Europe at the crossroads

1. The Swiss franc: a "quasi-euro"

That the author of the Investment Commentary might run out of material is not likely to be a problem for the foreseeable future. Keeping an overview of the situation – or rather creating one for its readers – is a far greater challenge. What is important at the moment? What should have priority? What is important and should also have priority?

Let's begin with the most obvious – our own currency. Since the last issue of the Investment Commentary, which set out the options open to the Swiss National Bank (SNB) in some detail, our central bank has made a fundamental change to its monetary policy. The SNB has shifted from a mechanism based on inflationary and economic risk, and ultimately oriented on money-supply considerations, to a currency-oriented monetary policy. The definition of an upper limit for the franc means that the SNB is prepared to expand the money supply, potentially indefinitely. This will not have to happen only because no-one in the world would speculate against the unlimited superiority of a monetary authority that alone determines the quantity of francs issued. As long as the central bank remains resolute about this strategy, it must work. For it is highly improbable that anyone would wish to deliberately lose money in a futile struggle.

There is of course some residual risk in the implementation of this monetary strategy. We are currently in the middle of a new financial crisis. In our bank, after the crisis of 2008/9, which above all affected the American real estate market, and subsequently the banks, we refer to this one as "Financial Crisis 2.0". It primarily affects state debtors, and subsequently, once again, the banks. And it's a genuine crisis, with all the apparent short-term temptations, or supposed need, to deviate from a chosen strategy. The heads of the central banks, too, are only human. This means they are capable of making mistakes. The policy adopted by the SNB contains not the slightest indication of any room for manoeuvre. For precisely that reason, we regard this aspect of residual risk as low. The Governing Board is well aware that any strategic error here would be effectively fatal. There is, however, a second aspect of residual risk, which we should not pass over in silence. The currency to which the Swiss franc is now unilaterally linked is itself not only a moving target, but one that the hunters are after. In this Investment Commentary we shall be considering some potential European scenarios. One of these is "currency collapse", and its sub-scenarios are "orderly" and "disorderly". In both cases, the continuation of the monetary policy adopted by the SNB would become impossible, or would have to be modified to take account of a different reference currency (the dollar? Special drawing rights on the IMF?).

It is not, however, these residual risks that are of absolute priority for our clients, and for us as asset managers, but rather the challenges immediately arising from the fact that the Swiss franc has become a sort of euro. "A sort of euro": with the setting of an upper limit for appreciation, the Swiss franc can by definition go in one direction only: downwards. Or, conversely: the euro can only appreciate against the Swiss franc. This asymmetry of risk and opportunity must be reflected in investment policy. Under these conditions there is no point for European clients in holding Swiss francs (unless with regard to the "residual risk" …). Swiss investors are well advised to consider whether to exchange francs at the rate of 1.20 for euros with appreciation potential. We are aware of the widespread reservations about the single European currency, so in order to achieve appropriate euro exposure our bank has issued a series of structured products on the basis of the Swiss franc as domestic currency. And because we believe in the need for a degree of irony in these tough times, this range of products is marketed under the brand-name "We trust the SNB".

There is another high-priority and important aspect to be dealt with. The pegging of the Swiss

franc to the euro means that the diversification effect of the euro as a foreign currency no longer applies. A portfolio 50 percent in francs and 20 percent in euros is now effectively 70 percent in euros. This necessitates significant correction in the direction of other currencies. Particularly in such times of crisis, diversification is an essential element of strategy. This also applies particularly to pension funds, which in our view need to take a serious look at their currency allocations. But which "other currencies" might come into consideration? The US dollar? Yes, even despite all the reservations concerning such an overindebted state. For the dollar still represents not only continental America, but also a good part of the rest of the world, through the many linked currencies. Furthermore, if things go really wrong with the euro, the dollar will remain the ultimate global currency, despite everything. Other, additional possibilities for diversification are offered by currencies such as the Australian or New Zealand dollar, the Norwegian krone, or the Canadian or Singapore dollar. With a bit of skill and imagination, it would even be possible to make the Chinese yuan investable. Except in the event of a real catastrophe, many of these alternatives have a more or less natural tendency to appreciate against the US dollar. Under the conditions of the SNB's new monetary policy, this tendency to appreciate should also apply vis-à-vis the Swiss franc.

