

Fighting over preserves

1. Secret services as treasure hunters

Not for the first time, a secret service has come to the aid of the fiscal authorities, applying its special personnel, financial and technical abilities in order to enhance the taxgatherers' clout. There was a case in the 1980s in which the French secret service obtained some data carriers from a disloyal employee of a major Swiss bank. The magnetic tapes then in use were repeatedly overwritten with new data. However, some old data from a previous recording might remain at the end of the tape, and it was this data that the French were interested in. They rightly suspected that the names of bank clients might be found on the non-overwritten parts of the tapes. They were able to identify some clients' names, with the result that unsuspecting citizens were rudely surprised by searches of their premises and extremely embarrassing interrogations.

The affair eventually died down, for reasons that were never satisfactorily explained. It may be that, because of the lack of addresses, the data was too imprecise – what is the use of a name like Leblanc, which occurs millions of times in France? Or it may be that the names were simply too politically charged – that they included members of the political and economic establishment, so that really thorough action by the fiscal authorities would have endangered the stability of a French upper class that was already often operating at the very edge of legality. Or, which would correspond to the conventions of secret services, the list was only passed on to the fiscal authorities in an incomplete form that would protect the secret service's own interests. Whatever – the result was a wash-out.

We also know of a case from the Second World War in which an Austrian citizen imprisoned by the Gestapo was induced to provide information about his previous relations with Bank _____ in St. Gallen. With a combination of sophistication, toughness and flexibility that remains impressive today, the then partners were able to save not only the Austrian's skin, but also a large part of his as-

sets for the post-war period. The case only became public as a result of a libel action brought by a Zurich law firm against a historian who had by and large described them as the Gestapo's outpost in Switzerland. Actions taken by the law firm against the bank provided part of his evidence.

Some years ago, a list of clients of a Liechtenstein fiduciary fell into the hands of a German news magazine: it is highly likely that the secret service was involved in the deal between a disloyal member of the firm and the interested parties in Germany. The case resulted in the conviction of a well-known showjumper for tax fraud, but had remarkably few other repercussions – there was no large wave of arrests of prominent tax cheats.

The secret service is one among a range of options – rather a last resort – available to the fiscal authorities in their endeavors to coerce taxpayers into the payment of their dues. More usual are, of course, the “standard” police options of telephone bugging, the surveillance of mail, and e-mails in particular, data mining with credit card companies, the use of informers in the personal circles of suspects, and suchlike tactics. Secret service activities are almost bound to collide with the sovereign rights of other states, whereas police actions affect “only” other rights, whose protection ought also to be the concern of the state.

What this brief historical review makes clear is above all the disproportionality between the means deployed, which clearly involve infringement of the rule of law by the authorities, and the material success of the actions. This invariably remains anecdotal. Our historical experience thus raises the question of whether it is really worthwhile taking a closer look at the recent Zumwinkel case. For there is a real chance that this too will prove to be merely a flash in the pan, convenient for hard-pressed politicians and media in search of a story, but with little impact on the bigger picture of tax payment, tax avoidance, tax evasion, capital flight and emigration in Europe. So that we could again devote our attention to the – not much more appetizing – topic of the credit market crisis.

It's not that simple, however. We believe that Zumwinkel may mark the beginning of a new phase

in the way certain states deal with their tax-paying citizens, and with foreign systems and structures that are disinclined to cooperate with them. The aggressiveness currently on display in this matter does not bode well. Whereas in Italy, administrative incompetence and capitulation before the sheer scale of the problem have nipped such efforts in the bud, and in France the existence of mistresses being treated as a matter of course has always set limits to any moral rigidity, the German “*Attitüde des Unbedingten*” (Hans Magnus Enzensberger: attitude of unconditionality) threatens to set off a movement that is quite capable of becoming (self)destructive.

