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## Introduction

The Swiss welfare state is difficult to classify in any of the most widespread typologies. Switzerland is a continental European mostly German speaking country, yet its welfare state is much leaner than those found in the surrounding nations. Its labour market is not strictly regulated, nor by legislation neither by collectively bargained sectoral agreements. At first sight, its welfare and labour market institutions are much more reminiscent of the Anglo-Saxon welfare regime. Is Switzerland a bastion of liberalism in conservative continental Europe? This view has been upheld by Esping-Andersen's analysis, which assigned Switzerland to the liberal family of welfare states (Esping-Andersen 1990: 74).

A closer look reveals nevertheless some important differences between the Swiss welfare state and the liberal model. The Swiss welfare state, though underdeveloped by European standards, provides well above the subsistence minimum for many categories of workers. For example, unemployment insurance replaces up to 80 percent of insured earnings. In addition, thanks to compulsory affiliation to a private occupational pension, most employees are guaranteed a pension package that replaces at least 60 percent of their earnings. And finally, health insurance, provided privately, is nonetheless compulsory for all residents, and subsidised for low income people. The Swiss welfare state uses private provision to further the conservative aims of status maintenance and protection of the breadwinners' earnings.

The conservative character of the Swiss welfare state and welfare regime becomes clearer if the analysis focuses on the more culture-related aspect of social policy. It is particularly evident in the areas of family policy, and the attitude towards immigrants. Family policies are underdeveloped, and have not taken into account the double role of workers and mothers played by women in today's society. For instance, Switzerland does not have a national maternity insurance scheme, there is little subsidised child care provision, and Swiss mothers tend to work very short hours, if they work at all. With regard to immigration, policies to favour the integration of the foreign born resident population are underdeveloped. Immigration policy seems to view this population as "guest workers" a concept used in the official discourse in the 1960s and 1970s, which implied that the presence of immigrants would be temporary.

To a large extent, this perhaps incoherent welfare state has been shaped by the political institutions that govern the country. Switzerland has a highly fragmented system of government. Its federal structure guarantees large autonomy to the federated states, the Cantons, and even to the local level of the communes, in important areas like setting income tax rates or education. What is more, the Swiss political system contains various veto points, which non-governmental actors can use to prevent the adoption of unwanted policies and laws. Of these, the most important is the opportunity given to voters to call a referendum against any piece of legislation passed by parliament. Historically, federalism and referendums have delayed and sometimes even prevented the introduction of social programmes similar to those that exist in other continental European countries (Immergut 1992; Bonoli 1999; Obinger 1998).

In the early 2000s the Swiss welfare state and social model faces challenges that are perhaps not so different from those by other advanced economies: population ageing, labour market and family changes, and so forth. What is different, however, is the sort of instruments that

are in place. The Swiss liberal-conservative welfare state is in many respects unique, and it may generate its own unique response to these challenges (Bonoli and Mach 2000). For example, part-time work, which has expanded considerably over the last few years, seems to develop as the key strategy to reconcile work and family life. In the area of pensions, the use of private means (occupational pensions) to provide universal and generous pension coverage, may turn out to be a valid response to the demographic challenge. Liberal-conservative responses to current challenges, however, may not always be the best, and may lead the country to sub-optimal equilibria in the allocation of work, in the distribution of resources, or in the way people respond to the family-work predicament. In this respect, the Swiss welfare state needs to be adapted to the new, emerging, postindustrial social structures.

This report focuses on key policy changes that have taken place in the 1985-2000 period, and aspects that have been identified as problematic in recent public debates. Given the federal structure of the country, the national level is only one of three that are important both in relation to social policy-making and political debates in general. The coverage of the cantonal level is however rather problematic, considering the fact that there are 26 cantons. As a result, the main report will focus mostly on federal policies in all eight areas. In areas in which the cantons play an important role, the report will include information either on a selection of cantons, or, if secondary cross-cantonal data are available, on the general situation.

## **The Swiss welfare state: an overview**

The architecture of the Swiss welfare state follows the federal structure of the country. As a result, the federal government, the cantons and the communes share the responsibility for managing and financing social programmes. This section focuses mostly on the main federal programmes : old age pensions, unemployment compensation and health care. However, it is important to stress that beside these schemes, the Swiss welfare state is also made up of 26 different cantonal systems of social assistance, family benefits schemes, education systems, and social service systems. These are not reviewed systematically in the following sections, but reference is sometimes made to them when cantonal provision complements the relevant federal scheme. In some areas of social policy, most notably the services, the contribution of cantonal welfare can be substantial.

### ***The pension system***

The Swiss pension system is best described as a three-pillar system in which each pillar caters for a distinct level of provision<sup>1</sup>. The first pillar covers the basic needs of retirees. It is partly earnings-related and provides a means-tested pension supplement. The second pillar has the task of providing retirees with a standard of living close to the one they had while working and consists of a compulsory system of occupational pensions. Finally, the third pillar, consists of non-compulsory private provision which is encouraged through tax-concessions. This functional division between three levels of pension provision is upheld by the federal constitution, and it is widely regarded as an important constraint with regard to policy change in the area of pensions.

The first pillar, introduced in 1948, has been reformed several times in the postwar period. It provides universal coverage and is a fairly redistributive scheme, as there is no ceiling on

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<sup>1</sup> For a more detailed account of the Swiss pension system and of recent reforms, see Bonoli 2000.

contributions but the amount of the benefit can vary between a floor and a ceiling, the upper limit being twice as high as the lower one. Within these limits, the amount of the benefit is related to the contributions paid while in work. In a way the Swiss basic scheme is a compromise between the Bismarckian tradition of earnings-related contributory pensions and the Beveridgean flat-rate approach. Interestingly, in international comparisons the scheme is sometimes considered as a flat-rate pension scheme (Schmähl 1991: 48). As far as financing is concerned, the basic pension works on a pay-as-you-go basis. It has a fund which consists of roughly one-year outlays. It is financed through contributions (4.2% of salary each for employees and employers; up to 7.8% for self employed), and receives a subsidy equal to 19% of outlays<sup>2</sup>. The coverage is universal, so that those who are not working (like students) are required to pay flat rate contributions or, if providing informal care, are entitled to contribution credits. Unemployed people pay contributions calculated on their unemployment benefit, which is treated as a salary (the unemployment insurance fund contributing on their behalf 4.2% of the unemployment benefit). Like in Bismarckian systems, the AVS has a separate budget from the government. The social partners do take part in the management of the scheme by running some branch-related funds. The central fund however, is managed by the federal administration.

The second pillar of the Swiss pension system, occupational pensions, were first granted tax-concessions in 1916, and became compulsory in 1985, for all employees earning at least twice the amount of the minimum basic pension (24,000 CHF per annum, or about 40% of average earnings). In the early 2000s coverage is virtually universal among male employees but reaches only around 80% among women (OFAS 1995: 10). A full occupational pension is granted to employees with a contribution record of 37 years for women and 40 for men. When the affiliation to an occupational pensions became compulsory many employees were already covered by voluntary arrangements of this kind. Before the implementation of the new law, some 80 percent of all employees had already access to occupational pension coverage. For a quarter of them, however, the level of provision was lower than the compulsory minimum introduced by the 1985 law (Conseil Fédéral 2000: 6). The situation, however, was such that legislation needed to take into account the existence of occupational provision. As a result, it was decided to introduce a compulsory minimum level of provision which is calculated on the basis of notional contributions, leaving relatively wide room for manoeuvre to existing pension funds regarding how to deliver and finance that minimum level of provision. Many pension funds (especially in the public sector, or those sponsored by large employers) still offer better conditions than the legal minimum.

The third pillar of the pension system, private provision, consists of tax concessions for payments made to personal pension schemes. Employees who are already covered by an occupational pension can deduct from their taxable income contributions paid into a third pillar pension up to approx. 3,600 Euro per year. Tax-concession for people who are not covered by an occupational pension (self-employed) are more substantial. In 1994, some 1 million people had personal pensions, with a total capital stock of CHF 17 billion (OFAS 1995: 15). Personal pension, thus, play a relatively minor role in the Swiss pension system, where the main provider of income in old age are occupational pensions. The size of this industry, however, is expanding fast. Total premiums paid to life insurance schemes, which include payments to personal pensions, has increased from CHF 14 billion in 1990 to CHF 30 billion in 1997 (OFS 2000: 349). The trend is similar to that observed in other European

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<sup>2</sup> The Federal government provides a subsidy of 17 % of outlays, while the Cantons jointly provide an additional 2 %.

countries, and can be explained with reference to the perceived insecurity of collective pension arrangements.

### ***Provision for unemployed people***

Unemployment compensation is provided by two distinct tiers of provision: an unemployment insurance scheme, managed by the Federal government, and a social assistance system, run by individual cantons and administered by the communes. The Federal unemployment insurance scheme was introduced in the late 1970s. Before, the trade unions had developed a patchy system of unemployment insurance which received subsidies from the Federal government. Its coverage, however, remained low, with only 22 percent of employees covered in 1975 (Gilliand 1988). In 1976 the constitution was amended in order to allow federal authorities to legislate in the area of unemployment benefits. A compulsory scheme was adopted in 1977 by decree and the current unemployment insurance scheme was finally introduced in 1984. The scheme is financed by employment-related contributions and government subsidies. The contribution rate is 3 percent for earnings up to approximately 160 percent of average earnings, equally split between employer and employee<sup>3</sup>. The replacement rate is between 70 and 80 per cent of gross earnings with a benefit ceiling equal to about 150 per cent of average earnings.

The Swiss unemployment insurance scheme provides insurance benefits only. Thus, once the entitlement period is exhausted, unemployed people need to rely on social assistance. This situation concerns also the self-employed, who are not covered by the insurance scheme. Social assistance is provided by a locally administered system, which is regarded as highly stigmatising and has a strong social control dimension. It is financed by general taxation, with the participation of the three tiers of government: the Federal government (16 per cent), the cantons (35 per cent) and the communes (49 per cent). There are also cantonal variations in the way expenditure is shared between the canton and the communes (on social assistance, see below).

### ***The health care system***

Switzerland still constitutes an exception in Europe for not having a public health insurance scheme or a national health service. Having failed to introduce a general health insurance scheme of Bismarckian inspiration in 1899, the Federal government adopted a law in 1910 which established the basis of the current health care system. It was a rather minimalist arrangement in the sense that it provided only for subsidies to mutual health insurance funds which complied with given requirements. Affiliation was not compulsory and financing was made through individual premiums, unrelated to earnings. Since then several attempts have been made to introduce a Bismarckian contribution-financed health insurance scheme. So far, however, all of them have failed, including the latest attempt made through a referendum-initiative sponsored by the Social-Democratic party in 1994.

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<sup>3</sup> The 1995 reform introduced also a temporary 2 percent contribution, equally split between employer and employee, on earnings between 160 and 400 of average earnings. This additional contribution should be phased out by 2003 (Lagger 1999: 262).

The Swiss health insurance system, which was radically reformed in 1994, consists of a large number of health insurance funds (*Krankenkassen/ Caisses maladie*) providing coverage to their members. Since 1994 affiliation to a health insurance fund is compulsory. The law prescribes a minimum level of coverage in terms of reimbursed treatments and drugs (basic insurance) which must be offered by funds wishing to provide compulsory affiliation. Health insurance funds are financed by individual premiums paid by members, that are not related to their income, nor to their age or sex. All the members of a fund, within a canton pay the same amount as premium (though there are reductions for children). The law also prescribes that insurance funds cannot reject applications for membership, even from the so called “bad risks”. In addition, there is a mechanism of inter-fund compensation whose objective is to equalise the competitive position of mutual funds with different age and gender structures. It works through actuarially determined cash transfers from funds with a lower proportion of “bad risks” to funds with a higher one. Finally, an important measure introduced by the 1994 reform consisted in the targeting of subsidies on low income persons. Under the old legislation, the Federal government and Cantons subsidised mutual funds, not individual members. In the new law these subsidies are withdrawn and converted into individual means-tested health insurance vouchers.

The idea behind the 1994 reform, which introduced the system described here, was to introduce a “virtuous” form of competition among funds. Because of the restrictions as far as risk picking is concerned, health insurance funds wishing to offer a better deal must contain their administrative expenses or negotiate lower treatment prices with providers. So far, the measures introduced with the 1994 reform have failed to contain the rise in health expenditure and insurance premiums. Between 1996 and 2001, the average health insurance premium, calculated nationally, increased by 35 percent, thus considerably faster than prices or wages (BSV 2001).

