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Swiss Take Unique Path to Economic Prosperity in Europe Neutrality, Frugality, Direct Democracy and Low Taxes Help Swiss Thrive

By Marc C. Duff

On almost every major issue in the past five centuries, the small and stubborn Alpine country of Switzerland chose a different path than the rest of Europe. While much of the continent was involved in bloody wars, Switzerland remained neutral. While the rest of Europe faced powerful monarchies or transitioned to strong centralized governments, the Swiss insisted and fought to maintain their decentralized confederation of cantons, allowing the people to vote on treaties, taxes and other policies. Modern European governments expanded socialization of policies, naturally accompanied by high taxes and extensive government spending, while Switzerland thrives with a conservative frugal low tax philosophy. Swiss independence in matters of government is the reason this small country is one of Europe's most prosperous.

In times of financial difficulty, the Swiss people chose fiscal restraint rather than increased government spending. Following strong economic growth during the eighties, the Swiss economy was Western Europe's weakest, with growth averaging around zero percent per year. As a result of the economic stagnation, the country ran up large, unprecedented deficits, causing an accumulation of public debt. A popular initiative approved in 1998 essentially requires the federal budget to be balanced by 2001. The government is on track to achieve this, due to strict control of expenditures and higher tax receipts prompted by improved economic growth.

It has been a top priority of Switzerland's leaders to generate economic growth as a result of the country's recent lackluster record. In expressing the goals of the Swiss government for 2004, Confederation President Joseph Deiss stressed the top priority is economic growth. Deiss vehemently opposes using government programs to "kick-start" the economy and instead prefers sound economic policy to provide continuity and stability. He believes Switzerland will not improve without competition, fiscal discipline, investment in education and research, and support for research. Deiss also advocates reduced regulations and wants to increase the purchasing power of the Swiss by reducing taxes, especially for the middle class.¹

In contrast with economic philosophies of other European leaders, it is evident Switzerland has a different approach to prosperity. For example, Germany, France and Italy have recently advocated loosening the European Union's (EU) deficit rules in order to boost Europe's economies, putting them in conflict with other smaller EU countries.² At the same time, the

¹ Summarized from comments by Joseph Deiss in the publication "Pearls of Switzerland," Edition VII, page 88.

² James Neuger, "Germany, French, Italian Bid for Looser EU Rules Hits Resistance," [bloomberg.net](http://www.bloomberg.net), November 16, 2004

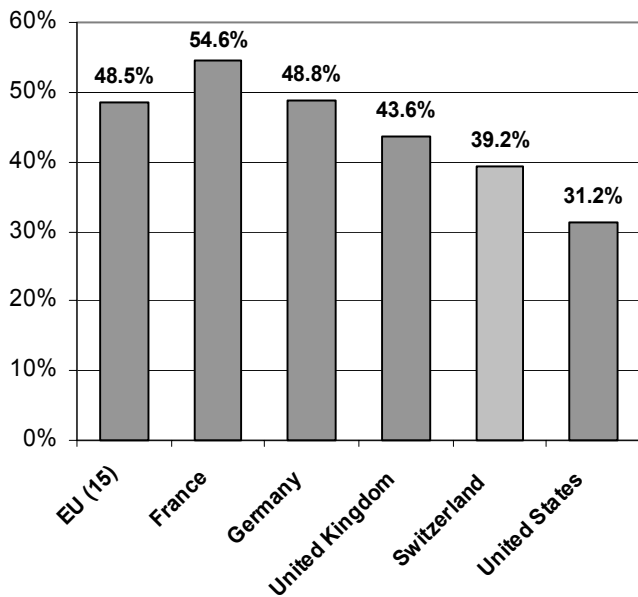
Germans, French and Italians rejected calls for government spending cuts. France and other EU members have also advocated equalization of corporate tax rates among member countries. This would likely mean an increase in corporate tax rates in low-tax countries and eliminate competition among countries for business activity. Interestingly enough, Switzerland takes pride in the tax competition that occurs within its own country among the cantons. Finally, the EU, with Germany and France as main participants, is seen by many as a body that seeks greater levels of regulation with its 97,000 pages of rules and regulations that member countries must abide by.³

In many respects, the Swiss economic perspective is closer to that of the United States than its European neighbors.