2. The ideal state vs. the real state

At the root of all evil lies idealism – in this instance, an idealistic understanding of the state. This amounts to a parliament democratically elected by respectable citizens, that, while meticulously observing the constitution, promulgates decrees that are wholly unexceptionable from a constitutional perspective, and that are then implemented by an executive that is careful to act in full accordance with the separation of powers, and that, in the event of a dispute, are interpreted by an independent judiciary. This unobjectionable activity covers everything that the state should reasonably be concerned with, from the classic tasks, such as security, the infrastructure and education, via the wise governance of economic activity, to provision for all circumstances that citizens may encounter. This concept also includes the territorial claims made by the state, which mean that – in terms of residence, domicile, or at least tax domicile – no-one can escape comprehensive subjection to this ideal construct, except by physical emigration.

As everything in this construct is done with due order, and whatever is less than perfect becomes the subject of an ideally defined process of renewal, involving the democratic interplay of citizens, parliament, administration and the judiciary, there is not the remotest reason why this subjection should not extend to cover the totality of material issues. There is an intrinsic logic to the references often heard in the Zumwinkel case to the legality of tax legislation and the need to implement it thoroughly – though the stipulation, also contained in the constitution, that state action must be appropriate should give rise to questions concerning the means permitted for its implementation. For onlookers who have not entirely repressed their historical experience, the brutality with which the authorities have treated Herr Zumwinkel, and their readiness to exploit a mob incited by the mass media appear more than questionable, particularly from the perspective of an idealistic understanding of the state.

And this is of course even more the case if we reject an idealistic understanding of the state in favor of a more realistic view of the situation. This reveals a vastly less attractive picture of Germany, and indeed of most of the countries of continental Europe. The increasingly obvious neglect of the classic tasks of the state goes hand in hand with a privilege-based economy that is no longer manageable, and above all can no longer be financed. The authorities have de facto lost control of certain quarters of important cities, such as Berlin, Hamburg, and even Frankfurt, and while there may not be the threat of persistent disorder as in the suburbs of Paris, many areas are run by mafia-like cartels of immigrants, rather than police forces subject to the rule of law. Public areas, railway stations, underpasses can only be used without anxiety at certain times of day – and this despite the ever more refined and ever more intrusive surveillance of citizens.

The German infrastructure, long a model for the whole continent, is suffering from inadequate investment, due to a lack of clearly defined political guidelines. This is very obvious with regard to atomic power stations: the lack of decisiveness about the continuous maintenance of existing installations or the construction of new ones renders Germany ever more dependent on Russian gas supplies. The longer-term likelihood of secure energy supplies (which are essential for industry) continues to decline. And aggressive trade unions are regaining ground in other areas of the infrastructure, plunging the country into states of emergency almost fortnightly, with dire economic consequences.

Many schools also find themselves in a sort of state of emergency, resulting from an excessive, ideologically induced, compliance with demands from ethnic minorities. There are schools in Germany in which the kiosks remain shut during Ramadan – for non-Muslim pupils too. The Western heritage, the foundation of a functional civil society, is marginalized in lessons; humanist education threatens to become a foreign word.

The obvious and largely undisputed reduction in the performance of the state goes hand in hand with an increase in its explicit or implicit expenditure. In economic terms, the efficiency of state performance is in continuous decline. With a state share of over 50 percent of gross value added this is, of course, alarming, particularly when we consider that elsewhere in the world there are emerging national economies that are continually improving their efficiency. The reason for this loss of performance is to be found in a hopeless entanglement in a sociopolitical redistribution process, in

which it is utterly unclear who ultimately pays for whom, and who gets what from whom.

The German privilege-based economy has now resulted in some 60 percent of the electorate living off the state, directly or indirectly: social security claimants, pensioners, the unemployed, recipients of student loans or grants, miners, farmers and foresters, fishermen, politicians, party workers and of course, countless civil servants. This gigantic machinery is funded from two sources; from today's higher earners, and from future generations yet unborn. The top ten percent of wage-earners provide 55 percent of income tax revenue. The bottom 50 percent on the income scale provide just 5 percent and the bottom 20 percent virtually nothing. The (still) employed lower middle class bears the burden of high social insurance contributions and the recently further increased VAT; the average German household has probably suffered a decline in real disposable income over recent years.

