

**SWISS GNOMES AND GLOBAL INVESTING**



**SWISSGUARD**  
i n t e r n a t i o n a l

**1 -800-796-7496**

For centuries the Swiss have been investment bankers to both the kings and commoners of Europe. Those who seek safety and security for their money have found a haven in the rugged Swiss Alps and in the values, traditions and character of the Swiss people.

Author Mark Skousen, who has made a specialty of financial privacy, puts it this way: "Switzerland has a long tradition of financial freedom and confidentiality. It has always been the Swiss attitude that your money is your business and no one else's, not even the government's. The Gnomes have learned over many centuries to respect hard work and the economic blessings of capitalism. The Swiss revere honesty, private property, political neutrality, a stable currency and the inalienable right to privacy."

The earliest written account of Switzerland was in the first century B.C., when the Greek writer, Paisodones, described the Swiss as "rich in gold, but peaceable."

In 1513 the famous Italian, Nicolo Machiavelli, admired Switzerland's military strength and fiery independence in his classic work, *The Prince*; "The main foundations of every good state are good laws and good arms. Rome and Sparta endured for many centuries, armed and free. The Swiss are strongly armed and completely free."

In his book on Switzerland, Walter Sorro adds this perspective; "Since 1515 when Swiss policy turned to political neutrality, guaranteed by all great powers again in 1815, it's neutrality has been, figuratively speaking, it's hottest export item. In a war-torn world, Switzerland became a storehouse for treasure and fortunes."

Most governments profess their commitment to freedom and privacy, yet they force their citizens to reveal details about their financial transactions, income and wealth. By contrast, the Swiss are known for being fiercely independent and discreetly confidential in their financial affairs. Perhaps that's why Switzerland has become the world's premiere private banking center.

*The London Financial Times* has estimated that Swiss banks manage some 40 percent of the world's private wealth.

Author Robert Rothenment points out what he regards as the need for a place like Switzerland; "A world without a Switzerland would considerably complicate the lives of many, while simplifying regulation and surveillance by governments. The fact that Switzerland does exist is proof that people and governments have a need for it is where it is and as it is."

The Swiss have a saying, "If there were not a country like Switzerland, one would have to be created."

Swiss account holders are often portrayed as fugitives, criminals or tyrants. But the myth can be quite different from reality as Alex Sutter observes in his book entitled, *Switzerland, Wealth and You*. "The media and movies conjure up images of stolen money hiding in secret accounts, but the truth is that most of the world's large companies, including other banks and hundreds and thousands of individuals bank with the gnomes of Switzerland. Even the bankers' bank, the Bank for International Settlements is located in Switzerland."

An aura of mystery and intrigue seems to surround bankers, who are often called Swiss gnomes, after the woodland trolls or genies of Swiss mythology. The mythical gnomes are said to have great power but are seldom seen. And the habits of Swiss bankers can be illusive and enigmatic and are often discussed in hushed tones, whether in Zurich and Geneva or in London or New York.

The Swiss gnomes now manage funds from far beyond Europe and the reason for this worldwide expansion involves a piece of history that begins in Germany in 1933. Hitler had come to power and tens of thousands of Germans were worried about the future of their freedom and wealth. Many sent funds abroad, much of it to Switzerland. An old German proverb had never been more true; "Money alone does not make you happy. You must have some of it in Switzerland, too."

To counter the drain of financial assets a new German law ordered all citizens to declare their foreign investments. Failure to comply was punishable by death. Yet most Germans still did not report their Swiss accounts. Hundreds of Gestapo agents were ordered to Switzerland to find these secret accounts.

The agents tried bribes, made fraudulent inquiries for account balances, taped wires, opened mail, and even posed as account owners requesting funds. This Nazi onslaught against Switzerland's banking traditions, and against its respect for privacy and property, prompted the Swiss government to enact the Bank Secrecy Act of 1934.

As paraphrased by a Swiss banker; "The act makes it a crime for bank officer or employee to reveal any information about the customer's account to a third party without the written permission of the customer. Bank officers or employees are further prohibited from disclosing even to the Swiss Government, the existence or contents of any bank account. Bank employees are covered under the law even after they have the bank or the banking business. A violation is punishable by a prison term of up to six months and/or a fine of up to 50,000 Swiss francs. Even if the disclosure is by negligence, the fine ranges up to 30,000 Swiss francs."

Swiss accounts came to be identified solely with numbers and not with the depositors' names. This practice combined with protections in the new law offered financial safety and secrecy for thousands of German nationals, many of them persecuted Jews. The benefits of these laws and practices can be seen in a true story told by the investment writer, Harry Brown, of how safeguarded wealth was used to rebuild a family's future.

"In 1934, Hans Lubbich, a prosperous German-Jewish businessman, understood what kind of future the Nazi government was preparing for him. He decided to take his family to Switzerland for a 'vacation, but before leaving he converted some of his savings into the largest bank notes available. Since Hans was a shoemaker, he hid the banknotes in the soles of the family's shoes, so despite the severe penalties for taking money out of the country, he smuggled

20,000 German marks into Switzerland. After they arrived in Switzerland Hans children went skiing while Hans went to the bank. "

"The Lubbich family returned to Germany after the vacation, but the oppression of Jews continued to worsen. When Hans was given the opportunity to leave the country again he took it. But he was not allowed to take any property out of Germany with him. He booked himself and his family aboard a cruise ship to Hong Kong, buying first class passage and every available extra, using up as much money from his German bank account as possible."

"Hans and his family made it to Hong Kong and eventually to the United States. After he arrived in the U.S., he cabled his Swiss bank, instructing it to send his money to America. This new money enabled him to buy a business and to begin his new life without financial hardship."

Many investors see their Swiss deposits as a bulwark against any individual, institution or government that might wish to unjustly confiscate their wealth. The so-called Big Three Swiss Banks in a booklet entitled, *The Truth About Swiss Banking*, maintained that Swiss banking practices are designed to protect the innocent and exceptions are made only according to Swiss law.

"Contrary to popular belief, there are limitations on banking secrecy in Switzerland. Banks are obliged to furnish pertinent information when the higher interest of the public or the state is involved, particularly in cases defined as crimes by Swiss law. The purpose of banking secrecy is to protect the innocent, not to shield the guilty. And history has demonstrated its usefulness."

