SWITZERLAND

Switzerland’s economic freedom score is 81.9, making its economy the 4th freest in the 2019 Index. Its overall score has increased by 0.2 point, with a significant improvement in government integrity offsetting modestly lower scores for trade freedom and labor freedom. Switzerland is ranked 1st among 44 countries in the Europe region, and its overall score is well above the regional and world averages.

After an exchange-rate ceiling with the euro was abandoned in 2015, Switzerland’s steady, prosperous, and modern market economy stabilized, buttressed by a transparent legal system, a sound regulatory regime, a highly skilled labor force, exceptionally well-developed physical and communications infrastructure, efficient capital markets, and low corporate taxes. Well-secured property rights, including intellectual property rights, encourage entrepreneurship and productivity. Flexible labor regulations and the absence of corruption also enhance the business climate. The legal system, independent of political influence, ensures strong enforcement of contracts and judicial effectiveness.

BACKGROUND: Switzerland’s federal canton system of government disperses power widely. Executive authority is exercised by a seven-member Federal Council. Switzerland has a long tradition of openness to the world but jealously guards its independence and neutrality. The Euroskeptic Swiss People’s Party, which favors tight controls on immigration, gained the largest number of seats in the 2015 parliamentary elections. Referenda are frequently put to a vote, including a 2017 measure making it easier for third-generation immigrants to become citizens and another one supporting the phasing out of nuclear power, both of which passed. Switzerland has one of the world’s highest per capita GDGs and a highly skilled labor force. The economy relies on financial services, precision manufacturing, metals, pharmaceuticals, chemicals, and electronics.
Protection of property rights is strongly enforced, and an independent and fair judicial system is institutionalized throughout the economy. Intellectual property rights are respected and enforced. Commercial and bankruptcy laws are applied consistently and efficiently. The government is free of pervasive corruption, largely thanks to strong institutions. Switzerland is ranked 3rd in Transparency International’s 2017 Corruption Perceptions Index.

Cantonal-level taxation is more burdensome than federal-level taxation. The top federal income tax rate is 11.5 percent. The federal corporate tax rate is 8.5 percent. The overall tax burden equals 27.8 percent of total domestic income. Over the past three years, government spending has amounted to 34.3 percent of the country’s output (GDP), and budget surpluses have averaged 0.3 percent of GDP. Public debt is equivalent to 42.8 percent of GDP.

The competitive and transparent regulatory framework strongly supports commercial activity, allowing business formation and operation to be efficient and dynamic. The nonsalary cost of employing a worker is moderate, but dismissing an employee can be costly. Switzerland has few price controls, but the government intervenes if it finds monopolistic pricing and maintains price and margin controls for all agricultural goods.

The combined value of exports and imports is equal to 118.9 percent of GDP. The average applied tariff rate is quite low at 1.3 percent, but agricultural imports face barriers. The Swiss economy is open to foreign investment, with minimal impediments in place. The modern and highly developed financial sector offers a wide range of financing instruments. Banking remains well capitalized and sound, facilitating access to credit.