Farewell America

1. A moral issue?

The agreement between the USA and Switzerland under which Switzerland is to provide administrative assistance with regard to 4,450 UBS clients suspected of tax fraud is, in our view, remarkable in three ways. Firstly, we note the way both parties are dressing it up in the aftermath of the battle. Everyone is talking of a “success”. The IRS, the American tax authority, surely rightly, for it has got what it wanted, namely access to a large number of specific client names, combined with persisting uncertainty on the part of all the others as to whether they are among those names. The UBS is happy not to have to pay another fine, and to be rid of the heavy burden of legal proceedings. And the Swiss government regards it as a success inasmuch as from their perspective the agreement preserves the rule of law and offers the clients affected the possibility of legal recourse to the federal administrative court.

But there are also losers, of course. These are the people affected, who must now expect legal proceedings against them as suspected tax cheats, and who had, until relatively recently, been promised that precisely this would not happen. Promised by whom? By the bank concerned (among others), which had generously interpreted and intensively exploited an explicit gap in the 2001 “Qualified Intermediary” (QI) agreement; by the supervisory authorities, which were fully cognizant of all this activity, but never questioned it; by the Swiss government, which only a few months ago had spoken of the “brick wall” that foreign authorities would encounter, were they to attack Swiss banking secrecy – for example through fishing expeditions, such as an application for administrative assistance against several thousand clients. Promises, connivance, a pretence of resolute behaviour – and now collapse. The appearance of success conceals the reality of a breach of trust.

Trust: is this the right word at all for something so disgraceful as tax evasion, or even tax fraud? Serves them right, these bloated capitalists, if they land in the dock! This is the position of the moralizers, as frequently stated in the Swiss media, among others. It is astounding, and this is the second interesting observation, how completely naturally those who claim the moral high-ground rush to join forces with the authorities and their financial requirements. At the risk of once again winding up certain specialists in business ethics, let us briefly recall the sort of tax authorities we are dealing with, and the sort of state they serve: a country that, over the last 60 years, has unquestionably been one of the most aggressive nations in the world. The USA has fought by far the largest number of wars, sometimes with, but mostly without a UN mandate. It has broken the international laws of war, maintained secret prisons, and fought an absurd war against drugs, with serious consequences both abroad (Columbia, Afghanistan) and at home (according to reliable sources, the tentacles of the narcotics mafia now reach well into political circles). With breathtaking moral duplicity, the USA maintains enormous offshore havens in Florida, Delaware and others of its states. The moralizers have joined sides with a nation that still makes extensive use of the death penalty, and that has a legal system under which lawyers can get rich on the misfortunes of their clients. Liability cases often end in verdicts with exorbitant damages, which makes business activity extremely risky, for medium-sized enterprises in particular. The moralizers provide intellectual support for a country that allows its infrastructure to collapse, and then stuffs convicts into hopelessly overfilled jails, after what are not infrequently dubious proceedings. They fund a nation that tolerates – or rather, causes – regular crises in the global financial system that it manages. A country whose underclass enjoys neither the benefits of an adequate education, nor a halfway functional healthcare system; a country whose economic system is increasingly inclined to overconsumption, and in which saving and investing have increasingly become alien concepts, a situation that has undoubtedly been one of the driving forces behind the current recession, with all its catastrophic consequences for the whole world.

Those who wish to wield the sword of morality against tax evaders cannot avoid facing some critical questions with regard to the *morality of*

resource allocation. Were such questions to be excluded, we would be left with nothing but the issue of just taxation, which also arises, as we well know, when, in Sicily, one baker must make a contribution to the honourable society, and another not … It is more productive, particularly in matters of taxation, to leave morality aside, and to take a non-judgmental view of tax liability, the meeting of obligations, and, if need be, the various forms of evasion, as givens resulting from the prevailing legislation and its enforceability.

