

## Chapter 10

### Intergovernmental co-ordination of fiscal policy in Switzerland

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*This chapter describes fiscal co-operation institutions in Switzerland, which go beyond traditional vertical top-down co-ordination. Switzerland is an example of intergovernmental co-ordination of fiscal policy in a highly decentralised country. The country is characterised by a highly fragmented structure of sub-national entities. The cantons (state level) have significant policy, organisational and financial autonomy. Due to the fragmented structure and considerable autonomy, vertical co-operation between the federal and cantonal levels as well as between the cantonal and municipal levels is indispensable. This co-operation is based on the following elements: independent financing of cantonal tasks, fiscal equalisation between financially strong and weak cantons, as well as fiscal assistance between the federal and cantonal levels. In this respect, the role of vertical co-ordination of stabilisation policy and particularly of debt policy is limited. Horizontal co-operation is based mainly on inter-cantonal agreements and conferences.*

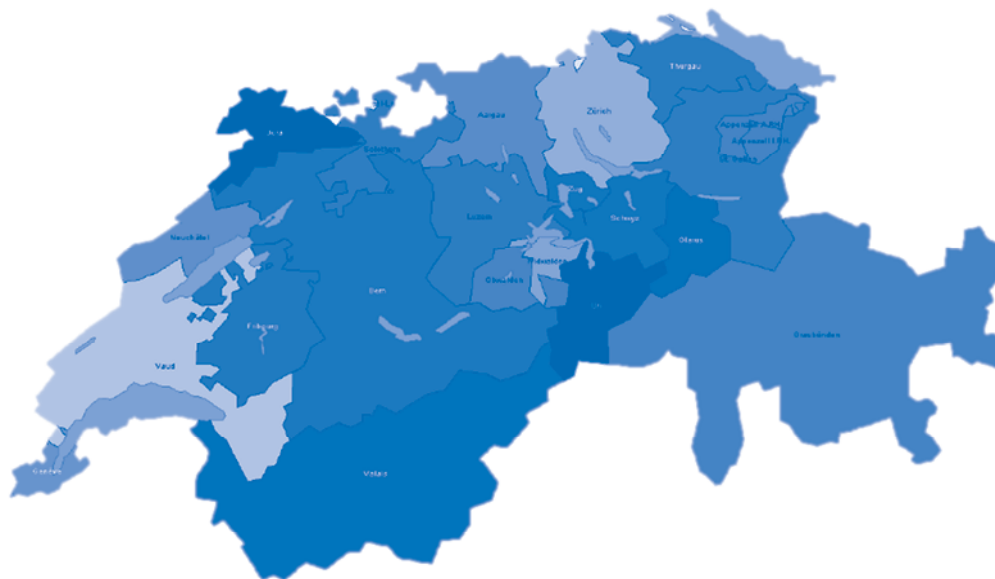
## Introduction

Switzerland is a small country with a fragmented territorial structure. The country is constitutionally a federation: the Confederation represents the central level of government, the 26 cantons represent the regional level and the 2 352 municipalities the local level of government. Since early on, diversity has been an issue for Switzerland as a nation state. Aspects such as language, religion and economic perspectives varied significantly in the different parts of the country. Generally, socio-economic and cultural boundaries – or functional areas – have not coincided with the territorial structure of the cantons. Simple ratios for some basic indicators provide a first impression:

- The area of the canton of Graubünden is 192 times larger than the smallest canton of Basel Stadt.
- The population of the canton of Zurich with 1.41 million inhabitants is nearly 90 times higher than the population of Appenzell Innerrhoden with only 15 771 inhabitants.
- GDP per capita in the canton of Basel Stadt is around 3.2 times higher than in the canton of Uri.
- The tax burden on a household income of CHF 100 000 for a married couple with two children is 5.8 times higher in the canton of Neuchâtel than it is in the canton of Zug.

The disparities between the cantons in taxable resources can be illustrated by their resource potential. This reflects taxable value creation in the cantons and consists of the taxable income and assets of natural persons and the taxable profits of legal entities. Figure 10.1. shows the resulting resource index, which is based on the cantonal resource potential per capita compared to the corresponding Swiss average.

**Figure 10.1. Resource potential of cantons**  
Resource index, 2014



Source: Federal Finance Administration (2015a).

There is a long history of differences and disparities between cantons with regard to taxation and public service provision, and they are generally accepted up to a certain extent. The fragmented structure is considered to provide beneficial effects. The classical arguments are well known from the economic literature on fiscal federalism (with classic authors like Musgrave (1959), Tiebout (1956) and Oates (1972)) and apply in many ways to the realities in Switzerland: federal systems of government respect the heterogeneous preferences of the various regional constituencies for a better link between taxation and public service provision; federal systems may allow for greater accountability for government activity at the respective levels of government; and federalism serves as a laboratory for public policy innovation. Swiss fiscal federalism exhibits idiosyncratic institutional features:

- Direct democracy plays an important role at each level of government. Referenda and popular initiatives are possible on legislative matters as well as – in the cantons – on budgetary issues (financial referenda). Typically, direct democratic involvement increases at lower levels of government.
- Fiscal equalisation (equalization of fiscal resources and expenditure needs) provides a basic level of intergovernmental equity. Fiscal disparities occur at each level of government. Therefore, equalisation schemes are in place at the federal as well as at the cantonal level.
- The hard budget constraints at the sub-national level of government play an important role in Swiss fiscal policy. Non-bailout provisions and fiscal rules are crucial instruments in this respect.

Co-operation among the cantons and between the cantons and the Confederation is indispensable for overcoming problems of fragmentation and providing public services

effectively.<sup>1</sup> This paper aims at examining the different means of intergovernmental co-ordination of fiscal policy and their effects on the socio-economically diverse country of Switzerland. We will focus on the regional level of government and address issues of local governments only cursorily.