To be clear: we have never questioned, and nor will we question the reorientation of the SNB's monetary policy. We simply record this radical change, and derive the consequences for our investment policy: no more, and no less. Beyond this, however, there is one fundamental question regarding the existence of this somewhat peculiar country in the middle of an ever more unstable Europe: a question that goes far beyond monetary mechanisms. We intend to look more closely at this question in what follows. Why? Asset management is based on the concept of property rights. However Financial Crisis 2.0 turns out, one thing is sure: whenever debt must be reduced, property comes under threat, particularly when it exists on a large scale. *The Economist* recently titled an article "Hunting the rich". Switzerland, for a long time – and particularly in difficult periods such as the Second World War – a more or less unchallenged bastion against confiscatory demands from near and far, is now confronted with the challenge of dealing with mortally wounded, and thus increasingly unpredictable stakeholders: the fiscally hard-hit Western states. One thing is sure: without the exercise of an adequate degree of sovereign independence, property rights will not enjoy sufficient credibility in these circumstances. And without them, Switzerland no longer has any raison d'être as a financial centre.

2. A part of the world …

In our view, any analysis of the accelerating Financial Crisis 2.0, and the destabilising of the eurozone and the European Union, will fall short if it does not take account of the most significant developments that have occurred in the world as a whole over the last 20 years. Many of the previous comparative advantages of the Western industrial nations have withered way, have been eliminated, or lost their importance, or even transmuted into disadvantages. For example, and undoubtedly rightly if we look to the more distant past, the preservation of peace in Europe for the last 60 years has been regarded, and celebrated, as the greatest achievement of the Old Continent. Indeed, the maintenance of peace in Europe has been the justification for the European Union; anyone expressing scepticism about its structures, or even worse about its raison d'être, is immediately suspected of questioning the value of peace in Europe. Well, look at things how you will, it is becoming increasingly obvious that peace reigns in other parts of the world as well. Apart from a very few countries with rulers who are partially insane or wholly criminal, most parts of the world strive for greater prosperity, and are aware that this can only be achieved by means of peaceful exchange. Mutual confiscation is a zero-sum game; increasing prosperity brings more for all. This fundamental truth is generally accepted, with a grain of salt of course. The wars of the past 20 years have been "only" about the containment of the half-mad and the wholly criminal. Put another way, over the last decades the world has experienced, as never before, a positive development in the direction of peace. Where peace reigns the means of production and the infrastructure (people, land, machines, schools, universities, hospitals, roads, communication networks) are protected. Where peace reigns, it is worth investing. Who would have believed 40 years ago that Vietnam would become one of the most interesting countries for foreign direct investment? But this does mean that peace is no longer a unique characteristic of the Western states; for some while now, and to an ever greater extent, other parts of the world offer security of investment.

The world is becoming richer. The notorious gap between rich and poor does not yawn ever wider. The South is not becoming poorer. Of course, High Net Worth Individuals do exist and their spectacular arrivals on the Côte d'Azur, in Monaco, St. Moritz and Gstaad continue to stoke the ire of militant advocates of foreign aid policy. But they are irrelevant compared to the billions of miserably poor Chinese who have been able to double or triple their "wealth" over the last ten years. These are people who in 1990 had to manage on less than a dollar a day. There are still hordes of them in many of the grindingly poor developing countries. Nevertheless, global poverty has been sharply reduced, principally on account of the adoption by the Chinese of their own version of capitalism. Where there has hitherto been no middle-class bourgeoisie there are now signs of this developing. And such a development is essential for the creation of a civil society, and is to this extent an encouraging one.