Why has Switzerland, almost alone in the world, maintained financial privacy and independence while other nations have gone the opposite way? The answer lies in Switzerland's history and her people. Founded in 1291, Switzerland is the world's oldest surviving democracy. Alfred P. Herbert, a Swiss editor and economic journalist, elaborates:

"Switzerland is the oldest democracy in the world. Since August the 1<sup>st</sup>, 1291, more than 200 years before Columbus set foot on American soil, and almost 500 years before the United States gained independence, Switzerland has

been the only true democracy. It enjoys voting rights to this very day, unequaled the world over."

Switzerland's mountainous territory is quite small, about half the size of Maine, but slightly over seven million people live there, including some one-and-a-half million foreign nationals who reside or work in the country.

Switzerland has four official languages that reflect neighboring cultures. Some two-thirds of the Swiss speak German dialects, while 19 percent speak French, eight percent Italian, and one percent Romansch, a dialect similar to Latin. About half the population is Roman Catholic and some 44 percent are Protestant.

Yet people with these various backgrounds have learned to live together and they built a country that emphasizes freedom and prosperity. In Switzerland's democracy ordinary Swiss directly participate in deciding important constitutional issues, and local ordinances as well.

Swiss investment expert, Rosanna Arguelles, explains the Swiss philosophy of government by the people. "The Swiss political system is a confederation specifically designed to prevent the development of an all powerful central government like what has occurred in the United States. It delicately balances the rights of the individual with the interests of the communes, villages, the city, the canton, state and the federal government. Parliament is comprised of two chambers with representatives from each of the 26 cantons representing a dozen different political parties."

An often-overlooked point of history is that the Swiss confederations strongly influenced America's founding fathers and the structure of American government. It's not an accident that America's first governing document, The Articles of Confederation, closely resemble the governmental design of the Swiss Republic, then known as The Helvetic Confederation.

Gary Alexander explains: "When the Continental Congress met in the mid-1770's to invent America, they primarily looked toward the singular world model for what they had in mind; The Swiss Republic.

Jefferson borrowed a defining phrase of the Declaration of Independence, 'the pursuit of happiness,' from a lesser-known Swiss thinker, Jean-Jacques Burlamachie, who lived from 1694 to 1748, a public official and professor from Geneva who was widely admired by the leaders of the American Revolution."

The rights of Swiss citizens are protected by three political safeguards designed to make sure that the people rule the government, and not the other way around. A weak chief executive, the practice of voter referendums and the right of voter initiative, all severely limit the power of the central government in Bern.

Can you name the president of Switzerland? Most Swiss citizens cannot. The Swiss president has little power, and no effect on the daily lives of most Swiss citizens. Unlike many other nations' chief executives who are constantly surrounded by secret police protection, the president of Switzerland can often be found riding to work on the public streetcars in Bern.

The Swiss do not make a profession out of politics, only the seven member federal council consists of professional politicians, and all others serve briefly by avocation, not as a primary profession.

The presidency is a rotating office among the seven member federal council, changing each year like clockwork. Members of this executive branch are equals who consider themselves colleagues rather than subordinates to a president. This system prevents the rise of a strong chief executive and it seeks political consensus rather than confrontation. The Swiss federal government is weak by design, and the Swiss want to keep it that way.

The federal assemblies meet only four times a year in sessions that last only two or three weeks each. Some have described the Swiss central government as being in permanent recess. What's more, the Swiss people have a right of referendum that gives them an opportunity to oppose any law passed. If only 50,000 voters, about one percent of the electorate, sign a petition demanding it, then a law passed by the government must be submitted to a

popular vote. The law is rescinded if more than 50 percent of the voters oppose it.

Any proposed change in the Swiss Constitution requires a referendum. Harry Brown, a former resident of Switzerland, notes that referendums occur much more frequently than the usual two-year election cycle in the U.S.

"Once a matter qualifies for a referendum the vote will be taken soon afterward. So these votes are sprinkled throughout the year, and they happen not only at the federal level, but at the cantonal and city levels as well."

Switzerland's concept of the right of initiative is unique in the world today. It allows Swiss citizens actually to create legislation. One hundred thousand petition signatures result in a national election to approve or reject the proposed law, so long as the law meets certain legal standards. Swiss citizens also vote for their own teachers, judges and priests.

These political practices have a great effect on Swiss banking for one central reason: Swiss voters almost always reject any measure that increases government power or government spending. The Parliament is so easily overruled that politicians usually don't even try to enact new legislation unless it's supported by a majority of responsible Swiss citizens. The result is that Swiss banking and privacy laws change very slowly, if at all.

Walter Sorro describes the political outlook of a typical 20<sup>th</sup> Century Swiss citizen:

"For almost an entire century, the bourgeoisie somewhat right of center has been the image of the Swiss. He is so strong that he has been able to absorb all revolutionary movements, integrating socialism into his huge industrial program, paralyzing all communistic trends and assimilating the fascist fronts in the late 30's.

This bourgeoisie shows the resilience and inner strength of his stubborn and level-headed forefathers, birdsmen and peasants, of whom he never ceased to be proud. This incarnate of the establishment can perhaps be best tagged as

an archconservative liberal. He is a guardian of the past with the mission of a liberal forced upon him by history and geography, as much as by the world."

The freedom-loving Swiss have rejected a number of legislative proposals. Best known perhaps are the votes against joining the United Nations and the European Economic Union. Swiss citizens also rejected a change in the national old age pension plan, which would have reduced the minimum age for receiving pension benefits. The Swiss were concerned that it would cost the government too much.

Swiss voters also rejected a graduated income tax, which would have increased tax rates on those with higher incomes; instead the Swiss maintained their flat rate income tax.

Other examples of Swiss conservatism include a vote against reducing the hourly workweek from 44 to 40 hours, because the change would reduce productivity.

Switzerland does not have a strong welfare system, supporting the poor is primarily a concern of the family, not the central government. Legislators have floated welfare-type proposals, including a minimum wage program, but they've been quickly voted down, usually by large majorities. And Swiss citizens voted against reducing secrecy in Swiss banks. Banking privacy seems to be as important to the Swiss people as it is to non-Swiss investors.

An important theme in Swiss history involves national security. The Swiss people have long had a strict policy of armed neutrality. As first drafted in 1515, the Swiss Code of Neutrality states: "We will attack no one, participate in no war, will make no alliance and will defend ourselves."

This policy has produced the largest army in Western Europe. Switzerland's mostly civilian army has helped save the country from involvement in two major 20<sup>th</sup> century wars. The Swiss believe that neutrality is best achieved by defensive strength. Within 48 hours the country can mobilize an army of 625,000 soldiers, 800 battle tanks, and 300 jet fighters, along with

missiles and artillery all stored in hundreds of defense positions and underground fortresses.

