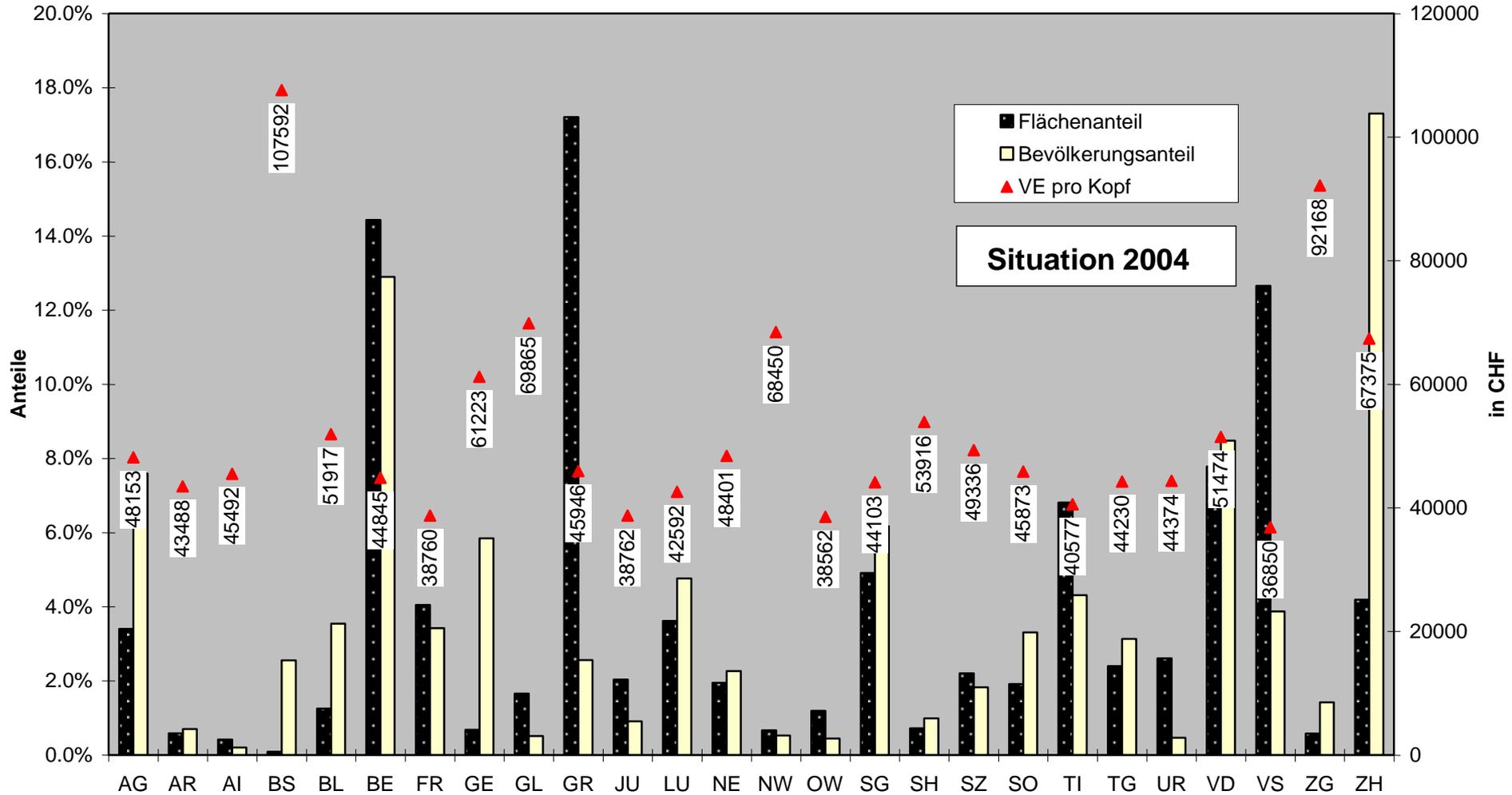
■ Confederation ■ Cantons ■ Municipalities

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## Para-State Sector

- Postal service, Railway, Social Insurance, Power supply, ...

