REFORMING PUBLIC ENTERPRISES -- CASE STUDIES: SWITZERLAND

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Synopsis

1. The Swiss have not been amongst the most active OECD countries in reforming their public sector or, in particular, their government enterprises. There are four basic reasons for this inactivity:

a) The political awareness of the **necessity** of reforms is only of recent vintage, and owes its arrival to increasing financial pressure and international developments.

b) The system of political concordance, which makes for stability rather than dynamism, results in a relatively low **speed** of reforms since often, every step requires democratic legitimisation.

c) As a consequence of Switzerland's distinctive federalism reform **strategies** are strong shaped by decentralised developments: that is, the bottom-up approach more widespread than is the top-down approach. This, means that sometimes very small bodies decide what reforms are carried out and at what time. This has a delaying rather than an accelerating effect.

d) The liberal view of the State which prevails even today, has resulted in only a few nationalised enterprises, which means that the **potential** for reforms -- and particularly for privatisations is relatively small.

2. Nonetheless, this study shows that serious reform efforts are being undertaken in various sectors and are comparable with international developments. In fact, Switzerland during the 1990s has experienced a proliferation of reforms, many of which would be thought unlikely for a nation that had comparatively limited government involvement in its economy. These reforms can be traced to three emerging trends in the country:

a) The idea of a new "government concept" has gained favour, and calls for the State to act as an "enabling authority." Within this framework of new public management -- or, alternatively, new public administration, -- the application of private sector business analysis and behaviour to the public sector is becoming common. This enhances many people's readiness to engage in reform, and further facilitates change.

b) With the increasing internationalisation of organisation and co-operation (for instance, in the EU) Switzerland, is being called upon to execute the same changes. Thus reforms are being imposed on Switzerland, as so often in the history of the country.

c) The increasing dynamism of the environment of government enterprises is further widening the gap between bureaucratic input-oriented steering and business-administrative steering models. If a government enterprise wants to survive in a modern environment, it will have to transform itself from a regulation-oriented organisation into a results-oriented one. Thus reforms in government enterprises are often also called “escapes” from the budget or excessive regulation.

3. This paper has three main components. The first part deals with the political system and discusses its relevancy to government enterprises. A survey of criteria for the description of government enterprises is then followed by an overview of the major government enterprises arranged according to policy area. The second part -- the primacy focus of the work -- illustrates by way of example some of the reforms in government enterprises undertaken. The paper concludes by offering some lessons from the Swiss experience and discusses some of the many problems of government enterprise and public sector reform.

The Swiss political system in brief

4. Modern Switzerland came into existence in 1848 through the transformation of a heterogeneous union of States, whose origins can be traced back to the 13th century, into a Confederation. This transformation was preceded by a brief war between the liberal cantons[1], which were in favour of the Confederation, and the conservative cantons, which objected to the creation of any centralised power. The Liberals were victorious and formed the government, calling it the Federal Council and assigning to it seven members of equal rank all elected by parliament. In the late 19th century, the referendum was introduced, enabling the people to cast their binding vote on any federal act adopted by parliament, if, within three months, they managed to collect the signatures of 50 000 voters tantamount to 1 per cent of the present electorate. The application of this instrument forced the Liberals to offer the Conservatives a share in the government since the Conservatives would otherwise have blocked the legislative process by means of incessant referenda. Over time, another two political parties have assumed governmental responsibility and thus a coalition of four parties has governed the country since 1959. Thus Switzerland has neither a president nor a majority party; instead, it has a population which make all controversial decisions by casting their votes in referenda. Consequently, Swiss politics is characterised by lengthy searches for consensus, a process exacerbated by weak leadership. When, eventually, a decision is made, however, in comparison to other countries, it is generally accepted, and its implementation encounters fewer difficulties.

5. The consensus principle (we might also call it the stakeholder principle) also applies to government enterprises. Their boards of directors consist of representatives of all interested parties, with proportional representation of political parties often trumping expertise as a determinant of membership.

6. A further characteristic crucial to an understanding of Swiss government enterprises is the country’s decentralised political structure. Switzerland is made up of 26 historic cantons, which in turn consist of a total of more than 3 000 communities. The following table gives some insight into the distribution of competencies in the present-day Swiss Confederation. It shows the percentages of overall expenditure according to policy areas and the three levels of government.[2] The share of the cantons and the communities amounts to 70 per cent of the overall expenditure of Sfr. 110 billions (Switzerland’s State quota is 32 per cent).

	Confederation %	Cantons %	Communities%	Total %
Social security	9.27	7.03	3.55	19.85
Education	2.24	10.14	6.37	18.75
Health	0.14	6.77	4.99	11.90
Transport	4.41	3.60	2.04	10.05
Finances and taxation	3.08	2.07	1.74	6.89
General administration	1.20	2.37	2.98	6.55
Economy (incl. agriculture)	2.82	2.28	0.74	5.85
Defence	4.91	0.42	0.41	5.74
Judiciary, police, fire-fighting services	0.38	3.62	1.45	5.46
Environment, regional planning	0.43	1.17	2.42	4.02
Culture and leisure	0.24	0.94	1.89	3.07
Foreign relations	1.88	0.00	0.00	1.88
Total	**31.00%**	**40.42%**	**28.59%**	**100%**

7. The differences between individual cantons and communities are considerable. For example, the most populated canton has 86 times more inhabitants than the smallest canton. Yet, it fulfils the same functions within the Confederation. Thus it is logical that the organisations required to fulfil these functions have completely different structures depending on canton. In addition, there are many functions which cannot sensibly be tackled by a community or a canton alone. Switzerland is therefore characterised by co-operation between a wide variety of public bodies: the most frequent form of this public/public partnership at the communal level is that of the functional administrative unit. A survey conducted by our institute in 1994 revealed that Switzerland counts some 1 500 functional administrative units, the overwhelming majority of them in the spheres of communal infrastructure, social welfare and education.

8. At cantonal and national levels, however, co-operation is often realised in formal corporations to ensure that co-operation among sovereign States runs according to clear rules. In particular, this is also the case with government enterprises, where there is often co-operation between national and regional representatives. Yet this pragmatic approach is also fraught with danger in a direct democracy since the democratic legitimisation of decisions often rests on shaky ground. Another difficulty is the political supervision of such structures since competencies often remain unclear.

The Government Enterprise as a Form of Organisation

9. The notion of government enterprise is not as clearly defined in Switzerland as in other countries. The forms of (quasi-) independent action in the public sector are differentiated according to various criteria, and even among those, there are always exceptions to the rule. These criteria include:

a) **legal personality**: Institutions with their own legal personalities are able, for instance, to enter into agreements in their own names; as a rule, they maintain their own asset accounting, i.e. they have assets of their own.

b) **organisational autonomy**: Institutions which are technically/organisationally autonomous are not a part of the central administration (Häfelin/Müller 1993, 246), i.e. they are free, to varying extents, to organise themselves.

c) **personnel autonomy**: Institutions with personnel autonomy are not subject to the general Civil Service Act but have their own staff regulations. This may go as far as to have employment agreements under private law.

d) **financial autonomy**: Institutions with financial autonomy usually keep their own accounts and are thus not part of the general federal accounts. Their deficits or surpluses are reported as *one-line budgets*.

e) **performance autonomy**: Institutions with performance autonomy decide for themselves what outputs they want to create in order to achieve certain social objectives.

f) **capital structure**: Institutions with private investors are usually organised as joint-stock companies quoted on the stock exchange or as co-operatives. If the capital is provided by both the private and the public sectors, we speak of a “mixed enterprise.” Institutes which are solely government-funded either have endowment funds or no capital of their own.

10. Within these criteria concrete shape of a public enterprises vary considerably. Additionally, there are hardly any correlations between any two criteria. The reason for this likely resides in the fact that there is no standard law for all government enterprises but instead, each government enterprise receives its own law, regulating all the organisational elements individually. Under Swiss law, there is no connection between the autonomy of an institution and whether it has its own legal personality. Consequently, each institution must be examined according to individual criteria.

Switzerland’s most important government enterprises[3]

Communication

PTT

11. With about 60 000 employees, the PTT is Switzerland’s largest government enterprise. It was established in the same year as the Swiss Confederation, and forced the cantons to relinquish their postal monopolies to the central State. Over time, the PTT took captured further functions, such as telegraphy, telephony, postal coaches, radio and television transmission and payment transactions. The PTT has monopolies in many areas, such as letter and parcel post (up to 5 kg) and telephony. Some monopolies were lifted -- for example the sales of telephone sets; some others will be lost to the PTT from 1 January 1998 (for PTT reforms, cf. Chapters 5.3.1 and 5.4.1).

12. With a turnover of Sfr. 15 billions, the PTT achieved a cash-flow of Sfr. 4.2 billions and profits of Sfr. 250 billions in 1996 with 30 per cent of the turnover achieved by the Post Office and 65 per cent by Telecom. With a reported profit of Sfr. 50 millions, the Post Office was in the black for the first time in 50 years. This is particularly important in view of the PTT reforms, since Telecom will no longer provide any cross-subsidies.

13. The PTT is an enterprise owned and operated by the Confederation, under the control of the Federal Department of Transport, Communication and Energy. In legal terms, it is a non-autonomous institution under public law and thus has no legal personality of its own. Its liabilities are borne by the Confederation. The PTT is exempt from tax but must yield its profits to the Confederation. It has no equity apart from its reserves, but thanks to its banking activities (with government guarantee), it has a considerable amount of outside capital. In payment transactions in particular, the PTT holds a substantial market share.

14. The PTT keeps its own accounts but like other parts of the federal administration, is subject to the budgeting process. In the budget, the two national chambers of parliament also fix the personnel ceiling. The personnel are subject to the Civil Service Act and are elected for a term of four years. In addition, the PTT only has limited organisational competence. Thus the structuring of the general management into departments and of general PTT operations into districts, for instance, is the responsibility of the federal government. As far as the design of its products and services (particularly in the more recent fields of activity), however, the PTT is -- with the exception of various legal provisions -- largely autonomous.

Swiss Radio and Television Company (SRG)

15. The Swiss Radio and Television Company (SRG) was set up in 1931 and is obliged to supply the Swiss population with high-quality programmes in all four national languages throughout the country. The company is entitled to a significant share of the radio and television licensing fees to finance its four television channels and eleven radio channels. In legal terms, the SRG is an association whose members are the regional companies. In practical terms, it is a holding company. In television, the SRG competes with foreign channels, while in radio, Swiss local radio stations provide additional competition. The SRG’s market share in German-speaking Switzerland, for instance, amounts to some 50 per cent of radio and 35 per cent of television broadcasts.

16. The SRG’s supreme organ is the Central Council, which is charged primarily with supervisory duties. The Council is also responsible for the appointment of the Director General, although this appointment is subject to the federal government’s approval. The chairman of the Central Council and another four members are appointed by the federal government. The regional companies delegate their chairmen *ex officio*, along with another eight delegates; the Council co-opts a further four members. The SRG’s board of government is the Central Committee, which directs the business of the company as a whole, while operative management is the Director General’s responsibility.

17. In 1995, the SRG employed about 5 000 staff all hired under private law. The operating results amounted to Sfr. 1.16 billion, of which licensing fees generated 70 per cent and revenues from commercials and sponsoring 24.5 per cent. Its profits of about Sfr. 50 millions were used to create reserves and to improve programmes.