A major problem seems to be the fact that plans to set up a competitive market have been undermined in a number of ways by a majority of mutual funds which were largely against the introduction of the new law. First, instead of increased competition there has been a massive wave of mergers of mutual funds over the last few years. Secondly, for effective competition to be set in place, it is essential for customers to have access to adequate information with regard to the options for choice. However, it seems that mutual funds have been rather reluctant to disseminate information with regard to new opportunities available to customers. Thirdly, the new law concerns only the basic compulsory insurance. Mutual funds can, against a premium supplement, offer additional coverage, which might include a single room in a hospital, dental care or alternative medicine. Additional provision of this sort is treated differently from basic compulsory insurance, allowing mutual funds scope for manoeuvre and scope to retain customers. For example, funds can still refuse affiliation for additional provision to those representing “bad risks”. Finally the new provision has to deal with the problem of “customer inertia”, whereby insured people might simply not be used to taking the initiative, and therefore reluctant to “shop around for the best deal”. The government has acknowledged that the new legislation is not producing the expected results both in terms of the creation of a competitive market and of cost containment. However, for the time being, it maintains that it is too early to assess the effectiveness of the 1994 health insurance reform and has so far refused to take corrective action.

## Policy-making institutions

The Swiss political system is structured by a set of institutions that reduce the potential for power concentration and encourage the formation of large coalitions. The constitutional order is geared towards limiting the power of the federal government, and includes a number of points at which its authority can be challenged and its decisions overruled. The result is a political system in which the extent of agreement needed to legislate is particularly large. These institutional features, which are briefly reviewed below, are combined with a social structure characterised by multiple cleavages: socio-economic, religious, and linguistic, which further diminishes the likelihood of power being concentrated in the hands of one group. This combination of institutional and socio-structural features has produced a political system based on the integration of dissent and on the inclusion of conflicting interests in the policy-making process, which has been termed consensus or consociational democracy (Lehmbruch 1993; Lijphart 1984, Linder 1994).

There are at least three institutional features in the Swiss political system that contribute to reducing the level of power concentration available to the government: de facto separation of powers between the executive and the legislative branches of government; federalism with minority representation at the parliamentary level and a referendum system.

The relationship between the Swiss government (Federal Council) and parliament have been described as a hybrid between European parliamentarism and U.S. separation-of-powers (Lijphart 1984). Like in parliamentary regimes, the Federal Council is elected by parliament, however, like in a separation-of-powers system, it cannot be brought down by the legislature during its four-year term. Parliamentarians are not under the same pressure to support government sponsored legislation as is the case in parliamentary systems. Conversely the Federal Council cannot dissolve parliament. The result is a system in which the government has relatively little control over parliament. Like in the US, it has to negotiate policy with the legislature, as it cannot impose it.

The second element of power fragmentation is federalism, and the representation of the federated states (Cantons) in the upper chamber of parliament. Swiss bicameralism, designed after the US model, is symmetric, and while in the lower chamber (National Council) territorial representation is proportional to the size of the population, in the upper chamber (Council of States) each canton is entitled to two representatives. The power of the numerous, but small, rural cantons is thus magnified.

Third, and perhaps most notably, Switzerland has a referendum system which allows voters to bring various issues to the polls<sup>4</sup>. According to Neidhart (1970) referendums are the key factor behind the development of a consensus-based political system in Switzerland. The government, in order to reduce the vulnerability of its bills to the referendum challenge, has

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<sup>4</sup> The Swiss constitution makes provision for various types of referendums. Constitutional change as well as accession to a supranational organisation is automatically subjected to a referendum. Constitutional change can also be put forward by voters by means of a 'popular initiative', if they are able to back their proposal with 100,000 signatures. For these referendums to succeed, the double majority of voters and Cantons is required. Voters can also challenge at the polls any act passed by parliament, if they are able to produce 50,000 signatures to that effect. In this case, a simple majority of voters is sufficient for the referendum to succeed (see Kobach 1993 for a comprehensive account).

adopted an inclusive policy-making strategy. By allowing the relevant actors to co-draft legislation, policy-makers have been able to diffuse the threat-potential of referendums.

More in general, it can be argued that the development of a model of democracy based on consensus is a result of both institutionally-based power fragmentation, of which the referendum system is only one element, and of the multicultural character of Swiss society, which to be successfully cohesive requires some measure of power-sharing between the various collectivities (Lehmbruch 1993: 45).

One of the most significant features of Swiss consociational democracy is an oversized coalition government. The Federal Council, which has had the same composition since 1959, consists of a four-party coalition that includes the Christian-Democrats, the Social Democrats, the Free Democrats and the Swiss People's party (ex farmers' party). Together, these parties account for some 75 per cent of the lower chamber of parliament, and a government could rule with the support any three of these four parties. Because Federal Councillors are elected individually, they need the votes of other parties, and in this respect they tend to be selected among the more moderate individuals in each camp. This facilitates the consensual character of the government's operations, but reduces its control over parliament and over the electorate in referendums. Overall, its influence on policy-making is not comparable to that of governments in parliamentary systems.

A second important consociational practice is a policy-making process in which interest groups play a substantial role in the definition of policy (Papadopoulos 1997). Typically, legislative change is preceded by a lengthy and highly structured consultation procedure, which can be more or less encompassing depending on the potential for controversy of the relevant policy. Legislation is often drafted by 'expert commissions' which normally include representatives of all the relevant interest groups. The outcome of expert commissions is usually a compromise which is acceptable to all parties concerned, as each group has a de facto veto power which it can exert by threatening the use of the referendum challenge. During the golden age of the consensus model (1950s and 1960s) the agreements reached in this way were generally accepted by parliament with very little change, thanks also to the existence of an informal core of policy-makers where most decisions were made (Kriesi 1982; 1995). In more recent years, as will be seen below, parliament has become increasingly reluctant to ratify agreements reached by interest groups and, on various occasions, has imposed changes in a majoritarian way.

The Swiss consociational model guaranteed political inclusion to influential groups: those whose power resources were sufficient to make effective use of the veto points provided by the political system. Inclusion, thus, was not universal. Those who were left out were women, who were granted the right to vote in 1971, and foreigners who make up some 15 per cent of the population do not have the right to vote at the federal level.

## **State of play of governments and parties**

### ***The party system***

Thanks to an electoral system which guarantees proportional representation to political parties, these are quite numerous in Switzerland. The parliament elected in October 1999

includes members of 14 different parties. The big four, however, who form the ruling coalition, account for most of the votes and political influence. Together the Socialists, the Radicals, the Christian-Democrats and the Democratic Union of the Centre obtained 81 percent of the votes cast at the last general election and control 86 percent of the seats in the lower house of parliament (in the upper house, because of the smaller number of candidates per canton, they control virtually all seats).

For most of the 20<sup>th</sup> century, the Socialists (PSS) have been the largest party in the country, but have lost their position to the Democratic Union of the Centre in the last election. The party has been a member of the ruling coalition since 1959, with two ministers. In government it often finds itself in a minority position on social and economic policy issues, as the representatives of the three remaining parties tend to have a common view in these areas of policy. That is why, in spite of being a government party, the PSS still periodically plays the role of an opposition party, campaigning against decisions taken by the government. The party has close links with the largest federation of trade unions (USS, see below) with many of its leaders being recruited from the labour organisation. At the last election the PSS obtained 22.47 percent of the votes cast for the lower house, which resulted in 51 seats.

The second largest party for most of the century have been the Radicals (PRD), a liberal party that because of its links with business and ability to build alliances is arguably the most influential in Swiss politics (Kriesi 1980, 1982). On social and economic policy issues it follows a traditional liberal orientation, favouring little state intervention in economic matters. Together with the Christian-Democrats, it is considered to be at the centre of the political spectrum. In the 1999 election, the Radicals were chosen by 19.9 percent of voters, giving them 43 seats in the lower house of parliament.

The Christian-Democrats (PDC) have traditionally been a strong party, but have lost a significant share of the vote in recent years. The party has found it difficult to find a line that would accommodate its different wings, with the left-right cleavage being the main dimension of internal division. In the 1990s, the PDC has been unable to develop policy proposals that could be acceptable to its working-class electorate, represented also by the Catholic unions, and its business wing. The current parliament contains 35 Christian-Democrats, who were elected by 15.9 of voters.

Finally, the Democratic Union of the Centre (UDC), originally a farmers' party, has traditionally been the weakest of the big four, but recently it has successfully recycled itself into a populist, anti-foreigners and anti-Europe party, becoming the largest party in the country at the 1999 election, when it obtained 22.5 percent of the votes and 44 seats in the lower house. Except on this occasion, the Swiss party system has proved extremely stable over the years, with only small variations in relative party support throughout the 20<sup>th</sup> century (Ladner 1999).

The party system reflects some of the key cleavages that exist in the country. The PDC is stronger, sometimes dominant, in the Catholic and religiously mixed cantons, but considerably weaker in Protestant ones. The PDC leadership still consists of Catholics only, whereas party elites of the three other main parties are predominantly, but not exclusively, made up of protestants (Garcia 1991). There is no clear party political division across the linguistic cleavage, even though, in recent years the electoral success of the UDC, built to a large extent on a new anti-Europe and anti-foreigner discourse, has been achieved almost exclusively thanks to electoral gains in the German speaking parts of the country. The new

UDC is currently the most likely candidate to transfer in the political arena the linguistic cleavage that is much more visible on specific policy decisions. It should be noted, that the UDC has so far avoided any hint at a divisive discourse. Rather, it has been intent in recruiting members and voters in the French speaking part.

The linguistic cleavage between French and German-speaking Swiss has become stronger in recent years, as testified by several referendums in which the two communities voted in opposite directions. This is generally the case with foreign policy decisions which reduce the country's isolation, such as joining the UN or the EU. German speakers are generally more likely to oppose such moves than their French counterparts. The linguistic divide operates also when referendums are held on social policy issues, with French speakers being usually more favourable to measures which expand the welfare state. The Italian-speaking minority tends to follow the Swiss-German lead, in matters of foreign policy, but usually votes as the Swiss-French in the area of social policy.

### ***Organised interests***

The Swiss system of organised interests is relatively fragmented. On the employers' side, there are five main peak associations. Large, export oriented employers are represented by the Swiss Business Federation, known in Switzerland as *Economiesuisse*<sup>5</sup>, and by the Union of Swiss Employers (UPS). The former tends to deal with general economic policy matters, while the latter focuses its activities mainly on social policy and industrial relations. Banks have a separate peak organisation, the influential Swiss Association of Bankers. Small business is represented by a distinct employers' organisation, USAM, which is certainly less influential than its larger counterparts but tends to be more anti-statist and vociferous. Finally, agricultural employers and self-employed farmers are represented by the Swiss farmers' union (Mach 1999). In recent years, the ever present cleavage between the export oriented sectors of the economy and those producing mainly for the internal market has sharpened, with the former being increasingly unsatisfied with the existence of rigidities and protectionist measures benefiting mainly domestic producers. Some sections of the export business were in fact instrumental in the many of the policy changes that took place in the 1990s, though more in the areas of economic and fiscal policy, and much less, in spite of their attempts, in the area of social policy (Bonoli and Mach 2000).

On labour's side, the key division is ideological. The USS, the largest peak association of workers, is close to the Socialist party. In fact, many trade unionists are also Socialist MP in the federal or in cantonal parliaments. In addition, there is an association of white collar workers (FSE) and a federation Christian unions (CSCS). At 25 percent, the unionisation rate is rather low compared to most other European countries (Ebbinghaus and Visser 1999) Generally speaking Swiss unions are known for their moderation, and tend to use confrontation only as a last resort option, which happens comparatively rarely. Many of the collective agreements that they negotiate with employers mostly at the branch level, moreover, include a so called 'labour peace' clause, which forbids the signatories from taking industrial action. Especially in recent years, labour has clearly emerged as the weakest of the social partners, with examples of collective agreements that were first opposed by the unions, but as a result employers' threats were subsequently accepted. Some of the more recent sectoral agreements include substantial elements of flexibility, allowing for example overtime work and salary adjustment at the plant level. In terms of political influence, however, the

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<sup>5</sup> *Economiesuisse* was created in 2000 as a result of the merger between the Swiss Union of Commerce and Industry, known in Switzerland also as *Vorort*, and the Society for the development of the Swiss economy.

labour movement has collected a few victories in the 1990s, when it has successfully used referendums to challenge measures such as deregulation of the employment protection (which is not particularly developed anyway) and cuts in unemployment benefits (Bonoli and Mach 2000; Bonoli 1999).

In addition to the social partners, Switzerland has also single issue associations that in given policy areas can be rather influential, such as the Swiss Touring Club, in matters of transport policy, or the Tenants Association (ASLOCA). In the broad area of social policy, however, the interests of the beneficiaries are generally a matter for the trade unions, more than for the relevant single issue groups. Voluntary sector organisations, like Caritas or Pro Senectute, can be active players in referendum campaigns of relevant topics, and are generally consulted when new legislation is drafted, but cannot match the level of power resources available to the trade unions.

