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## The impact of the liberalisation process on the competitiveness of firms: a case study in the Alpine regions of Switzerland

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**The impact of the liberalisation process on the  
competitiveness of firms:  
a case study in the Alpine regions of Switzerland**

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## **Abstract**

The liberalisation process has many faces. It gives rise to economic, social and cultural change. From a spatial point of view, fears are frequently expressed that liberalisation can lead to disadvantages for peripheral regions, especially in the sparsely populated Alpine region. Companies in these peripheral regions, in particular small and medium-sized enterprises (SMEs) see themselves as confronted by a wide variety of challenges in maintaining their competitiveness.

This paper is concerned with the effects of the liberalisation process on firms in the Swiss Alpine region. Following the introduction, a second stage will give a brief characterisation of the liberalisation process, with reference to the changes in the ideas of the state which lie behind it. The third section presents the outline of a research study which looks into the effects of the liberalisation of public services on firms in the Swiss Alpine region. Section four presents some empirical results of this study. Using the four sectors of telecommunications, the postal service, public regional transport and electricity, some liberalisation effects from the point of view of these enterprises are put forward. Section five includes contexts and conclusions: it can be seen that public services are important to enterprises in mountainous regions, but are not a decisive influence on their competitiveness. Overall, liberalisation mainly benefits large companies. The passive and cautious behaviour of small and medium-sized enterprises means that they make insufficient use of the potential advantages of liberalisation. Moreover, liberalisation contributes to an increased spatial polarisation within the Alpine region. The paper concludes by providing information on political strategies for spatial development at canton and Federal state level.

## **1. Introduction**

“The closure of post offices”, “the liberalisation of the last mile”, “the opening up of the electricity market”, “pressures to make savings in regional transport”: the political discussions in Switzerland around public services are currently intense, controversial and frequently emotional. Since the first steps towards liberalisation in the mid-1990s, public services such as telecommunications, the postal service, public regional transport or electricity, have become central themes of political debates. Many questions in connection with liberalisation are still unresolved. In particular, the effects of liberalisation on firms and the spatial contexts are often insufficiently clarified.

This paper is concerned with the question of the effects of the liberalisation process on firms in the Swiss Alpine region and has the following objectives: (1) to present the context of the liberalisation process, (2) to show the effects of liberalisation on enterprises, (3) to determine the geographical effects of liberalisation in the Alpine region and (4) to draw conclusions for the political strategies of spatial development. The paper is based on an ongoing research project, which is funded by the Swiss National Research Programme 48 ‘Landscapes and habitats of the alps’ ([www.nrp48.ch](http://www.nrp48.ch)).

## **2. The liberalisation process**

### **2.2 Services of general economic interest and network industries**

The infrastructure sectors of traffic, energy supply and telecommunications services are also termed ‘Services of general economic interest’. This term, according to European Union terminology, refers to market-related activities which the public authorities class as being of general interest (Commission of the European Communities 2000, 2001). They may be linked by the individual states with public interest obligations. The four areas of telecommunications, postal services, public regional transport and electricity are network industries, as they provide their services on the basis of network infrastructures (Vaterlaus et al. 2003:6, Knieps, Brunekreeft 2000:8). However, in the case of postal services and regional bus transport, this assertion has certain reservations.

In most western European states the network industries have been characterised to date by a combination of public ownership and monopolistically organised markets (Knoll, Obermair 2002:10). The influence of the public sector on the network industries can be

justified by economic arguments. In operating networks there are certain advantages from economies of scale. In many cases a sole provider can produce more efficiently due to reduced average costs than a number of providers ('natural monopoly'). What are known as network externalities arise in the demand for these services. The more users connected to the network, the greater are the benefits for the individual consumer (Vaterlaus et al. 2003:6).

These network effects mean that market solutions do not lead to optimum results, and thus there is a market failure. In addition it is often discussed whether the network sectors are actually public goods. Public goods are characterised by the twin properties of non-exclusivity and non-rivalry in their consumption. The criterion of exclusivity in itself makes it clear that the dominant role of the state in the network industries cannot be explained by economic arguments alone. For with all four service areas the exclusion of individual users may indeed be technically possible, but not socially or politically desirable. In this case we speak of merit goods (Musgrave 1987). The basic function of the public services for the population and the economy provides its own justification for a politically-defined basic right of access to these services.