Banks

Swiss National Bank (SNB)

18. Switzerland’s central bank was established in 1905; it is a mixed joint-stock company quoted on the stock exchange and has equity amounts to Sfr. 50 millions, 50 per cent of which is paid up. By law,

voting shareholders are limited to Swiss nationals and to corporations and legal entities which are based in Switzerland. Just under 40 per cent of the share capital is held by the cantons, 17 per cent by the cantonal banks, and 3 per cent by corporations or institutions under public law. The rest is spread among some 3500 private shareholders. The Confederation does not hold any SNB shares.

19. The SNB's functions include the regulation of the circulation of money, the facilitation of payment transactions, the conduct of a monetary policy in the interest of the country's overall interests, and the provision of advice to the federal authorities in currency matters. The SNB is managed with the co-operation and supervision of the Confederation and the federal government appoints just over 60 per cent of the members of the bank council. The remaining 15 members are elected by the shareholders at the annual general meeting. Operative management is entrusted to the directorate appointed by the bank council; this directorate enjoys a high degree of independence in the fulfilment of its monetary policy functions. However, the satisfaction of overall national interest has priority over the achievement of profits.

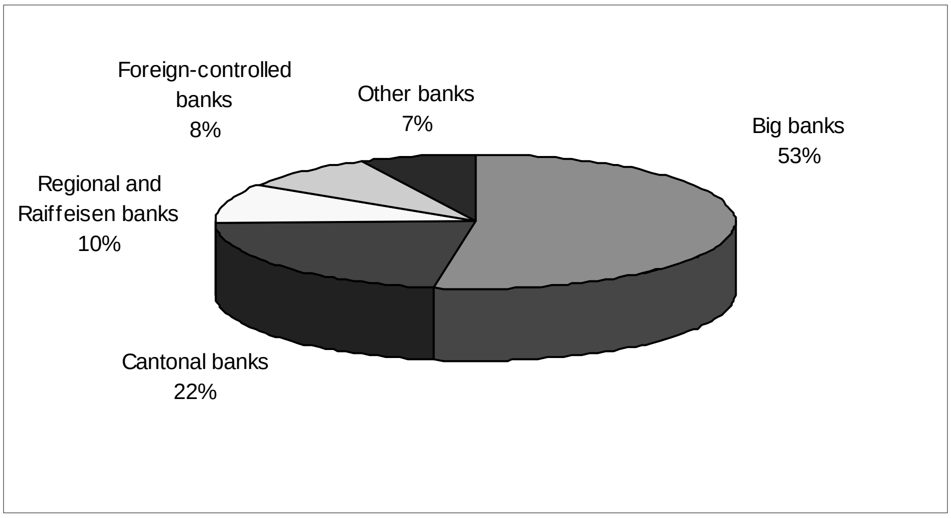
20. The bank's monetary policy aims to keep the price level stable in the medium term, and to enable trade and industry to exhaust their production potential. To attain the primary goal of price stability, the SNB sets an objective to be pursued during a period of five years. For 1994 to 1999, that objective was a growth rate of the National Bank money supply of 1 per cent per annum.

21. In 1996, the SNB and its approximately 600 employees achieved a turnover of Sfr. 2.2 billions, reporting profits of Sfr. 1.07 billion (1995: Sfr. 15 per cent). The difference between the two years is the result of a change in the valuation principles for foreign exchange investments. The appropriation of profits is regulated by law. The dividend amounts to 6 per cent and the cantons receive Sfr. 0.80 per head of their populations. Another Sfr. 600 millions is paid to the Confederation and the cantons every year. Since the 1995 profits only permitted a payment of Sfr. 150 millions, a further Sfr. 450 millions was paid in 1996.

Government Enterprises in the banking sector

22. The following chart illustrates the distribution of strength in the Swiss banking sector according to the balance-sheet total. The major operators are Union Bank of Switzerland (UBS), Credit Suisse (CS) and Swiss Bank Corporation (SBC). They are followed by the cantonal banks, which hold a share of some 20 per cent. Regional and Raiffeisen banks account for about 10 per cent.

Figure 1: The structure of the Swiss banking sector (balance-sheet total 1994)[4]



23. Given that cantonal and some regional banks are not only owned by their respective governments, but are accorded a public guarantee for their operations, we have included them in the category of "government enterprises."

Cantonal banks

24. Until recently, each canton in Switzerland had its own cantonal bank; some cantons even had two. Most cantonal banks were set up in the second half of the 19th century, their foundation motivated by four primary factors:

- the promotion of cantonal trade and industry by means of favourably priced loans;
- the creation of safe investment opportunities, particularly for small savers;
- the encouragement of widespread home ownership by means of mortgage loans;
- the creation of revenue for the State.

25. Originally savings banks and building societies, the cantonal banks evolved into universal banks. Today's focus is on retail banking, the mortgage business and corporate banking for small and medium-sized enterprises (SMEs).

26. The following five characteristics are typical of cantonal banks:

- an unlimited government guarantee to cover their liabilities;
- tax exemption, but profits paid to the State;
- a limited creation of equity and reserves;

- a limited field of activities, in particular no foreign business;
- political control by a bank council constituted according to the proportional representation of political parties.

27. The cantonal banks have different legal forms: the majority (18 of 24) are institutions under public law with their own legal personalities. The remaining six are mixed joint-stock companies. The government usually holds 100 per cent of the institutions' equity and at least 50 per cent of the joint-stock companies' equity. Cantonal banks are free to subject themselves to the supervision of the Swiss Federal Banking Commission.

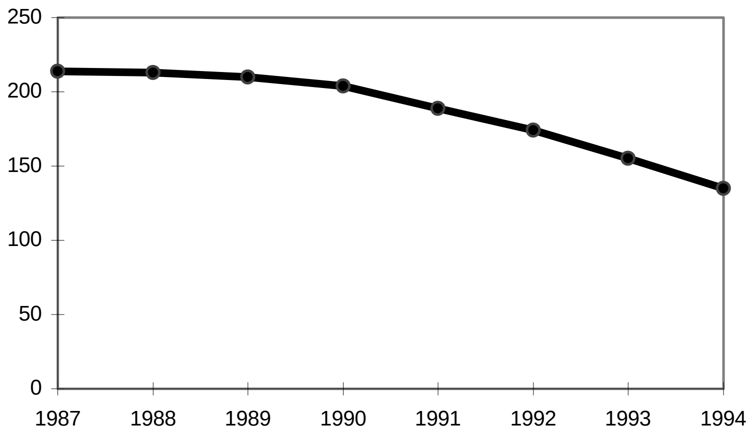
28. Cantonal banks differ substantially in terms of size. The reported balance-sheet totals range from Sfr. 1 billion to Sfr. 54 billions. Whereas the big institutes have a great deal in common with the big banks, the smaller ones tend to be comparable with regional banks. The cantonal banks' aggregate balance-sheet total was about Sfr. 260 billions in 1994. With their staff of just under 20 000, they achieved a turnover of Sfr. 15 billions. Profits amounted to Sfr. 460 billions.

29. In recent years, some previously profitable cantonal banks have undergone difficulties and would have had to close their doors without the government guarantee. They were either restored to financial soundness by the government (as was the Bernese Cantonal Bank), sold off to private banks (like the Cantonal Banks of Appenzell-Ausserrhoden and Solothurn) or taken over by another cantonal bank (Crédit Foncier Vaudois). For the cantons, profitability has dropped while risks have grown. The motives that led to the establishment of these institutes in the last century no longer exist today. It may therefore be assumed that more cantonal banks will be privatised in the coming years. Healthy institutes will go on the stock exchange (public share offering), while less healthy ones will be sold off (trade sale).

Regional banks

30. As the chart below reveals, fiercer competition in the banking sector has resulted in considerable structural change in the field of regional banks. Many smaller institutions no longer reach the necessary operative size to safeguard their survival. They merge, lean on a bigger partner, or are sold off. The regional banks include a number of government enterprises. They were set up by communities and, like cantonal banks, have a government guarantee for their liabilities. In the long term, it seems unlikely that many of them will survive. They are likely to be privatised, primarily through trade sales.

Figure 2. Number of regional banks[5]



Insurance companies

Swiss Accident Insurance Institution (Suva)

31. The Swiss Accident Insurance Institution (Suva) is a public-law institution of the Confederation and has its own legal personality. It is detached from the general federal administration and equipped with considerable autonomy. It is exclusively financed by the premiums paid in by employees and employers and the government makes no contributory payments nor does it assume any liability. The Board of Directors appointed by the federal government is Suva's supreme organ. It is made up of 16 employer representatives, 16 employee representatives, and eight representatives of the Confederation.

32. In Switzerland, employers are able to choose the insurance company with which they would like to insure their staff against accident and work-related illness. Suva insures some 1.8 million employees. This corresponds to a market share of about 75 per cent. With its approximately 2 000 staff employed under private law, Suva receives annual premiums just over Sfr. 3 billions. With operating costs accounting for about 8 per cent of the gross premium intake, Suva reported profits of Sfr. 23.6 millions in 1995, a significant turnaround after years of losses. Since Suva is exempt from taxation and not required to give its profits to the government, this amount is fully credited to reserves.

33. Apart from the insurance business, Suva in active in prevention (it issues directives to the companies under its insurance cover) and in rehabilitation (it owns, among other things, a rehabilitation clinic). It chairs the Federal Coordination for Safety at Work, the Advice Agency for Accident Prevention), the Medical Tariffs Commission, and acts as secretary to the Federal Commission for Technical Equipment and Appliances.

Cantonal Real Estate Insurance Institutions

34. The first cantonal real estate insurance institutions were founded in the early part of the 19th century. Originally, they insured buildings only against fire, but the coverage soon expanded to include other damages due to *force majeure*. Today, about three quarters of the cantons operate real estate insurance institutions, which in many cantons profit from compulsory insurance and a government

monopoly. In many cantons, fire-prevention and fire-fighting services are organisationally part of the Real Estate Insurance Institution or receive considerable financial support from it.

35. In the early 1990s, many cantons began to question the necessity and logic of government-operated insurance schemes. Next to the cantonal banks, they were regarded as the main candidates for privatisation. On closer observation, however, it was found that owing to lower commission and administration costs, this monopolistic solution provided an insurance cover of the same quality (as in the private sector), but at a lower price. Moreover, damage prevention and fire fighting was more effective when carried out by government agencies. Furthermore, the real estate insurance institutions managed to accrue large reserves, independent of the State, from which they would pay out to policy holders. This decreased State risk in the operation of the institutions, and combined with the other findings, led to the weakening desires of cantonal parliaments to privatise. All the existing real estate insurance monopolies remained in force.

Service companies of partially national character

Institute for Intellectual Property (IGE)

36. On 1 January 1996, the *Institut für Geistiges Eigentum (IGE)*[6] replaced the Federal Office for Intellectual Property. Its functions include the issue and administration of protection rights, the provision of advice to the Confederation in respect of industrial property legislation, and the representation of Switzerland in international organisations working in the field.

37. The IGE is a public-law institution of the Confederation, with its own legal personality, but without any endowment capital. It is operatively independent. In political terms, however, it is subject to the federal government's directive authority. This is particularly applicable to the preparation of the government's formation of intent, of legislation and to international negotiations. Such work, which serves the economy as a whole, is paid for by the Confederation. Any other services are self-funded either by fees (for monopolist activities) or by charges (in the competitive field). The fee regulations are subject to the federal government's approval, while the charges are fixed by the Institute Council. The IGE is prohibited from using income from its monopolist activities to cross-subsidise any of its competitive services.