We will describe first the constitutional framework of Swiss fiscal federalism with its strong principle of autonomy of the cantons (Chapter 2). Second, we will examine the main elements of vertical co-operation, in particular financial solidarity, financing of administrative implementation, fiscal equalisation and the question of a bail-out in the event of cantonal insolvency (Chapter 3). The principles of horizontal co-operation are outlined in Chapter 4. Based on the strong cantonal autonomy, the Confederation and the cantons have independent legislation and instruments of debt policy which are discussed in Chapter 5. Chapter 6 follows with an overview of the co-ordination of stabilisation policy between the Confederation and the cantons. Finally, the last chapter provides conclusions.

## Swiss fiscal federalism and its constitutional framework

### *Principles of subsidiarity and of fiscal equivalence*

The principle of subsidiarity and the principle of fiscal equivalence were the guidelines for the re-assignment of responsibilities during an important federalism reform in 2008 (New system of fiscal equalisation and division of tasks, NFE).<sup>2</sup> Pursuant to the principle of subsidiarity, competences are vested at the cantonal level and can only be transferred to the Confederation when the lower level is no longer able to provide a service “efficiently” (Art. 5a Cst).<sup>3</sup> According to the principle of fiscal equivalence, beneficiaries, providers of funds and decision-makers of a public service should coincide in order to avoid externalities and therefore causing over- or under-provision of public services (Art. 43a Cst). These principles are stated in the constitution and also apply to future tasks and responsibilities. Even though intuitive and convincing in theory, they may still be difficult to implement in practice. The assignment of responsibilities is hardly ever possible from scratch but often dependent on an existing service provision. Therefore, a strict separation of responsibilities is often not possible. There may be also additional goals other than economic efficiency for public service provision, an example of which is equity. A survey on the principles of the NFE investigated the compliance of newly introduced tasks with the principles of subsidiarity and fiscal equivalence and with the organisational and financial autonomy of the cantons (Conseil fédéral, 2014b). Though the survey found that the principles were widely complied with, it also found a certain tendency towards centralisation.

### *Cantonal autonomy*

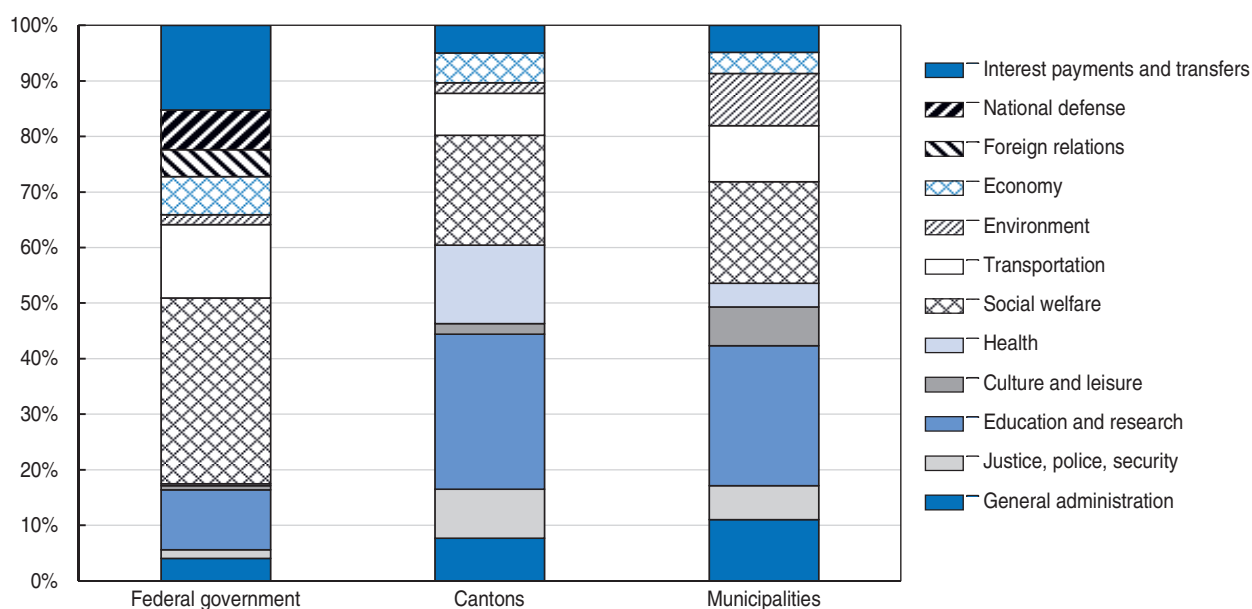
Swiss cantons enjoy far-reaching autonomy. The Constitution grants the cantons organisational autonomy, autonomy in the determination of their tasks as well as financial autonomy (Art. 47 para. 2 Cst).

Organisational autonomy means that the cantons have the freedom to determine their statutory framework, particularly the legal form, the political system and the administrative procedures of government bodies (Tschannen, 2011). Therefore, the cantons are free to determine the powers of government/administration, parliament and the judiciary. However, the principle of separation of powers is protected at the cantonal

level by the Federal Supreme Court (Decision of the Federal Supreme Court, 131 I 291, E. 2.1).

The autonomy to determine tasks obliges the Confederation to leave the cantons sufficient tasks of their own (Art. 47 para. 2 Cst). It grants the cantons the freedom to define, design and implement their tasks (Art. 43 Cst, Tschannen, 2011). The cantons are sovereign except to the extent that their sovereignty is limited by the Federal Constitution (subsidiary general competence, Art. 3 Cst). The competences of the Confederation are explicitly defined in the constitution (Art. 42 Cst). All tasks not assigned to the Confederation remain with the cantons (residual cantonal power). Only very few policy areas fall exclusively under the competences of the Confederation.<sup>4</sup> The Constitution also provides for shared competences between both the Confederation and the cantons. Figure 10.2 shows the structure of expenditure at the federal, cantonal and municipal levels.<sup>5</sup>

**Figure 10.2. Structure of expenditure, 2012**



Source: Federal Finance Administration (2015b).

