



Swiss cantons and the confederation: Who does what and who pays?

BY PASCAL BULLIARD

Swiss citizens have said yes to giving funds to poorer and mountainous cantons to pay for government services, and to disentangle the tasks of the two orders of government. In a referendum on November 28, 2004, more than 64 per cent of all Swiss voters and a majority of those in 23 of the 26 cantons voted for the reform. Only the smaller cantons of Nidwald, Schwyz and Zug voted against the measure.

To improve the country's program of fiscal equalization among cantons, the Swiss federal parliament adopted a package of measures that went before Swiss citizens in a referendum. The package involved 27 amendments to the Swiss constitution which will require changes to dozens of laws. The financial equalization proposal, which was previously passed by both houses of the Swiss federal parliament, even gained the support of Zurich and Geneva, two cantons who will not benefit from the new law. The broad aim of the reform is to disentangle the tasks of the two orders of government, as well as to provide support to poorer and mountainous regions of the country. It represents a major development of Swiss federalism, showing that it is not only alive but can adapt in the face of new challenges.

The reform does four things:

- **disentangles the tasks** of the two orders of government,
- **follows the principle of subsidiarity** (a public task should be assigned to the order of government best suited to fulfil it),
- **eliminates wrong incentives** in the transfer system, and
- **reduces the differences** between the financially strong and the financially weak cantons.

The current system of financial equalization has been described as promoting centralization, creating redundancies, lengthening the decision-making process,

Pascal Bulliard was Senior Research Fellow at the Institute of Federalism, Fribourg (Switzerland) when he wrote this article. He is now working at the Strategic Leadership Training Unit of the Swiss Chancellery, Bern. The views expressed in this article are his own.

1. Disentangling the tasks of confederation and the cantons

Confederation	Cantons	Confederation and Cantons
Pensions for the elderly	Subsidies for the construction and the use of homes for disabled persons	Complementary allowances (<i>Confederation pays 62.5%</i>) Scholarships for universities
Allowances for disabled persons	Special schools for disabled young persons	Urban public transportation
Financial help for national organisations helping elderly and disabled persons	Financial help for cantonal and municipal organisations helping elderly and disabled persons	Regional public transportation (<i>Confederation pays 50%</i>)
National roads	Scholarships up to secondary school	Discount for the payment of the mandatory health insurance (<i>Confederation pays 25%</i>)
National defence	Road security	Main roads
Funding of services working for agricultural popularization	Protection of cultural and historical monuments of cantonal importance	Official measurements
Promotion of livestock breeding	Subsidies for schools for social workers	Protection of cultural and historical monuments of national importance
	Sport (material for non-compulsory sports at school)	Fight against noise along cantonal and municipal roads
	Local airports	Structural improvements in agriculture
	Special arrangements for mountainous regions	Protection of nature and the environment
		Protection against floods
	Cantonal agricultural popularization	Protection of waters
		Maintenance of forests
		Hunting inspection
		Fishing inspection
		Execution of legal punishments

Source: Swiss Federal Department of Finances, 2004

and being complex and difficult to control. Currently, about 30 laws govern the financial flows of 15 billion Swiss francs between the confederation and the cantons.

In Switzerland today, there are large variations in size, GDP and population among the cantons – ranging from Zurich with 1.2 million (one-sixth of all Switzerland's inhabitants) to Appenzell Innerrhoden with only 15,000.

Fiscal equalization began in 1959

The first fiscal equalization system among the cantons was introduced in 1959, when the federal government was given the constitutional powers to do so. The fiscal equalization law was designed to provide all cantons with the means necessary to carry out their functions within the federal state and provide their citizens with a basic level of services.

The Swiss confederation provides federal grants to the cantons. The distribution of these grants is based on what the law calls the “financial capacities” of the cantons. The formula to calculate these grants takes into account the taxes raised by each canton. The formula generates an index for each canton. Those cantons with an index of at least 120 are considered to have a high financial capacity and they will get no grants or only fixed ones. The cantons with an index of 60 or below will get grants at the maximum rate. For the cantons in between, a floating scale will be applied. Fiscal capacity of the cantons is not only taken into account in the calculations of grants-in-aid but it is also used in revenue sharing and in determining cantonal contributions to social security.

