

## **American Swiss Foundation**

Keynote speech by Greg Scheu at the Annual Gala Dinner, New York,  
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### **The Swiss model: an inspiration for the United States?**

Good evening Ladies and Gentlemen... members of the American Swiss Foundation, the honorable Swiss Ambassador to the United States Mr. Sager, members of the US government, business leaders, and other distinguished guests.

Perhaps before I begin, I should make a couple of comments about the connection ABB has to this important partnership between the United States and Switzerland. ABB is a global provider of electrical power and automation products, systems, solutions, and services. Our customers are utilities and industrial users in more than 100 countries. We are a very global company with over 150,000 employees worldwide. From the Swiss side...this is where we have our global headquarters and a strong local market organization consisting of more than 7,000 employees and 12 local factories. Here in the United States we have a very strong presence with roughly 50 factories and over 20,000 employees.

Okay...Let me start by thanking the American Swiss Foundation for the opportunity to attend this 68<sup>th</sup> annual gala dinner and for the invitation to speak to you tonight.

One of the impressive things about the ASF is the fact that it is still going strong after almost 70 years. That's a real achievement when you consider how much the world has changed in that time. In the year of the ASF's founding, 1945, Europe was in ashes, the Cold War had yet to begin and China's civil war still had four years to run.

Why has the ASF endured? One reason is certainly because it continually renews itself by bringing together new generations of leaders through its 'Young Leaders Conference'. In fact, one of my colleagues on the ABB Executive Committee is an alumni of ASF young leaders. I do believe the main reason the ASF is still relevant is because our two nations, different though they are, share certain values. And I think these values are so important, and so fundamental, that they will hold the relationship between us together for a long time to come.

Despite our differences and occasional arguments, our two countries stand out as the only nations in the modern world that were born as democracies. The circumstances of their birth were very different – Switzerland was born a direct democracy in the mold of ancient Greece; America chose a representative democracy – but both were driven by desires to create strong, free, self-governing societies.

Not surprisingly, the United States and Switzerland have looked to each other for guidance and inspiration, and found both. When Switzerland needed to form a Confederation in the 19<sup>th</sup> century, it adopted the US federal constitution almost unchanged. And when, in the early 20<sup>th</sup> century, California sought to extend the rights of its citizens – to curb the might of the Southern Pacific railroad – progressives there took Swiss direct democracy as their inspiration. Since then, many other states have sought to follow suit.

Unfortunately, for reasons I'll talk about later, direct democracy has not worked so well in California. And while Switzerland has made America's constitution work very well in the Alps, our lawmakers are increasingly failing to make it work along the banks of the Potomac, in Washington, DC. Tonight, I want to talk about what Switzerland is doing right and what could be better in America, and to ask what one democracy might be able to learn from the success of another.

What I'm not going to do is engage in that old tradition that has recently become something of national sport, namely America-bashing. There is a lot that is wrong with this country, but there is also a lot that is right and, in fact, I'm going to start by looking at what America is doing right and what is going well.

Let's take the economy, which is gradually improving. Growth is still sluggish and unemployment high but thanks to developments such as the shale-gas boom and some recent positive news from the housing market, we are seeing encouraging signs that the worst is over and that consumers are generally becoming more confident.

We're also seeing reform: spending is being brought under control, tax systems are being overhauled – infrastructure is being upgraded, companies and the economy are becoming more competitive, and schools are being improved.

At this point, I sense that some of you might be wondering which country I'm talking about. Yes, I am still talking about the United States, but here the operative word is “**states**”. All those good things that I mentioned are happening – **in the states**. In 45 of the 50 states, the education systems are undergoing major reform. Across the country, private investment is helping drive new job creation and some are talking about the renaissance of manufacturing. All happening at the local level.

In fact, when you take a close look at America today, you could get the impression that there's only one place in the country where things are not improving. Anyone want to guess where that is? Yes, in Washington, DC, the federal government is barely functioning. While the states go about trying to get their houses in order, in the nation's biggest house of all, on Capitol Hill, political gridlock remains the order of the day. Instead of getting to grips with a public debt of 17 trillion dollars – more than 100 percent of GDP – and working on desperately needed reforms to the federal tax, social security systems, and balancing the budget as we here have to do - Congress continues to fight, filibuster, and sequester its way to nowhere.

When you look at the state of our federal system in America – political gridlock, weak growth and sequestration – it's hard to keep faith in representative democracy. It becomes even harder, if you look across the Atlantic at the European Union, where they have gridlock, no growth and austerity. Indeed, that's one small consolation for us Americans – in much of Europe, things are even worse!

So what's the problem? Before we consider that question, I'd like to talk briefly about an island in Europe. It's not a real island, but I'm using the word island because on a continent beset by crises, threats of default, and even bank runs, there is one country that stands out as a beacon of fiscal responsibility and sound economic management. You know which one I'm talking about. In Switzerland, taxes are low, the infrastructure is modern, public services are high-quality and the national debt is low versus GDP. The reason this country has negligible debt is because the public – the voters – decided back in 2001 that the government had to balance its books.

I don't know what the American public would say if the government asked its citizens whether it should balance the nation's books, but I'm fairly sure a substantial proportion of the population, if not a majority, would say yes.

In Switzerland, they figured out a long time ago that the best way to run a country is to devolve as much power as possible to the lowest level. Decentralize government. Why should the federal government try to manage so many aspects of its citizens' lives? It can't and it shouldn't. It shouldn't because it is too far away from the people on the ground and because there is a limit to how much a centrally controlled bureaucracy can manage.

