

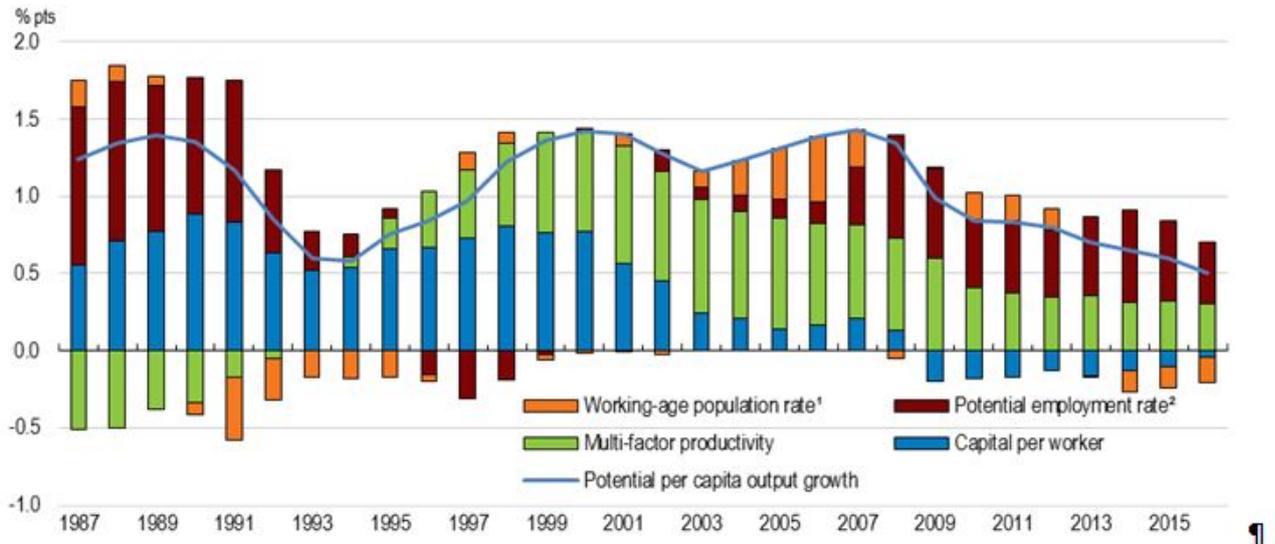
# Maintaining Switzerland's enviable living standards into the future

by Christine Lewis, Switzerland Desk, Economics Department

Switzerland's high living standards and quality of life are renowned. It has the third-highest level of GDP per capita in the OECD. Likewise, survey data show Swiss have the OECD's second-highest rate of life satisfaction. Unemployment is low, including for young people. And income inequality (after taxes and transfers) is around the OECD average.

But Switzerland cannot take these enviable outcomes for granted. Indeed, trends are slowly eroding this favourable position. The rate of potential growth in per capita income has slowed to just 0.5%. While Swiss GDP per hour worked was one of the highest 40 years ago, growth has stalled due to slow increases in investment and in multi-factor productivity (Figure). Demographics are also playing a role by reducing the share of the population that is of working-age. And immigration, which had helped offset this effect and ease skills shortages, is slowing too. Ageing will add to the fiscal burden: spending on pensions, health and long-term care is projected to increase by 3.5 percentage points of GDP in the next three decades, which risks crowding out other spending and pushing up debt (Federal Department of Finance, 2016).

## Decomposition of the slowing in potential per-capita income growth ¶



Source: OECD, OECD Economic Outlook 102 database, preliminary version. ¶

The OECD's latest *Economic Survey of Switzerland* highlights several win-win policies that can counter these trends by raising labour supply and skills while contributing to the inclusiveness of growth (OECD, 2017):

- **Increasing affordability of childcare** would allow mothers to increase their hours if they so choose and help them to maintain a career path. By better allocating women's skills it would also raise productivity. Likewise, the disincentives in the tax system to take on more hours should be removed by shifting to taxation of individual incomes or undertaking some equivalent measure.
- **Participation in life-long learning should be promoted** more actively to ensure that workers continue to maintain and adapt their skills as the economy changes at an ever-faster pace. Swiss workers have high levels of participation in continuing education and training overall, but it is not broad-based with a heavy concentration on those with strong educational attainment. To ensure that other workers are not left behind, subsidies should be offered to workers from groups with low participation rates.

- **Incentivising and assisting workers to delay retirement** will help combat the effects of ageing on growth as well as alleviating fiscal pressures. Pension reform is urgently needed to ensure the financial sustainability of the system; reform should raise retirement ages and index them to life expectancy and also include stronger incentives to work longer. Promoting take-up of preventative health programmes, as well as career planning and tailored job-search assistance would lengthen healthy working lives.

[

## **References**

Federal Department of Finance (2016), *Report on the Long-term Sustainability of Public Finances in Switzerland*, Federal Department of Finance, Bern.

OECD (2017), *OECD Economic Survey of Switzerland*, OECD Publishing, Paris.