The precondition for this remarkable improvement was the implosion of the Soviet bloc after the fall of the Berlin Wall in 1989. This expanded the free world by over half its territory and its population. And the process is not yet over. Large areas of Africa are still waiting on this opening-up, though the problem here is not walls and ideologies, but rather the pseudo-democratic but actually oligarchic structures left in place by the colonists as they withdrew. It will be fascinating to see how the increasing re-colonisation of Africa by the Chinese will be received on this difficult continent. But that, overall, real prosperity will increase in Africa too is for us a matter of time, not of principle.

"A determination to prosper" would be a description of the attitude that characterises emerging-market countries and, increasingly, developing countries in the wake of globalisation. With this attitude is associated (naturally with varying intensity depending on the region of the world) a readiness to work harder and more productively. The determination and ability to perform and produce is thus no longer the unique characteristic of the Germans and Japanese. Competition over competitiveness is spreading ever more widely. In this context, considerations of entitlement, demands on the welfare state, expectations about leisure time and holidays, such as are commonplace in Europe will have an increasingly hard time.

As we of the Investment Commentary never weary of saying, this real shock of the expansion of our world is being potentiated by a further technological shock, with perhaps even more far-reaching consequences: the communication revolution. Just about everyone in the world, from the President of the USA to slum-dwellers in Nairobi, is today equipped with a high-performance computer and that extremely efficient information and communication device – a mobile phone. This makes intermediary trade across the whole spectrum, from not always disinterested consulting to procuring, largely superfluous, and radically reduces information and transaction costs. Communications based on the internet and the mobile phone have enormously expedited globalisation. Global trade is flourishing, the global division of labour has become a matter of course; there is hardly a small or medium-sized enterprise that does not source its materials like a big firm, ordering components from the most competitive regions. There is hardly a small or medium-sized enterprise that does not have a subsidiary or a joint venture somewhere around the world.

Put differently: the single market and internal trade – hitherto uncontested flagship advantages of the EU – are available on a global scale, with the exception of the more agricultural sectors of the global economy. The remaining constraints on trade, and other non-tariff-related obstacles, are today minor hurdles, to be overcome as a matter of course with logistical optimisation strategies. There's no more "no go" in the global economy. This substantially relativises the importance of being the "biggest single market in the world".

It would, however, be wrong to view the world through excessively rose-tinted spectacles. Two constraints come to mind in our view. Firstly, the growing global division of labour referred to above depends on the uninterrupted functioning of global trade. Security on the high seas – essentially a domain of the USA – and in the air is the fundamental backbone of global trade. But the ability of the international banking system to finance global trade by means of letters of credit and other forms of trade finance is of no less importance. When interbank liquidity dried up in 2008, as a result of the mortgage crisis in the USA, that was it for global trade. Virtually overnight, the volume fell by 30, or even 50 percent. The conclusion must be that the system is every bit as vulnerable as the Twin Towers were to terrorism in 2001.

Constraint number two: the global division of labour can generate dangerous imbalances that can cause instability. Most obvious is the one-sided concentration by the USA on consump-

tion, by the People's Republic of China on cheap production, and by Germany (and Switzerland) on capital goods and industrial plants for Chinese manufacturers. A free exchange of goods without freely convertible currencies: such a constellation must almost inevitably result in distortions, which can then give rise to abrupt, and therefore dangerous, corrections.

But even taking these, and other, reservations about globalisation into account, we can still see that there is now a difference in momentum between the Old World of the Western industrial nations and the emerging markets in the Far East and South America. Given that it is precisely those countries that have, for demographic reasons, lost momentum that would now need to compensate for this with more energetic efforts and more risk-taking, this difference must give pause for thought. That the Western industrial nations will remain net debtors in the decades ahead, while the emerging markets have become their creditors, is a reflection of this problematic situation.

