

Fiscal Federalism and the Pandemic: The Case of Switzerland

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Workshop “Fiscal Federalism and the Pandemic”

ESRC/IFS/Stirling/Strathclyde

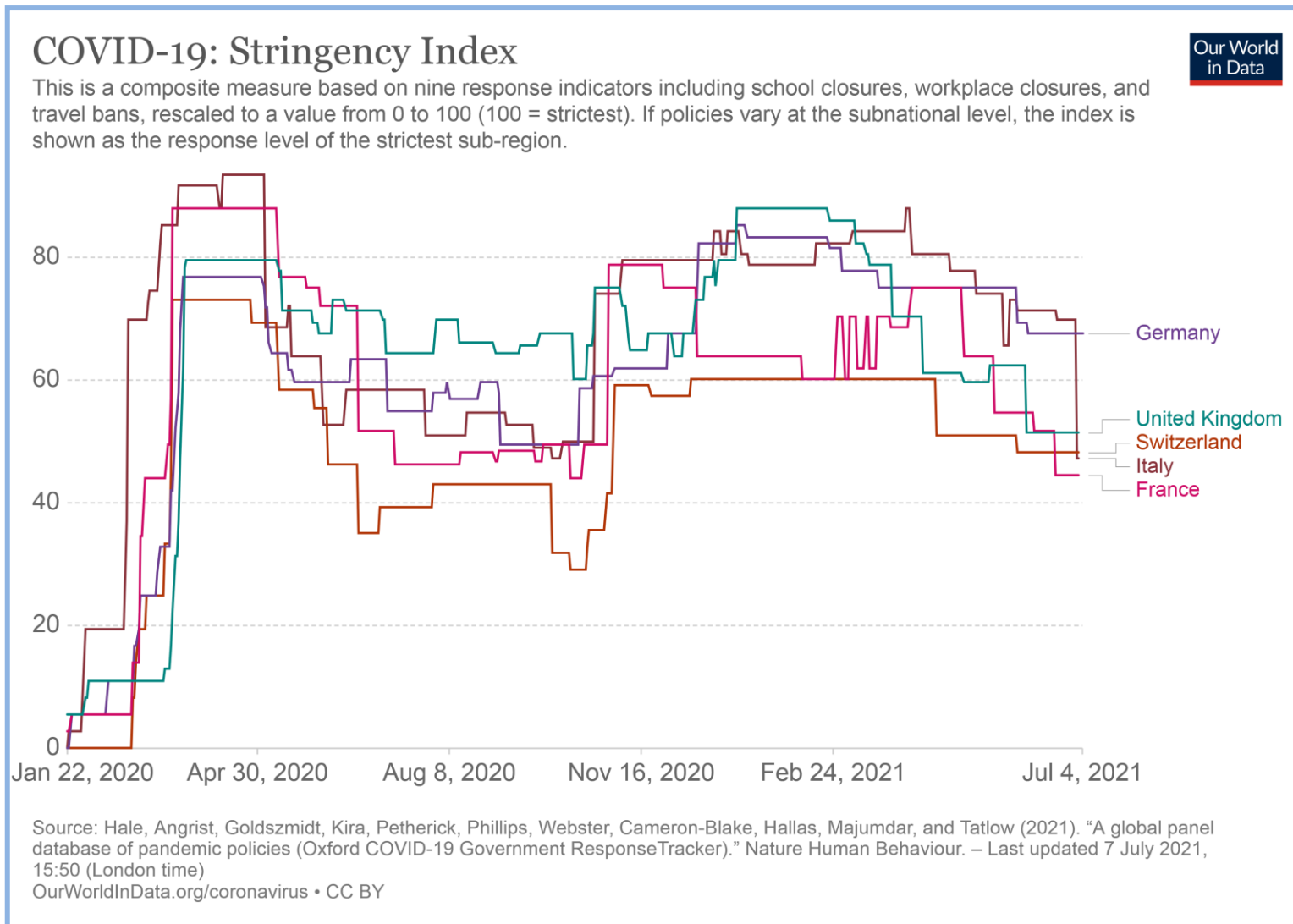
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Topics