# Cantonal Disparities



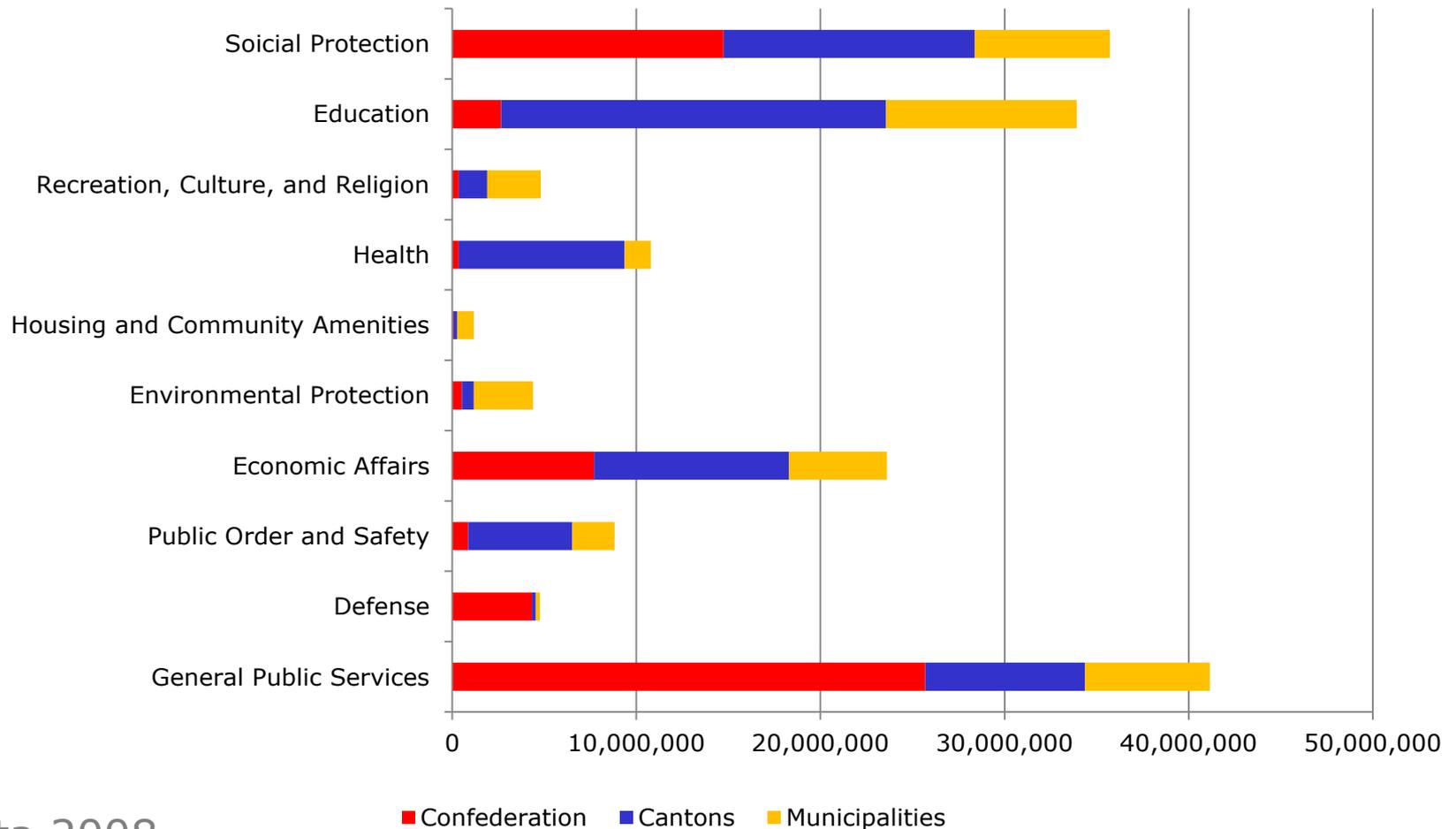
# Political Steering Power

## (Broad Overview)

Area	Confederation	Cantons	Municipalities with Local Parliaments	Municipalities without Local Parliaments
<b>Election of Government</b>	Parliament	Citizens	Citizens	Citizens
<b>Election of Parliament</b>	Citizens of Ct.	Citizens	Citizens	----
<b>Constitution</b>	Citizens & Ct.	Citizens	Citizens	Citizens
<b>Law</b>	Parliament	Parliament, sometimes also Citizens	Parliament	Citizens
<b>Initiative</b>	Citizens & Ct.	Citizens	Citizens	Citizens
<b>Referendum</b>	Citizens & Ct.	Citizens	Citizens	Citizens
<b>Approval of Financial Statement</b>	Parliament	Parliament	Parliament	Citizens
<b>Adoption of New Budget</b>	Parliament	Parliament	Parliament	Citizens
<b>Approval of Taxes</b>	Parliament	Parliament	Parliament	Citizens

# Tasks and Funding on Sub-National Level

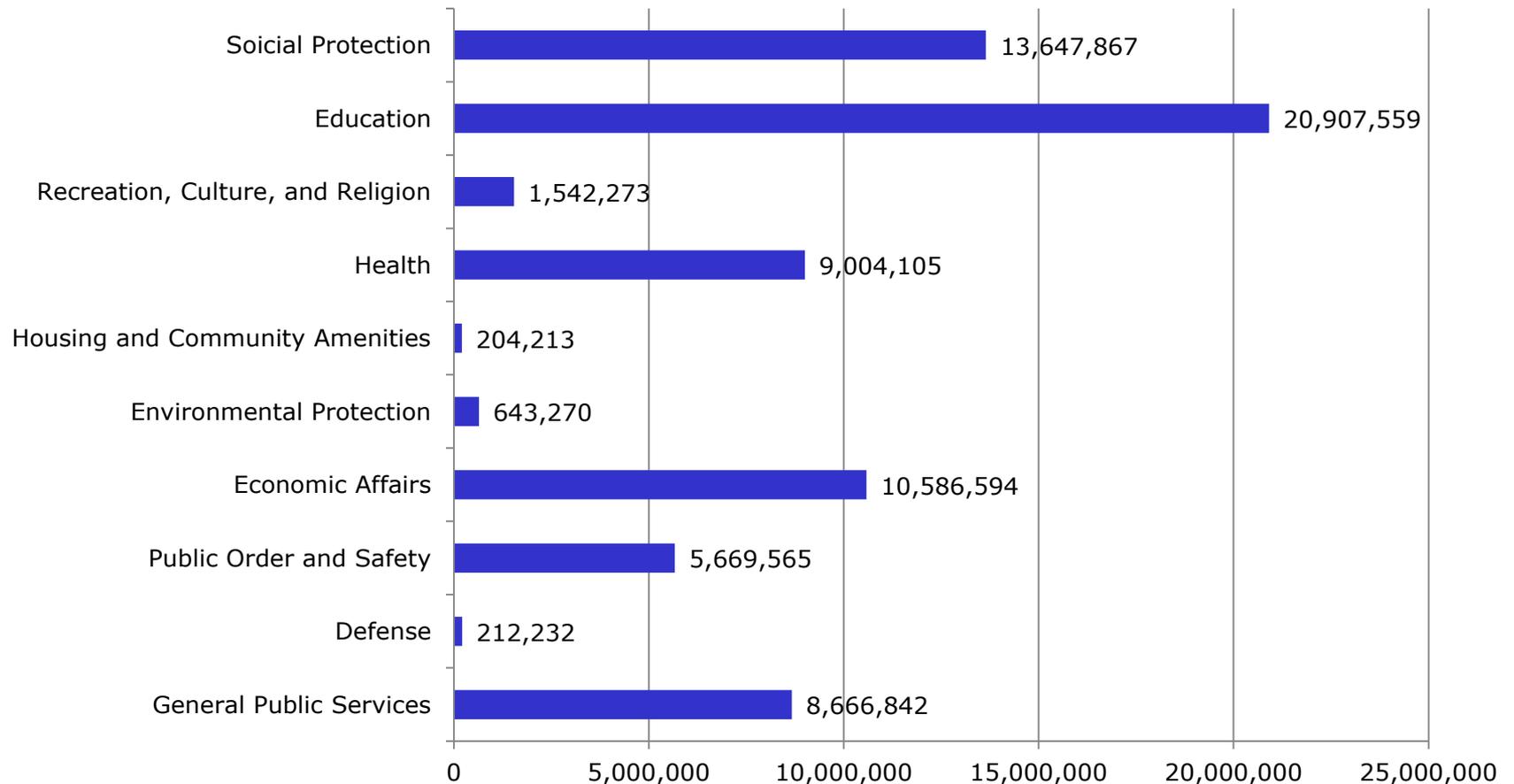
# Current Distribution of Tasks between Confederation, Cantons and Municipalities



