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On behalf of the Federal Council I would like to bid you a warm welcome to Switzerland and to St Gallen. It is a great honour for our country over the days ahead to welcome so many state and government heads, ministers, politicians and academics from 60 countries for a discussion on federalism.

I regard federalism as an important structural principle for a modern state. In a country with a variety of languages and cultures, it may even be an indispensable structural principle. Switzerland accordingly warmly welcomed Canada's initiative in holding the first international conference on federalism three years ago in Mont-Tremblant. I am delighted that we are now able to continue the process that was launched in Mont-Tremblant here in Switzerland.

Although Switzerland is a small country, its governmental structures are distinctly federalist. Its member states, or cantons, such as the proud canton of St Gallen, have a marked degree of autonomy. Without federalism, Switzerland as an "artificial" nation, as it were, with no common language or culture, would be incapable of survival. We are modest enough to realise that Switzerland as a federalist model cannot simply be exported worldwide.

However, it is an interesting example, a governmental experiment in a political

test-tube, so to speak. We can undoubtedly learn lessons from this for the political organisation of a community that will be of general application. Each country has its own history and must implement political principles in a manner that is appropriate to its needs. This is what Switzerland itself did in 1848. We have, for example, borrowed important elements of our political structure from the federal constitution of the United States and tailored them to our own circumstances, as can be seen in our bi-cameral parliamentary system. The fact that the French Revolution and Napoleon's invasion of Switzerland have left their mark need only be mentioned in passing.

I am therefore hopeful that the discussion here in St Gallen under the title "Federalism in a Changing World – Learning from Each Other through Dialogue" will provide instructive initiatives for the dynamic process of the development and modernisation of our own federalist system too. The constant critical reflection on what has been already achieved is indispensable for a community. There is a need for such reflection so that, secure in the knowledge of our traditions and our history, we will make the changes as well as we can. Political structures must regularly be adapted to new circumstances. The democratic and federalist principles, however, always retain their validity.

History is change, as the great Swiss historian Jacob Burckhardt so succinctly put it. Only those who are aware of the past, who build on it and draw lessons from it, can shape the future. But the task of looking critically at what has gone before, at times pondering on it and recreating it, is something that each generation has to learn anew. This also applies to federalism.

I have already mentioned the crucial importance of federalism for our country. In essence it fulfils four functions.

- Identity: minorities, regional units and language groups can create their own close political living space, thereby giving themselves a stronger identity.
- Efficiency: devolved systems are generally more capable of change and more robust. Problems are solved in close consultation with the citizens themselves, which means that the solutions are transparent, uncomplicated and efficient, and this leads to efficient political control and also to improved control over state finances.
- Competition: there is a competition of different systems between the member states, which always gives rise to new and creative solutions. One of the most important locational advantages Switzerland has is its low per capita tax burden by European standards. This is primarily the result of tax competition between the cantons, and not, I am afraid, a consequence of political wisdom.
- Power sharing: the power of the state is held in check by a three-way division.

I will come back to these functions later.

Swiss federalism is, however, also part of a more complex political system.

Switzerland is one of the few multi-nation states that has been successful over a long period of time. This is quite surprising as our natural cohesiveness is basically rather limited and we cannot draw our identity from a clear-cut common history and a common culture and language. We are not a natural

nation but a “Willensnation”, a nation forged out of will and have therefore had to develop a political culture that allows all sorts of minorities to live side by side.

This political culture is shaped not only by federalism but also, for example, by a deep-rooted sense of solidarity and respect for minorities (Switzerland itself consists of all sorts of minorities!). Direct democracy is also an essential pillar of the political culture. It binds the nation in its political responsibility and gives political decisions a high degree of legitimacy. The so-called concordance arising from our referendum democracy unites the main political forces and the electorate in their political responsibility and acts as an integrating force in a state which otherwise might be inclined to drift apart. Even minorities can put their concerns on the political agenda by means of an initiative and force a popular vote. The principle of having part-time politicians, however hard it is to put into practice today, integrates the dominant forces in society into politics and makes politicians relatively independent of their office.

I should return to federalism. As federalism is based on competition, and member states must bear different natural burdens, federalism by its very nature gives rise to inequalities. These must be accepted to a certain extent so as not to reduce the incentives to improve performance. The differences, however, must not be too great. As a result regional political instruments are required. The most important of these is an efficient system of financial equalisation that must not seriously weaken the powers a canton itself has to rectify these inequalities. Over the years, Switzerland has also become unclear in the federalist allocation of public duties and the financial equalisation system is full of false incentives and has accordingly become

inadequate. Our parliament is currently working on an ambitious project on federalism. This is a major federalist worksite bringing lasting modernisation to our form of federalism with a reallocation of tasks between the confederation and the cantons, and a more efficient financial equalisation system. Various cantons are also currently involved in reforms at commune level and in the reorganisation of the relationship between communes and cantons. Even the cities and towns are looking for a new role in the Federal State. The question arises at the European level as to how far the European Union should base itself on federal principles as it consolidates and expands. As you can see, federalism is a highly topical issue.