Switzerland has armed sentries at all border crossings. There are 3,000 points of demolition on bridges and tunnels to destroy pass of invasion or other access. Highways are built to serve as emergency runways. Most of this defense structure is totally invisible by air. Arsenals, hospitals and even fighter plane hangars are hewn into the mountainsides. An entire army division can fit inside some hidden mountain holes.

Many Swiss bomb shelters contain fully equipped hospitals and food for a year. Underground cities are stocked with stores of gold and currency for the post-war reconstruction phase. While other nations provide such bunkers only for their political and military leaders, the Swiss provide this protection for every Swiss citizen.

All able-bodied men between the ages of 20 and 50 serve in the army and are trained for specific jobs. The private sector makes this Swiss defense system work because each male citizen is paid a full salary by his employer while he serves in the military two or three weeks a year. During war or other national emergencies, the Swiss can call upon 520,000 trained civil defense workers. And the civil defense program is intended to protect Swiss citizens against nuclear, biological and chemical warfare.

Rather than having a traditional division between military and civilian roles, Swiss defense is a community effort. For instance, the Swiss are the only soldiers in the world who use their homes to store arms, ammunition and other defense equipment.

Citizens perform their obligatory gunnery duty each year in civilian clothes. The Swiss army knife symbolizes the civilian survivalist orientation of Switzerland's military system.

Arthur John McFee, in his book *The Swiss Army* records this account of the Swiss defense system by Adrian Summi, the commanding officer of the Swiss Tenth Mountain Division:

" You must understand that there is no difference between the Swiss people and the Swiss Army. There is no difference in will; economic, military, it's the same thing. For 700 years freedom has been the fundamental story of Switzerland, and we are not prepared to give it up now. We want to defend ourselves, which is not the same as fighting abroad. We want peace, but not under someone else's conditions."

The Swiss refer to their defense philosophy as 'the porcupine principal'; role yourself up and make your quills so hard and sharp that any predator will think twice about attacking you. Switzerland is one of the most secure nations on earth and this is yet another reason is home to a large share of the world's private wealth.

Switzerland also has worked to protect and secure its currency, the nation's basic unit of monetary exchange. The Swiss currency has been through the years the world's strongest. In 1995 Rosanna Arguelles, editor of The Swiss Investment Perspective Newsletter, discussed the past performance of the Swiss franc.

"Historically the Swiss franc has been the most stable currency in the world. Since 1971, the year the United States removed gold backing from the dollar, the Swiss franc has appreciated 235 percent against the dollar. It has retained its purchasing power better than any other currency over the years.

" That may be because it is more than a paper currency. It is backed by gold. Swiss law requires a minimum of 40 percent in gold reserves for every franc in circulation. At 1995 gold market prices actual gold reserves were in excess of 150 percent of currency in circulation."

Switzerland's historic currency objective is simple: the Swiss franc is to be reliable as a store of value and a unit of monetary exchange, both for Swiss citizens and foreign investors. This has made the Swiss franc unique among world currencies.

Commonsense might suggest that the purpose of all currencies is to serve as a reliable store of value and exchange. But we can see otherwise by a glance

at the currencies of Mexico, Italy, and even Canada. All of which have lost value due to inflation and political instability. Political, social and economic forces often overwhelm a country's commitment to a stable currency, if such a commitment ever existed.

Even the U.S. dollar has lost much of its value due to currency depreciation. For example, a 1996 dollar had a purchasing power equivalent to only 16 cents in 1950. Since World War I, only Switzerland, Germany and Japan have had sound and rising currencies. Citizens from almost every nation have had their wealth destroyed at various times by inflation and currency devaluation. However, the Swiss people have demonstrated a desire and ability to follow relatively sound policies and to deviate from them only reluctantly and temporarily. Ultimately the strength of the Swiss franc reflects the stability, safety and conservatism of Switzerland and the Swiss people.

During World War II Nazi Germany looted a large amount of gold from conquered countries and holocaust victims. Over the ensuing decades a number of controversies have arisen about the conduct of Swiss banks in the disposition of that gold.

When Switzerland was totally surrounded by Axis-dominated territory, what choices did government and industry officials have about cooperation with the Germans? Was Switzerland hostage to German power and threat of invasion, as some historians claim? Switzerland undoubtedly bears some fault in disposing of Nazi gold.

Jean Christian Lamberle, Professor of Economics at the University of Lausanne, has criticized Swiss conduct in this way:

"It is true that Switzerland's behavior during the conflict was far from blameless. The Swiss National Bank was naïve at best, and an accomplice at worst, when it accepted German bullion. The country could also have sheltered at least twice as many refugees as it actually did. Especially in 1940 to 1942."

A second issue involves dormant bank accounts left behind by depositors who were killed or murdered during the war. The question remains, did the

Swiss banks conspire after the war to hold this money at the expense of the rightful beneficiaries and heirs? What lessons could be learned Switzerland and Swiss banking from this sometimes regrettable period of Swiss history?

First let's set the stage for Switzerland and its conduct during World War II. It's important to remember that Switzerland is an exporting nation, depending on the exchange of goods with other countries. Mark Twain was largely correct when he said; "Switzerland is simply a large, bumpy, solid rock with a thin skin of grass stretched over it."

Switzerland has little in the way of natural resources and much of its land is unusable for agriculture. The country must import all fuel, including coal and oil, plus much of its food. Switzerland is landlocked and its only direct trading route to ocean commerce is through Germany, down the Rhine River as it flows northward to the North Sea.

During the horrors of World War II, Switzerland stood alone in Europe; a tiny democracy surrounded by the Axis powers. To the north was Nazi Germany, to the east stood the Austro-Reich, the formerly occupied Austria, now a German province. To the west were the German occupied areas of France. In the south was fascist Italy.

The only window to trade not controlled by Nazis involved a narrow sliver of territory stretching west from Geneva into Vichy, France. Even this route was cut off in 1942 when the Germans occupied the rest of France. Switzerland was constantly threatened by German invasion during the war. Though the German Invasion Plan, code named "Accion Swiss" was close to activation only twice.

German troops were massed for attack, first in 1940, and again in 1943. The real threat to Switzerland came in late 1943 after the Allies took North Africa from German and Italian forces. If a wavering Italy remained within the German fold, the Allies might invade Italy, creating a new war zone with only two direct rail links to the German Reich.