Total fiscal equalization currently exceeds 7.5 billion Swiss francs per year. On a percentage scale, 100 per cent would represent complete equalization. In the current system, the amount of equalization is somewhere between 15 and 16 per cent. Less than half of the funding for this equalization comes from federal grants. Two-thirds of current equalization programs result in less than 40 per cent equalization. Causing this inefficiency is the byzantine system of decision-making and financing between the federal government and the cantons. After years of political compromise, fiscal equalization has developed into a system of unrelated measures.

Equalization doesn't cover everything

In this respect, the thrust of the new fiscal equalization confirms an important feature of Swiss federalism: there is neither a legal obligation nor a political commitment to ensure the exact equality of all government services everywhere. Fiscal equalization should provide not the same but only a basic level of public services. Solidarity, as far as it goes, is based primarily on negotiation, while consensus is difficult to achieve within a political unit larger than a municipality.

The present fiscal equalization system takes into account adverse geographical conditions (isolated cantons high in the mountains, for example). The system also compensates for the special burden related to infrastructures of national interest, such as motorways and military barracks, which are the fiscal responsibilities of the relevant cantons. In addition, social problems have become more important.

Two criteria: geography and social conditions

For all these reasons, the project on reform of financial equalization and task allocation sets out two types of cost compensation: compensation for geography and compensation for social conditions. The first one gives more to mountainous cantons. Three elements would be taken into account: the area above an altitude of 1,080 metres (weight: 33.3 %), the population living above 800 metres (weight: 33.3 %), and the structure of settlements, those with less than 200 inhabitants or with a low population density (weight: 16.7 % each). The second type of compensation is a specific one for cantons with high per capita cost for social welfare and infrastructure resulting from problems in the urban core. Two types of costs would be identified: the socio-demographic cost, such as poverty, old age, integration of immigrants, addicts, unemployment (weight: 66.6 %), and the specific cost, an additional cost due to central city problems (weight: 33.3 %).

2. Tasks of inter-cantonal collaboration

Institutions to help integrate disabled persons
Specialized medicine and specialized clinics
Cantonal universities
Professional technical schools
Urban transportation
Execution of legal punishments
Cultural organizations of supra-regional importance
Waste management
Sewage treatment

Source: Swiss Federal Department of Finances, 2004

One estimate shows financial flows as follows:

The confederation will pay 1.4 billion Swiss francs and the financially strong cantons will pay 1 billion Swiss francs for resource equalization, to provide funds for the cantons that don't have the income to pay for certain services. These 2.4 billion Swiss francs all will go to the financially weak cantons. Parallel to this system, the confederation itself will pay 600 million Swiss francs for cost compensation. Half of this amount will go to the mountainous cantons and the other half to the central city cantons. Under the new system nearly 3 billion Swiss francs would be spent, compared with the 7.5 billion spent currently. Even though less money is spent, the new system will result in greater equalization than the current system. The reason for this lies in the inefficiencies of the current system.

The reform is also meant to disentangle the tasks of the confederation and the cantons. But because of some resistance from the cantons, the results of the reform are less revolutionary than expected (See Box 1).

The project also calls for cantons to collaborate in nine fields (See Box 2). The consequences of this statement are difficult to foresee. What will happen if a canton does not cooperate? What would the “sanctions” be, if any? Lengthy debates about principles are expected!

The reform reduces disparities among cantons by:

- **using tax money more efficiently** (direct democracy guarantees government is directly accountable),
- **reducing disparities between cantons** in financial capacity,
- **finding solutions that meet cantonal and regional needs** more accurately,
- **moving political decisions closer to the citizens** (the subsidiarity principle),
- **fiscal equivalence**, which ensures that those who decide are those who have to bear the financial consequences: the cantons will become responsible for a larger part of public goods and services.

Now the project has been accepted. It is made up of 27 modifications of the Swiss Constitution. A lot of work remains in order to adapt the federal and cantonal laws. Moreover, a new agreement on principles and procedures has to be designed for inter-cantonal collaboration. The new system will enter into force only on January 1, 2008. Is it going to work? The success achieved by the new system will not be known for at least a year. ☺