Table 1: Party composition of the Swiss parliament, 1999 election

Party	National council Seats (lower chamber)	%	Council of States Seats (upper chamber)	%
Social democrats	52	26	6	13
Free democrats	42	21	18	39
Christian democrats	35	17.5	15	33
Swiss people's party	45	22.5	7	15
Greens	10	5	0	0
Liberals	6	3	0	0
Others	10	5	0	0
Total	200	100	46	100

Source: Swiss Parliament

## Developments in pension policy, 1985-2002

### *The 1995 pension reform (10<sup>th</sup> AVS-AHV revision)*

The 1995 pension reform is the most important event that has taken place in pension policy in the period under consideration. It also illustrates well the shift in the direction of social policy making that has occurred since the early 1990s, and the political mechanisms which are being used to deal with the obstacle to policy change represented by institutional power fragmentation. Work on this reform started in 1979, with the intention of introducing gender equality in the basic pension scheme, when the Federal government asked the Federal Commission for the AVS to draft a reform proposal meant to improve the situation of women and eliminate some discriminatory practices in the way contributions were taken into account. The Federal Commission for the AVS is the equivalent of an expert commission, but has a permanent status, because the AVS requires virtually constant debate on reform. Its task, as for expert commissions, is to elaborate reform proposals which must be technically viable, and, especially, politically feasible. The Federal Commission for the AVS, includes representatives from a number of different organisations who have a stake in pensions and who can effectively oppose measures regarded as unsatisfactory<sup>6</sup>. It is essentially an

<sup>6</sup> Typically, the AVS commission includes representatives of the trade unions, employers, insurance companies, the Cantons, organisations of retired persons, women's organisations, the federal government and the army.

instrument for pre-testing the political feasibility of reform proposals and thus, ultimately, for consensus building.

The AVS Federal Commission came up with a reform proposal in 1982, which included some minor improvements for women. However, since the government had requested the reform to be cost-neutral, these measures had to be financed by an increase in the age of retirement (for women only) from 62 to 63. The reaction to these proposals was rather lukewarm, and even within the Commission there was controversy with regard the increased retirement age for women. The Commission was asked by the government to reconsider its plans, but was nevertheless unable to produce a different proposal. According to Binswanger, (1987: 250) it was the combination of cost-neutrality and the need to reach consensus that prevented the Commission from producing a more satisfactory proposal.

Towards the end of the 1980s, after Flavio Cotti, a Christian Democrat, took office as Interior Minister<sup>7</sup>, the government decided to abandon the cost-neutrality requirement, which was blocking progress towards effective gender equality. In March 1990, the Federal Council was at last able to produce a bill for the reform of the AVS pension scheme (FF, vol.2, 1990: 1-231). The key element of the bill was the introduction of gender equality, without abandoning couple pensions. The bill made provision for the removal of any reference to gender in the pension formula, but did not take any proactive action in favour of women (such as contribution credits or sharing between spouses) as was advocated by various actors. A few years earlier, a number of organisations and political parties had published reports in which they argued in favour of a system of individual pension, granted regardless of gender and marital status, complemented by a contribution sharing system between spouses. By the time the bill came to parliament, there was a relatively large consensus, most notably among the two largest parties (the Social Democrats and the Radicals) for a more proactive approach in this field

Because it maintained couple pensions, the 1990 pension reform bill was seen by many with disappointment, especially by women's organisations and by women MPs in the Socialist and Liberal Democratic parties. The bill was nevertheless adopted by the upper chamber of Parliament, the Council of States in March 1991. According to the standard procedure, it was subsequently examined by the Social security commission of the National Council (the lower chamber) in April 1991. Some members of the Commission were clearly unsatisfied with the bill, as it did not include provision for individual pensions regardless of marital status nor contribution-sharing between spouses. As a result, the Commission requested the Federal Office for Social Insurance (OFAS) to produce a report which would explore the technical issues involved in the introduction of a contribution-sharing system. The report was to be based on the three proposals made by the Federal Commission for Women's issues (CFQF 1988), by the PRD (1988) and by the Socialist Party jointly with the Unions (PSS/USS 1987). The report was followed by a working group with the task to elaborate a viable proposal for the introduction of a contribution-sharing system. The working group included MPs of the main political parties and convened seven times. It produced a final report that was published in March 1992 (*Groupe de travail 'splitting' 1992*).

By 1993 the bill had been significantly modified by parliament, precisely by adopting the measures suggested in the report published by the working group "*Splitting*". The bill, as amended by parliament, included the introduction of a contribution-sharing system between

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<sup>7</sup>The Department of the Interior has responsibility for social insurance as well as for most social policy areas (including health care).

spouses and contribution credits for informal carers. Together with these measures, on which there was a relatively strong consensus, the new version of the bill included also the more controversial measure of raising retirement age for women from 62 to 64 (for men retirement age is set at 65). This was imposed by the right-of-centre parliamentary majority, against the Social Democrats, allegedly in order to comply with the constitutional requirement of gender equality as well as to achieve some savings in view of the predicted worsening of the ratio between pension scheme contributors and beneficiaries over the next few decades.

Outside parliament, the trade unions and some women's organisation attacked the proposed increase in retirement age for women by collecting the 50,000 signatures needed in order to call a referendum. The move was successful and the referendum on the pension bill was held in June 1995. The decision to call a referendum was taken jointly by the main federation of Swiss Unions (USS) and by the Christian unions (CSC). For the USS, the inclusion of an increased retirement age for women could not be accepted. In fact, the general trend in USS pension policy was towards a reduction in retirement age. The USS (together with the PSS) had previously collected signatures for an initiative which proposed, among other things, the introduction of a flexible retirement age for men and women between 62 and 65 without reduction of benefit, but conditional upon giving up work<sup>8</sup>. For this reason it was not conceivable for the unions to accept an increase in women's retirement age. On the other hand, however, if the bill was to be defeated in a referendum, also the improvements of provision for women would have been rejected, and these had been long advocated by the unions. To avoid this dilemma, the USS and the CSC decided to collect the 50,000 signatures needed to call a referendum, but at the same time, to call a second referendum (initiative) with the aim of introducing, after the possible defeat of the pension bill in the referendum, what they regarded as the 'good' elements of the 1995 pension reform, i.e. contribution-sharing and credits.

A similar dilemma faced the leadership of the Socialist party. They too were against raising retirement age for women, but this was not the point any longer, since the referendum was going to be on the whole bill. As a result, a division within the party emerged as to whether the good elements of the reform outweighed the bad ones, or vice versa (PSS 1995). The situation of the PSS was further complicated by the fact that the minister responsible for social security was now Ruth Dreyfuss, a Socialist, who had to comply with the majority view of the government, which was to favour the adoption of the reform. Her own opinion on the issue was the following:

It is most unfortunate that the issue of raising women's retirement age has been tied to the improvements of the pension reform ... I keep on thinking that this measure was not needed in this reform. Nevertheless, my support for the reform is based on a conviction that the positive elements of the reform outweigh the negative ones (Dreyfuss, in TSR 1995).

The leadership of the Socialist party decided to deal with the dilemma by consulting party members. Some 30 per cent of them took part to a ballot, of whom 66 per cent were in favour of the reform (*Sécurité sociale* 2/1995: 59). The result was that the official voting recommendation of the PSS was to accept the 1995 pension reform.

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<sup>8</sup>The vote on the USS/PSS initiative took place on the same day as the pension reform referendum (25/6/96). The proposal and was rejected by 72 per cent of voters.

For other parties and organisations the decision on whether to support or not the referendum was more straightforward one. All the other large parties had supported the reform in Parliament, so that they were going to recommend to back the pension bill to their supporters. Similarly, the main employers associations favoured the new pension bill. Women's organisations were divided, those more left-wing oriented being against and their right-wing counterparts being in favour of the pension bill. The overall picture before the referendum, was one where the unions were mainly alone in fighting the pension bill. Nevertheless there was some concern among federal authorities that the bill could be defeated in the referendum. It was feared that conservative-catholic voters might join the unions in rejecting the proposal, as the conception of the family on which the new law was based did not reflect traditional views on gender roles. Concern for the outcome of the referendum was also reflected by the important campaign launched by the federal office of social insurance through its periodical *Sécurité sociale*. Almost half of the 2/1995 issue addressed the pension reform, and included articles by Ruth Dreyfuss and Walter Seiler, then director of the office, in support of the bill. The vote took place on the 25 of June 1995. The turnout was of 40.4 per cent, which is in the norm<sup>9</sup> and saw a relatively clear prevalence of those in favour of the bill (60.7 per cent). There were cantonal variations though, as the bill was accepted in all German-speaking cantons but was rejected in four out of six French-speaking cantons and in the Italian canton. According to an opinion poll carried out just after the vote, the best predictor of voters behaviour was not language but party preference. Among those who said they supported one of the three right-wing government parties (PRD, PDC and UDC), the proportion of yes voters was some 10 percentage points higher than the average (Vox 1995). The survey inquired also about the reasons given for voting yes or no in the referendum. The results are reported in table 2.

As table 2 shows, the main division in the electorate was between those who believed that the positive aspects outweighed the negative ones on the 'yes' side, and those who believed the opposite on the 'no' side. The reasons given by a clear majority of 'yes' voters concern the improvement side of the bill (items 1,3,4 and 5). According to the poll, only a minority would have supported the bill regardless of the presence of these improvements (items 2,6 and 7). The bill would have encountered stronger opposition if it had not included elements which were widely regarded as improvements.

Conversely, among 'no' voters, the main reason for opposing the bill was, overwhelmingly, the increase in women's retirement age (59 per cent). Items 2 and 3 in fact refer to the same reason, as an increase in retirement age is expected have an impact on unemployment. The 'unholy' alliance between the left and Catholic-conservative voters, feared by federal authorities, did not take place. Only 3 per cent of 'no' voters rejected the bill on grounds that it was not needed, the only item which might imply a preference for the traditional vision of the married couple upheld by the pre-reform system.

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<sup>9</sup>Depending on the year, the average turnout at referendums is between 35 per cent and 45 per cent (Kriesi 1995: 114).

Table 2: Reasons for accepting or rejecting the 1995 pension reform in the referendum (spontaneous replies, multiple answers were possible)

REASONS FOR VOTING 'YES'	per cent	REASONS FOR VOTING 'NO'	per cent
1. It is a general improvement	25	1. Higher retirement age for women	59
2. Higher retirement age for women	10	2. Unemployment	20
3. Gender equality	17	2. It is a drawback	10
4. Contribution sharing	14	4. Was not necessary	3
5. Contribution credits	15		
6. Savings	6		
7. Recommended by government	8		

Source: Vox 1995

Data from table 2 suggests that an increase in retirement age for women, adopted independently from the improvement side of the bill would have been at a much higher risk of being defeated in a referendum. What made possible the only retrenchment element of the reform was its combination with a series of improvements. This conclusion must be taken carefully, though, because we have no guarantee that respondents replied with their genuine motives. Possibly, they might have followed the recommendation of their party or group of reference and subsequently rationalised their choice backing it up with a sensible argument<sup>10</sup>. However, the fact that, always according to the same opinion polls some 30 per cent of voters who said they identified with one of the three right-wing government parties voted against the bill, lends support to the hypothesis that an increase in women's retirement age would not have been accepted if not accompanied by improvements.

### ***The 200X pension reform (11<sup>th</sup> AVS-AHV revision and 1 LPP-BVG revision)***

The Swiss pension system is facing two big challenges: to adapt to population ageing and to respond to changes in the labour market. Current pension debates focus predominantly on these two issues. However, the elaboration of policy is considerably more advanced in relation to the former. A pension reform is which currently being debated in parliament, has the explicit objective of adapting the pension system to demographic change. It is expected to affect both the first and second tier of provision. In contrast, the issue of improving pension

<sup>10</sup>The validity of this interpretation depends also on the reliability of opinion poll results. Interestingly, the proportion of 'yes' voters found in the opinion poll (59.5 per cent) was very close to the actual referendum outcome (60.7 per cent). This is not always the case as differences of up to 10 percentage points can be found. This suggests that respondents had relatively strong views on how to vote and felt that their choice was legitimate, which arguably strengthen the findings of the opinion poll.

coverage for precarious and atypical workers, whose numbers are increasing at a fast pace, has not been picked up in the government bill (*Message*), in spite of the demands expressed by the left and by the trade unions.

Demographic change will impact on the viability of both the 1<sup>st</sup> and the 2<sup>nd</sup> pillar of provision. The first pillar, being financed on a pay-as-you-go basis is sensitive to variations in the relative size of age groups. As a result of the expected increase in the proportion of older people, over the next few decades pension expenditure will increase at a much faster rate than pension receipts. Demographic ageing will also affect the functioning of the 2<sup>nd</sup> pillar of pension provision, even though it consists of fully funded schemes. Because of increases in life expectancy, the conversion rate which is used to determine the amount of a pension on the basis of the accumulated capital, needs to be reduced<sup>11</sup>. The result, unless some corrections are adopted, will be lower than expected benefits for future retirees.

With regard to the basic (AVS) pension scheme, the current pension reform includes measures that will reduce expenditure and increase receipts. In the long term (i.e. after a transition period) the reform is expected to generate combined annual savings and additional receipts of approximately CHF 1.2 billion. Among the most important measures it is planned to abolish widows pensions<sup>12</sup> (these have, in most cases become redundant, given the adoption of a contribution sharing system between spouses in the 1995 reform); to increase retirement age for women at 65 (currently at 62 but rising to 64 as a result of the 1995 pension reform); and slowing down of benefit adaptation which will take place every three years instead of every two. The reform will also increase contribution rates for the self-employed and require AVS recipients who are still in employment to pay contributions (Conseil Fédéral 2000a).

