

Limitations of the Redistribution State in Switzerland, Executive Summary

By Dr. Pascal Gentinetta, Chairman of the Management of *economiesuisse*

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The redistribution, or the question enquiring after the correct extent of the redistribution, has always induced controversial discussions. Scientists have been discussing various concepts, so far without being able to arrive at a universally valid definition of the correct extent or yardstick allowing a just redistribution. By means of an estimated total compulsory fiscal charges of approximately 200 billion CHF in the year 2005 (more than 43 per cent of the gross domestic product) the State meanwhile has put a heavy burden on the nation's economy. As the State levies a huge total amount of taxes, fiscal charges and the like, using these revenues in order to perform certain tasks and/or to redistribute the same to other social entities, it is generally assumed that the State runs a sizable redistribution machinery via its fiscal and taxation policy.

Due to lack of transparency regarding the flow of funds between the State and private households, i.e. taxpayers, it is really extremely difficult to assess the extent of solidarity between the various strata of income and wealth, economic sectors, regions and generations caused thereby. Moreover, financial interdependences are intricately complex due to the federalist pattern of the Swiss State and the fact that the social security and welfare budgets are kept apart from the governmental budgets (at the level of the Confederation, the Cantons and the Municipalities); therefore, it is hardly possible to obtain a complete picture of present-day transfer remittances between the various bodies and institutions.

Small wonder that the lack of a synoptic view regarding the effects of governmental redistribution actually creates a biased forum of discussions, with participants intentionally ignoring the hard facts and thereby creating and cementing unchallenged fiscal myths, especially by coining terms such as «tax gifts for the rich», «pauperizing thrift», «ruinous taxation competition» or «upward redistribution from the poor to the rich».

The people's willingness to accept this type of messages at face value is based on the assessment by the citizens of their own tax burden as well as on the valuation of the ratio between the taxes paid and the public services rendered in exchange by the State - the citizens' own burden of taxes levied by the Confederation, the Canton and the Municipality is deemed to be too high, or just bearable, by a distinct majority, whereas regarding the above mentioned ratio half of the population feels that it is getting back from the State less than the total of taxes and fiscal charges paid by it. During recent years, this attitude has even become more firmly rooted in the population. Given the sizeable lack of transparency in respect of the flow of funds and the absence of a truly synoptic view, this skepticism regarding the means and the extent of the redistribution taking place is easily understandable.

So as to be able to discuss the pertinent questions of solidarity and redistribution in as rational and factual a manner as possible, all aspects of the governmental redistribution procedures have to be subjected to an in-depth analysis, depicting their entirety with full transparency. *economiesuisse* has assumed this task and published in

the year 2007 a study in this regard. This corresponds also to a desire expressed by politicians to be supplied with facts and an overall view of matters.

The study evidences that the State is predominantly financed by business enterprises and a small minority of private persons. The business enterprises (22 per cent) and 20 per cent of private persons in the upper segment (35 per cent) jointly contribute 57 per cent to the public-sector share of expenditures including public social insurance. The fiscal share borne by the 80 per cent of remaining private persons residing in Switzerland amounts to 36 per cent. 31 per cent thereof is levied from the middle classes, whereas taxpayers belonging to the lower 20 per cent contribute 5% to the fiscal burden. The share of foreign countries amounts to 2 per cent, whereas the 5 per cent portion in deficit is absorbed by new indebtedness burdened on future generations. Focussing on the domestic taxpayers (while excluding the portions relating to indebtedness and foreign countries), one arrives at the conclusion that business enterprises and the 20 per cent of private persons of the upper segment are jointly financing 60 per cent of all public-sector expenditures. The fiscal share of the remaining 80 per cent of the population amounts to 40 per cent only.

These findings entail implications with respect to fiscal and taxation policy in Switzerland. The productive yield of the taxation system depends predominantly on a minority, which usually is more mobile than the average. This is why, in fiscal respect, special consideration has to be given to it. In view of the "cluster risk" as well as in the aim of a sustained financing of the State, *it is necessary to warn against following wrong fiscal prescriptions*. If substantial taxpayers, due to a rash and thoughtless taxation policy undermining the fiscal attractiveness of a specific location, move elsewhere, the public finances will immediately suffer a considerable loss of revenues, which would have to be compensated by higher charges of another type. For lack of such a compensation, there is the threat of diminished services, affecting above all the lower segment of private persons. However, should the whole gamut of public services be nonetheless maintained, the additional cost would have to be borne by the middle classes by way of massively increased taxes. The exodus of substantial taxpayers would jeopardize not only the financing of the welfare state, but in addition the entire economy, because Switzerland as a location of economic activities would greatly lose its attractiveness. Of course, this would also negatively affect the labour market by a shrinking job offer.

In order to ensure a sustained and plentiful financing of an efficient State as well as of its welfare and social institutions - safeguarding thereby the desired political stability - it is necessary to further maintain and improve a top-ranking position within the framework of competing international taxation systems seeking the favour of substantial taxpayers and persons. In addition, all-out efforts must be aimed at perfecting this top-ranking position and not to jeopardize factors ensuring success such as the fiscal and taxation competition between Swiss Cantons. *An attractive taxation system benefits everyone*. In final analysis, Switzerland's welfare rests on the performance of innovative business enterprises as well as productive and efficient private parties. Only when favourable framework conditions allow these parties to develop freely their capabilities without any hindrances, it is possible that the entire economy will benefit. This is the sole way to bring into being the desirable solidarity, allowing furthermore to finance the welfare state.

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