Which brings us to the third thing that seems remarkable. What exactly was the "prevailing legislation"? And what about its enforceability? In 1996, the USA concluded a new double taxation agreement with Switzerland, which, among other things, regulated the conditions for administrative assistance in matters of taxation. Switzerland agreed to provide assistance with regard to "tax fraud *and the like*". In other words, the extension of the concept of "tax fraud" had long been pre-programmed; the USA had to wait for its enforcement only until Switzerland had apparently, and perhaps in reality, been driven into a corner by the activities of the accident-prone UBS. In fact, truth to tell, we should have known: Swiss banking secrecy with regard to the USA was well and truly relativized not in 2009, but already in 1996.

What we need to do now, *sine ira et studio*, (and putting aside all politically motivated window-dressing, all genuine, or merely nominal, moral issues) is to analyze the situation, draw conclusions and, where necessary, act upon them. This is exactly what we intend to do in what follows, by taking a closer look at two important components of American tax law. And, surprise, surprise; the next round of fiscal enforcement staged by the Americans will be devoted not to the American super-rich, but to non-Americans who never in their lives had any intention of evading taxes.

2. Hans Rüdisühli and Muhammad Abdullah: liable to inheritance tax?

To get some idea of how the inheritance tax of a foreign state can become a serious problem for third parties, we need to start with a fundamental difference between continental and Anglo-Saxon inheritance law. On the continent, the view prevails that the logical recipients of assets left by the deceased are their descendants. Accordingly, continental inheritance law provides for forced heirship, whereby a portion of the estate is legally required to be left to close relatives. Under such a system, it is not difficult to see where any taxation of the inheritance should occur: with these heirs.

Things are different under Anglo-Saxon law. There is no forced heirship, so American inheritance tax is levied on the "estate"; that is, the physical goods, such as property, goods and chattels, *and securities*. If they are US securities, then they are liable to tax, regardless of the final domicile or main place of residence of the deceased. US securities are basically defined as securities issued in the United States, such as the stock of American companies like Apple, General Electric or Pfizer and US funds and US bonds, in particular Treasury bills. American inheritance tax law makes specific reference to both US citizens (including, particularly, US citizens resident abroad) and "non-resident aliens". These latter are foreigners with no permanent residence in the United States; in other words, all non-Americans in possession of US securities.

American inheritance tax rates are variable, with the top rate at 45 percent. Significant exemptions, of over 1 million US dollars, are allowed for US citizens; the limit for non-Americans is 60,000 US dollars, unless there is a double taxation agreement setting a higher limit. For Switzerland, the limit is calculated on the basis of the double taxation agreement of 1951, based on the proportion of the entire estate represented by the assets in the United States. To claim the allowance, the "estate" – that is, in continental terms, the heirs – must disclose the entire, global legacy to the IRS. On account of the IBM shares that he was so attached to, the children of the late Hans Rüdisühli of Melchnau must file with the IRS and present a valuation of all other family assets. There is a remarkable lack of double taxation agreements with the countries of Latin America, Asia and the Middle East. Mr Abdullah of Dubai, let's say, a typical owner of treasuries, industrial bonds and GM shares, is liable to American inheritance tax on his decease. Not his problem, but it may well become one for his 12 sons, Omar, Yakub and all.

Or maybe not? For he had placed his securities in an institutional structure, a trust or a company domiciled on one of the Caribbean islands – and institutions cannot die, can they? Indeed not. However, the Americans are increasingly going over to regarding such structures as look-through entities, and trying to get access to the beneficiaries and their tax liabilities.

Another common objection: it's impossible anyway. How on earth can the IRS make the connection between a US security and a deceased foreigner? The USA is not even capable of registering its own residents, so how should it be able to control the rest of the world? Simple answer: it

doesn't have to. Rather, American inheritance tax law focuses on the executor. If there is no executor, the role is fulfilled by the custodian bank, which is liable for the tax due. In order to exclude this liability, the American custodians of foreign banks will go over to requiring their partners abroad to freeze the estate when one of their clients dies.