According to the German central bank, a fairly reliable source for such information, the implicit state debt – that is, the pension liabilities that are unwisely not included in the national budget – represents about two and a half times the gross domestic product. Together with the debt already accumulated by the federation, the states and the local communities, this comprises a blindingly obvious and practically unrepayable mountain of debt that will weigh on future generations.

3. Cheats at every level

The Zumwinkel case unleashed a wave of outrage across the country: outrage at extremely well paid managers who, obviously feeling that they were not getting enough, despite their more than comfortable incomes and assets, deprived the state of part of its legitimate income. Superior persons should set an example, was the argument; for it cannot be right that honesty is expected of simple wage-earners, while the better-off take the state for a ride.

Idealistically speaking, a persuasive argument, but one in need of relativization in the light of reality. For these simple, honest wage-earners do not exist in Germany, or at least not in the numbers that might be held to justify a wave of outrage in the form of a *levée en masse*. For, according to soundly based estimates, some 25 percent of Germans work regularly in the grey economy, and 54 percent of Germans regularly make use of its goods and services. The grey economy is synonymous with the avoidance of social insurance contributions and VAT. This grey economy represents roughly one-sixth of official GDP, and is thus one of the most significant of our northern neighbor's economic

sectors. By comparison, the heavily state-subsidized agricultural sector contributes just 0.8 percent of German GDP.

Also of interest is the attitude of these so outraged Germans to this type of tax evasion. Two-thirds of all Germans regard the use of products or services from the grey economy as negligible in criminal terms, and some 40 percent regard even their active provision as a trivial offence. Dishonesty in completing a tax declaration, by contrast, is a venial sin for only 18 percent of Germans, which may be related to the low quota of those who have to pay income tax at all. This and other insights into a not so intensively researched area of economic theory can be found in "Shadow Economies and Corruption all over the World: What Do We Really Know?", a paper by Friedrich Schneider, an economist who teaches in Austria.

Individual insights into the grey economy may be questionable, but this does not change much in the overall picture. Next to the official, ideal "reality" there is a second reality, which looks much less attractive, and certainly not morally unassailable. For the grey economy is complemented by another grey area in which, so to speak, reverse tax fraud occurs – the acquisition under false pretences of social benefits, naturally enough largely by precisely those people engaged in the grey economy. If we include in the proportion of unjustified claimants a certain percentage of the ruling political class, which in Germany has, much more than in Switzerland for example, assumed an independent existence, decoupling itself from its citizens, and we also include in this category the provision of subsidized benefits that have never been questioned, then this second reality of Germany's appears as a construct that pushes its citizens into grey zones at every level.

Reference to the democratic origins of the legislation that underpins these hollow structures, reference indeed to constitutional legality in general, is of little help. For, as the case of Germany clearly shows, a democratic, constitutional state can, in the absence of effective constraints on taxation and state debt, evidently slip into a situation in which it seems hopeless to try and find a democratic majority for a return to moderation. The casual acceptance of overdimensioned provision for the existing generation of pensioners, at the expense of generations of citizens yet unborn shows how little the democratic argument serves, or rather what amoral entanglements can result from a democracy constrained by nothing at all.

The argument from legality is equally unhelpful. We should not quickly forget the sinister shift in the views of the legal theorist Carl Schmitt (1888-

1985) – from a clear distinction between legality and legitimacy to an unconditional totalitarianism, based on formal legality alone. A system that has abandoned itself to financial self-destruction has forfeited any claim to legitimacy, however democratic and legal its actions may be. The distinction between the physical destruction left behind by totalitarianism and the destruction of its material basis left behind by the democratic social market economy is simply one of degree.