Austria's Brenner Pass was extremely vulnerable to Allied air attacks. A second rail route passed through two tunnels deep in the Swiss Alps under the

St. Gotthard and Simplon Passes. Switzerland thus would stand between Germany and the survival of her forces in Italy. If Switzerland closed its rail tunnels it would cut off supplies to German troops in Italy and shield the Allied invasion of Italy from a German response.

This was unacceptable to the German high command and German forces threatened to invade and occupy Switzerland unless a compromise was worked out. Hitler ultimately chose not to invade Switzerland for three inter-related reasons. These were: Swiss war plans, Swiss military exports, and the role of Swiss gold and currency exchanges in financing Germany's war effort.

The first obstacle to invasion was purely military. According to a 1952 work on Swiss history, the Swiss would be fierce combatants on their home turf.

"When war broke out, 400,000 were with the Swiss colors. That number was increased in the course of time by the members of the auxiliary services and by the home guard to 850,000. There were never fewer than 100,000 men on active service. An impressive number in proportion to a total population of only four million. The world realized that Switzerland would oppose any power which attacked her with all the strength she had."

Swiss war plans were well known to the Germans. After a German invasion, the Swiss Army would fight a delaying action in the populated Medaland Region, where Zurich, Geneva and the capital city of Bern are located. Most of the Swiss forces would retreat to fortresses high in the Alps of southern and central Switzerland, where they would fight to the death.

The crucial north-south tunnels and communications links were strategically located in this area and the Germans desperately wanted to avoid any Swiss demolition of these tunnels and communication links which would cut off German troops on the Italian front.

A second obstacle to invasion was German dependence on Swiss industrial exports. After Swiss export routes were closed to the Allies, they were used primarily to meet the needs of German war production. Swiss manufacturing played a major, indirect role in sustaining Germany's military machine. As

neutral Switzerland was spared from most of the Allied air bombing that destroyed other manufacturing cities in Europe.

Some of the Swiss military exports were exchanged for desperately needed fuel oil, coal and food. Others were exchanged for German gold, much of it obviously looted in Nazi conquests. Swiss exports to Germany thus helped her remain independent, but at the price of accepting looted gold.

Viewed with over 50 years of hindsight, some say that complicity in the Nazi scheme was too high a price for maintaining neutrality. However, the Swiss almost certainly saw it as a necessary price for staying out of the war. A price being paid also by other neutral countries. Sweden, for example, allowed German military forces to move en masse across its borders. Swedish ore was shipped across the North Sea to Germany's vitally important steel industry.

Spain, though it resisted Hitler's request for access to the Strait of Gibraltar, sent the famous Spanish Blue Division of volunteers to fight with Germany against Russia on the eastern front. Faith Wittlsee, a former U.S. ambassador to Switzerland, has discussed the Allies assessment of the Swiss dilemma.

"Although Allied military planners would certainly have preferred to see a Switzerland committed to their cause, Swiss neutrality brought benefits to the Allies, and even to those tragically victimized by the war. In addition to 20,000 Jews already protected through residence in Switzerland, about 22,000 Jewish refugees were admitted from surrounding countries. Switzerland gave asylum to 200,000 other refugees as well. Sadly, many were turned away; one of the regrettable compromises Switzerland made to avoid incurring the wrath of Nazi Germany.

"Swiss neutrality also enabled the international committee of the Red Cross, a Swiss institution, to aid countless displaced persons and to improve conditions for Allied prisoners of war. American intelligence operations under Allen Dulles run from Switzerland, provided invaluable, up close information on

the German war effort. Allied airmen were safely interned on Swiss territory, well treated and repatriated after the war.

"Less known, and somewhat ironic given the current debate, the Allies made significantly greater use of Switzerland's gold and currency exchanges than the Axis did."

The third and primary reason that Hitler did not invade Switzerland appears to be that a secret Swiss financial network was laundering the Third Reich's looted gold. This was deplorable enough, but the rest of the story is almost unbelievable. The Bank for International Settlements, a kind of bankers bank, known as the BIS, was located in Bern and was headed by an American named Thomas McKittrick.

In a 1996 *Newsweek* article, entitled, *Nazi Gold, The Untold Story*, reporter Michael Hurst discussed the role of the BIS.

The officers of the BIS were a sort of club, Thomas McKittrick explained, banking buddies, pals, confidants. He and Emile Poole and Per Jacobsen, there's was a typical old-boy camaraderie of cigars and bar talk and walks along the quiet cobblestones of the streets of Basel. It didn't seem to matter that the year was 1943, and that they were an American, a Nazi and a Swede. Or that beyond their Swiss sanctuary a hellfire was raging.

Young men were dying by the tens of thousands. Jews packed into cattle-cars were crisscrossing Europe towards slaughter. Stripped of property that in one form or another was often funneled as loot through Switzerland. In fact, these genial clubmen don't appear to have been bothered by their complicity in that horror. They simply went about their work helping to cash looted gold; gold that they must have known was stolen by the Nazis from treasuries and cities across Europe. Gold that financed both the war and the holocaust.

The involvement of The Bank for International Settlements, or BIS, meant that other countries inevitably became involved in cashing Germany's loot. Hurst continues:

"By most reckonings some two-thirds of an estimated 660 million dollars in stolen Nazi gold, which amounts to about 7.8 billion in 1996 dollars, passed through Switzerland during the war. That's where the BIS comes in. Founded in 1930 the bank is a quasi-public institution known as the central bank for central bankers. It never played a bigger role than during World War II, when its key clients were the German Reich Bank and the Swiss National Bank. Thanks in part to McKittrick and the BIS, Germany's window to the outside financial world never closed."

In 1930 Germany had not fully paid billions of dollars in reparations imposed by the Allies at the end of World War I. The new BIS was created by Allied governments to allow Germany to resume payments by borrowing money with an issue of bonds. The strain of Germany's war debt, which many historians consider excessive, caused hyper-inflation in Germany, and this ironically contributed to the social and political climate that brought Hitler to power in 1933.

But the tables were turned at the BIS during World War II. In a twist of fate the organization originally created to drain money out of defeated Germany was now being used to finance Germany's war machine. Harold James, a Princeton University historian, puts it this way: "The BIS was a central transmission place where deals were struck. And that's what kept money flowing into Nazi coffers."