3. … but also very much a world of its own

The present times are undoubtedly writing a further chapter in the history of Europe. Those who believe in the European Union and its institutions are convinced that crisis will once again provide the impetus for progress. "Two steps forward, one step back" was how Thomas Cottier, a young professor of international law in Berne, put it (*Neue Zürcher Zeitung*, 29.9.2011, p. 23). In his view, "forward", or "progress", means "fiscal sovereignty at the level of the Union" and an "effectively federal structure", with the shift in competences occurring as a result of the "historical necessity of creating unity, solidarity and social peace".

In our view, however, the question confronting Europe is whether the move towards greater "unity" and "solidarity" is really the right one, or whether ultimately peace in Europe – which involves a good deal more than just social peace – will not be more endangered by progress of this sort than by other, considerably more decentral alternatives. The euro project, now regarded as "romantic" even by the previously unsceptical *Der Spiegel* (*Der Spiegel*, 26.9.2011, p. 56 ff.), is an indication of the dangers of too much centralism in Europe.

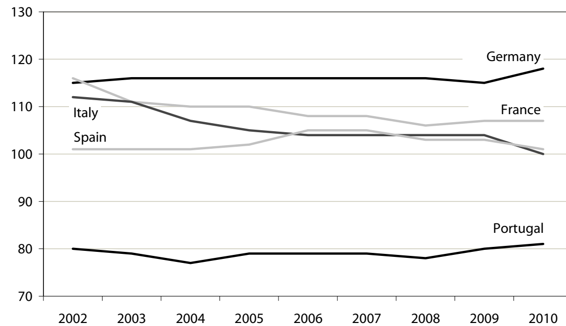
Unlike so many EU programs and projects, in which minimum standards and approved behaviours are defined, but no decision-making authority delegated to central bodies, the eurozone is obviously now unable to avoid "deeper integration". "Deeper integration" is a magic concept in the EU, which in plain English means the delegation of competences to a central body. Brussels has its own, highly euphemistic semantics. The enormous problems now confronting the eurozone are attributed to a lack of "unity" and "solidarity" in matters of fiscal, tax, social and economic policy. If everything in these areas had been able to be decided on and controlled in a unified fashion, the disastrous accumulation of debt in various member countries would never have occurred, it is argued. Consequently, the eurozone must be more deeply integrated. Expressions such as "European economic government" and "European finance minister" are now being used. It is impossible to avoid the impression that under the impact of the euro crisis, it is not so much a matter of "two steps forward, one step back" as full speed ahead towards unification.

The problem is that this sort of arrangement within Europe would require leadership. This is not something that the EU has yet achieved. During the Cold War, leadership in Western Europe was clearly exercised by the USA. French deviations and Italian frivolities were tolerated within certain limits, but when push came to shove, it was very clear who was in charge, the more so as, post-war, the country with the greatest economic clout – the Federal Republic of Germany – maintained close links with the United States. After the fall of the Berlin Wall, a kind of collective leadership by the more important EU countries emerged (still with the USA as silent partner). It concentrated on expanding the territory of the European Union. Other aspects of leadership – that is, the management of a rapidly expanding institution – were confidently left to a group of technocrats, who were able to go about their business untroubled by the "deeper integration" of decision-making authority.

So, what would be the leadership tasks of a European economic government, or finance minister? Would they need to get the debt crisis in the peripheral eurozone countries under control? Undoubtedly, but that would not be sufficient. For the state debt crisis in the eurozone represents only a part of the challenge. It is indeed, perhaps only the visible symptom of a much more serious problem. This lies in the yawning gap between the different ideas and customs regarding labour and productivity. The figure below shows the development of the productivity of a few selected European countries since the introduction of the euro, in terms of gross GDP per capita. What should have

converged remains far apart. Correspondingly, there is within the "biggest single market in the world" a striking variation between the current accounts of its members.

Enormous differences in prosperity



Source: Eurostat; analysis

Note: If the indexed value of a country is greater (less) than 100, the per capita GDP is above (below) the EU average.