4. Self-defense

The deconstruction of the German model of the social state (and of course, with a grain of salt, of the French, Italian and many other models), as a construct that is hostile to its citizens, self-destructive and ultimately illegitimate, provides the basis for a line of argument that goes far beyond the bickering between legalists of different shades. Countries that receive untaxed money are well known to make every effort to justify the legality of their actions. Thus, there is literature by the ton in Switzerland devoted to the distinction between simple tax avoidance and genuine tax fraud. As we know, in the second case, bank secrecy no longer applies in the exchange of information with foreign authorities. Liechtenstein, currently under pressure, is attempting to use the legal independence of assets ensured by its legislation on foundations to create a legality that may prove stronger than the legality of German federal tax law.

Legality versus legality has its problems. In the history of law, the winning side has generally been the one with the greater clout – legality correlates closely with power. For this reason, efforts based on legalistic thinking are unlikely to be sufficient. The German accusation of “receiving stolen goods” leveled at Liechtenstein will remain, however well the lawyers in Vaduz are able to demonstrate the legality of Liechtenstein’s position. Much the same applies to the traditional Swiss standpoint. It matters little to the German fiscal authorities that we have had very satisfactory (fiscal) experiences with the distinction between tax evasion and tax fraud. From their perspective, as far as taxes are concerned, there is only either absolutely correct payment or absolutely criminal fraud. For thinking legalistically does incline people to an “attitude of unconditionality” ...

It makes more sense to regard the payment of dues to constructs like the German state a priori as belonging in the category of sadly largely unavoidable payments to “organizations” sui generis, whose existence is undeniable and cannot be wished away, but is not based on any more fundamental justification. This line of argument removes the stigma of

illegality from the attempt to make the payment of one’s dues more or less bearable by means of acts of omission. We shall come back to this. First, however, we need to deal with an objection that may be made by a different sort of realist. The objection goes like this: it may well be admitted that Germany and a number of other continental European states have put themselves into a difficult sociopolitical and financial position. However, the aim of achieving peace at last on this warlike continent is so much more important than the condition of individual states that everything and everyone (including the taxpayer) must be subordinated to the existing structures (that have successfully preserved peace). Ailing social states are, so to speak, to be accepted as “next best”, and so to be financed. There is no alternative – apart from the mutual head-butting that has so often been part of our history. This line of argument is followed in particular by the proponents of European integration, which also explains their open or covert opposition to concepts such as Swiss banking secrecy.

The pragmatists among us will undoubtedly admit that “next best” solutions are often unavoidable. The argument must, however, collapse, should it appear that precisely this noble aim of peaceful coexistence on the continent of Europe could be endangered in the medium term by the hopeless sociopolitical entanglements and erroneous financial policies of individual states. A look at two rather special maps of Europe may help to clarify our thinking. The first map shows the level of debt of the various continental European states. This debt includes both the accumulated deficits directly visible from the balance sheets and the undeclared debt due to the design of their social systems.

Real levels of debt in Europe



Note: Explicit and implicit national debt in % of GDP
Source: seco/die Volkswirtschaft (1995)

The second map shows the extent to which the various European states have made provision for their greatest social challenge, the demographic problem of the lack of offspring: very little to not at all.

Pension provision



Note: Pension provision in % of GDP (2005)
Source: OECD

It would take faith bordering on blind idealism to regard such a situation as sustainable. What is much more likely is that the overindebted part of Europe – with Germany, France and Italy, the historic heart of the EU – will try to force the harmonization of financial policy on the rest of Europe, with the aim of preserving the power structures of its political elites. What is today an aggressive, populist, left-wing policy against tax havens will tomorrow become a continental wrangle over preserves. This may happen more quickly than currently seems likely, for the competition from emerging economies outside the European social model is increasingly gnawing away at these obsolete structures. The swing to the left observable in Germany, both inside and outside the government, may be interpreted as the first sign of such a paradigm shift in European coexistence.