Together with these austerity measures, the reform will also introduce early retirement, which will be possible from the age of 59, with a reduction in the benefit. The reduction will be actuarially-determined but low paid workers will have lower than actuarial benefit reductions. The reform bill, currently discussed in parliament, presents many of the features that are typical of Swiss compromises. In particular, it includes both savings measures and improvements in provision. In the past, reforms that comprised these two elements have been more successful in gaining the necessary level of approval, both in parliament and with voters when challenged by a referendum (Bonoli 1999). The prognosis for the current pension reform is thus good. However, it is possible that, as it has happened in the past, this carefully crafted compromise be overhauled in parliament, which might make it unable to attract the necessary level of consensus.

The reform is supposed to guarantee the solvency of the basic pension until 2010 (see table 3). The task is facilitated by a previously adopted measure consisting in the increase of one percentage point of the VAT rate, entirely assigned to the AVS pension scheme. VAT-raised funds were first paid into the AVS budget in 1999 and explain the improvement in the balance between 1998 and 2000. After 2010, further measures will arguably be needed in order to guarantee the solvency of the scheme, as the proportion of the population aged 65 and over is expected to continue increase from the projected 17.5 percent for 2010 to 25 percent in 2040.

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<sup>11</sup> The conversion rate is set by the government, on the basis of average life expectancy at the age of retirement. It concerns only compulsory occupational pension provision.

<sup>12</sup> Widows(-ers) pensions would be maintained for survivors with dependent children

Table 3: Current and projected receipts, outlays and balance of AVS pension scheme (million CHF)

	With current legislation			With proposed legislation		
	Receipts	Outlays	Balance	Receipts	Outlays	Balance
1998	25,322	26,715	-1,393			
2000	27,622	27,662	-40			
2005	29,127	30,791	-1,664	30,601	29,968	+403
2010	30,056	33,900	-3,844	34,768	33,900	+1,198

Source: Conseil Fédéral 2000a: Annexe 1 and 2.

Together with the AVS basic pension the current reform will also address some issue pertaining to compulsory occupational pension provision. Its main objective is to adapt the system to the increase in life expectancy, which means that pensions need to be paid for a longer period and as a result need either to be lower or to be financed by a higher capital. The government proposal in this respect is to reduce the conversion rate used to determine the amount of an annual pension on the basis of the accumulated capital from the current 7.2 percent to 6.65 percent in 2016. In order to avoid a reduction in benefits, the notional contribution rates which are used to determine the amount of the capital available to employees will also be increased, as shown in 2. The result should be neutral in terms of pension benefits, but during the transition period some male employees will see a reduction in their benefits. Because the contribution rates that are increased are notional rates, this measure will not necessarily result in higher actual contributions. Some schemes have been able to achieve higher than expected returns to capital in recent years, which can be used, for some time at least, to finance higher notional contribution rates.

Table 4: Notional contribution rates for compulsory occupational pensions

Age	Current rates (males)	Proposed rates
25-34	7	7
35-44	10	11
45-54	15	18
55-65	18	18

Source: Conseil Fédéral 2000b.

The current reform will not address the issue of pension coverage for low paid, atypical, mainly part-time workers. Because of a lower limit on the obligation to be affiliated to an occupational pensions, set at approximately CHF 24,000 (or 40 percent of average earnings), there are a number of workers who do not have access to the 2<sup>nd</sup> tier of pension provision. The lower limit was introduced in order to reduce the administrative problems and non-wage labour costs associated with casual employment, but also because the first pillar of provision guarantees a replacement rate of 60 percent or more to workers with average career earnings below the lower limit.

However, this situation has been criticised on a number of grounds. First, workers often spend only a few years in atypical employment, and subsequently manage to enter better paid and

more stable forms of work. However, the fact of having a second pillar pension with missing contribution-years can result in low benefits, and in replacement rates lower than the 60 percent target. Second, even though a replacement rate of 60 percent can be considered adequate for someone on an average wage, this cannot be said in relation to low paid workers, whose earnings are barely above the social assistance minimum. A proportional reduction in income is thus not justifiable at the lower end of the earnings distribution. Third, there is anecdotal evidence that some employers take advantage of the opportunity they have to reduce non-wage labour costs by carving up full-time jobs into part-time ones which are paid less than the lower limit for compulsory affiliation to an occupational pension.

Because of lack of research in this area, there is very little knowledge of the size and the scale of this development. The suspicion is strong, however, that there is in Switzerland a generation of low paid, mainly part-time workers, who is heading towards pensionable age without adequate pension provision and faces retirement on means-tested benefits. Flückiger estimates at 270,000 (or 7.1 percent of the working population) the number of workers who are not covered by an occupational pension because of earnings below the lower earnings limits. Of these, 82 percent are women.(Flückiger 1999, data for 1996).

In order to deal with this situation and to include this section of the working population in occupational pension coverage, the Socialists and the trade unions support the abolition of the lower limit for the compulsory affiliation to a pension fund. This measure is opposed by employers, on grounds that it will engender unreasonable administrative costs, especially in relation to casual, temporary employment, and that it will inhibit job creation for low skill workers. The government, as so far decided not to take up the issue, even though it has in the past acknowledged that there is a coverage problem for low paid workers in the Swiss pension system (OFAS 1995). This issue was among those the current pension reform was supposed to address, but it has been eventually dropped from the agenda possibly because of its cost implication. The consultation procedure has shown strong employers resistance to including all employees into the system of compulsory occupational pensions, because of the additional cost this would represent on low skill, low paid employment, but also because of the administrative burden this would mean.

Because it fails to address the issue of occupational pension coverage for low paid and part-time workers, the reform is criticised by the left and the unions. However, given the balance of power in parliament, the left is unlikely to be able to force the adoption of legislation that would include all workers in the occupational pensions system. Besides, there are serious practical problems involved in such a move, like the administrative task of keeping and transferring pension accounts for casual workers who often change jobs, and, for low paid workers, that fact that parity financing of occupational pensions will undoubtedly mean a reduction in their disposable income of 6 percent on average. The issue of guaranteeing decent pension entitlement to low paid workers is unlikely to be settled in the near future.

At the time of writing (July 2002), the reform is being debated in parliament, and it remains unclear if the bill is going to include provision for extending occupational pension coverage to low paid workers. In spring 2002 the lower chamber (Conseil National) has voted a modified version of the bill which included a moderate reduction in the threshold below which affiliation to a pension fund is not compulsory from CHF 24,000 to CHF 18,000 a year, a move that would extend coverage to many part time workers. The proposal was accepted narrowly and the main employers' associations (UPS, USAM) publicly condemned the decision. The bill is now debated in the upper chamber (Council of states) which as a more

conservative party composition. There, employers are more influential. In June 2002 a commission of the Council of State rejected the bill as amended by the National council. Given the conservative orientation of the upper chamber of parliament, and given the negative vote of its social security commission, it seems unlikely that the bill will be accepted in its present form.

## **Developments in long-term care policy**

Long-term care policy is an example in Switzerland of what could be labelled “messy federalism”. Important policy decisions are taken at the federal and at the cantonal level, by public, private and voluntary actors. The result is an extremely complicated web of providers and payers, which, if rather effective in covering the long term care needs of the population (there are no lengthy waiting lists to obtain a place in a residential facility), lacks transparency on issues such as how much it costs and who actually pays for it in the end. Because of this lack of transparency, it is also difficult to know whether such a complicated system is the most efficient option to deal with long term care. However, the suspicion is strong that the system entails a substantial amount of waste, at least in so far as the complex administrative procedures are concerned (see e.g. Huber 1997).

This section will remain fairly general, focusing mostly on the federal level and mentioning areas of cantonal variation as well as some examples. An accurate description of the Swiss long term care system, in fact, would require a detailed presentation of policies in each of the 26 cantons that make up the country: a task that is way beyond the scope of this paper.

### ***Service provision***

Today, the provision of long term care is guaranteed by cantonal and municipal social services, and the private and the voluntary sectors. Residential care is provided by the municipalities, the private non-profit sector, as well as the private commercial sector. Most community care providers are non-profit organisations (89 %), municipalities (6%), other private organisations (4%) (OFAS 2001 Spitex). In both cases, non-profit organisation can be consortia of municipalities. Planning of residential care facilities is made at the cantonal level, though in some cases there is cooperation between nearby cantons.

### ***Financing***

Financing for long term care comes from different sources. Both residential and community care facilities receive subsidies from the federal government, via the AVS-AHV pension scheme and the invalidity insurance, and from the cantons and municipalities. Users are then charged the full cost of services, and in order to meet this cost, they can rely on a mix of social insurance benefits, personal savings or income, and means-tested benefits. At the individual level, there are four main sources of funding.

1. Health insurance. Since the 1994 reform the compulsory health insurance plans include coverage for both residential and community care. This innovation was introduced in the hope that by shortening the average length of acute hospital stays, it would contribute to contain health expenditure. Health insurance funds negotiate fees for services with long term care providers on a cantonal basis. Because the sums involved are substantial, there

are often conflicts between insurers and providers. Health insurance plans, however, do not cover the total costs of care, but only a proportion, usually estimated so as to correspond to the medical component of total costs. Home helps, for example, are not covered by health insurance. How to isolate the medical component (and measure it) in the activities of a residential facility or community care service provider is a major issue has not yet been solved to the satisfaction of all partners involved.

Health insurance, which is financed through individual compulsory premiums that are unrelated to income, provides the bulk of collective financing for long term care. In 2000, health insurance funds paid a grand total of CHF 1.2 billion for residential care and CHF 253 million for community care. Together these two items account for nearly 10 % of all health insurance expenditure (OFAS 2001b). Health insurance costs for long term care have increased dramatically over the last few years, having doubled between 1996 and 2000.

2. AVS-AHV “frail person” allowance<sup>13</sup>. This allowance is provided by the basic pension and invalidity insurance scheme. It is given to people who have been frail for at least one year. Depending on the degree of need, the allowance can be more or less generous, and correspond to 20%, 50% or 80% of the AHV pension. In 2000, expenditure for the “frail person” allowance amounted to CHF 360 millions (OFAS 2001a).
3. The contributory pension system  
Frail elderly people usually receive income from various pension schemes. Virtually everybody is covered by the basic pension AVS-AHV. Many can also count on an occupational pension. In 1998 approximately 60% of all pensioner households received an occupational pension. This proportion is likely to increase in future years as a result of the decision to make occupational pension coverage compulsory, in force since 1985.

The Swiss long term care systems expects frail elderly people to use the pension benefits they receive as well as any private savings they may have accumulated to finance the care they need.

4. Federal and cantonal means-tested pensions

If the contribution made by health insurance together with the frail person allowance, income from pensions and private savings are not deemed sufficient to cover the total long term care costs, then the federal means-tested pension (PC- EL) provides the amounts needed, up to a ceiling. The PC-El pension is not a programme dedicated to provide coverage for long term care, but is an element of the old age pension system (see above). However, because there are no dedicated schemes, it does play a crucial role in the system. Approximately 13 % of all retired persons receive a means tested pension supplement PC-EL, a percentage that reaches between 50% and 65% for elderly in residential care. Beneficiaries in residential care account for over 63% of expenditure on means-tested pensions (OFAS 2001).

PC-EL provides an income supplement that recipients use to pay their residential care costs up to a maximum of approx. CHF 30,000 per annum. This amount may not always be sufficient to meet the full cost. If this is the case, then excess costs are covered by standard social assistance, a locally run scheme which is generally regarded as highly

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<sup>13</sup> Allocation pour impotent

stigmatising, also because, the funds it provides are considered as a loan (as opposed to a grant) and in theory must be repaid by the inheritors. In reality, in such circumstances inheritors can renounce the inheritance: a step which is nevertheless seen as a further element of stigma by many families ( Gönczy 1997).

Because of this problem, some cantons and municipalities, especially those where long term care is most expensive, have introduced cantonal (and municipal) means-tested pensions that bridge the gap in financing. Cantonal means-tested pension supplements exist in 12 of the 26 Cantons<sup>14</sup>

Being a means-tested programme, PC-EL takes into account assets owned by claimants. There is a disregard for the first CHF 25,000 of assets owned, except for housing owned and occupied by the recipient, for which the disregard varies across cantons between CHF 75,000 and CHF 150,000. A proportion of assets owned in excess of the disregard are computed as income in the calculation of the PC-EL benefit. This proportion varies also across cantons, between 10 and 20 %.

Statistics on the PC-EL pension supplement are not broken down according to purpose (long term care, or simply income supplement), but by looking at the residential status of beneficiaries (at home or in a residential care facility) it is possible to estimate the extent of the contribution they make to at least the residential component of long term care. In 2000 this amounted to CHF 895 million for elderly people only.

