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## **The impact of the liberalization of public services on the competitiveness of firms in the Alpine regions of Switzerland**

### *Abstract*

Businesses in outlying regions, particularly small and medium-sized enterprises (SMEs), are having to face a broad range of different challenges in order to maintain their competitiveness. An important input factor has in the past always been the supply of public services. In recent years, public services have undergone a number of radical changes. The impact of the liberalization trends on the competitiveness of firms and on regional development is still largely unknown.

The paper has therefore the following objectives: (1) to show the context of the liberalization of public services (2) to discuss possible spatial effects of the liberalization (3) to look at interconnections between the different aspects of change in the supply of public services and the competitiveness of firms and (4) to outline the empirical design for analysing the impact on firms in the Swiss Alpine regions. This paper will draw from an ongoing empirical study, but cannot yet produce final empirical results and policy implications.

## **1. Background and point of departure**

In recent years, public services have undergone a number of radical changes in the wake of a general process of economic transformation: globalisation of markets, the liberalisation of foreign trade regulations (Hauser, Schanz 1995), European integration, technological developments and the public sector's lack of financial resources have restricted national governments' scope for action (Scharpf 1991; Finger, Tamiotti 1999).

Provision of services in state enterprises, which in the past always fell to public-sector bodies, is coming under increasing economic pressure. Cost pressure and an obligation to invest have accelerated the process of adjustment and the significance of transnational companies in the area of public services is increasing (Finger, Lobina 1999). The state has responded – to differing degrees – with steps towards liberalisation and the introduction of market elements (Schedler, Proeller 2000; Hodge 2000). With the shift in the role of the state from service provider to guarantor of provision, public services are increasingly being run on criteria of efficiency and productivity. The services that are desirable in the general interest are formulated in a way that is as neutral as possible, with no bias towards any particular solution, and attempts are made to keep the regulatory framework as open as possible (BRP, seco 1999). As a result of the (partially) liberalised markets, constitutional questions associated with liberalisation and privatisation (Biaggini 1998) and attempts at market regulation to ensure basic provision are rapidly gaining significance.

The European Union sets thereby the rhythm of the market opening, which is also for Switzerland of crucial importance. The European Union tries to characterize the central terms such as 'Services of general economic interest' or 'Universal Services'. Exactly what is meant by services that are 'of general economic interest' or how 'Universal services' can be defined is currently the subject of a broad international debate (Cox 1996, 2001; Commission of the European Community 2000). Under these circumstances, it is difficult to come up with a concrete definition for basic provision. Specifying the content of the provision is also influenced by society's changing expectations and can thus ultimately only be decided by way of a normative political approach based on social concepts (Thierstein, Abegg 2000).

Switzerland is characterized by a small-scale pattern of languages and cultures, which in political regard is built on a strong federalist system. In this context the economically oriented considerations turn increasingly in conflict with terms such as ‘regional balance’ or ‘national cohesion’, which were strongly embodied in the past economic and political system of Switzerland. The gap between the two poles of international competitiveness and national cohesion continues to increase.

The liberalisation in Switzerland endeavours in the various areas of public services are at differing stages of progress. In the most advanced areas, the question of organising basic provision is under intensive discussion. This is the case, for example, in the fields of transport (Lundsgaard-Hansen et al. 1999), telecommunications (Bühler 1999), the electricity market (Econcept 1998, Ecoplan 1999), or in general terms for the Alpine regions (SAB 2000). But in other areas too, such as health (e.g. hospital planning) or education, the topic of opening up markets and universal services is gaining in significance.

## **2. Spatial effects of the liberalization of public services**

The provision of public services is not only a question of efficiency or productivity. There also exists a strong link between public services and regional development (Ecoplan 2000). Current trends often run contrary to the direction policymakers would like regional development to take. The market-oriented reorganisation of capacity in public services is affecting outlying regions more than the urban centres. This will in all likelihood result in an increase in economic concentration and disparity between the economically strong urban centres and the rural and outlying regions. Particularly high-valued industries with highly-qualified workers, as for example the new telecommunications firms, are concentrated in the metropolitan area of Zurich.