1. COVID-19 in Switzerland
2. The role of the cantons
3. Fiscal policy

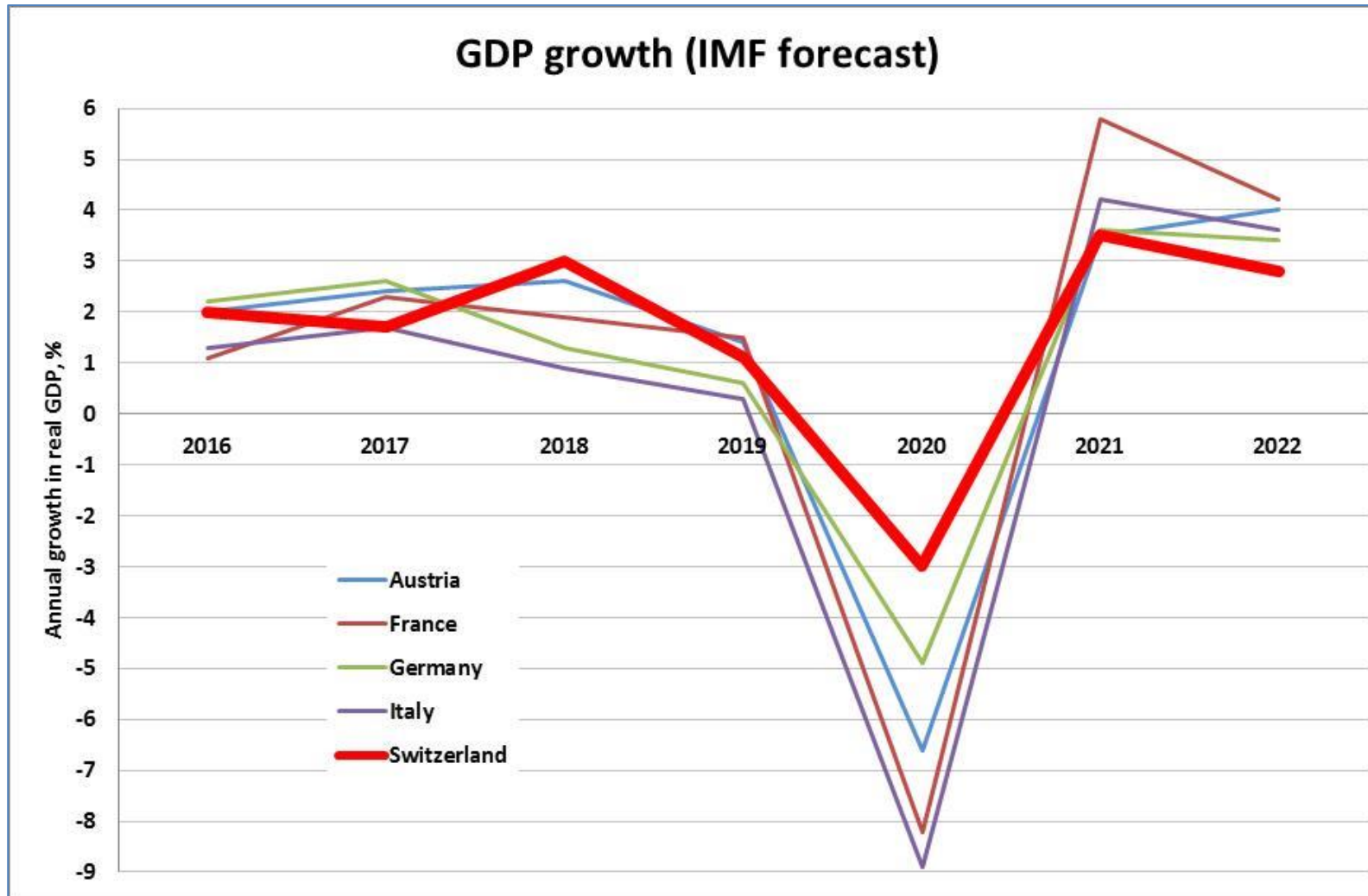
COVID-19 in Switzerland (1)