Data 2008

# Main Tasks of Cantons

(Expenses in 1000 CHF in 2008)

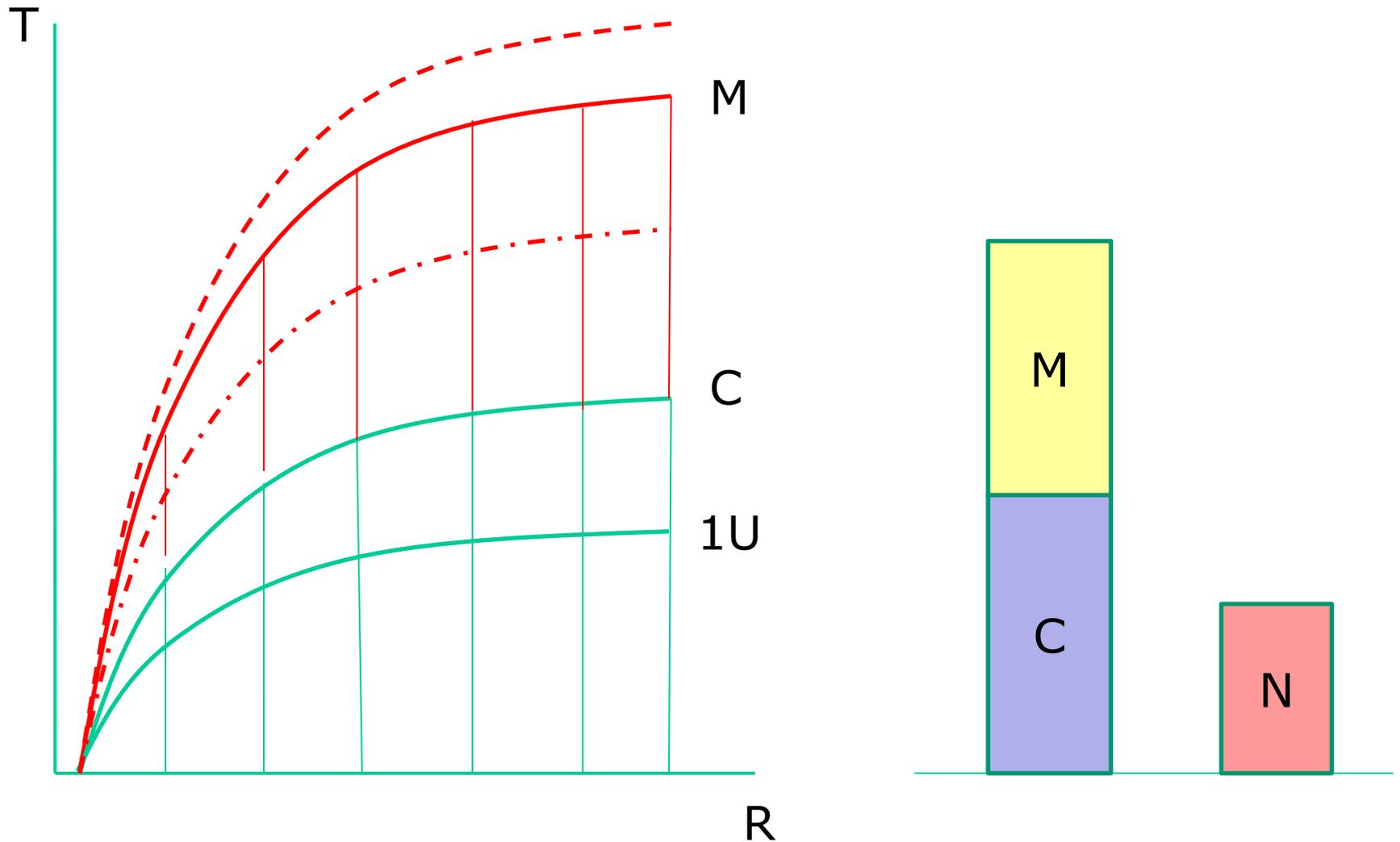


# Revenue-Splitting

<b>Taxed Object</b>	<b>Confederation</b>	<b>Cantons</b>	<b>Municipalities</b>
Incomes	Direct Federal Tax	Direct Income Tax	Supplement
Wealth		Tax on Wealth	Supplement
Profit	Tax on Profit	Tax on Profit	Tax on Profit
Capital		Tax on Capital	Tax on Capital
Consumption	Value Added Tax		
Consumption of Particular Goods	e.g. gasoline		
Inheritance/Gifts		optional	possibly
Particular Public Services on Demand	Charges	Charges	Charges

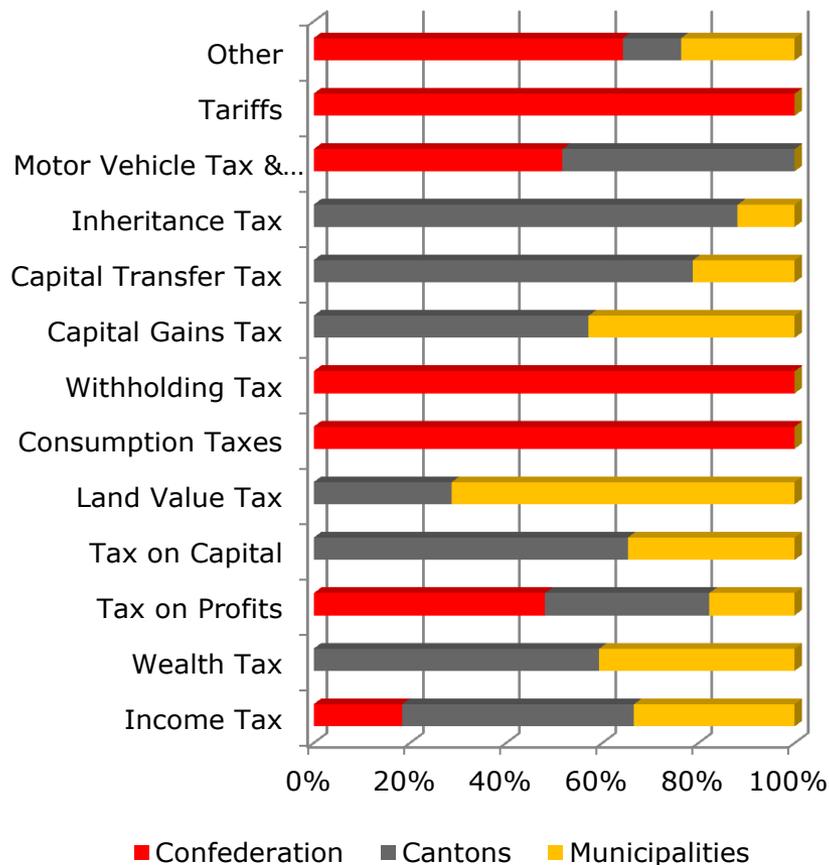
Not complete!