### ***Reform and debates***

To date, there has not been a major reform of the long-term care system, nor is there a major debate on the introduction of a new national scheme for financing or providing long-term care. The most important developments and debate take place at the cantonal level. A preliminary survey of debates in a small number of cantons suggests that the key issues are the means-testing of public coverage of both residential and community care. In general, frail older people with revenues or assets above a relatively low threshold are expected to pay the full cost of the long term care they need. The sums involved can be substantial. As a result, there are demands from the middle-classes to increase the income and assets threshold below which provision is free or subsidised. In some cantons, governments have increased the amount below which assets are disregarded.

A second important unresolved issue opposed health insurers and state actors concerning the distinction between medical and non medical elements in long term care. In general, there is widespread agreement on the fact that the medical expenses only should be taken on by health insurance funds. However, the details of how to measure the cost of the medical component are still subjected to controversy. The government has intervened in the controversy by fixing limits to how much service providers can charge health insurance funds.

Decisions concerning the relative balance of health insurance and other sources of finance in the funding of the long term care system have major distributional implications. Because

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<sup>14</sup> For both people living at home and in residential care : Zurich, Basel-City, Valais and Geneva ; for people leaving at home only : Zug and St Gall ; and for people in residential care only : Fribourg, Solothurn, Basel-countryside, Appenzel I. Vaud and Neuchâtel.

health insurance premiums are individual and unrelated to earnings, they burden those on low income proportionally more. Moreover, reliance on health insurance as the major financing source for long term care may mean, in the future, additional hikes in health insurance premiums. Over the last few years, premiums have increased on average by more the 5% a year, and are reaching levels that are beyond the affordability limits of lower middle class families. Even though those on low income can receive a voucher that pays part of the health insurance premium, rising premiums do constitute a major social problem. The fact that part of long term care spending is covered by health insurance, will probably make this problem worse.

The idea of introducing a long term care insurance like the one that was created in Germany in the late 1980s does not seem to attract meaningful support in Switzerland. In 1999 a member of parliament made a proposal going in this direction (Motion Gross 1.12.1999), which was rejected by the government and was not picked up by his fellow parliamentarians. A private solution may be likely to receive more support. From time to time, the idea of introducing a system of compulsory private long term care insurance, along the lines of health insurance (which in Switzerland is also compulsory and private), is floated in the political debate by right-of-centre political actors. It is an idea that seems to be particularly favoured by the Federal Ministry for economic affairs, which made recently a proposal going in this direction. The proposed measure, which doesn't have any formal status, as it is simply a contribution to the debate (for the time being at least), would consist in an obligation for all resident people aged 50 or over to take out long term care insurance. While publicly defending the proposal, the Minister for Economic affairs (Pascal Couchepin, of the liberal (PRD-FDP) party) argued that people aged 50 or over are generally doing relatively well financially and this can afford this extra effort. The result of such move, would among other things a reduction in health insurance premiums for those below the age of 50 (*Le temps* 16 July 2002).

In the field of long term care, policy is shaped by the main political actors, but also by a number of sector specific organisations. Health insurers, represented through their peak association "Santésuisse" play an important role. Their main claim is to contain/reduce the proportion of the cost of long term care that needs to be covered by compulsory health insurance. The Federal government and the Cantons, who have to foot the rest of the bill, are their main opponents in the field of this controversy. Cantonal governments act individually at the cantonal level, but can act jointly at the federal level, through various "intercantonal coordination" bodies. In the field of long-term care, the most important of these bodies are the "*Conférence des directeurs cantonaux des affaires sanitaires* (CDS) and the "*Conférence des directeurs cantonaux des affaires sociales* (CDAS)". Other important organisations are the national association of Hospitals and residential care providers (H+); the cantonal associations of providers (e.g. AVDEMS for the Vaud Canton) and of users (e.g. Résid'EMS).

### **3. Women's labour market participation**

Like the rest of Europe, Switzerland has seen substantial changes in family structures over the last few decades. Of these, the most important as far as its impact on social and economic policy is concerned, is certainly the massive entry of women in the labour force, and the

implication of this development for other aspects of family life like social and biological reproduction. Together with the increase in the proportion of women in employment, Switzerland has witnessed a decline in its fertility rate. All this in an overall context in which families, and particularly women, are finding it extremely difficult to work and at the same time to fulfil socially and institutionally determined family obligations. Swiss families relative to some of their European counterparts, enjoy little support from the state in their struggle to reconcile work and family life. The risk is that of heading towards a low fertility equilibrium set at a level well below the population replacement rate of 2.1 children per women, with the result of further exacerbating the demographic problem reviewed in the previous section.

Social policies for families have traditionally been neglected by the Swiss welfare state. Even though the constitution allows the Federal government to legislate in this area, family policy has remained a responsibility of the cantons. Several attempts were made to introduce policies for families in the postwar period, which generally failed to gain a sufficient level of support to be adopted. In part, this may be due to the strong value-based dimension in family policy and to the ensuing difficulty to develop policy proposals that would fit within the normative views that prevail in the different cultures the country is made up of. The result, is a welfare state that is unique in Europe in not providing a maternity benefit on a national scale; which does not have a unified system of child benefits and which does little to make child care available to working families.

Switzerland is a notable laggard in the fields of maternity and parental leave. In spite of three attempts made by the Federal government to legislate in this area, Switzerland does not have a national maternity benefit scheme. Federal labour law prescribes only an 8-week unpaid leave in the event of maternity. Additional protection is provided by collective agreements, which generally include provision for longer and paid maternity leave. However, the coverage of collective agreements is limited to approximately 50 percent of employees, and the generosity of maternity benefit varies substantially across branches. In addition, some cantons provide a means-tested maternity benefit, on the basis of family income and set at a rather low level (Wyss 1999: 22). Other areas of social policy for families are also underdeveloped. There isn't a legislated right to parental leave, nor is such provision included in collective agreements; there is little state support for child care, except on a means-tested basis and mostly within the legal framework of social assistance.

Within this overall context of an underdeveloped system of family policy, Swiss families are finding it increasingly difficult to reconcile work and family life. For Swiss women, to have a child is a major obstacle to continue working. Employment rates for women decline sharply as the number of children increases. From 80 percent for childless women, the female employment rate decreases to 57 percent for women with one child; to 51 percent for those with two children and to 42 percent for those with three or more (OFS 1998: 146). The reduction in the employment rate as the number of children increases is among the biggest in western Europe.

These figures reflect those on the use of child care. The most often used form of child care is informal care provided by grand parents (46 percent of women with at least one child aged less than 7, who use child care); other family members or friends (25 percent). The services of a day mother and of an au pair girl are used in 17 percent of cases. Less than 1 percent of the relevant population uses standard day care services (OFS 1998: 163).

In this context, Swiss families are experiencing severe difficulties in reconciling work and family life. Besides reliance on informal care, the strategy that seems to be used most often is women's part-time work. More than half currently employed women have a part-time jobs. The Swiss labour law does not restrict the use of part-time work, which has developed substantially over the last few decades. This situation, however, appears sub-optimal, in at least two respects. The first casualty is family size. Swiss women have, on average 1.46 children each (in 1998). However, when asked about their desired number of children, the average answer is a significantly higher 2.2 percent. According to a recent national survey on the family, the gap between the number of children wished and their actual number can be to a large extent attributed to the difficulties they experience in reconciling work and family life. Women who did not intend to have an additional child, when asked why answered predominantly that 'For a woman it is very difficult to work and have children' (58 percent). The second problem concerns the social protection coverage of part-time workers, and in particular their access to occupational pensions (see the section on pensions above).

### ***The maternity insurance bill of 1997***

The most significant policy development in this field in the 1990s has certainly been the failed attempt by the government to introduce a maternity insurance scheme<sup>15</sup>. The federal constitution attributes to the federal government powers to introduce a maternity insurance scheme since 1945, but so far the scheme has not been implemented. After a series of failed referendum initiatives in the 1980s, most of which were sponsored by the left, in 1994 the government finally put forward a proposal (*avant-projet*) consisting of an insurance benefit replacing 100% of earnings for 16 weeks, with a ceiling at 3 times the maximum AVS-AHV benefit (then CHF 97,200 per annum). Financing was to come from a new contribution, equal to 0.4% of total earnings, calculated according to the same rule used for the AHV-AVS pension scheme (i.e. equally split between employer and employee). Expenditure was estimated at CHF 660 million per year (Jaggi 1994: 181-2).

The proposal is subjected to a consultation procedure, as it is usual for complex and potentially controversial legislation, like a new social insurance scheme. From a very early stage, the proposal is criticised because it provides benefits only to women who work and not to those who spend their entire time caring for their children. This point was made most forcefully by the Christian democrats (PDC-CVP).

As a result of the view expressed in the consultation procedure, the proposal it is slightly modified, and turned into a bill, presented in parliament on 25 June 1997. The Maternity insurance bill (*message*) includes the following provision:

- a 14 week paid leave, at 80% of previous earnings, with a ceiling at 97,200 CHF per annum (it is the same ceiling used for the "accidents insurance" scheme, and slightly higher than the ceiling adopted in the previous proposal).
- a basic benefit (*prestation de base*), consisting of a one off payment equal to four times the minimum AVS-AHV benefit to all women including those not involved in paid work. At the time this corresponded to CHF 3980.00. The basic benefit was to be

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<sup>15</sup> The following reconstruction of the process that lead to the rejection of the maternity insurance scheme in 1999 is based on Pittà 2002.

tested against household income, the benefit being set on a sliding scale between three times the minimum AVS-AHV benefits and its double (at the time, between CHF 35820 and 71640 per year). Above that threshold, no benefit was to be payable.

- Financing comes from an increase in social contribution of 0.2 percentage point. It is a lower rate than the one put forward in the previous proposal. Because of the reduction in the generosity of the scheme and new calculation, it is deemed sufficient to cover costs and generate a slight surplus. Social contributions were earmarked for the financing of earnings-replacement benefits; basic benefits were to be directly financed from federal tax revenues. The total costs of the new scheme were estimated at CHF 493 million (Jaggi 1997: 182-187).

The bill is met with substantial criticism by several interest groups and political parties. The strongest opposition comes from employers and the UDC-SVP party. Soon after the presentation of the bill in parliament, the Director of the main employers' organisation declares that "...an increase in labour costs will slow down economic recovery we so badly need. Employers will accept no compromise" (Hasler, quoted in Jaggi 1994). Criticism focuses on the financing method chosen (an increase in social insurance contribution rates) rather than on the idea of a maternity insurance scheme, on which there seems to be a general agreement. An opinion poll carried out just after the publication of the bill, reveals a strong majority of interviewees in favour of the proposal (69 %), though support is considerably stronger in the French speaking part of the country (83%) than it is among German speakers (64%) (Sonntagsblick, 29.06.1997).

The bill is discussed in parliament in 1998, and an amended version is adopted on 18 December 1998. It consists of all the elements included in the bill as far as benefits are concerned, but modifies the financing method. Rather than increasing social contributions, financing will come from another compulsory insurance programme (IPG), which provides earnings replacement those serving in the country's militia army, and which has been generating surpluses for the last few years. This programme will in the future become a military service and maternity insurance scheme. If funds turn out not to be sufficient, then additional finance can be brought to the scheme either through an increase in the VAT rate, or by raising the contribution rate of the new military/maternity scheme, currently at 0.3% of earnings, up to 0.5 % (Jaggi 1999: 34).

The version of the bill adopted by parliament seems to have taken into account the sharper criticism put forward in relation to the financing method that had been chosen by the government. If employers could not agree on an increase in social contribution, there was now the possibility to make use of VAT.

In spite of the changes made, soon after the adoption, a committee against the scheme is founded. It consists of German speaking representatives of the FDP-PRD and SVP-UDC parties, and of employers. Most politicians directly involved in the committee are women (NZZ, 07.01.1999). The main argument put forward by opponents was the extra cost for the public purse, in spite of the revised financing method (NZZ 18.01.1999). In a few months, the committee was able to organise the collection of the 50,000 signatures needed to call a referendum against the proposal, and the vote is scheduled to take place on 13 June 1999.

At the polls the proposal is clearly rejected, by 61 % of voters. The vote is split according to three main cleavages: the left-right axis (left wing voters being considerably more likely to

accept the proposal); age, those aged 40+ being more likely to reject the proposal, and language, French and Italian speakers being more likely to vote yes (Vox Analyse 13.06.1999).

Among the reasons given by voters who rejected the proposal as to why they chose to do so, a majority (71 % ) argued that the scheme was not needed because provision in this field existed already; 60% thought that the country could not afford the new scheme, and 20% based its decision on the claim that the new scheme was going to benefit mostly foreigners (note that more than one reason was possible) (Vox Analyse 13.06.1999).

After the negative referendum vote, the government started working at a new project for maternity benefit, this time in the shape of maternity pay imposed upon employers for a period of 8 to 12 weeks. This proposal was floated in a consultation procedure to receive strong opposition from employers, especially small ones who would have had to bear the full cost of maternity leave.

