

Hans-Rudolf Merz: Swiss president 2009

On January 1, Hans-Rudolf Merz took the presidential baton from Pascal Couchepin. Regarded as *Primus inter pares*, or first among equals, Merz will serve as Switzerland's symbolic head in 2009, as well as chairman for Federal Council meetings. *Swiss News* sits down with him in Bern for a candid, in-office discussion.

By Matthew Beattie | Under the Swiss constitution, the presidency rotates annually between the seven members of the Federal Council. This is Hans-Rudolf Merz's first term as president. It comes during a global financial crisis, economic slowdown and significant political shifts in the international arena. A heavy-weight is needed to steer Switzerland through such a challenging period, and few are better qualified than Merz. He has already proven himself through his leadership of the Finance Ministry since his election to the Federal Council at the end of 2003. His political experience, however, goes back much further.

Born in November 1942 in Herisau, Canton Appenzell-Ausserrhoden, Merz graduated from the University of St. Gallen in 1971 with a doctorate in political sciences. He became involved with the FDP (Free Democratic Party) during his studies in 1969, when he worked as party secretary in St. Gallen. He was elected to the Senate as a representative for Appenzell-Ausserrhoden in 1994.

Merz's financial and organisational acumen have long been recognised as indispensable by the numerous corporations and institutions that have called on his services. After spending three years as vice-director of the UBS apprenticeship centre in Wolfsberg, Merz began a career as an independent business consultant in 1977, advising Swiss industry and service companies on recruitment and growth strategies.

I caught up with Merz shortly before he took up his new position as president.

New lease on life

As I was led into his modern, and tastefully decorated office at the Finance Ministry building in Bern, I was pleasantly surprised by his appearance. It was hard to imagine that the healthy and robust man who stood before me had suffered a severe heart attack and then undergone quintuple bypass surgery as recently as last September.

"There were no signs at all before it happened on that Saturday afternoon," Merz tells me, of the heart attack. "When I woke up, it was three days later in hospital; I didn't know what had happened until one of the doctors explained it to me. Physically, I felt in good shape before. Very good shape even. But

now, since the surgery, my heart doesn't have to fight for blood anymore, I am probably in better shape still."

In addition to his good physical health, Merz's passion for his work also contributed to the speed of his recovery. He explains.

"The objective of any surgery or medical treatment is to bring the patient back into work as quickly as possible. If the surgery is successful, as it was in my case, one must go back to one's workplace as soon as possible."

I ask if this experience changed his outlook on life.

"I think yes. Personally, I see certain things with more distance and more ease than before; however, as far as my job in the office and my position as a Federal Councillor is concerned, the content and the daily work remain the same. My political attitude has not changed so far. It is only a question of life philosophy."

Goals of office

With the country in the grip of a serious economic slowdown, and a vital referendum on Switzerland's continued participation in the freedom of personal movement within the European Union scheduled for February 8, Merz is facing some immediate challenges.

I ask him about his aims in such an environment.

"My first goal is to take care of the atmosphere in the Federal Council," he says. "[The atmosphere] must be good ... to bring results and continue to receive the necessary approval from parliament, and likewise the voters, on matters the Council puts forward."

With the economy the primary concern for many individuals and businesses across the Confederation, I question how the government plans to ease their burden and at the same time invigorate the Swiss economy.

"When we realised the severity of the situation, the Federal Council immediately decided on emergency measures. These were to give a loan to UBS on the one hand, and on the other, to reassure the Swiss National Bank and persuade them to support UBS; both with the hope of all parties getting their money back eventually. A loan is, after all, money that must be repaid," Merz says.

He explains how the Federal Council also decided to implement additional measures to support key industries, first by



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committing to projects already on the table that could be immediately realised.

Stabilisation

The Federal Department of Economic Affairs published details of the stabilisation package on November 12, 2008. The package includes a variety of civil works projects, such as flood protection measures and the renovation of public buildings. In addition to this, the rail network expansion project announced in mid-December is expected to provide some relief to the beleaguered construction industry.

