Economic measures of the Confederation 2008 – 2010: Evaluation of the conception and implementation of stabilisation measures

Key facts

From the autumn of 2008 onwards, the world plunged into an economic recession that was sparked off by an extraordinary financial crisis. With a slight time lag, this recession also spread to Switzerland via the export channel. Although Switzerland enjoyed healthy public finances at the start of the crisis and pronounced automatic stabilizers were already in place, such as the unemployment insurance, the extent of the crisis and the speed at which it unfolded required the Confederation to take exceptional intervention measures. It also demanded a swift, decisive, and coordinated action while at the same time weighing up the significant risks and uncertainties involved. In view of the severity of the crisis and the associated uncertainties, the Federal Council resolved to implement a proactive approach in several phases, which included discretionary stabilisation measures.

It was against this backdrop that the Swiss Federal Audit Office (SFAO) conducted this evaluation, paying particular attention to the conception and implementation of the Confederation's stabilisation measures. At the same time, and in consultation with the SFAO, the State Secretariat for Economic Affairs (SECO) analyzed the crisis intervention from a general economic cycle perspective. Its findings are summarised in a separate report.

Rapid creation of far-reaching stabilisation measures

The first two phases of the stabilisation measures – which were divided into three phases in total – were initiated in November 2008 and February 2009, and for the most part comprised pre-planned expenditure of about CHF 1.1 billion, which were brought forward in the recessionary year 2009. The first two phases were quickly conceptualised and initiated by the Confederation, in which the Federal Finance Administration (FFA) in collaboration with SECO had the lead. In order to prevent the (export) crisis from affecting the domestic economy at large, all opportunities for bringing forward public investment were exploited to the full extent, while respecting the requirements of the debt brake. The measures initiated in the first two phases comprised a package of different measures with varying objectives. The actual core of the crisis – namely the serious decline in demand in numerous export industries – could only be addressed directly by a small proportion of the measures in question. By contrast, a large proportion of measures aimed at supporting the domestic construction sector. The third and final phase – implemented under the leadership of SECO in collaboration with the FFA and targeting the budget 2010 – was designed to specifically counteract pro-cyclical decision-making, to avoid additional unemployment, and to ensure further economical growth in Switzerland.

Implementation of stabilisation measures reveals mixed results – a critical factor is the rapid and targeted realisation

For the most part, the first phase was implemented rapidly and according to plan. By contrast, only about 57% of the funds envisaged for the second phase – which contained a number of major construction projects – could be deployed in a timely manner, i.e. in the recessionary year 2009. One reason amongst others was the time-consuming state procedures to obtain such funding and the construction approval, which was additionally delayed through numerous objections to such projects lodged by citizens. The fact that the Swiss construction sector never actually entered into recession, was another delaying factor. Within the third phase, apart from an earlier redistribution of the CO_2 tax, only measures targeting the information and communication technologies (ICT) and the export sector were successfully implemented according to the stabilisation plan. By contrast, thanks to the unexpected rapid economical recovery towards the end of 2009 and the existing robust labour market measures of local and regional authorities, the labour market measures planned for the third phase turned out to be unnecessary, with the result that that the corresponding funds were hardly used. Therefore, viewed across all three phases, the committed federal funds could not be fully invested in a timely manner to contain the economic crisis. In this respect, it proved advantageous that many measures consisted of projects already planned for the near future, because the earlier implementation could therefore be realized very quickly. Such a swift realisation just as recession loomed proved to be a critical factor in stimulating the economy.

In this crisis, it was confirmed once again that the federal budget contains only a few access points for investments that are fully suitable to stimulate economy, which amongst others generate enough leverage due to their multiplier effect. In particular, the earlier implementation of major infrastructure projects has its limits, as these projects are subject to various time-consuming processes and can rarely be rescheduled with ease. Additionally, the various larger stabilisation measures – notably the most recent release of job creation funds and the redistribution of the CO_2 tax – represent non-recurring interventions, which is why it is likely that in the future the Confederation will only be able to pursue an active discretionary economic policy to a limited degree.

The federal government's step-by-step approach was suitable

In its response to the crisis, the Federal Council resolved to take a step-by-step approach while at the same time adhering to the requirements of the debt brake policy. In view of the high (forecasting) uncertainty regarding the further crisis development, this approach had the advantage that the decision for any further economic measures could be based upon the latest information available. The SFAO considers this to be an appropriate reaction to the high economic uncertainty created by the financial crisis, which resulted in an unusually high variance of economic forecasts. However, a step-by-step approach inevitably always contains a danger of losing valuable response time when decisive economic stimuli are called for.

Scope for improvement in the public communication

In the recent crisis that lasted from 2008 to 2010, the economic measures taken by the cantons and communes were almost twice as substantial as those taken by the Confederation. However, the full scope of economic measures was not communicated adequately to the public. Although the measures taken by the Confederation were reported by the media in detail, and those taken by the individual cantons were reported in the corresponding regional media, no up-to-date overview of all economic measures being implemented in Switzerland was ever elaborated, which would have been psychologically particularly vital at the start of an intervention. Instead, almost exclusively the measures of the Confederation dominated the headlines, although the federal budget only accounts for about 40% of public finances in Switzerland. This lack of public awareness is a problem as valuable stimulating effects generated by the public announcement of an economic intervention were lost.

In view of the great uncertainty regarding the impact of economic measures, accurate and timely information concerning the implementation or even adverse developments triggered by such measures has a decisive role to play. In undertaking this review, the SFAO deliberately refrained from putting forward recommendations, but holds the view that an appropriate public communication would produce substantial added value in future crisis interventions, and should therefore be improved. The FFA and SECO have acknowledged this report, but have not taken the opportunity to express an opinion.

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