Switzerland in the world – the way forward?

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This day, and this impressive celebration, stand for an expression of liberal ideas, for resistance to unelected authority, for the rejection of an obsolete social order. Such events typically occur in times of crisis. In times when decisions have to be made; when over-ripe, perhaps already rotting fruits must be shaken from the tree. 1830/31 was such a time. The foundation of the modern Swiss Federation in 1848 was a direct consequence of the courage of those who came together in Uster then. Today we are undoubtedly living in times when far-reaching decisions have to be made. The key question is: what of our ideas, our relationship with authority – and indeed, what authority? Zurich, Berne, Brussels or the next conference of the G20? The question is how far we have the courage to stand against the trends of the times. Are our thoughts and our actions still really shaped by the ideas of liberty and self-determination?

Growing global prosperity

Let us postpone answering this question to the end of my speech, and start by considering where we stand today. The question of Switzerland's positioning in the world, and within the unstable eurozone, can be answered only if we at the same time subject the 27 member countries of the European Union, the whole continent of Europe, and its role in the world to a fundamental analysis. Any analysis of the accelerating state debt crisis, and the destabilising of the eurozone and the European Union, will fall short if it does not take account of the most significant developments that have occurred in the world as a whole over the last 20 years.

In summary: many of the previous comparative advantages of the Western industrial nations have withered way, have been eliminated, or lost their importance, or even transmuted into disadvantages. For example, and undoubtedly rightly if we look to the more distant past, the preservation of peace in Europe for the last 60 years has been regarded, and celebrated, as the greatest achievement of the Old Continent. Indeed, the maintenance of peace in Europe has been the justification for the European Union; anyone currently expressing scepticism about its structures, or even worse about its raison d'être, is immediately suspected of questioning the value of peace in Europe. Well, look at things how you will, it is becoming increasingly obvious that peace reigns in other parts of the world as well. Apart from a very few countries with rulers who are partially insane or wholly criminal, most parts of the world strive for greater prosperity, and are aware that this can only be achieved by means of peaceful exchange.

Mutual confiscation is a zero-sum game; increasing prosperity brings more for all. This fundamental truth is generally accepted, with a grain of salt of course. The wars of the past 20 years have been "only" about the containment of the half-mad and the wholly criminal. Put another way, over the last decades the world has experienced, as never before, a positive development in the direction of peace. Where peace reigns, the means of production and the infrastructure (people, land, machines, schools, universities, hospitals, roads, communication networks) are protected. Where peace reigns, it is worth investing. Who would have believed 40 years ago that Vietnam would become one of the most interesting countries for foreign direct investment? And this is good news! But it does mean that peace is no longer a unique characteristic of the Western states; for some while now, and to an ever greater extent, other parts of the world offer security of investment.

The world is becoming richer. The notorious gap between rich and poor does not yawn ever wider. The South is not becoming poorer. Of course, the super-rich do exist and their spectacular arrivals on the Côte d'Azur, in Monaco, St. Moritz and Gstaad continue to fuel the anger, and the selective statistical arguments, of militant advocates of foreign aid policy. But they are irrelevant compared to the billions of miserably poor Chinese who have been able to double or triple their "wealth" over the last ten years. These are people who in 1990 had to manage on less than a dollar a day. There are still hordes of them in many of the grindingly poor developing countries. Nevertheless, global poverty has been sharply reduced, principally on account of the adoption by the Chinese of their own version of capitalism. Where there has hitherto been no middle-class bourgeoisie there are now signs of this developing. And such a development is essential for the creation of a civil society, and is to this extent an encouraging one.

The precondition for this remarkable improvement was the implosion of the Soviet bloc after the fall of the Berlin Wall in 1989. This expanded the free world by over half its territory and its population. And the process is not yet over. Large areas of Africa are still waiting on this opening-up, though the problem here is not walls and ideologies, but rather the pseudo-democratic but actually oligarchic structures left in place by the colonists as they withdrew. It will be fascinating to see how the increasing re-colonisation of Africa by the Chinese will be received on this difficult continent. But that, overall, real prosperity will increase in Africa too is a matter of time, not of principle.

