AMERICAN SWISS FOUNDATION

Keynote Speech by Urs Rohner at Annual Gala Dinner,
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Excellencies, Ambassador Whittlesey, dear Steven, Ladies and Gentlemen

Good evening

I'd like to begin by thanking the American Swiss Foundation for the invitation to speak. I also want to thank my old friend Hans Kaeser for his kind words and his help to make it possible for me to be here tonight.

I have great appreciation for the American Swiss Foundation's work to promote deeper ties between the United States and Switzerland. The importance of groups like this one is sometimes overlooked. That is a mistake, as they represent an additional layer of interaction between interest groups and a country's political infrastructure. And they promote mutual understanding, by organizing forums for discussion, and fostering exchanges and friendship that bring together people from both countries.

I was a beneficiary of the American Swiss Foundation's exchanges, participating in the first-ever class of Young Leaders, all the way back in 1990. It is still a mystery to me why I was chosen at the time, but I enjoyed the week immensely. And I still have fond memories of my experience, including a very kind letter I received from Ambassador Whittlesey after the conference.

One member of that class, John Barrasso, is now a United States senator, representing Wyoming. Another member of the class, Steven Hoch, is now Chairman of the American Swiss Foundation's board. So our class produced its share of "Leaders," though I'm not sure we necessarily qualify as "Young" anymore. But we all came away from our experience with a heightened appreciation for the importance of American-Swiss relationship.

The American Swiss Foundation has been helping to deepen this bilateral relationship since 1945, but of course our two countries have been friends since America's earliest days. The Swiss were deeply impressed by the Declaration of Independence, and the writings of a Swiss academic named Jean Jacques Burlamaqui reportedly influenced Thomas Jefferson's drafting of the Declaration. We also know that in 1778 a government official in the Swiss city of Biel proposed an alliance between the two countries – and in a happy coincidence, each of the countries at the time was made up of 13 states or cantons.

As America's Founding Fathers drafted a new Constitution, some of them, like John Adams, looked to the Swiss Cantons as a role model, inspired by its separation of powers and bicameral legislature. Switzerland's influence also carried over to individual states. Soon after California achieved statehood in 1850, officials there visited Switzerland, which led them to begin pursuing the idea of direct democracy, through referenda.

The intellectual influence was in fact a two-way street. When Switzerland adopted a new Constitution in 1848, following our civil war, it contained many of the principles found in the U.S. Constitution.

Through the centuries, our two nations have shared bonds of commerce, culture, and kinship. And both of our countries have profited from an open society and economical systems based on the export of highest quality products and services. Integration with the global economy has strengthened both countries – whether through exports or being home to the affiliates of multinational companies. And the bilateral economic relationship is strong. Swiss companies with operations in the United States employ nearly 400,000 Americans. And spanning the years 2000 through 2010, Switzerland was the fifth-most popular destination for U.S. investment – attracting nearly three times as much capital as China or France.

The financial industry, in particular, has played a critical role in helping companies in the United States and Switzerland realize their goals of expanding at home and abroad. By helping to direct capital to where it can be used most productively, and offering a range of financing channels, financial institutions have facilitated the spread of new economic opportunities and foster higher levels of economic growth.

Switzerland and the United States also share a deep understanding that achieving prosperity depends on the existence of a liberal economic system facilitated by careful regulation. The European Union sometimes seems to over-emphasize regulation.

But perhaps the most important bond linking our nations together is our shared commitment to a common set of ideas, built around democracy, individual liberty, and limited government infused with checks and balances. Both of our political systems are also flexible enough to have evolved over time, helping to ensure that all groups have equal opportunity to be heard, and an opportunity to pursue their goals. Adherence to these principles has provided our countries with something resembling a roadmap for a long journey. And while the journey continues, the path we've both taken has delivered steady gains in prosperity and security.

But there are worrying signs that progress is slowing down, and may be stalled. This stalemate is contributing to the emergence of an identity crisis, with people in both countries uncertain about their own future prospects as well as their country's place in the world.