“We’ll be spending one billion Swiss francs immediately as a first stake; afterwards, we foresee a second one, for which the seven [Federal Council] departments are obliged to table their proposals by the middle of January. [To fund these proposals], an additional SFr 600 million will be made available.”

“Should Switzerland find itself in a crisis situation,” he adds, “we foresee a third round of help.”

The specifics have yet to be determined, but Merz says the stimulus could include further financial injections. Much depends on how the existing measures work towards propping up the economy. Whatever the future may bring, Merz remains optimistic and confident about the future for Switzerland. Indeed, his New Year speech compared the Swiss people to delicate plants hunkering down and surviving the chill of winter snow.

Spring will come

“I believe that this tiered approach is the right path for us to take. Some other countries chose a different route; in some cases, supporting individual companies – a move that we chose not to follow. I think with these measures, people in our country can take confidence,” he says. “Switzerland has gone through many crises in the past. In every case, be it war or the steep hikes in the cost of oil, we have always emerged from them in better shape than when we went in. I see no reason why it should not be the same this time.”

Merz adds that on an individual level, there are salary increases planned for positions across almost all industries in Switzerland this year, so that people can keep more money in their pockets.

“In addition to this, inflation is decreasing. It is currently less than one per cent and it will probably slow down more over the next year. This means lower prices and ultimately enrichment. Finally, we also have a couple of new tax allowances coming into place for married couples and married couples with two incomes. This reduced tax burden will put even more money into people’s pockets,” he says.

During our discussion, Merz spoke at length about many other pressing issues, as well as of his native canton’s most famous export. They appear here in a question and answer format.

Matthew Beattie, *Swiss News*: Many people see the injection of funds into the banking sector as the government stepping into a free market and putting out fires. As a politician and finance minister, does this disturb you?

President Hans-Rudolf Merz: Yes. I am a follower of the free market principle and a liberal spirit. I believe that industry must help itself, but also that it must remain competitive. In this respect, what has happened disturbs me very much. [However],



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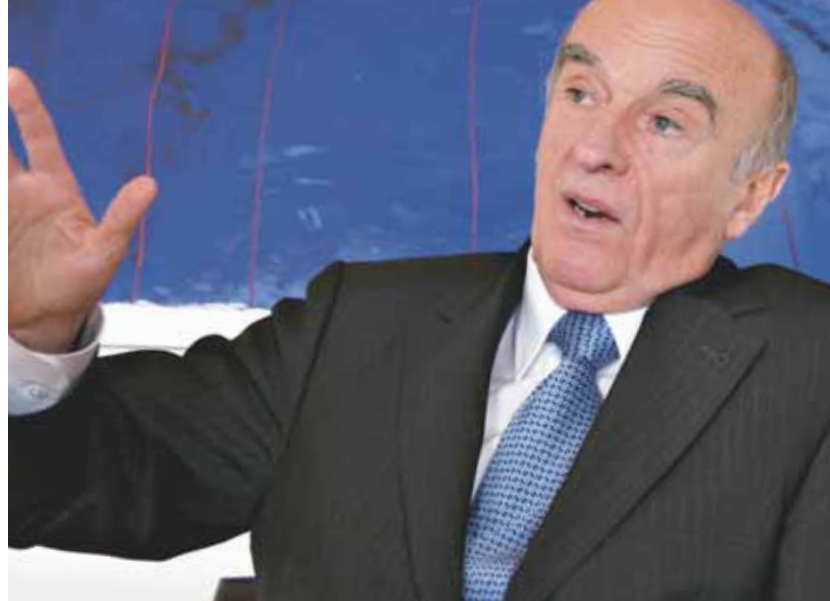
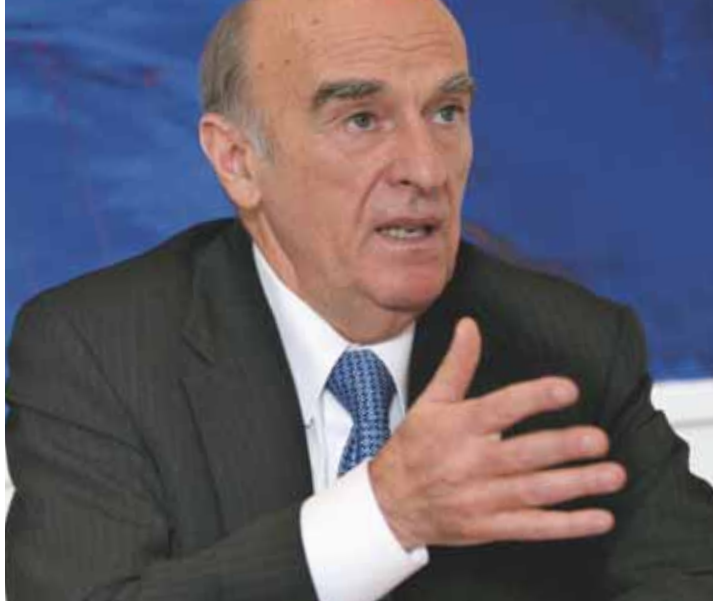
– Hans-Rudolf Merz on the current economic challenges his country faces