As a result, the Swiss federal system entails manifold co-operation:

- Vertical co-operation between the cantons and the Confederation (e.g. social security)<sup>6</sup> as well as between the cantons and the municipalities (see Chapter 3);
- Horizontal co-operation among the cantons – and among the municipalities – without the involvement of the Confederation (e.g. universities,<sup>7</sup> see Chapter 4).

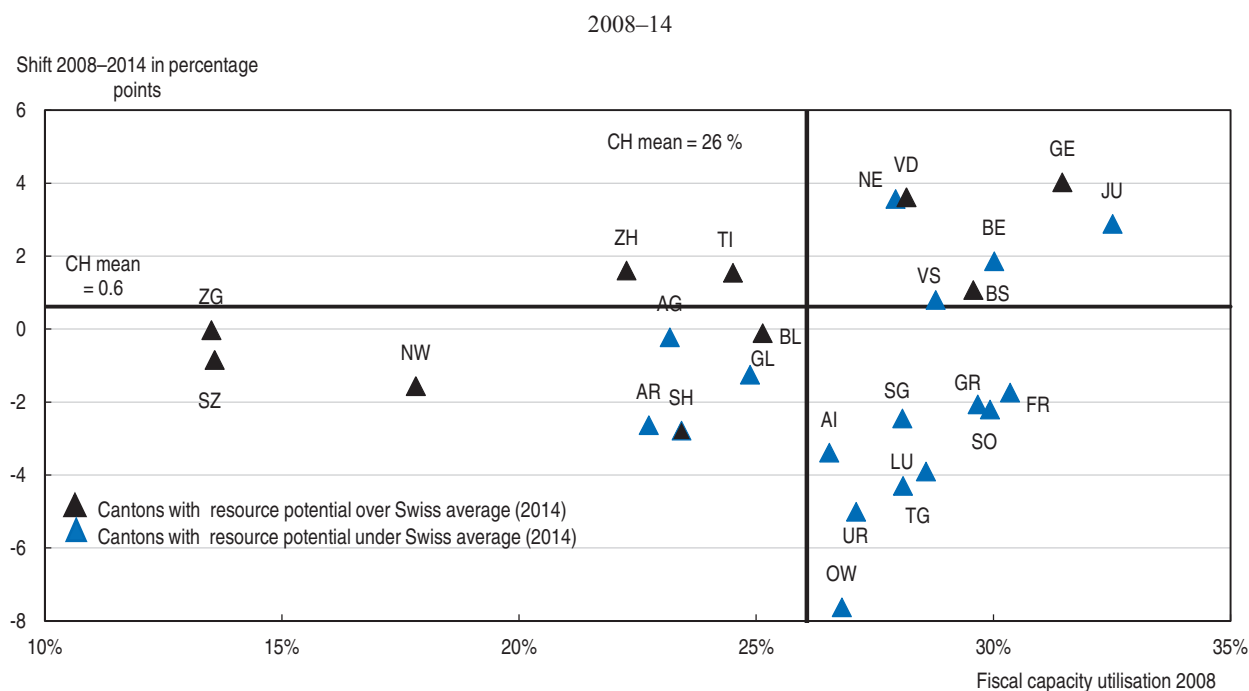
Autonomy to determine tasks must include financial autonomy. A government unit cannot fulfil its tasks without equivalent funds. The cantons may determine their revenue and their taxes provided they are not assigned to the Confederation (Art. 3 Cst). In principle, the cantons are completely autonomous to levy taxes insofar as the federal level is not competent.<sup>8</sup> The Confederation is only allowed to exploit a tax base that is explicitly defined in the constitution. In order to change the set-up, an amendment of the constitution with a mandatory popular referendum is required.

Indirect taxation is essentially a federal task. In particular, value added tax (Art. 130 Cst) is an important revenue source for the Confederation.<sup>9</sup> Value added tax, special consumption taxes, stamp duty or withholding tax cannot be levied by the cantons (Art. 134 Cst).

Direct taxation is a shared competence of the three levels of government (Art. 127 Cst.). The Confederation levies a direct federal tax on personal income and business profits. The cantons and municipalities can tax individual income and wealth as well as corporate profits and capital.

The cantons have a high degree of autonomy with regard to their direct taxes (see the international comparison of sub-central tax revenue in Blöchliger and Nettley (2015)). They are free to set their tax rates, deductions and the progression of the tax scale according to their preferences. Fiscal capacity utilisation<sup>10</sup> has grown only marginally since 2008 (Figure 10.3). However, it has risen in particular in cantons with an above-average fiscal capacity utilisation which has led to increased disparities (Conseil fédéral, 2014a).

**Figure 10.3. Shift in fiscal capacity utilisation**



Source: Conseil fédéral (2014a), p. 81.