In the Swiss Alpine regions – with their dispersed settlement pattern, low density of population and mainly small-business-based structures – there is a risk that the supply of public services, which is an important element for controlling settlement trends, will be reduced and will differ from region to region (cf. the electricity market, for example, Ecoplan 1998).

Two different regionally specific effects of the liberalization of public services can be identified and have to be clearly separated in the analysis: the loss of jobs in public utilities and the change of the service provision.

### ***Employment in public services***

Due to political pressure the public utilities were implicitly pushed so far to provide for a decentralized distribution of their jobs. The additional costs were covered by monopoly revenue. With the separation from business and political responsibility this possibility of indirect regional policy has largely been reduced. Public policies to promote locations and regions tend more to be designed along efficiency criteria than along distributive objective like traditional regional policy. Thus a gap between the supply of public services and the production of these same services within the peripheral regions seems to be opening up. This leads in some already structure-weak regions to a reduction of jobs.

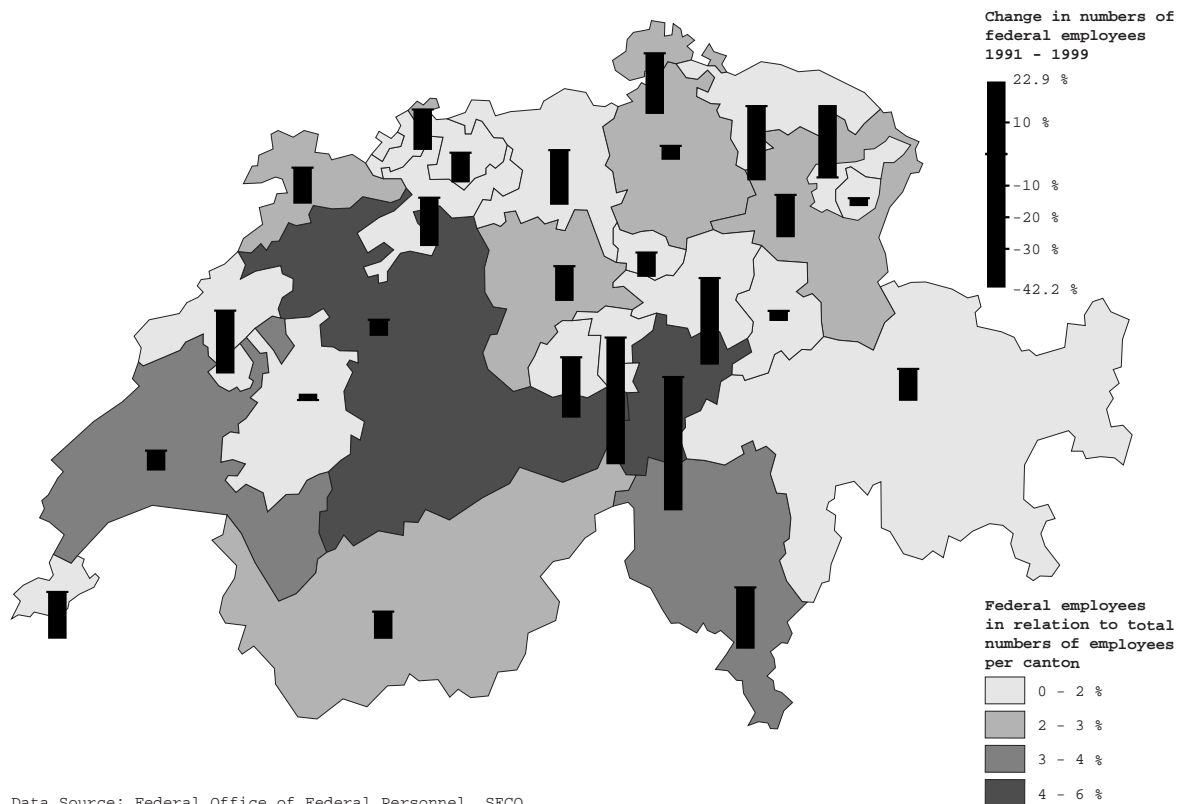
These direct effects on jobs are at least for the most part clearly recognizable (see figure 1) and can be tackled directly in political terms (Meier 2000). The Swiss government thus introduced a program that supports financially those regions that are struck the most by the already implemented liberalization steps of public services. Despite the small financial means the program is an important political indication of the intention of the Federal Government to support the regions concerned by the liberalization.