38. In terms of management, the Institute Council is the Institute's supreme steering organ. It appoints the executives responsible for the operative business and is largely autonomous in terms of recruitment. Its approximately 180 employees[7] have been hired under public law and are thus not subject to the civil service law.

39. The IGE must be self-financing and thus profits are used to create reserves and losses must be borne by the institute itself. In its final business year (1995), BAGE reported a loss of Sfr. 2 millions with a turnover of about Sfr. 48 millions. This did not take into account hidden cross-subsidies of some Sfr. 2.5 millions. For this reason, the fees were substantially increased in 1996.

Intercantonal Medicine Control Office (IKS)

40. In its present form, medicine control is partially the responsibility of the Confederation, but to a great extent the cantons (primarily with the registration of new medicines and market supervision) are also

charged with some duties. Since the individual cantons are unable to fulfil this duty on account of their small size, a form of public-public partnership that is customary in Switzerland was chosen: an intercantonal agreement on Medicine Control (*Medicine Concordat*).[8] On behalf of the cantons, a central office, the *Interkantonale Kontrollstelle über die Heilmittel (IKS)*[9] assumed the responsibility for the approval and supervision of medical drugs. In 1995, it achieved a turnover of Sfr. 24.9 millions, of which 27 per cent was funded by cantonal contributions and just under 68 per cent by fees. In this manner, it made profits amounting to 13 per cent of its turnover, which was apportioned to IKS reserves. However, since it became known that the Confederation would take over the IKS, it has operated at a loss[10] in order to reduce its reserves.

41. The existing Medicine Concordat of 1971 does not provide the IKS with any legislative competencies; the cantons only undertook to adapt their legislation to the decrees issued by the IKS. According to the case-law of the Federal Tribunal, the registration of a medical drug by the IKS is deemed a recommendation to the cantons and not a contestable act of State. This is in contradiction with European law, which stipulates that the approval of a medical drug is to be decreed by a government authority.[11]

42. In 1988, efforts were made to adapt the existing agreement to the necessities of EU law, and a new agreement was drafted. This agreement, too, would only have been effective if all the cantons had signed and subsequently implemented it. Since two cantons, however, did not join the agreement, Swiss medicine control was threatened with a vacuum. For this reason, the cantons took up negotiations with the federal government in order to find a national solution. This paved the way for the creation of a Federal Medicine Institute, whose foundation is a Medicine Act which is being submitted to various interested bodies for comment until June 1997 and will then presumably have to be approved by the electorate.

43. The planned Medicine Institute is meant to have its own legal personality, remain in the possession of the Confederation and be operated with the steering instruments of New Public Management. The extent of the Institute’s activities is meant to be determined by a performance agreement, and a global budget should guarantee its operative decision-making freedom. Parts of today’s Federal Office of Health (such as the Pharmacy Department) are to be integrated into the Institute. This will create a merger between a corporatised cantonal institution and federal administrative offices. After a transitional phase, the staff are supposed to convert into employees under public law (today, the IKS hires its staff under private law, whereas the Confederation employs civil servants with four-year terms of office).

44. At the moment, it is unclear how many changes will be made to the originally proposed model in the course of the *political negotiation process* until the bill is ready to be put to the people’s vote. Richli (1997) emphasises that it can be expected that both the Confederation and the cantons will want to make changes.

45. The creation of a Federal Medicine Institute will provide the Confederation with an opportunity to manage a corporatised but not privatised organisation by means of output-oriented steering. This Institute is therefore an important pilot project in connection with new forms of steering and administration.

Industry / small business

46. In the sphere of industry and small business, Switzerland is characterised by two essential features:

a) Switzerland has practically never had an actual State-owned industry such as those automotive and aircraft manufacturers in other countries. For this reason, the privatisation potential is considerably smaller.

b) Owing to the concordance model, Swiss politics has been characterised by constancy. This means that economic policies are distinctly less variable than those of other European countries; moreover, a basic liberal attitude has been prevalent ever since 1848 (the foundation of the Confederation) despite varying views regarding the extent of social responsibility to be borne by the State.

47. Government interventions which did take place were primarily triggered by major structural crises. Here, interventionist policies were primarily pursued to fight excessive regional disparities and often came into effect after an entire region of the country dominated by a particular industry (such as watchmaking or embroidery) had been affected by a structural crisis. The enterprises set up for this purpose were always dissolved again, albeit years later.[12]

48. Actual government activities, however, were to be found in the armaments industry. The decisive factors for the enterprises set up between 1863 and 1943 were consideration of security and the desire to grant the federal government a certain scope of action in the armaments sector.

49. The companies were corporatised in the early 1990s (cf. Chapter 5) and combined into four enterprises:

- SE Swiss Electronic Enterprise
- SF Swiss Enterprise for Aircraft and Systems
- SM Swiss Munitions Enterprise
- SW Swiss Enterprise for Weapons Systems

50. In 1996, these companies and their approximately 3 300 personnel achieved a turnover just under Sfr. 720 millions. Although legally free to keep its earnings, as the management of the company was controlled by the Confederation, and any usage of profits had to be approved by the relevant ministry, they relinquished a third of their profits -- Sfr. 1 million -- to the Confederation. The remainder was allocated to reserves. If the companies had incurred losses, they would have been carried forward to the new business year and settled against future profits.

51. The armaments enterprises have been conceived as non-autonomous institutions under public law and thus have no legal personalities of their own. They operate with an interest-free endowment capital of Sfr. 600 millions and keep their own accounts, which is approved as a special account by the federal chambers of parliament. Along with the budget, parliament also fixes the number of personnel to be employed. Employees, like federal personnel, are hired in accordance with the Civil Service Act and are thus appointed for four-year terms. The armaments enterprises report to the Head of the Group for

Defence, who is responsible for armaments procurement on behalf of the federal government and the Federal Military Department. Plans exist for the armaments enterprises to be transformed into mixed enterprises, i.e. partial privatisation (cf. Chapter 5.4.2).

Agriculture and salt-mining

52. Government has played its most active role in the agriculture sector. Accordingly, it is in this area that Swiss politicians are meeting the most resistance in implementing the transformation process from a planned, to a free market economy. Potential losers in the reorganisation of the sector have registered severe unhappiness at the proposals which has made execution difficult.

53. An increased market orientation for agricultural policy (e.g. through the abolition of the rigid pricing and volume policies) will mean that various public or semi-public institutions will largely lose their significance. This is particularly true for institutions which were entrusted with functions of *intermediation* in the course of *post-war corporatism* and have since been able to attain a quasi-monopoly position, for example, in intermediate trade and imports. The following provide further details about a few of these institutions.

Swiss Central Office for Butter Supply

54. The Swiss Central Office for Butter Supply (BUTYRA), established in 1932, is a typical example of a monopolist government enterprise in the agriculture sector. Designed as a co-operative under public law, it serves as an intervention agency in butter production and supply. It purchases and commercialises the surplus domestic butter produced primarily in the spring and summer, and procures the necessary import butter for the low-production winter months; it has held the sole right to undertake these duties since 1954. BUTYRA operates with the participation of the Confederation and the butter wholesale companies. The co-operative is supervised by the federal government, which also fixes butter and milk prices and which, together with the Federal Department of Economic Affairs, holds the unlimited authority to direct the approximately 20 members of BUTYRA's staff.

55. BUTYRA's expenditures for the period from 1 November 1995 to 31 October 1996 amounted to Sfr. 358 millions, of which Sfr. 355 millions was spent on the price reduction and commercialisation of domestic butter. Taking into account returns of Sfr. 14 millions from customs revenues, this resulted in a deficit of Sfr. 344 millions, fully borne by the Confederation.

56. The current agricultural reforms, primarily due to Swiss signing of the WTO Agreement, calls for the high-deficit BUTYRA to be liquidated around the turn of the century. In a transitional phase, the milk price paid to producers will be cut incrementally. This price reduction will not be passed on to consumers, and in this way the subsidies can gradually be eliminated. The reduction in farmers' incomes will be at least partially compensated by direct payments.

Swiss Cheese Union

57. The *Schweizerische Käseunion* (Swiss Cheese Union) was established as a private co-operative in 1921; in 1948 it was changed into a joint-stock company and ordinary corporation (*Schweizerische Käsekonvention*). The shareholders of the Swiss Cheese Union Ltd. are the Central Association of Swiss

Milk Producers, the Swiss Milk Purchasing Association, the Association of Swiss Cheese Exporters, as well as more than 30 cheese wholesalers. The Confederation holds no participation. The federal government has the authority to issue directives, a power it has hardly ever exercised.

58. The Swiss hard-cheese market is organised along the lines of a planned economy. The federal government decides which types of cheese –the choices are emmenthal, gruyère and sbrinz, which account for about two-thirds of Swiss cheese production –are to be delivered to the Cheese Union and at what price. The Cheese Union must take on the entire volume allocated to it and bear the risks of further marketing. It allocates the cheese to its member companies on the basis of their allocation applications. Union cheese is then sold at fixed margins, prices, terms and conditions by the member companies, which act independently, yet do not bear any risk for the costs of their activities. Whatever the domestic market does not eat (about 60 per cent), the Cheese Union tries to sell abroad with the help of export subsidies and marketing, a task not always easily accomplished. In the business year 1994/95, the Cheese Union and its 80 staff members "achieved" a deficit of Sfr. 460 millions, which was fully covered by the Confederation.

59. As a consequence of Switzerland's participation in the WTO, high federal budget deficits and some cases of personal enrichment in the ranks of the Cheese Union, plans have been formulated to deregulate the hard-cheese market and dissolve the Cheese Union in the near future.

Sugar manufacturers

60. The function of *Zuckerfabrik und Raffinerie Aarberg AG*, set up in 1912, and of *Zuckerfabrik Frauenfeld AG*, is the commercialisation of domestically produced sugar-beet and imported unrefined sugar. The federal government annually fixes the price and volume of the sugar-beet. The sugar manufacturers then conclude cultivation contracts with the sugar planters. The sugar price is harmonised with the price of import sugar of equal quality which is then subject to import duty. The difference is compensated for by a fund, which is fed by the customs tariffs on import sugar and contributions paid by the Confederation. According to the budget, the following amounts have been scheduled for 1997:

- Costs of the sugar economy: Sfr.240 millions
- Proceeds and customs revenues: Sfr.205 millions
- Financial aid, Confederation: Sfr.35 millions

61. The amount available to the sugar manufacturer for the processing of sugar-beet –the processing margin– is proposed by the Federal Price Control Office and fixed by the Federal Department of Finance. For the period of 1 October 1995 to 30 September 1996, this amounted to about Sfr. 73 millions.

62. The sugar manufacturers are organised as mixed joint-stock companies with shares predominantly held by the cantons and agriculture. Although the Confederation holds no shares, it carries out a supervisory function. The two sugar manufacturers work closely together and their merger is scheduled for 1997. Both partners will hold a 50 per cent participation in the future company and their share capital will be Sfr. 17 million. Whereas Aarberg will increase its share capital from the previous Sfr. 4.25 millions to Sfr. 8.5 millions by issuing bonus shares, the share capital of the Frauenfeld plant will be reduced from today's Sfr. 30.5 millions to Sfr. 8.5 millions by returning the nominal value to

shareholders. The 400 personnel employed by the two companies (a quarter of the seasonal staff) are projected to retain their jobs.