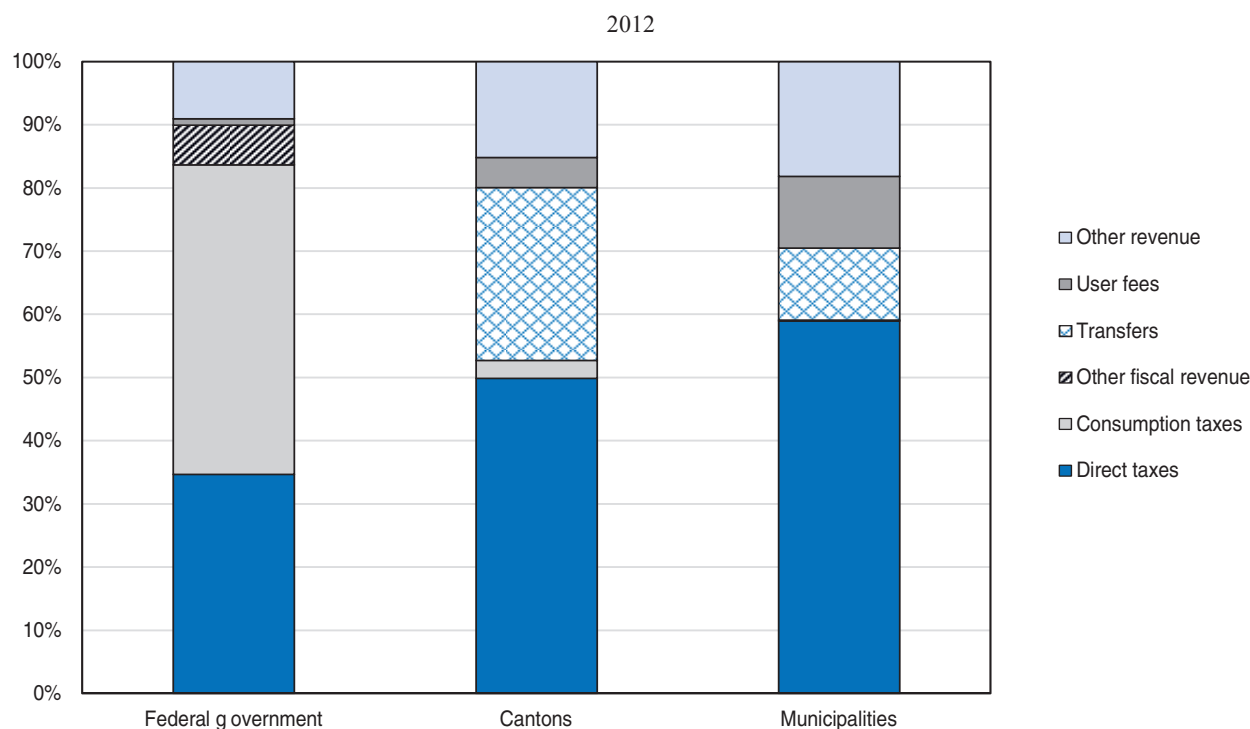
The autonomy and competences of the municipalities are guaranteed in accordance with cantonal law. They can generally levy a percent surtax on the cantonal tax. Direct taxation is mainly administered at the cantonal level.

Direct federal income tax is administered and collected by cantonal tax authorities. The revenue is transferred to the Confederation afterwards. The cantons keep 17% of the revenue from direct federal income tax on their territory. This amount can be regarded as

a revenue sharing scheme and is a form of compensation for the cantons in return for their tax administration efforts.

Since the different levels of government have significant leeway to use their fiscal autonomy with regard to direct taxation, large-scale revenue sharing schemes are not necessary in Switzerland. Each level of government is responsible for the financing of public services using their fiscal autonomy (see structure of revenue in Figure 10.4).<sup>11</sup> However, there may be equity concerns in such a system, as is the case in Switzerland too. This aspect is addressed in the equalisation system, described in the next section.

**Figure 10.4. Structure of revenue**



Source: Federal Finance Administration (2015b).

## Principles of vertical co-operation

### *Solidarity between the Confederation and the cantons*

Federal states have to find a balance between autonomy of sub-national entities on the one hand and joint responsibility on the other hand. In Switzerland, the far-reaching autonomy of the cantons is complemented by co-operation between the Confederation and the cantons. They have to support each other in the fulfilment of their tasks (Art. 44 para. 1 Cst).<sup>12</sup>

### *Administrative implementation*

The administrative implementation of federal law is the responsibility of the cantons to a large extent. Article 46 paragraph 1 of the Constitution states that “the cantons shall implement federal law in accordance with the Federal Constitution and federal legislation.” The federal level must avoid over-regulation and allow the cantons to adopt

different approaches in their implementation of federal law (Art. 46 para. 3 Cst). In principle, the cantons are not entitled to compensation for the administrative duties they are assigned by federal legislation. Nevertheless, there is usually a political debate about the financial impact of a new federal law on the cantonal budgets and the possibility of the Confederation granting compensation.

The NFE has institutionalised new approaches in the implementation of federal law; the Confederation and the cantons have the option of implementing programmes that receive financial support from the federal level (Art. 46 para. 2 Cst). Where possible, these programme agreements should replace input-oriented subsidies with output- or outcome-oriented transfers based on a service level agreement.

### ***Fiscal equalisation***

The cantons' dependence on specific grants and subsidies from the Confederation has always been an important issue in Switzerland. Since the Confederation and the cantons have several joint responsibilities, there has been a large variety of conditional and matching grants for the cantons in the past. Generally, these transfers were adjusted to the financial capacity of the cantons. Relatively poor cantons used to receive higher grants than rich ones. The NFE reform of 2008 has reduced the matching grants and increased unconditional equalisation grants.

