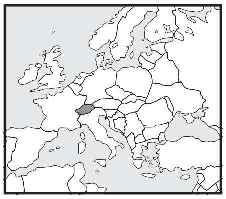
SWITZERLAND

At the crossroads



The country has reached a defining moment. On the one hand, the solidarity-based minimum retirement benefit and equal access for all to a high-quality healthcare system are firmly anchored in the public consciousness. On the other, these social rights are being gradually undermined. The fact is that tax cuts are making it increasingly difficult to achieve social improvements and inequality has grown. Furthermore, social inequality will grow steadily worse. The year 2004 will bring landmark discussions and decisions in social policy.

Swiss Coalition of Development Organisations
Swiss Coalition of Social Organisations

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Economic context

Between 1992 and 2002, gross domestic product (GDP) rose by a mere 11.3%. This places the country in the company of Japan, Germany and Italy, which also recorded growth far below 20% for this period. Yet Switzerland falls clearly behind countries like the United Kingdom, USA, Finland, Sweden or the Netherlands, whose cumulative growth rates reached 30%-40%.

There are several reasons for this weak growth. On the one hand, it is the outcome of national finance and currency policy mistakes. On the other, the markedly export-oriented economy has been penalised by the weak growth of its major trading partners. However, middle class political parties and trade and industry associations highlight different causes. They blame the weak growth primarily on the rising tax ratio and government spending ratio, on the concomitant loss of "attractiveness as an investment location", and on the loss of "economic dynamism".

Weak growth was associated with falling tax revenue and led to increased deficits in the financial budgets of the Confederation and cantons. Income accruing in the social insurance system also contracted. At the same time, Switzerland, like other countries, has increased its expenditure in social security, owing - among other reasons - to rising poverty, mounting joblessness and an ageing population.

Given the situation, the public debate on social security and the social duties of the State is dominated entirely by financial issues.

The discussion on social issues is intensified by political changes. The parliamentary elections in November 2003 gave rise to a polarisation of the political landscape. Winners at the polls were the parties on the Left, namely the Greens (GP) and Social Democrats (SP), as well as the far-Right Swiss People's Party (SVP). The middle-class Centre, comprised of the Free Democratic Party (FDP) and the Christian Democratic People's Party (CVP), suffered considerable electoral losses, shifting further to the Right. Lastly, for the first time in 44 years there was also a marked shift to the Right in the Government (Federal Council), which is composed of the four major political parties.

The two middle class parties, the CVP and FDP, as well as the business associations, are exploiting the weak economic growth in order to demand: a) tax cuts, b) reduction in government spending to offset these tax cuts, c) cutbacks in social insurance, d) even greater privatisation of social security. According to them, Switzerland is undergoing a serious crisis and only these (classical neoliberal) measures would lead to substantial growth - and only then would it become possible to level out social inequalities. They are not merely accepting the worsening of the social inequalities that have become more pronounced over the past 10 years; rather, they see this as an incentive for greater "personal responsibility" and improved competitiveness.

The year 2004 will therefore bring landmark discussions and decisions in the field of social policy. As is usual in Switzerland, its citizens will have the opportunity to participate in a number of decisions through referendums and plebiscites. Within a few months, the people will be able to vote on tax legislation, a revision of retirement pension conditions (inter alia, increasing the retirement age for women from 64 to 65, and eliminating any social cushioning for early retirement for lower incomes), a revision of the compulsory health insurance system, as well as the introduction of maternity insurance, on which Parliament has at last taken a decision.

Tax haven

Globalisation is often used to explain the way domestic tax reforms are organised. Yet studies show that it is difficult to distinguish between autonomous and induced tax cuts. Tax competition among the 26 cantons is already leading to a mechanism that keeps taxes low. At the international level therefore, Switzerland can be described as a "first mover" which is exerting some pressure on the tax systems of other countries.