A counter-proposal came precisely from the leader of the Swiss small business peak organisation (USAM-SGV), Pierre Triponez, who is also a member of the National council for the Free democrats. His suggestion was to go back to the idea of a maternity insurance scheme, providing only earnings replacement to working women, but no coverage for those who are not involved in paid employment. The proposal (initiative parlementaire) was accepted by a majority of his fellow parliamentarians (NZZ 9.08.2001). At the time of writing, the proposal, known in Switzerland as the "Triponez-model" seems to be well placed to succeed, as it has attracted support from several directions.

### ***The encouragement programme for day care facilities***

A second important development in the field of policies for working women has been the setting up of a programme which should incentivise with subsidies the setting up of new day care facilities. Like in the case of the newest maternity insurance proposal, the idea came from parliament, and not from the government. This time it was a Socialist member of the National council, Jacqueline Fehr, who in 2000 made a proposal (*initiative parlementaire*) aiming at encouraging with subsidies the setting up of new child care facilities. The proposal was debated in 2001 and elaborated by the Social Security commission of the National council. In the end, it was decided to make available a grand total of CHF 100 million per year over an initial period of 5 years. The vote in the National council saw a strong majority in favour of the proposal, which was opposed only by SVP-UDC members of parliaments and by a majority of the PRD-FDP party. Subsidies will cover up to a third investment and running costs of day care centres. The measure is expected to encourage the creation of 60,000 to 100,000 new places, which would multiply by three the current number (*Le Temps* 18.04.2002).

The bill was then transferred to the upper chamber of parliament (Council of States) where the principle was confirmed, but the total amount of subsidies halved. A final decision on the amount of funds available may come in autumn 2002.

The political significance of this decision goes beyond the mere sums involved. The decision was supported by the centre right parties (except the right-wing populist UDC-SVP) and by employers: two actors that in the past had been at the forefront on opposing state intervention (and spending) on matters relating to the family. The early 2000 seem to coincide with a

change of orientations of employers attitude to family policy. Presumably, because of a tight labour market, and of the political problems in getting authorities and part of the population to accept a higher level of immigration, they seem to be turning to women as a growing source of skilled labour force over the next decades.

With the exception of these two important reforms that are being pursued at the federal level, most decision concerning family policy are taken by the cantons. In some cases, cantons have replaced the federal government when this has been ineffective in providing coverage. This is the case of Geneva, a French speaking canton, which after the defeat of the maternity insurance bill in 1999 decided to go alone and introduced a cantonal maternity insurance scheme, financed by wage-based contributions and replacing 80% of earnings for 16 weeks (*Le Temps* 3.07.2000; *Le Temps* 15.12.2000). In Geneva, like in all French and Italian speaking cantons, the 1999 proposal had been largely accepted by voters. Other French speaking cantons have since started working on similar plans, but the progress made at the federal level, most notably with the so called “Triponez” proposal, has somewhat slowed down the speed of cantonal efforts in this field. Given the lack of federal provision in the field, the availability help for working women is very unequal across the country.

Generally speaking, it is in the French speaking part that one finds the best child care facilities and coverage for maternity.

### ***The harmonisation of cantonal family benefits***

An additional important policy initiative in the field of family policy is the attempt to harmonise the cantonal systems of family benefits. At present, with the exception of farmers, who are covered by a dedicated federal scheme, coverage is provided by the Cantons. Differences can be substantial. In all but one canton (Valais), child benefits are provided on a contributory basis. The self-employed are included (as contributors and beneficiaries) only in 10 cantons. In addition, nine cantons supplement the federal child benefit provided for farmers. Benefits levels are also very different: in 2001 the maximum monthly benefit available ranged from CHF 150 (about 100 €) in Zurich and in Argovia to CHF 378 (about 250 €) in Valais.

The federal government does not wish to take over responsibility for running the scheme, but aims at harmonising it by imposing some minimal conditions. The cantons would remain responsible for the implementation and retain the possibility of offering a more generous treatment. The proposal, which like the ones discussed above initially came from a member of parliament (*initiative parlementaire* Franckhauser, of 1991), expects cantons to provide benefits worth a minimum of CHF 200 per months per child. In addition, all waged employees should be entitled to a full benefit (currently in some cases, part time workers receive benefits reduced in proportion to their working time. Benefits should be made available to all resident families, including the self-employed and those not involved in paid employment, though in this case they can be provided on a means tested basis. With regard to financing, the cantons remain free to chose the instrument of their preference (Jaggi 2000: 211-214).

## **Minimum income guarantee / social assistance**

Switzerland does not have a national minimum income programme. Income support is provided at the cantonal level by a number of different schemes. The most important is certainly social assistance. The Constitution obliges cantons to run social assistance programmes, but leaves them free to organise them as they wish. In a number of cantons, mostly in the French speaking part of the country, the traditional social assistance schemes have been supplemented by new minimum income programmes similar to the French RMI, which together with a benefit provide also a reinsertion dimension, usually a condition to receive the benefit.

The debate on low paid people tends to assimilate them with low income families, and as a result, the solutions that are put forward belong mostly to the area of family policy. The left and the unions favour a substantial increase in child benefits, along the lines of the so called “Ticino model” (Ticino is one of the Swiss cantons) a system that combines modest universal allowances with more generous means-tested benefits targeted on « risk groups » like single parents, or large families. The Socialists and the social wing of the Christian-Democrats broadly support this idea, and has made some proposals aiming at the extension of the means-tested pension and invalidity benefit supplement to working families. The benefit (*Ergänzung Leistung/Prestations complémentaires*), does not carry so much social stigma as standard social assistance. This proposal, so far at least, seems unlikely to generate sufficient consensus.

Perhaps surprisingly, the idea of tax credit along the lines of the British WFTC or the American EITC has not been met with enthusiasm by Swiss political actors. The trade unions have on several occasions expressed their opposition to a measure that they regard as a subsidy for employers. The policy of the main trade union confederation in this field is to demand the introduction of a national minimum wage.

Like in many other areas, income support policy is highly fragmented, between the different levels of government and labour market regulatory institutions (collective bargaining). In the remainder of this chapter policy and debates in these different are reviewed.

### **Social assistance**

Because social assistance is a cantonal programme, benefit levels vary from one canton to the next. There is, however, a co-ordinating body (CSIAS<sup>16</sup>) which issues recommendations concerning social assistance benefit levels. These are generally followed by the cantons with only small variations. The recommended benefit for a single person is of approximately Euro 640, and of Euro 1370 for a family of four (Wyss 1999: 26). In addition, recipients have their accommodation expenses paid for and receive an health insurance voucher, which they need to purchase the compulsory health insurance coverage. Given the lack of federal government direct involvement in social assistance, CSIAS plays a de facto reference role in decisions concerning reform and adaptation of the social assistance schemes. Formally, however, every legislative change is adopted by individual cantons.

The Swiss social assistance system was conceived in context in which it was used only by marginal, unemployable persons. However, partly as a consequence of higher unemployment,

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<sup>16</sup> Conférence intercantonale des Institutions d'aide sociale

but also as a result of labour market changes, social assistance is becoming an interface between work and welfare for an increasingly large number of people. For families, it sometimes substitutes for the weakness of family benefits, supplementing the incomes of low-paid breadwinners (CSIAS recommends a 20% benefit supplement for every resident child). However, it is widely accepted that most social assistance systems are rather inadequate to take up this new role. First, social assistance recipients face marginal rates of taxation of 100 percent: every extra Swiss Franc earned is deducted from the benefit<sup>17</sup>. Second, in many cantons social assistance benefits are treated as loans which theoretically should be repaid once recipients get back to work. In reality this requirement is generally applied only in the case of inheritance or lottery gains, but debt records are generally kept for several years. Finally, social assistance recipients are generally excluded from taking part to the federal active labour market programmes that are available to insurance benefit recipients. This is why in several cantons, social assistance is being reformed or new programmes for the long-term unemployed are being introduced.

The number of beneficiaries of social assistance schemes as well as the total amount spent on the scheme has increased significantly over the last few years. Expenditure on the scheme rose from 0.6 of GDP in 1990 to 1.2 in 1996 (OFS, personal communication), and a majority of cantons saw a rapid increase in the number of cases and in the amounts paid. Between 1990 and 1998, the number of recipients increased from 5,000 to 8,000 in the Canton of Geneva; from 5,000 to 11,000 in the Canton of Vaud; from 15,000 to 40,000 in the Canton of Bern; and from 10,000 to 24,000 in the Canton of Zurich (OFS 2000: 338). Groups that are particularly likely to be social assistance beneficiaries are lone parents and families with children, but also young single people.

Throughout the 1990s a number of cantons have reformed their social assistance systems so as to make them more suitable to the new economic context and the increase in the number of beneficiaries. A few cantons have introduced brand new schemes with the objective of favouring reinsertion into the labour market of social assistance recipients (see next section). In many cases, however, changes have been limited to amend to the introduction of an active labour market policy dimension in the social assistance scheme (sometimes by allowing recipients to participate in the measures run by the unemployment insurance scheme).

In other cases, cantons have set up a cantonal unemployment assistance scheme meant to provide coverage alternative to social assistance to unemployed people who have exhausted their entitlement to unemployment insurance benefits (limited to two years). This is the case for example of the cantons of Ticino, where after the 2-year unemployment insurance period, jobless people can claim cantonal unemployment assistance for 18 weeks, and of Zurich where the duration of the cantonal scheme is of 30 weeks (OECD 1999). There are a number of important differences between cantonal unemployment assistance schemes and standard social assistance. The most important is probably a symbolic one, social assistance being seen as a highly stigmatising scheme. In addition, funds received from these alternative schemes are not considered as debt and must not as a result be repaid.

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<sup>17</sup> CSIAS has recently changed its guidelines in relation to this issue. In the past, disregards for income from work were acceptable only if “paid activity is likely to improve the beneficiary’s long term situation” (OECD 1999: 48). Since 1999, however, CSIAS recommends the labour market integration should be encouraged by all means (ibid.).

### ***Cantonal minimum income programmes***

A few, essentially French speaking cantons have introduced new minimum income programmes, modelled after the French RMI. This has been the case of the Vaud and of the Geneva cantons, which have introduced schemes known as the RMR (*Revenu Minimum de Réinsertion*) and the RMCAS (*Revenu Minimum Cantonal d'Aide Sociale*). Like cantonal unemployment assistance schemes, funds paid through RMR or RMCAS are not treated as debt. Benefit rates are slightly higher than in the case for social assistance, but beneficiaries are expected to engage in a reinsertion activity. This can be oriented towards labour market integration, but considering the fact that most of those who enter RMR or RMCAS have already benefited from two years of unemployment insurance re-insertion measures, in many cases to aim for re-integration in the (primary) labour market is not appropriate.

Other reinsertion measures that beneficiaries must in theory undertake include voluntary work, participation to activities that can enhance recipients' social autonomy. In general, however, if the recipient declines to participate in such reinsertion activities, no sanctions are applied.

### ***Family benefits***

The debate on poverty in Switzerland has tended to focus on family policy and benefits as the most likely solution to them. This may be due to the fact that recent poverty studies have shown that the groups who are mostly exposed to the risk of insufficient income are single parents and families with children (Caritas 1998; Leu et al. 1997). A second possible explanation is that considering the high level of fragmentation of the Swiss political system, it is virtually impossible to introduce new schemes dedicated to a new social problem, and most actors may believe that it is politically easier to re-orient towards a new goal and existing programme (Guldimann 2001).

Traditionally, in fact, family benefit schemes, had the objective of providing a partial compensation for the additional costs due to the presence of one or more children in a household. Standard family benefits, as a result, are not means-tested nor do they have other anti-poverty features. However, in recent years, we have seen the introduction on some cantons of means tested family benefits for some specific groups. The Ticino canton is often quoted as an example in national debates. There the traditional family benefits are supplemented by a series of means tested benefits for single parents and low income families (*assegno integrativo* and *assegno di prima infanzia*).

### ***Health insurance vouchers***

Health insurance premiums constitute a major item of expenditure in low income families. That is why, in 1994 a new health insurance voucher has been introduced to help them cover the compulsory health insurance premiums. The voucher does not cover the totality of the premium, but those who are on social assistance or on a means-tested pension (EL-PC) get the rest of the premium paid for by their respective means-tested scheme. This health insurance voucher is becoming an important element in the overall effort to improve the quality of life of the working poor.

Health insurance vouchers are provided jointly by the federal and the cantonal governments, through a "matching" approach. This means that the federal government makes available a

block grant to each canton for this programme. Cantons are then free to decide how much of the amount they wish to use. The condition is that they match it with same amount of own funds. Typically, there are about half of the cantons who use the total amount available, while the other half uses only a proportion of it. Individuals are eligible for health insurance vouchers if their net income does not exceed a threshold which varies between cantons. Below that threshold the voucher pays a proportion of health insurance premiums which increases as income decreases. For a single person the average threshold for having access to the health insurance voucher is a gross income of approx. CHF 30,000 per annum, or 50% of the average wage. For a family of four, it is about twice this amount (Kocher 1996: 135).

