

# Current Concerns

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## Strong Swiss franc and large current account surplus – a contradiction?

by Thomas J. Jordan, Chairman of the Governing Board of the Swiss National Bank  
Speech held on 19 February 2013 at the Swiss Institute of International Studies, Zurich

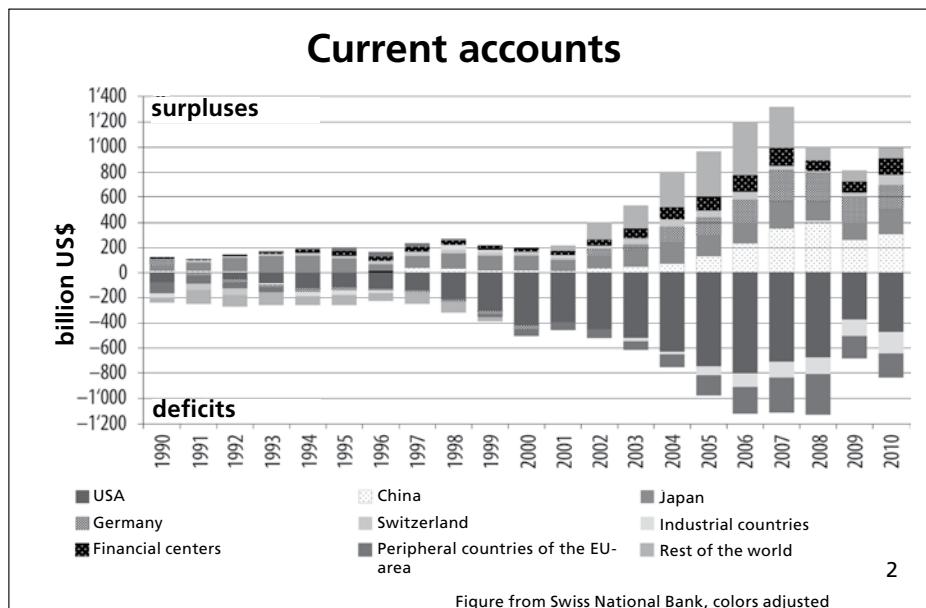


Thomas J. Jordan  
(picture SNB/P. von Ah)

For almost 18 months now, the Swiss SNB (SNB) has been enforcing the minimum rate of CHF 1.20 per euro with utmost determination. In summer 2011, the appreciation of the franc had assumed such

proportions that we had to act in order to fulfill our statutory mandate. SNB monetary policy is focused on ensuring price stability while taking due account of the economic situation. We extended the first money market liquidity at a historically unprecedented scale. Since this measure did not achieve the desired sustainable stabilization on the foreign exchange market, we finally fixed the minimum rate on 6 September. Thus the SNB met the monetary tightening due to the massive strength of the franc which was menacing the Swiss economy. International developments unsettled financial markets and made the franc a safe haven. With interest rates at almost zero, we announced the introduction of the minimum rate for the foreign exchange market and thus put up a clear barrier in a situation in which the possibilities of conventional monetary policy had been exhausted. Thereby, like other central banks, the SNB is becoming active in the area of unconventional monetary policy.

The necessity of the minimum exchange rate is widely recognized at home and abroad. In particular, the other central banks and the *International Monetary Fund* (IMF) understand the specific situation for Switzerland. They acknowledge that, given the exceptional circumstances, a minimum exchange rate is required. There is a common understanding of this



Data source: International Monetary Fund (IMF), Balance of Payments Statistics  
BOPS: current account values (according to BMP5)

Annotations:

- Industrial countries: Australia, France, Great Britain, Canada, South Korea
- Financial centers: Belgium, Hongkong, Luxemburg, The Netherlands and Singapore
- Peripheral countries of the EU area: Greece, Ireland, Italy, Portugal and Spain
- The rest of the world is the sum of the remaining 151 countries in the IMF-BOPS-database

SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIONALE SVIZRA  
SWISS NATIONAL BANK

## Structure of the current account

### balances

Goods	Export of goods	- Import of goods
Services	Export of services	- Import of services
Labour income	Labour income from abroad	- Labour income transferred abroad
Capital income	Capital income from abroad	- Capital income transferred abroad
Current transfers	Current transfers from abroad	- Current transfers abroad
Current account =	Revenues	- Expenses