# System of Tax Sharing in Switzerland

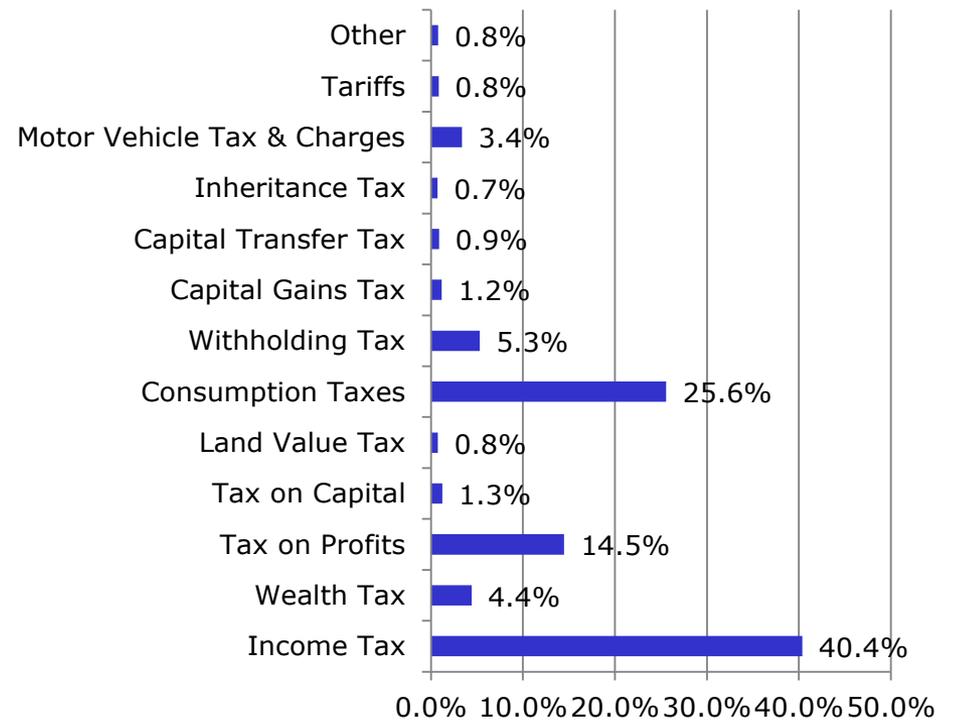


# Use and Weight of Taxes and Charges

Data from 2008



## Weight of Income Sources



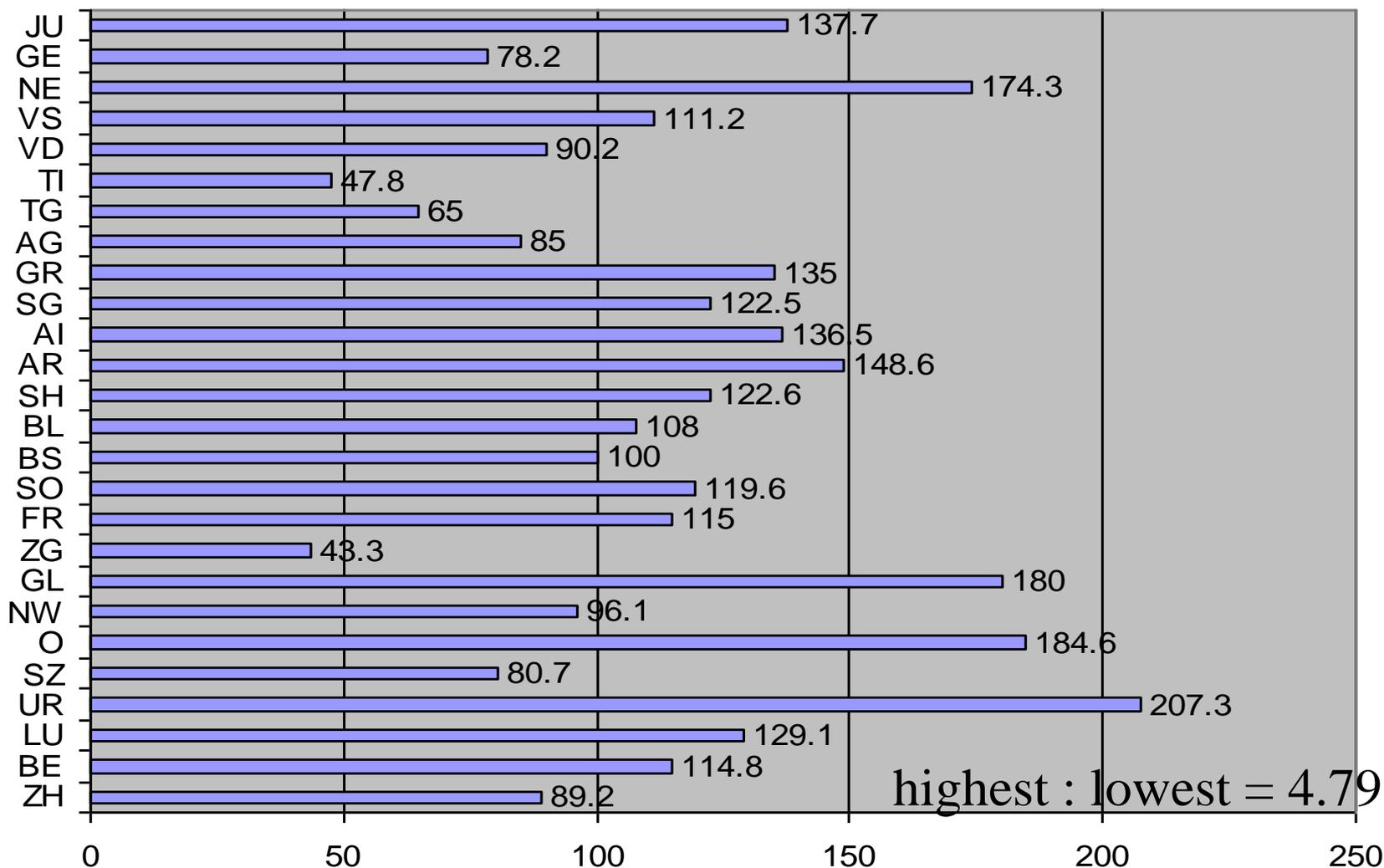
# Splitting of Main Revenue among Levels of Government

