

SWITZERLAND

- While GDP per capita is relatively high in Switzerland, growth in potential output is being held back by low productivity growth, reflecting weak investment. Higher average hours worked puts GDP per capita more than 10% above the average of the advanced OECD countries while productivity per hour worked is lagging.
- Inequality in Switzerland declined over the period 2009-13, which puts the country in an even more favourable position in comparison with the OECD average. The Gini coefficient declined by 0.1 percentage point per year, and the share of income held by the poorest slightly increased.
- The foreseen reduction in the agriculture budget for the period 2018-21 is welcome, notably the cut in direct producer support. A convention between the federal state and cantons, which aims at improving labour force participation and promoting vocational training for older workers, women and migrants, was signed in mid-2015.
- Looking forward, the strength growth largely depends on the ability to revive productivity growth. Workers' skills could be improved by lifting education outcomes including by facilitating access to pre-schools (in particular for migrants) and better supporting disadvantaged university students. Both of these recommendations would also help to make growth more inclusive. Providing more childcare facilities, switching to individual taxation and changing corporate practices would facilitate full-time work by women, contributing thereby to raise labour utilisation. Increasing the share of indirect taxes could also lift growth, thereby boosting labour utilisation and productivity. Increasing ageing-related public spending endangers the ability of the government to maintain its agenda, reinforcing the need to focus on efficiency of expenditures, especially in education, health and pensions.
- Eliminating price support in agriculture and taxing polluting inputs and outputs would accelerate the transition to a sustainable agriculture sector.

Going for Growth 2017 priorities

Improve access and equity in education. Skills shortages, low enrolment in tertiary education and weak outcomes of pupils from low socio-economic background (especially migrants) limit growth in the long term.

Actions taken: A convention between cantons and the Confederation to reinforce the Skilled Workers Initiative (started in 2011) was signed in June 2015. It aims at promoting labour force participation (including for women), at maintaining employment of older workers, improving labour market and vocational training and increasing the participation rate of migrants. Ongoing projects include a global website (www.personnelqualifie-suisse.ch), a programme to improve the match between apprenticeship supply and demand (Match-Prof) and more inclusiveness in university recruitment.

Recommendations: Step up public funding of pre-schools, and increase immigrant participation by introducing targeted pre-school cash support. Consider teacher-training programmes focusing on helping teachers develop practical remedial skills. Improve access to tertiary education for students from lower socio-economic and immigrant backgrounds through special financial support (e.g. means-tested grants).

Reduce producer support to agriculture. Producer support to agriculture is high and multiform. It has adverse effects on productivity, trade negotiations, the budget and the environment.

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Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	1.4	0.6
Labour utilisation	0.4	0.4
of which: Labour force participation rate	0.3	0.2
Employment rate ¹	0.0	0.0
Employment coefficient ²	0.1	0.2
Labour productivity	0.9	0.2
of which: Capital deepening	-0.1	-0.1
Total factor productivity	1.0	0.3
Dependency ratio	0.2	0.0

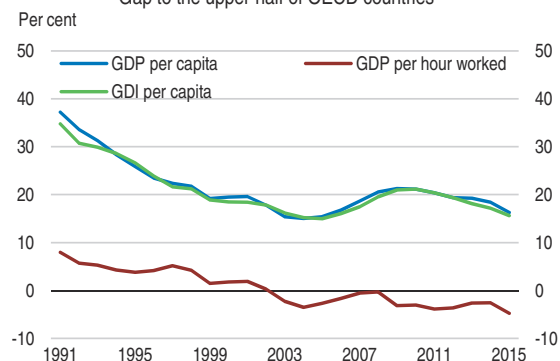
B. Inequality

	Annual variation (percentage points)	
	2013	2009-13
Gini coefficient ³	29.5 (31.7)*	-0.1 (0)*
Share of national disposable income held by the poorest 20%	8.6 (7.7)*	0.1 (0)*