Who actually owned this central bank for central bankers? Paul Erdman, a financial writer and former head of a Swiss bank, describes the structure of the BIS: "Almost immediately after its founding in 1930, it became obvious that the BIS would go far beyond its original purpose. This had in fact been foreshadowed by the unique nature of the BIS ownership.

The controlling shareholders were the leading central banks of the world; initially those of Belgium, England, France, Italy, Germany and Japan. The American participation came from a consortium of American commercial banks; J. P. Morgan, The National Bank of New York, and the First National Bank of

Chicago, with the Federal Reserve Bank staying in the background in order to avoid any possible political interference from its supervisor, the American Congress. The BIS developed into the central bank of central banks; a powerful link between the most important financial systems in the world."

The Swiss National Bank played a role in all of this as a custodian of gold, a sort of European Fort Knox. Its vaults held gold stored on account and the bank shuffled the gold when BIS deals required governments to pay one another in gold. The Swiss National Bank made money on this custodial business, as did the owners of the BIS, including the American Federal Reserve system and some U.S. commercial banks.

In 1996 President Bill Clinton, at the request of holocaust victims, created a commission to look for Nazi funds that may have ended up in the vaults of the U.S. Federal Reserve. The commission was headed by the highly respected Paul A. Volker, former chairman of the U.S. Federal Reserve System.

U.S. Under-Secretary of Commerce, Stewart Eisenstat commented: "We have to be willing, not only to focus the spotlight on Switzerland, we have to be willing to follow the trail of assets into our own treasury."

Swiss privacy and secrecy can work as either a benefit or detriment, depending upon the situation. Germans who opened secret Swiss bank accounts in the 1930s faced a death sentence if discovered. With suspicions running high in Germany's police state, it was dangerous to spread the word about secret account, even to one's own family members. And depositors who survived the war faced many obstacles.

Twelve years had passed, many banks had merged. The Baseler Handels Bank which had specialized in German business had failed and was liquidated by the Swiss government. Just imagine the questions facing an inquirer. Do you remember the number of your secret account, or the false name it was registered under? Where are the false papers you originally used to open the account?

Swiss banking secrecy laws prohibit the disclosure of any information on an account. Unless you can prove you're the rightful owner or beneficiary, Swiss banks will not even verify that an account exists.

Here lies the central problem with any account under Swiss secrecy laws. If the account's owner tells the beneficiary, the account is no longer a secret. But if nothing is revealed and something unexpected happens to the owner, the secret account and its funds may be lost forever.

In the United States this couldn't happen for a simple reason; bank privacy or secrecy does not exist. The IRS, or even a private citizen, can call or write a bank and ask if there is an account in the name of the person in question. This happens all the time in government seizures and lawsuit judgments. But in Switzerland, neither private citizens nor lawyers, nor even Swiss government authorities can request or obtain such information, unless a Swiss court finds that a person is guilty of a crime under Swiss law.

If a Swiss account lies dormant for 20 years, the dormant funds remain at the bank indefinitely. Swiss banks have billions of dollars in deposits with no apparent living owner and no way to identify legitimate beneficiaries. Incidentally, a dormant account in the U.S. under the laws in the various states generally reverts to the state after a period of about seven years. The funds in such accounts are then lost forever to anyone who might try to claim them.

Although Swiss banking privacy is legendary, secrecy is not the most important reason for Switzerland's success as a center of international finance. Even more significant are Switzerland's financial and economic infrastructure, the strength of the Swiss franc, and innovative investment services at Swiss banks.

A book by the Oxford Club reviews several of the Swiss advantages:

"Switzerland has the respect of the world for its stability, safety and peacefulness. How is that this tiny country, measuring only 137 by 216 miles with almost no natural resources, has the world's strongest currency; has the second highest per capita income in the world; is the third largest financial center in the world, managing private assets of more than two trillion Swiss

francs; has avoided war with other nations for over 200 years; has the world's lowest crime and poverty level; enjoys political and social harmony and stability, even though its population is culturally diverse and has four official languages; is ranked year after year in the top ten places in the world to live by *The Economist* magazine and *International Living* magazine; and was recently rated number one worldwide for political, financial and economic stability by the *International Country Risk Guide*?

When one speaks of Swiss gnomes, the Swiss financial capital of Zurich always comes first to mind. Katrina Rowenson describes banking in Zurich this way:

"Zurich's main thoroughfare, the Bahnhofstrasse, is now a major conduit for international finance and center to a banking industry that accounts for 6.5 percent of Swiss GNP and employs more than 140,000 people. Just around the corner is Switzerland's central bank, The Swiss National Bank, which is responsible for regulating the finance industry. Its location was said to have been strategically located and chosen near the lake to enable it to flood its huge vaults as a protection against invasion. Some say its vaults stretch the length of the Bahnhofstrasse itself."

Just as Zurich has become physically larger, Swiss banking also has become larger as a presence in financial services as Rowelson observes.

"Today Zurich ranks as one of the world's most important financial centers after London, New York and Tokyo. It is an important hub for securities trading, asset management, gold and precious metals and foreign currency trading. According to Bank Vontobel, up to 40 percent of all foreign managed assets, between two and two and one-half trillion Swiss francs are managed in Switzerland. The stock market in Switzerland ranks sixth worldwide, and third in Europe, behind London and Frankfurt.

"Switzerland also ranks as the second most important currency trading marketplace in Europe after London. According to the Bank for International Settlements, the Swiss banks are now among the world's largest traders of

stocks and bonds. They are some of the prodigious lenders in the international capital market and they regularly feature among the 20 underwriters of Euro and global bonds. However, their prudence and conservatism remain. They are among the most credit-worthy banks in the world."

Many individuals and corporations are interested in Swiss banks as a means of establishing a strong base for global investments. The Swiss banks combine traditional banking with international brokerage and financial management. Depositors can bank in U.S. dollars, Swiss francs or almost any other currency or combination of currencies.

Investors also can purchase certificates of deposit, U.S. and international stocks, bonds, mutual funds and commodities, and they can buy, store and sell gold, silver and other precious metals. Swiss banks also deal in insurance and annuities or act as an agent in buying or holding other types of assets. And, of course, Swiss banks can also issue Visa, MasterCard and other international credit and ATM cards.

Some investors, therefore, view a Swiss bank account as a first move in developing a strategy of safety and international diversification. An individual, corporation, trust, foundation, pension plan or any other legal entity can open an account in Switzerland.

