

avenir analysis

The Road to Strong Federal Finances

Raise taxes, cut expenses or ease on the debt brake?

Faced with the threat of multi-billion deficits, the Confederation is planning major measures to limit the shortfall. Some circles refuse to listen. They would prefer to circumvent the debt brake or raise taxes. According to the new analysis by Avenir Suisse, both ideas are bad. The author recommends tackling the structural problems linked to expenses instead.

Federal finances are under pressure: expenses are rising faster than revenues, and billions of francs are at stake. The Federal Council therefore intends to cut expenses by at least 3.5 billion Swiss francs a year. Overall, the government has identified 60 measures, covering almost all sectors. But in Berne, there is growing criticism: would it not be better to suspend the debt brake or raise taxes?

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According to the author of the new analysis by Avenir Suisse, the answer is “no.” The study shows that, despite the debt brake, expenses have risen steadily over the past twenty years, by around 2 percent a year in real terms. Inflation-adjusted, the Confederation now spends an additional 1,500 Swiss francs per year and per inhabitant, a fifth more than in 2003. Growth has been particularly strong in the social sector.

A growing tax burden

These additional expenses have only been possible because tax revenues have risen sharply in recent years. The tax burden on households has for instance risen faster than wages. Between 2010 and 2020, real wages in Switzerland rose by a total average of 8.4 percent, while the tax burden of individuals increased by 16.1 percent over the same period, almost twice as much.

Furthermore, income tax revenues have risen significantly. This is mainly due to the attractive tax policies of certain cantons, which have created a favorable economic environment. Due to the implementation of the OECD tax reform, some large companies will have to pay additional taxes in the coming years. For the years from 2026 onwards, the Confederation is budgeting 1.6 billion Swiss francs in additional revenue due to the supplementary tax.

Confederation to adjust expenses

Michele Salvi, the author of the study, concludes that “tax increases, even temporary ones, are difficult to justify considering the already growing tax burden.” Easing on the debt brake would be equally inappropriate. Indeed, as highlighted in the study, without this instrument, the federal debt would be significantly higher today. The same applies to interest payments: it is estimated that the Confederation would have to pay out an additional 4 billion Swiss francs a year for its loans. The author adds that “with this sum, we could build two Gotthard tunnels or buy 24 new F35 fighter jets”.

The conclusion is therefore clear: structural reforms are needed to curb the growth of expenses in the public sector in general. This would require, for example, further unraveling tasks between the Confederation and the cantons, beyond what is currently envisaged by the Federal Council. In addition, social insurance needs to be the subject of sustainable reforms as soon as possible.

avenir analysis: “The Road to Strong Federal Finances,” Michele Salvi in collaboration with Jan Marty, 13 pages, available online from 16.10.2024, from 5:00 am, at [avenir-suisse.ch](https://www.avenir-suisse.ch)

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