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Poverty helped build the banks

By KURT HUNZIKER,
First Vice President of Credit Suisse, Geneva

"MONEY alone does not bring happiness; one must also have it in Switzerland" – a German joke that was prevalent after World War II.

Since then, this opinion has evidently spread far and wide; it has helped put the Swiss banking industry in the limelight of national and international attention to a degree that the Swiss banks themselves find rather embarrassing.

Sometimes they appear as a haven of stability and a valuable refuge offering protection to the property of the world's persecuted.

Most of the time, however, they come in for harsh criticism both at home and abroad. And certain governments and politicians are occasionally inclined to lay all the economic ills of our times at the door of the "Gnomes of Switzerland".

Thus, Swiss and international opinion about the Swiss financial centre fluctuates between favour and hostility. But much less is said about the equally surprising fact that the centre has attracted such international attention at all.

Certainly, with some 500 banks and almost 5,000 bank offices, or one bank office for every 1,200 of Switzerland's six million inhabitants, the country is enjoying a banking density which can hardly be found anywhere else.

Indeed, alert statisticians have calculated that Switzerland has more bank offices than dentists.

Swiss banks are not the largest in size in the world in spite of their number. Their combined assets of over 400 billion Swiss francs amount to only twice as much as the increase in aggregate bank loans achieved by their American counterparts in a single economic year.

Expressed in absolute figures, the size of even the three largest Swiss banks, Credit Suisse, Swiss Bank Corporation and Union Bank of Switzerland, is not imposing.

Thus, the "big three", whose total assets range from 64 to 78 billion Swiss francs, are a long way behind the largest bank in the world the French Credit Agricole.

In balance sheet terms the Swiss banks are also far surpassed by the leading banks of Japan, England and Germany. Indeed, in the list of the world's largest banks, published annually by "The Banker", they occupy places between the upper twenties and forties.

Despite these modest figures, Swiss banks receive international attention. However, an assessment of the balance sheets alone would not do full justice to the financial realities of Switzerland.

For the Swiss institutions not only confine their activities, like many foreign banks, to commercial banking operations, which are reflected in the balance sheet, but they engage just as intensively in new issues and securities business in all its forms, and also in foreign exchange and precious metals dealings.

In short, they operate as full-service or "universal" banks.

In spite of this, and in contrast to observations often made by politicians and journalists, it is true that Swiss banks continue in many respects to bear the mark of their small home country.

Moreover, Switzerland has been playing the role of an international centre of finance for centuries. This observation can be gauged from a remark by the famous French philosopher Voltaire, who once gave the following advice to one of his friends: "If you see a Swiss banker jumping out of the window, follow him; there is money to be made on the way down".

Already at that time Swiss bankers were obviously active and subject to criticism. In a famous study of financial conditions in the eighteenth century we read: "From His Imperial Majesty in Vienna and the Kings of France and England right down to the most obscure German princelings and the towns of Germany and France, every governing authority was in debt to the cantons and towns of Switzerland."

The reasons for Switzerland being a financial centre a long time ago are manifold. It is partly to the poverty of this small landlocked country – the Tibet of Europe, as someone said – which forced it to devote itself intensively to international trade and finance in order to feed its population and supply the raw material need of its industry.

Another major factor was the Reformation, particularly its puritan Calvinistic type, which stressed the virtues of work and thrift, thus helping forge that capitalistic mercantile spirit which,

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as a foreign observer has put it, makes every Swiss a born travelling salesman or banker.

Other elements explaining the development of the Swiss financial centre are the country's political framework, its stability, its philosophy of tolerance and its reliable legal system, which ensures strict respect to private property.

Repeatedly Switzerland has strongly upheld this principle. For example, in the great depression, when foreign assets of Swiss banks were frozen by other countries, the Swiss Government refused to introduce foreign exchange controls of its own to protect domestic banks from the withdrawal of funds by foreign customers.

One particular aspect of the Swiss banking system is our famous banking secrecy. But in reality, Swiss banking secrecy does not differ substantially from similar institutions abroad, except in two major points.

