

Fiscal rules and the Swiss debt brake

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Abstract

Why governments tie their own hands, how the Swiss debt brake works and what it has done since 2003, and the 2024 reform of the European rules.

Tax smoothing says borrow in bad times and repay in good ones. Politics tends to deliver the first half. A **fiscal rule** is a constraint written in advance, in a constitution, a law or a treaty, that forces the second half. This lesson asks why rules exist, what a good one looks like, and how the Swiss version, the most durable of them, has performed.

Why rules

Yared reviews the decades-long rise of government debt across advanced economies and finds that the usual explanations, wars and recessions, cannot account for a trend that persists in peace and expansions. The persistent drivers are political: governments that may not be in office tomorrow discount the future, ageing electorates favour spending on themselves, and each coalition partner treats the common budget as a common pool (Yared, 2019). Halac and Yared model the resulting trade-off: a rule that binds removes the deficit bias but also removes the flexibility to respond to shocks the rule-writer did not foresee, so the optimal rule is a ceiling with escape clauses rather than a fixed number (Halac & Yared, 2014).

Definition 1 (Fiscal rule). A numerical constraint on a budget aggregate, such as the deficit, the debt ratio, spending growth or the structural balance, that is fixed for a term longer than one budget and cannot be changed by the government it binds without a super-majority or a constitutional step.

The Swiss debt brake

Switzerland adopted the *Schuldenbremse* by referendum in 2001 with 85 percent in favour, and it has applied to the federal budget since 2003 (Article 126 of the Federal Constitution). Its design solves the problem that a balanced-budget rule is pro-cyclical. The rule limits *expenditure* to expected *receipts* adjusted for the business cycle:

$$\text{Expenditure ceiling}_t = k_t \times \text{Receipts}_t, \quad k_t = \frac{Y_t^{\text{trend}}}{Y_t},$$

so the ceiling rises above receipts in a recession, when trend output exceeds actual output, and falls below them in a boom. The budget is balanced over the cycle, not every year. Deviations are booked to a compensation account: overruns must be repaid in later years, and shortfalls of the account beyond a threshold trigger mandatory cuts. Extraordinary spending, such as the pandemic programmes of 2020 and 2021, can be authorised by a qualified majority and is booked to a separate amortisation account with its own repayment schedule.

The record is unusual. Federal debt fell from about 26 percent of GDP in 2003 to about 14 percent before the pandemic, and the rule survived the financial crisis, the franc shock of 2015 and the pandemic without suspension. Beljean and Geier attribute the outcome to the cyclical adjustment and to the automatic correction mechanism, and note the side effects: systematic revenue under-forecasting produced surpluses beyond

the rule's intent, and the rule constrains investment along with consumption (Beljean & Geier, 2013). The debate since 2020 is about exactly those side effects: whether a country with $r < g$ and a debt ratio below 20 percent should amortise pandemic debt at all, and whether the rule should distinguish investment from current spending.

The European rules

The Maastricht criteria fixed a deficit ceiling of 3 percent and a debt reference of 60 percent of GDP; the Stability and Growth Pact added a correction procedure. The pact has been suspended, reformed and circumvented repeatedly, and its enforcement in 2003 against Germany and France failed at the first test. The rules were pro-cyclical in 2011 to 2013, when they demanded consolidation from countries already in recession, the episode of Sovereign debt and the euro area. The 2024 reform replaced the annual deficit targets with country-specific medium-term paths for net primary expenditure, negotiated over four to seven years, with the 3 and 60 percent references retained as safeguards (Council of the European Union, 2024). Expenditure paths are closer to the Swiss design: they let revenue fluctuate with the cycle and constrain the variable the government controls.

What makes a rule work

Three features distinguish rules that have held from rules that were abandoned. They constrain spending or the structural balance, not the headline deficit, so the automatic stabilisers of Fiscal multipliers can operate. They have an explicit escape clause with a defined return path, so a crisis does not require breaking the rule. And they have a correction mechanism that operates without a new political decision. Constitutional rank and a referendum behind it help, but the Swiss experience suggests the arithmetic of the rule matters more than the rank of the law.

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