Compared to the European Union, direct taxes on income from wages and investment income as well as company taxes are very low. In recent years, cantonal inheritance taxes and taxes on assets were largely eliminated or sharply reduced. As a result of tax competition, there are individual cantons where even very high incomes are subject to falling tax rates. In reorganising the financial equalisation amongst the cantons, tax competition was left untouched and there was no attempt at tax harmonisation. Wealthy foreign nationals can negotiate an individual tax arrangement with the cantons, which will entail minimal tax rates and bear no relation to their economic capacity. Switzerland staunchly opposes the elimination of banking secrecy, which has made its financial and banking system one of the world's largest managers of private assets and has encouraged international tax evasion. There is even a parliamentary initiative that envisages enshrining banking secrecy in the Constitution.

The fact is that even now mobile incomes are already subject to negligible taxes. A study on "Globalisation and the causes of redistribution in Switzerland" shows that the relative tax burden on the lower income groups increased in the 1990s, while it fell for the upper income groups thanks to tax competition and legal possibilities for tax deductions.[1] The social inequality of incomes after deduction of all "compulsory contributions", such as taxes and social insurance contributions, has increased markedly. The factors that account for this include rising health insurance premiums which are collected on a per capita basis. Because rents primarily for smaller and family apartments have increased, the disposable income of the lower income brackets has fallen sharply, while that of the upper brackets has risen considerably. This has also exacerbated social inequality with respect to the possibility of having private pension schemes and bearing private education and health costs.

Regardless of this and despite massive deficits and cost-cutting measures in public budgets, Parliament approved a major tax relief package in 2003 affecting USD 1.6 billion, almost 4% of federal revenues. Tax relief for homeowners is the main subject of controversy. Relief measures primarily favour higher income groups. If the public accepts the proposal, social inequality will only get worse.

1 Müller, A et al. *Globalisierung und die Ursachen der Umverteilung in der Schweiz* (Globalisation and the causes of redistribution in Switzerland). Report for the State Secretariat for Economic Affairs (SECO), No. 12, 2002.

The tax cuts are further searing the State budget and making it difficult to effect social improvements. This applies to supplementary benefits, which are crucial to pension schemes above all, as they top up low pensions to a subsistence minimum. But difficulties also lie ahead for supplementary benefits for children or low-income families, as well as tax credits or at least a tax-free minimum wage for the "working poor". Furthermore, tax cuts are competing directly with further improvements of the premium reduction system for compulsory health insurance, aimed at offsetting the heavy burden resulting from per capita premiums for those with modest economic means.

In Switzerland, the tax system and the social transfer system are anything but transparent. This complicates the task of looking into tax justice and the incidence and effectiveness of social transfers. The debate about tax reforms is pervaded by efficiency and growth considerations. Yet that alone is not enough to answer the question "How should we tax ourselves?". If there is a political will, there is scope for redistribution, for binding national and international agreements to regulate tax competition. With substantial public participation, it is possible to draw up a new "social contract on burden sharing and social justice". Otherwise, social inequality regarding income and property will grow steadily worse.

Reform of the social insurance system

Social policy has invariably been and continues to be a "course of life" policy. One can gear the existing social security and public services toward three life phases. During childhood and adolescence, free access to schools, vocational training and universities ensure a certain equality of opportunity. During the adult phase of professional activity and family rearing, compulsory social insurances should cover risk situations such as illness, accidents and unemployment. And in old age every citizen should have a pension on which to live. Poverty should remain a marginal phenomenon that is taken care of through public assistance and integration efforts. Admittedly, doubts are now being raised about this social regime as a result of changing life patterns and social structures.

What is needed today is not the further development of social insurances (except in areas with clear shortcomings such as of maternity insurance) but a problem-specific reform. Reference is often made in this context to the pressures of globalisation. Globalisation, it is said, is leading inevitably to the end of the all-embracing welfare state of the post-war era. Together with the pluralisation and individualisation of life patterns and life situations, voices from the private sector and groups on the political Right are calling for a reduction in the basic social security financed by the State and for the expansion of private insurances. The reverse relationship between globalisation and social security is being overlooked, however. A well-developed welfare state would be tantamount to reinsurance for an open economy, which would create new risk situations, under the pressure to boost economic productivity.