Final objection: it was a dead letter for foreigners anyway. Yes indeed. But with the revised provisions of the Qualified Intermediary agreement, the USA will require the signatory banks to enable an American auditor to control their compliance with the agreement, which entails giving such auditors access to all files, including client data. This will create the means of directly linking US securities with non-American owners. Anyone who believes that this will not soon result in obligatory reporting by the US auditor is as naive as those who failed to realize that "fraud *and the like*" would eventually be interpreted to the almost unlimited advantage of the tax authorities.

An act passed in 2001 by the previous President Bush envisaged a "sunset clause" for the then controversial but reintroduced inheritance tax. Unless extended, the Estate Tax would expire in 2010 and, if not reformed, come into effect again on 1 January 2011. The Obama administration is currently working not merely on an extension, but on making the law stricter with regard to recognized loopholes. The possibility of further unpleasant surprises can certainly not be ruled out.

3. A "qualified extended arm"

Next, we need to look more closely at the already-mentioned Qualified Intermediary agreement. In 2001 the USA introduced a new withholding tax system, with the aim of avoiding the complicated and expensive reimbursement of tax levied on those not liable to taxation, and thus to give foreigners easier access to the American capital market, and also of obliging US persons with securities deposited with intermediaries whose countries had no automatic exchange of information with the USA to include all their US holdings in their tax declarations. This was done by imposing a withholding tax of 30 percent, which US persons could avoid entirely by full disclosure, and non-US persons could avoid in part or, depending on the double taxation agreement, entirely, by self-declaration to the Qualified Intermediary.

The 2001 QI agreement took account of countries with banking secrecy to the extent that clients could be assigned to their individual categories by the QIs themselves. Compliance with the agreement was, though, monitored by a special audit following a process laid down by the US tax authorities. Our bank was among the signatories to the agreement from the start and passed the subsequent audits, in 2002 and 2007, with flying colours.

There are three definitions in this QI agreement that are of decisive importance: that of a US person, that of a US security, and that of a legal entity belonging wholly or in part to a US person. The definition of a US security is fairly unproblematic, in that it is effectively determined by the retention of the withholding tax by the custodian. The other two definitions, however, have caused, and continue to cause, almost insurmountable problems for QIs, and thus generate considerable legal uncertainty.

Sadly, it is entirely unclear who actually counts as a US person and who does not. In addition to the clear case of US citizens resident in the USA, the American understanding of the category also includes foreigners living in the USA, those in possession of a social security card, holders of a "green card", US citizens not resident in the USA, and also those who pass the so-called "Substantial Physical Presence Test". This "Presence Test" has a particularly delightful design: it is passed when someone has been in the USA for at least 31 days in the current year and a total of 183 days over a period of three years; in the first year the days count for 1/6, in the second for 1/3, and in the third year they are counted full. By this definition, a student, perhaps Muhammad Abdullah's son Omar, who is doing an MBA at Harvard, very probably counts as a US person. The problem is that the QI has to know whether he does or not. For the agreement has turned the QI into the extended arm of the American tax authorities.

Even trickier is the question of how far the beneficiaries of legal entities are liable to withholding tax. Clearly liable, according to the text, are active businesses; an American company holding securities in Switzerland, for example. Trusts, institutions and foundations are exempt if they meet certain – naturally highly complex – conditions. This was probably the trap in which the UBS clients were caught. Once the trap had closed, the American tax authorities shouted "Abuse, fraud (and the like…)!" They set the trap themselves.

Matters become really awkward when an impeccably non-American legal entity suddenly becomes "contaminated" by a US person. Let's assume that Mr Abdullah has named his son Omar, as well as some of his other adult sons, as a beneficiary of his trust. As American tax law has

turned him into a US person, Omar renders the trust liable to tax, and when Mr Abdullah dies, this may mean that the entire inheritance becomes liable to US estate tax, possibly at 45 percent, for Mr Abdullah was extremely wealthy. Perhaps, and then again, perhaps not. But that doesn't matter – the QI should have known.

The QI agreement of 2001 already exposed all the signatory banks worldwide to significant legal risks vis-à-vis the American tax authorities. Even without actively canvassing for clients in the USA, as the UBS did with Alinghi and by other means, the mere fact that someone can mutate, almost unnoticed, from a non-US person into a US person is an unacceptable situation. For the result can be an entirely innocent misdeclaration.