Not even highly industrialised France, with its cutting-edge technology, can really match Germany. If we compare the profitability of the French and the German car industries, we encounter entirely different conditions for a (more or less) homogeneous product. We would even go as far as to say that the competitiveness of the French not only has not improved since 2000, but has, in relative terms, actually deteriorated.

Once more: what would be the leadership tasks in a centrally governed eurozone? To achieve the convergence of legal, economic, social and mindset conditions. Or to bridge the existing differences by means of continuous transfer payments. Or both at once. This cannot be done without command, control and implementation. The quicker a state of more or less equilibrium is to be reached, the more rigorous must the process be. Either one side must be convinced of the need to work longer for lower wages, or the other side must be persuaded to demonstrate "solidarity" with the more inefficient side, at the cost of part of its GDP.

This raises two further questions. Firstly: how competitive would such a transfer union be in a globalised context? We mentioned above how hungrily the emerging-market countries are striving for prosperity. Whether a subsidy model – for that is exactly what a transfer union is – would have any place in such a world is highly doubtful. The danger that, sooner or later, such a transfer union would degenerate into a protectionist "Fortress Europe" cut off from the outside world is, in our view, real and imminent.

Second question: who would take on this leadership? This is an eminently practical problem, for there is a distinction between the 17 member countries of the eurozone and the 27 of the European Union. With essentially only the European Central Bank, the eurozone largely lacks institutions. The EU commission is currently acting with regard to the euro crisis in a fiduciary capacity, so to speak (or presumptuously, if you prefer). So, institutions would have to be created – and, given the accelerating crisis, very quickly. How much democratic legitimation would they have? Further, and admittedly in "typically European" fashion, we might ask: who would actually have the leadership? The Germans or the French? "German" and "leadership" – might that again be possible? It would be reasonable enough, for they have long been net contributors, and they would be putting their global competitiveness at risk. The French? Have they now actually accomplished the French Revolution, and really put royalism and mercantilism behind them?

Uncomfortable questions, admittedly. But important, high-priority ones. If they are not asked now, it may soon be too late. The debt crisis in the eurozone has given unbelievable momentum to the centripetal forces within the EU; sceptics are ignored or systematically silenced. Just a week ago in Germany, an appeal for "More truth and clarity in European policy" was signed by no less than the former Federal President, Roman Herzog, the former Mayor of Hamburg, Klaus von Dohnanyi, the Chairman of the Supervisory Board of Bayer, Manfred Schneider, the former Prime Minister of Baden-Württemberg, Erwin Teufel, the former Chairman of the Federation of German Industry, Hans-Olaf Henkel, and many others. They warned against misplaced "political correctness" and simplistic statements like "If the euro fails, Europe fails" (Merkel), and called for more rationality in the discussion of European policy. What echo did this statesmanlike appeal generate? Pretty much none at all. That should give us pause for thought. For if level-headed, rational discussion is no longer possible about the choice of direction we mentioned above, then there is the danger of irreversible decisions being taken that could turn our continent into one of the world's economic, political, social and indeed security-policy crisis zones.

4. If the euro fails, what fails and how?

It is entirely understandable that something like panic has broken out among European leaders in recent weeks. For what has currently been happening on – or more accurately, been carried out by – the financial markets is both unique and dramatic. The state debt problem is now by no means confined to Greece, which is of little importance in the overall order of things. It has now hit the heart of Europe. Think what you will of Credit Default Swaps (CDS) – for us, as a form of insurance against default they give an indication of the way the market sees things, and are more reliable than the analyses of, for example, rating agencies. For market prices are the result of agreement between two opposing parties, neither of whom probably wants to lose money; analyses are unilateral creations, and thus easier to influence. So, if we look at these CDS spreads, they currently offer the following probabilities for the default of selected European countries:

Heading for insolvency

Country	CDS premium	Probability of default	Change over last 3 months	Change over last 12 months
Italy	456	45%	+ 277	+ 258
Spain	374	39%	+ 96	+ 145
France	178	21%	+ 95	+ 99

Source: Bloomberg; as at 29.9.2011
Note: Based on the assumption of aggregate debt in a 5-year bond; default dividend 60%.

