The future of banking secrecy

1. Not a semantic problem

For all those who have difficulty in distinguishing between the legal concepts of tax evasion and tax fraud, we recently received news from far-away Tokyo about the actress Makiko Esumi, and the collapse, under extremely embarrassing circumstances, of her advertising campaign for the state pension system. What had happened? In view of the fact that, according to the NZZ's correspondent, 40 percent of all contributors – and particularly young people – are inclined to "forget" their fixed contribution of some 160 francs per month to the national pension fund, the Japanese government decided on a widespread advertising campaign with Esumi, a much loved Japanese television star, reminding her fellow-citizens of their obligations in TV ads and posters. Which is what she did. Then however, as the correspondent reports, it came out that Esumi herself had for the past two years been among the defaulters. This rapidly put an end to the credibility of the campaign.

To make matters worse, it then appeared, in the course of a more extensive investigation into the regularity of payment contributions, that no fewer than seven (!) ministers in the present government had also been guilty of periodical "forgetfulness". This had no further political consequences, however, as the leader of the opposition was also among the defaulters.

This all might provide the plot for an amusing operetta – but the background is actually significantly more serious. For simply in terms of the amounts involved, a 40 percent default rate in a tax due from all Japanese wage-earners is by no means peanuts: by our estimate the shortfall in the past financial year was of the order of 50 billion Swiss francs. Realistically, this pension contribution must be regarded as a tax, for given the ageing Japanese population and the miserable discipline with regard to making contribution payments, the fund is quite unable to provide anything even approaching reasonable cover.

There could hardly be a better explanation of the difference between *tax evasion* and *tax fraud* than that. The essential difference is not a matter of legalistic hair-splitting, but is to be found in social and economic dimensions. And it does exist. Firstly, tax evasion takes place in the grey zone of understandably *venial sin* – on the basis of their own calculations, Ms Esumi, the seven ministers and the leader of the opposition, together with many, many other Japanese, simply do not understand why they should pay for something that has virtually no likelihood of ever providing them with anything resembling a half-way adequate return. Secondly: tax evasion is always related to particularly blatant *failures on the part of the state system*. This puts the moral problem that arises with any lapse into perspective. Thirdly: tax evasion is a *mass phenomenon*; the host of defaulters constitutes a kind of collective in opposition to the collective of the law-abiding. Fourthly: tax evasion is a matter of more or less active *omission* – "forgetting". The more complicated the tax law, and the associated regulations concerning further obligatory dues to the state, the less can forgetfulness be a matter of reproach – though it is unusual for this to occur to one's own disadvantage. Fifthly: tax evasion is mostly practised by the *productive part of the population*: this may not perhaps include the above-mentioned politicians, but it certainly does those – mostly young – wage-earners who are disinclined to throw their money into a bottomless pit.

Tax fraud, by contrast, occurs at individual level, is practised more or less actively, clearly contravenes all concepts of justice, and also does not hit the state system only where it is most inefficient. Both subjectively and objectively, it is thus far less easily excusable.

In strictly legal terms, the above distinction between "tax evasion" and "tax fraud" – on which, as it is well known, the whole construct of Swiss banking secrecy is based – is obvi-

ously inadequate. But that is of no consequence in this context: that matter can safely be left in the hands of the lawyers. This investment commentary aims to focus on the social, political and economic issues. First, we need to be clear about this: as the Japanese example shows, there is such a thing as tax evasion. To equate this with tax fraud would be extremely problematic for a variety of reasons, not least practical ones. Just imagine having to put 40 percent of the Japanese population behind bars, and the most productive 40 percent at that!

What applies for Japan probably applies for the rest of the world, so let us now generalize the phenomenon of tax evasion somewhat.

2. Keep it quiet and lock it away

What 40 percent of Japanese wage-earners do is probably also done by around a quarter of the population in the most important European countries, for example. They operate in the grey, understandably venial zone that is clearly not covered by state control. Estimates of the *black and grey markets* and their share of value creation in the various countries differ – understandably, as this is a matter of clandestine activity. But 15 to 25 percent for Germany, France and Italy is probably not far off the mark. This clandestine activity takes many different forms, ranging from not declaring the cleaning woman's or gardener's wages, via friendly "grey" work on a colleague's home improvement project – done during the generous amount of leisure time resulting from restrictive labour legislation – to the thoroughgoing employment of black-market labour, which, according to information available to us, obviously extends far into public-sector procurement.