- Revenue of individuals and of legal entities are taxed by all three levels of government
- Wealth is only taxed by cantons and municipalities
- Although revenue sources are split among the levels, there are no fixed quotas in place
- Tax laws are enacted by cantons. The cantons determine deductions, tax scales and tax units
- Municipal Supplements are determined by each municipality
- Tax on consumption only belongs to the Confederation
- Charges are levied only by cantons and the municipalities

# Divergence of Tax Burdens in the Cantons

## Tax-Burden Index for a family with 2 children in 2006

(income and wealth tax by canton, municipality and church)



# Reforming Federalism Confederation - Cantons

# Reforming Federalism in Switzerland

## Overview

- **New assignment of tasks and finances** (in place since 01/01/2008)
  - New assignment of tasks
  - New assignment of costs and finances
  - Fine-tuning by financial equalization in the stricter sense
- **Territory reform** especially at municipal level
- Reform projects at the **upper levels** (confederation-cantons) and **lower levels** (cantons-municipalities)

Financial equalization  
in the broader sense

# **NFA – the Paramount Reform of Federalism**

## **1. Clarification of functional responsibilities of each state level**

- i. Disentanglement of responsibilities
- ii. Improve vertical collaboration between federal and cantonal level  
steering of shared functions (program approach)
- iii. Foster horizontal collaboration among cantons

## **2. Reduce discrepancies between cantons**

- i. Resource leveling (minimum funding level)
- ii. Compensation of extra costs  
(topographic and socio-demographic

# New Assignment of Tasks I: Disentanglement (effective since 2008)

## Centralization

- Retirement Insurance
- Disability Insurance
- Highways
  - o Construction
  - o Management
  - o Maintenance
- Agricultural Consultation Centers
  - o Breeding of farm animals

## Cantonalization

- Homes for the elderly: contribution for construction and operation
- Special Education
- Home Care
- Education in Social Professions
- Grants below University Level
- Voluntary School Sports
- Separation of Traffic outside Urban Areas: Modernization of Railroad Crossings
- Airports
- Subsidies for Construction in Mountain Areas
- Direct Advice to Farmers

# New Assignment of Tasks II:

## Simplified Collaboration between Confederation and Cantons

Premium Reduction in Health Insurance  
Supplementary Aid for the Elderly  
Regional Public Transportation

**Fixed Contribution**  
no grading related  
to financial strength

Traffic in Urban Areas  
Noise Management  
Protecting Nature and Landscape  
Flood Prevention  
Water Conservation  
Improving Farming Structures  
Forests, Hunting, Fishing

**Program Budgeting**

Main Roads

**Earmarked Grant**

Official Land Survey

**Management by Objectives**  
from Confederation  
to Cantons

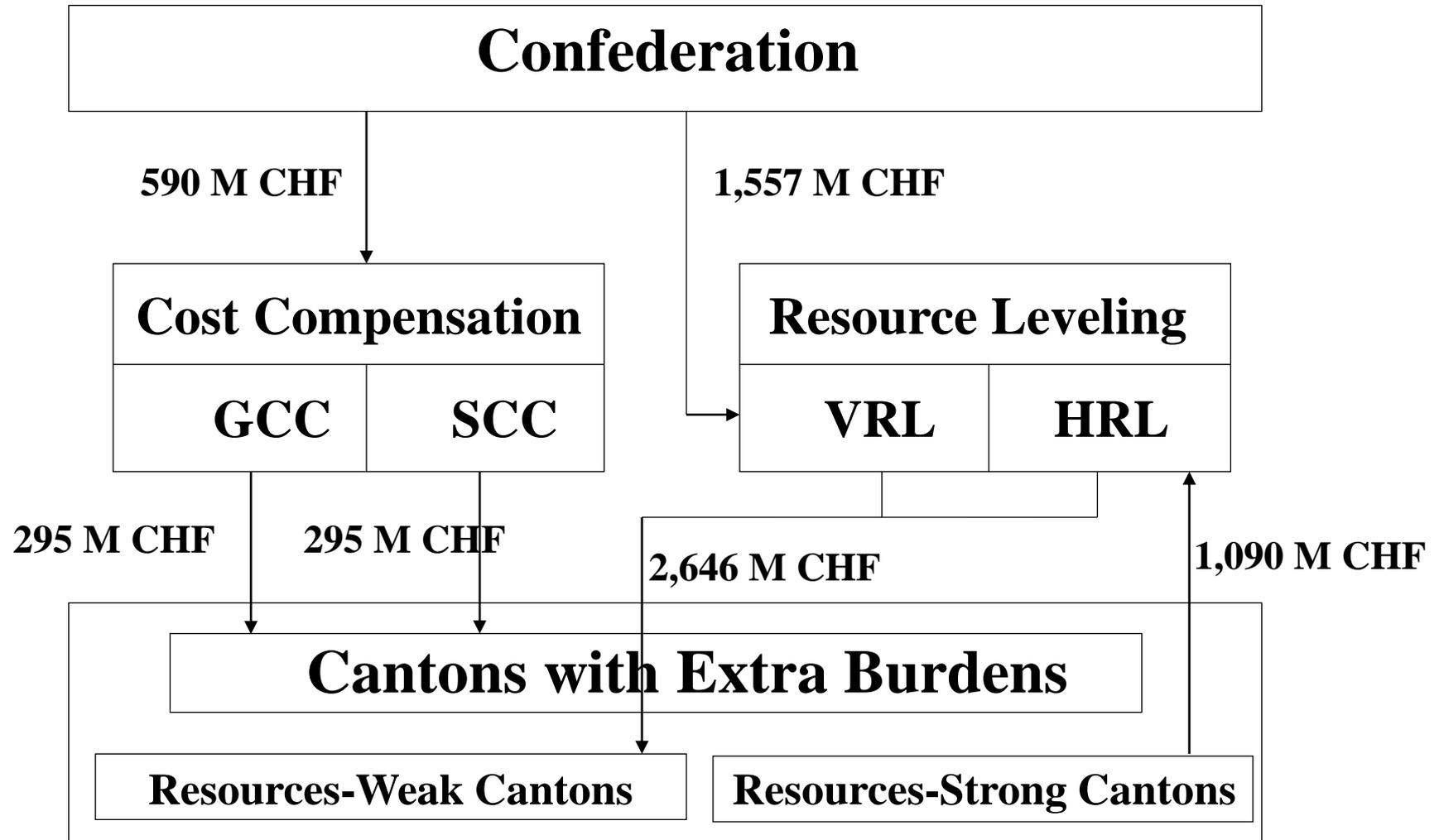
# New Assignment of Tasks III: Improved Collaboration among Cantons