## **2.2 Liberalisation of network industries**

The monopolistic market structures of the network sectors have been broken down over previous years. The liberalisation efforts, which have led to the opening up of monopolistic markets to increased competition, can be traced back to a number of incitements to development: the globalisation of the markets, the worldwide liberalisation of trade (WTO, GATS), European integration or new technological developments. All these developments contribute to the fact that the national state is under increasing pressure to justify and perform. The question of efficiency of state-owned service provision, discussed within the scope of the theory of state failure, is intensified under the influence of shortages of public resources (Frey 2000). Liberalisation is here seen as a means of promoting competition and thus improving the efficiency and performance of the provision of the service.

However, the changes in the provision of public services cannot be reduced to a purely economic dimension. It is embedded in a national political debate and is an expression of a far-reaching change in the understanding of what the modern state is able to and/or must provide. In this context it is possible to speak of a fundamental paradigm change

having regard to the relationship of society and economy (Ambrosius 2000). The rigid dichotomy of state and market is increasingly being broken down and replaced by a degree of state responsibility. This fact is often summarised concisely in the phrase “from the performance state to the guarantee state” (Kämmerer 2001:489, Proeller 2002:15).

The change to a guarantee state requires a redefinition of previous practice in state activities. The state sees itself as compelled to undertake its responsibilities to perform by means of regulatory instruments. The guarantee state is therefore also inevitably compelled to become a regulatory state, requiring sufficient regulatory instruments and corresponding public resources (Schuppert 1998:91). Liberalisation does not therefore chiefly represent a way of reducing the burdens on the state, but is a process leading to more effective and efficient fulfilment of tasks and provision of services. However, in liberalised markets the state has two further tasks to undertake: the control of competition and the protection of the public interest. Accordingly, it undertakes a variety of regulatory activities with different motivations.

- An economically motivated regulation as instrument for ensuring fair competition: a central prerequisite for competition in the case of networked public services is access to the network for new service providers. A state regulation must in particular ensure access to the network which is free from discrimination.
- A politically motivated regulation as instrument for ensuring the public interest: the basic function of the networked public services leads to the demand that, even in liberalised markets, all citizens should have access to the relevant services. This binding right of access is embodied in the concept of ‘Universal services’.

### **3. Liberalisation effects in the Alpine region – the research outline**

Section 2 showed the breadth of the content of the liberalisation process. Given this breadth, precise focussing is essential when designing a research project. First, a brief overview of the themes should be sketched out. It is helpful here to consider the basic economic differentiation between supply and demand in the case of public services. The two sides of the market may also be further subdivided. On the supply side a distinction should be made between the services provided and the workforce of the service providers. On the demand side there are the households and companies as customers,

which have differing requirements. Figure 1 shows the various functions of the public services which form part of this pattern.

Figure 1: Functions of public services

		Supply side	
		Range of services	Workforce of the service providers
Demand side	Households	<ul style="list-style-type: none"> <li>• Supply function: quality of life</li> <li>• Identity function</li> </ul>	<ul style="list-style-type: none"> <li>• Stability function</li> <li>• Income function</li> </ul>
	Companies	<ul style="list-style-type: none"> <li>• Supply function: Quality of location, competition factor</li> <li>• Identity function</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer demand function</li> <li>• Future employment market function (training of apprentices)</li> </ul>

Source: Thierstein, Abegg (2003:178)

The analytical framework of this paper focuses on the supply function of the services supplied for companies. This limitation may be justified as follows.

On the *demand side* the companies are provided as a user group with a wide range of services offered. With their high requirements of the available technologies they act as ‘early indicators’ for changes in supply. They essentially produce the added value for the region and in the Alpine region offer comprehensive income opportunities. With the choice of essential production systems the survey concentrates on the areas which are central to the economic development of the cantons. The production systems extend beyond a consideration of the individual sectors, and an attempt is made to group together those sectors which are linked with one another by various upstream and downstream relationships (cooperatives, suppliers, customers) (Corpataux et al. 2002). When questioning enterprises, four production systems have been selected: tourism, construction industry, industrial and commercial, commercial services.

On the *supply side* the range of services offered is considered more closely, with the workforce of the service providers having only a subordinate role here. Changes connected with liberalisation of the services offered may be less clearly detectable at first sight. However, their effects should lead to wide-ranging consequences in the

longer term. In addition there are clear political negotiation options in connection with the services offered. The responsibility for the provision, in particular for the definition of the scope of basic supply, lies with the public sector. On the other hand, the operational decisions in the former publicly-owned enterprises have largely been detached from the political decision-making process with their release to the open market. From the range of public services we have concentrated on telecommunications, postal services, regional public transport and electricity. This selection involves those services in which the greatest moves forward towards liberalisation have taken place and where the early experience with release onto the open market has been obtained.