comparatively mild measures



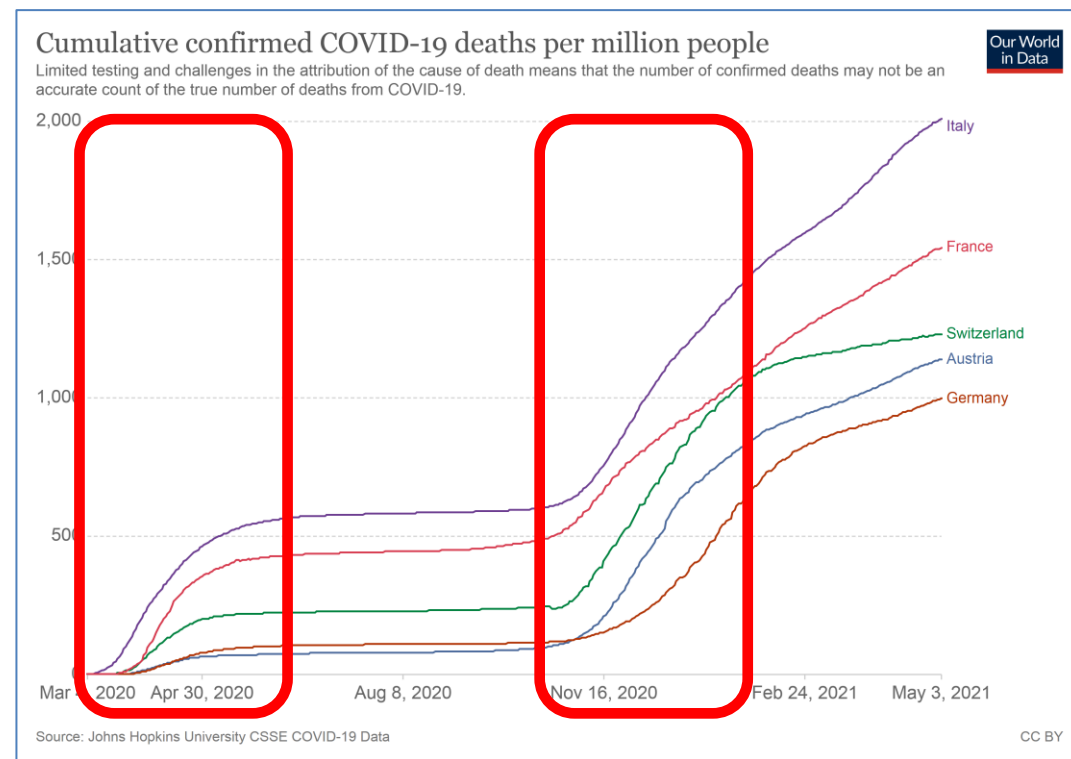
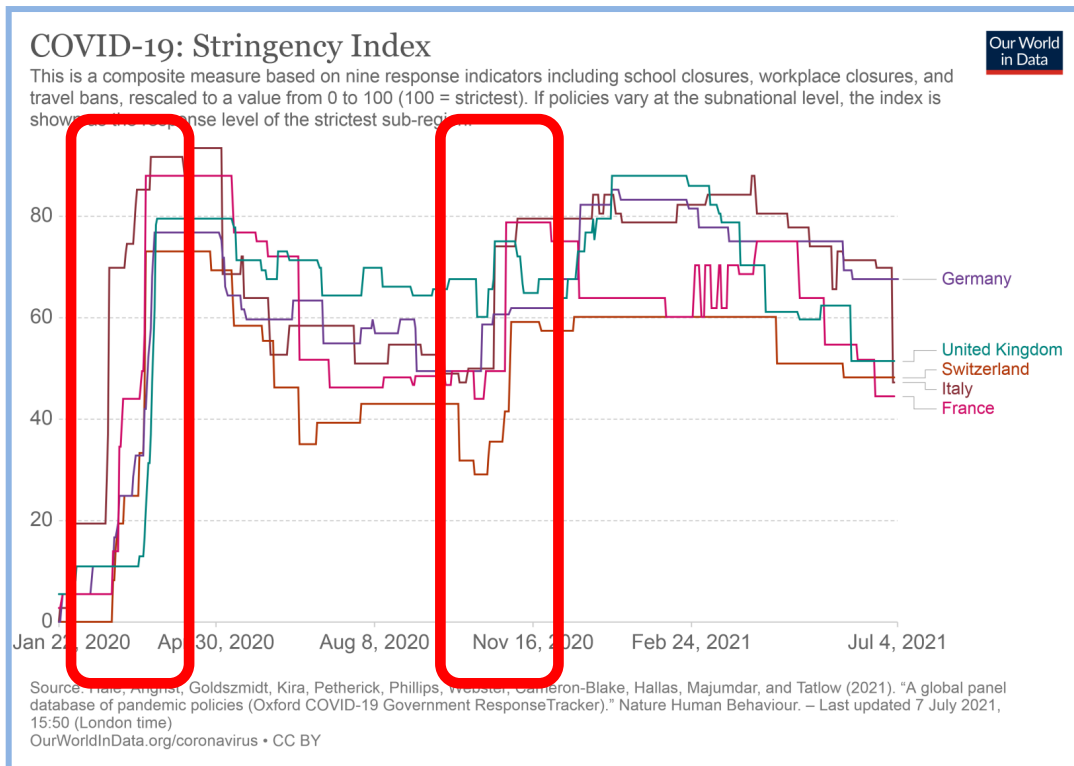
COVID-19 in Switzerland (2)