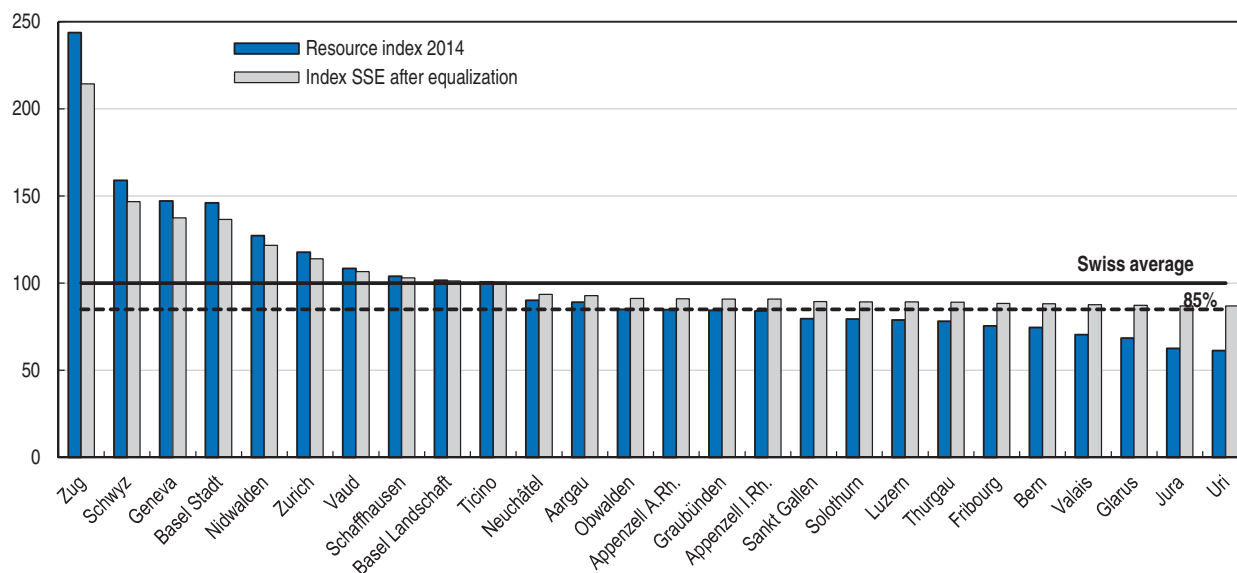
The new equalization scheme serves to reduce the differences in financial capacity among the cantons and to guarantee them a minimum level of financial resources (Art. 135 para. 2 Cst). The equalisation funds are provided by the Confederation and by those cantons with a higher level of resources (Art. 135 para. 3 Cst).

The equalisation system does not aim at a total fiscal equality but for convergence in terms of a comparable level of public services at comparable tax burdens (Art. 43a para. 4 Cst) and therefore takes into consideration cantonal autonomy (Wiederkehr, 2008). The aim is for all cantons to have a resource index of at least 85 index points (Art. 85 para. 3, FECCA,<sup>13</sup> Figure 10.5).



**Figure 10.5. Equalization effect in resource equalization**

Resource index before and after equalization, 2014

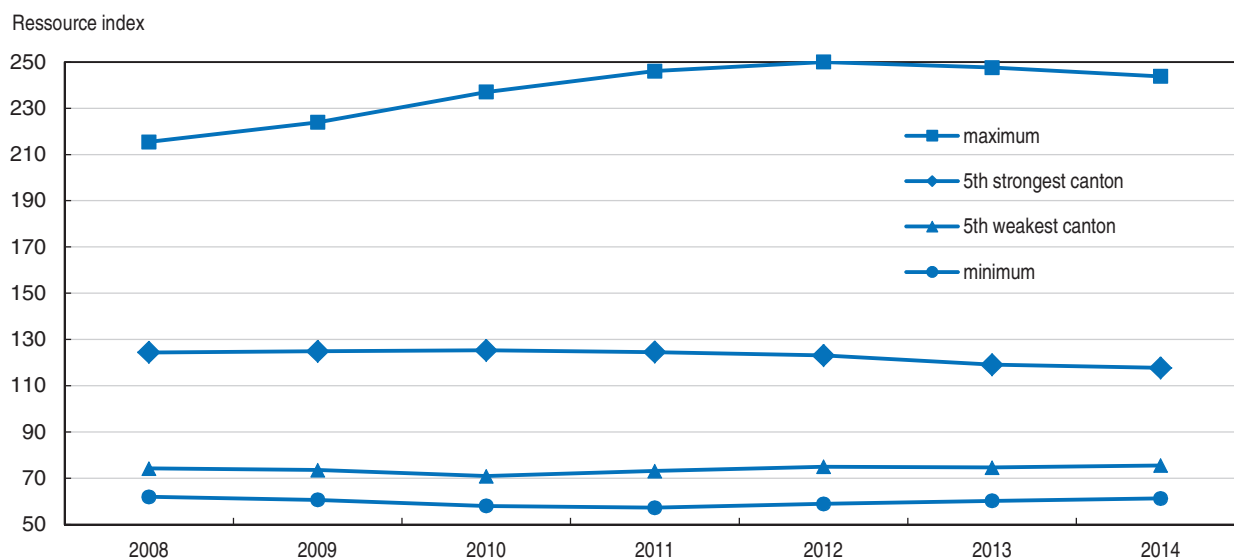


Source: Federal Finance Administration (2015a)

Figure 10.6. shows the highest (canton of Zug) and lowest resource indices (canton of Uri) over the 2008-14 period. While disparities increased up to 2012, they have been declining since then. In comparison, the range between the 20 and 80% quantile diminished. Disparities are essentially attributed to the dynamic development of the cantons of Zug, Schwyz and Basel Stadt in this period (Conseil fédéral, 2014a).

**Figure 10.6. Range of the resource index**

2008–14



Source: Conseil fédéral (2014a), p. 69.

### *Financial assistance beyond fiscal equalisation?*

Neither the Federal Constitution nor federal legislation contain specific provisions on insolvency or an insolvency code. The insolvency of a canton would be handled in accordance with the general Federal Act on Debt Enforcement and Bankruptcy.<sup>14</sup> In the event of cantonal insolvency, the question is whether the federal level would be obliged to bail out a canton even in the absence of provisions on the assumption of debt or the assumption of liability.