We all know that at federal level, the priorities change. When the federal government wields too much power and controls too big a budget, it becomes more important for individual politicians to secure a handout for their constituents, at the expense of others, than it does to get spending under control or to reform the tax code. When you're working at the local level, you have to put aside your ideological differences and focus on the practical matters at hand; when you're one of 535 members of Congress and sitting many miles away from your constituents, it's a lot easier to stand out by taking uncompromising ideological positions than it is by acting responsibly and trying to work with others to get things done.

I could go on about this, but the point I'm making is that the US federal government has become too big. Today, its revenues are around \$3 trillion and its spending is getting close to \$4 trillion. It has become so big and commands such a huge chunk of the economy that no-one can possibly hope to manage it. The Chinese experience

notwithstanding, central planning does not have a good track record when it comes to managing the economy.

There is another problem, too. Alongside the expansion of the federal government, America is fragmenting. I don't know whether and to what extent these two trends might be related but society in America has become so divided, so riven by ideological rifts, that the system of checks and balances designed by the framers of the constitution, has become a recipe for political gridlock. Instead of thrashing out their differences on the way to compromise, as James Madison envisaged, many of America's elected representatives have come to prefer gridlock to compromise. Gridlock has become a political objective in itself, as way of undermining the system, even of weakening the Union. This is a very worrying development.

So how can these two countries learn from each other as we have done before. Has Switzerland avoided these problems, despite having adopted America's federal constitution almost wholesale in 1848? Living in Switzerland I see some good practices that can provide this learning. Switzerland has kept its power close to the people, through its system of direct democracy. Switzerland grafted the US constitution on to a deep-rooted tradition of direct democracy that dates back to the 13<sup>th</sup> century, when communities formed assemblies to define laws and make decisions.

This tradition means that today it is the community and the canton that are regarded as the most important political units in Switzerland. The federal government is kept firmly at arm's length with the cantons and the communities responsible for the lion's share of taxation [two-thirds of all revenues] and spending. This situation is reversed in the United States where the US federal government swallows up the larger share of your tax bill.

One outcome of the Swiss system is that cantons and communities are under significant pressure to keep taxes low and to use tax income wisely. Indeed, there is healthy tax competition among cantons – I say healthy because it is not a race to the bottom, but rather a race to provide high-quality public services while keeping taxes low and balancing the books. This competitiveness at a local level translates into

competitiveness at a national level. Switzerland remains at the top of the World Economic Forum's world competitiveness rankings, unlike the United States which in recent years has fallen to position no. 7.

The reason the Swiss model is still a success after such a long time is because of the strength of the cantons and the communities. As we are seeing in the European Union today, when the individual parts of a union are weak, the center extends its reach and power, but the union is weaker for it. By contrast, when the constituent parts of the union are strong, the center of union is looser and power more devolved, but collectively it is stronger for it.

In America, we cannot expect the federal government to hand power back to the states – in fact, we must expect precisely the opposite because the more impotent the federal government is, the more power it will try to accumulate. The way forward for America is for the states to become stronger.

Reform is happening in the states, as I mentioned before, but this is not because of the system, but in spite of it. With nothing moving in Washington, DC, the states are the only place where reform can take place. But it's a struggle. After years of gerrymandering, most congressional districts are firmly in the hands of one party, leaving little room for electoral competition and therefore little impetus for change.

What would shake up the system and strengthen the state as a political unit is a more active role for the citizenry of the state as a whole. Personally, I would go so far as to say that America's states are ripe for the introduction or expansion of direct democracy. At the moment, more than 20 states already have some form of direct democracy on their statute books but, in most cases, it is still evoked as the exception rather than the rule.

The problem is that in America, we messed up direct democracy from the very beginning. The biggest mess is in California which is still living with the damaging financial fallout from a popular vote on property tax back in 1978 [Proposition 13]. However, properly applied – that is, Swiss-style – there is no reason that direct

democracy would not do just as well in America's states as it does in Switzerland's cantons.

The goal of direct democracy is not to turn the population into a nation of lawmakers – it is to make sure that elected representatives fulfill the will of the people. In Switzerland, therefore, it is easier to call a referendum – that is to pass judgment on a decision by lawmakers – than it is to launch a 'people's initiative'. In California, it is the other way around. The Swiss system works because it discourages citizens from making their own laws, and from circumventing the legislature, but gives legislators pause for thought when drafting new laws.

Another crucial characteristic of the Swiss system is that any law can be revoked or reversed by a successor initiative. In America, by contrast, every people's initiative that is passed is treated as irreversible, effectively becoming the legislative equivalent of the laws of physics. This is a recipe for stagnation.

At the moment, political reform at the federal level in America is more or less inconceivable, given the divisions on Capitol Hill. With that in mind, reforming and expanding direct democracy at state level is probably one of the more realistic alternatives to getting the political system moving again.

The Swiss would be the first to admit that direct democracy is slow, plodding and prone to setbacks and unexpected surprises. What it does, however, is deliver decisions – decisions that are very difficult to argue against and very difficult to block because the people have spoken. The focus can then turn to implementation and by extension to progress. This is what I have observed as American living in Switzerland. I'm very much looking forward to the day when I see the same progress emerging from the legislatures in my own country. As we have done in the past, the United States and Switzerland can learn from each other and continue with their strong model of collaboration.

Please enjoy the remainder of your evening. It has been a real pleasure being with you tonight and thank you for your attention.