Not only do Swiss banks provide a wide range of services, they also are free from some of the banking regulations found in other countries. There are over 500 banks and finance companies in Switzerland. The three largest commercial banks are Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse. These major banks have branches throughout Switzerland and the world. All branches provide the same services which emphasize financial privacy, high reserves for safety and worldwide influence.

By law, Swiss banks are subject to the toughest capital requirements in the world. As author Adam Starchild notes; "The entire Swiss financial industry is tightly regulated, and Swiss banks are strictly supervised by the Swiss Banking Commission. Swiss banks face regular, exacting and complex audits. The audit

process is both comprehensive and meticulous. There are only 17 audit firms, each approved by the Banking Commission, which must follow a specific set of procedures and rules laid down by the Banking Commission as they go over the bank's books. Because of its preciseness the audit has become a guarantee for Swiss bank depositors."

Swiss banks are required to hold more capital against loans than is required by the Bank of International Settlements, which coordinates global capital standards. Swiss banks hold a high percentage of their reserves in gold and Swiss francs. Every month the banks are required to write down the value of securities to the original cost or concurrent market value, whichever is lower. By contrast, unrealized paper profits are common on the books of banks in other countries, and this can overstate a bank's actual strength.

In addition to safety and security, Swiss banks offer many services that can help capital expand. If a client asks a Swiss bank to purchase stocks, bonds or precious metals, the bank will hold these assets, not in a deposit account, but in a fiduciary account, also called a custodial account or a safekeeping account. This is an important distinction, because any investment held in a fiduciary is always the exclusive property of that depositor. It is not an asset of the bank and is not at risk if the bank fails. By contrast, a deposit account such as a checking or savings account represents something the bank owes you and is a claim against the bank's assets.

Another advantage that attracts foreign investors is that non-residents of Switzerland are exempt from Swiss taxes. Even for residents, the 35 percent Swiss withholding tax on interest income is charged only if the money is invested in Switzerland.

To make Swiss banking accessible to international investors, the gnomes have tried to make opening accounts as simple as possible. Alex Sutter says it's easy for a non-resident to open a Swiss account, and that the distance between you and Switzerland is no problem.

"Swiss banks have been dealing with foreign clients for centuries.

Opening an account in Switzerland is a simple and uncomplicated affair. All bank officers speak several languages, including English. Later just mail or fax your instructions and they'll be done immediately. How often do you go to your bank? With today's banking by fax, mail and plastic money it isn't very often. Soon you won't go at all. Banking will be done by coded email from your computer.

"Swiss bankers are equipped to handle any kind of financial communication. They respect you and your money and sincerely feel that it is their responsibility to help you keep it."

Most Swiss banks have a selection of investment plans which may be diversified or focused to your taste. Investors can choose from portfolios that meet conservative, moderate or speculative goals. Some investors manage their own accounts while others hire Swiss managers or outside managers. Generally, Swiss bank accounts can be opened with a \$50,000 investment in mutual funds. However, fully diversified accounts where individual securities are managed often have a minimum of \$500,000 to \$1,000,000.

Most Swiss banks will provide an international debit card that can be used for purchases or cash withdrawals in the United States. Some investors prefer an international debit card because purchases usually are recorded in a way that cannot be accessed by lawyers or investigators.

While Swiss banking certainly has an allure, Americans taking advantage of Swiss bank services must consider several issues. First, the U.S. Treasury has reporting requirements for Americans who establish offshore bank accounts. If the total of all offshore accounts exceeds \$10,000 at any time during the year, even for one day, a U.S. citizen must file the appropriate disclosure forms. Ignoring this requirement won't bring the death penalty as it did for World War II Germans, but it does have serious consequences.

International tax expert, Carlos E. Kopek, explains the penalty.

"Don't forget the banking secrecy law, an inaccurate name if there ever was one. It should be called the banking disclosure law. It compels U.S. citizens

with foreign bank accounts which total or exceed \$10,000 in any tax year to report ownership of their accounts to the U.S. government. If you have more than one account, the total applies to the sum of all accounts. Something that is not well known is that this also includes certificates of deposit, and negotiable securities in securities accounts. Get convicted on this and you may be hit with a fine of up to \$500,000, or a sentence of up to five years in jail, the same as for failure to report a transfer of cash out of the country."

Moreover, any interest or gains on Swiss accounts, while not taxed in Switzerland, are reportable on U.S. tax forms each. Many Americans mistakenly assume that earnings accumulated offshore are not taxable in the U.S. But only the United States, the Philippines and the tiny African nation of Eritrea, tax residents on gains or income earned anywhere in the world.

Another area of concern involves potential difficulties in receiving investment information from Swiss institutions. In fact, more and more Swiss banks will not do business with Americans because of restrictive U.S. policies and regulations that threaten any foreign institution that offers non-registered investment to U.S. citizens.

Financial writer, Michael Orrsessit, discussed American investment restrictions in a 1996 *Wall Street Journal* article entitled, *You Can Look, But U.S. Investors Can't Get Their Hands On Some of the Best International Investments*.

"Although many international investment opportunities have opened up to Americans over the past two decades, literally thousands of them remain effectively closed to individuals, in large part because of restrictive U.S. government policies. What's more, some of them rank among the world's most tempting and most successful investments. When it comes to international investing the individual American is one of the most restricted people in the world, says Bruce Johnson, Director of Global Research at ING Berings Securities Ltd. in London. The government is, in effect, saying despite your education, the richness of your financial environment, the general wealth of America relative to the rest of the world, you can't be trusted to invest overseas.

Unregistered mutual funds, which include most funds managed by Swiss banks, are also unavailable to American investors. Michael Sessit explains why.

"Under the Investment Company Act of 1940 a foreign fund that isn't registered with the SEC cannot offer its securities publicly in the U.S. And if the SEC suspects something is amiss, the onus falls on the investment company or unit trust to show that it isn't, says Richard Rosenthal, European Legal Director for Morgan Stanley & Company in London. As a consequence, most offshore mutual funds play it safe. They generally require investors to certify that they aren't U.S. residents or acting on behalf of U.S. residents. Many funds also bar U.S. citizens, no matter where they live."

Jurg M. Lattmann, President of JML Swiss Investment Counselors, in Zug, Switzerland, discusses how even the largest Swiss banks are threatened by the U.S. Securities and Exchange Commission.

"The SEC is not an organization that Swiss investment institutions take lightly. Remember Colonel Harwood? I don't remember what the investment model was, but there was some gold involved. The Treasury wanted the financial records of the American customers of Harwood, who were dealing with Credit Suisse. Under Swiss law it was illegal for the bank to release the information, so the U.S. authorities threatened to confiscate the assets of Credit Suisse New York, if that information were not surrendered. This type of blackmail is what most companies are afraid of.