Neither legal doctrine nor the judicature has answered this question definitely. The legal doctrine does not derive a duty to provide assistance in case of a budget crisis from the partnership article (Art. 44 Cst; specifically the principle of loyalty to the Confederation [“Bundestreue”]) or from the duty of disclosure (Art. 52 para. 2 Cst; see Marti Locher [forthcoming]). Furthermore, the Federal Supreme Court has indicated in the case of an insolvency of a municipality (Leukerbad), that there are no statutory provisions in federal law on bailing out cantons for the liabilities of municipalities insofar as they do not ensue from cantonal law.<sup>15</sup> This decision would appear to indicate that there would be no bailout of a canton by the federal level either (cf. Spielmann 2011, p. 126). This view is supported by the cantons' strong fiscal autonomy, particularly their taxation power.

### Principles of horizontal co-operation

A main component of horizontal fiscal co-operation is the fiscal equalisation scheme which is co-funded by the cantons with a high level of resources (see above). Furthermore, horizontal fiscal co-operation consists of inter-cantonal agreements and institutions which are not purely financial in nature. Due to the fragmentation of the Swiss cantons, co-operation is considered to be more intensive than in other federal states (Bochsler, 2009). Inter-cantonal agreements are possible through legal relations (treaties or legislation) or inter-cantonal institutions for the joint fulfilment of tasks of regional importance (see Art. 48 para. 1 Cst). There are about 760 inter-cantonal treaties – known as concordats – in force (2006; Bochsler 2009, 358). Inter-cantonal institutions comprise 16 conferences of cantonal directors (cantonal ministers) and the conference of the cantonal governments. These institutions represent important formal and informal settings for policy co-ordination. In particular, the Conference of the Cantonal Directors of Finance aims at co-ordinating the cantons' horizontal and vertical relations in fiscal and public finance matters.

However, competitive federalism (Weingast, 1995) still plays an important role, especially in the area of cantonal tax and fiscal policy (Feld, 2010; Kellermann, 2007). Policy co-ordination often requires rather high incentives or even enforcement (IMF, 2006). For this reason, the NFE reform introduced a new instrument for the further development of inter-cantonal co-operation: The Confederation may declare inter-cantonal agreements to be generally binding or require cantons to participate in such agreements in nine specific policy areas (Art. 48a para. 1 Cst).<sup>16</sup> These new instruments address concerns about fragmentation of the cantons and allow institutional congruence in fields of regional interest (Schnyder von Wartensee, 2013).

### No co-ordination of debt policy

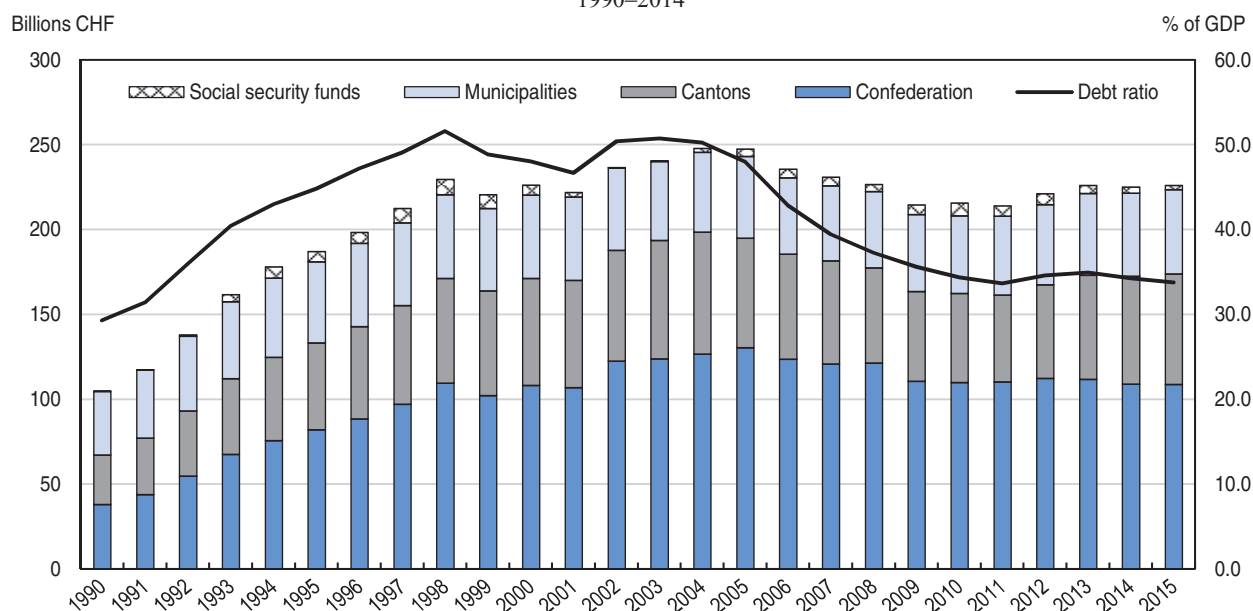
In federal states, fiscal sustainability is determined by joint debt levels (Blöchliger et al., 2013). Figure 10.7 shows the debt level of the Confederation, the cantons and

municipalities as well as social security funds for 1990–2014. The cantonal and, most notably, the federal level exhibited an increasing level of debt in the 1990s which continued until 2004. Descending, ascending or horizontal externalities can lead to higher interest rates, uncertainty of financial markets and higher costs of debt (Blöchliger et al., 2013). Furthermore, the possibility of a bailout may weaken the perception of hard budget constraints at the sub-national level (IMF, 2006).

In Switzerland, determining the cantonal debt level is a component of cantonal financial autonomy. As has been shown above, federal legislation provides no explicit legal basis for assistance in the event of a budget crisis. Cantons are reliant on the capital market for their financing activities (bond issues and bank credit). Therefore they are keen on achieving a high rating by credit institutions. Fiscal rules play an important role here in the perception of the cantonal fiscal policy concerning their financial standing.