**"Strong Swiss franc ..."**  
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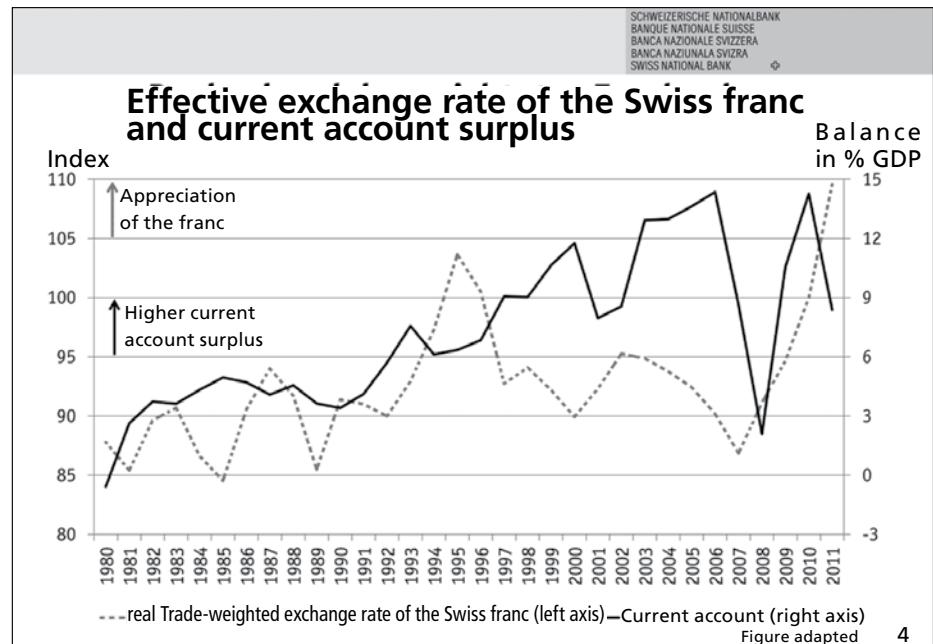
view, not least because we have clearly set out and explained our motivation for the introduction of the minimum exchange rate from the very beginning. We have also fixed the minimum exchange rate at a level at which the franc is still highly valued.

The significant exchange rate movements of some currencies have recently given rise to discussions on various occasions. Thus, the influencing of exchange rates by central banks has been criticized, either directly through foreign exchange purchases or indirectly through additional monetary easing measures, such as securities purchases. Ultimately – so the critics argue – the relevant central banks operate a “beggar thy neighbor” policy: They were only concerned about supporting their own economies by means of a weakening of the currency at the expense of other countries. Sometimes it is feared that a devaluation competition among countries could emerge. Mostly Japan, the UK, the USA and occasionally Switzerland, are mentioned in this context.

Discussions on the permissibility or need to influence the domestic currency will also find a fertile ground in the markedly increased global imbalances after the turn of the millennium. The deficits in the current account of many countries have increased significantly. In return surpluses in other countries increased, as can be seen in *Figure 2* [Fig 1 corresponds to the title of the speech]. These global imbalances might lead to instability and jeopardize global economic growth.

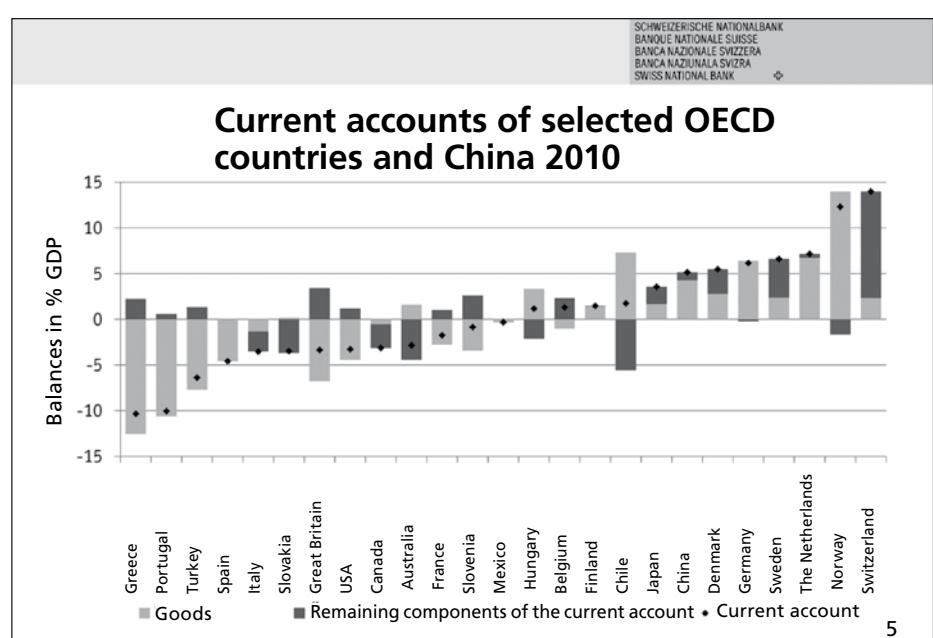
Given this development there is an intense debate whether surplus countries are partly responsible for these imbalances, not least because of a potentially weak currency. China, Japan and Germany as surplus countries are primarily in the focus of this discussion. Sometimes in this context, however, reference is made to the current account surplus in Switzerland. In 2011, the current account surplus was 8.4% of the *gross domestic product* (GDP). This large surplus, that's how the argument runs, is a sure sign that the franc is not strong, but too weak. The SNB should therefore abolish the minimum exchange rate and allow a further appreciation of the Swiss franc. As a result, the surplus in the current account would recede. This would contribute to reducing global imbalances.