"A determination to prosper" would be a description of the attitude that characterises emerging-market countries and, increasingly, developing countries in the wake of globalisation. With this attitude is associated (naturally with varying intensity depending on the region of the world) a readiness to work harder and more productively. The determination and ability to perform and produce is thus no longer the unique characteristic of the Germans, Swiss and Japanese. Competition over competitiveness is a growing phenomenon. Competition over competitiveness is a growing phenomenon. In this context, considerations of entitlement, demands on the welfare state, expectations about leisure time and holidays, such as are commonplace in Europe will have an increasingly hard time. We should note here that our country – its people and its businesses – have understood how to benefits from the highly positive effects of globalisation.

With 40 percent of its exports going to non-European destinations, Switzerland is clearly one of the most international countries on this continent. International diversification and a high degree of specialisation are the main reasons that the recession of 2008/09 was a mild one, and that we recovered from the economic crisis more quickly than all the neighbouring countries. And Switzerland also has a leading position in direct investment around the world. Our Swiss technicians, managers and executives are keen to travel, linguistically talented and utterly reliable. The ability to manage enterprises and operations anywhere around the world is one of the most underestimated – indeed, overlooked – qualities of our people.

The world as a dynamic single market

The real shock of the expansion of our world is being potentiated by a further technological shock, with perhaps even more far-reaching consequences: the communication revolution. Communications based on the internet and the mobile phone have enormously expedited globalisation. Global trade is flourishing, the global division of labour has become a matter of course; there is hardly a small or medium-sized enterprise that does not source its materials like a big firm, ordering components from the most competitive regions. There is hardly a small or medium-sized enterprise that does not have a subsidiary or a joint venture somewhere around the world. Put differently: the single market and internal trade – hitherto uncontested flagship advantages of the EU – are available on a global scale, with the exception of the more agricultural sectors of the global economy. The remaining constraints on trade, and other non-tariff-related obstacles, are today just minor hurdles, to be overcome as a matter of course with logistical optimisation strategies. There's no more "no go" in the global economy. This substantially relativises the importance of being the "biggest single market in the world".

A difference in social and economic dynamism has developed between the Old World of the Western industrial countries and the emerging-market nations in the Far East, Latin America and elsewhere. Given that it is precisely those countries that have, for demographic reasons, lost momentum that would now need to compensate for this with more energetic efforts and more risk-taking, this difference must give pause for thought. That the Western industrial nations will remain net debtors in the decades ahead, while the emerging markets have become their creditors, is a reflection of this situation.

Debt as an institutional crisis

The present times are undoubtedly writing a further chapter in the history of Europe. Those who believe in the European Union and its institutions are convinced that crisis will once again provide the impetus for progress. The talk is of "more Europe", of a closing of ranks within the eurozone, of the "formation of a real federal identity". Contrary opinions are ignored or systematically silenced. This is disastrous, for the serious question confronting Europe is whether the move towards greater "unity" and "solidarity" is really the right one, or whether ultimately peace in

Europe – which involves a good deal more than just social peace – will not be more endangered by progress of this sort than by other, considerably more decentral alternatives.

The euro project, now regarded as "romantic" even by the previously unsceptical Der Spiegel, is an indication of the dangerous consequences of too much centralism in Europe. Unlike so many EU programs and projects, in which minimum standards and approved behaviours are defined, but no decision-making authority delegated to central bodies, the eurozone is obviously now unable to avoid "deeper integration". "Deeper integration" is a "weasel word" within the EU, which in plain English means the delegation of competences to a central body. Brussels has its own, euphemistic terminology, somewhat reminiscent of George Orwell's "Newspeak", which often means the exact opposite of what it says. The enormous problems now confronting the eurozone are attributed to a lack of "unity" and "solidarity" in matters of fiscal, tax, social and economic policy.