The Confederation and most of the cantons have institutionalised fiscal rules, the majority of which were introduced as a result of growing debt since 1990.

**Figure 10.7. Gross debt ratio of general government**  
1990–2014



Source: Federal Finance Administration (2015c).

### ***Federal fiscal rule***

The federal level implemented a fiscal rule, called “debt brake”, in 2001. In the medium term (“over time”), the Confederation shall maintain its income and expenditure in balance (Art. 126 para. 1 Cst). Annual expenditure is limited to the expected income corrected by an adjustment factor (Art. 126 para. 2 Cst). This factor is derived from the output gap of the economy (see Geier 2011, for the method). If the limit is exceeded, it has to be accounted for in a compensation account (Art. 17 FBA). Exceptions to the rule can be justified by extraordinary financial requirements (Art. 126 para. 3 Cst). These are associated with a procedural increase in the majority requirements in the adoption of such exceptions and have to be compensated later on (see Art. 17a FBA).<sup>17</sup>

### *Cantonal fiscal rules*

Almost all Swiss cantons have institutionalised fiscal rules in their legislation. Due to far-reaching cantonal autonomy, these are self-imposed. In 1929, the Canton of St. Gallen became the first canton to introduce a fiscal rule, followed by the Canton of Fribourg in 1961. The rest of the cantons introduced rules in the 1990s or since 2000. The following analysis is based on the taxonomy of the cantonal debt brakes by Marti Locher (2015).

The types of numerical fiscal rules adopted vary across cantons. All cantons – except for the Canton of Appenzell Innerrhoden – have some form of *balanced budget rule* (annual, multi-annual or medium-term budget balance).<sup>18</sup> They are often combined with *expenditure rules*, *revenue rules* or *debt rules*. The complexity of the system of rules differs considerably across cantons. In many cases they are supplemented by procedural rules which restrain the competence of the parliament. There are no patterns in the design of these rules. Each canton has its own combination of rules.

Fiscal rules should be responsive to cyclical fluctuations (OECD, 2014). The Constitution obliges the cantons to take the economic situation in their revenue and expenditure policies into account (see Chapter 6). Seventeen cantons take the state of the economy into account, and the design of numerous cantonal rules takes into account cyclical developments. The majority of the balanced budget rules allows flexibility by way of the medium-term nature of the rules. Few involve the economic cycle by way of exceptional rules<sup>19</sup> or instruments for the accumulation of reserves (e.g. rainy day funds).<sup>20</sup> All cantonal rules are based on the fundamentals of primary law (cantonal constitution or legislation) and are of a permanent nature.

Cantonal procedural rules mostly concern majority requirements for exceptions to the numerical rules or changes in expenditure or revenue in the parliamentary budget process. The Canton of Fribourg has a strong procedural rule which grants the government and the finance and control committee a right to veto a reduction of revenues. In many cantons, the parliaments are restricted by referenda on budgets not complying with the numerical rules, changes in taxes or an increase of public debt. All cantons, except the Canton of Vaud, hold financial referenda (referenda on new expenditure above a certain threshold).<sup>21</sup> In three cantons, voting rights are restricted too. In these cantons, budget consolidation measures (Vaud and Geneva) or initiatives (Valais) are taken to address spending over-runs by corresponding tax increases or consolidation measures.

The enforcement of cantonal fiscal rules consists mainly of rules which stipulate that a deficit must be reduced. There are other combinations of rules, particularly an enforcement through revenue rules (mandatory tax increases). Each canton has an audit office which conducts independent audits but which does not, however, supervise the adequacy of decisions (Buser, 2011). Only two cantons – the cantons of Vaud and Geneva – have institutionalised courts of auditors.<sup>22</sup>

The effectiveness of cantonal fiscal rules has been the subject of several empirical analyses. The main contributions are Feld et al. (2013), Luechinger and Schaltegger (2013), Yerly (2013), Feld and Kirchgässner (2008), Krogstrup and Wälti (2008), Kirchgässner (2004), Schaltegger (2003) and Feld and Kirchgässner (2001). They deduce mostly a significant effect of fiscal rules either on debt, deficits, spending or risk premium.<sup>23</sup>

### *Long-term fiscal sustainability*

Social security costs account for an important share of government spending. Demographic developments crowd out other public expenditure. Current assessments of the long-term fiscal perspective for Switzerland estimate a debt ratio of 131% of GDP for the year 2060 as a result of demographic pressures on public households (see Federal Department of Finance, 2012; Federal Finance Administration, 2008). The cantons have, however, limited responsibility for social security costs: since the reform of the fiscal equalisation system and the redistribution of tasks, the cantons no longer contribute to the old-age and disability pension funds.<sup>24</sup> However, they have to bear part of the health care cost in the form of subsidies for health-care insurance and hospital financing.

### **Coordination of stabilisation policy**

Macroeconomic stabilisation and redistribution should in general be the tasks of the national level (IMF, 2006). Additional sub-central stabilisation policy depends on the country's institutional arrangements and the degree of autonomy of sub-central governments (Blöchliger et al., 2010).

The competence to take measures to achieve a balanced economic development is assigned to the federal level (Art. 100 para. 1 Cst; federal competence with retroactive exceptions). The cantons are involved in such active measures because of the duty of the Confederation to co-operate with the cantons (Art. 100 para. 2 Cst). In addition, all levels of government are committed to taking the economic situation into account in their revenue and expenditure policies (Art. 100 para. 4 Cst).