The study is intended as case study research for the Alpine region, involving the three cantons of Wallis (Valais), Graubünden and Uri. These three cantons form a representative East-West cross-section of the Swiss Alpine region, with different geographical areas. The companies view of the liberalisation process is at the heart and is the main point of interest. This perspective also determines the methodological procedures of the study. The questioning of companies forms the central instrument of analysis. The questioning was carried out in two complementary parts:

- A written questionnaire sent to companies, to provide a database with broad foundations as the quantitative basis of the analyses (Figure 2).
- The quantitative results of the company questionnaires was supplemented by 60 qualitative interviews with representatives of the enterprises.

Figure 2: brief description of survey:

Survey sample	Full survey of companies with at least 3 full-time employees from the four production systems: Tourism, construction industry in general, industrial and commercial, commercial services
Total number questioned	6,847 companies in the three cantons of Wallis, Graubünden and Uri
Survey period	October to December 2002
Rate of return	1,385 assessable questionnaires; response rate of 20.6% Tourism (407), construction (700), industrial and commercial (102), commercial services (176)

#### **4. The effects of liberalisation on companies in the Alpine regions**

Section 2 showed that the four service sectors being studied are part of a wider liberalisation process. However, a cross-comparison shows up some essential differences (Infras 1999). The individual network sectors are differentiated in their

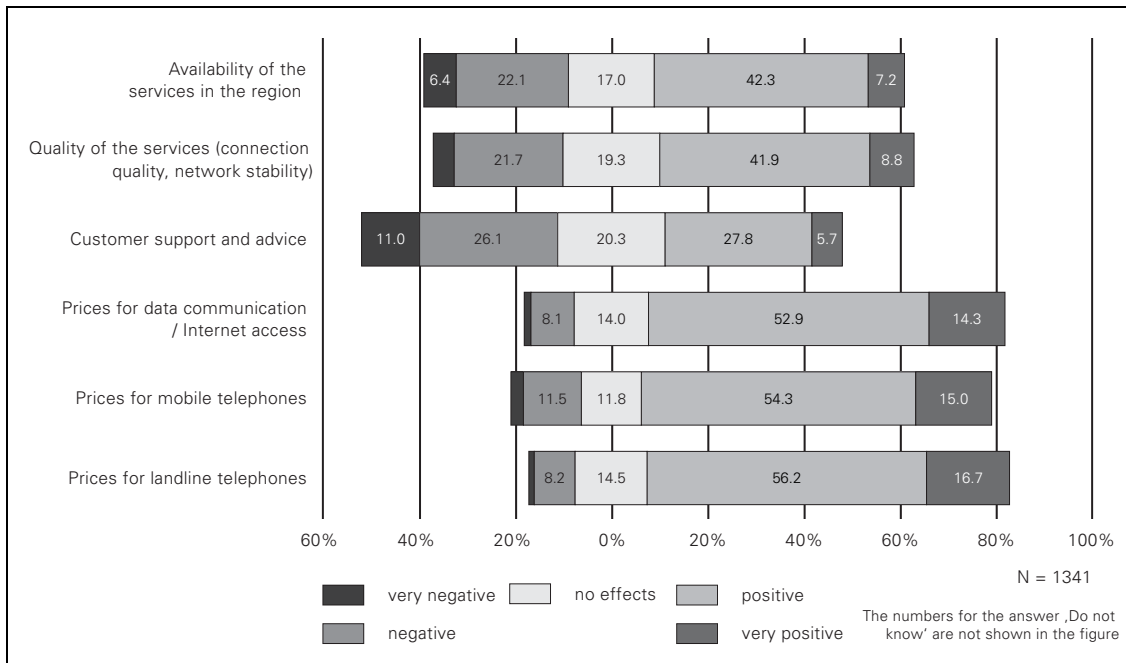
situations on the demand side, but in particular on the supply side, due to the different technologies and the necessary capital intensities (Scheele 2002). This leads to substantial differences in the market structures, the economic and technical dynamics and the intensity of competition in the individual sectors (Knieps 2001:46). In the following, the effects of liberalisation in the four service areas is shown individually. In addition to the effects of liberalisation there is a brief examination in each case of the negotiation possibilities of the companies in the (partially) liberalised markets. For, from the point of view of the enterprises, liberalisation is in no way a phenomenon to be tolerated passively. The changes dependent on liberalisation can be actively used by means of their own strategies and activities.