If everything in these areas had been able to be decided on and controlled in a unified fashion, the disastrous accumulation of debt in various member countries would never have occurred, it is argued. Consequently, the eurozone must be more deeply integrated. Expressions such as "European economic government" and "European finance minister" are now being used. It is impossible to avoid the impression that under the impact of the euro crisis, it is not so much a matter of "two steps forward, one step back" as full speed ahead towards unification.

The problem is that true unification within Europe would require leadership. This is not something that the EU has yet achieved. During the Cold War, leadership in Western Europe was clearly exercised by the USA. French deviations and Italian frivolities were tolerated within certain limits, but when push came to shove, it was very clear who was in charge, the more so as, post-war, the country with the greatest economic clout – the Federal Republic of Germany – maintained close links with the United States. After the fall of the Berlin Wall, a kind of collective leadership by the more important EU countries emerged (still with the USA as silent partner). It concentrated on expanding the territory of the European Union. Other aspects of leadership – that is, the management of a rapidly expanding institution – were confidently left to a group of technocrats, who were able to go about their business untroubled by the "deeper integration" of a decision-making authority

The threat of more leadership

So, what would be the leadership tasks of a European economic government, or finance minister? Would they need to get the debt crisis in the peripheral eurozone countries under control? Undoubtedly, but that would not be sufficient. For the state debt crisis in the eurozone represents only part of the challenge. It is indeed, perhaps only the visible symptom of a much more serious problem. This lies in the yawning gap between the different ideas and customs regarding labour, productivity, the incentives in the welfare state and the management of national budgets. It is thus a matter of achieving the convergence of legal, economic, social and mindset conditions. Or bridging the existing differences by means of continuous transfer payments. Or doing both at once. This cannot be done without command, control and implementation. This is the definition of "leadership". The quicker a state of more or less equilibrium is to be reached, the more rigorous must the process be. Either one side must be convinced of the need to work longer for lower wages, or be enabled by hefty investment to produce more cost-efficiently, or the other side must be persuaded to demonstrate "solidarity", as transfer payments are called in the EU's "Newspeak", with the more inefficient side, at the cost of part of its GDP.

This raises two further questions. Firstly: how competitive would such a transfer union be in a globalised context? As already mentioned, the emerging markets are hungry, and are striving for greater prosperity. Whether a subsidy model – for that is exactly what a transfer union is – would have any place in such a world is highly doubtful. The danger that, sooner or later, such a transfer union would degenerate into a protectionist "Fortress Europe" cut off from the outside world is real and imminent.

Second question: who would take on this leadership? This is an eminently practical problem, for there is a distinction between the 17 member countries of the eurozone and the 27 of the European Union. With essentially only the European Central Bank, the eurozone largely lacks institutions. The EU commission is currently acting with regard to the euro crisis in a fiduciary capacity, so to speak (or presumptuously, if you prefer). So, institutions would have to be created – and, given the accelerating crisis, very quickly. How much democratic legitimation would they have? Further, and admittedly in "typically European" fashion, we might ask: who would actually have the leadership? The Germans or the French? "German" and "leadership" – might that again be possible? It would be reasonable enough, for they have long been net contributors, and they would be putting their global competitiveness at risk. The French? Have they now actually accomplished the French Revolution, and really put royalism and mercantilism behind them?

Uncomfortable questions admittedly. But if they are not asked now, it may soon be too late. The debt crisis in the eurozone has given unbelievable momentum to the centripetal forces within the EU; sceptics are ignored or systematically silenced. That should give us pause for thought. For if level-headed, rational discussion is no longer possible about the sense of striving for yet more centralisation, then there is the danger of irreversible decisions being taken that could turn our continent into one of the world's economic, political, social and indeed security-policy crisis zones.

Panic on the financial markets. For good reason?