Look at it how you will: under these conditions, the material content of the concept of freedom of ownership, one of the most important basic individual rights, is gravely endangered in the medium and longer term. The probability of confiscatory action against those who (still) possess assets must be regarded as high, for the present generation, but even more so for the next generation. The European social model on the one hand obliges citizens to find collective solutions to the pension problem, but on the other hand is so designed that it will not only fail in this aim, but must also endanger their existing personal assets. Is it really so unnatural, so

immoral, if individual citizens endeavor to at least partially circumvent this disastrous and coercive model? The idea of legitimacy acknowledges the concept of self-defense. When all is said and done, we would include in this concept the attempt to escape at least partially from the actual and potential grasp of those in charge of a sociopolitical and financial disaster. At a higher level, this is a legitimate course of action.

5. Removal strategies

Those who wish, responsibly and far-sightedly, to chart their own course in the predictable conflict between the collective, cross-generational debt disaster and the need for the individual, cross-generational preservation of assets, should give very careful consideration to their course of action. There are possibilities that are unproblematic, even under current German law. There are also options that infringe current German law, but are legal under other dispensations – as in “legality versus legality” – and there are other options that are indefensible from any perspective. Below, we attempt to set out the various strategies systematically, and to show their advantages and disadvantages.

Firstly, we need to distinguish between physical and virtual removal strategies. The clearest and, since the fall of the Berlin Wall, the most legal way throughout the country of parting company with the German social model is undoubtedly emigration. And it is currently taking place on a large scale. One of the most frequent countries of choice for those leaving Germany is Switzerland. It profits both from immigration by the highly skilled, to whom the prospect of progressive German tax rates appears simply unacceptable, and also from the arrival of wealthy pensioners to whom some cantons offer the attraction of an expenditure-based, flat-rate tax. The English tax status of “resident but non-domiciled” is open not only to pensioners but also to the employed, although the current Prime Minister, Gordon Brown, has made a first attempt to enable the British Treasury (which is also financially challenged ...) to get more of a share of this particular jar of preserves. This points to a general problem with emigration to areas with attractive tax structures: one becomes dependent on the goodwill of the relevant authorities. Precisely on account of the preferential treatment, such assets will invariably become objects of desire.

An alternative is emigration to countries that do not offer particular privileges, but have generally low rates of tax, or indeed none at all. These range from Russia (flat tax rate of 13 percent!) via Dubai and Monaco to Bermuda. The obvious financial advantages are, however, offset by serious

disadvantages: immigration restrictions, high land prices, questions about political stability, quality-of-life issues, and so on. It is striking that those who reside in the genuine tax havens often live a nomadic style of life, even if at a very exalted level, in that they maintain additional residences at all sorts of locations, most of them very expensive. Why? Because tax havens are for the most part extremely boring places where people speak foreign languages. So they are drawn back into the real world. This often means that what starts out as a means of saving tax ends up as an asset-devouring court life-style, with all its negative consequences, from obsequious lackeys in the family office to an oversized palace guard.

Entrepreneurs can organize their flight piecemeal, so to speak, by moving their business bit by bit to those parts of the world that currently offer, and will probably continue to offer, more attractive conditions than the old location in Germany. This is surely the most intelligent way of diversifying away the systemic risk of one's own location, for the global competition around production capacity will undoubtedly still function in 50 years time, surviving despite all the contrary efforts of high-tax cartels like the OECD. We believe that a significant proportion of the outsourcing by European companies to emerging markets is happening for these considerations, and not simply on account of wage differentials. This outsourcing does of course also bring with it significant disadvantages. Research and development, and marketing – areas that for choice are kept under one's own control – often become too distanced from production, and coherence within the company becomes a major management problem. Those who are in any doubt about this need only to take a look at the passengers on the Frankfurt-Peking flights.

