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The Facts of the Matter Distilled

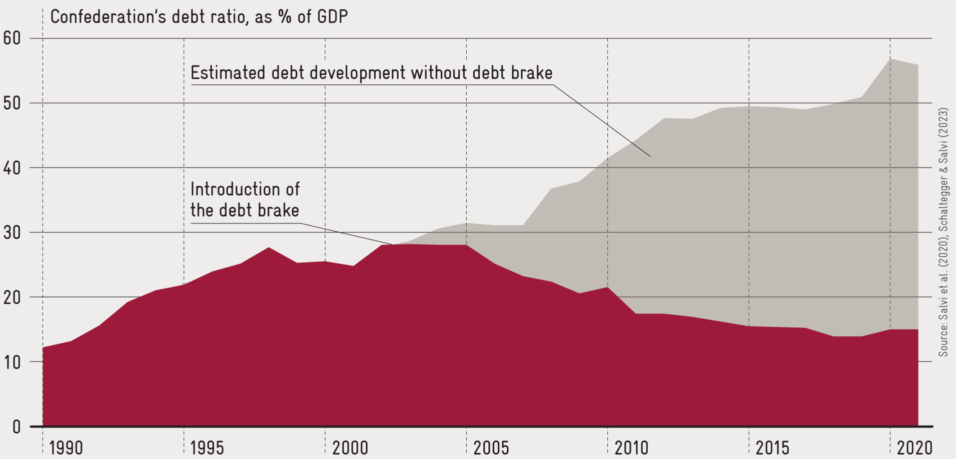
The Debt Brake: A Success Story

The Confederation's debt brake has stabilized its debt and strengthened budgetary discipline. Meanwhile, expenditure has continued to rise in the face of increasing revenues.

Situation

In the 1990s, federal finances plunged into a crisis, marked by multi-billion deficits and spiraling debt. Due to this situation, 85% of the Swiss people voted in favor of the introduction of the debt brake in 2001. Since 2003, this fiscal rule has limited federal spending to cyclically-adjusted revenues. It allows for debt accumulation in times of crisis but requires consistent reduction in economically strong years. Therefore, this tool limits the growth of public spending and reduces the incentive to take on debt.

Clear reduction in the debt ratio



A counterfactual analysis shows that without the debt brake, the Confederation's debt level would be several times higher today. This calculation is based on a comparison group of OECD countries.

Facts

4 bn CHF

The costs of higher debt levels are often underestimated. Without the debt brake, the Confederation would have to pay over 4 billion Swiss francs more in interest on its debt every year, which could finance the equivalent of two Gotthard car tunnels or 24 F-35 fighter jets every year.

* Calculation based on Salvi et al. (2021). Assumption for the hypothetical interest expenditure is an average interest rate of 1.5% with CHF 400 billion in debt.

■ **Increased spending:** Despite stable debt levels, federal spending has risen. Today, the Confederation spends 9,100 Swiss francs per capita per year, some 20% more in real terms than in 2003. This is because tax revenues grew faster than the economy.

■ **Stable investments:** The debt brake did not affect the Confederation's investments. The investment rate has remained stable over the long term, and projects important to customers, such as the development of transport infrastructure, have even been stepped up.

■ **Crisis resilience:** The pandemic put the debt brake to the test, but it proved its worth. Extensive crisis measures were financed by drawing on the extraordinary budget.

■ **Implicit debts:** Increasingly large financing gaps are appearing outside federal finances, for example in the pension system. This is a major risk for the Confederation, as the financing of social insurance is only partially covered by the debt brake.

Recommendations

Debt is neither good nor bad. However, its use should always be subject to the condition that the costs remain **bearable for future generations.** The real danger of loosening the debt brake does not lie in moderately higher debt levels, but in the insidious **extension of the government's footprint.** Today, the Confederation **spends a fifth more** per capita in real terms than it did when the debt brake was introduced, and the **tax burden has continually increased.** Loosening the debt brake is therefore not advisable. Instead, the concept **should be extended to social insurance,** so that it can be financed on a long-term basis in the future.

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