



# Vested power vs. reform in Switzerland

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**Since** 1990, the Swiss federal Department of Finance has been developing major reforms to the system of fiscal federal relations in Switzerland.

The matters being examined for reform are the system of equalization and the distribution of responsibilities between the federal government and the cantons.

This rather ambitious project, however, is now facing vehement opposition from some cantons. There are even serious doubts as to whether such an extensive reform could ever succeed given the highly decentralized nature of Swiss politics.

Swiss political decision-making is characterized by consensus seeking, and the cantons can block federal projects. The result is that federal projects are rarely adopted as planned, and reform processes become very long and unpredictable.

This has caused previous attempts at federal reform to fail. A plan to rationalize federal conditional grants to the cantons failed in 1966. Two series of proposals, in 1971 and 1978, for a new assignment of functions and responsibilities between the federal government and the cantons were rejected as well.

In this context, the federal government has to choose its strategy well in order to bypass the constraints of the system.

## ***A 'package deal' and angry reaction***

Throughout this process, the Department of Finance has been careful to consult experts and to include the Conference of Cantonal Ministers of Finance as partners in a federal-cantonal working group. This working group made the reform proposals. It is composed equally of members of both orders of government.

Moreover, the Finance Department has undertaken a programme of consultation with various interested parties. Based on suggestions, it modified its original plan by removing inessential elements of the proposed reform.

The Department of Finance has presented the reform as a whole package, and has insisted that if only parts of it were adopted, it would not fulfil its purpose.

The argument goes that alternatives to the reform—that is, the status quo, extensive tax harmonization, or territorial reform—would neither satisfy the cantons nor respond to public pressure.

Despite this strategy, the Finance Department was confronted by angry cantonal governments last November when simulations of the proposed new equalization system indicated that some cantons would stand to lose financially.

It is very likely that there will be more crises to come as the reform project proceeds. And some experts wonder whether the proposals are too ambitious for contemporary Switzerland.

## ***Efficiency and subsidiarity***

The main thrust of the reform plans is to propose reallocating responsibilities to the order of government that would manage them most efficiently.

One of the major proposals is to separate equalization of costs from equalization of resources by:

- abolishing matching grants, and
- introducing a new "fiscal capacity indicator" to estimate the taxable wealth of the cantons, taking into account only their potential tax receipts and excluding elements linked to the costs of accomplishing tasks.

A working group has examined federal and cantonal responsibilities, and has

proposed their reallocation according to the subsidiarity principle (the principle that responsibilities should normally be assumed by the "lowest" levels of government and only move to higher levels as they exceed the capacities of the lower levels).

Some of these responsibilities would be held exclusively by either the federal or the cantonal governments. Cantonal responsibilities that affect other cantons would be accomplished through intercantonal cooperation, and some would remain joint federal-cantonal responsibilities.

## ***An end to matching grants?***

For joint responsibilities, the federal government would be in charge of strategic, policy-related aspects, while the cantons would be in charge of operational implementation. The federal government and the cantons would agree on the goals to be achieved and would establish an intergovernmental contract.

The federal government would transfer block grants to the cantons for the implementation of joint projects. These grants would be based on the degree to which the goals of the projects were achieved. This block grant system would replace the system of matching grants whereby the federal government's contributions would be proportional to those of the cantons. Thus, the amounts to be transferred would be based on the tasks achieved rather than the costs.

There would be no more equalization payments distributed through the grants system.

The proposed reforms also deal with cantonal responsibilities that affect other cantons, such as professional schools, universities, medical care, and public transportation.

Cantons benefiting from services provided by other cantons would have to pay compensation to the providing cantons. The cantons would have to establish inter-cantonal contracts, and the reforms would introduce the principle of compulsory inter-cantonal cooperation into the Swiss Constitution.

That aspect of the reform would give the federal government the power to extend an agreement to all the cantons involved—in effect, forcing reluctant cantons to cooperate.

In addition there would be a law specifying the areas in which cantons must cooperate.

Still, this reform wouldn't give untrammelled new power to the federal government. It would only be able to force all the cantons to cooperate if a certain number of those involved were to request federal intervention.

### **Sharing the wealth**

In order to reduce inter-cantonal disparities, the reform proposes to equalize resources through unconditional revenue sharing.

The cantons would receive a fixed percentage of some federal receipts, distributed among them according to the new "fiscal capacity indicator". The cantons receiving funds would be those whose fiscal capacity is below a certain level. The cantons would be free to use those funds as they see fit.

The Swiss Parliament has yet to decide the extent of the redistribution that would take place among the cantons.

In order to ensure that all cantons reach the level of fiscal capacity determined by parliament, the federal government would provide complementary grants to those cantons whose fiscal capacity remained low after equalization.

The federal government would give additional unconditional grants to cantons facing higher costs due to their geographical location (such as mountainous regions), or socio-demographic challenges.

Those would not be matching grants, but would instead be linked to certain specific responsibilities such as roads, water emergencies, and forests. There would also be specific criteria for determining which cantons can benefit from the grants and to what extent.

### **Threats to vested power**

The proposed reforms are indeed ambitious because they propose to change the very structure of Swiss federalism as well as the practices that have developed around it.

In this process, the power relationships would likely change.

To start with, imposed inter-cantonal cooperation contradicts the long-established principles of cantonal autonomy and diversity.

Traditionally, Swiss federalism has emphasized inter-cantonal competition and has fostered diversity. Even though cantons already engage in some forms of cooperation and several projects are conducted regionally, cantons tend to be reluctant to work together.

The question then becomes: how will the federal government be able to negotiate policy objectives with cantons that, so far, have had substantial discretion in implementing federal policies in their own distinctive ways?

The reforms would also shift power within federal and cantonal administrations. In particular, the relative financial position of the ministries at the federal and cantonal level would change.

For example, getting rid of the equalization component in federal grants for specific projects (the conditional-matching grant system currently in use) would alter the distribution of power both at the cantonal and federal levels.

Equalization at the cantonal level would be channelled almost exclusively through the finance ministries—to the detriment of other "functional" ministries, which would then have to beg for new funds.

### **Too audacious for Switzerland?**

The Swiss federal system tends to evolve in an incremental way—making changes step-by-step. This fact threatens the success of the proposed reforms. In particular, tying together a reform of the equalization system and a reallocation of responsibilities increases the chances that the reforms will fail.

The equalization reforms alone—framed so that they cause no major changes in the distribution of power in the cantons—would have a greater chance of success if they were presented separately from the redistribution of responsibilities.

There have nevertheless been occasions in Switzerland where audacious reform efforts have led to quite innovative results.

Indeed, one might argue that radical proposals are the only means to open new windows of opportunity and create new alliances.

Many hope these reform proposals will at least trigger a national debate on the future of Swiss federalism.

Whatever the fate of this project, it will have at least revealed vested powers in the Swiss federation.

## ***The status quo stacked against the proposed reforms:***

### ***Current constitution***

*Equalization through revenue sharing and cantonal contributions to federal social expenditures*

*Mix between equalization of costs and equalization of resources*

*Equalization supplements in conditional transfers; mix between incentives and equalization*

### ***Proposed reforms***

*Equalization through revenue sharing, but a new formula; abolition of cantonal contributions to federal social expenditures due to reallocation of those tasks*

*Separation between equalization of costs and equalization of resources*

*Block grants without equalizing supplements, combined with a new distribution of tasks*