For me, the worst thing about this whole system is that the U.S. government will not allow, supposedly free Americans, to get the information they want to have. You travel the world and you see investment opportunities and you say, well, that would be interesting to do. But as an American you always have to ask yourself, is it legal; can I legally buy that; or legally get this information. The SEC is supposed to protect the investor, but when an American writes to a foreign country asking about an investment or insurance product, what he's likely to get is a letter back saying that, due to SEC regulations the company is not allowed to send this information."

In recent years many international investors have come to question the validity and need for the Swiss bank account. An avid reader of the financial press might be forgiven for thinking that Swiss secrecy and Swiss banking have become dated and unresponsive to current financial needs. Headlines in financial publications include these gems: The Exploding Myth of the Swiss Banks; Opening a Swiss Account is No Big Secret; Swiss Secrecy, Don't Bank on It; Laws, Fees, Take Glow Off the Swiss Bank Account; The Days Are Numbered for Secret Accounts; Swiss Banking Haven Losing Luster; Is Swiss Secrecy Still Bankable; Those Famed Swiss Bank Accounts Aren't Quite As Impenetrable as They Used To Be.

Despite such warnings, Switzerland remains the safe haven of choice for much of the world's private wealth. Why the dichotomy? One explanation is that many foreign governments and private financial competitors covet Switzerland's near majority control over much of the world's private investment business. Notwithstanding the headlines, the following story clearly shows why and how Swiss banking privacy remains notably strong. While this is a dramatization, it accurately describes the climate of modern Swiss banking.

In his book entitled, *The Laundry Men*, Jeffrey Robinson tells a story about a character named Senor, who attempts to open a secret Swiss bank account.

"Because discretion is such a salient commodity you learn quickly that you can't just walk into a bank and announce you want to hide money. 'I'd like to open a secret bank account,' comes the request in a forthright tone, 'account secrete'. A woman at the first bank doesn't disguise her announce with such clumsiness, 'We're not interested in any new business of that kind,' she says. The aspiration is repeated in a slightly less hardy voice at the second bank. 'I'd like to open a secret bank account, account secrete.'

"A woman there is hardly more congenial. 'Do you mean an account anonym? May I suggest another bank that might be more receptive.' She does. The second bank isn't interested either. A man at the third place explains to an

increasingly unobtrusive inquirer, 'We are not taking on any new private banking business. Perhaps you might try somewhere else.' An official at the fourth stop, directly across the street, is even less affable despite the ever-diminishing decibels. 'There is no such thing here as a secret bank account, I'm terribly sorry to disappoint you. Secret Swiss bank accounts are only for the movies.'

However, at the fifth bank, when a properly hushed desire is expressed to discuss 'various benefits of private banking,' the special affairs teller responds with a businesslike nod and directs her perspective client to a carpeted suite of offices behind a locked door. There an impeccably tailored gentleman introduces himself, wondering graciously if Senor would care to speak French, Italian, English or German. Senor suggests English. The gentleman nods, and in a polished British accent asks, 'Coffee, perhaps some tea?' After two pitch-black espressos arrive on a silver tray, carried by a suitably attired waiter, the gentleman closes his office door and asks how he may be of assistance.

"Senor says he's interested in establishing 'a discrete, private banking relationship, perhaps something along the lines of account anonym.' 'I must caution you,' the gentleman begins, 'that this kind of facility has been much romanticized over the years. The so-called secret Swiss bank account is strictly for pulp fiction and the cinema.' 'Now where,' Senor probes, 'do you think they got such a notion?' He speculates, 'Perhaps they've misinterpreted the banking rules in this country as they actually exist. What we do have to offer is a code that protects all bank accounts; everything from your conventional current account to your child's savings account. It's a crime in Switzerland for anyone working in a bank or anyone who has ever worked in a bank to reveal any information whatsoever about an account. It is against the law even to say that a specific account exists.' 'You mean, you'd be breaking the law if you told me your wife kept her checking account in this branch?' 'That's correct.'"

This experience helps demonstrate why lost bank accounts are so difficult to locate, even by rightful beneficiaries. Although the Swiss banks will do what is required by law, finding lost accounts is not a high priority unless a request is

made. For one thing, these dormant accounts are a substantial source of bank revenues.

Robinson elaborates: "Swiss silence is by design and in all but the rarest circumstances it is not merely 24 carat gold but inlaid with diamonds, rubies and sapphires. Every account is protected, at times to an extreme degree. Take the case where someone dies and his heirs attempt to discover if he's been stashing money in an account, all they will ever get out of any Swiss banker is a hollow stare and a slightly chilly reminder that banking codes prohibit disclosure of any information concerning any accounts.

"However, in this case there's more to it than a mere requirement to comply with the law. Banks zealously cloister their business behind strict banking codes because they're permitted to reap the bounty of accounts that have lain dormant for over 20 years. If you die and no one knows about your account anonym the bank can claim your money. One estimate has it that at any given time there are tens of billions of dollars sitting unclaimed in Swiss banks.

"So technically, the gentleman is right, what he hasn't endeavored to say is that in Switzerland not all accounts are protected equally; that some are considerably more equal than others. Banks all over the world offer preferential facilities to customers willing to pay for the privilege. Private banking is standard product in today's financial services industry. Marketed as being extra exclusive and therefore appropriately priced, it's even readily available in every major North American city where banking secrecy is scarcely ironclad. "However, when you speak about private banking in Switzerland, the accent really must be placed on the word *private*."

Swiss banking privacy still exists, but not if you break a Swiss law or if you are a major political tyrant or dictator who has committed crimes against your citizens. Still, depositors are protected in many cases as the *Offshore Money Newsletter* notes: "Swiss banks will sometimes divulge account information to outside authorities, but only if a Swiss law is broken. This does not include any

kind of tax evasion or foreign currency transactions which are not considered a crime in Switzerland. To further protect individual depositors all Swiss taxes due on Swiss bank accounts are sent to the government in a lump sum, in a single check for all accounts, without revealing the name or size of any single account.

The Swiss federal banking regulator, Daniel Zuberbuehler, has declared that Swiss banks are not money pots for deposed tyrants. "Dictators and would-be tyrants beware, if you find yourself rudely tossed from your power throne, don't expect your rainy day money to be waiting for you in Zurich. If you're the dishonest leader of a country, you'd better not put your money here."

