



LIBERALES INSTITUT

im Dienst der Freiheit

Tax Competition: The Swiss Case

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PAPER. Tax competition in Switzerland provides taxpayers with more choice and better protection of their property rights.

Swiss fiscal federalism is the opposite of what federalism implies in many other countries. Political authority is built from the bottom up. The Swiss federal government derives its legitimacy from the 26 cantons, not the other way round. As a result, the central government only plays a subsidiary role, carrying out limited competencies that account for less than one-third of total taxes and spending.

The 26 cantons enjoy actual tax sovereignty, while the central government can only levy taxes provided for in constitutional provisions, whose legitimacy is derived from a majority of both cantons and voters. Not only does the central government obtain its legitimacy from the cantons, but its power to tax is limited in time.

In some instances, even if a majority of voters at the national level supports a particular policy, it may be turned down because majorities in smaller cantons decide the other way. The voice of the smallest canton, Uri, which has 35,000 residents, counts just as much as the voice of the biggest one, Zurich, with 1.3 million residents. Cantonal sovereignty therefore tends to limit the “tyranny of the majority”, and protects the rights and freedom of choice of residents in smaller jurisdictions.

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