* OECD average

C. GDP per capita is one of the highest in the OECD but productivity lags behind

Gap to the upper half of OECD countries⁴



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

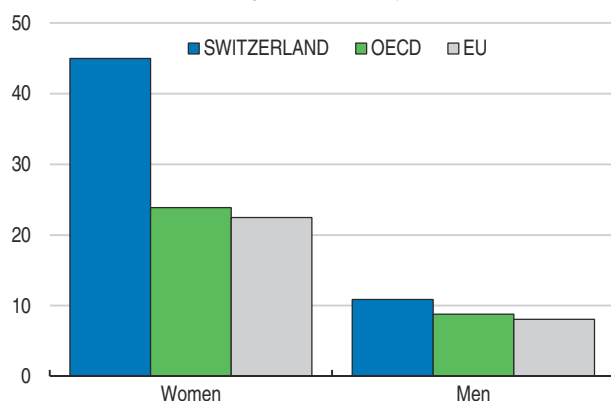
Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

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Policy indicators

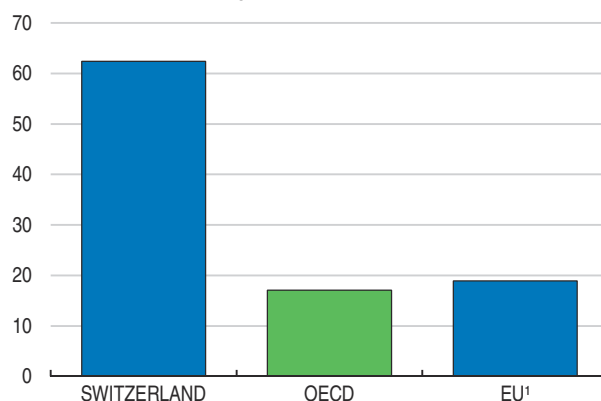
A. Part-time jobs are widespread among women

Percentage of total employment, 2015




B. Producer support to agriculture is very high

Percentage of farm receipts, 2015



1. For this measure, EU refers to all 28 members of the European Union.

Source: Panel A: OECD, *Labour Force Statistics Database*; Panel B: OECD, *Producer and Consumer Support Estimates Database*.

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Actions taken: In May 2016, the government announced that the proposed agriculture budget for 2018-21 will be 3.7% lower than for 2014-17 (about CHF 514 million): direct support will be cut by CHF 60 million, contributions for ensuring the food supply by CHF 40 million and support to investment by CHF 30 million.

Recommendations: Eliminate all forms of farm price support, and make all direct payments conditional on environmental outcomes. Consider introducing a tax on inputs (fertilisers) or outputs (methane from livestock) which are polluting, and end farmers' exemption from the mineral oil tax. Remove impediments to shifting agricultural land to other uses, including removing impediments to structural change in land law, especially inheritance rules favouring passing on farms between generations. Further lower protectionist measures in agricultural trade.

Reform the tax system. The prevalence of direct compared to indirect taxation impedes labour utilisation and allocative efficiency, hence harming labour productivity.

Actions taken: On 17 June 2016, the Swiss Parliament approved a bill on Corporate Tax Reform, notably to remove preferential tax regimes and to conform to international norms. To maintain attractiveness, the law includes the introduction of a patent box, tax deductions for R&D and notional interest rate deduction; several cantons will also revise down their corporate tax rates (for instance Vaud from 22% to 13.78%, Geneva from 24% to 13%). A referendum will be organised on 12 February 2017 which may cancel the law.

Recommendations: Increase the standard value-added tax rate, and remove exemptions from it. Lower personal income taxes, and introduce a CO₂ levy on transport fuels, combined with a variable congestion charge.

Increase public sector efficiency. Future spending needs will rise, challenging the current solid fiscal position and putting a premium on spending efficiency, notably in education, healthcare and pensions.

Actions taken: No action taken.

Recommendations: Switch the system for setting generic drug prices to reimbursing a pre-determined fixed amount. Encourage systematic benchmarking of hospital costs, and consider new legislation to control them. Fix the retirement age at 65 for both sexes and thereafter link it to life expectancy; to cut early retirement, reduce existing incentives, and pay a larger pension premium for those who choose to work longer.