Andreas Hoffschmidt, First Secretary of the Swiss Bankers Association, adds this: " Bank secrecy was never meant to cover up for money launderers and criminal organizations. Today's Swiss gnomes must scrupulously identify their customers or risk a run-in with Swiss investigators."

As the Swiss see it, the original and continuing purpose for Swiss banking secrecy is to protect the innocent, not to shield the guilty. Swiss banking officials, government authorities and, most importantly, Swiss voters give every indication that this policy will continue.

As international computer networking and electronic banking make the world smaller, times are changing for Switzerland and its banking industry. Swiss banks now have to compete on a global basis, and many of the smaller Swiss financial institutions have had to merge with larger banks. Competitors in other banking centers such as Grand Cayman, Liechtenstein, Austria and the Channel Islands, also promise privacy and secrecy but without the centuries of tradition associated with Switzerland. Yet many investors seem to be increasingly concerned about the security of their assets.

Frivolous lawsuits and excessive court judgments are in the headlines almost every day. These threats, along with the constant demands from governments for more tax revenue, lead more and more investors to consider a safe haven for a portion of their assets. Switzerland now faces a situation similar to the one it faced in the late 1930s. Once again a large superpower, the United

States, is demanding changes in the long Swiss tradition of secrecy and privacy in financial affairs.

The Swiss have moved toward more open policies when there is proof of drug money, money laundering, insider trading, organized crime or major political misdeeds. However, the Swiss have resisted intense pressure to open the records even further.

As reporter John Templeton discovered; "Despite the Swiss moves, pressure on Switzerland and other flight-capital havens to follow the straight and narrow is hardly over. U.S. authorities are now trying to persuade Switzerland and Austria to hand over information on the accounts of suspected tax cheats. Both countries say they won't unless prosecutors can prove massive organized fraud. Even in these days of squeaky clean bank morality, old habits die hard."

A financial privacy newsletter noted this experience: "IRS investigators were accused of actually lying to Swiss authorities to get information about an accountholder. According to court documents, they told the Swiss they were investigating the man for being involved in organized crime, when they were really investigating him for criminal tax evasion. Under their mutual legal assistance treaty with the U.S., the Swiss are obligated to provide information in organized crime investigations. They are not obligated to help U.S. investigators in income tax evasion cases. Thus, the Swiss authorities released the information that the IRS wanted as required under the treaty. It later came out that this man was not involved in organized crime at all; he was being investigated for income tax evasion. What's more, the judge painted the IRS's activities as 'a little white lie' and said that it wasn't worth reversing the man's conviction over it."

Despite such pressure from the U.S. and other large nations, history indicates that Switzerland will probably continue to uphold its tradition of financial privacy and secrecy for Swiss and foreign account holders. The Swiss view privacy, not as a convenience or a competitive tactic, they view it as an economic right. Also, Swiss banking and privacy are profoundly important to the

Swiss economy. But the major reason that Swiss banking and privacy laws will change slowly, if at all, is that the people ultimately rule the government. Even the political powers of the Swiss banks, the Swiss central government, and pressure from the United States cannot overrule the political power of Swiss citizens.

In national referendums Swiss voters have refused to compromise bank secrecy. It's not that Swiss citizens are especially concerned about the privacy of foreign investors, rather, they are determined to protect financial privacy for Swiss citizens, and in doing so they protect the privacy of anyone who banks in Switzerland wherever they may live.

Swiss citizens continue to demonstrate a stubborn distrust of all centralized authorities, whether in their own capitol of Bern, in the New York headquarters of the United Nations, or in the Brussels headquarters of the European Economic Union. In Switzerland the people rule and sometimes they drag the government in line behind them.

The Swiss voters choice to stay out of the European Union has had a major impact on the Swiss economy and financial system. First, the establishment of a Euro currency caused German investors to become fearful of losing the benefits of the German marks hard currency status. Such large financial changes, particularly in Europe, often cause investors to pour money into the Swiss franc for safety. And in 1995 German investors dumped billions of marks into Swiss banks. The flood of investment was good for Swiss financial institutions, but Swiss exports and tourism, also important parts of the Swiss economy, were hurt by the stronger Swiss franc.

Unlike other world currencies, every Swiss franc is required by law to be backed by gold. This is a main reason for the francs legendary strength. But the law also limits the Swiss Central Bank's ability to increase the amount of currency in circulation. Therefore, if the Swiss franc becomes overvalued the Swiss National Bank has little choice but to limit capital inflows into Switzerland.

In 1978 the Swiss National Bank did enact such limitations, saying the action was necessary in order, in its words, "to safeguard the Swiss franc and the national economy." The bank believed that the Swiss franc had become overvalued due to speculation on the foreign exchange markets.

The *Swiss Banking Handbook* describes how controls were put into place in 1978. "To make capital inflows into Switzerland more difficult, the Swiss authorities passed several new sets of regulations in February and March, 1978. These moves were taken by the Swiss government in response to the rapid appreciation of the Swiss franc, a rise of over 20 percent in the early months of 1978."

One of the regulations created a ten percent negative interest charge per quarter for non-residents. Another halted the purchase in Switzerland of bonds denominated in Swiss francs. These and other regulations were discontinued after a short time as the Swiss franc pulled back to a more realistic level. Foreign investors can conclude that the Swiss National Bank will do what is necessary to safeguard the Swiss economy. Most expect that if the Swiss franc again becomes overvalued, the Swiss will again limit the inflow of foreign funds. But it's worth noting that the Swiss government has never restricted the outflow of funds.

The answers to almost any question about Switzerland's financial future can be found by looking at its 700-year history. Based on past performance it's reasonable to conclude that the Swiss will compromise and negotiate. Meanwhile, the slow wheels of Swiss democracy protects Swiss citizens and world investors from risk, intimidation and threats to their financial security.

As stated by a major Swiss bank, in cooperation with the Swiss Bankers Association, "The individual's right to privacy is a basic concept that democratic countries recognize and reinforce as constitutional guarantees. Since this democratic principle is the cornerstone of all personal liberties, the erosion of privacy through mounting government surveillance of citizens' activities and attitudes raises disturbing questions in any free society. Switzerland and its

banking community have compelling reasons for resisting invasions of privacy that threaten to compromise traditions and principles nurtured for 700 years."

The French novelist, Victor Hugo, expressed his view with finality well over a century ago. "In history, Switzerland will have the last word."