First, its violation is prosecuted as a crime. Secondly, contrary to the situation in other countries, banking secrecy in Switzerland also applies vis-à-vis the tax authorities. Foreigners often show little understanding for this aspect.

Needless to say, the activities of Swiss banks have greatly influenced the development of the Swiss economy. Above all, the abundance of financial resources they helped to create has facilitated the adaptation of Swiss industry to the changing structure of the world economy and industry's expansion in foreign countries.

As a result, in addition to their plants in Switzerland, all big Swiss concerns have branches, subsidiaries and associated companies abroad, which are often larger than the parent.

Thus the number of persons abroad who are living on salaries paid by Swiss firms is greater than the population of Switzerland itself. This important, worldwide economic presence, once described vividly, if inexactly, as the "secret empire" of Switzerland, generates huge financing requirements.

If these had to be met by the Swiss capital market alone, the unavoidable consequence would be a serious drain on the nation's financial resources and resultant constraints on its economic development.

In its whole structure, the Swiss economy is therefore today dependant on an international banking system and an intensive exchange of capital with other nations.

One is therefore justified in saying that today's Swiss living standards and the modern Swiss economy would not exist if it had not been for the Swiss financial centre.

In some Swiss quarters, this situation has understandably created a feeling of unease. In its

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drive towards prosperity, Switzerland has grown economically and financially far beyond its natural dimensions, embedding itself ever more deeply in the world economy.

Of course, this is in keeping with the trend of the times; but in the eyes of some people the nation has assumed to a considerable degree the character of an artificial structure which no longer fully satisfies the nostalgic yearning for a sheltered and secure life.

Nor can the real problems be overlooked. It is true that Switzerland, thanks not least to its economic and financial strength, enjoys an international reputation far greater than that of other nations of similar size.

On the other hand, this tiny country clearly does not have sufficient political muscle for the protection of its large foreign assets.

Equally, Switzerland's heavy involvement in the world economy complicates governments efforts to regulate economic activity and employment.

As a small internationally-oriented nation, Switzerland has naturally always pursued a policy of monetary cooperation with other countries. At the same time, however, there has repeatedly been a danger that the stability objective of domestic monetary policy would be frustrated by erratic international flows of funds.

The government's room for manoeuvre is additionally restricted by the size of Swiss banks' foreign assets and the resultant potential for repatriation. Hence, if the authorities try to reduce money supply to lessen inflationary pressures, the resultant increase in interest rates is liable to attract substantial funds from abroad.

On the other hand, if they pursue an expansive policy, the reverse can happen. Thus, in their day-to-day activities they are confronted with the disadvantages of the financial centre, rather than its advantages.

Time and again they face the unpleasant alternative of either abandoning their attempts at monetary restriction or expansion, or else accepting a change in the Swiss franc's exchange rate on a scale that could jeopardise internal economic stability.

However, the constant discussion of the probable trends of the francs and related problems of economic policy has of course not been popular. It has overtaxed the intellectual capacity of the voters and contributed substantially to making politicians increasingly sensitive about the financial centre.

This uncomfortable atmosphere has also been aggravated by almost incessant criticism from at home and abroad.

To be sure, citizens of Switzerland generally show little sympathy for such attacks, least of all for those that urge fundamental changes in the structure of private banking; they realise that the alternative, namely nationalised credit institutions, could give the already powerful State a firm hold on credit supply, through which it could exert economic control and thus impinge on the freedom of the individual.

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THE world's highest salaries are paid in Geneva, the most expensive city is Tokyo, and apartment rents are highest in Abu Dhabi.

This assortment of information is included in a survey published by the Union Bank of Switzerland.

Wages and prices in Zurich are always used as the base level of 100. Prices for a "basket" of goods and services are, by comparison, 132 in Tokyo, 119 in Abu Dhabi, 118 in Oslo, and 109 in Helsinki and Caracas. New York is listed as 100, London 91, Paris and Düsseldorf 83.

The survey's compilation of wage and salary levels, which takes into account 12 occupations, puts Geneva at the top with 105, followed by San Francisco and Chicago with 103. Paris and London are rated at 58 and 55, respectively.

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