Defense Budget and Financial Management Policy in Switzerland – Selected Aspects

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Defense and FM Policy Course
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Naval Postgraduate School, Monterey
### Switzerland is between 0.4 and 3.5% of the size of the USA

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>Switzerland</th>
<th>% of USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>310,232,863 (July 2010 est.)</td>
<td>7,623,438 (July 2010 est.)</td>
<td>2.5</td>
</tr>
<tr>
<td>Labor force</td>
<td>154.9 million (2010 est.)</td>
<td>4.13 million (2009 est.)</td>
<td>2.7</td>
</tr>
<tr>
<td>Area</td>
<td>9,826,675 sq km</td>
<td>41,277 sq km</td>
<td>0.4</td>
</tr>
<tr>
<td>Official languages</td>
<td>English, (Spanish)</td>
<td>German, French, Italian, Romansh</td>
<td></td>
</tr>
<tr>
<td>GDP (official exchange rates)</td>
<td>$14,620 billion (2010 est.)</td>
<td>$522.4 billion (2009 est.)</td>
<td>3.5</td>
</tr>
<tr>
<td>GDP (purchasing power parity)</td>
<td>• $47,400 (2010 est.)</td>
<td>$326.9 billion (2010 est.)</td>
<td>2.2</td>
</tr>
<tr>
<td>• per capita (ppp/oer)</td>
<td>• 4.06% of GDP (2005 est.)</td>
<td>$42,900 / $68,500 (2010 est.)</td>
<td>90/145</td>
</tr>
<tr>
<td>• defense in % of GDP (oer)</td>
<td>• 1% of GDP (2005 est.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment:</td>
<td>9.7% (2010 est.)</td>
<td>3.9% (2010 est.)</td>
<td></td>
</tr>
<tr>
<td>• defense</td>
<td>• $693 billion (2010)</td>
<td>• CHF 5 billion (2010)</td>
<td>0.7</td>
</tr>
<tr>
<td>• defense in %:</td>
<td>• 19% (2010)</td>
<td>• 8%</td>
<td></td>
</tr>
<tr>
<td>Public Federal debt % of GDP</td>
<td>62.2% (2010)</td>
<td>20.5% (2010 est.)</td>
<td></td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>78.24 years</td>
<td>80.97 years</td>
<td>103</td>
</tr>
</tbody>
</table>

Source: CIA World Factbook, OMB, BFS, Slides of Dr. Brooks
Switzerland's political system was inspired by the system of the USA ...
... but differs in several ways!

People elect parliament but not government or President

President as "primus inter pares"

Represents 5 biggest political parties

People propose and veto law

13 political parties organized in 6 parliamentary groups

All elected for the same 4 years

Elect the Federal Council and the President

"militia" parliament

Source: www.geschichte-schweiz.ch
Referenda in the Swiss Constitution (1)

Art. 140 Mandatory referendum

1 The following must be put to the vote of the People and the Cantons:
   a. amendments to the Federal Constitution;
   b. accession to organisations for collective security or to supranational communities;
   c. emergency federal acts that are not based on a provision of the Constitution and whose term of validity exceeds one year; such federal acts must be put to the vote within one year of being passed by the Federal Assembly.

2 The following shall be submitted to a vote of the People:
   a. popular initiatives for a complete revision of the Federal Constitution;
   b. popular initiatives for a partial revision of the Federal Constitution in the form of a general proposal that have been rejected by the Federal Assembly;
   c. the question of whether a complete revision of the Federal Constitution should be carried out, in the event that there is disagreement between the two Councils.
Referenda in the Swiss Constitution (2)

Art. 141 Optional referendum

1 If within 100 days of the official publication of the enactment any 50,000 persons eligible to vote or any eight Cantons request it, the following shall be submitted to a vote of the People:

a. federal acts;
b. emergency federal acts whose term of validity exceeds one year;
c. federal decrees, provided the Constitution or an act so requires;
d. international treaties that:
   1. are of unlimited duration and may not be terminated;
   2. provide for accession to an international organisation;
   3. contain important legislative provisions or whose implementation requires the enactment of federal legislation.
The Armed Forces "won" most of the popular votes on defense policy issues

AF Year  Topic
😊 1993:  "40 Military training areas are enough, environmental protection also in the armed forces"  
(Initiative against a new training area)  
😊 1993:  "For a Switzerland without new combat aircrafts"  
(Initiative against the acquisition of F/A-18)  
😊 1994:  Federal Law on Swiss troops for peace supporting operations  
(Referenda about Swiss blue helmets)  
😊 1997:  "For the prohibition of war material export"  
(Initiative against war material)  
😊 2001:  "For a credible security policy and a Switzerland without armed forces"  
(Initiative against the Swiss armed forces)  
😊 2003:  Federal law on the armed forces  
(Referenda about the reform XXI of the armed forces)  
😊 2008:  "Against combat aircrafts noise in touristic regions"  
(Initiative against air force training areas in touristic regions)
The Swiss Armed Forces are one administrative unit within the Federal Department of Defense, Civil Protection, and Sport

Federal Councillor Ueli Maurer

AF Attorney General / Military Justice

Committee of Security Staff of the Federal Councillors

General Secretariat

ARMED FORCES

CIVIL PROTECTION

SPORT

armasuisse

INTELLIGENCE SERVICE
The CFO is part of the Armed Forces Staff

- Chief of the Armed Forces (CAF)
  - Deputy CAF / Chief of Armed Forces Staff AFS
  - Armed Forces Joint Staff AFJS
    - Land Forces
      - Air Force
    - Armed Forces College (AFC)
    - Armed Forces Logistics Organization (AFLO)
    - Command Support Organization (CSO)

- Finance Defense (Fin D)
The process of defense budgeting and financial planning delivers two products: a Budget and a Financial Plan.
"Debt Brake" balances the household in the long term

Art. 126 of the Swiss Constitution:
1) The Confederation shall maintain its income and expenditure in balance over time.
2) The ceiling for total expenditure that is to be approved in the budget is based on the expected income after taking account of the economic situation.