What has currently been happening on – or more accurately, been carried out by – the financial markets is both unique and dramatic. The state debt problem is now by no means confined to Greece, which is of little importance in the overall order of things. It has now hit the heart of Europe. The governments of the eurozone countries, hitherto determined to prevent the default of any member country more or less at any price, find it hard to accept that the markets do not take this determination seriously. The eurozone has been talking about "rescue" for over a year now, and it is precisely over this period that the probability of insolvency has risen continuously, and been spreading – de facto, exactly the domino effect that such efforts were supposed to prevent, is now happening. What were intended as rescue measures have turned out to be fire-starters.

Even in its expanded version of 780 billion euros, the EFSF (European Financial Stability Facility) rescue fund is still too small to appear sufficiently credible, and thus to significantly reduce the probability of bankruptcy. Accordingly, the eurozone desperately sought loopholes through which to further expand the EFSF without once again having to come begging to the member countries, with ever decreasing chances of success. So, the idea of leveraging the EFSF has been launched. Apart from the legal issues arising from such a transformation of the EFSF, which anyway rests on shaky institutional foundations, economic issues also arise immediately. The only halfway positive thing that can be said about a leveraged EFSF is that it would create almost unlimited liquidity and possibly thus win some time. For the rest, such an inflated version would be even more problematic than the EFSF already is. It is in blatant contravention of "Maastricht", suspiciously similar to the American real-estate vehicles Fannie Mae and Freddie Mac, illusory with regard to restructuring, the unamortisable mortgage of an institutionally ill-connected community of guarantors. Worst of all: some of the guarantors are themselves potential beneficiaries of the vehicle.

The EFSF has the institutional potential to become the future "Treasury" of the eurozone. But it also has the economic potential to become the financial graveyard of Europe. The specific debt of individual countries will be systematically collectivised. For me the question today is simply whether such an institutionalised spiral into the blood-red abyss will come to rest in Athens, or rather in Rome, or even in Paris.

Europe afterwards

On sober consideration, these conclusions offer us three scenarios for further developments in Europe:

a) Contrary to many forecasts, and with a great deal of propaganda and rhetoric, it proves possible once again to convince the markets, and the citizens of Europe, of a plausible continuation of the "rescue". Surprisingly positive economic data have a calming effect on the markets; despite all the prophecies of doom, the shaky countries of Europe deliver unexpectedly tangible results from their serious austerity measures.

b) The ultimately unpreventable insolvency of individual member countries triggers a disengagement from the eurozone. This may happen "top-down", led by the more solvent states, or "bottom-up", with the departure of the highly indebted countries. The first version, the exit of intact member countries, might take place in a relatively orderly fashion. The exit or expulsion of bankrupt states could only be chaotic.

c) The eurozone is rapidly converted into a centrally governed federal state. Germany restructures and gives the orders. Or Germany restructures and France gives the orders. Sub-variant: governance follows democratic principles: the rest of the EU re-forms.

Either way, Europe will, as mentioned, be richer by a chapter in its history. But in all other respects very likely poorer. The euro crisis will probably have a significantly negative effect on growth. Why? Because social and economic insecurity hinders risk-taking investment. Double risk is just too dangerous. And when investment is paralysed, the rest of the economy stagnates, despite all stimuli.

And Switzerland?

So, to return to the initial question. What options remain open to Switzerland, a country literally surrounded by the crisis-ridden eurozone? Despite its institutional independence and more democratic organisation, Switzerland remains highly interlinked with the rest of Europe – not just economically and politically, but also through close personal contacts. Regardless of which scenario prevails, matters will undoubtedly become more interesting in a variety of ways, and potentially more threatening. The possibility that there might in future be various Europes, with highly different degrees of integration, on our continent, expands the range of options for negotiation on foreign-policy and integration issues. The stand-off between the advocates of EU membership and their relentless opponents, bridged over with a pragmatic policy of bilateral agreements, could become a subtle instrument with several keyboards and a range of registers.