The governments of the eurozone countries, hitherto determined to prevent the default of any member country more or less at any price, must now understand that the markets do not take this determination seriously. The eurozone has been talking about "rescue" for over a year now, and it is precisely over this period that the probability of insolvency has risen continuously, and been spreading – de facto, exactly the domino effect that such efforts were supposed to prevent, is now happening. European interbank business is liquid only thanks to the central banks (including the Fed); the money market has dried up; every refinancing of state debt by the issuing of new paper has become an exercise in nail-biting; without the European Central Bank (ECB) nothing would be happening at all. This is Financial Crisis 2.0. Compared to the crisis of 2008/9, the substrate of safe investments in which the public can find refuge is far smaller. Those seeking the safety of government bonds must accept a premium from serious creditors, of varying size depending on the debtor state concerned. In Financial Crisis 2.0 there is no more security; everything is in a state of flux (which is also a Greek insight …).

Even in its expanded version of 780 billion euros, the EFSF (European Financial Stability Facility) rescue fund is still too small to appear sufficiently credible, and thus to significantly reduce the probability of bankruptcy. Accordingly, the eurozone is desperately seeking loopholes through which to further expand the EFSF without once again having to come begging to the member countries, with ever decreasing chances of success. So, the idea of leveraging the EFSF has now been launched. The existing capital (is it really "existing"?) would be transformed into the equity of a sort of bank, and this could be stocked up with debt capital to a balance-sheet total of up to 2,000 billion euros, with which to buy up European government bonds. This would also in future preserve the ECB from the embarrassment of purchasing government bonds directly, and thus financing state debt by printing money.

Apart from the legal issues arising from such a transformation of the EFSF, which anyway rests on shaky legal foundations, economic issues also arise immediately. In our view, the only halfway positive thing that can be said about a leveraged EFSF is that it would create liquidity and thus win some time. For the rest, such an inflated version would be even more problematic than the EFSF already is. It is in blatant contravention of "Maastricht", suspiciously similar to the American real-estate vehicles Fannie Mae and Freddie Mac, illusory with regard to restructuring, and the unamortisable mortgage of an institutionally ill-connected community of guarantors. Worst of all: given the default probabilities, some of the guarantors are themselves potential beneficiaries of the vehicle. In Financial Crisis 2.0, such blatant pseudo-solutions are no longer acceptable; those days are over.

On sober consideration, these conclusions and the remarks in section 3 offer us three scenarios for further developments in Europe:

a) Contrary to our forecast, and with a great deal of skilful rhetoric, it proves possible to convince the markets, and the citizens of Europe, of a plausible continuation of the "rescue". Surprisingly positive economic data have a calming effect on the markets; despite all the prophecies of doom, the peripheral countries of Europe deliver unexpectedly tangible results from their serious austerity measures.

b) The ultimately unpreventable insolvency of individual member countries triggers a disengagement from the eurozone. This may happen "top-down", led by the more solvent states, or "bottom-up", with the departure of the highly indebted countries. Both variants could be managed in a fairly orderly fashion, but chaos cannot be ruled out.
c) The eurozone is rapidly converted into a centrally governed federal state. Germany restructures and gives the orders. Or Germany restructures and Frances gives the orders. Sub-variant: governance follows democratic principles: the rest of the EU reforms.

Either way, Europe will, as mentioned, be richer by a chapter in its history. But in all other respects very likely poorer. The euro crisis will probably have a significantly negative effect on growth. Why? Because social and economic insecurity hinders risk-taking investment. Double risk is just too dangerous. And when investment is paralysed, the rest of the economy stagnates, despite all stimuli.