the interests of the country must always come first and in this case, it was in the national interest to intervene with UBS. The size of the organisation is such that were it to collapse, the consequences on our economy – not just the financial industry – would be massive.

What will the impact on the Swiss economy and the Swiss tax payers be if the Swiss National Bank is unable to resell the \$60 billion in UBS’ repackaged subprime assets, or if the assets are only sold for substantially less than their original purchase value?

The federation and cantons would suffer a loss of income only if market tendencies or an extreme depreciation in the value of the special-purpose company results in a reduction of dividend reserves to such an extent that dividend payments must be reduced or arrested.

For such an eventuality, the federation and cantons have set aside in their budgets the sum of SFr 833 million and SFr 1.667 billion, respectively. For them, these figures represent their maximum financial exposure in the event of an annual income loss. Due to the currently high dividend payment reserve (SFr 22.9 billion at the end of 2007), there is no risk of a reduction or arrest of dividends as a consequence of the package of measures.



Many would argue that there has been a wholesale loss of confidence in the banking system, following the government's unprecedented action of bailing out UBS with taxpayer money. How do you believe we can restore faith in the banking system, and in the meantime, are we likely to see more government support given to financial institutions?

There are two things we must do: the first is within the banks themselves. They must rethink their strategy. The second recourse must also be to reassure the civilian population. This can only be done internationally. Switzerland is the 11th member of the Finance Stability Forum – the G10 – and we are planning to use this forum to look at ways we can work together to restore civilian confidence in the banking system.

Despite the infusion of government funds to prop up some banks, many are now withdrawing or cutting credit to companies at a time when company cash flow is coming under increased pressure. The banks are recapitalising and holding on to their money, as viable businesses go to the wall. Can the government do anything to change this trend?

There is not much that we can do about it, except perhaps to influence it mentally and psychologically. One must understand that Switzerland has a very diverse banking market. There are the cantonal banks, with their partial – and in some cases, full state guarantees – we have the regional banks, the private banks, the foreign banks and finally the large banks. I feel that the competition system is still working well enough. If someone is unhappy with their bank, they can change relatively easily.

We are of course interested that interbank lending is working again; that the banks are relaxing credit limits to companies and industry. We have a low interest situation, because the Swiss National Bank lowered rates to not much above zero per cent. Traditionally, when banks have excess liquidity, they place these funds in the SNB. However, with such low interest rates, their capital growth requirements can be better served through lending. The SNB has also met with the 20 largest banks in order to further encourage interbank lending. Now I believe that there is some freeing up [of liquidity], which should of course have a positive effect on credit policies.

The practise of paying bonuses to unsuccessful bankers has attracted much criticism, with many taxpayers feeling as if their money was used to reward incompetence. How can the government justify its recent decision not to force the repayment of bonuses?



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I condemn what has happened [in the banking industry]. To receive such bonuses is unacceptable; however, the parliamentary decision has been misunderstood. In parliament, the proposal was that repayment should be forced by law, but this would [have] caused huge problems. These bonuses were fixed into contracts. Had we placed legal pressure on these people, they would have engaged lawyers and challenged the law in court.