Moving out, whether in person or bit by bit, via one's own company, necessitates considerable financial means, and is thus above all a removal strategy for the rich. Every physical act of emigration, whether personal or "simply" through the shifting of a company's production capacity, leaves a bitter aftertaste. For all the trend toward globalization, there are still such things as one's own country, one's family, friends and networks, ideas of loyalty, of belonging: in short, those elements of our personal utility function that are of territorial nature. The result is that even when it has become utterly obvious that the material existence of the productive part of a population is under threat, this ultimate and almost irreversible consequence is put off as long as possible. Perhaps too long.

6. Shifting assets

As money and capital offer the possibility of a relatively uncomplicated separation between one's personal, physical presence and one's assets, virtual removal strategies are far more frequently deployed than actual emigration. There is a direct connection between the criminality of such actions and the efficiency of money and capital as a means of the practically unlimited relocation of assets. While, as far as physical mobility is concerned, the Berlin Wall has come down, German, and thus also European, legislators have raised new barriers to the free movement of money and capital. Woe betide those caught with more than EUR 10,000 on them – they have some difficult and embarrassing explaining to do.

The advantage of all varieties of virtual removal of assets is obvious enough: one doesn't have to move oneself. In the event of systemic collapse – that is, a sudden and unexpected end to the sociopolitical and financial disaster – one will have access to a sort of sum insured "outside the system", for oneself or for the next generation. Provided that this "outside the system" really is so, and provided that the investments still retain their value, and provided that one has not yet been convicted of criminal activity. A risky business, then. That this is the way that so many Europeans have chosen, and still choose, as a means of individual saving outside the system, speaks volumes concerning the deep distrust with which the existing domestic institutions are (rightly) regarded.

One thing is clear: the avoidance of current taxation is by no means adequate as an explanation for the virtual removal of assets. For in addition to the risks already outlined, this process has other, very specific disadvantages. The assets thus put on one side can only be returned to the official business cycle by accepting significant disadvantages, if at all. The cost of structuring the assets (the authorities, lawyers, foundation boards, etc.) are considerable, and the need for clandestine action severely restricts their active management. From which we may conclude that the avoidance of existing taxation is not the goal, but simply a means by which to achieve a much more important end: the generation of savings outside the system.

So, what are the practical possibilities? What are their advantages and disadvantages? Let's start with the lump of gold hidden in the cellar. In terms of retaining value, not such a bad idea. When financial systems collapse, gold tends to rocket up in price, as the current credit market crisis once again demonstrates. However, the danger that the cellar may one day be incorporated into the system – the threat of a pogrom – is in our view too high, apart

from the more “ordinary” risks associated with keeping valuables at home. A safe-deposit box abroad is distinctly preferable.

One attractive option would in principle be to hand over assets entirely – that is, without any possibility of legal redress – to a third person (outside one’s own fiscal system), with the intention of being able to take them back in the event of an emergency. This would be a genuine fiduciary option. The Islamic “hawala” payment system functions on this basis of absolute trust. As soon as a fiduciary relationship is structured in any way, whether as a Liechtenstein foundation or an Anglo-Saxon trust, this solution loses the attraction of absolute alienation from the original owner, and herein lies its Achilles’ heel, which in Liechtenstein’s case has turned into a trap for the clients of foundations. The industrialized version of the fiduciary relationship requires lists and computer entries, and generates a large number of people in the know. An Eldorado for the secret services.

The Swiss solution to the problem of keeping assets outside one’s own fiscal system is really the leanest and in terms of the rule of law the most acceptable one. The Swiss side is concerned solely with the application of its own law, and rejects whatever would be regarded as of criminal origin under that law; further, it also ensures that no active assistance is provided for the infringement of foreign law – and that’s it. There is no need for any supplementary constructs such as foundations or trusts, owners remain owners of their assets, and everything is entirely legal in Swiss terms. As simple tax evasion does not come under Swiss criminal law, any more than adultery under Saudi law does either, there are no real issues from a legalistic perspective. The differences in law between Switzerland and the rest of Europe have also been skillfully enshrined in international law, via double taxation agreements, interest taxation agreements, or the Schengen agreement. This implicit recognition of the Swiss conception of legality with regard to taxation issues must be of some value.