- Integration of Disabled Persons
- Cutting Edge Medicine, Specialized Hospitals
- Cantonal Universities
- Universities of Applied Sciences
- Urban Transportation
- Prominent Theaters, Museums, etc.
- Waste Management
- Sewage

## **Inter-Cantonal Framework of Horizontal Cooperation**

- optimized across cantons
- who takes advantage
  - = who decides
  - = who pays
- more efficiency

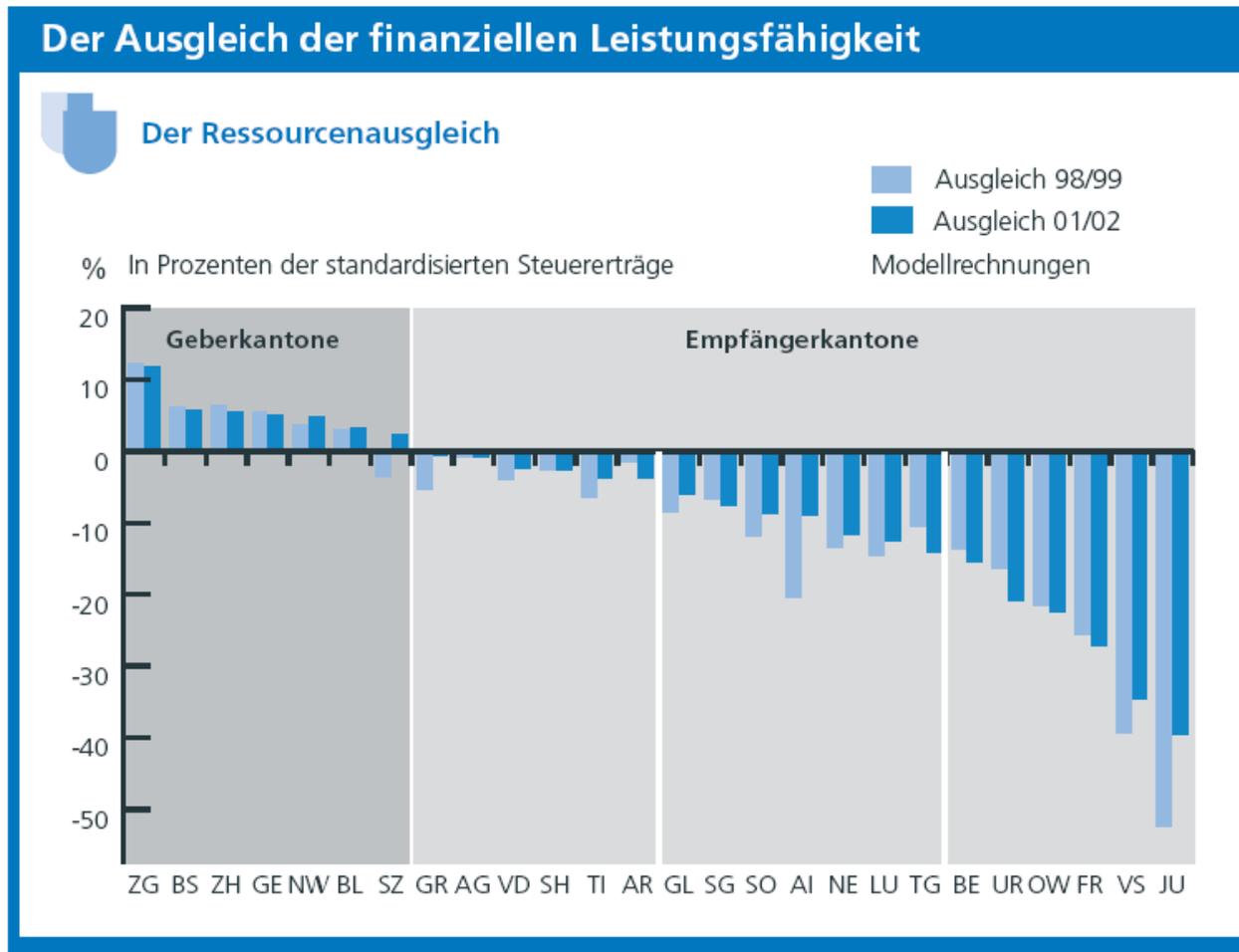
# Financial Equalization (in the stricter sense)



GCC = Geographic-Topographic Cost Compensation  
HRL = Horizontal Resource Leveling

SLC = Socio-Demographic Cost Compensation  
VRL = Vertical Resource Leveling

# NFA Resource Leveling



# NFA – Geographic-Topographic Cost Compensation

## Der Lastenausgleich



# NFA – Socio-Demographic Cost Compensation

Grundpfeiler	Bez.	Indikator	Quelle und Aufdatierung	Gewicht
Armut	A	Anteil Sozialhilfeempfänger an der Wohnbevölkerung	Sozialhilfestatistik (ab 2006 verfügbar), jährlich	40%
Altersstruktur	B	Anteil Einwohner im Alter von 80 Jahren und mehr an der Wohnbevölkerung	Bevölkerungsstatistik, jährlich	25%
Ausländerintegration	C	Anteil Personen mit Herkunft ausserhalb der Schweiz und ihrer Nachbarstaaten, die maximal 12 Jahre in der Schweiz leben, an der Wohnbevölkerung	Zentrales Ausländerregister, jährlich	35%