#### **4.1 Telecommunications**

The greatest progress in the liberalisation process in Switzerland has been made in the telecommunications sector (Ecoplan 2002). In line with the European Union, in 1998 the telecommunications markets were opened up fully (wik-consult 2002). The effects of liberalisation in telecommunications are directly felt by companies. The perception by these of liberalisation is largely positive. In Figure 3 it can be seen that, among the individual groups of effects, two relatively homogeneous blocks of price- and quality-related aspects can be seen at first glance. This division is also confirmed by the results of a factor analysis, which gives rise to two main factors: 'Price' and 'Quality' of the services.

The price aspects are perceived very consistently by the firms. A positive to very positive effect on prices from liberalisation is consistently attested. The assessments regarding landline and mobile networks and Internet use show hardly any differences. Liberalisation has led to considerable price reductions, in particular for the use of basic services in the area of speech telecommunications and data communications. The vast majority of companies have benefited from the reduced prices. This development perceived by the companies is supported by the price index for telecommunications services compiled by the Swiss Federal Statistics Office. This index, which includes consumer prices for landline and mobile telecommunications and Internet access, shows a reduction in prices between the start of liberalisation in 1998 and January 2004 of 32.1% (OFCOM 2004). However, as telecommunications costs only represent a small proportion of many companies' running costs, the savings are often not given great weight, or are offset by increased use.

Figure 3: Effects of liberalisation in the telecommunications sector



The changes regarding the quality of the telecommunications services (customer relations, service) were viewed less consistently. In connection with these aspects, a broad range of positive and negative assessments were obtained during the interviews with the companies. Positive comments were made by some companies that competition had brought with it increased influence on service issues. The service providers reacted more individually and quicker to inquiries. Many firms felt that providers were making an effort to retain customers or win over new customers. But there were also some negative voices to be heard. These claimed that the quality of service and customer support had declined with the centralisation of service provision and a subdivision of different market areas.

In the wake of liberalisation new scope for negotiation has opened up to companies. Almost half of those questioned had reacted specifically to liberalisation in one or more activities. In addition to a closer observation of the market, changing the telecommunications provider is the most frequent action, with the prime motive for this being the expectation of cost reductions.

## 4.2 Postal services

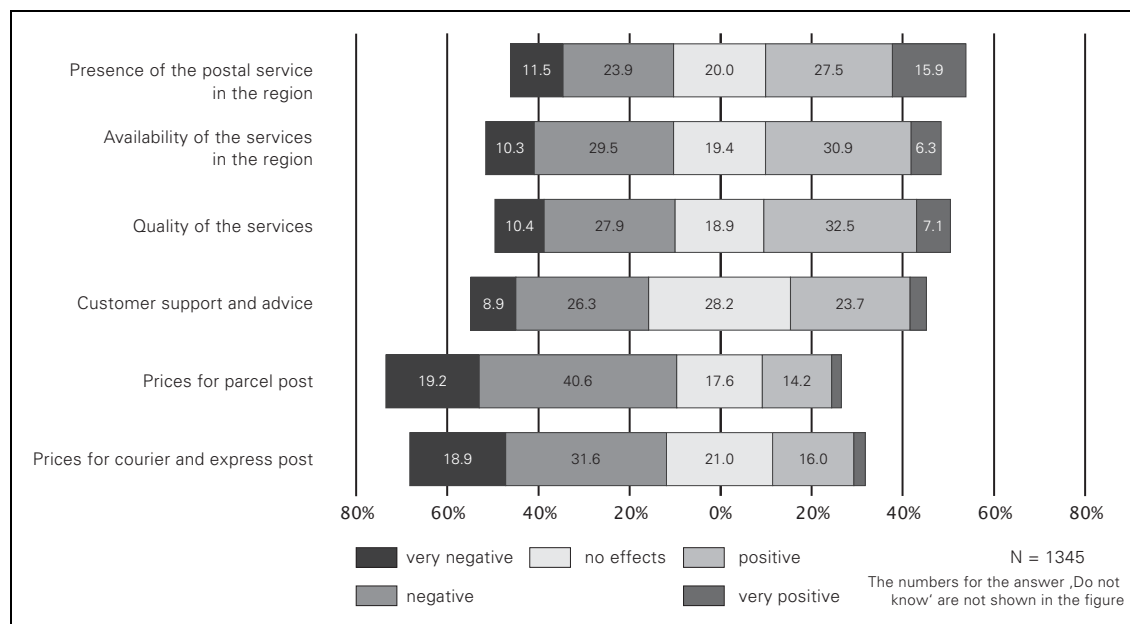
In contrast to the dynamic technology-driven developments in telecommunications, the liberalisation in the area of postal services is clearly a longer-term process. The market for postal services is stagnant. The business areas range from classic letter and parcel

deliveries through to logistics services and electronic forms of communications (Swiss Federal Council 2002).