The approach of taking a moral angle and encouraging the bankers to pay back the bonus voluntarily is the way to go. It is more successful than going down the legal path. So far, the results have been good, with [former UBS Chairman Marcel] Ospel and several others paying back bonuses.

In February there will be a referendum to extend freedom of movement to cover people from the new European Union countries of Romania and Bulgaria, and to continue with the current EU freedom of movement agreement in general. During the referendum for freedom of movement for people in 2005, you travelled to Munich to convince Swiss expats to vote for the proposal. Will you do the same for the vote this year?



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The 2009 Federal Council (from left to right): Ueli Maurer, Micheline Calmy-Rey, Moritz Leuenberger, President Hans-Rudolf Merz, Doris Leuthard (vice-president), Pascal Couchepin, Eveline Widmer-Schlumpf and Federal Chancellor Corina Casanova

No ... It is not necessary. During the last referendum, we established from the results that Swiss expats understood the importance of this initiative. Instead, we must concentrate on the voters in this country. The results of this second referendum are of huge importance to us.

Should the initiative be rejected by the popular vote, all the bilateral agreements we have made to date will be cancelled and we'll find ourselves back in the situation we had in 1990. We'll then be faced with the enormous task of going through each individual process once again, but with considerably more difficulty, in order to once again bring the EU relationship into balance. This would be a Herculean task requiring huge amounts of work, not to mention the considerable damage that such an outcome would have on our economy [without unfettered access to a qualified EU workforce].

How do you expect the dynamics of the Federal Council to change in 2009, with the departure of Samuel Schmid and election of Ueli Maurer?

We are a small government with only seven people. Any change has an influence, of course. We have had some changes in the past and each time a different dynamic has come about. I know Ueli Maurer, he was a member of the finance commission on the [House of Representatives]. I am sure he'll integrate himself in the Federal Council. I have no doubt about that.

On the other hand, we are not there to be friends. We are there to solve problems and the Swiss concordance is essential. This country could not survive without it: we have a federal system and all the parties have to be represented in the federal government. The differing opinions in each debate can sometimes lead to heated discussions or even quarrels, before a decision is reached. The way to go is through a culture of respecting each other's opinions; knowing how to treat your colleagues. One of my jobs as president is to ensure a good atmosphere in parliament and I will take care of that.

You take over the Swiss presidency at the same time Barack Obama takes office as the 44th U.S. president. Obama promises a multilateral approach to international affairs – a contrast to his predecessor.

Basically, I welcome this development. Critics often said that the U.S. went too much on a bilateral or unilateral approach to

international affairs. I think this is progress; however, we will see what the effect will be. It is not sufficient to be just a member of a multilateral organisation. One also needs to see that the decisions reached are also implemented.

We hope that the United States can, as we are trying to do, overcome this crisis which was originally a financial crisis but which has become a global problem. Historically, the United States has always been a pacemaker and so it will continue to be in the future.

There has been a lot of discussion recently about the need for more effective methods of integration for foreigners. What are your thoughts on that?

I think we need a new dimension in defining the process of immigration. Before, the policy with foreign immigrants was basically that they must learn German, French or Italian, and that was it. Now we realise more and more that integration is an overall process that must go beyond learning the language, to the values behind it. This is a process that lasts a generation or two.

We recently produced a report on immigration and [at the beginning of December] held a heated discussion in the Federal Council on the subject. Measures have to be taken that begin in schools, at home and in working places. It is an all-embracing consideration that must be made. That of course requires energy and patience; it takes time. You can't oblige people to be for or against immigration. You have to approach the problem in steps. We will have to make progress. The legal situation [for foreigners] is now clear. We have a new law regarding foreign people. A new status, which I think puts us on a good track towards integrating these people and it is on this we must concentrate.

Finally, on a lighter note ... do you know the recipe for Appenzeller cheese?

It's a secret. It's a mix of Alpine flowers, but I don't know it exactly. [Before my election to the Federal Council], I was president of a museum in our canton that had its own Alpine hut [the Folklore Museum in Stein]. The farmer there has been producing two cheeses a day for many years. Unfortunately, he never told me exactly how he made the cheese, so I'm afraid the recipe must remain a secret.