### ***Minimum wage***

The position of the main trade union confederation (USS-SGV) on the issue of the working poor, has been to favour the introduction of a national minimum wage, symbolically set at CHF 3,000 per month (Gaillard 2001). A recent study carried out on behalf of the Federal Ministry for economic affairs, has argued that a national minimum wage set at 3,000 CHF per month would be less effective than a tax credit programme in helping poor families achieve earnings above the poverty threshold (*Le Temps* 3 July 2002). Besides the trade unions, the idea of a national minimum wage doesn't seem to be attracting political support.

### ***Key issues and debates***

Because of the highly fragmented character of social policy making in Switzerland, the debate about minimum income guarantees spans across several policy areas. First, **in relation to non-working people**, the debate focuses on the modernisation of the social assistance system and its adaptation to the new tasks it needs to take on since the 1990s. The key issues here are the strengthening of the reinsertion dimension and the introduction an incentive structure that is clearly favourable to employment. This would entail, among other things, the abandonment of the reimbursement requirement, which even if not always enforced, may function as a disincentive to re-enter employment (because of fear of enforcement), and the introduction of a disregard for earnings from work. Whether this adaptation process should be carried out within existing social assistance schemes, or by setting up new one, is a matter that will probably be decided at the level of individual cantons.

**With regard to the working poor**, it is widely now widely accepted that the phenomenon has reached worrying proportions, also thanks to a number of studies published recently (Caritas 1998; Streuli and Bauer 2001; Leu and Gerfin 2001). There little agreement however, on how to deal with it. The unions are virtually alone in demanding a national minimum wage. Politicians of the main centre-right parties (PDC, PRD, UDC) seem to favour tax deductions for families. Of course, this measure is only able to deal with part of the problem, considering that many working poor households pay little income tax to start with.

The Socialist and the social wing of the Christian democrats seems more inclined to favour intervention through the family benefits system. The argument is that together with the basic universal family benefit, additional means-tested provision should be available to working families (especially single parents). As already mentioned, the idea of a negative income tax or tax credit programme doesn't seem to be attracting considerable interest in the country. The only significant exception is the very recent report mentioned above (*Le Temps* 3 July 2002) which argues that a combination of tax credits/ tax deduction would be a more effective way

to deal with the problem of the working poor than a national minimum wage. The report has been given political weight by the endorsement of the Federal Minister for economic affairs, Pascal Couchpin, but at the time of writing it is difficult to say whether or not the proposed measure will actually make it into the national political debate.

Finally, the issue is further complicated by the problem of health insurance premiums. These, being unrelated to earnings and calculated individually are a major source of disadvantage for low income families, who must pay a considerably higher proportion of their earnings in for health insurance premiums than is the case for single persons or middle to higher income households. Expensive health insurance costs are one of the reasons why families on a relatively high income may be still considered as working poor<sup>18</sup>. Here the debate on the working poor intersects with that on health care cost containment and health insurance financing. A number of proposals have been made in both areas, including a referendum initiative sponsored by the Socialist party that aims at shifting financing from the current individual premium system to a mixed system based on VAT and earnings related premiums.

## **Unemployment policies**

The 1990s have seen a radical transformation of the unemployment insurance scheme, which had previously been used mainly as an instrument for dealing with frictional unemployment. The initial stimulus for reform was the deficit which emerged in the early 1990s as a result of the rise in unemployment, which convinced the Federal government to act with an urgent decree<sup>19</sup> in 1993. It included a series of measures aimed at adapting the scheme to a context of higher unemployment. For those without dependent children the replacement rate was reduced from 80 per cent to 70 per cent of insured salary but the entitlement period was extended from 250 working days to 400. Contribution rates were increased and a stricter definition of ‘adequate work’ was introduced, whereby unemployed persons could be required to accept jobs with salaries lower than insurance benefits. These measures lasted until December 1995 in order to allow policy-makers time to introduce more substantial legislative change, which came in the shape of the 1995 unemployment insurance reform.

### ***The 1995 unemployment insurance reform (2<sup>nd</sup> LACI-AVIG revision)***

The reform was drafted by a joint group of representatives of employers and trade unionists, and accepted by parliament without major changes. As a clear compromise between different conceptions, it included measures going in diverging directions. On the one hand the financial base of the scheme was strengthened and more funds were made available for labour-market programmes, such as vocational training and job creation schemes. On the other hand, the maximum entitlement period was reduced to two years, whereas under the previous legislation benefits could be drawn practically indefinitely, provided the recipient was prepared to participate in labour market programmes.

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<sup>18</sup> In one study, for example, a family of four is considered in “working poverty” if its net income is below CHF 3633.00 per month, which corresponds to approximately Euro 2,400 (Leu and Gerfin 2001).

<sup>19</sup> Urgent decrees differ from standard legislation because their enforcement cannot be delayed by a referendum.

The joint contribution rate was raised to 3 per cent (1.5 per cent each for employers and employees), payable on earnings of up to 160 per cent of average salary. An additional contribution of a joint rate of 1 per cent is charged on earnings between 160 per cent and 400 per cent of average salary. This measure is temporary, in principle at least, until the debt accumulated by the scheme with the government is repaid. In addition, five per cent of current expenditure is financed by a federal subsidy. As far as benefits were concerned, the changes introduced with the urgent decree were maintained. The entitlement period was fixed at two years, and during this period unemployed persons are required to undertake retraining, to take part in a job creation scheme or take up temporary work.

The 1995 reform was successful in eliminating the deficit in 1995. However, as the active labour market programmes were introduced in 1996 and 1997, expenditure increased and the deficit re-emerged. The response of the Federal government was to adopt a further urgent decree which included cuts in benefits of between one and three per cent, depending on their level, as well as the abolition of the subsidy paid to the unemployment insurance scheme by the government. This decree, unlike the previous one and unlike the 1995 reform, did not include measures of expansion or improvements in provision. Probably for this reason, the decree was challenged by a local association of unemployed people, who managed to collect the 50,000 signature needed to call a referendum on the piece of legislation. The vote took place in September 1997 and saw the rejection of the decree by a small majority of voters (50.8 per cent): a surprising result given the fact the decree was openly supported by the three of the four government parties (the Socialists being the only ones to oppose it).

The unemployment rate after 1998 has declined substantially, and seems to have stabilised at around 2 %. But the unemployment insurance debt was at that time still important (almost CHF 9 billion) and the 1999 federal law about the stabilisation program extended the financial measures taken by the 1993 urgent decree up to the end 2003. As a result, the unemployment insurance financial solvency for the period following 2003 would be set rapidly. In addition, a parliament motion in November 1998 asked the Federal Council for presenting rapidly a reform project which aims to stabilise insurance finance. This stabilisation would be accompanied by a contribution rate of 2 per cent and the suppression of the temporary 2 per cent contributions on high earnings introduced by the 1995 reform. This motion requires also that the federal and cantonal subsidy be stopped.

### ***The 200X unemployment insurance reform (3<sup>rd</sup> LACI-AVIG revision)***

For all these reasons, the Federal Council in 1998 asked an expert commission to elaborate a project which would take into account these requirements. There were nevertheless differences between the motion proposals and the result of the expert commission work. As a matter of fact, the expert commission proposed to maintain the authorities financial subsidies and to decrease the additional contribution to 1 per cent. The arguments to keep these financial resources concerned the long term financial solvency.

After the usual consultation procedure at the end of the year 2000, the Federal Council was able to meet the deadline set by the 1998 motion and suggested a law project for the third unemployed insurance reform in February 2001. The main points concerned the contribution rate and the entitlement period. Indeed, this law project proposed to reduce the normal contribution rate to 2 per cent (which will have for consequence a reduction of receipts of about 2 billions) and to decrease the additional contribution rate on high earnings to 1 per

cent. In addition, federal and cantonal authorities would maintain their financial contributions which wouldn't depend anymore on total expenditure (five per cent of expenditure) but would consist of a set amount.

This law project proposes also measures related to the entitlement period which will be reduced to 400 days (1.5 year). Nevertheless, this measure won't apply to workers aged over 55 years, people registered in the invalidity insurance or in the accident insurance. For these people entitlement period will be maintained at 2 years as long as they have contributed to the unemployment insurance at least for 18 months. In addition, the minimal contribution duration to open the entitlement period will be increased from 6 to 12 months. Considering all these measures, this third revision will allow to reduce unemployment insurance expenditures and, as a result, the contribution rate of 2 per cent will be maintained. The Federal Council considers that these entitlement period proposals can also be accepted today given that the measures introduced by the unemployment insurance scheme since 1998 have allowed most of unemployed people to reintegrate rapidly to the labour market.

The Committee for Social Security and Health of the Council of States began to examine this project law in April 2001 and approved it in most of the third revision elements in May 2001. Some elements of this revision were modified. For instance, this committee did not maintain the additional contribution rate on high earnings while keeping the possibility to reintroduce it if the debt exceeds a given threshold.

The Committee for Economic Affairs and Taxes of the National Council examined this third revision at the end of 2001. It proposed to maintain the additional contribution rate of 1 per cent on high earnings and suggested to introduce two new elements. The first one would concern the possibility to increase or reduce by 0.5 per cent the contribution rate according to the financial situation of the scheme. The second one would allow the highest unemployment rate cantons to maintain the entitlement period at 2 years (520 days).

After some deliberations in the parliament, the third unemployment insurance revision was accepted in March 2002. The main points of the Federal Council law project are maintained, but several modifications were introduced. Dealing with the financial aspects, the current contribution rate of 3 per cent is reduced to 2 per cent. The temporary contribution rate on high earnings will be abolished at the end of 2003 (when the unemployment insurance debt would be cleared) but it could be reintroduced if the unemployment insurance debt becomes substantial again.

Another measure concerns the entitlement period which will be reduced to 400 days. Some exceptions introduced in this third revision take into account workers over 55 years, people registered in the invalidity insurance or in the accident insurance and cantons with a high unemployment rate<sup>20</sup>. In addition, the minimal period duration to open the entitlement period is increased from 6 to 12 months.

This third unemployment insurance revision was not accepted by all the organised interests. That is why the main federation of Swiss Unions (USS), supported notably by the federation Christian unions (CSCS), called a referendum in March 2002. These associations find that the lean improvements in the third revision of the unemployment insurance don't compensate the retrenchment elements (like the entitlement period reduction or the increase in the minimal

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<sup>20</sup> Nevertheless, this last measure is provided by the unemployment insurance revision only if the cantons take charge of 20 per cent of expenditures.

contribution period to open the right to unemployment benefits). In addition, these associations ask for the confirmation of the unemployment contribution on high earnings.

The Socialist party is the only governmental party that doesn't support this unemployment insurance revision. The other three governmental parties hold on this revision. The Democratic Union of the Centre (UDC) proposes even substantial measures that increase to 18 months the minimal contribution duration to open the entitlement period and that reduce more substantially the entitlement period. In this respect, the UDC is supported by the Union of Swiss Employers that are agreed with these supplementary measures.

## **The finance of welfare**

### ***Fiscal policy***

The Swiss fiscal system, reflecting the federal structure of the state, is highly fragmented. At the federal level, the main revenues come from social security contributions, VAT (introduced in 1997) the federal direct tax (FDT) on personal income and on corporate profit and capital, the withholding tax<sup>21</sup>, stamp duties and the military tax. At the cantonal level, the main taxation is on personal income and net wealth, on business profits and capital. Municipal taxes are usually levied in the form of tax supplements on cantonal direct taxes. Cantonal governments can set their own income and corporate tax rates independently from the federal state, and within cantons individual communes have ample room for manoeuvre in setting municipal tax rates, with the result that total tax rates vary significantly among cantons, and within Cantons among communes. Overall the cantonal and local levels, excluding social expenditure, account for two third of the total public revenues and expenditures.

In international comparison, Switzerland generally stands out as a low tax economy. The proportion of GDP attributed to taxation is lower than the OECD average and closer to the US than to most European countries. Recently released OECD figures, however, have challenged this received view, by including under the rubric 'taxation' compulsory payments to occupational pension funds and health insurance schemes. According to the OECD these payments must be included in order to make Swiss figures comparable internationally. The result, of this change in accounting practices has been a dramatic increase in the proportion of GDP considered as 'taxation', with Switzerland now being considered the third greediest government in the OECD, after Sweden and Finland (table 5). This result, surprising as it may be, has been confirmed by secondary analysis of national data produced by the Swiss statistical office (Lane 1999).

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<sup>21</sup> The withholding tax ("impôt anticipé") is a tax levied at source at a flat rate of 35% on the income of personal capital assets (interest, rent, dividends). This tax can be refunded when the taxpayer declares the relevant earnings in the framework of cantonal income and property taxes.

Table 5 : Total taxation as a proportion of GDP, Switzerland and selected countries, around 1995.

	Older figures	Revised figures
Switzerland	34.6	53.8
France	45.4	48.2
Germany	39.2	45.9
Sweden	52.0	57.5
United Kingdom	35.9	37.2

Sources. Older figures OECD, Revenue statistics, Paris, 1997. Revised figures: OECD, National Accounts, Paris 1998.