Ceiling for total expenditure = expected income * \(\frac{\text{real Trend-GDP}}{\text{expected real GDP}}\)

Source: Botschaft des Bundesrates zur Schuldenbremse vom 5. Juli 2000
The debt brake helped cutting the federal debt

- Federal Gross Debt in billion CHF (left scale)
- Federal Gross Debt in % of GDP (right scale)
- Debt Brake since 2003
The federal support of the UBS from a cash and an accrual perspective

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Income Statement (accrual)</th>
<th>Financing Statement (cash)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 9, 08</td>
<td>Government pays 5.9 billion CHF to UBS, in return it receives a convertible bond from UBS, with an interest rate of 12.5% and a duration of 30 months</td>
<td>+ 0.03</td>
<td>- 5.90</td>
</tr>
<tr>
<td>Dec 31, 08</td>
<td>Accrued interest</td>
<td>+ 0.05</td>
<td></td>
</tr>
<tr>
<td>Dec 31, 08</td>
<td>Value adjustment</td>
<td>- 0.02</td>
<td></td>
</tr>
<tr>
<td><strong>Result 08</strong></td>
<td></td>
<td>+ 0.03</td>
<td>- 5.90</td>
</tr>
<tr>
<td>Aug 20, 09</td>
<td>Government sells shares for 5.4 billion</td>
<td>- 0.48</td>
<td>+ 5.40</td>
</tr>
<tr>
<td>Aug 20, 09</td>
<td>Government sells coupons to UBS for 1.8 billion</td>
<td>+ 1.75</td>
<td>+ 1.80</td>
</tr>
<tr>
<td><strong>Result 09</strong></td>
<td></td>
<td>+ 1.27</td>
<td>+ 7.20</td>
</tr>
<tr>
<td><strong>Bottom Line</strong></td>
<td></td>
<td>+ 1.30</td>
<td>+ 1.30</td>
</tr>
</tbody>
</table>
Budget of the Armed Forces for 2011: 5'542 million CHF

- Personnel: 1289
- Armaments Acquisition: 889
- Equipment & Renewal: 350
- RDT: 102
- Depreciation: 40
- Other: 40
- Operation & Maintenance: 1571
- Rent of Buildings: 1208
- Peace Support: 53
Accrual-based budgeting and accounting: looking at the flow of values instead of the flow of money

• Dual approach:
  1) financing statement (political rationality): ~ expenditure and revenue
  2) income statement (managerial rationality): ~ expense and income
  – can show to two completely different results!
  – differences not always well understood!

• No big impact of accrual-bases for Armed Forces, as military acquisitions treated as current expenditures and not as capital expenditures
• But a lot of internal services (rent of administrative buildings)

• Income statement and balance sheet (not published) for each administrative unit
• Accrual accounting as the foundation of cost accounting
A special process for funding acquisition programs

- Acquisition program submission to Parliament (security policy committee, comments from FC)
- Program authorization, including a credit line
- Demand for and appropriation of annual expense credits for the program

credit line: Authorization from Parliament to enter into financial commitments for a given project or a group of related projects up to an authorized amount.

expense credit: Authorization from Parliament to post expenses for a given purpose and up to an authorized amount during the budget year.

Problem: "Competes" with other defense expenses
Budgets are first discussed non-publicly in the Finance Committees of both chambers

**Parliamentarian Schedule for the Budget and Financial Plan**

<table>
<thead>
<tr>
<th>Event</th>
<th>National Council</th>
<th>Council of States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sep 06, 2011 / 08.15 – 12.00</td>
<td>Oct 11, 2011 / 08:15 – 12:00</td>
</tr>
<tr>
<td>1. Session Sub commission DDPS</td>
<td>Oct 06, 2011 / 10.15 – 18.00</td>
<td>Oct 12, 2011 / 10:15 – 18:00</td>
</tr>
<tr>
<td>2. Session Sub commission DDPS</td>
<td>Oct 27, 2011 / 10.15 – 18.00</td>
<td>if needed</td>
</tr>
<tr>
<td></td>
<td>Nov 24, 2011 / 08.15 – open end</td>
<td>Nov 08, 2011 / 08:15 - 12:00</td>
</tr>
<tr>
<td></td>
<td>Nov 25, 2011 / 08.15 – 12.00</td>
<td></td>
</tr>
<tr>
<td>Initial Floor Debates (after corresponding sessions of the Finance Committees)</td>
<td>Last Year: Nov 29 &amp; 30, Dec 1, 2010</td>
<td>Last Year:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dec 6 &amp; 7, 2010</td>
</tr>
<tr>
<td>Elimination of Differences (after corresponding sessions of the Finance Committees)</td>
<td>Dec 9, 2010</td>
<td>Dec 13, 2010</td>
</tr>
<tr>
<td></td>
<td>Dec 14, 2010</td>
<td>Dec 15, 2010</td>
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</tbody>
</table>
"Oh, it’s great here, all right, but I sort of feel uncomfortable in a place with no budget at all."