The precondition for being able to play it, in domestic political terms, would however be the overcoming of the not unfounded popular distrust – for over twenty years now – of the government, the administration and the whole “classe politique” over a hidden agenda of EU membership. The stab in the back of those EU sceptics then in favour of the EEA – probably a majority of the Swiss population, including myself – delivered by the Federal Council and the federal administration in 1992, when, shortly before the decisive referendum on Europe, an application for membership of the EU was pulled out of the hat, has been neither dealt with nor atoned for. The remarkable progress of the Schweizerische Volkspartei (SVP), at the expense of the previous majority parties, the Freisinnig-Demokratische Partei (FDP) and the Christliche Volkspartei (CVP), is largely the consequence of this unadmitted and unresolved issue.

Given the present desperate situation of the EU and the eurozone, any such resolution would involve finally admitting that the leader of the resistance to EU membership, Christoph Blocher, was right about this matter. That would achieve a considerable relaxation within domestic politics. The predictable satisfaction on one side would be matched by the possibility on the other side of taking up the matter of Europe more seriously and credibly than has been the case so far.

It seems to me that we need a measure of reconciliation in this matter (and be it understood: I refer to the prevention of EU membership, and not to anything else, such as matters of style over immigration issues). For we now need to embark on a new strategy for Europe. We need both to disregard any romantic feelings of integration and, equally, to reject any idea that we stand alone on the continent. We need to find a policy that holds openly to a duality of doctrine. Duality in the sense that there must be an equilibrium between independence with no ifs and buts and the readiness to cooperate. We must have the courage to “do the deal”.

The recent taxation agreements between Switzerland and both Great Britain and Germany may serve as an example of the successful implementation of such a dual doctrine. On the one hand, we have given way: true. It will no longer be possible for the British and the Germans to hold untaxed funds in Switzerland. But we have, on the other hand, held to our principles. Our long-standing clients will not be betrayed to the courts. They can still keep their money away from the prying eyes of domestic tax-collectors, their domestic social services or inquisitive members of their families. Yes, we have given way: in future we will collect taxes for the German exchequer. But the other side will refrain from continuing to criminalise bank clients and bank employees. Ultimately, both sides benefit. One side has more tax substrate; the other retains the asset-management substrate. It might be going too far to describe this as a win-win situation. Let us remain sober and prosaic, and think of it as the avoidance of a debacle.

A sober and prosaic ideal of the state

If in future the question of Europe is approached not with an a priori admission of guilt about cherry-picking, but rather with the self-confident assessment of "Which of our principles are indispensible?" and "What do we need?", then our country will have finally returned to an approach that will also be understood by the more powerful. Of course, such a dual doctrine is utterly unromantic. But even at the best of times Switzerland has always been unromantic. In recent years, Switzerland has been wrongly characterised as a "model country". In our view, this characterisation, and all the "Swissness" celebrated with the liberal application of the Swiss cross, miss the point of our real identity. Switzerland has been described as "a nation by willpower". I dislike the expression, for it is wrong historically. Switzerland is far more the product of historical chance, happy chance perhaps – destiny, if you will – than the result of willpower and determination. Switzerland is what it is, and it is good. But no more than that, please.

Those unreconstructed devotees of the EU who now claim that the EU is currently following the Swiss model in creating a federal state are guilty of crass historical distortion. A product of historical chance (indeed, of happy chance) cannot serve as a model. And those who think that integration into a federal state can be achieved by an explicit act of will are tragically wrong. For such a move would end, not in the exercise of free will, but in the compulsion of levelled rifles. As for Switzerland, the Swiss did not, and do not, necessarily want one another. And there is certainly no question of brotherly love. The reality is much less exalted, but all the more honest. We are compatible. We are able to put up with one another. Being compatible, putting up with each other: that is the ideal of our state. More would be romantic, and therefore dangerous.

Only a soberly considered foreign policy, that neither conceals nor disregards our own interests but is ready and able for cooperation, will take Switzerland through the increasingly dangerous discontinuities of the EU and the eurozone. Der Spiegel was right: the euro as a single currency was a romantic concept. It has resulted in distortions that must inevitably be resolved. Romanticism and self-destruction have always been a dangerous couple. As I said, we may well in future have to deal with various Europes. Brussels will no longer be the only place to go. The possibilities range from a more or less loose association of states based on free trade and certain other commonalities, via continually changing and dangerously unstable partial constructs, to a tightly governed, uniform eurozone, at the heart of which Switzerland sits unloved, like a thorn in the flesh.