# Organization and Role of Municipalities

# Municipality – Standard Organization

## Citizens

- o Ballot Box
- o Municipal Meeting

## Municipal Parliament (not mandatory)

## Audit Committee

## Controlling Commission (voluntary)

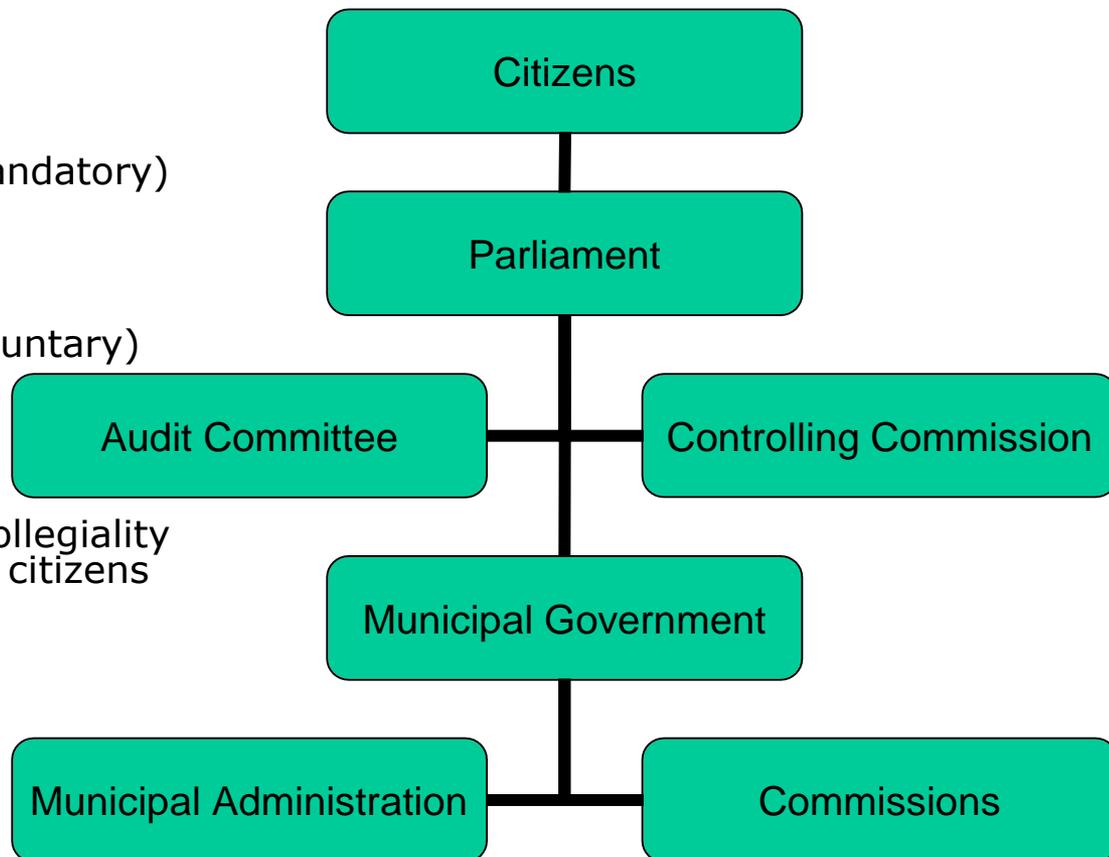
- o Advise on political steering
- o Participate in control cycle

## Municipal Government

- o 3-7 members / principle of collegiality
- o Directly elected by municipal citizens
- o Proportional vote frequent, but not mandatory

## Commission

## Administration



# Main Tasks for Municipalities

## Organization of Municipality

- Management System
- Election of Local Government Bodies
- Human Resources

## Tax Collection

- Cantonal taxes
- Local taxes (municipality, church)

## Maintaining Order / Rescue Services

- Building Inspection
- Fire Brigade

## Registration

- Residents, birth, death, marriage

## Education

- Elementary School and Kindergarden
- Music Schools

## Social Welfare

- Social Aid
- Retirement Homes, Nursing Homes

## Health

- Home Care

## Traffic

- Regional and urban public transportation
- Municipal roads

## Environment and Development

- Sewage and waste management
- Spatial planning

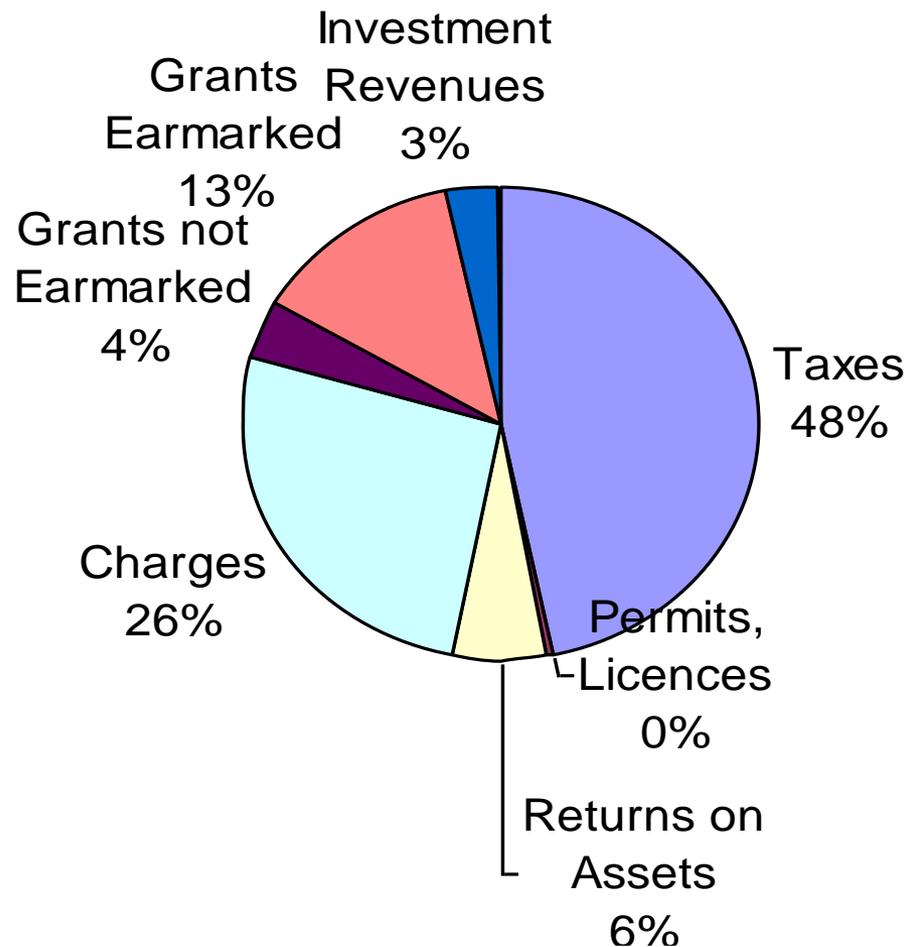
## Culture, Leisure, Sports

- Centers for culture, leisure and sports for the municipality, e.g. libraries, theatres, museums, concert halls, stadiums, ice skating rinks, swimming pools, playgrounds