The five characteristics of tax evasion derived from the Japanese example certainly apply. 15 to 25 percent of a country's value creation cannot simply concern a few wealthy individuals. Au contraire: it is most probably the productive middle classes who make up this group; a sort of collective determined to survive in an environment that increasingly constrains business activity, and taxes it far too highly – so highly in fact, that the attractiveness of a life of irreproachable legitimacy pales by comparison with the enjoyment of the undecimated fruits of one's labours. Tax evasion is part of the overall phenomenon of the shadow economy.

We have, on a previous occasion (Investment Commentary No. 209, 2 July 2001, "How Europe saves") referred to the regrettable lack of literature on the economics of grey labour, grey markets, tax evasion, and their interaction with "official" value creation. The lack of serious, economically sound studies remains striking. Either hopeless fiscalists are at work, or still more hopeless moralists. This is regrettable. Because in quantitative terms alone, such a high proportion of total value creation should be of great interest to national economists, and even more so if it is not wholly wrong to assume that in many European countries (apart from the continually expanding state apparatus) it is precisely this area that may represent the only economic sector displaying real growth...

On that occasion, we attempted to define the fundamental *microeconomics of tax evasion*. We set out the components of the tax evader's personal calculation, and concluded that while the tax burden was undoubtedly an important incentive in such a situation, it was not alone sufficient to account for the flight to a taxation Nirvana – a flight which, as far as Germany is concerned, has since increased dramatically. The advantages of non-payment of tax are counterbalanced by the disadvantages: difficulty in utilizing the undeclared assets, the danger of being discovered or betrayed, and, not least, the fees charged by consultants, accountants and banks for managing the assets involved.

Without additional components, without further, significant incentives, not even the high rates of tax now obtaining in France and Germany would be sufficient to give rise to tax evasion as a genuine mass phenomenon. One additional component is undoubtedly *"confiscation anxiety"*; in other words, the expectation, with a relatively high degree of probability, that at some point a political situation could arise that would make one's hard-earned prosperity the object of confiscation, or even the feeling that one is already implicitly caught up in the creeping advance of such a process.

On the basis of historical experience, an archetypal pattern has become imprinted in European "common sense" that is so deep-rooted that not even the explicit threats of Finance Minister Eichel or the associated border harassment by fiscal inquisitors can prevent German citizens from travelling to Switzerland and other destinations offering secrecy and security to conduct their financial transactions.

The French have long come to terms with the aggressiveness of their authorities; it almost seems as if such measures against tax evaders tended to reinforce confiscation anxiety and provided an added incentive for the transfer of assets. Historical experience naturally sends a clear signal: times in which some self-appointed "elite" have not been trying to deprive their fellow citizens of part of their income and assets are hard to find in the course of European history. And confiscation has often gone hand in hand with threats to life and limb, most recently in Nazi Germany and behind the Iron Curtain.

It can be shown that the confiscation possibilities of such self-appointed "elites" in Europe were first significantly reduced with the introduction of *cash*. Unlike physical goods, such as cows and chickens, money can be kept quiet and locked away. The rise of the bourgeoisie in early modern times is closely connected with the *lower rate of confiscation* applied to their economic success by those then in power. Suddenly, it was worth while working, and capital savings rapidly enabled the financing of investments. Economic growth, and the associated rise in prosperity, could commence.

The development of tax law can be viewed as a response to this emancipation through cash and capital of the productive middle classes. There was much regulation, from a constitutional perspective, in the interest of a balanced, fairly just and reasonably functional society. The modern history of Europe has, however, repeatedly been characterized by excessive hunger on the part of the exchequer, as well as the arrogant exercise of power by individual political movements, royal families and dictators. Keeping it quiet and locking it away have thus become the archetypal counter-strategies of the productive European.

It is now apparent that the current democratic legitimation of the European states, and their integration into the EU, is not sufficient to dispel confiscation anxiety. Given the poor financial condition of most national economies, their inability to create appropriate conditions for growth, and the Damoclean sword of demographics, it seems to many European citizens to be advisable to keep part of their ultimate financial provisions outside the system. The fact that Europe is at the moment mainly governed by socialist, statist, centralist regimes provides additional reinforcement to the urge to "get outside", regardless of democratic legitimation.