Rhine Salterns

63. Prior to the discovery of major salt deposits in Switzerland in 1837, the supply of imported salt constituted one of the most important tasks of cantonal governments. In order to guarantee as cheap and safe a salt supply as possible, the private salt trade was nationalised in most cantons as early as the Thirty Years' War (1618-1648). In 1909, the cantons bought up all the private saltworks and founded *Vereinigte Schweizerische Rheinsalinen AG* (United Swiss Rhine Salterns Ltd.). This company, which was mixed at the beginning, was wholly taken over by the cantons in 1932. This joint-stock company under private law was only concerned with mining while the cantons sold the salt themselves. Because the cantons charged different prices, salt was smuggled across cantonal borders. For this reason, the cantons assigned their exclusive right to sell and import salt to the Swiss Rhine Salterns in 1973, against a State monopoly charge which the company has to pay annually. This charge is determined by the Board of Directors of the Rhine Salterns, which consists of the cantonal finance ministers. In 1995, the Federal Price Controller intervened, and subsequently the Rhine Salterns declared that they would adapt the salt prices to the European level within five years. If the Swiss people had voted in favour of joining the European Economic Area (EEA) in a December, 1992 referendum, the cantonal salt monopoly would have been removed.

64. In 1995 the company, which employs 150 people, achieved a turnover of Sfr. 80 millions -- to which its own products contributed 97 per cent -- and profits of Sfr. 18 millions. The following amounts were remitted to the State:

- Sfr. 12.8 millions — Charges for the right to sell and import salt
- Sfr. 3.5 millions — Salt-mining levy
- Sfr. 3.0 millions — Corporate income and capital tax
- Sfr. 1.8 million — Dividend of 18 per cent on the Sfr. 10 millions share capital

65. With its equity amounting to 84 per cent, combined with a balance-sheet total of Sfr. 104 millions, the company's finances are sound. Exports into neighbouring countries prove that it would also be able to survive in a liberalised environment.

Electricity

Power supply

66. The supply of the population with electric power is one of the State's main fields of economic activity as it owns about three-quarters of the capital invested in the industry. With its approximately 1 300 power stations, which, in turn, often own parts of each other, the Swiss electricity market is a mirror-image of a highly-decentralised State. The electricity market is characterised by vertically integrated regional monopolies. The cantons are primarily involved in power generation, transport and preliminary distribution, either by means of companies of their own or through participation in

intercantonal public or mixed enterprises. The communities are primarily active in the distribution to end-users, usually through non-autonomous institutions or, possibly, through plants organised along co-operative/corporative lines, some of which also generate power.

National Co-operative for the Storage of Radioactive Waste (Nagra)

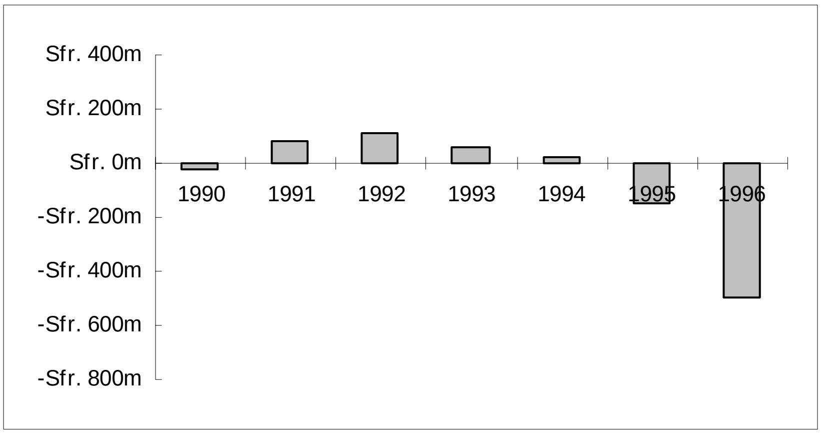
67. In Switzerland, those who produce radioactive waste are responsible for its disposal. For this reason the power companies –which are responsible for the five nuclear power plants in operation[13]– and the Confederation– which is responsible for radioactive waste from medicine, industry and research– set up Nagra as a co-operative under private law in 1972. Nagra is responsible for research and project work in connection with the final storage of radioactive waste. Late in 1995, it employed just over 70 people. In addition, there were consultancy agreements with another 20 people. Nagra's expenditure of about Sfr. 50 millions was largely financed through co-operative dues and contributions made by third parties, the majority of which was borne by the operators of nuclear power plants. The Confederation's share amounted to less than 5 per cent. By 1995, the aggregate co-operative dues since the establishment of Nagra totalled approximately Sfr. 640 millions.

Transport

SAirGroup

68. SAirGroup, with its subsidiaries Swissair, Crossair and Balair/CTA, is medium-sized in comparison to its competitors in the airline industry. Apart from air transport, the Group's activities extend to ground operations, information technology, aircraft maintenance, catering, as well as the operation of hotels, restaurants and duty-free shops. Employing 36 000 people, the Group achieved a turnover of Sfr. 8.2 billions in 1996. Its deficit increased once more and amounted to Sfr. 497 millions. Figure 3 indicates the development of its current financial situation on the basis of reported net profits and losses.

Figure 3: Net results of SAirGroup



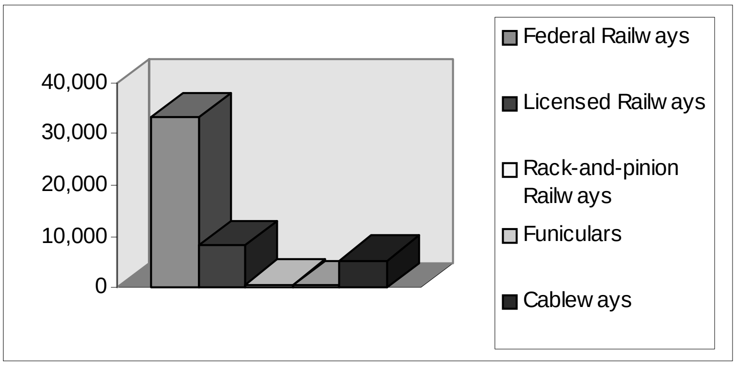
69. As a consequence of the Group's unhealthy finances, it did not distribute any dividends on the shares of SAirGroup. Only Crossair, which is quoted separately on the stock exchange, paid a dividend.

70. Swissair, the most important subsidiary of SAirGroup, was founded in 1931 as a purely private company by a merger between two existing airlines. In the early 1950s, the Confederation participated in a capital increase of Swissair, which thus became a mixed joint-stock company and the Swiss national airline. Today, the State holds some 20 per cent of the equity. Additionally, the Confederation is able to exert an influence on Swissair due to the strength of its licensing and supervisory rights, as well as in connection with the bilateral negotiations with the EU on questions of air transport. Swissair possesses a monopoly for Swiss air transport; however, the federal government believes that in the course of deregulation, this monopoly should fall.

Railways

71. With an average of 40 trips per year for each resident, the Swiss are second only to the Japanese in their usage of trains. They make use of the approximately 6 000 km national railway network. About 50 per cent of it is run by the Swiss Federal Railways (SBB), 33 per cent by licensed railway companies[14] and 14 per cent by cableways. With their approximately 50 000 jobs, the railways are a significant employer.

Figure 4: Personnel employed by Swiss railways



72. The above figure shows how personnel are distributed among the various railways. Some 70 per cent work for the Federal Railways, 17 per cent for the licensed railways and 11 per cent for cableways. Most Swiss railway companies are government enterprises. The following sections deal with the Federal Railways and the licensed railways in more detail.

Swiss Federal Railways

73. In Switzerland, railway construction was left to private companies. Yet, towards the end of the last century, it was found that the companies were often not profitable. For this reason, the people decided that the main lines should be nationalised. Subsequently, the five major railway companies were bought up and integrated in the Swiss Federal Railways, which commenced operation in 1902. The remaining lines were left with private companies (cf. Chapter 4.8.2.2). Today, the Federal Railways with their approximately 32 000 staff (as opposed to 38 000 in 1992), who are employed under the Civil Service Act, operate a rail network of some 3 000 km.

74. In 1996 the national railways, which are organised as a non-autonomous institution of the Confederation, reported an income of Sfr. 6.8 billions and a deficit of Sfr. 300 millions, which meant that 96 per cent of its expenditures were covered. The State made the following financial contributions:

- Reimbursement, regional passenger transport: Confederation — Sfr. 494 millions
- Reimbursement, regional passenger transport: cantons and others — Sfr. 212 millions
- Reimbursement, "piggy-back" transport service — Sfr. 110 millions
- Infrastructural contributions, Confederation — Sfr. 1 497 millions
- Making up for the deficit — Sfr. 293 millions
- Total — Sfr. 2 606 millions

75. With an endowment capital of Sfr. 3 billions, the Federal Railways reported a balance-sheet loss of Sfr. 1.1 billion at the end of 1996. The railway reforms (cf. Chapter 5.7.1.1) are meant to bring about a comprehensive financial restructuring.

Licensed railway companies

76. Since not all Swiss railways were nationalised, so-called private railways have continued to operate alongside the Federal Railways. They, too, fulfil functions for the public benefit for which they are reimbursed by the Confederation and the cantons. The State (i.e. Confederation, cantons, communities) holds stakes in the 57 enterprises, which are mostly organised as joint-stock companies. The following table shows the capital structure of the Bodensee-Toggenburg-Bahn, which is typical of this kind of company.

	Equity shares **%**	Voting shares **%**
Confederation	40.90	33.70
Cantons		
St.Gallen	30.00	36.50
Thurgau	3.00	2.90
Appenzell A.Rh.	1.50	1.20
Communities		
of the Canton of St.Gallen	15.20	13.80
of the Canton Thurgau	2.60	2.80
of the Canton Appenzell A.Rh.	3.90	5.00
Corporations, banks, private individuals	2.90	4.10

77. The sizes of the mixed enterprises vary considerably. The biggest licensed railway company operates a network of 375 km and employs some 1 600 personnel, the smallest runs a network of 4 km and has 10 employees. In the course of railway reforms, the licensed railway companies will increasingly compete with each other (cf. Chapter 5.7.1.1.), and thus a certain structural change cannot be ruled out in the near future.

Reform strategies

Legal/organisational privatisation

78. Frey (1997, 343) makes a distinction between three different thrusts of privatisation in Switzerland:

a) legal/organisational privatisation: flexibility as to legal form, organisation and decision-making processes (elements of *managerialism*);

b) economic privatisation: opening of the market, deregulation, competition (elements of *marketisation*);

c) financial privatisation: true costs, internalisation of external costs.

79. In the context of this study, it is primarily the first two types of privatisation which are of interest since the third, though necessary, does not constitute a sufficient condition for reforms in government enterprises. To begin, a rough typology of reforms regarding organisational elements can be defined in terms of two dimensions:

a) **Autonomy**: Fully autonomous organisations possess sole decision-making competency at all levels of managerial action. They are also autonomous in respect of personnel, finances, organisation and, as a rule, the design of products and services.

b) **Ownership**: Purely governmental organisations are wholly owned by State institutions. Mixed enterprises are conglomerates of which specific parts are owned by private and public investors. Formally privatised enterprises are given wholly into private hands; if the State still owns shares, these are by way of investment and not for the purpose of State intervention in the activities of the enterprise concerned.