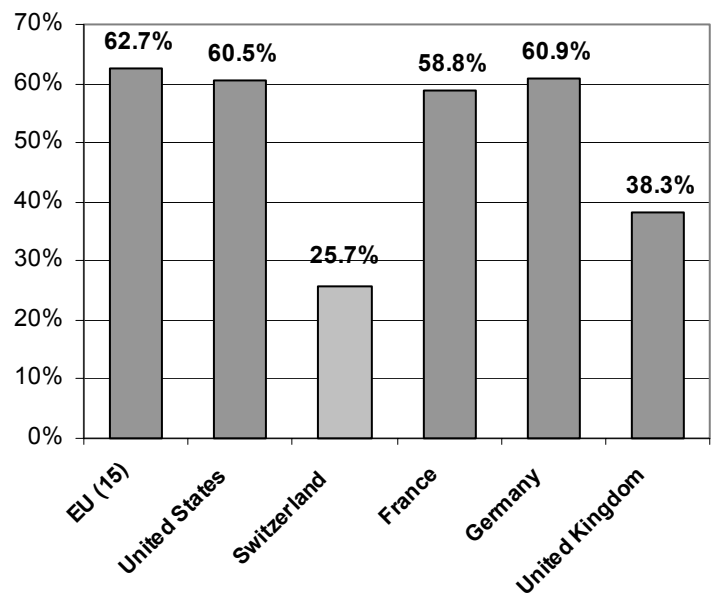
Switzerland Economic Statistics, Comparisons and Trends

- **GOVERNMENT SPENDING** – Switzerland’s frugal nature can be seen in its relatively low levels of government spending and debt, as seen in Graphs 1 and 2. The country’s government debt is more than half of that of the U.S. and most European countries, with the exception of the United Kingdom.

Graph 1: Government Spending as Percent of GNP (2003)



Graph 2: General Government Debt as Percent of GDP 2002



Source: Eurostat, Statistical Office of the European Union

³ Marian Tupy, “EU Enlargement – Costs, Benefits and Strategies for Central and Eastern European Countries,” Cato Institute, Policy Analysis, No. 489, September 18, 2003.

- **TAXES** – Switzerland maintains lower taxes rates than other developed countries in almost every category. As seen in Table 1, Switzerland’s Corporate Tax and Value Added Tax rates are significantly lower than that of the United State and of major European Countries. Swiss Income Tax rates also tend to be lower than most countries. Switzerland also taxes profits and headquarter costs at a rate one-third to one-fourth of most western European countries.⁴

Table 1: Tax Comparisons

	Value Added Tax Rate (%)	Corporate Tax Rate (%)		Income Tax (Highest Rate)
		Maximum	Average	
Switzerland	7.6	24.1	25.4	42.7
Germany	16.0	39.58	41.6	51.2
United Kingdom	17.5	30	30	40.0
France	19.6	34.33	35.42	60.4
Italy	20.0	38.25	36	45.9
Ireland	21.0	12.5	12.5	42.0
United States	na	40	35	45.4

Source: Geneva Department of Economy, Labour and Foreign Affairs, "International Comparisons," July 2003, and OECD.

- **WORKER PRODUCTIVITY** – Switzerland ranks well when comparing worker productivity, cost and regulations as seen in Table 2. According to the International Institute for Management Development, Swiss labor regulations provide significant flexibility in regards to hiring/firing and minimum wages. The Swiss also are more productive and work more hours than many of their European counterparts.