### ***Service Provision***

Apart from a shift in job provision, the changes affect a number of other aspects of the provision such as availability, quality, price and extent of public services. These indirect effects of the change in service provision are more difficult to grasp. The offer is already today, in particular in qualitative regard, spatially differentiated, as you can see for example in the opening hours of post offices, the densities of timetables of public transportation or the rate of net-coverage in mobile communication. While the location of jobs is increasingly de-coupled from public decisions the definition of the provisions of public services remains however in the immediate responsibility of the Federal government and

the legislative bodies. Due to the very vague definition of a respective minimum standard of public services a differentiation lies however to a large extent in the discretion of the respective public utility.

**Figure 1: Federal employees per canton, 1991 – 1999**



The changes, which also affect a range of other areas of policies (agriculture, transportation, health and education) or the private sector, are often quite minor, but they can nevertheless have a cumulative effect for a particular region. The usually narrow perspective on single public services neglects important cumulative inter-connections. So far we have not encountered an across the board analysis which incorporates cumulative effects in the different regions.

The territory-wide basic provision in outlying regions is closely linked with settlement trends (Ecoplan 2000). In particular the Alpine towns and villages are finding it increasingly difficult to escape the pull forces of the peri-Alpine conurbations (Perlik

2001). As a result of the increasing cost of infrastructure in rural areas, there is a move to concentrate development incentives and strengthen municipal systems in the Alps (Boesch 1998). Against this background, the effects of liberalisation in the different Alpine regions are expected to be highly specific to the particular region. (Bätzing et al. 1995)

### **3. Impact of the liberalization on the competitiveness of firms**

The notion of competitiveness is used on different levels: for firms, regions or for national economies. A company has to face up to the competition and win market shares for export (Maillat, Bataini 2001). Their competitiveness consists of the capability to develop new products and processes and thereby to create positive effects on employment and income.

The impact of the liberalization of public services on the competitiveness of firms can be characterized by three elements:

- The relative importance of public services as location factors
- The direct or indirect impact on the production process
- The capacity of firms to innovation and adaptation to a changing economic context.

#### ***The relative importance of public services as location factors***

With the increasing international competition between locations the discussion about the importance of location factors has been intensified as well (Borner et al 1991; Porter 1998). In the past, public services were, due to their relatively homogeneous regional distribution, of only minor significance as a locational factor for companies (Grabow et al. 1995, Koellreuter et al. 1995). Due to the changed basic economic conditions this will change clearly. The liberalisation of the markets of public services leads to an increase of the competition between regions. Public services become thereby a differentiating factor of the location competition. This applies both to Switzerland as a whole and to the individual regions. The regional advantages and disadvantages must be reconsidered under these changed circumstances.

Public services are however only one element in a broader set of location factors. The competitiveness cannot be reduced only to the provision of public services. Among the extensive bundle of location factors the price-performance ratio of public services plays an important role as well.

### ***Impact on the production process***

Public services are in a direct or indirect way part of a firms production process. We will argue that the companies based in outlying regions are affected in two respects by the changes in public services.

On the one hand, the changed provision of public services is becoming more significant for businesses as a hard locational factor and can have a negative effect on production processes. Because of a spatial differentiation of the service provision firms in peripheral regions are discriminated against others. Possible disadvantages are increased prices for electricity, fewer connections with public transport or a reduced quality of postal services.