80. Within this criteria, typical reform characteristics can be determined which will later be useful in the assessment of the reforms put into practice in Switzerland:

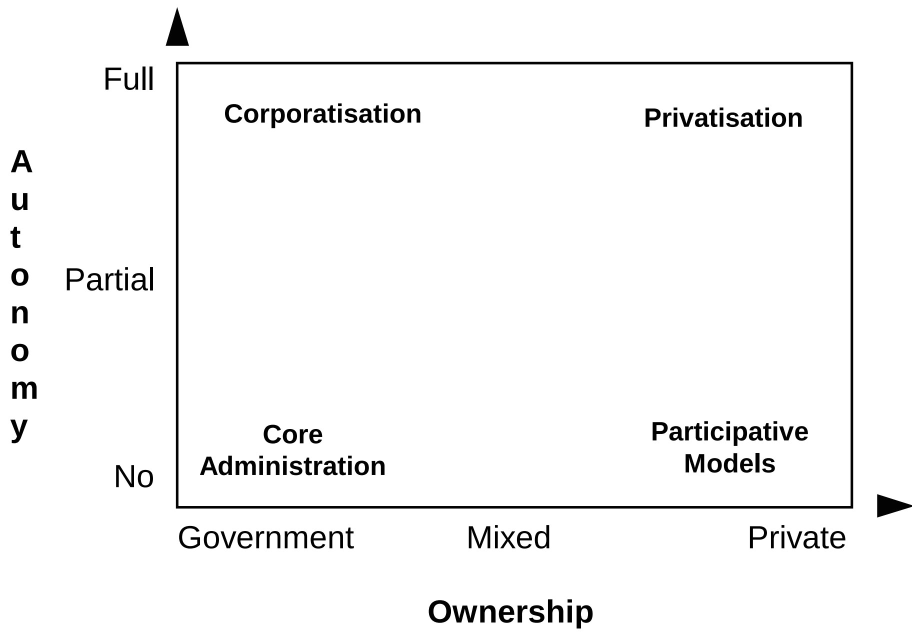
a) Core Administration: is characterised by a lack of autonomy and a complete integration in government institutions;

b) Corporatisation: government ownership remains, but autonomy is enhanced through the creation of a corporate culture;

c) Privatisation: corporate structure with government shares sold off;

d) Participative Models: the organisation’s autonomy may vary, but the ownership structure is either mixed or private.

Figure 5: The continuum of the organisational form of public institutions



81. Further illustrations of some reforms will elucidate the approaches the government has undertaken to reorganise its enterprises. Although the following list of reforms cannot be conclusive, care has been taken to ensure that the most essential developments are explained.

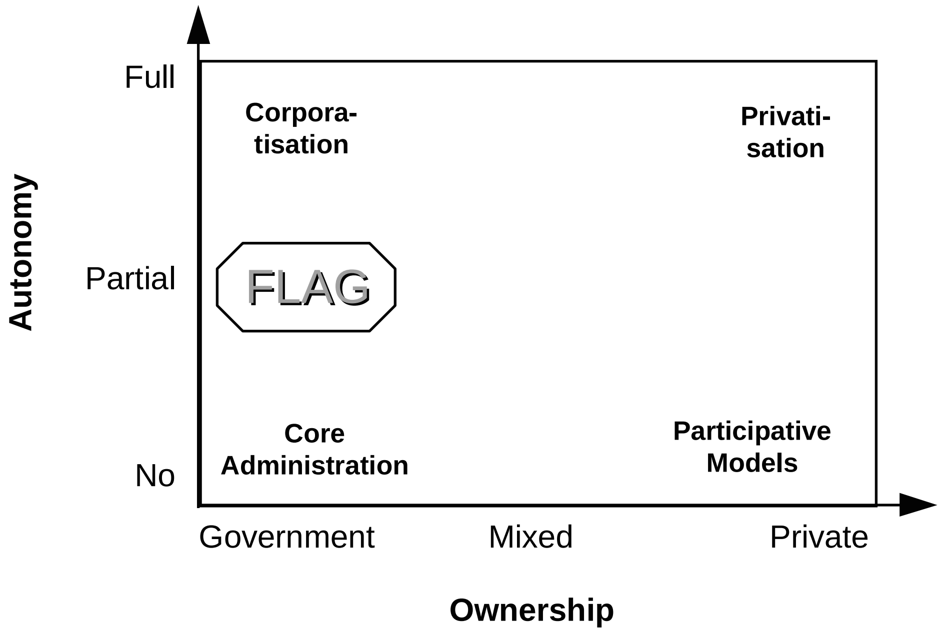
Partial corporatisation

Federal level

82. On 3 April 1996, the federal government adopted the concept report *"Führen mit Leistungsauftrag und Globalbudget" (FLAG)*,[15] describing a new form of public sector management. At the same time, the Government decided that the Swiss Meteorological Office and the Federal Office for National Topography would have to be managed on the basis of this concept from 1997.

83. This initiated a project phase which –with the help of the above-mentioned two offices– aims to reveal the possible applications of instruments of New Public Management (NPM) in administrative units. In organisational terms, the FLAG offices are only partially transformed into separate units: their financial and organisational autonomy increases, but not their autonomy in terms of personnel. On account of the concrete formulation of the performance agreement, they even lose part of their performance autonomy as long as the objectives cannot be stipulated in quantifiable terms. At the same time, they remain completely legally integrated in the general administration. In this way, they have undergone a form of **partial corporatisation** which is new for Switzerland the federal level.

Figure 6: FLAG offices as partially corporatised organisational units



84. The FLAG experiment is a learning experience for the chosen offices, the internal service offices of the Federal Department of Finance, the other ministries involved, the federal government and parliament. Since this trial only started in 1997, there are, as of yet, no scientific evaluations providing reliable data about any effects.

85. It is planned to extend the experiment. Apart from the two above-mentioned offices, another eleven offices and agencies are to be designated FLAG pilots and operated according to the new steering model. Nonetheless, the significance of the whole project has remained in contention; in the federal parliament in particular, the trial has attracted insufficient attention owing to its small size. This may well be due to the fact that all the FLAG projects together only account for about Sfr. 200 millions of budget volume; the Confederation's commercialisation of butter alone "devours" more than Sfr. 350 millions, and the cheese commercialisation another Sfr. 460. A mere 3.5 per cent of the personnel of the general federal administration are involved in FLAG projects.

Cantonal and communal levels

86. Cantons and communities have been significantly more open-minded towards NPM than has the Confederation. Apart from numerous pilot offices, there are some agencies which have already begun to be managed in a results-oriented manner. Since 1993, several cantons have adopted some of the ideas of the NPM pilot projects (even prior to the completion of the trials) and formed agencies with structures and legal allowance for results-oriented control. According to Schedler (1997) in 15 out of the 26 cantons

explicit reforms or reform trials involving NPM are being run with between 6 and 13 offices in the program. In the remaining 9 cantons, individual elements of NPM are being introduced.

Further examples of partial corporatisation

Introduction of partially autonomous schools in various cantons: in particular, this is meant to transfer financial and organisational autonomy, and to increase schools' personnel and curricular autonomy.

One-line budgets in the health sector: the steering elements of New Public Management are gradually being imposed on the health sector.

Corporatisation

87. Swiss federalism mandates that corporatisation is faced with greatly varying environments, no generally valid rules can be formulated. For this reason, only five basic tendencies can be described, which will be elucidated by two important case studies.

- Corporatisation aims at the separation of political and managerial functions. At the same time, organisational structures are generally set up which are in line with private industry (e.g. Board of Directors, management model). The board members, as a rule, are appointed on political grounds by the government. The board is often a mixture of high-ranking civil servants and representatives of the private sector.

- Operative objectives only exist for certain points. Financial objectives are usually negotiated between the relevant ministries and the government enterprise, and later given a political blessing in the course of the budgeting process. The "shareholder function" is observed by the ministry.

- The attainment of a legal personality of one's own often has more weight in political debates than changes in labour law arrangements. Evidently, this is associated with a substantial increase in autonomy throughout all the individual elements.

- There is a preference for excluding the delicate questions of new labour law arrangements for political reasons, rather than jeopardising the whole project through incisive changes. This is also indicated by the relatively strong position of the public sector trade unions, which are informally integrated in such labour law decision-making processes early on.

- Genuine entrepreneurial incentives, particularly indicators for the measurement of corporate quality, are still lacking in many organisations. A tendency can be observed, however, of advancing developments in this area, with quality standards usually being defined in a bottom-up process taking place in the enterprises themselves.

The Post Office

88. The PTT reforms will enter into force on 1 January 1998. In all probability, however, the last word on reforms will be had by the Swiss people, since a referendum has been announced against the

legislation. What is planned is the separation of the Post Office and Telecom into two independent enterprises. Thus the Post Office will have to survive without any cross-subsidisation.

89. The long-term goal of the reforms is the gradual liberalisation of the postal market coupled with a supply of basic services which cover the whole country. To begin, the initial implementation will see the Post Office's monopoly for the conveyance of parcels reduced from 5kg to 2kg, and the lifting of its complete monopoly on express postal transport. The monopoly for the transport of addressed letters will remain. In the areas covered by monopolies, the control over pricing and designating the service range will remain with the federal authorities, while the assessment of performance quality will be transferred to an independent agency. In respect to products and services which are offered in competition with other suppliers in the market, the Post Office will largely be able to determine price and performance itself. The only condition is the exclusion of cross-subsidies from the areas covered by the monopolies, which would lead to unfair competition.

90. The Post Office will become an independent institution with its own legal personality. It is supposed to be endowed with interest-free capital amounting to hundreds or even thousands of millions of Swiss Francs. It will still have to relinquish any profits remaining after deduction for reserves to the Confederation, and it will now also be liable to taxation. Personnel will continue to be employed under the Civil Service Act. Additionally, owing to a coverage shortfall of Sfr. 2.8 billions in the Confederation's pension scheme, the Post Office will be unable to choose its own pension scheme for some time to come.

Institute for Intellectual Property (IGE)

91. The Institute for Intellectual Property (IGE) described in section 4.4.1. is another example of corporatisation. Until the end of 1995, the Federal Office for Intellectual Property (IGE's predecessor) had all the characteristics of core administration:

- no legal personality of its own;
- no capital of its own;
- no accounts of its own,
- deficit coverage by the polity;
- an organisation determined externally;
- performance determined externally;
- personnel employed under the Civil Service Act.

92. The IGE was corporatised on 1 January 1996 which resulted in some changes to these characteristics. The organisation now has:

- a legal personality of its own;
- the possibility of creating its equity by creating reserves from profits;
- accounts of its own;
- no deficit coverage;

- organisational autonomy;
- performance autonomy in areas of private competition;
- personnel employed under public law.

93. The IGE is thus no longer subject to the recruitment ceiling, from which the previous federal office suffered particularly badly. Thus additional personnel could be recruited to reduce the mountainous unfinished work (up to 19 000 untreated applications). In order to reach a 100 per cent coverage, the fees had to be raised perceptibly, which aroused the criticism of those effected.

Corporatisation as a preliminary stage of privatisation

Swisscom

94. According to the PTT reforms, the telecommunications market is supposed to be completely liberalised by 1 January 1998, in step with the EU but with the added proviso of a guarantee of a basic supply that covers the entire country. Telecom PTT, which will operate as an independent enterprise under the name of Swisscom, will lose all its monopolies. It will have to cover the whole country with a basic supply of telephone and data services for the first five years. Thereafter, this public service will be put up for tender as a regional or nation-wide licence, if necessary re-established by decree or safeguarded with an investment fund.