3. Europe's uncomfortable safe

This "outside" has been, for many European citizens, Switzerland. Extensive non-involvement in the ugliest chapters of 19th and 20th-century European history helped the country to achieve extraordinary internal stability, the physical security of its economy and the continual development of its law, without particular interest groups ever gaining confiscatory access to the property of third parties. It was under these attractive conditions that banking secrecy, and with it Switzerland as a financial centre, developed.

Switzerland has been able to defend itself and its banking clients against attempts on the part of foreign powers and other groups to gain access to their property. The means for this was, and is, the concept of the "Vergehenstatbestand", that is, relatively trivial offences, on account of which it is not necessary to waive banking secrecy. A subtle concept, but an enormously successful one, for it has enabled business to be done with those 40 percent of Japanese and those 15 to 25 percent of Europeans, including perhaps some TV stars and government ministers, but above all the productive middle classes who suffer from archetypal confiscation anxiety. Until a few years ago, it was taboo to discuss this significant, if not exclusive economic component of Switzerland as a financial centre. Times change.

The fact is that, of the some 3,000 billion francs for which the Swiss banks provide account and custody management, and sometimes also asset management, a considerable proportion comes from the neighbouring, and more distant, countries of Europe. Another part of the money is of so-called "institutional" nature, that is, it belongs to legal entities, which may include industrial companies, insurers, other banks, but also private foundations and trusts. Realistically speaking, the latter also conceal funds that are unknown, rather than known, to the tax authorities of the people concerned. Furthermore, Switzerland of course also manages funds from all over the rest of the world, funds whose owners are dependent on the protection offered by banking secrecy, often not principally for fiscal reasons, but in order to protect them from criminal access (which is in any case synonymous in many developing and emerging countries…).

With the growing coherence of the EU, and above all in view of the ever increasing align-

ment of interests among the finance ministers of the *high-tax countries at the core of Europe*, Switzerland, with the risk cluster of its financial centre, is confronted with a strategic challenge of the first water. For these high-tax countries have been in a deplorable position for some time now: high levels of debt, little or no growth, but continually rising, if partly illusory, demands on the social state. Little surprise then if, before thinking about correcting the balance of payments by raising taxes, or even beginning to contemplate taking the difficult, perhaps politically lethal route of reducing the state's share, one casts a covetous eye at the bulging safe on the island in the middle of Europe. This is done with the assistance of much apparently valid reasoning. Thus, the emphasis is on just taxation and moral issues, together with the democratic legitimation of the applicable tax rates and legislation. The profound immorality of the dire need for reform of one's own political system, on the other hand, is quietly overlooked.

Whatever; over recent years and months, Switzerland's position has become progressively more uncomfortable. At no point, unfortunately, has it been possible to fully involve other significant "competitors", such as Austria, Luxembourg, or indeed the City of London in the exchange of fire, which would have provided considerable relief for the Swiss position. By way of a temporary respite, in the course of new bilateral negotiations with the EU, Switzerland agreed to a variation of the taxation of foreign assets that is really remarkable: should negotiations not break down over the "Schengen" part of the package, Switzerland will in future levy tax for EU countries on the interest income from funds belonging to EU citizens, or, if clients prefer, report the interest income to their country of domicile. Switzerland and its banking system will thus in future act as tax collectors for third-party states. In return, Switzerland will be able to retain its banking secrecy. The EU, for its part, can salvage its interest income taxation and information exchange package, concluded under extremely difficult conditions in Feira. And of course, it also hopes to see money from the interest income taxed in Switzerland.

The Feira *interest income taxation guidelines are*, however, extremely unfortunate and *incomplete* (one Swiss diplomat described them fittingly as having "more holes than an Emmental cheese"). They only cover individuals, and thus probably exclude the significant institutional part, and in particular the Anglo-Saxon trusts – a point much appreciated by the City – and they are based on an economically remarkably stupid aspect of return on assets – interest income. For direct interest income can be avoided with all sorts of constructs, without disadvantage to creditors. It is thus foreseeable that the EU guidelines will result in a flight from direct interest income (this is already under way). This will mean that little tax will be raised both within the EU and as a result of the Swiss taxation of interest income. Empty treasuries will have to look around for other sources of funds, and the whole story will start all over again. Both the Feira guidelines and the Swiss taxation arrangements thus at best gain time, but no more than this.