On the other hand, public services work as soft, person-centred, locational factors that make a major contribution to the quality of life a location has to offer (Grabow et al. 1995). A deterioration in services means that outlying regions become less attractive as a place to live and consequently it becomes more difficult for companies based there to recruit well-qualified employees. Companies are being forced to react to the dynamic environment and to develop corresponding response strategies.

### ***Capacity for innovation and adaptation***

Competitiveness of firms does not only refer to a fixed list of static location factors. It has to be looked at from a more dynamic point of view (Maillat, Bataini 2001). Regarding competitiveness as an ongoing process, the capacity for innovation and adaptation to a changing economic context is of crucial importance. Therefore we want to embed the single firm in a broader regional framework. We will argue that the competitiveness of a firm also relies on the degree to which the public and private stakeholders within a territory are able to proactively respond to challenges external to the region.

Our main analytical approach to assess firms behaviour within a regional context is the concept of ‘regional production systems’ (RPS) (Crevoisier, Corpataux, Thierstein 2001; Maillat 1996). RPS are anchored in different structures depending on the region in question. They are characterised by

- their scope for autonomous decision-making,
- their coordination mechanisms and
- their specific resources.

The extent to which they are anchored in their particular region influences their capacity for innovation and adaptation to a changing economic context.

A regional production system (RPS) is defined as a geographical area of productive specialisation(s) including a certain number of regional actors (firms, - small or large -, institutions, public authorities). These actors interact with one another in accordance with certain relationships of

- technical complementarities (trade input/output relations, relations between training and education systems/research and firms) and
- relationship of competition and/or co-operation.

A RPS harbours and generates specific resources (in particular know-how of all kinds), which form the basis of its competitiveness. It also has a more or less pronounced autonomy with respect to its own evolution. The economy of some regions may be composed nearly exclusively of its RPS. In other regions, on the contrary, the RPS and its specialised branches are only a tiny part of the economy, because the region is more diversified or it has a larger number of induced activities. The autonomy of a RPS is also more or less pronounced, going from a dependent RPS, consisting mainly of subsidiaries of large firms with few local ties to truly innovative milieus (Crevoisier, Corpataux, Thierstein, 2001). Thus, the spatial boundaries of a RPS comprise a certain number of elements: specialisation of activities compared with the other national territories; specific relationships between regional actors which also define a particular area; presence of specific resources which give the region a specific edge over its neighbours and finally, in a more general way, the autonomous ability of adjustment and innovation, involving a certain

number of actors in a dynamic interaction which distinguishes this territory from the surrounding ones.

#### **4. The research design for a Swiss study**

The following section deals with the research design of an ongoing research project, which is sponsored by the Swiss National Research Programme 48 'Landscapes and habitats of the alps' ([www.nrp48.ch](http://www.nrp48.ch)). The project will be worked out in collaboration with the 'Communauté d'études pour l'aménagement du territoire' (C.E.A.T.) in Lausanne, and the private consulting and planning firm Ernst Basler + Partner AG in Zurich. The project has started in early 2002 ; final results thus are not yet ready.

The endeavour to introduce a liberalization of public services is a new phenomenon for Switzerland – at least on the actual scale and with the current level of dynamics. Consequently, there are also a number of gaps in research when it comes to the academic discussion of public services, particularly with regard to their regional implications.

- The regional effects of the liberalisation of public services have hitherto been neglected. Particularly with regard to regional development in outlying areas, there is very little basic information available, despite the clear need for action.
- Liberalization measures are frequently evaluated solely in terms of their effects on jobs. Little is known about the changes in the various aspects of public service provision and their effect on the competitiveness of companies.