The liberalisation of postal services is viewed critically overall by companies. Many of those questioned were also sceptical of the 'Schweizerische Post' company and its commercial strategies. In contrast to telecommunications, where alternative providers were present in the market for many companies, changes in the area of postal services were still very strongly connected to the former monopolies. These circumstances, together with the internal adjustments of the operational procedures of the postal service (parcel and letter postal centres), and the discussions concerning the post office network, contributed to a critical stance of the companies towards the liberalisation process. A factor analysis of the six liberalisation effects resulted in two factors which are also shown visually in Figure 4: the 'price' and the 'quality and regional availability' of the services.

In connection with prices for package, courier and express postal services the clear majority of answers revealed negative to very negative perception of the effects of liberalisation. It was also unanimously added in the interviews that postal services had become more expensive. However, price is viewed by the majority of companies questioned as being less important than punctual and reliable delivery.

Figure 4: Effects of liberalisation in the postal sector



Reliability and quality of the postal services have deteriorated in the opinion of many companies over recent years. Despite this, the positive and negative appraisals regarding the quality, availability of services and the presence of the postal service in the region are fairly well-balanced in Figure 4. The provision of postal services as shown in the interviews is considered – with a few reservations – as being of sufficient quality in the majority of locations. The different requirements of the companies is revealed in a differing understanding of quality. In line with the subdivision referred to above of the post market into a basic services and logistics section, two quality criteria can be seen. With the practical subdivision of company structures the requirements for flexibility of delivery and dispatch increase. The new production processes require precise logistics procedures and critical ('just-in-time') reactions. For such companies with high expectations, quality does not mean the same thing as for the broader mass market; here, quality is often seen in terms of proximity of a post office.

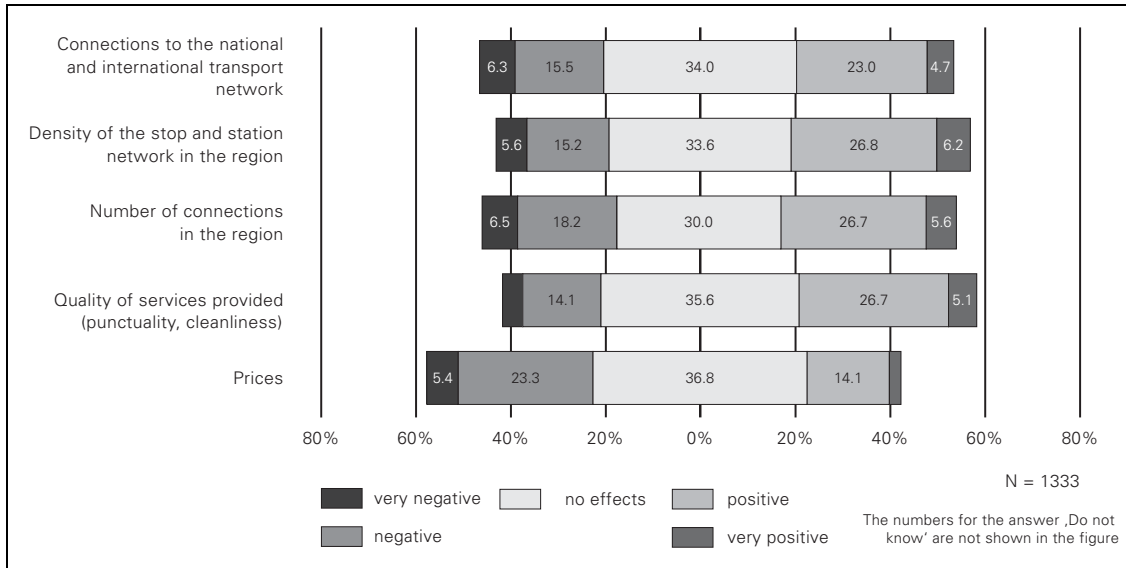
At the time of the survey the monopoly limit in Switzerland was still set at two kilograms, thus only around 20% of all the companies questioned had developed a strategy for active reaction to liberalisation. In contrast to the telecommunications sector, qualitative deterioration of the service provided was an essential trigger for taking direct commercial action in the area of postal services.

