



Reforming Swiss federalism: who will pay?

The current proposals have a chance of passing in Parliament – but will they pass the reality test?

THEME III: THE ASSIGNMENT OF RESPONSIBILITIES AND FISCAL FEDERALISM

BY *ULRICH KLÖTI*

The proposal for reforming Swiss federalism that was submitted in November 2001 by the Swiss Federal Government has an excellent chance of getting approved by Parliament. But even so, it may neither satisfy its internal critics nor deal with international pressures.

This package involves both a fundamental redistribution of functions between the federal government and the cantons and a redesigned financial equalization system. The reform aims for a clearer allocation of jurisdictions under the principles of subsidiarity and fiscal equivalence (See box p. 43). The package is supposed to sort out the current tangle of jurisdictions. The package is also supposed to redesign the vertical equalization payments to reduce disparities among different cantons. Cantonal autonomy is supposed to be strengthened and federalism revitalized.

These reforms are not the first attempt to redesign Swiss federalism. After generally unsuccessful reform attempts in the 1960s, the last great effort was in the 1980s. A simple analysis of the situation showed at the time that only very few of the proposals to disentangle functions could be pushed through in individual policy areas. The initiatives to reform fiscal federalism had somewhat greater success, but the outcome of reform remained rather modest on the whole. Little was left of the high-flown plans for fundamental reform of Swiss federalism, except a few adjustments to financial flows. The theoretical foundations of federalism and the political ideals stemming from them did not prove strong enough to give Swiss federalism a new face.

The current proposal is called the Redesign of Equalization Payments and Functions between the Federal

Government and the Cantons (REPF), and was prepared more carefully than its predecessors. The good preparation was due to the joint efforts of the federal government and the cantons. The proposals presented to the Swiss parliament by the Council of Ministers, in agreement with the cantons, have been well received by interested parties and many leading media outlets. They therefore have good chances of success. The reform package is not without its critics, though, on both the academic and political levels.

Equalization payment scheme

The *Redesign of the Equalization Payments* distinguishes between an equalization of resources and an equalization of burdens. The equalization between strong and weak cantons is supposed to be extended beyond that of the present system. This will be done by using a new resource index that measures the financial capacity of the cantons. The index intentionally avoids considering current tax levels. Special burdens borne by the cantons as a result of their geography (for mountainous cantons), population structure, or functions as regional centres (for city cantons) are also supposed to be equalized. Finally, there is the so-called “hardship equalization” that the especially weak cantons are supposed to receive for a transitional period.

This model has been criticized in three major respects:

- First the overall balance sheet is extremely lopsided. Only four cantons (Zurich, Zug, Schwyz, Geneva) and one half canton (Nidwalden) are net contributors. One canton comes out practically even (Glaris). The remaining cantons will benefit from the new calculations. From the standpoint of

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votes, this has the undoubted advantage of assuring a majority. From the standpoint of national policy, though, this result is problematic because the strong cantons feel “blackmailed” by the weak and fear that they could be forced to pay ever-greater equalization. The net “losers” have therefore called for safeguards. This situation is also somewhat problematic from a macro-economic perspective because 91% of the additional redistribution will be borne by just two cantons. One can only hope that the New Equalization Payments will help other cantons to become “have” cantons and net contributors.

- The original model provides as well for horizontal equalization among the cantons. Cantons that act as central service providers for the surrounding cantons are supposed to receive appropriate compensation. However, the amount of this compensation is not specified in the constitution.
- A third criticism comes largely from the political left. These people complain that the New Equalization Payments fail to do enough to equalize the disparities in tax levels among the cantons. The current tax level indices, which vary between 58 and 128, would shrink to a narrow range, between 69 (in Zug) and 125 (in Jura). Ideological conflicts are likely. People who believe in evening out the

levels will feel that the proposed equalization does not go far enough, while those who believe in the pure theory of tax competition will probably feel that the proposed interference in the tax market is already too great.