4. Strategic options for Switzerland

There is no doubt that, in view of such unattractive medium-term prospects, there is a need for sober situational analysis. The inevitable inclusion of extremely sensitive existential questions for this nation at the heart of the European continent, and the notorious inhibitions in this country about speaking openly about its positioning vis-à-vis other financial centres such as London and New York, do not make matters easier. Which does not mean that this need not be done.

In our view, there are four different options for Switzerland. The first is *carry on* or, if you will, "muddle through" *as before*. Not the worst option; indeed, looking back, a very successful one. And it is by no means dishonourable or fatalistic; simply *pragmatic* and *realistic*. Why? Because there is a considerable probability that the other side will also continue to muddle through. "Feira" was a shabby compromise, and under this scenario, all subsequent agreements will be so too. The cartel of high-tax EU countries will never be able to assert itself sufficiently for the situation to become hopeless for Switzerland. Maybe.

This option assumes, however, that within Switzerland, *not* too many people *lose their nerve*. The reaction to the most recent, undoubtedly targeted attempts to exercise pressure, from Berlin with more rigorous border controls and from Brussels with customs dues on re-exports, do not reflect well on Switzerland in this regard. Our masochistically inclined mass media were able, possibly also with guidance from Berlin, to create a claustrophobic atmosphere of panic in no time at

all. What if the pressure really got serious? The "muddling through" option also has the disadvantage that the ostensible morality is not on Switzerland's side. The fact is that the enforcement of a particular concept of just taxation in the interests of the EU high-tax cartel would be regarded as "ethical" by the broad public at home and abroad, supported by certain professional ethicists and a significant part of the media. A lengthy struggle against this untenable but existing mainstream could prove wearisome. A further danger of the "muddling through" option resides in the nominal maintenance of banking secrecy coupled with its progressive actual erosion by all possible judicial and administrative bodies.

The second option is gradual or *complete surrender*, probably involving ill-considered entry into the EU, and ultimately also the Eurozone. This would no doubt have its advantages, in political and, in certain aspects, also in economic terms. It would put an end to the gruelling process of complying with developments in the EU and the laborious reconciliation with the different processes in place in Switzerland. It is not the place of an investment commentary to make an assessment here. One thing is certain, though: sooner or later, Switzerland would lose its "keep it quiet and lock it away" function for assets transferred "outside the system". Under pressure from the high-tax cartel, the EU has very clearly decided in favour of *information exchange* on tax matters. The case is thus clear: so long as the EU is run by these powers, Swiss banking secrecy is not EU-compatible, period.

Thirdly, Switzerland can move in the direction of the *Anglo-Saxon trusts*. Historically speaking, the trust was, with Swiss banking secrecy, the other principal means of avoiding confiscation. The probably fairly low proportion of Swiss bank clients from this cultural region bears witness to the success of trusts even in the face of those governments in England that were deeply in the red. Taxation in England was exorbitantly high for many years, but no-one was bold enough to attack the substance of the trusts.

A trust offers protection against the taxation of its substance and its revenue, either for an indefinite period by means of a "tax ruling" or through its offshore location on the Antilles or the Channel Islands. Against the obvious advantages of trusts must be set significant disadvantages, however. The vehicles are relatively complicated and cumbersome. The ultimate owner is separated from the invested assets by a whole mechanism of fiduciaries and lawyers, who are keen to be indemnified under all circumstances. As investment managers they are generally extremely risk-averse. As a result capital markets characterized by trusts feature high, and ultimately unproductive overheads. Nevertheless, Switzerland should seriously review the "trust" option. Some sort of collective together with the British would not be the least attractive option for the country, in a variety of ways.

Fourthly, there is the possibility, as a well-filled safe in the middle of Europe, of making a virtue out of necessity. Not by continuing to muddle through, nor by putting one's head on the block, and also not by trying to find a response to foreign legal concepts. Much rather, by trying *to tax the return on assets* in a way that is reasonable *economically*, with a bearable level of taxation that is nonetheless attractive for the tax authorities. The goal must be to turn the temporary respite gained through the agreement on taxing interest income into a much more sustainable solution.

5. Investment income, capital gains and total return

If one takes the view that it is basically correct that the return on invested assets should be part of the range of possible sources of tax – together with other sources such as VAT, income tax, company tax and the like – then this raises the question of the point at which such taxation should take place. Traditionally, this has been the point at which the return becomes tangible, as for example when dividends or the interest on loans are paid out. However, it has not escaped the notice of the tax authorities that capital gains can be generated by retaining interest and income, or that further tax optimization can be organized by constructing synthetic financial products. Accordingly, the regulations governing the taxation of investment income are becoming increasingly sophisticated; so sophisticated in fact that – like, for example Circular No. 4 of the Federal Tax Office – they can only be interpreted by expert specialists.