Throughout these discussions federalism is proving to be a concept with a very promising future. It will be able to, indeed, will have to serve Switzerland, Europe and the whole world as a significant system of political organisation, particularly in view of increasing globalisation. The four functions of federalism I mentioned at the beginning of my speech can act as a guideline.

There is a danger that people will lose their identity. Many people are finding it difficult to cope with the pace of global change. Letting go of what is familiar is hard. Despite being the basis of our affluence, globalisation is feared.

However, those who feel they are an integral part of their immediate surroundings both politically and economically and can express themselves freely will cope with this phenomenon far more confidently. Federalism creates identity and gives people security in these fast-moving times.

Globalisation requires enormous flexibility and efficiency on the part of political systems as well. A decentralised, federalist system has far more opportunities

for testing out innovations on a small scale. When the innovations have passed the test, they can be adopted or adapted by other member states or the central state. This “trial and error” system is a much slower process at central level and carries greater risks.

Competition between the systems is now global. Member states in a federalist system are large political laboratories. They create incentives to be constantly on the lookout for better solutions to political, economic and social problems. Federalism is the political counterpart of the free market economy, which is also based on an ordered discovery process and creates performance incentives.

I do not mean that cantons should be converted into limited companies.

Political systems are not economic systems or businesses that have primarily to provide the best possible products and services and create material wealth. Political systems must guarantee abstract products such as freedom, democracy and solidarity. Even federalism is not merely a form of political organisation but more the expression of a system of values that has freedom, democracy and solidarity as its three goals.

This brings me to the function of sharing power. Freedom is not possible when state power reigns supreme but only when it is limited, shared and kept under control. Democracies have found different ways of meeting this demand as, for example, in the case of the sanctity of human rights. In this way, state power is confronted with a protected area. The establishment of an International Criminal Court is the most recent attempt to implement this concept on an international level.

A federal state is in essence a division of power between individual states and central government. It is more effective the more autonomous member states are in their own regions. Both engage in a system of checks and balances, thereby preventing a high-handed exercise of power by the central government on the one hand, and any arbitrariness on the part of individual states on the other, as both must abide by a common set of rules. This gives individuals a substantial amount of freedom. Individuals who are unhappy in one state can move to another one better adapted to their needs.

Every federal state is confronted with the problem of creeping centralisation. Central government is always inclined to extend its influence to the detriment of member states. Member states for their part continually try to delegate to central government the responsibility for solving new problems, which is why rules are needed in order to protect federalism. In Switzerland, one instrument is the Council of States, which has two representatives from each canton and which has the same powers as the people's chamber, the National Council. In our reform project we would like to enshrine the subsidiarity principle in the constitution and prevent central government through the jurisdiction of a constitutional court from interfering in the powers of the cantons.

Federalism is also closely linked to democracy. In our country, this is direct democracy. Dynamic federalism with strong individual states is barely conceivable without effective democracy, both nationally and within member states. When citizens are able to cast their votes, they create a close-knit community and are able to identify with the community on a variety of levels. Direct democracy, just like federalism, has an important control function, ensuring that a majority of the people are involved in the political problem-

solving process. Of course, this control system also has its price. Political decision processes often take longer, but the resultant decisions have a high degree of legitimacy.

The last element in the system of values, which strikes me as being of particular importance, is solidarity. Efficient problem solving is not enough to ensure the continued existence of a federalist system. There is a need for some kind of binding force. Solidarity is a key ingredient providing cohesion among individual states. Solidarity is, as it were, the counterbalance to the federalist principle of competition. It requires the awareness that some areas are privileged, while others are disadvantaged, and that a certain equalisation between the rich and the poor is necessary. When regional differences are too great, they undermine acceptance of federalism. Solidarity is also a key element in the project on the new financial equalization system in Switzerland.

At the beginning of my speech, I mentioned that each country must develop its own form of federalism, one that is tailored to its needs. I am, however, convinced that the functions fulfilled by the federal principle are of enormous significance worldwide. I am equally persuaded that the basic values of federalism, including freedom, democracy and solidarity play their part in making the world a more peaceful and fairer place. If this conference can heighten our awareness of the roles and values of federalism, and help to refine and extend these roles and values, then it will be a success.