#### **4.3 Regional public transport**

In line with European developments, public transport in Switzerland was liberalised in individual partial areas. The revision of the Railways Act of 1996 and the rail reform of 1999 brought trailblazing changes, in particular to regional transport (Lundsgaard-Hansen et al. 1999). A core element of the revision of the law was the introduction of the *commissioning and payment for use principle* in public regional transport. This is where the state, canton and private contractual partners commission and finance the services of the public regional transport on the basis of performance agreements. Public regional transport in the Alpine region is characterised by its topographical situation. Due to the thin population the challenges are quite different from those in the conurbations. In the case of transport in the conurbations the emphasis is on capacity bottlenecks, while in the Alpine region the difficulties lie in providing comprehensive coverage at affordable costs.

Public regional transport is only of very low significance for many companies. The only exception here is tourism. Accordingly, these companies only have very low levels of knowledge of liberalisation in public transport. For many companies no changes have been felt at all, or these have not been connected with liberalisation.

Figure 5 : Effects of liberalisation in public regional transport



Basically, from the point of view of the firms, liberalisation has in many places led to an expansion of services and an improvement of the public regional transport services provided. The companies are broadly satisfied with the existing public transport provision. The increasing flexibility of the services provided, as ever more frequently encountered in peripheral regions in the form of various call-out systems, is basically welcomed. But criticism of liberalisation in public transport is also strong. Sceptical voices add that with liberalisation too much weight is placed on aspects of competition and too little attention paid to the viewing the transport system as an integrated network.

Unlike the areas of the postal service and telecommunications, with regional transport, competition is not an issue at the level of individual customers. The cantons can put routes out to tender and act in the capacity of commissioning services. But for the individual companies this offers hardly any opportunity for negotiation. They do have the possibility of influencing the transport facilities offered indirectly via the service providers, associations and interest groups, political or administrative routes, although these are little used.

## **4.4 Electricity**

The electricity sector has an important role in Switzerland. Switzerland is a hub of the power supply trade in Europe, with Swiss producers given free access to the European markets. With over 1000 power stations the market structure in Switzerland is based on small geographical areas and operations. Consideration of the opening up of the electricity market is therefore cautious and relatively late in comparison with European countries (Bodmer 2001). A new electricity market law which provided for a moderate opening up of the market was rejected in the referendum of 22 September 2002. This means that no new negotiation opportunities have arisen for companies. The only individual opportunities which opened up prior to the poll were price reductions for major customers.

The deciding factors in turning down the complex legal regulations were not so much technical matters, but much more fundamental considerations. The referendum became a plebiscite on liberalisation. The result is an expression of a general scepticism towards liberalisation among the wider public. At present a new electricity market law [Elektrizitätswirtschaftsordnung (ELWO)] is being drawn up which will provide steps towards opening up the market.

## **5. Conclusions**

In the introduction it was stated that in scientific and political considerations of the liberalisation process, the effects on companies and the spatial contexts were frequently considered too briefly. In Section 5 an attempt will be made to provide some context and background to these two themes on the basis of the empirical evidence provided.

### **5.1 Liberalisation and entrepreneurial initiative**

The four public services considered, telecommunications, postal services, public regional transport and electricity all play an important function for the individual companies as basic factors in their activities. However, only in a very few cases are public services “all-important”. In comparison with other factors of competition they are not of great strategic or cost-related significance for most companies. Public services do represent basic and important location factors, but they are not alone sufficient to ensure the economic success of an enterprise. The price of the services, which is often at the forefront of the liberalisation discussions, is just one factor among

many. Availability, quality and reliability of the services are of similarly high importance to these companies.

In addition to changes within the individual service areas, the companies also experience an overall effect from liberalisation. The markets for public services have to date been strongly supply-oriented. But liberalisation brings with it a change in perspectives. The increasing pressures of competitiveness and efficiency compel the providers of public services to give increased consideration to issues of profitability. As a consequence the demand side gains in importance.