Table 2: Labor Related Comparisons

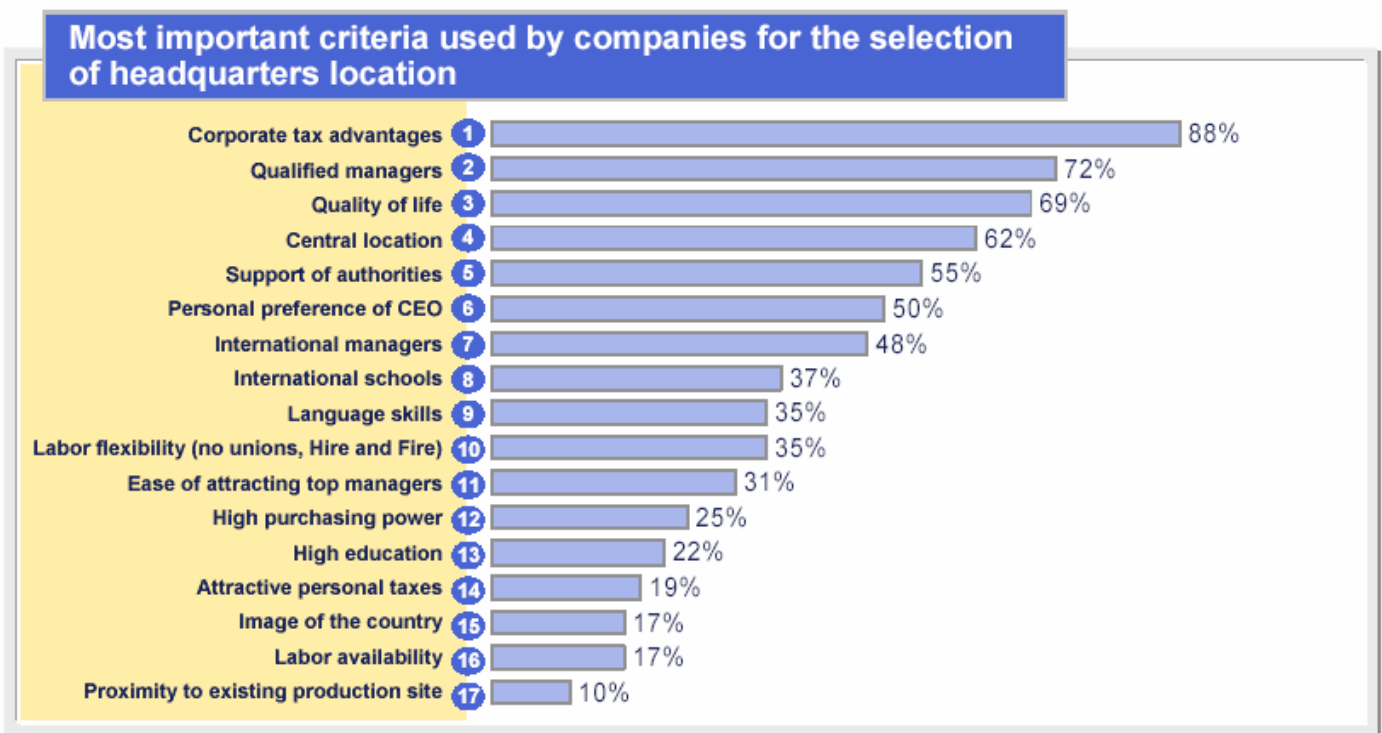
Country	Labor Regulations Score	Worker Productivity Index	Hours Worked Per Year	Compulsory Social Costs for Employers
Switzerland	7.605	125	1855	10.4%
United States	7.06	152	1918	6.6%(a)
Ireland	5.962	131	1798	10.8%
United Kingdom	5.542	107	1833	11.8%
Italy	3.56	106	1732	21.8%
France	2.469	115	1587	32.3%
Germany	1.192	100	1688	9.6%

(a) Does not include employer contributions for unemployment insurance because of variations in each state.

Source: Geneva Department of Economy, Labour and Foreign Affairs, "International Comparisons," July 2003.

⁴ Arthur D. Little, “Benchmarking of Global and Regional Headquarters in Switzerland,” October 2003.

- SWITZERLAND AS CORPORATE HEADQUARTERS** – Over the past few years, Switzerland has become one of the world’s leading locations for Corporate Headquarters. Of the world’s top 500 corporations that moved their global headquarters recently, 55% chose to locate in Switzerland. Of those corporations who chose Switzerland for their world headquarters, 55% were European firms while 23% were from the U.S. Corporations that chose Switzerland for their European headquarters were largely U.S. firms (88%). Some prominent U.S. companies with a Swiss headquarters include DuPont, General Motors, Oracle, Proctor & Gamble, Hewlett Packard, eBay, Polo–Ralph Lauren, Phillip Morris International, and General Mills. As indicated below, the primary reason Switzerland is chosen by a corporation for their headquarters is because of corporate tax advantages. Quality professional workers, the quality of life and Switzerland’s location also plays an important role.⁵



% answering this criteria to be most important



⁵ Arthur D. Little, “Benchmarking of Global and Regional Headquarters in Switzerland,” October 2003.