Will countries like Switzerland and the United States really press forward with an agenda of global economic integration and openness that made them economic powers, or in the case of the U.S. a superpower? Or will they pursue more isolationist policies – policies that may offer short-term political gains but that threaten to stifle long-term economic growth? And what is the role for civil society groups in helping to shape this debate?

The slowdown in global economic integration

One test of whether countries will pursue deeper global economic integration will be whether they move forward with trade liberalization. The signs are not hopeful at the moment. In six months, the WTO's global trade negotiations that launched in Doha will mark their 10^{th} anniversary. And that's not an anniversary to celebrate. The byproduct of the breakdown in trade liberalization has been a proliferation of agreements that countries strike with each other. While there are differences of opinion about the value of these agreements, one thing is certain – they do not offer the comprehensive, long-term benefits that would be realized by a global agreement, and some believe they only serve to break the world into inefficient economic blocs. In the financial sector, there is also a growing danger that the ring-fencing of assets will stifle further integration of financial markets and ultimately drive them apart. That would also reduce access to capital, while injecting inefficiencies into the capital allocation process the precise effect of which can hardly be estimated at this point.

Trade liberalization is always a challenge. When advanced economies are saddled with slow economic growth, as we are now, finding the political will to further open markets is even more difficult.

Lessons from the past

As we consider the importance of maintaining open markets and pursuing global economic integration, we can look back through history for valuable lessons.

Let's start in the 18th century, with an entity called "Massachusetts Bank." It was chartered in 1784, and was the first federally chartered joint-stock owned bank in the United States and the country's second bank to receive a charter. Two years later, it provided the financing for the first American trade mission to China. And in 1791, it provided financing for the first American ship to visit Argentina. That maiden voyage laid the groundwork for the Massachusetts Bank to establish a presence in Argentina, and later, throughout Latin America. Over time, Massachusetts Bank went through a number of mergers, and it ultimately became First Boston, which Credit Suisse was pleased to acquire in 1988. But throughout the centuries, it maintained a strong and profitable presence throughout Latin America. That episode is a reminder of the value attached to entering what we think of today as emerging markets, and doing so early, and staying there long-term.

That era, two centuries ago, can also teach us a lesson about the value of fiscal discipline.

Following America's presidential election, in 1800, the new President, Thomas Jefferson, named Albert Gallatin to be Treasury secretary. Gallatin was born in Switzerland, and lived there until he was 18. By the time he became Treasury secretary, he had lived outside Switzerland for more than 20 years, but he had not lost the Swiss commitment to staying within one's budget. In his new position, he worked with Congress to reduce taxes, and cut spending. This paid dividends a few years later when the United States succeeded in financing the $15 million Louisiana Purchase through a bond issue managed by Barings bank. That purchase from France, at just four cents per acre, gave the United States new territory larger than the combined land mass of France, Spain, Portugal, Italy, Holland, the United Kingdom, and Switzerland.

One of Gallatin's great achievements was his unwavering political commitment to fiscal discipline, for the purpose of achieving debt reduction. Faced with the growing costs of war with the British, he was able to steer clear of siren-like temptations to increase the public debt.

Gallatin's commitment to fiscal discipline is a stark contrast to the situation today, in which the average debt-to-GDP ratio among the world's developed nations is 74 percent – higher than at any time since the 1940s. And these high debt levels may make it difficult for governments to make the kind of investments, akin to a Louisiana Purchase, that can be catalysts for a country's long-term growth.

Today we draw upon these lessons and prove that you can achieve fiscal stability even in a low growth environment if you make the hard decisions. Switzerland has put a debt brake into force to limit parliamentary spending. It was in my view one of the best decisions ever made. Spending is limited but it is still possible to maintain functions of the state without abolishing the important aspects of the welfare system.

Here is another lesson from the past: globalization is reversible, and when that happens, there can be a very high price to pay. If we think back to a period almost exactly 100 years ago, and this may surprise you, free trade in goods and capital was the norm, not the exception. Elite opinion was brimming with confidence about a future of peace and prosperity. One noted scholar of the time, Norman Angell, wrote a book arguing that the economic integration of nations made war useless and unlikely.