4. Green book; red content

The Obama administration set out its intentions with regard to various tax matters in May 2009, in a "green book" entitled "General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals". In addition to the notion of forcing American businesses operating abroad to pay more tax in America, the focus was on the extension of the "Estate Tax" and the tightening up of the QI system. Essentially, the Obama administration is seeking to expand the application of the QI system, and to plug all known and conceivable loopholes. Seven significant changes deserve comment:

1. The definition of a US security has been expanded. In future, the QI system will also include equity swaps on US securities and on securities lending. This should prevent US persons from entirely, and non-US persons from partly, avoiding withholding tax by means of an OTC contract. According to the "green book" the QI agreement is not (for the time being?) being expanded to cover non-US funds or derivatives that replicate US securities.
2. US persons are now required to report earnings and gross revenue from non-American sources. This will extend the QI agreement to cover the entire global financial universe, and enforce disclosure by all US persons, in particular those who, by not holding US securities, had previously remained outside the QI agreement. Should an intermediary wish to remain outside the QI system, withholding tax at 30 percent is levied compulsorily, and may only be reclaimed by the beneficiary, not the intermediary.
3. The "green book" seeks the compulsory imposition of withholding tax at 30 percent on US securities held by non-American companies. Any reclaiming would have to be done by the company itself, and involve disclosure of its ownership structure. According to the "green book", exceptions would be possible for pension funds, listed public companies and the like.
4. Also stipulated is the introduction of withholding tax at 20 percent on all gross revenue from transactions via a non-QI intermediary and in a country with no double taxation agreement or inadequate exchange of information.
5. The "green book" envisages compulsory declaration of transactions over 10,000 US dollars involving US persons via a non-QI intermediary.
6. Notification to or recording by the IRS of the acquisition or foundation of an "offshore entity" on behalf of a US person is now also prescribed.
7. Lastly, the involvement of an American auditor to monitor compliance with the QI agreement is envisaged. The report will have to be signed by this auditor.

This list of the intended amendments is not necessarily complete, and may also contain minor inaccuracies. What is clear, though, is that the USA is attempting to exploit its almost unlimited position of strength with regard to the international transaction systems (Swift, clearing systems, custodians) and the fundamental attractiveness of its capital market to impose its ideas on the rest of the world. There is no question that signatories to this new version of the QI agreement will need to revise their business models for cross-border wealth management, at least as far as US persons are concerned. Both Swiss-style banking secrecy and the Austrian and Luxembourg versions, and indeed all Anglo-Saxon-style structures, whether managed from London, Dubai, Singapore or Hong Kong, are called into question. As far as US persons are concerned, the USA aims to abolish cross-border business.

It might reasonably be observed that so long as this really only affects its own citizens, the USA is absolutely entitled to do this. And to the extent that it can exploit its position of power in the world to enforce its intentions, we must – as we have decided on as non-judgmental an analysis as possible – take note of this and adapt, or possibly redimension our own business activities. The concept of the "green book" is extraordinarily

intelligent. The aim must have been "no way out" – no loopholes. Sadly, however, the matter has not been properly thought through. The real problem lies not in the rigour of the law, but in the lack of clarity about actual tax liability, and the resulting disproportionate effort required for monitoring and management. The enormously expansive view of what constitutes a US person, and the potential, imperialist, expansion of inheritance tax liability to cover the whole world substantially increase the risk of investing in America, and thus on the US capital market. This applies for investors, but even more so for intermediaries. While the old QI agreement put the thumbscrews on them, the intended agreement will crush them in a vice. It is becoming clear that it will be simply too dangerous to own US securities, to hold them as a custodian for third parties, or to trade them as a bank.