The revised OECD figures, in fact, raise questions regarding what should be considered as taxation and what should not. The inclusion, or non-inclusion of health insurance premiums and occupational pension contributions into the tax bill can make a substantial difference in relation to the country's position with regard to other economies. The question of whether or not these items should be included is further complicated by the fact that such payments include a compulsory component and a voluntary one. For instance, as far as health insurance is concerned, residents are obliged to purchase a policy which provides only basic health coverage, but it is common to buy additional provision as well. Similarly, only a minimum level of occupational pension coverage is mandated by law, with pension funds being free to offer more. Currently available statistics do not allow to distinguish between compulsory and voluntary payments to either of these schemes, and as a result, it is not possible to say how much of health insurance expenditure and of occupational pensions contributions should count as taxation (Kriesi 1999). The true figure for Swiss taxation as a percent of GDP should thus be somewhere in-between the two figures put forward by the OECD.

### ***Paying for welfare***

The Swiss welfare state is financed, predominantly, from employment-related contributions (see table 6). Rates have been stable over the past decade, but additional finance has been brought to the welfare state through a 1 percentage point increase in the standard VAT rate. The current low level of VAT ( 7.5 percent on most goods and services) allows ample scope for further increases, which may be needed in order to finance AVS over the next decades. According to the government's own estimates, a VAT rate of 13.3 percent, thus lower than the European average, would suffice to maintain the current level of welfare provision until 2010 (IDA FiSo 2 1997).

Besides various forms of taxation and social contributions, the Swiss welfare state is also financed through compulsory health insurance premiums, that are not proportional to the insured person's income. In 1996 health insurance premiums amounted to 3.6 of GDP, making it an important source of revenue for the welfare state. Health insurance premiums are a particularly regressive form of taxation: they perform a substantial amount of inter-generational redistribution, but the effort required from each individual is not proportional to its financial capacity. Health insurance funds, in fact, are prohibited by law from charging different amounts in relation to the level of risk represented by each member. As a result,

younger members, regardless of their income, must subsidise older ones. For example, while the real cost of insuring a 20-year old is just over Euro 600 per year; the same figure for a 86-year old is approximately of Euro 5600. Both of them, however, will pay the same amount in premiums, ranging between Euro 1000 and 3000, depending on the provider they have chosen and on the canton in which they live (risk distribution takes place at the cantonal level). Because of the existence of a means-tested health insurance voucher (discussed above) premiums hit particularly the lower middle classes, who are not entitled to it, but for whom the premium (which depends on family size<sup>22</sup>) consumes a relevant proportion of disposable income.

Table 6: Financial indicators for the main social programmes (receipts and expenditure as a percentage of GDP)

	Contribution rates		percentage tax financed	Receipts 1997	Expenditure 1997
	Employer	Employee			
Basic pension (AHV-AVS)	4.2	4.2	20	6.8	6.9
Invalidity insurance	0.7	0.7	50	1.9	2.1
Means-tested pension and invalidity benefit (EL-PC)	-	-	100	-	0.5
Occupational pensions	6*	6 *	0	12.7	7.3
Health insurance	individual premiums		12.4	4.8	4.8
Unemployment insurance	1.5 / 1	1.5 / 1	5	1.5	2.2
Social assistance	-	-	100	-	1.2
Family benefits	-	0.1 - 5.5	NA	1.1	1.1
Other federal benefits	1 - 2	0.2 - 17.2	0	1.9	1.8

\*typical values (see text)

Source: recalculation of data from *Sécurité sociale* 1/2000, 42-43.

### **Budget deficits**

Traditionally, the Swiss approach to fiscal and spending policies, has been characterised by financial prudence. The combined budgets of the three levels of government –Federal

<sup>22</sup> Children aged between 0 and 18 pay a reduced rate.

government, cantons and communes—have typically produced surpluses throughout the 1980s. Things started changing with the recession of the 1990s. Since 1991, government outlays have exceeded its receipts, and the resulting budget deficit has increased to peak at around 3 per cent of GDP in 1993-1994. The general government budget deficit is mainly due to the imbalances at the federal level (48 per cent) and at the cantonal level (31 per cent), though there are substantial differences between cantons (OFS 1998a)

Government budget deficits emerged at the same time as the unemployment rate started climbing, in the early 1990s. Much of the increase in the federal government budget deficit, in fact, is due to the unemployment insurance fund deficit, which is compensated by federal (and cantonal) government(s) payments. The unemployment insurance fund went from producing a slight surplus the late 1980s to making increasingly large deficits in the first half of the 1990s. The increase in the rate of unemployment accounts for the steep rise in expenditure, and for the stagnation of receipts. The deficit peaked in 1992, when it reached CHF 2.7 billion, or 0.8 per cent of GDP. The deficit was dramatically reduced in 1995, thanks to an increase in the contribution rates for employer and employees, but has started rising again as new active labour market policies (financed by the scheme) have been introduced in 1996 and 1997. The increase in unemployment has had an impact on other areas of social expenditure such as social assistance and invalidity benefits. As seen above, expenditure on social assistance as a proportion of GDP has doubled between 1990 and 1996.

A similar trend affected expenditure on invalidity benefit, although this may be due to factors other than unemployment, as the number of beneficiaries had started increasing before the emergence of relatively high unemployment rates. Finally, the basic pension scheme fund (AVS), has also started making a slight deficit in 1996 (CHF 29 million). This development, which is mainly due to population ageing, was nevertheless expected to take place a few years later. Its occurrence in 1996, is mainly due to the lower revenues for the scheme due to unemployment and more in general, the recession. Thanks to the attribution of 1 percentage point of VAT to the scheme, it has restarted making surpluses in 1999.

Swiss government budget deficits remain acceptable by international standards. Switzerland would have qualified for EMU according to the Maastricht treaty criteria. This development, however, is generally regarded as unacceptable by the policy-makers community. Since the early 1990s a number of plans to find a financial equilibrium have been adopted, but with a limited degree of success only. The debate on how to restore a balanced budget is currently high on the agenda, both at the federal level and in a number of cantons. The challenge facing policy-makers is to balance budgets without giving up the current low rates of taxation and in a way which can generate sufficient agreement to get their proposal past the various veto points which characterise the Swiss political system.

### ***Reforms in the 1990s***

While the fiscal system remained largely untouched during the previous decade, the 1990s saw some policy change, the most important of which has been the introduction a value added tax (VAT). Attempts to introduce a VAT were made (unsuccessfully) as early as the 1970s, when on two occasions (1977 and 1979) voters turned down government's plans. The 1990s saw a renewed interest in tax reform, with two additional attempts at introducing a VAT, in 1991 and in 1993, of which the latter succeeded.

The 1991 attempt to introduce VAT was part of a larger package of fiscal reforms. First, a VAT was to replace the main form of indirect tax of the time, a Turnover tax (TT). The TT was a tax levied on final sales, but could not be deducted from investment goods and equipment, which meant that final products were charged at a higher rate than the nominal TT rate. Moreover, a large part of the services sector was exempted from the TT, reducing the potential base for indirect taxation. The second measure, strongly advocated by the banking sector in response to deregulation of financial markets, was the reduction of stamp duties affecting financial and capital transactions. These two measures benefited exclusively the business community. To obtain the support of the left, some compensation measures were introduced: the definitive inclusion of the FDT (the most progressive tax) in the constitution<sup>23</sup>, the possibility to raise the rate of the VAT from 6.5 to 7.5% in order to finance the AVS pension scheme and third, the partial reform of the business taxation.

On the whole, this “fiscal package” was expected to increase government revenues by CHF 200 millions. Contrary to the 1970s, this time the left was in favour of VAT, because of the compensation measures. The business community was divided. The peak business associations (USCI and USAM) were against the proposal, because they regarded the concessions made to the left as too important. In contrast, the Swiss Bankers Association and some sectoral associations representing the export oriented sector, supported the reform. From their perspective, the introduction of VAT and the reduction of the stamp duties was an urgent matter. In June 1991, however, 54% of voters rejected the “fiscal package”. Soon after the rejection of the first ‘fiscal package’, a new proposal to introduce VAT was adopted by parliament in June 1993. This second attempt, which contained only minor compensations for the left, was accepted by a majority of voters in November 1993.

Current debates on fiscal policy focus on deficit reduction. The most recent measure taken in this field was the adoption of the ‘Consolidation plan 2001’ by parliament and its subsequent endorsement by voters in a referendum. Under this name, a new article was introduced in the constitution which states that the deficit should not exceed CHF 5 billion in 1999; 2,5 billion in 2000 and, 1 billion in 2001 (about 2% of the total revenues). These results should be reached only by expenditure reductions. If the economic situation worsens, however, Parliament can delay for two years the achievement of this goal. The referendum rights are maintained, which means that if the reform of a law is needed in order to achieve the goal, voters still have the right to call referendums on relevant pieces of legislation. After 2001, the fiscal deficit should not exceed 2% of total revenues and if it does, it should be corrected the next year. In fact, provisional recently released provisional figures for 1998 and 1999 suggest that the actual size of the deficit is going to be significantly smaller, not so much as a result of the saving measures adopted, but as a consequence of higher than expected economic growth.

The most recent measure taken in this field was the adoption of the ‘Consolidation plan 2001’ by parliament and its subsequent endorsement by voters in a referendum. Under this name, a new article was introduced in the constitution establishing a budget target (*objectif budgétaire*). It states that the Federal government deficit should not exceed CHF 5 billion in 1999; 2,5 billion in 2000 and, 1 billion in 2001 (about 2% of the total revenues). These results should be reached only by expenditure reductions. If the economic situation worsens, however, Parliament can delay for two years the achievement of this goal. The referendum rights are maintained, which means that if the reform of a law is needed in order to achieve the goal, voters still have the right to call referendums on relevant pieces of legislation. After

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<sup>23</sup> The FDT was (and still is) a temporary fiscal instrument, which needs to be periodically renewed.

2001, the fiscal deficit should not exceed 2% of total revenues and if it does, it should be corrected the next year.

In 1999 and 2000 the actual size of the deficit has been significantly smaller than the limits imposed by the budget target, not so much as a result of the saving measures adopted, but as a consequence of higher than expected economic growth.

In contrast, in 2001 the budget target has not been achieved. A budget deficit of CHF 1.3 billion budget deficit came 120 million short of the target (which in the meanwhile had been adapted to GDP growth). This result, however, was to a large extent due to exceptional and unexpected expenses, among which the most important (and expensive) was a rescue package for the bankrupt national airline Swissair. Because the failure to reach the budget target was essentially due to exceptional circumstances, no measures have been taken.

## **Conclusion: a new direction for welfare reform?**

Over the period covered by our study, social policy-making in Switzerland has followed a number of different orientations. The second half of the 1980s has seen mostly policy stability. The last important developments in terms of the completion of the postwar welfare state, like the introduction of mandatory occupational pensions and a near-universal unemployment insurance scheme, had been secured only a few years earlier. The early 1990s were initially characterised by a strong polarisation of the political debate on social policy, due especially to a shift rightwards of the export oriented business and their political representatives. This polarisation proved rather unproductive in policy terms, as attempts at unilaterally imposing retrenchment-oriented reforms by the right-wing parliamentary majority failed.

Polarisation was followed by the search for compromises, in a more traditional style, so that since the mid-1990s some important reforms were successfully implemented (1995 pension reform, the 1995 unemployment insurance reform). Compromise was generally achieved with a combination of expansion and retrenchment measures within single pieces of legislation, which were able to attract the support of both the left and the right. Within the same period, other reforms that did not include this mix of measures going in different direction, invariably failed. The example here is the 1999 attempt at introducing a maternity insurance scheme which was rejected by voters.

At the time of writing, several important bills are being debated in parliament: the reform of the basic pension scheme (11 AVS-AHS revision), the reform of the law on occupational pensions, a new maternity insurance scheme, the reform of the unemployment insurance scheme and the encouragement programme for day care centres. Whether all these reforms will be successfully turned into law remains unclear. The unemployment insurance reform will almost certainly be subjected to a referendum, which may very well result in a negative vote. The same could happen to all the other reforms. Perhaps, the stronger bill is the encouragement programme for child care centres, which will probably not be challenged in a referendum.

The compromises reached so far in the field of pensions, do not seem to receive sufficient support. Contrary to what used to happen in the 1990s, now reforms that contain both

elements of expansion and retrenchment seem to be criticised by both camps. This may be so because these new compromises fail to bring about the sort of cross class coalitions seen around for example active labour market policies, gender equality in pensions and, more recently, on subsidies to child care. Policies that succeed in receiving widespread support tend to be those that do not de-commodify workers, but that manage to improve their living conditions and at the same time their capacity and willingness to participate in the productive economy. Policies that increase de-commodification (for example early retirement in AHV-AVS) or that try to re-commodify workers (reductions in compulsory occupational pension coverage) seem less likely today in Switzerland.

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