comparatively small GDP loss



COVID-19 in Switzerland (3)

slow reaction in autumn 2020



The role of the cantons (1)

Federal Law on Epidemics (2012): three states

1. “Normal situation”: cantons and confederation share responsibility for public health
2. “Special situation”: federal government can impose nationwide measures but only after consultation of cantons
3. “Extraordinary situation”: federal government can impose nationwide measures without consultation

The role of the cantons (2)

Timeline:

- 28 Feb. 2020: special situation
- 16 March 2020: extraordinary situation
- 19 June 2020: special situation

The role of the cantons (3)

Problems:

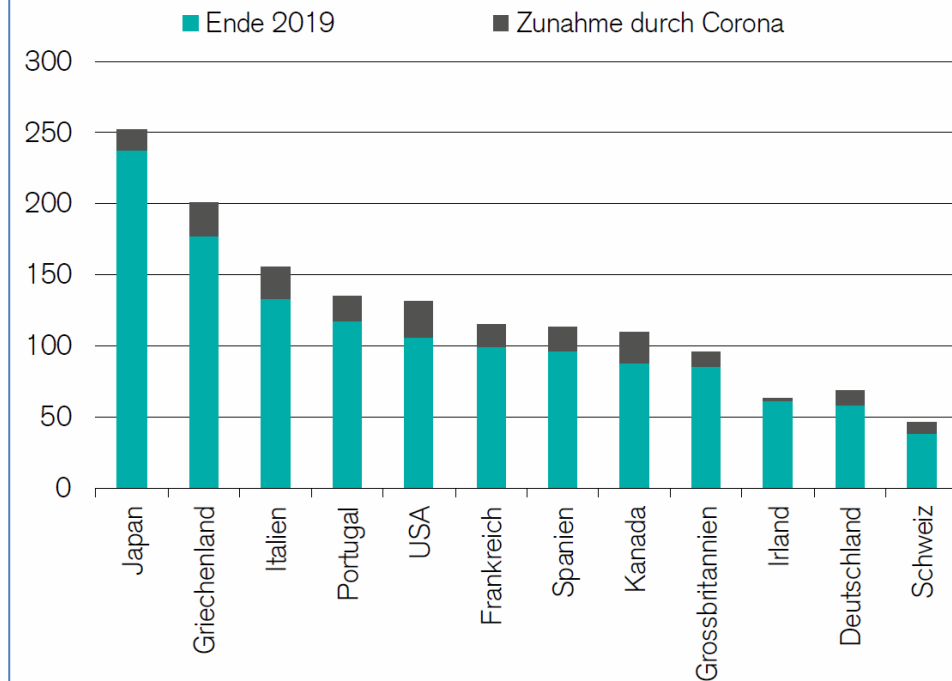
- Federal government has full discretion on declaring epidemiological state
 - ⇒ Incentive to relinquish responsibility too soon, “pass the buck” to cantons
- Cantons do not internalise all effects
 - ⇒ Incentive to hold back with measures, “pass the buck” to confederation
- Consultations with cantons take time
 - ⇒ Valuable time lost in acute phase (autumn 2020)

Fiscal policy (1)

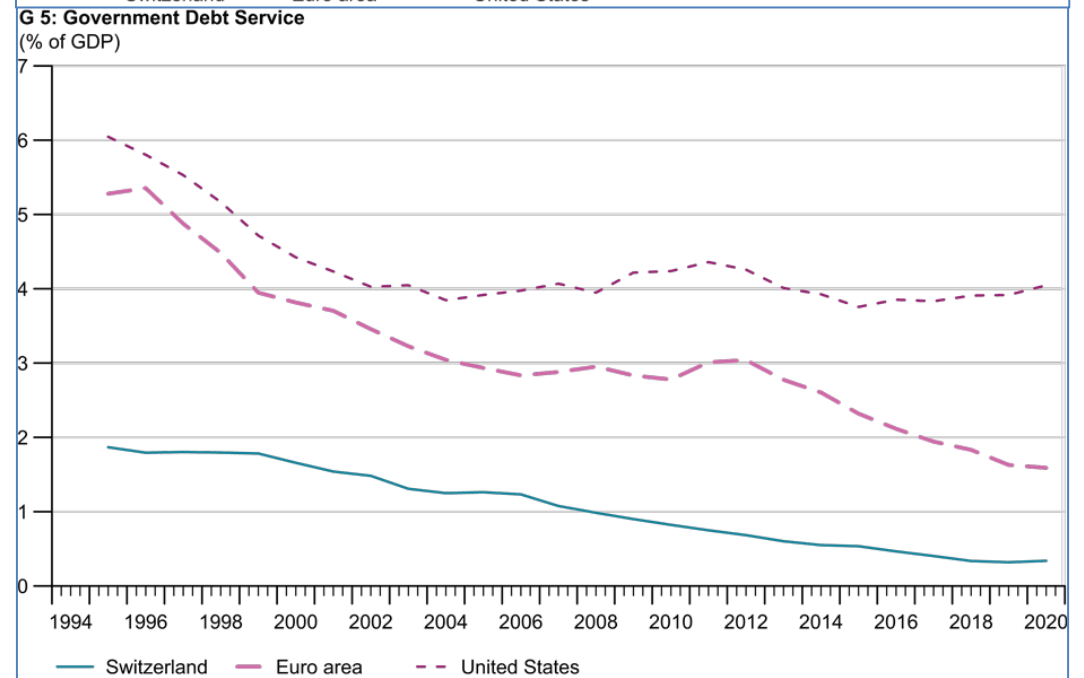
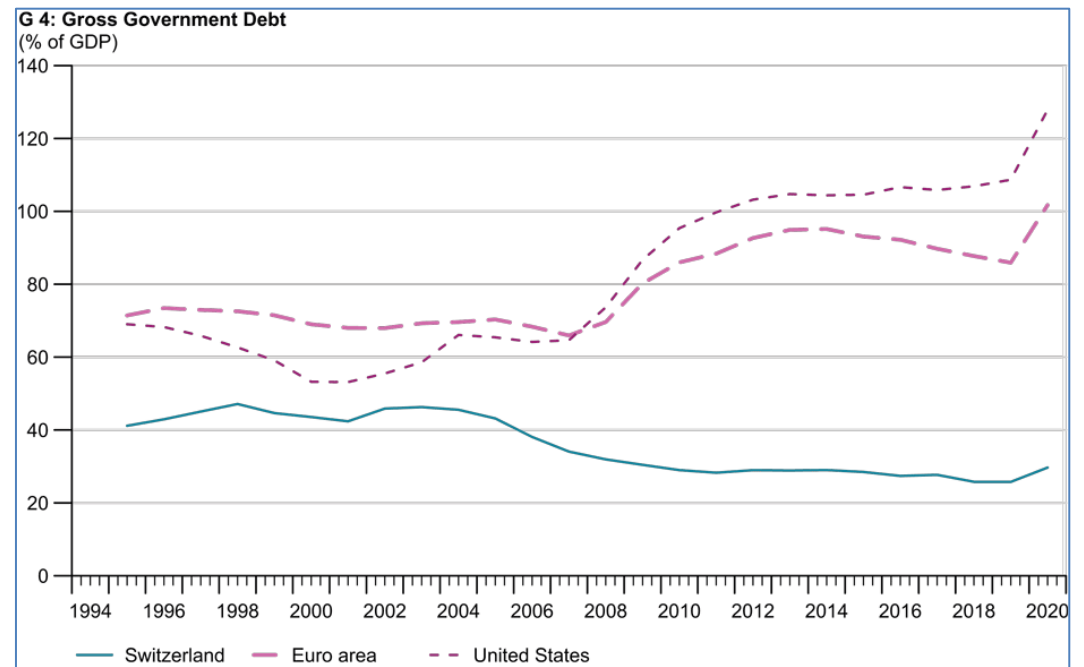
Copious fiscal space