95. In order to cushion the market share and revenue losses expected on the domestic market, Swisscom wants to reinforce its international orientation. To date, it holds participations in an alliance with AT&T and the Dutch and Swedish Telecom, in joint ventures in India and Malaysia, and in the major suppliers of telecommunications services in the Czech Republic and Hungary. In addition, it is planning to extend the domestic market into economic areas close to the Swiss border.

96. Swisscom will be organised as a joint-stock company under a special law. According to plans, the Confederation will sell part of its shares to third parties, whose identity is still undetermined. Going public on the stock exchange is also a possibility, as is a participation of foreign telecommunications companies in an alliance. Nor is a participation by cantons and communities ruled out. However, the law will provide that the majority stake in the capital and the majority of the voting rights will remain with the Confederation. Swisscom will no longer hand over its profits to the Confederation but distribute dividends to its shareholders. Also, it will be liable to tax. Its personnel will be re-employed under private law according to the terms and conditions of a general employment agreement to be negotiated by the social partners. Since the shortfall of coverage of Swisscom with the pension scheme of the Confederation will still be just over Sfr. 2 billions by 1 January 1998, Swisscom will remain within that pension scheme.

Armaments enterprises

97. The political change in Eastern Europe in the late 1980s triggered a redimensioning of the Swiss army and a reorganisation of the Federal Military Department. Procurement orders to the armaments enterprises decreased correspondingly, causing significant redundancies. Thus about 1 600 jobs were cut between 1990 and 1996. In order to safeguard the survival of efficient armaments enterprises, managers

and politicians are investigating new markets and trying to enter into alliances with private companies or sell parts of operations.

98. In 1993, the Medium Calibre Division of the Altdorf Munitions Factory was the first individual operation to be sold; it was bought by *Oerlikon-Contraves Pyrotec AG*. Most of the personnel were able to keep their jobs. In 1996, the Von Roll Betec AG was established together with Von Roll, another private Swiss partner. This joint venture produces components for integration into weapons systems; Von Roll holds a majority stake, but the Federal Military Department has secured a decisive minority share. The merger of the mechanical production facilities of both partners, which complement each other, has enabled them to increase their production volume while keeping overheads constant. The armaments enterprises transferred 120 members of staff, Von Roll 260 and about 60 jobs were lost. The previous personnel of the government enterprise lost their civil service status with their salaries gradually adjusted. A further co-operation project with *Rheinmetall Industrie GmbH* is to be implemented in the near future.

99. In order to make optimal use of present synergies, the six federal armaments enterprises and parts of the War Materiel Administration and the Federal Office for Military Air Bases were combined into four armaments enterprises, which in 1998 are set to be transformed into mixed joint-stock companies under the umbrella of a holding company. It is planned to change employment from public law to private law, which will result in salaries that are on average 15 per cent lower and thus more in line with the market. As with other privatisations of government enterprises, substantial resources -- some Sfr. 200 millions, according to expectations -- will have to be made available to make up for the coverage shortfall with the pension scheme of the Confederation.

Privatisation by means of trade sale

100. Privatisation in Switzerland is marked by the almost complete absence of public share offerings. Since government enterprises are usually in need of a high degree of financial rehabilitation, there are hardly any buyers; then again, politicians feel little motivation to admit the politically caused deficiencies openly. As a rule, these deficiencies are revealed anyway; however, attempts to determine political responsibility for the failures usually falter after a short time.

A classic trade sale: the case of the Solothurn Cantonal Bank

101. The Solothurn Cantonal Bank (SKB), endowed with a government guarantee, came into existence through the merger of the Solothurnische Bank and the Hypothekarkasse, a building society, in 1886. In 1992, the bank employed about 400 people and reported a balance-sheet total of Sfr. 5.6 billions, of which loans to customers accounted for 80 per cent. Its own resources amounted to Sfr. 250 millions. As early as the mid-1970s, an expert opinion supplied by the Society for Bank Audits found that the bank’s undisclosed reserves were at a minimum. In 1986, the Auditing Commission pointed out an increase in reserve requirements. Nonetheless, the bank aspired to fast growth, yet the returns would not keep pace. The bank did not want to advertise this, and thus undisclosed reserves were dissolved several times. At a time when SKB no longer had any reserves of its own but was confronted with high write-off requirements, it took over a substantial participation in the *Bank in Kriegstetten*, which was in serious financial trouble and soon had to be taken over completely.

102. In 1992, SKB first went into the red, with a reported net loss of just under Sfr. 30 millions. In 1993, the loss rose to Sfr. 94.5 millions, and by the end of the first half of the following year, in June

1994, it amounted to Sfr. 346.7 millions. Since the bank had no share capital and reserves, the Federal Banking Commission called upon the Cantonal Government to return the bank to a sound financial standing. After commissioning various expert opinions, the Government examined different ways of achieving this. The continued operation of SKB as a public institution would have cost Sfr. 1.2 billions, with the canton bearing a share of Sfr. 570 millions. In the case of partial privatisation (into a joint-stock company under public law), financial rehabilitation and recapitalisation would have cost about Sfr. 1 billion, with the canton paying a share of Sfr. 475 millions. For these reasons, the Cantonal Parliament unanimously and the Solothurn electorate (just under 80 per cent agreed in a referendum) opted for a considerably more favourable offer made by the Swiss Bank Corporation (SBC). Under this offer, SBC suggested that:

a) SKB is transformed into a joint-stock company and sold to the SBC at a price of Sfr. 166 millions as at 1 January 1995.

b) SKB continues to operate under the name of Solothurner Bank (Soba), as an independent SBC subsidiary, with the previous personnel.

c) The endowment capital of Sfr. 170 millions is written off by the Canton.

d) The participation capital[16] of Sfr. 40 millions is written off. Pursuant to cantonal law, the 6 000 holders of participation certificates are not entitled to receive any liquidation proceeds. Nonetheless, the SBC offers Sfr. 20 per participation certificate (nominal value: Sfr. 100) or a corresponding option on registered SBC shares.

e) The Canton accepts the guarantees of a maximum of Sfr. 193 millions for losses from risky assets.

f) Of the Sfr. 6.7 millions coverage shortfall with the SBC pension scheme, the Canton pays Sfr. 3.5 millions. The remainder, as well the interest on the deficit, is borne by Soba.

g) Soba is granted tax relief.

103. SBC's take-over of SKB was successful. Despite establishment and restructuring costs, Soba already reported net profits of Sfr. 10.2 millions in 1995, its first business year. The balance-sheet total decreased by 1.3 per cent to Sfr. 5.58 billions, with savings deposits increasing by 3.1 per cent to Sfr. 1.02 billion. Through the outsourcing of logistical departments, personnel were reduced by 29 to 407 people.

104. The search for the culprits responsible for the decline of SKB revealed that serious mistakes had been made at all levels. The management and the bank council, which was made up to satisfy the proportional representation of the political parties, were only weakly supervised by the relevant political bodies when they made their bad decisions. The Cantonal Finance Minister, for instance, who was responsible for SKB, declared that he had usually not read the minutes of the bank council's meetings. In spite of both the appointment of a parliamentary commission of investigation, and the initiation of disciplinary and civil proceedings, the people responsible have yet to answer for their mistakes. However, at the government elections early in 1997, some ministers had serious difficulty being re-elected. Only four of the five previous members of the government stood for re-election. Only one of them was elected in the first ballot. The Finance Minister preferred to withdraw his candidacy before the second ballot while the other three were then re-elected in the second ballot.

A public share offering is cancelled in favour of a trade sale: the case of the Cantonal Bank of Appenzell Ausserrhoden

105. The Cantonal Bank of Appenzell Ausserrhoden (KBAR), which was established in 1877, suffered a fate similar to that of the Solothurn Cantonal Bank. Although this public-law institution had been transformed into a joint-stock company on 1 January 1995, and had thus been partially privatised, its financial situation could not be substantially improved. Taking into account old risky loans, the bank's share capital and reserve base proved to be insufficient. For this reason, the Cantonal Government decided to invite take-over bids from neighbouring cantonal banks and from the three big Swiss banks for the institute, which had a balance-sheet total of just over Sfr. 3 billions, and to buy back the 100 000 participation certificates sold to the general public (5.5 per cent of the entire share and participation certificate capital); these participation certificates had been issued at the time for Sfr. 220 (nominal value Sfr. 200), and were to be bought back for Sfr. 160 (intrinsic value Sfr. 85).

106. In the spring of 1996, an overwhelming majority of the Cantonal Diet[17] voted in favour of the sale of KBAR, at a price of Sfr. 180 millions, to the Union Bank of Switzerland (UBS), which had submitted the best take-over bid. UBS then took over KBAR and integrated it into its existing branch network with the concomitant redundancies. If the electorate had voted against full privatisation, additional financial injections (apart from the previous capital endowment of Sfr. 3 000 per inhabitant of the canton) would have had to be raised by the canton, necessitating a 14 per cent increase in tax revenue.

Miscarried partial privatisation ends in trade sale: the case of Cargo Domizil

107. The Cargo Domizil brand name was introduced by the Swiss Federal Railways for its "less-than-carload" (LCL) transport. In ecological terms, Cargo Domizil's concept makes sense: local hauliers collect LCL goods from customers, forward them to the nearest regional centre, where the goods are transported to the target railway station. The following morning, the goods are forwarded to the addressees, again by local hauliers.

108. Cargo Domizil's operations produced high deficits. In "peak years," the deficit exceeded Sfr. 100 millions. The cover ratio was never more than 40 per cent. Although Cargo Domizil was the market leader in LCL goods, it constantly lost market share to pure road transport. For this reason, the company was taken out of the Federal Railways (corporatised) on 1 January 1995 and partially privatised. To begin, the number of regional centres was reduced from 83 to 17, and autonomous regional enterprises with private stakeholders were created. In the newly established mixed joint-stock company, CBS Cargo Domizil AG, which had a share capital of Sfr. 5 millions, the Federal Railways held a 60 per cent share. The junior partner, with a stake of 34 per cent, was CSS Cargo Service Schweiz AG, a company set up in 1992 by ten transport companies, in which the Federal Railways held a stake of 16 per cent. The remaining 6 per cent of shares were in private hands. Later, the PTT took on a considerable share.

109. In order for the intricate LCL transport system to be effective, Cargo Domizil changed from a paper consignment note system for orders, to a complicated election data processing (EDP) system. Unfortunately, the changeover was not handled well, and created chaos in the regional centres. The logistics system for addressing and general working processes ordered from Digital Equipment did not function in a satisfactory manner. In addition, many members of staff were overtaxed by the EDP system. Invoices were printed with incorrect payment dates, causing some autonomous regional centres to experience liquidity bottlenecks. The expected profits again failed to materialise. Instead, during 1995, with a turnover of Sfr. 160 millions, the firm reported a loss of Sfr. 40 millions. Ever since 1990, the volume transported by Cargo Domizil had decreased by just under 10 per cent every year. Structural

corrections were evidently overdue. For this reason, it was decided to dissolve the regional autonomous centres and to integrate them into CDS Cargo Domizil AG. In the course of the restructuring process, the Federal Railways again held the majority stake in the share capital as debts were transformed into shares. It thus held a share of 75 per cent while the PTT had 18 per cent. The stake of CSS Cargo Service Schweiz AG, which by now consisted of about 90 small haulage firms, had shrunk to 7 per cent.