The project therefore addresses the following objectives:

- To identify the relative importance of the provision of public services as a locational factor for businesses in the Alpine regions of Switzerland from both a static and a dynamic point of view.
- To gain insight into the reciprocal effects between the different aspects of the changed supply of public services and the businesses trends as seen by the companies.
- To highlight the effects of the changed provision of public services on the competitiveness of the Alpine regions in Switzerland and to identify critical factors in

the provision and strategies for action taken by the companies as a response to the changes.

### *Analytical framework of the study*

The analytical framework will consist of case studies in the three Swiss cantons of Graubünden, Wallis and Uri. The case studies will give an all-round picture of the current situation and the processes of change occurring in the Alpine regions of Switzerland. The cantons selected will make it possible to include different kinds of starting situation (urban, peripheral, tourist or industrial regions) that capture the lack of economic and cultural homogeneity in the Alpine regions and reflect the different patterns of effects (Bätzing et al. 1995). The individual case studies are made up of three elements.

- In a first step we will identify the central socio-economic production systems. The differentiation into regional production systems will make it possible to identify in greater detail the needs and demands placed on public services, which differ from sector to sector.
- A written and representative survey of companies will be used within each of the production systems. The survey will concentrate on the topic of public services as a locational factor for their business activities. Apart from a general assessment of the importance of public services in the broader business context, companies will be asked to comment on the reciprocal effects between the different aspects of the changed supply and the development of business activities. A further key area will be the different strategies for action pursued by different companies. We shall not look at the effects from a purely statistical point of view. The dynamic component of the study will be introduced through the firms' assessments on the perceived changes in provision as well as on the perceived changes that are to be expected in the next few years.
- The quantitative results of the firm survey will be supplemented by interviews with representatives of companies in each case-study region. This will make it possible to analyze in greater depth the interconnections and response strategies that have been identified as critical. The interviews will also make it possible to acquire additional

assessment on the timescale of the dynamics behind the change in provision and on the expectations concerning future developments.

Public services cover a wide range of public activities. We have chosen to concentrate in our study on *four areas*: regional public transportation, postal services, telecommunications and electricity. With this selection, we have incorporated those services in which attempts to liberalize markets are most advanced and in which initial experience with opening up markets has already been acquired.

### ***Political framework of the study***

According to the working principles of Swiss National Research Programmes, the project has a strong implementation part. The low level of knowledge resulting from the gaps in research on the regional effects of liberalization means that policymakers are faced with multiple challenges. There is an increasing need for coordination between the different sectoral policies. On the political level, however, there is uncertainty about how to use the set of instruments for regional policymaking that already exist and how to develop new ones (Thierstein, Egger 1998). As a result of the separation of entrepreneurial and political responsibility, their influence on the service provision of current and former state public enterprises is declining; new ways of providing support for regional competitiveness have not yet been defined or implemented in the Swiss context.

The cantons occupy a central role in the process of adapting to the liberalization process. The cantons will gain not only increased political responsibility but greater scope for financing their activities of priority; this outcome will be due to the reorientation of Swiss policies on the regions and the Alpine areas (see the ongoing debate at URL: [http://www.seco.admin.ch/seco/seco2.nsf/dieSeite/ST\\_Home?OpenDocument&l=en&HauptRessort=5](http://www.seco.admin.ch/seco/seco2.nsf/dieSeite/ST_Home?OpenDocument&l=en&HauptRessort=5)) and the strengthening of federalism through the planned new financial equalization scheme. Both policy reforms are strongly supported by OECD's recent Territorial Review on Switzerland (OECD 2002). Consequently, the cantons are under pressure to increase the regional provision of public services within the framework of small-scale regional policy and to stimulate innovative projects at grass-roots level. The cantons are, on the one hand, involved into regional policies designed at national level and,

on the other hand, increased opportunities are opening up in the area of transborder, transnational and interregional cooperation in the Alpine regions as a result of INTERREG III.

One major emphasis of our project is therefore on the political implementation of the knowledge acquired within the context of our analytical part of the study. One of the project's central goals will be to present possible solutions and recommendations to policymakers and private stakeholders alike on how to ensure an adequate regional provision of public services.

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