That book was published in 1913, and it didn't take long for his thesis to be proven horribly wrong. The wars that followed resulted in millions of lives lost, and also rescinded the economic integration of nations that had been under way for decades. Restoring economic ties took time. Indeed, it was not until the late 20th century that the level of trade as a percentage of the global economy returned to the level that had been achieved in the late 19th century.

As we look back on the past two centuries, it's useful to ask why countries such as the United States and Switzerland became economic powers while other countries seem to have made little progress at all. Let's begin by remembering that economic growth, as we understand it today, is a relatively recent phenomenon. For most of human history, there has been relatively little progress in living standards. From the Paleolithic era 2.5 million years ago until the early 19th century, average life expectancy barely changed.

Innovation has been one of the key ingredients in economic growth over the past two centuries, complemented by the spread of ideas, with the objective of enabling human beings to realize more efficient ways to do things. This surely sounds elementary. But achieving new efficiencies has been non-existent for most of human history. And it's unique to humans. As the economist Paul Romer has pointed out, "An ant will go through its life without ever coming up with even a slightly different idea about how to gather food." Thus once the better ways of doing things are discovered by humans and then broadly disseminated, they spark greater efficiency and, ultimately, higher levels of economic growth.

Leveraging the power of technology depends on a supply of well-educated individuals who are constantly pursuing a "better way to do things." For public policy, that means investing in education, while ensuring that the education system is flexible enough to encourage thinking that will encourage the innovation and invention that fosters economic growth

The key point is that countries must maintain an environment in which ideas and information can develop, and spread. And history shows that it is the countries that maintain market-based economic systems, and openness to the global economy, that see the greatest economic progress over time. While many countries have pursued this formula to achieve growth, there are even more that have not.

There are other key ingredients in the recipe for growth, including a modern infrastructure, a robust legal system, and a well-functioning government, among other things, as these will create a climate supportive of entrepreneurship and individual initiative. But without free markets and a commitment to the global economy, the recipe will be incomplete, and the results will be unsatisfactory.

The encouraging news is that we have already achieved considerable progress since the financial crisis; we have avoided a depression in large part due to American leadership by the Federal Reserve and the Treasury. US leadership remains important in these respects based on a culture of liberal economics and politics. We also have learned how close the basic – historically based- linkages remain between "our two countries" despite frictions here and there. It is a sign of a strong partnership if problems that arise can, and will be resolved also in the future in a spirit of mutual partnership rather than by applying unilateral or strong arm measures.

Looking forward

The task I see before us all is to learn to build bridges – both to like-minded countries but also those dominated by different ideologies and different priorities. And we need to not only build bridges but continually reinforce them.

The Swiss know how to drill tunnels through the Alps, but we are also very capable bridge builders. This is reflected in our diplomacy, of course, as we play a bridge-building role among many nations, such as serving as an intermediary for official communications between the United States and countries such as Iran and Cuba. But our status as a bridge-builder is also literally true. Six bridges here in New York City were designed by a Swiss-born structural engineer named Othmar Ammann. This includes the George Washington Bridge and the Verrazano Bridge.

I hope we can use this skill constructively in the months and years ahead. We could foster understanding about how to draft laws that have limited impact abroad, and we could explain why making tough choices does not mean the end of a welfare state. We could also demonstrate how limiting access across borders will be harmful in the long run.

We should remember that this bridge-building skill is usually deployed outside official communications between governments. Civil society groups facilitate bridge-building, bringing together diverse collections of people and helping to strengthen the fabric of individual countries. And bridge-building efforts should always be focused on maintaining the openness that underpins healthy economies and healthy political systems – transparency, free trade, free flow of capital and services, and a commitment to partnership in the community of nations.

Conclusion

No discussion of bridge-building would be complete without highlighting the contributions of the American Swiss Foundation. For more than six decades, it has played a vital role in strengthening relations between Switzerland and the United States. I have had the privilege of being affiliated with the American Swiss Foundation for many years and I look forward to continuing to work with the Foundation for many years to come.

But for tonight my work is done. I want to thank you all for coming, and for listening, and I wish you all a very pleasant evening.

Thank you.