110. Despite restructuring and job cuts, CDS AG continued to report losses. Since the federal government demanded profit contributions from LCL transport, the Federal Railways faced the dilemma of either liquidating CDS AG or finding a new owner. The Federal Railways Board decided to sell the railways' majority stake, thus opting for full privatisation. Two tenders were submitted: one from Bahntrans, (a joint venture of Tyssen and Deutsche Bahn AG), the other from the Transvision Project Alliance (a group of three Swiss firms, Planzer Transport AG, Camion-Transport AG and Galliker Transport AG). The three big Swiss hauliers were chosen and the price of the stake was to remain secret.

111. The sale of the majority stake was opposed, not only by the trade unions but also by the previous partners of the Federal Railways associated within CSS AG. Only a few days after the official announcement of the Federal Railways' intentions, these previous partners, on the strength of a contractually secured right of first refusal, obtained a superprovisional injunction from the Bernese Judges' Office on 14 May 1996 restraining the entry of the new shareholders into the shareholders' register, against the appointment of a new executive, and stopping the transfer of business documents to companies that had until then been competitors. The injunction was lifted again on 10 June 1996. The Federal Railways undertook to notify CSS of Transvision's take-over bid so that CSS might exercise its right of first refusal.

112. The Federal Railways and Transvision agreed on the following take-over conditions:

a) Transvision takes over the Federal Railways' CDS share package at a price of Sfr. 3.8 millions.

b) Restructuring of CDS's balance-sheet so that the Federal Railways would write off Sfr. 57 millions of the accounts receivable totalling Sfr. 80 millions. Transvision would have to settle the remaining Sfr. 13 millions.

c) Continued production of transport services involving the railways.

d) Transvision is obliged to continue to provide services that cover the entire country.

e) The Federal Railways are obliged to take back their own 400 employees, who are part of CDS's workforce of 600, if they are no longer required.

113. CSS was notified of these take-over conditions, along with the following additional conditions it would have to satisfy:

a) A joint and several guarantee from a big Swiss bank in the amount of Sfr. 15-18 millions to guarantee the transport services the Federal Railways would have to provide until the end of the year.

b) Evidence of sufficient operating capital to be able to survive the losses of about Sfr. 15 millions expected until the beginning of 1997 without any liquidity troubles.

114. The additional conditions were justified on the grounds that CSS had a lesser credit standing than Transvision. CSS declared that it would exercise its right of first refusal and proceeded to submit its concept. The Federal Railways' Board declined the offer since at that time there were still no bank guarantees. Moreover, the Federal Railways criticised the fact that the organisation proposed by CSS was precisely the structure which contributed to the failure of CDS. In CSS circles, the suspicion was voiced that the Federal Railways had already negotiated their agreements with Transvision in such a manner that a withdrawal was no longer possible. The Federal Railways threatened to file a petition for CDS's bankruptcy and institute bankruptcy proceedings against that company if it took legal action against the Federal Railways. CSS thereupon declared that they would not take legal action and at the beginning of September 1996, the Federal Railways sold its shares to the Transvision Group.

115. The Federal Railways' course of action in the privatisation of Cargo Domizil attracted a cross-fire of criticism. At the behest of the Financial Delegations of both chambers of the federal parliament, a parliamentary working group examined the situation. The report submitted by the working group described this privatisation as a sensational failure, a product of a poorly prepared and carelessly managed project. With respect to the problem of responsibility, the working group concluded that the deficiencies were the result of misjudgements on the part of various people involved. Particular criticism was directed at the accumulation of offices by one General Manager of the Federal Railways, who at the same time was also Chairman of the Board of CDS AG and a Director of CSS AG. Despite vehement criticism, however, no one resigned.

Privatisation with a deliberate transfer to the operators: the case of Videotex

116. Videotex is an interactive on-line service which was set up by the PTT in 1987. The service grew continuously, but not as strongly as planned. The Telecommunications Act that came into force in 1992 forced the PTT either to ensure that the provision of the Videotex services would *cover its own costs* by 1994, or to *privatise* the service. Since Videotex, with a workforce that had by then reached 450, and with just under 10 000 subscribers, was still receiving a 50 per cent subsidy from the PTT, the PTT had no choice but to privatise the firm.

117. In December 1994, *Swiss Online AG* was established with a share capital of Sfr. 3 millions. The major shareholders were the Swiss banks (45 per cent), the Association of Swiss Telematics Providers (20 per cent), the Post Office (10 per cent) and Telecom PTT (5 per cent). Videotex was taken over on 1 February 1995, which had significant effects on rates. The low rate was doubled, the standard rate even quadrupled. Since Videotex was no longer obliged to offer identical terms and conditions to all users, it was now able to provide its services in a more flexible and service-oriented manner. By the end of 1996, the number of subscribers had risen by about 20 per cent. The number of employees increased from 15 to 40. The company concluded its first business year with a turnover of Sfr. 11.1 millions and a loss of Sfr. 100 000, a significant improvement on the budget. It would appear to be only a question of time until this former government enterprise, which had chronically produced deficits before its privatisation, reports profits.

118. Meanwhile, Swiss Online AG has entered the Internet business and established itself in a leading domestic market position alongside *the blue window*. It has signed an agreement with Newtelco, Switzerland's first private telecommunications provider, by which Swiss Online will provide the services that were previously offered on the Telecom PTT network on Newtelco's high-speed network. In addition, Swiss Online co-operates with T-Online (Deutsche Telecom) and the Microsoft Network. The

agreements aim at mutual access to on-line material, and the joint development of electronic banking and commerce services.

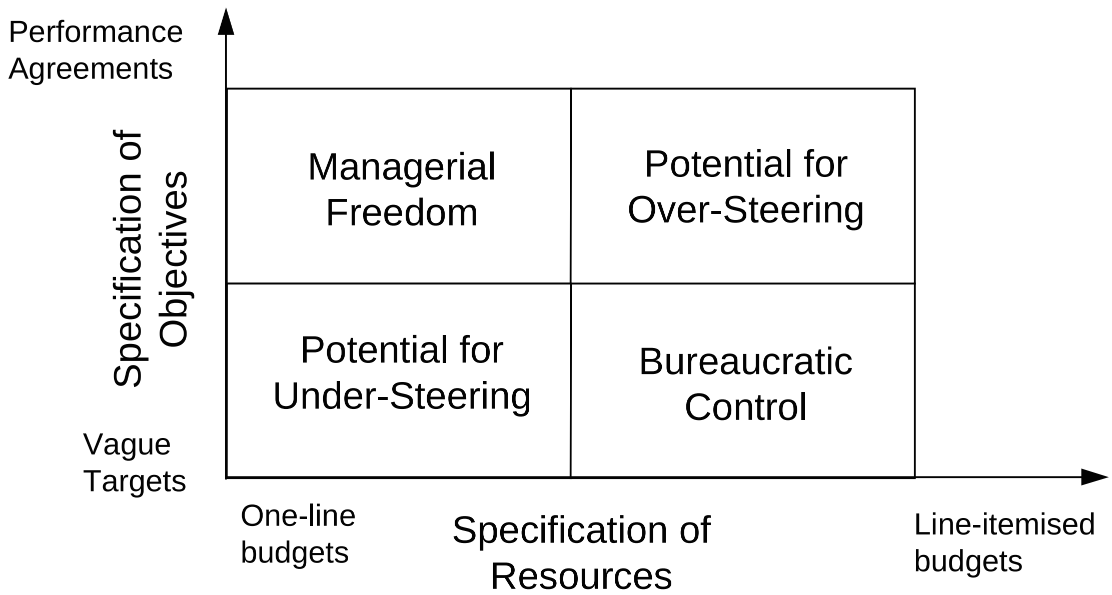
119. A similar outcome occurred with the Federal Army Horse Training Centre in Berne, which was downsized after the abolition of the cavalry in 1972, and transformed into the National Equestrian Centre, a private co-operative with participations held by various public corporations and private individuals.

Correction of over-steering in newly independent units

120. The traditional forms of bureaucratic steering are primarily resource-oriented, and usually concurrent with dense regulation of both democratic and administrative processes. In practical terms, this only applies to those administrative units which are subject to bureaucratic steering at all. As soon as a unit detaches itself from the actual organisational core of administration (by undergoing corporatisation, for example), it almost always bids farewell to input-oriented steering; as its financial, personnel and organisational autonomy increases, so does its decision-making freedom, all at the expense of being steered by political bodies. Budäus (1994, 25) argues, in a German context, that a factually observable decentralisation is largely bereft of systematic organisational integration. As a rule, the same applies in Switzerland.

121. This presents a challenge for the co-ordination of the steering mechanisms which are of great import for the transformation process from bureaucratic input-oriented steering to results-oriented steering. These difficulties are illustrated in the four-fold table below (see Figure 7). Bureaucratic input-oriented steering is characterised by a detailed specification of resources without a specification of goals, whereas results-oriented steering tries to specify the goals in concrete terms while globalising the resources at the same time. Dysfunctional situations arise when both dimensions are not specified (under-steering) or when they are both highly specified. In the latter case, the system is over-defined or “over-steered.”

Figure 7: Dimensions of political/administrative steering



122. Since results-oriented steering was formerly largely unknown in practice, under-steering is bound to occur as soon as administrative units are detached and gain more autonomy. This is the case, in particular, with units that have newly gained legal independence and continue to receive government subsidies but have no performance requirements which they must meet (e.g. BUTYRA, Cheese Union, etc.).

123. The contrary also occurs if detailed performance agreements are drawn up without providing the unit with the necessary authority or abolishing the traditional detailed checks or an organisation's behaviour. Today, this is the case in some FLAG offices and, to a great extent, in the Federal Railways.

124. It appears that Switzerland's administrators and politicians have yet to find a practical way of establishing a correct balance between input-oriented and results-oriented steering. Rather, motivated by political factors they have done one of two things: they have often held on to traditional checks if an area is (or might become) potentially explosive in political terms. However, too often, they have resorted to the second option; if performances can not be measured easily, or at all, the exigencies of politics have meant that no responsibility has been taken for the performance of some enterprises and thus these firms have succumbed to few, if any checks.

125. It can be observed, however, that the debate about New Public Management in Switzerland has now also begun to increase the sensitivity of administrative units which are not involved in reform projects. The result of this is that new forms of steering are beginning to come to the fore, and leadership is increasingly exercised with the help of globalised budgets and performance agreements. This is regarded as an opportunity to correct the latent under-steering in corporatised units.

Marketisation

126. Irrespective of autonomy and ownership, a third dimension characterises the reforms in government enterprises in Switzerland: the introduction of more or less intensive competition. This development was largely triggered by international pressure, particularly by competitive situations in the European Union and the commencement of WTO enforcement.

127. Various degrees of competition intensity can be observed:

a) no competition at all;

b) managed competition (limited opening towards competition, and deliberate creation and maintenance of competition);

c) full competition.

Below, we will primarily deal with forms b) and c).

Contracting

128. Following an international trend, Switzerland increasingly uses forms of contracting as steering instruments. This is particularly true for transport, where the railway reforms make systematic use of these (New Public Management) instruments.