5. The USA's Achilles' heel

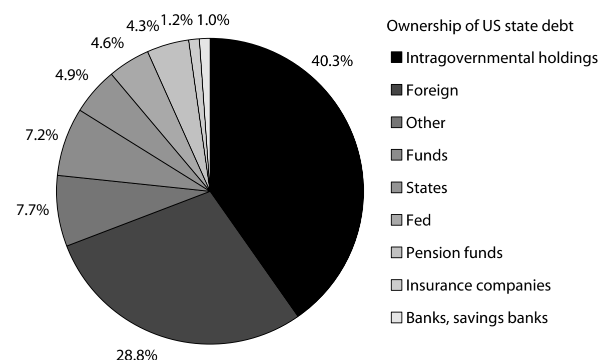
The sensibilities of their own capital market: this is what the smart guys in the IRS have very probably failed to take into account. Their one-sided regulatory proposals, focused on maximizing the tax take, are based on the entirely unproblematic and undisputed attractiveness of the USA as a place of investment for investors from all over the world. We believe this assumption to be utterly wrong. Why?

A glance at the USA's debt situation suffices to show that apart from oil, there is really only one element of strategic importance that the USA will need in the coming years: *capital*. The (declared) public debt – national, state and community – amounted to some 70 percent of GDP in 2008. With the absorption of further debt in the wake of the financial crisis, by 2014 the level of explicit debt is likely to be significantly above 100 percent of GDP. By then the interest will have doubled from around 10 percent of total public revenue to around 20 percent, on moderate assumptions.

This is generally well known. What is generally less well known is that in the USA too, as in so many ailing European states, this explicit perspective reveals less than half the truth about what has been implicitly promised by the state in the way of future benefits. Correctly accounted – that is, as probable future payment flows discounted to present values – the picture would look a good deal bleaker. There are studies, such as the one by the Frankfurt Institute in November 2008, that reckon with a total level of debt for the USA of up to 600 percent (!) of GDP.

But that too is only part of the truth. A look at who are the most important creditors of America's highly indebted public finances reveals something truly remarkable. It is the public authorities themselves! A study by Sprott Asset Management, a Canadian asset management firm distinguished for its intelligent macroeconomic analyses, showed that in 2008 over 4 trillion of the total outstanding public debt of some 10 trillion, or around 40 percent, was in the hands of so-called "intragovernmental holdings". These holdings include social welfare institutions, whose assets, accumulated in order to be (halfway) able to meet future liabilities, are invested in special Treasury debt instruments, known as "intragovernmental bonds". In other words, the paying recipient of, say, Medicare, the American health service, is an indirect source of finance for the Treasury. Unusual, remarkable, or rather, alarming? Debtors are now simultaneously creditors.

An unusual form of self-financing



Note: Figures as of 31 December 2008

Source: Financial Management Service (Bureau of the United States Department of the Treasury). Ownership of Federal Securities and Federal Reserve Statistical Release.

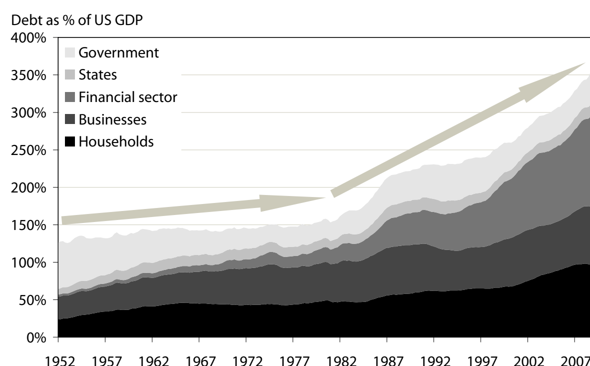
These "intragovernmental bonds" are certainly not assets of genuine intrinsic value. Were we to consolidate both balance sheets – that of the Treasury and that of the institution concerned – it would produce a tautologous situation that would only not result in the total loss of value of the social welfare trust's assets if the Treasury were in a position to avail itself of the capital market to an ever greater extent. So let us look at this absolutely decisive cash flow situation.