Abb. 5: Schuldenquote gemäss IWF im internationalen Vergleich

In % des BIP



Quelle: Internationaler Währungsfonds (IWF)



Source: ETH Zurich

Fiscal policy (2)

Major instruments:

1. Compensation for labour costs

- Furlough payments for *employees*: federal level, 49% of federal Covid-19 expenditure
- Income support payments for the *self-employed*, federal level, 14% of federal Covid-19 expenditure

2. Compensation for fixed capital costs

- Government-backed *loans* (Feb.-July 2020), federal level, 4% of federal Covid-19 expenditure
- *Grant* payments for lost turnover (since Nov. 2020), shared federal and cantonal level, 20% of federal Covid-19 expenditure (federal level pays about $\frac{3}{4}$ of total grants bill)

Fiscal policy (3)

Evaluation:

- Compensation for labour costs: **extremely effective**
 - Federal level, pre-existing policy instruments
- Loan scheme (spring 2020): **very effective**
 - Federal level, relatively cheap in fiscal terms
- Grant scheme (from autumn 2020): **slow/bureaucratic**
 - Slow coordination/haggling with cantons ⇒ uncertainty for firms in late 2020 ⇒ political pressure against mitigation measures
 - 26 different grant attribution schemes

Conclusions

Federalism is a cornerstone of Swiss economic success and political stability.

But in the pandemic – especially in the acute phase of the 2nd wave in autumn 2020 –, the need for intergovernmental consultation and haggling between government layers has slowed down decision making, at the cost of many lives.

Thank you.