Large enterprises profit from the liberalisation process thanks to their stronger powers of demand, gaining advantages in price and quality. With the SMEs, however, there is an unfavourable cost-benefit ratio. On the expenditure side it can be seen that in many cases SMEs have scarce financial and human resources and a low level of know-how. On the benefits side the negative aspects are doubly disadvantageous. A low demand volume means that they simply have low individual scope for negotiation with the providers. In addition small and medium-sized enterprises often have a lower level of knowledge of the possible benefits of new services. These circumstances mean that small and medium-sized enterprises are faced by substantial challenges and only very limited negotiating possibilities are opened up to them. This tends to lead to passive, cautious behaviour – with the consequence that any possible advantages of liberalisation are insufficiently taken up, if at all.

The entrepreneurial scope was limited to markets which are still monopolistic. In liberalised markets, however, more initiative is required on the part of the enterprises themselves. The services offered are becoming ever more flexible, but also increasingly complex. More than ever before, the enterprises are forced to deal with the range of public services on offer and discover the options and services which are relevant to them. If the smaller and medium-sized enterprises want to profit more strongly from the advantages of liberalisation, initiative is called for in many areas. They must get to grips with the different services on offer in order to gain an overview of the variety available. With an expansion of internal know-how within SMEs the possible benefits can be better recognised and the individual use made of the services can be improved. In searching for individually adapted strategies, solutions and approaches, contacts beyond their own company increasingly need to be established and benefits derived from the advantages of company networks. The effects of liberalisation do not therefore depend

only on the changes to the services offered, but are essentially shaped by the structural prerequisites on the demand side.

## **5.2 Liberalisation and spatial development**

In telecommunications, two contrasting spatial liberalisation effects can be observed. With the new technological possibilities of telecommunications, opportunities for SMEs in the mountainous regions have opened up, bringing additional market opportunities for activities and cooperations with external partners which are not dependent on location. But in peripheral regions substantial disadvantages can also be seen from the liberalisation process. On the one hand the positive effects on prices are below average, and on the other the quality of customer services and insufficient geographical coverage are complained of. New technologies, such as ADSL, are late in reaching peripheral locations or are not available at all.

In the case of the postal services, the quality of service is often judged by companies on the basis of presence of a post office. However, in addition to the postal services, the availability of comprehensive logistics services is also becoming increasingly important. The peripheral regions show the most negative assessments relating to the qualitative effects of liberalisation: whether this is closures or transformations of post offices, or a reduction in specific services such as the availability of express post, the opening hours of post offices, or mailbox collections.

In the case of public regional transport the services offered have improved in almost all regions. Particularly positive effects have been noticed in tourist areas. Differences between the central and peripheral regions are clearly apparent. The most positive liberalisation effects, as expected, are to be found in the densely-populated conurbations. The situation of the peripheral regions is a more difficult one. Often remote and sparsely populated, it is often naturally difficult to provide full public transport coverage for these regions. With their low demand they are also the first to suffer under any cost-cutting measures.

Due to the continued failure to open up the market, no spatially-differentiated liberalisation effects are apparent in the electricity market. There are also no essential differences in the negotiating requirement to be perceived between enterprises in the different geographical area types. In the current market situation, in the case of electricity it is the economic, rather than geographical, perspectives which dominate.

With power supply the central-peripheral differences are not significant given the regional supply monopolies.

The overall effects of the liberalisation process are clearly geographically differentiated. The liberalisation effects of several public services overlap, but this is not so apparent from the point of view of the individual enterprises, where they lead to overall effects at regional level. The cantons in the Alpine region are not as a whole affected by negative liberalisation effects; rather, the 'dividing line' runs more within the cantons. On the one hand there are the companies in the central areas of the mountainous region cantons ('peripheral centres'). These companies generally do not experience any disadvantages in connection with public services due to their geographical location. Also, in the case of further steps towards liberalisation, few or no adverse effects are expected. On the other hand, there are the companies in the peripheral areas of the mountainous region ('periphery of the periphery'). They perceive direct negative effects, or see general disadvantages due to the liberalisation processes. In these regions the view of the future is sceptical. Further adverse effects are feared from the prospect of future steps towards liberalisation. Developments in further geographically relevant political spheres increase the geographical imbalance, all tending to lead towards increased economic pressure on the peripheral regions.

## **6. Negotiation strategies**

In the Federal national structure of Switzerland, the sub-national levels of the cantons have an essential role to play. The cantons have essential decentralised competence in the area of geographical and regional development.

