

The financial centre of the future

(Translation of an article written by H.S.H. Prince Michael of Liechtenstein published in "Finanz und Wirtschaft", the leading Swiss financial and economic newspaper, on 27th June 2009.)

When the heads of states and governments of the G20-countries met in early April to create a new economic order they announced the start of a new era. Somewhat arrogantly the concluding paper started with: "We the leaders..." However, the only points they in fact agreed on were, economically seen, details which will have adverse effects: The end of the banking secrecy is a shocking breach of privacy of citizens and hard proof of those governments' distrust towards their own populations. Certain tasks, especially concerning regulations, were assigned to the IMF without even consulting other member-states of the IMF (e.g. Switzerland) – thus limiting the economic freedom, independence and right to participate of other countries.

In the areas of banking secrecy and international collaboration in fiscal matters the OECD had classified countries in lists. It appears that the *grey list* which included countries such as Switzerland, Luxemburg, Austria, Liechtenstein and Belgium already existed before. It also appears that the criteria for inclusion in this list were established on the basis of the list itself in order to justify the listing of such countries. As some sort of a farce certain countries were placed on a *black list*, a list which dissolved in no time.

New gunboat policy

One would be tempted to see the above as a comedy. However the subjection of the worldwide economic and financial system to the interests of the larger states is extremely dangerous. This supports the protectionist tendencies of these states,

while the strengthening of the world trade and the WTO was a minor matter at the G20-summit.

As towards the end of the 19th century the large powers divided the world in colonies and spheres of interest the major issues were raw materials and strategic interests. At that time the fact of the matter was that smaller states and especially those that were colonized had no rights. We call this the gunboat policy. This behaviour towards smaller states appears to be gaining acceptability and – as in the past – is being dressed up with “noble intentions”.

What are the consequences for financial centres? Will a financial centre of a non-large state in future require a stamp of quality by the G20, opportunistically adapted to every day politics and issued by their wilful servants, the OECD and IMF? Is it possible to maintain under these conditions an independent financial centre adapted to the needs of the economy and not to the greed of politics? Harold Wilson, a former British prime minister, quoted once: “A week is a long time in politics.”

Financial systems need continuity and stability in order to fulfil efficiently their mission to supply the economy with money. Financial centres now tend towards specialisation whereas payment services and custody are becoming virtual and will no longer depend on financial centres unless state-restrictions (exchange control and taxes on transactions) are reintroduced. Parts of the credit business such as mortgages and working capital credit are rather a local business.

A financial centre has the obligation to accumulate capital (private and institutional) and to provide these funds to the economy. Financial centres specialise and compete

with each other. Capital was and still is under threat and needs particular protection for which confidentiality and privacy are essential as well as a stable and economically liberal environment and good international relations. A financial centre also needs appropriate institutions and qualified staff.

Smaller states, due often to their higher internal stability, have long been suitable as financial centres. Financial institutions controlled by entrepreneurs have in the long-term proven to be more customer-oriented and resistant than those led by managers. Long-term thinking avoids inflated incentive systems. Conflicts of interest due to the fact that investment banking, commercial banking, asset management and private banking are part of the same organisation must be avoided, as well as institutions which are oversized in comparison to their own economies. In order to achieve an optimal allocation of capital in the economy it is to be hoped that such financial places will continue to exist and new ones will be created.

An efficient system in the future will require the cooperation of the larger democracies with financial centres which are either in the sphere of influence of the larger states or independent. The basic principle that financial centres can guarantee confidentiality, privacy, continuity and stability and that the interests of other states will not be damaged needs to be applied. In fiscal matters this can be achieved through an anonymous withholding tax. The anonymity of the withholding tax is important as history has shown that most illegal infringements against capital resulted from state intervention. There is further a very justified distrust concerning data protection by public institutions.

At present, we discern the intention that such financial centres should only exist within the sphere of influence of larger states' politics. China achieved that offshore centres like Hong Kong and Macao may keep their privileges and places such as Delaware are spared from criticism.

Stability creates trust

The policies of many industrial states raise the danger that parts of their economic system slip into illegality. Many regulations and intransparent complex fiscal systems stimulate the hidden economy. Certain studies show that in the past years the hidden economy in Germany has increased to 17% of GDP. This does not enhance the stability and trust which efficient financial systems require. The trend towards the hidden economy also creates the need for a parallel financial system. In effect, this results in a quasi virtual "financial centre" under the radar screen.

The American constitution "We the people..." had as a main objective to protect the citizen against the state. This has led to unprecedented developments. The G20 ("We the leaders...") however is proposing systems which will result in a deep infringement of freedom and privacy of their own citizens and the national independence of smaller states.