Disentangling functions

Closely related to the reorganization of finances is the disentanglement of functions and jurisdictions in the REPF. There are four thrusts to the reforms: First, the transfer of functions to the cantons is supposed to strengthen their autonomy (decentralization). Second, when the cantons cannot properly execute their functions on their own, the reforms call for substantially increased inter-cantonal cooperation (horizontal cooperation). Third, new forms of cooperation will be introduced in areas in which it is more sensible, even after the reforms, to have functions carried out by the federal government and the cantons together (vertical integration). Finally, there are also provisions in certain sub-areas for jurisdictions to be transferred to the federal government (centralization), even though this seems contrary to the outline and basic concept.

The reforms seem balanced, at first glance, and more moderate in comparison with the draft plans drawn up by economic experts. Nevertheless, there will still be criticism. The discussions will probably focus above all on the following points:

- The political left takes a sceptical to hostile view of the decentralization strategy. It fears that the financially weak cantons in particular would be completely unable to carry out the functions over which they would receive full authority for the first time. This could lead to a reduction in government services, especially social services. The left is therefore demanding minimal federal standards in various areas. This would be contrary to the disentanglement thrust of the reforms. There are also objections to decentralization from the third level in the federal state – the municipalities. They fear that the cantons might delegate some of their newly acquired functions further down the line, meaning the municipalities would have to bear the financial costs.

- Some objections have also been raised regarding horizontal cooperation by theoreticians of the state and democratic government. They complain that a *de facto* fourth level of government is being instituted, alongside the three existing levels in the federal state. This further increases the complexity and thereby the lack of transparency in the Swiss political system. People also point out the danger of a stronger trend toward executive federalism. They say that there lacks sufficient parliamentary supervision of the decisions made in the inter-cantonal committees of government and administrative representatives, not to mention the fact that these decisions are beyond the reach of all the processes of direct democracy. The problems are said to be especially serious where inter-cantonal legislation could be declared generally binding, even if only in exceptional circumstances.

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- There have not been any fundamental objections yet to the new forms of vertical cooperation. This is not surprising in view of the fact that these forms of federalism are closest to what was usually done in the previous system. Given the relative consensus surrounding vertical integration, people have wondered whether all areas in which decentralization or horizontal cooperation models have failed to emerge should not be organized along the same lines as vertical cooperation. However, this would mean restoring as a mainstay the very model from which we are trying to distance ourselves and on which we were going to fall back only when forced to do so.

The current plans to reform Swiss have been quite well received. However, serious objections have been raised to a number of aspects of it. The reforms will therefore probably not have an easy ride through the forthcoming parliamentary debates and all the necessary constitutional votes.

The long-term success of the reform of federalism faces another problem that has not been addressed yet. Economic, social and cultural trends are not heading in the direction in which the reforms attempt to steer them. Switzerland is a highly developed country with ever-stronger internal ties. Its political borders, not least of all the cantonal borders, are becoming less and less important to the approximately 70% of the population who live and work in cities and urban agglomerations. There are fewer and fewer problems for which it is sensible to have different regional solutions. Even though not a member of the European Union, Switzerland has far-reaching international ties. The problems in transportation – by air and by land – and in education for instance (originally a purely cantonal realm) show very clearly that the solutions to major problems more often have to be found on the international level rather than on the cantonal level. All levels of government will have to be involved.

A reform of federalism that views disentanglement as its highest purpose is very promising from an economic standpoint. However, it is basically an attempt to turn back the clock. From the perspective of a social scientist, such an undertaking may be hopeless in the long run. There will probably be only one alternative to continuing centralization in the decades to come: vertical integration in which players from all levels – the municipalities, cantons, federal government and trans-national bodies – are taken seriously in networks that are not very hierarchical. If the current reform of federalism is also successful in finding new, intelligent forms of cooperation and financial equalization, it will be an important step in the right direction. 