## Votes and Elections

- Organizing and conducting federal, cantonal and municipal votes and elections

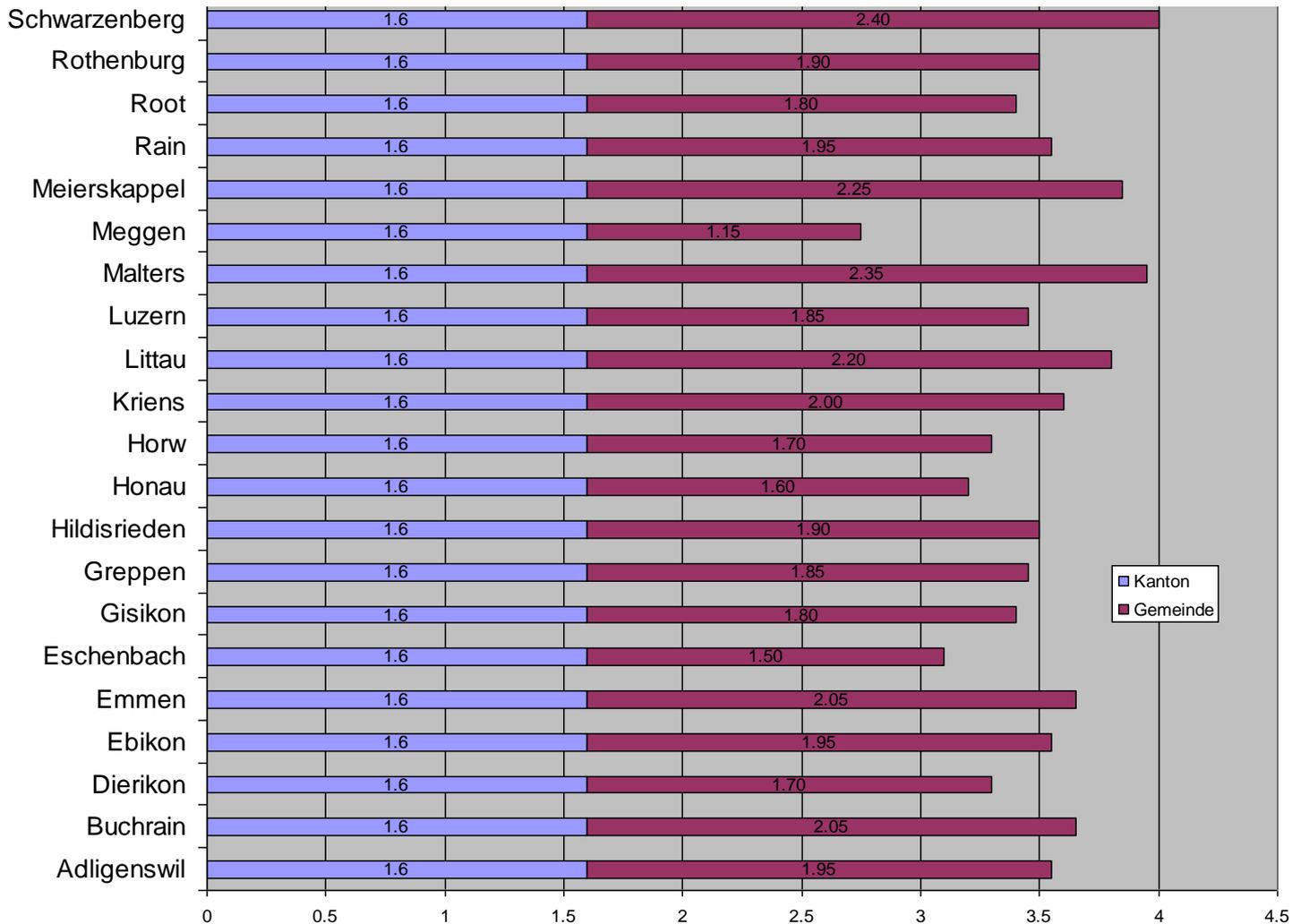
# Financial Responsibility of Municipality



**Only 17%  
are Grants!**

Figures 2005

# Disparities in Tax Burden in the Lucerne Area 2007



**Municipal Taxes only**  
**High : Low = 2.1**

# Reforming Federalism within Cantons

## Canton of Lucerne - "Luzern '99 – Gemeindereform 2000+"

### - Duration of project 1997-2008

### - Goals

- More efficient municipalities
- Improved municipal capacity to respond to citizens' needs
- Better partnership between municipalities and Canton

### - Content of project

- Better distribution of tasks: disentanglement / congruence of power and responsibility
- More efficient financial equalization
  - **Resource leveling**
  - **Cost compensation**
- Improvement of external structures
  - **Better collaboration among municipalities**
  - **Merging municipalities**
- Improving internal structures (new Municipal Law)
  - **Clearer distinction between strategic and operative functions:** Role of government and administration
  - **More management** (new instruments for planning and controlling)
    - Medium-term planning of tasks and finances, annual plan, annual budget (before only financial plan and budget mandatory)
    - Cost accounting (showing full costs, more transparency)
    - Three options for annual budget statement: cost-accounting, NPM or cash-based format
  - **Reduced Cantonal Monitoring** (more responsibility for municipality)
    - Limited to four areas: democratic standards, rule of law, minimal administrative requirements and the existence of a controlling system CS. The CS must follow the Municipal Statute; annual budget, medium term planning, annual plan, annual report and statement are in place.
    - Canton may not interfere with implementation and evaluation of policy, unless required by special law.
  - **Inter-municipal collaboration**

# Municipal Autonomy and State Liability

- Reforming federalism → more room for action for the municipalities
  - More opportunities – more risks!
  - Cantonal liability for municipalities – yes or no?  
“Moral hazard” – problem
  - Severe conditions for the Canton’s liability:
    - o Guarantee of Canton for Municipality
    - o Poor supervision
    - o Direct cause of poor supervision; proof of causation
- 
- No more Zero-Deficit Guarantee
  - Monitoring only summarily