5. Switzerland in Europe

What options remain open to Switzerland, a country literally surrounded by the crisis-ridden eurozone? Despite its institutional independence and more democratic organisation, Switzerland remains highly interlinked with the rest of Europe – not just economically and politically, but also through close personal contacts. Regardless of which scenario prevails, matters will undoubtedly become more interesting in a variety of ways, and potentially more threatening. "Hunting the rich" need not apply only to individuals, but may also be applicable collectively. The impression could all too easily arise – may indeed already have arisen – that Switzerland is a beneficiary of the state of peace in Europe, but is unwilling to carry its share of the burdens. Arguments of this sort strike sensitive nerves on both sides of the Swiss border. Fear of a reputation as a freeloader has largely dominated the political debate in Switzerland. The minute Europeans start talking about "cherry-picking", many Swiss immediately sound the retreat: anything rather than the suspicion of selfish profiteering, however unfounded it might be.

The difficulty in the times ahead will be, disregarding such romantic feelings, and equally forcefully rejecting the notion of being alone on the continent, to find a policy that holds openly to a duality of doctrine. Duality in the sense that there must be an equilibrium between independence with no ifs and buts and the readiness to cooperate. How difficult such a doctrine is both to communicate and to implement politically is exemplified by the recent taxation agreements between Switzerland and both Great Britain and Germany.

The idea was launched in 2001 that such a cross-border taxation agreement could free Switzerland and its financial sector from the then already perceptible threat to cross-border asset management. It took eight whole years, a serious financial crisis, data theft by the other side, and pressure from the OECD until the parties concerned in Switzerland finally realised that neither the obstinate and stubborn maintenance of previous positions nor unconditional capitulation in the direction of the automatic exchange of information would achieve the objective, but rather an open dual strategy that would offer results acceptable to both sides. The automatic exchange of information – this would really have declared open season on "hunting the rich". It is part of the Swiss identity that we wish to protect the substrate of private property, particularly with a view to harder times ahead. With the anonymously levied flat-rate withholding tax we give proper place to the second pillar of the dual doctrine; pragmatic cooperation.

Independence and cooperation: under this motto we can well imagine a continuation of Switzerland's success as a financial centre. Which of the two shall predominate in specific cases must – as duality requires – depend on both pragmatic considerations and matters of principle. Do we want to converge with the European MiFiD regulations? How far? Where will we set the boundaries? How far will we engage with Target-2 securities? Is the tax on financial transactions, much desired by Europeans, also a topic for us? Even if all economic reason speaks against it? Or even cooperation on the prohibition, also so highly esteemed by continental Europeans, of certain financial transactions and instruments? In all of these cases, the issue is invariably the protection of private property and the commercial freedoms of individual citizens. If in future such topics are approached not with an a priori admission of guilt about cherry-picking, but rather with the self-confident assessment of "Which of our principles are indispensible?" and "What are the advantages for us?", then our country will have finally returned to an approach that will also be understood by the more powerful.

Of course, such a dual doctrine is utterly unromantic. But even at the best of times Switzerland has always been unromantic. In recent years, Switzerland has been wrongly characterised as “a nation by willpower”. In our view, this assertion, and all the “Swissness” celebrated with the liberal application of the Swiss cross, miss the point of our real identity. A nation by willpower? The Swiss did not, and do not, necessarily want one another. And there is certainly no question of brotherly love. The reality is much less exalted, but all the more honest. Putting up with each other: that is the ideal of our state. More would be romantic, and therefore dangerous.

We are strongly of the opinion that only a soberly considered foreign policy, that neither conceals nor disregards our own interests but is ready and able for cooperation, will take Switzerland through the increasingly dangerous discontinuities of the EU and the eurozone. *Der Spiegel* is right: the euro as a single currency was a romantic concept. It has resulted in distortions that must inevitably be resolved. Romanticism and self-destruction have always been a dangerous couple. A Europe whose members do not necessarily love one another, but do at least put up with one another: this sort of peaceful settlement would be quite enough for most of the inhabitants of the continent. Goals can be set too high, as Icarus the Greek found out.

KH, 3.10.2011