According to the Canadian study quoted above, the American Treasury had to finance new debt of 705 billion dollars in 2008. This was needed to cover the budget deficit of 455 billion dollars and a special deficit for the war in Iraq and Afghanistan of 250 billion dollars. New debt in 2009 will amount to somewhat more than 2,000 billion dollars, with some 200 billion going to the Middle Eastern war chest and 1,845 billion to the "regular" budget deficit. This debt must be bought,

financed, by someone. So how are the individual categories of creditors behaving? Number 2 in the ranking of creditor groups are the “Foreign and International Holders”; that is, the total of all foreign creditors, including central banks, sovereign wealth funds, private investors and so on. In 2008 they bought some 560 billion dollars’ worth; in this year so far, just 460 billion. In March and April they were net sellers of government securities. Other categories, such as pension funds, states, communities and investment funds, also seem to be tending to unload government paper this year. This means that the usual sources of finance for the American state are drying up. The last hope of salvation comes from the Fed, which, with its quantitative easing programme for printing money, is currently having to buy up to half the newly issued debt, month after month.

This will be OK as long as it’s OK. A Ponzi scheme, for that is undoubtedly what we are talking about, goes on working as long as its growing overindebtedness does not arouse any doubt among the public as to the scheme’s continuing performance, and the flow of funds to the scheme is not significantly disturbed by other influences. As we know, Madoff’s scheme only collapsed when individual creditors had liquidity problems and were obliged to withdraw funds.

Hopelessly in debt



Source: Federal Reserve. Flow of Funds Account.

We now believe that the combination of the US tax authorities’ anti-capital-market plans with the Treasury’s specific financing problems could result in such a situation. For the growth of debt alone would give sufficient cause for doubt as to performance. The figure above shows the long-term development of overall US debt – that is, public, household and business debt – compared to economic performance. It is obvious that, for about 30 years now, additional growth has only come at the cost of ever-higher debt. Today, every dollar of growth comes with about 4 dollars of debt.

And nota bene: we have not yet discussed the quality of the growth. Over the last 15 years it has, as we know, increasingly come mainly from consumption and state expenditure; investment in the USA is extraordinarily weak. Far too little potential for the future is being created.

6. Rats leaving the sinking ship

It can hardly be a coincidence that two of the most prominent and most successful American investors, Warren Buffett and Bill Gross, chose precisely the same moment to speak out very clearly against their own domestic currency and against investments in US government securities. In an op-ed article in the *New York Times* on 18 August 2009, Buffett described the Treasury’s current financing problems, with similar assumptions and observations to those of Sprott Asset Management, and lamented the necessity for the Fed, as the lender of last resort, to intervene so extensively, by means of the printing press. In his own words: “The United States economy is now out of the emergency room and appears to be on a slow path to recovery. But enormous dosages of monetary medicine continue to be administered and, before long, we will need to deal with their side effects. For now, most of those effects are invisible and could indeed remain latent for a long time. Still, their threat may be as ominous as that posed by the financial crisis itself.” Buffett fears high inflation, and consequently advises against the purchase of long-term Treasury bills.

Bill Gross of Pacific Investment Management Co. (Pimco), which manages the biggest bond fund in the world, advises investors to sell dollar investments “before the central banks and sovereign wealth funds do”. It’s time to take advantage of the recovery of the US dollar to get one’s currency diversification in order. The somewhat strident commodities specialist Jim Rogers takes the same line, and also announces his new favourite currency – the Chinese yuan. He is seconded, with a good deal more substance, by Hossein Askari, a professor at George Washington University. In a very readable article in the *Asia Times* on 6 August 2009, he also advocated a global currency, which “would not be allowed to be used to finance state debt or stimulation measures”.

Without in any way wishing to overdramatize matters, we do believe that such signals should be taken seriously. In exactly the same way as it is inadvisable to ignore rats leaving a sinking ship. For they often know the crucial aspects of the ship better than the captain and the officers. The least worst outcome that we expect for the USA,

and for the Treasury in particular, is significantly higher financing costs for debt incurred in the future. We calculate the medium-term contribution by the American tax authorities to this added expense, as a result of the "keep foreigners out" strategy described above, at around 50 basis points. And this is precisely the Obama administration's miscalculation. Their aggressive attitude to tax exiles will generate extra funds, perhaps running into billions, but the price they pay will be exorbitant. An increase in the credit spread of 50 basis points on total public debt of over 10 trillion US dollars represents increased costs of 50 billion per annum. The sums don't work: to make up for this would require additional taxable funds of some 2 trillion US dollars.