Investment income is generally regarded as part of personal income, and is thus usually subject to progressive rates of tax. The incentive to evade tax on investment income is thus greater, the higher the tax-payer's income class – or, put the other way round, sharply progressive tax systems tend to deprive them-

selves of the revenue from the most interesting assets.

Wherever it is not already in place, there is always the threat of the introduction of a capital gains tax, among other things to cream off "unfair" speculative gains in the interest of fairer distribution of income. Variations in this area include extremely complex special regulations, such as the German "speculative period", under which stock exchange profits are taxed at income tax rates if they are accrued within a period – obviously regarded by legislators as indecently brief – of one year.

Capital gains taxation turns out to be extremely complex and time-consuming for the tax-payer, his banks and consultants, but also for the tax authorities. It must be based on profits over a period of time, such as one year. Complex questions arise concerning the allowability of losses during the period or from previous periods. Anyone who, as an asset manager, has had to take investment decisions under the restrictions of a capital gains tax or the milder alternative of a "speculative period" is well aware that ultimately it is not economic arguments that dictate the shift from one investment to another, but the question of whether, and if so how much, capital gain is taxable. The efficiency and liquidity of the capital markets suffer under such systems. Experience also shows that capital gains taxes deliver remarkably little to the exchequer's bottom line.

In other words, the taxation of investment income contains considerable inconsistencies, a vast number of opportunities for evasion, many disincentives for tax-payers, the national economy as whole, but also for the exchequer due to a high cost of collection and many side-effects. The EU's Feira guidelines and the interest income taxation agreement are surely not the final contributions to what is for the normal citizen and normal tax-payer an ever less comprehensible patchwork.

Remarkably, in taxation circles there are hardly any attempts at the fiscal coverage of what is really interesting in regard to assets: the total return, that is, the combination of direct income from interest and dividends and indirect revenue from realized and unrealized capital gains minus realized and unrealized capital losses. This is just as well, as it would require a detailed performance calculation, with all its pitfalls. It's hard to imagine how legislators would cope with that. Nevertheless: if the aim is to tax the return on assets really thoroughly, covering every aspect, completely, and thus entirely "fairly", then the focus should really be on the total return. For then, it would be impossible to evade tax by means of options or other leveraging possibilities, and the market value of the instruments would provide an unerring indicator for assessment.

6. Penalizing risk-taking?

This would be the ideal model for the above-mentioned EU high-tax cartel: taxation based on the total return from investments, naturally involving full disclosure of all data on the tax-payer, within and outside the cartel's area of influence – including, for instance the assistance of the OECD or other supranational organizations. And, of course, linking the taxation of the total return to a sharply progressive rate of income tax. Then corporate Europe really could shut up shop.

This ideal – and hopefully never real – taxation model clearly reveals how problematic the existing taxation systems are from an economic perspective. As is well known, the total return on an investment is related to the risk involved; in other words it is a reward for the readiness to accept losses. Should this reward come under attack from a state levy, then this would increase the incentive to avoid risk. The greater the potential risk, the more negative the tax-induced incentive. This negative incentive can be mitigated through the full offsetting of losses, and in extreme cases with tax credits, but this necessitates very lengthy accounting periods, which would hardly be comprehensible in either accounting or tax terms.

The taxation of components of total return, such as periodical capital gains, however defined, or interest and dividend income all have the same drawbacks as the ideal model. They also attack, if to differing degrees, the reward for risk-taking, and are thus ultimately to some extent confiscatory: in the long term they expropriate. The state always benefits from the upside of risk-taking whereas the downside remains with the tax-payer, on account of the invariably incomplete compensation for previously incurred losses.

Financial theory has shown, by means of the Capital Asset Pricing Model (CAPM), how investment assets can be broken down into individual economic components. Thus, the expected total return from any investment is made up of:

a) the return on a risk-free investment
b) plus the expected additional market return for the specific investment category
c) corrected for the investment's specific risk coefficient.

