

## **Thomas Jordan: No end to the debt society without a culture of stability**

Summary of a speech by Mr Thomas Jordan, Vice-Chairman of the Governing Board of the Swiss National Bank, held at an “NZZ Podium” event, Zurich, 28 February 2012.

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*The complete speech can be found in German on the Swiss National Bank's website.*

The most recent financial and economic crisis has resulted in an unprecedented rise in public debt. However, a chronic tendency towards deficits and higher indebtedness has already been observed in a number of countries for the past few decades. Excessive public debt has a negative impact on long-term economic growth, and deprives a country of its freedom of action during a crisis. Sound state finances are thus essential for ensuring an economy's competitiveness and maintaining its social security system, and hence also for social solidarity. Last but not least, excessive public debt also poses a serious threat to price stability and monetary policy independence.

Yet how can state budgets be consolidated over the long term? There are limitations on how far fiscal policy powers can be delegated to independent groups of experts. Because fundamental decisions on taxation or expenditure – unlike monetary policy – are aimed at redistribution, they have to be taken at the political level. Even fiscal rules such as a deficit cap or debt ceiling can only achieve a lasting improvement of budgetary discipline if they are supported by a broad political consensus on the advantages of sound finances. Switzerland is a good example of this: thanks to the inclusion of the major political players in government responsibilities, and to the extension of direct democracy processes even to financial matters, a deeply rooted culture of stability has developed. It is this which provides the foundation for the stabilising effect of the well designed and constitutionally anchored debt brake. This has made a decisive contribution to ensuring that federal government finances are in good shape despite the financial and economic crisis.

As a general rule, any efforts to establish a sustainable fiscal policy in countries with debt problems can ultimately only bear fruit if they succeed in fostering a broad-based culture of stability.