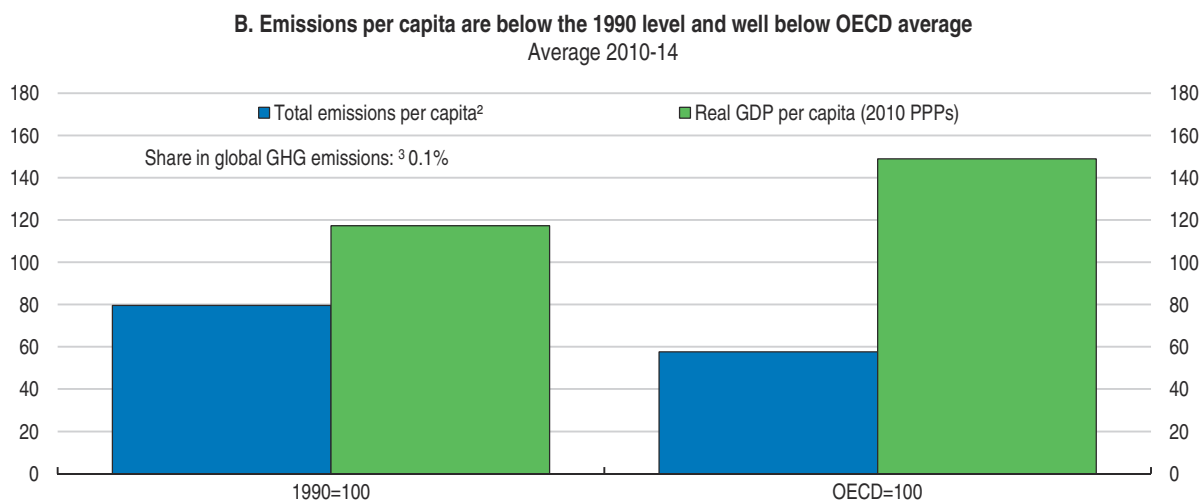
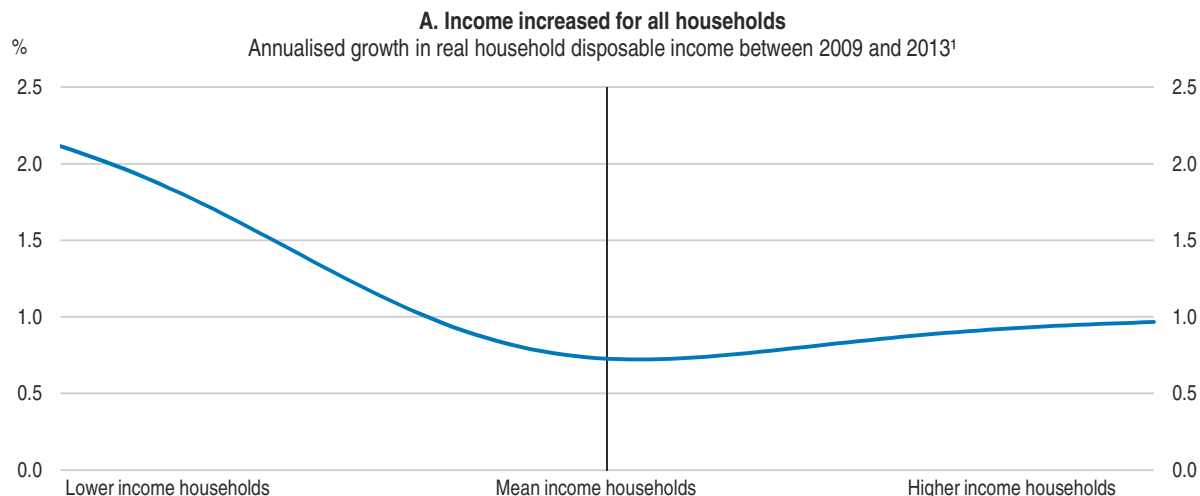
Facilitate full-time labour force participation of women. The cost of childcare, dissuasive second-earner taxation, weak corporate culture of gender diversity and a positive wage gap contribute to women's high incidence of part-time work.

Actions taken: No action taken.

Recommendations: Increase public spending on childcare and amend regulations to increase the range of price-quality choices available. Implement a corporate governance code establishing gender goals in management. Set ambitious company board targets combined with the "Comply or Explain" practice or by setting quotas. Move from joint to individual tax assessment of spouses' income.


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Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2009 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink  <http://dx.doi.org/10.1787/888933456248>