### **6.1 The cantons as negotiators in spatial developments**

The liberalisation process presents a two-fold challenge to the cantons at a spatial level: on the one hand there is the necessity of ensuring the optimum links of the mountain region centres with the other Swiss centres. On the other hand it is important to pay particular attention to development in the peripheral regions of the canton itself.

A basic supply policy independent of other geographically-relevant policies does not make sense in this context. A basic supply on the basis of public services alone cannot ensure the survival of regions with structural weaknesses. A significant proportion of self-produced added value must be a prerequisite. In contrast, any efforts towards

regional development would be of little value without a reasonable provision of public services. The elementary connection between public services and regional development must be reflected in a close connection between economic and spatial development policies. This requires as its basis a consistent cantonal strategy with statements on geographically differentiated developments. Such a strategy fulfils different functions. On the one hand it functions as a joint vision and makes it clear in what direction a canton wishes to develop. But it also makes concrete statements on what developments can realistically be borne or worked towards in which areas and what provision of public services needs to be linked with this. A cantonal strategy is therefore concurrently an economic necessity and a socio-political guiding principle.

The new regional policy of the Swiss central state, as conceived in the draft consultation document, underlines the significant role of the cantons (EVD 2004). The Swiss Federal Council is of the point of view that the problems of peripheral valley communities with lower potential cannot primarily be solved by the Federal government. As a prerequisite for support by the Federal government, the cantons must draw up their own objectives and strategies for individual regions. These fundamental questions are to be raised in an open democratic debate, which will set the 'rules' for the process of change.

A definition of the desired and financeable provision of public services is an elementary prerequisite. A creeping reduction in services which may happen unintentionally in individual situations, can lead to undesirable consequential effects. An explicit geographical differentiation between the ranges of public services offered may be a better response to the realities of demand. The concrete decision for a targeted geographical differentiation between certain services offered, as is indeed currently happening on an insidious basis, is, politically speaking, an extremely delicate venture. Such a process of change will of necessity cause uncertainty in the regions affected. Therefore it is particularly important to ensure an active role by parliament and the government and transparent political communication which addresses and involves broad sectors of the population.

## **6.2 The role of Federal government policies**

In the Swiss federal system, the cantons have many strings to their bows and a wide scope for manoeuvre, including in the area of public services. But there is a risk of excessive strategic and financial demands. In their negotiation capacity the cantons are

dependent on (financial) framework conditions imposed by the Federal state. Considerations to date have also shown that public services are also embedded in the broader context of the Swiss spatial development policy. With the regional policy and the Federal government's financial equalisation scheme the two central pillars are currently being reviewed.

The Federal government's financial equalisation scheme is in need of a fundamental revision. The existing system is inefficient, not transparent and provides false incentives. The central objective of the new Federal government's financial equalisation scheme is to strengthen the Federal structures. The cantons will receive more target-linked financial resources. By equalising resources and loads, a break-down of inter-cantonal disparities should be achieved. An initial part of the project – the basis of the constitutions and the new Federal law governing financial and load equalisation – will be put before the population in Autumn 2004 in a national referendum. Its introduction may be anticipated in 2007 at the earliest. Despite the emphasis of the equalisation objective, the financial equalisation scheme cannot replace regional policy. Rather it will enable a clearer division of tasks and a new orientation of regional policy to be formed. It shifts its focus to the productivity and competitiveness of enterprises and institutions and thus the strengthening of regional production systems (EVD 2004). A complementary division of work between Federal state and the cantons is thus suggested: the Federal state is responsible from above for the management of the major regional disparities, while the cantons take care from below of the management of the regional innovation process.

The two reform projects, financial equalisation and the new regional policy, strengthen the significance of the cantons. On the one hand they are the primary contacts for the implementation of the new regional policy. On the other hand the financial equalisation scheme will give them much wider financial room for manoeuvre. As a consequence of this the cantons will be under greater pressure to innovate, and to ensure that their development proposals are longer term and more comprehensive, that is, more strategic, in their orientation.

If Switzerland wishes to continue to benefit from the advantages of liberalisation of public services, but at the same time protect against the detrimental effects, the interplay of different sectorial policies must be intensified. This interplay of the instruments is also recognised and supported by the present OECD Territorial Review on spatial

development in Switzerland (OECD 2002). Only with the combined effects of a coherent basic supply policy, a new financial equalisation scheme and an innovation-oriented regional policy, can the peripheral regions be given the necessary impulse towards development which is as self-sufficient as possible.

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