This looks more complicated than it is. For our purposes, it is important that every investment, whether a bond, a share, or an option, has a risk-free component [a)]. This component remains fairly stable over time: the yardstick is the money market rate for an investment with a top-quality debtor. The investment-specific components [b) and c)], by contrast, result in fluctuations in the return on the investment – periods of high returns can be followed by indefinitely long periods of losses. The taxation problem resides in the fact that all existing concepts include all three components [a), b) and c)]. The results, particularly of course in the European high-tax countries, could hardly be worse: virtually no-one ready to take real entrepreneurial risks, a shift in risk-taking towards institutional investors, who are taxed less, or not at all, but are risk-averse for other reasons. The inadequate growth from which much of Europe suffers has structural reasons. One significant reason is the *systematic creaming off of risk rewards* by the state; this cripples any entrepreneurial impulse.

The systematically expropriatory component of existing capital gains or investment income taxation models is in contradiction to the property guarantees contained in most constitutions. This being so, the fact that part of the population wishes to circumvent the system by means of "keeping it quiet and locking it away" appears neither incomprehensible nor immoral.

7. Flat-rate taxation of the risk-free component

A taxation system that took account of the not so new insights of financial theory, and wished to avoid the systematic penalization of risk-taking, and indeed creeping expropriation, would focus on the risk-free component of the investment asset. As mentioned, this remains fairly stable over time, and thus has the advantage that both the *tax burden* for the tax-payer and the tax income for the state are easily *forecastable*. Tax on the capital can be levied simply and cost-efficiently at the source; that is with the banks. Flat-rate taxation – that is, not including tax on assets in a (progressive) income tax on the individual tax-payer is clearly indicated, on account of its simplicity, and also because of the impossibility of evading such a tax by means of some special vehicle. A tax rate of, for instance, 15 percent would undoubtedly be bearable and, because it would not attack the reward for risk-taking, would also never endanger the substance.

Of course, many aspects of prevailing tax law, and particularly Swiss tax law, speak against such a radical step. There would predictably be massive objections. There would need to be major adjustments to federal and cantonal tax law: the withholding tax would disappear, company tax and tax on business assets would be affected. And it would undoubtedly also be objected that no new tax had ever really improved the position of the tax-payer. So let us not give way to illusions: comprehensive solutions always have a hard time here.

Over and against all this are considerations concerning a genuine strategic breakthrough in the matter of banking secrecy. Levying a *flat-rate* tax on the risk-free component of *foreign investments* within Switzerland could achieve this. The rate of tax – 15 percent on the money market rate of, for example 1 percent in Swiss francs – would not endanger Switzerland as a financial centre. Compared to the tax on interest now negotiated, it would also have the advantage that it would not be levied at an unsuitable point. It would not trigger any evasive moves into complex financial instruments or expensive legal constructs. And it would actually also generate funds; so much so that the EU would probably have to reconcile itself to this parallel system "outside". The arrangements for transferring the tax to the countries of domicile should be seized on as an opportunity to resolve significant problems in connection with the "Swiss safe". The organization of the interfaces between the two tax systems would probably represent the greatest challenge.

Two points in this connection: firstly, the EU will anyway soon have to confront such questions, as several of the new member countries have extremely low rates of income tax, and partially flat-rate tax systems. It will be interesting to watch whether harmonization takes place up or down. Secondly, parallel systems already exist in practice, both, as already described, with Switzerland, Luxembourg and Austria, and also with the Anglo-Saxon trusts. The remarkable aspect of these parallel systems is their non-taxation. Competition between systems is thus already in place; it's just

that it takes place on a more or less implicit basis. The proposed flat-rate tax on the risk-free component of investment income would undoubtedly bring some movement into the European tax situation, as competition between systems would become more explicit. And not to the disadvantage of the EU or its citizens, in our view.

With such an economically almost unassailable tax system, Switzerland could free itself from the stigma of being a repository of untaxed funds. The flat-rate tax would take banking secrecy out of the critical crossfire. As it would apply at the source of the investment asset, there would be no need for information about individual bank clients. And there would be no need for any information exchange – itself, nota bene, an exercise of administrative power that should not be underestimated, with much potential for abuse by all possible authorities.

It might look at the moment as if with its banking secrecy, Switzerland, together with its financial centre, finds itself pushed into a strategic corner. But if we take the effectively available options seriously, and at least do not dismiss more visionary concepts out of hand, then the room for manoeuvre is significantly greater. The question is, whether we take advantage of it.

KH, 10.5.2004