Our response must vary, according to the way the situation develops. In the – highly optimistic – case of an orderly disintegration of Europe in the direction of an EFTA-like entity that deliberately acknowledged the reality of variety, enthusiastic and active support would undoubtedly be appropriate. In dealing with partial constructs, by contrast, caution would be advisable, and probably a certain proximity to the position of the United Kingdom, with its similar global orientation. If faced with a consolidated Europe, the preservation of our sovereign interests would be of the utmost importance. I do not believe that control over the alpine tunnels would be sufficient to underpin our claim to independence. Our crowded continent, with its integrated economy, is no place in which to sing our own praises in order to emphasise claims to sovereignty – the more so because, as a land-locked country par excellence, we have an interest in the uninterrupted, unpoliticised free flow of traffic.

The ability to associate

Readiness for membership on Switzerland's part could serve as a suitable means to emphasise the seriousness of our positioning in Europe. Yes, you heard correctly – "readiness for membership". Not in the sense of us simply being able to join the EU or the Eurozone. Rather, it must be possible to form an association with Switzerland. A consolidated eurozone, with far more integrated leadership, must – in accordance with the oft-proclaimed peaceful ordering of its structures – allow the peoples of its regions the right to determine membership questions themselves, democratically. Such peacefully ordered structures, committed to the principles of democracy and liberty, should embrace the possibility for the peoples of individual regions to determine for themselves which bodies they wish to be members of, and with what degree of integration. The currently prevailing technocratic centralism of Brussels, or the potentially far more dirigiste regime of an institutionalised eurozone cry out for alternatives.

This may sound seriously speculative to your ears. But at times of crisis it becomes necessary to think the so-called “unthinkable” – and also to say it! What matters, is not to be taken by surprise. In plain language, what I am advocating is a Swiss initiative for the creation of alternative forms of association within Europe. As open, as global, as liberal as possible. Europe needs a Plan B. As partially uninvolved observers, and equipped with our experiences from the EFTA era, we are in a position to make a constructive contribution to the development of our continent. The bilateralism we have cultivated so far has the inherent disadvantage that for logical reasons, it must eventually result in full membership in some distant future. This continues to nourish doubts as to the straightforwardness of those who preach bilateralism but mean full membership. As the tectonic shifts within Europe have anyway rendered that impossible, we now need to use the dual doctrine I have set out, including reasonable alternative types of association, to break through the Swiss malaise. We must have the courage to “do the deal”. This cannot be done with negotiators who would really rather be sitting at the other side of the table. We need to sort things out here.

Conclusions

I started by asking whether our thoughts and our actions are still sufficiently shaped by the ideas of liberty and self-determination. For in difficult, probably dangerous times, we cannot manage without guidelines, without a compass that is oriented on values. The sober and prosaic ideal of our state – being compatible, putting up with one another – has much to do with the unquestioned exercise of freedom and responsibility. I am firmly convinced that we have no alternative but to maintain and preserve our liberal constitution. For our benchmark is not the old Europe, strangling itself with its own structures. We need to be able to hold our own in a far more dynamic, much younger, much wider world, that is striving for greater prosperity. By global standards, Switzerland is a medium-sized city. So, let us be what we are! And what a city we have! The “City of Switzerland”, rich in open green spaces, embellished with beautiful lakes, endowed with a fertile sub-alpine hinterland and crowned by majestic mountains. A hundred times more beautiful than New York, Hong Kong, Singapore und London put together. Rich in culture. Politically stable. Financially sound. Safe. And capable of integration like no other city or country in the world. As a liberal, independent, self-governing metropolitan region at the heart of Europe, Switzerland has a real opportunity. The world needs havens of security, stability, openness and freedom. The world needs Switzerland too.