The fiscal rule at the federal level takes economic fluctuations into account. The calculation of the maximum amount for the expenditure ceiling takes capacity utilization – or the output gap – into account. Yet the federal level imposes no fiscal rule on the cantons and does not sanction them if they breach their own rules (Biaggini, 2007). It leaves the cantons the freedom to respond to economic fluctuations using discretionary measures or to rely on automatic stabilisers. The legal doctrine has not yet answered the question of whether cantons are forbidden to act pro-cyclically with the sole aim of balancing the budget.

Not all cantons meet the obligation of Article 100 paragraph 4 of the Federal Constitution explicitly. Some include a principle in the cantonal constitution or legislation; some provide for a specific regulation on their fiscal rules or exceptions to the rules; some fiscal rules set a medium-term target which produces a similar effect (see Chapter 5). Up to now, the cantons largely abstained from inter-cantonal co-ordination in the field of stabilisation measures (Conseil fédéral, 2009). There is no formal institutional setting for the vertical co-ordination of stabilisation policy between the Confederation and the cantons.

Stabilisation measures are estimated at a total of CHF 8.27 billion for the year 2009 and 7.06 billion for the year 2010 (Conseil fédéral, 2009). They consisted of impulses by the federal (CHF 1.88 and 1.43 billion) and by the cantonal/municipal level (CHF 3.59 and 2.73 billion) as well as by a contribution of the unemployment insurance of CHF 2.80 and 2.90 billion. As such cantons and municipalities bore about 40% of overall stabilisation measures (Conseil fédéral, 2009).

Empirical analyses are not coherent in the assessment of the cyclical orientation of Swiss fiscal policy (Frey, 2007; Lampart, 2005; Schaltegger and Weder, 2010; Ammann, 2002; Frick, 2012). Most authors find a rather pro-cyclical fiscal stance.

## Conclusions

Intergovernmental co-ordination of fiscal policy in Switzerland is characterised by the far-reaching autonomy of the cantons. This autonomy gives the cantons extensive policy discretion for the determination of their tasks and fiscal policy. Formal co-ordination is mainly limited to financial compensation within the scope of fiscal equalisation. Cantonal budget procedures underlie no specific co-ordination. Macroeconomic stabilisation policy mainly relies on the automatic stabilisers and is therefore subject of limited co-ordination. Debt policy is the responsibility of each jurisdiction. The lack of an explicit no-bailout clause in existing legislation creates uncertainty about the insolvency of cantons, which might lead to a debt bias.

Fiscal policy co-ordination between the Confederation and the cantons is necessary in several areas of public service provision. There are a number of vertical and horizontal formal or informal co-ordination mechanisms. The fiscal performance especially in terms of aggregate public debt is encouraging both at the federal as well as at the cantonal level. As such, there is no apparent need for additional fiscal institutions.

## Notes

1. Amalgamations and the redesign of boundaries may also be an instrument to address co-ordination issues particularly at the local level of government. We do not, however, elaborate on cantonal mergers since they are largely irrelevant for political reasons.
2. Dispatch of 14 November 2001 on the reform of fiscal equalisation and the division of tasks between the Confederation and the cantons (Federal Gazette, 2002).
3. Federal Constitution of the Swiss Confederation of 18 April 1999 (RS 101).
4. For example, foreign relations (with some reservations concerning the cantons in Art. 54 and 55 Cst), armed forces (Art. 58 Cst) and monetary policy (Art. 99 Cst).
5. The total amount of spending (CHF 190.1 billion) is composed of 61.7 billion at the federal, 83.2 billion at the cantonal and 45.1 billion at the municipal level.
6. While public old-age and disability pension schemes are organised at the federal level, social aid for the poor is exclusively financed at the local level.
7. Universities are generally cantonal institutions with inter-cantonal funding schemes.
8. This is limited by fundamental rights (Art. 7 ff. Cst), federal law (Art. 49 Cst), inter-cantonal law and prohibition of inter-cantonal double taxation (Art. 48 para. 1 Cst and Art. 127 para. 3 Cst respectively), international law (Art. 54 para. 1 Cst) and tax harmonisation (Art. 129 Cst).
9. For instance, motor vehicles are taxed at the cantonal level.

10. Fiscal capacity utilisation is the total fiscal revenue relative to the total taxable value creation.
11. The total amount of revenues (CHF 187 billion) is composed of the federal (64.8 billion), cantonal (79.1 billion) and the municipal revenues (43.1 billion).
12. The Confederation in particular coordinates the financial planning (19 para. 3, FBA) and works towards achieving harmonised accounting standards at the Confederation, cantonal and municipal level (Art. 48 para. 4, FBA).
13. Federal Act of 3 October 2003 on Fiscal Equalisation and Cost Compensation (RS 613.2).
14. Federal Act of 11 April 1889 on Debt Enforcement and Bankruptcy (RS 281.1).
15. Decisions of the Federal Supreme Court 2C.4/2000, 2C.5/1999, 2C.4/1999 and 2C.1/2001 of 3 July 2003 in the case of the “Munizipalgemeinde Leukerbad”.
16. These fields are: execution of criminal penalties and measures; school education; cantonal institutions of higher education; cultural institutions of supra-regional importance; waste management; waste water treatment; urban transport; advanced medical science and specialist clinics; institutions for the rehabilitation and care of invalids (Art. 48a para. 1 lit. a-i Cst.).
17. Federal Act of 7 October 2005 on the Federal Financial Budget, RS 611.0.
18. 15 fiscal rules provide for an annual balance (see Marti Locher, 2015).
19. Cantons of Fribourg, St. Gallen, Aargau, Ticino, Valais.
20. Cantons of Bern, Basel Landschaft, St. Gallen, Grisons, Aargau, Ticino, Geneva.
21. In the canton of Vaud, however, legal acts with new expenditure are submitted to the general referendum.
22. There are no fiscal councils in Switzerland.
23. See Kirchgässner (2013).
24. Old-Age and Survivors' Insurance and Disability Insurance.

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