Public/public contracting with the railways

129. In Directive 91/440 “On the development of the railway enterprises of the Community” and the white paper “A strategy for the revitalisation of railways in the Community”, the EU declares its intent to initiate a sustainable recovery and reinforcement of European railways. Although Switzerland is neither part of the EU nor of the European Economic Area (EEA), EU decisions are as a rule also implemented without great delay. Thus the railway reforms envisaged for early 1998 bear distinct traces of the EU Directive and white paper.

130. The central points of the railway reforms are:

- Free access to networks:

  Each transport company will have the right to use the infrastructure of another railway company against payment. This will create competition among the transport service providers.

- Ordering principle:

  Politicians will order the service at a price fixed in advance. In regional transport, services will now be ordered by the cantons.

- Lifting of the deficit cover:

The transport companies will be remunerated according to performance. Deficits will be carried forward to the following business year. As there will be competition, regular remissions of debts will no longer be possible.

- Separation of infrastructure and transport:

  For small and medium-sized transport enterprises, the separation of these two operative areas will only be reported in their accounts, while in the case of bigger companies, the separation will also be organisational.

131. Apart from the restructuring processes arising from the railway reforms, the following measures are envisaged for the Federal Railways:

- Change in legal form:

  The Federal Railways will be transformed into an institution under public law or into a joint-stock company under public law.

- Separation of politics and management:

  The Confederation will limit itself to stating political and financial requirements. The Federal Railways themselves are responsible for operative management.

- Relief from old financial encumbrances:

  The loans of Sfr. 11.6 billions from the Confederation will be transformed into share capital of Sfr. 8 billions and Sfr. 3.6 billions into loans repayable subject to certain conditions. The loans of Sfr. 5.6 billions granted by the Federal Railways' pension and aid scheme will be taken over by the Confederation, which will also guarantee the shortfall of pension scheme coverage of just under Sfr. 5 billions.

  The Federal Railways are deliberately carrying out their reforms without the support of external consultants. This is meant to result in an unreserved personal commitment on the part of the managers.

Take-over of the lake line by Mittelthurgaubahn (MThB)

132. Until recently, Mittelthurgaubahn (MThB) with its traditional 42km line between Wil and Constance was a rather insignificant private railway company. In 1993, it employed some 100 people. It is owned by the Confederation, the Eastern Swiss Cantons of Thurgau and St.Gallen, and the adjacent communities.

133. In 1994, MThB submitted a tender for the 45km line from Constance to Engen, and won; and in 1996, the 17km from Radolfszell to Stockach were added. Investments in rolling stock and line repairs amounted to Sfr. 54 millions, of which the German Land of Baden-Württemberg took on just over half. The rest was financed by MThB. The population of the German district of Constance welcomed the Swiss private railway company's expansion into Germany since it resulted in a substantial improvement in service.

134. At the same time, the Federal Railways reduced their services on the 65km lake line (Schaffhausen-Kreuzlingen-Romanshorn) and considered a changeover to coaches for reasons of profitability. After massive criticism of the potential move from the Thurgau region, a general manager of the Federal Railways declared that the line was up for sale at a price of Sfr.1.00. Subsequently, the Federal Railways revoked their decision and tried to prevent the line from being transferred to another company. An unprofitable line had become an object of competition within a short period of time.

135. In February 1996, the federal government decided as a matter of principle to transfer the line to MThB for a trial period of ten years. After tough negotiations between MThB, the Federal Railways, the Confederation and the cantons, agreement was reached on the following points:

a) MThB will take over the lake line from 1 June 1997.

b) The federal government will grant MThB a licence for the duration of the trial.

c) MThB will take over the facilities on leasehold.

d) MThB will be the legal successor for any agreements concluded by the Federal Railways in connection with the lake line.

e) The Confederation will pay MThB an investment contribution of Sfr. 34 millions towards the financing of interlocking installations.

f) MThB will take over about 60 Federal Railways staff. About 40 employees will work on the lake line as a detachment until the MThB concept has been realised.

g) If the trial fails, the line will revert to the Federal Railways after ten years. MThB will have to arrange operations and investment in such a manner that this reversal can be carried out without any problems.

Thus for the first time in their 150-year history, the Federal Railways have had to relinquish part of their network. If the trial succeeds, the line will be definitively assigned to MThB. The Federal Railways will then have to be prepared for further regional transport lines to be taken from them.

Competition illustrated by telecommunications

136. Hardly any other Swiss market has experienced such dynamic growth and fundamental structural change as telecommunications. Triggered partly by rapid technological change, the liberalisation of the telecommunications markets, which in many countries took place years ago, has also had a significant positive impact on growth. With the dissolution of the telephone monopoly from 1 January 1998, Switzerland is now adapting to the international trend[18] --albeit with some delay.

137. In view of the imminent opening of the market, various alliances have been formed with the intention of competing with the still government-owned Swisscom for its present share of 80 per cent of the telecommunications market. Swisscom’s major competitors are Newtelco, Diax and Global One. The “Newtelco” joint venture unites British Telecom, Tele Danmark, Union Bank of Switzerland (UBS), the Migros Co-operative[19] and the Federal Railways. “Diax” brings together the US SBC Communications Group, Swiss Reinsurance and six Swiss power stations. “Global One” is a venture of Deutsche Telekom, France Télécom and the American Sprint Corporation. It is expected that this new competition will

extend the diversity of the product and service range and, above all, lead to a drop in prices. The new telecommunications companies are already recruiting a substantial number of personnel. This early in the game, the exact ratio of strength between the individual players can only be inferred. Though, what is interesting even at this early stage, is to observe how the three *government enterprises*, Swisscom, the Federal Railways and some Swiss power stations, are competing against each other in order to make their infrastructures available to their respective alliances.

Lessons Learned

138. These developments, which in many cases are still very recent, cannot serve as a basis for a conclusive evaluation. Nonetheless, the above considerations allow for a number of conclusions that are of significance for any further observations. Switzerland's special situation is revealed in a wide variety of colours, although it has become equally clear that in many respects, the "special case of Switzerland" can be seen in terms of degree rather than as a matter of principle.

European direction despite non-membership

139. Although Switzerland is not a member of major international organisations such as the UN or the EU, it is clear that the international influence on Swiss developments is increasing. This is only partially a consequence of membership of other organisations, such as the World Bank and the WTO. To an overwhelming extent, it is a consequence of the fact that Switzerland has been *de facto* integrated into Europe for decades, and the mainstreams of its neighbouring countries have always penetrated into Switzerland. Throughout its history, Switzerland has often only been able to uphold part, or even a mere semblance, of its sovereignty, a situation presently manifest by the country's reassessment of the role it played during the Second World War. Rickenbacher (1995, 15) has noticed that Swiss politicians have developed a sophisticated ability to create an impression of autonomy despite capitulation to international demands. When, for example, European law is adopted in Switzerland, politicians speak of "autonomous compliance."

140. Most major reforms in public institutions in Switzerland have been caused by international change. Impressive examples are the privatisation efforts with Telecom, which are a consequence of international pressure, and the liberalisation in the insurance market. The railway reforms, too, may well essentially have been initiated in the wake of the internationalisation of the great transversal railway lines. Ultimately, international developments have turned out to be the actual driving force behind the reforms in government enterprises in Switzerland.

Privatisation potentials

141. Formal privatisation potentials are few in Switzerland and have been discussed more or less fruitlessly for years. The following areas are prominent and are still being examined:

a) State-run insurance schemes (real estate insurance, SUVA) and banks (cantonal banks);

b) State-owned industries in the armaments sector;

c) semi-governmental organisations in the sphere of intermediation (Cheese Union, BUTYRA);

d) telecommunications and transport enterprises (Telecom, the Post Office, railways).

142. At cantonal and communal levels, it is predominantly infrastructural areas that have been named as potential candidates for privatisation, and increasing financial pressures have enhanced the readiness to give serious thought to the range of tasks the State should fulfil. If this should continue, it is likely that privatisation potentials which have so far been beyond discussion are put back on the agenda, thus reviving the possibility of government disinvestiture in even more industries.

Democratic control as a **pièce de résistance** *and a source of heterogeneousness*

143. Experiences with reform projects in Switzerland so far have shown that given the viscistitudes of direct democracy, the examination of individual cases is more fruitful than attempting to understand the systematic changes occurring in the country. Given the various forms of privatisation and unique legal structure of each new entity, it is hardly possible to establish a basic model that would be valid without immediate modification as soon as new projects are undertaken. Swiss democracy is lived out in individual laws which always have to be redefined and which are always subject to the consultation of any interest groups that happen to be affected.

144. The lack of general rules in Swiss privatisation is manifest in the various types of autonomy accorded to different firms. Whereas it was politically uncontroversial that the Institute for Intellectual Property should be endowed with a high degree of *financial* autonomy, it was not opportune at the time of the decision to implement *personnel* autonomy, too. Yet a year later in the discussion of the PTT reforms thousands of Telecom employees were “privatised” along with their employer.

145. This begs the question as to whether Switzerland’s direct democracy system is capable of developing a unified reform vision of its own. There have been indications so far that visions and models are taken, under duress, from other countries. Swiss politics then adapts and “Helvetises” these models for application in their country. This leads to Mastronardis’ (1997) belief that the Swiss do not take over any system, and certainly not one from another country. Rather, they turn it into something of their own.

146. If reforms in government enterprises are to be concluded successfully, the peculiarities of direct democracy must be taken into account. The political aspect is therefore substantially more complex than in many OECD countries; the subsequent constancy, however, may well justify all the efforts to implement the new organisational forms in a direct democracy, too.

NOTES

1. The states of the Swiss Confederation are called cantons.
2. Federal Department of Finance, Öffentliche Finanzen der Schweiz 1995; the figures refer to 1993. Any double counts were proportionally apportioned to the three levels of government.
3. The information is largely based on articles published in the *Neue Zürcher Zeitung (NZZ)* daily newspaper an on individual enterprises' annual reports.
4. Swiss National Bank, 1995, p. 33.
5. Swiss National Bank, 1995, p. 22.
6. engl.: Institute for Intellectual Property.
7. Employment under public law is comparable to employment under private law. As a rule, however, it involves stronger protection against redundancy and is subject to public law, i.e. the jurisdiction of an administrative court. The greatest difference from civil service status is the unlimited period of employment combined with a term of notice of 3-6 months. Swiss civil servants are appointed for periods of 4 years; during this term, notice can only be given for more important reasons.
8. Agreement of 3 June 1971.
9. engl.: Intercantonal Office for Medicine Control.
10. For 1996, the IKS reports a loss of Sfr. 3.1 millions. This corresponds to 13% of its turnover.
11. Cf. the report by the Federal Department of Home Affairs of 19 February 1997, pp. 11 ff.
12. Participation in Allgemeine Schweizerische Uhrenindustrie AG [General Swiss Watchmaking Industry] ceased in 1984; the Stickerei-Treuhand-Genossenschaft [Embroidery Fiduciary Cooperative] and the solidarity fund for Swiss shuttle embroidery was dissolved in 1996.
13. About 40% of Swiss electricity is generated in nuclear power plants.
14. The licensed enterprises are called private railways although the state usually holds a majority stake in them.
15. engl.: Management by Performance Agreements and One-Line Budgets.

16 A participation certificate is a share without voting rights.

17 In the Canton of Appenzell-Ausserrhoden, cantonal bills are put to a plenary assembly of the electorate (Cantonal Diet) every spring.

18 Since a referendum has been instituted against the PTT reforms, the people will decide about further developments. It may be assumed, however, that the electorate will approve the reforms.

19 Switzerland's biggest retailer.