7. Will Switzerland hold out?

Nevertheless: collisions between differing conceptions of legality are, among other things, also power struggles. Swiss banking secrecy is, to put it plainly, only as good as Swiss lawmakers – parliament and, behind it, the people through referendums – and the executive – the government and the federal administration – want it to be, and are prepared to take potential disadvantages into account.

And we should be under no illusions here. For one thing, the potential for blackmail by Europe is considerable. This becomes apparent when, for exam-

ple, in Frau Merkel’s forthcoming visit to Switzerland the topic of Zurich Airport becomes linked with that of banking secrecy. But much more far-reaching measures, which could in particular affect Swiss exports, are easily imaginable. The approach from across the Rhine has long since acquired an “attitude of unconditionality”.

We also need to be aware that a large part of the Swiss federal administration and political elite is intellectually not far removed from what we described above as a “sociopolitical and financial disaster”. There are indications of this phenomenon in an otherwise largely intact Switzerland, and there is a *nomenklatura* that wishes to encourage, or at least maintain such structures. Nor does this political elite want any trouble with the EU as a whole, because it ultimately sees its salvation in such a superior higher order, rather than the crassly provincial Swiss federal system.

The present Swiss government – which since December 2007 is, for the first time in a long while, no longer that broadly based – is riddled with such tendencies. On the other hand, it is known that over 80 percent of Swiss want to retain banking secrecy. Blatant failure by the government in this critical strategic issue for the future of the country might well thus result in what is feared by many: the assumption of power by a single political party. And because this fear is widespread, we are more optimistic about banking secrecy’s chances than a superficial look at the current composition of the government would appear to warrant. The clarity of popular opinion can only be interpreted to mean that the Swiss are aware that there is far more at stake: the betrayal of millions of Europeans who have done, and continue to do the only thing they reasonably could to preserve their personal economic rights – and in doing so, rely on Switzerland not releasing their names for persecution and criminalization by the German and other judiciaries. For that is something that our Alpine republic would likely not survive. And there is no doubt that it is *millions* of Europeans, for Swiss-style “saving outside the system” is available not only to the rich, but also, and particularly, to the productive middle classes. These people deserve protection.

Two things will be decisive: firstly, Switzerland and the Swiss government will have to concern themselves with the real strategic options. “Giving up” and “muddling through” are not the only options. In a previous Investment Commentary we outlined the possibility of further developing Switzerland as a financial center, in the direction of a collective trust structure, with a tax ruling from the EU, that preserves the anonymity of bank clients. This idea, not followed up at the time, should perhaps be

pursued further, and there are surely other possibilities to be considered.

Secondly, the approach with which we counter the German assertions of power will be crucial. It will not be sufficient to appeal to the Swiss interpretation of legality. What will be needed is a clear attitude towards a system that aims to make it impossible for its citizens to make due provision for themselves. We need an unequivocal advocacy of the material content of property rights, an absolute conviction that our position is morally superior.

So, in April we should greet Frau Merkel with the respect due to the representative of a powerful neighbor, but keep at the back of our minds that she is at the same time the power-oriented manager

of a sociopolitical and financial disaster. With this mindset, we shall be able to avoid making any mistakes.

At an earlier – and admittedly even more difficult – point in Swiss history, the then Federal Councilor Obrecht wrote to his fearful fellow-countrymen: “We Swiss will not start going on pilgrimages abroad”. A sentiment that we gladly recommend to our current, historically particularly well versed, Federal President on his way to the red-carpet reception.

KH, 17.03.2008