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## A more upstanding approach is achievable

Switzerland is in thrall to its banks – but it does not have to be. The economic importance of the financial institutions and, in particular, banking confidentiality is overstated.

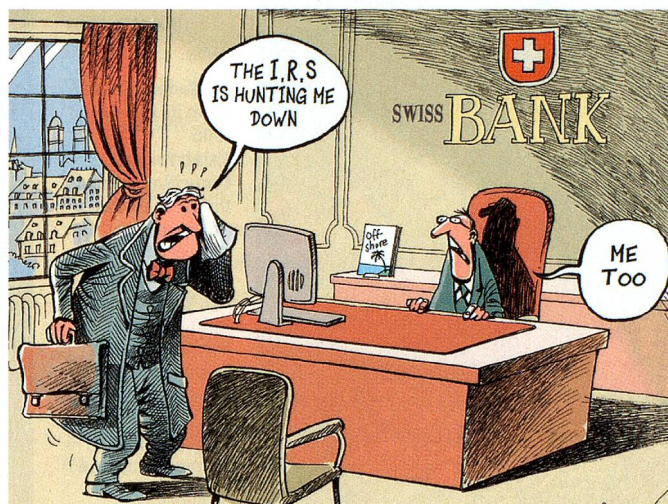
By Ralph Pöhner

What does Wegelin have to do with ordinary Swiss citizens? What does any bank on which the US judicial authorities are now clamping down hard? After the controversy surrounding Jewish assets, the subprime UBS crisis and the UBS tax scandal, Switzerland is supposed to bend over backwards for a fourth time because of mistakes made by individuals – individual banks and individual bankers. A shadow has been cast over the whole nation owing to the dispute over the untaxed assets of US clients, and the government feels compelled to run to the aid of the banks.

### The message is clear

It does not have to be this way. When industry flagships ABB and Sulzer were teetering on the brink in 2001 and 2002 after American class action lawsuits, the rest of the nation saw the case objectively for what it was, a legal dispute and a business matter for two private companies. Admittedly, the current dispute between the United States of America and Wegelin, Julius Bär and other banks is clearly dominated by a clash of two legal opinions on banking confidentiality. However, with the ratification of the UBS state treaty in summer 2010, Switzerland – the state – sent out the clear message that it no longer wished to tolerate tax evasion.

The fact that this message was ignored by some banks was primarily a management error. Yet, it is now down to Berne's diplomats once again to smooth away these mistakes, and politicians from several parties are calling for a show of solidarity with the banks: it's them or us, America or Switzerland. This case shows how powerful myths can be. In contrast to ABB steam generators and Sulzer hip joints, bank accounts clearly remain a matter of national importance in 2012: Switzerland – forever the nation of watches, cheese and banks? At any rate, the belief



that we largely owe our prosperity to the banks still prevails in 2012.

### Economic importance overestimated

This notion is a mistaken one on several levels. It is incorrect historically because the banking industry was just one contributor to the economy even in the legendary days of numbered accounts – the wealth was primarily created elsewhere. In 1980, when Switzerland was the wealthiest nation on earth according to almost every statistic, the banks only contributed 4% to gross domestic product. Their significance has since increased but the banks remain one of many sectors of the economy. They currently employ just under 110,000 people out of a total workforce of 3.4 million. By comparison, the electrical, metal and engineering industries provide employment for around 335,000 people (thanks to ABB and Sulzer, for example). Today, banking contributes 7 or 8% to Switzerland's wealth, and the vast majority of this value creation is accounted for by conventional day-to-day operations: company loans, mortgages, pension plans, fund development, retail client accounts, safekeeping accounts and – yes, that's right – the management of taxed private assets. All of these are services that have never filled any US public prosecutor,

finance minister or development policy NGO with indignation. And they are business areas that hardly threaten to leave half the nation teetering on the edge in the event of a global financial crisis: too small to fail.

Compared with other European countries, the Swiss banking sector does indeed hold special significance. Whereas bank employees account for over 3% of the workforce here, the rate stands at around 1.5% in Austria, the Netherlands, Denmark and Germany. There are two reasons for the importance of the Swiss banks. Firstly, this small nation has two

major banks that are among the global players and, secondly, Switzerland is the world's largest offshore centre. It is the foreign country where people like to put their money. Is banking confidentiality a key factor in this? No. If you believe the claims of the financial sector, this is down to its stability, its position at the heart of Europe, the standard of its banking services and its discretion. These are qualities that would still apply if the banks were to refrain from high-risk, politically controversial areas of business that are damaging to their reputation.

A look at the Netherlands, where the financial industry also contributes 6.5% to GDP, where equally impressive banks are found and where the sector employs as many people as here (around 110,000), provides an indication of what the future may hold. The financial sector there is more upstanding, relatively smaller and, since the clear-up after the financial crisis in 2008, no longer a political issue.

So, is the prosperity of the nation at stake? Hardly. Switzerland would be able to cope if its banks were the most upright in the world. This would irk a few bank managers at most.

RALPH PÖHNER is the co-founder of the financial website [finews.ch](http://finews.ch) in Zurich. His article first appeared in "Die Zeit" on 16.2.2012.