Compared to other European countries, Switzerland displays a high degree of private responsibility for health insurance or retirement pension arrangements. Keywords are, for example, the per capita premium system in healthcare insurance, or the supplementing of the pay-as-you-go (State) pension system (Old-Age and Survivors Insurance) by means of a compulsory occupational (private) funded system. This means that the scope for greater privatisation, still being intensely debated in other European countries, is already largely exhausted.

Switzerland has now reached a defining moment. On the one hand, the solidarity-based minimum retirement benefit and equal access for all to a high-quality healthcare system are firmly anchored in the public consciousness. On the other, these social rights are being gradually undermined. As to the pension scheme, there is controversy over the scope of the benefits under the solidarity-based retirement pension. In the health sector, there is a move toward greater privatisation of healthcare insurance and a reduction of basic benefits under the compulsory health insurance system. Competition between medical service providers and health insurance companies should be fortified, and private providers put on an equal footing with public ones. In education too, private providers should be given equal status and education costs privatised.

Should the pressure for privatisation continue, Switzerland could well become an American-style "welfare state". Given the prevailing political climate, a sudden move toward a basic system of social security with only minimal guaranteed state support supplemented by a more extensive system of private insurances would seem possible. If on the other hand the plebiscites and referendums expected in 2004 can be used as an occasion for an intense public debate on the adaptation of the social insurances to more flexible life patterns and more individualised professional profiles, to changed demographic circumstances and more open economic structures, then workable solutions could be found, at the same time renewing and strengthening the values of solidarity.

Obstacles to human security

There is much domestic political discussion in the European countries about the threat to the welfare state from globalisation. Yet the picture will only be complete when the reverse action is also considered: the welfare state is striving toward and shaping globalisation. Social policy is closely bound with foreign and trade policy.

The "compulsion" toward quantitative economic growth is promoting European and worldwide economic integration and division of labour. A funded pension scheme is dependent on investment opportunities abroad. And in the choice of its national tax system, Switzerland is not merely reacting to pressure from the increased mobility of capital and goods, but is at the forefront of tax competition and liberalisation of international financial services. For the majority of Europe's citizens, the implications of the WTO, GATS, IMF, World Bank and the Environment and Social Summits of Rio and Copenhagen are still perceived as abstract and distant. Yet in adapting the social security network to the challenges of the 21st century, the close connection and shared destiny become all too obvious. No discussion of the future of social security can overlook the shaping of international relations and institutions.

Decisive years lie ahead for Switzerland. The crisis of the welfare state is being exaggerated by the political Right and circles close to the private sector so as to raise the pressure for the privatisation of social security and to secure further tax cuts. This will further compound social inequalities. After all, the economic situation is still good enough to obviate the need for any hasty corrective measures and instead allow for a well thought out, problem-specific reform.

To that end, at least two challenges must be met. First, any such reform will only succeed with the genuine involvement of a very wide public. A globalised world and an open economy have brought greater economic and social complexity. Achieving transparency regarding the most important interrelationships and presenting a subtly differentiated portrayal of interlinkages as the basis for a wide-ranging public debate will call for an extensive task of applied research and conveyance of information. The anti-globalisation movement has already worked hard to address its own economic competence. It would now be a good thing for such competence to be extended to the public at large.

Second, it is not enough to increase the pressure on Parliament and Government. A new kind of social contract can only be envisaged as an outgrowth of and in coherence with a series of reforms. This can only be driven by an emerging new social consensus. The opportunity for direct democracy as it is known in Switzerland lies in extensive public debate and support. The facts often portray a different picture: referendums and plebiscites are being used for obstructionist purposes and as strategic and tactical tools purely for the pursuit of self-interest. ■