7. Unattractive anyway

Furthermore, the stupendous increase in American debt is by no means a problem only for the Treasury, but affects the economy as a whole. The state's ravenous appetite for debt is preventing private borrowers from getting access to the available finance. This is known as the "crowding-out effect". The aim of the Fed's quantitative easing policy is to counter this effect. At the same time, distressed banks, and whole industry sectors, like car manufacturers, are being subsidized with enormous sums, which ultimately must result in further distortions, and crass disadvantages for the unsubsidized part of the economy.

This generally anti-entrepreneurial policy of discouraging investment is further reinforced by wholly disproportionate efforts to intensify the regulation of small businesses. From the *Wall Street Journal*, we learn that legislation already exists in Washington that would impose reporting obligations on small venture capital enterprises – exactly those that have powered the rise of Silicon Valley – whose administrative burden would be simply unsupportable. And this just because of the concern that hedge funds, which, rightly or wrongly, are felt to require greater control, might be able to operate in the guise of such venture capital companies. If Washington gets its way, this will mean the end for many small businesses with 10 to 20 employees.

In this economic crisis, the Obama administration is making exactly the same mistake as its great hero, Franklin D. Roosevelt, made in what is quite wrongly regarded as the exemplary "New Deal". Driven by Keynesian ideology and a belief in the possibility of an upturn caused by appropriate state intervention, in the course of the 1930s, Roosevelt deprived businesses of any hope of being able to make money again through their own efforts. Those who produced too cheaply were taken to court, big businesses were given blatantly preferential treatment, and property rights increasingly threatened. Without the external event of the Second World War, Roosevelt would have been numbered among the most unsuccessful American presidents of all time.

The financial crisis has given momentum to anti-capitalist, and thus anti-market forces in the USA (and elsewhere). That promises little good for this part of the world, but it makes it somewhat easier for investors to take their leave. Our bank is in the process of recommending our clients to exit from all direct investments in US securities. This, on the grounds of the threat of inheritance tax coupled with the uncertainty as to whether one might not, one way or another, be turned into a US person.

We do not deny that by doing this, we hope to significantly reduce the risk carried by our bank as an intermediary. Should we maintain QI status under the new, more rigorous conditions, we will have so far reduced our holding of US securities that we shall effectively be spared most dealings with these cumbersome foreign authorities. Investors who need US exposure on diversification grounds, can obtain it via non-US securities – the "green book" explicitly excludes derivatives and non-US funds from withholding tax. And as we assume that we are not the only ones who will be pursuing a policy of exit from the American capital market, we expect that the range of non-US securities with American exposure will expand significantly. This may be good news for Mr Abdullah of Dubai.

But then again, it may not. If this picture of a tautologous construct round the US Treasury is correct, then we must at the very least be extremely cautious about nominal values. For Treasury bonds and bills would then be seriously overvalued, as would the US dollar itself, which would naturally argue against all other US bonds. In our view, not even an engagement in US stocks is really worthwhile. Despite depreciation in the financial crisis, according to our calculations they are still valued at around 12 percent above the long-term fair price, whereas European stocks are undervalued by almost 17 percent. And these calculations do not include the impact of any future increases in taxation or interest rates.

We live at a time of shifting power and influence in the world. Asia is on the rise, and Brazil too, probably. Australia will catch on to their coattails, and Europe may once more be able to position itself within these countries' recoveries. The USA will remain the unquestioned military power and

also an enormous repository of debt and other problems. Because they are painful, and there is always an inclination to shift the blame for them onto third parties, redimensioning processes always harbour the potential for aggression. Switzerland is currently experiencing just this. But it won't end there. Potential aggression and economic progress are mutually exclusive. Which is why we are well advised to take a general farewell of America. This will be painful, for the USA was once the most vital market economy in the world. But for now, it's time to say goodbye.

KH, 24.08.2009