This view is based on a lack of knowledge about the situation in Switzerland and therefore leads to a sometimes misguided discussion about our monetary policy. Ladies and gentlemen, today I would like to show therefore, that the SNB does not engage in “Beggar thy neigh-



Data source:

- Swiss National Bank (SNB), Switzerland's balance of payments: current account values
- Federal Statistical Office (BFS): gross domestic product (GDP)
- Bank for International Settlement BIS: effective exchange rate indices: real trade-weighted exchange rate of the Swiss franc (26 trade partners, base year 2010)



Data source:

- IMF, BOPS: current account values (according to BMP5)
- World Bank: World Development Indicators: GDP

Annotations:

- Remaining components of the current account = services + capital income + earned income + transfers

bour” policy and that there is no contradiction between the overvalued franc and the substantial current account surplus in Switzerland. In order to do so, I will call to mind the first of the main components of a current account. I will then address the question, what do surplus and deficit mean for the current account and under which circumstances can this be viewed as actually problematic from a global perspective. I will dedicate most of my remarks to the specific causes of the high

current account surplus in Switzerland. These are hardly influenced by the exchange rate, but rather by the international development. Accordingly, it is not effective to reduce the Swiss surplus and global imbalances via an appreciation of the Swiss franc. As a small, open economy with substantial foreign direct investment our country makes quite a considerable contribution to a balanced global

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### "Strong Swiss franc ..."

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economic growth. Finally, I will argue that the monetary policy of the SNB is not aligned with the current account. Rather, it was the concern about price stability and overall economic development that led us to take action against the massive overvaluation of the Swiss franc in the summer of 2011.

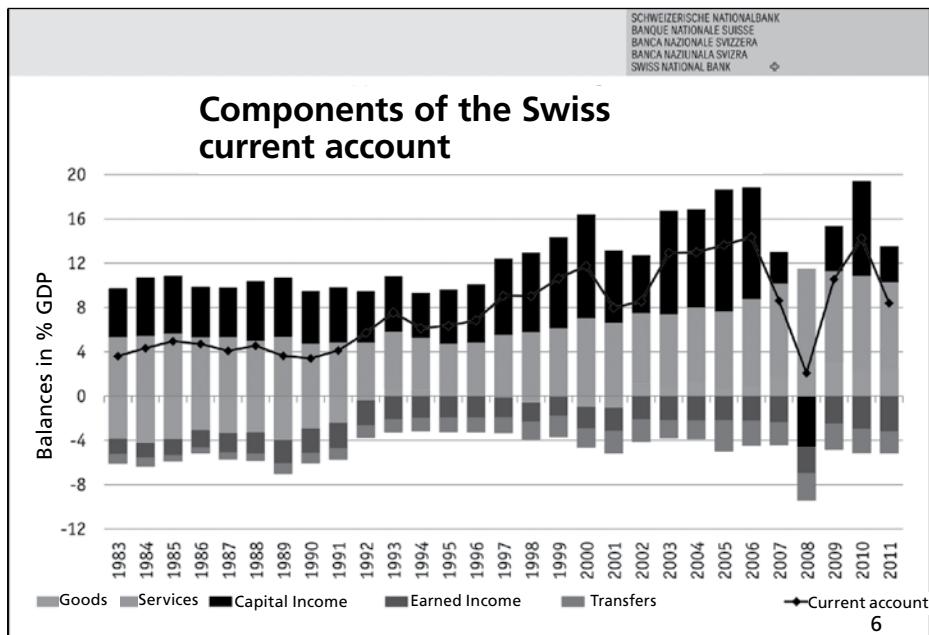
#### Significance of a current account surplus or deficit

Let me now begin with some general remarks on the current account. What is the current account after all? Let us consider *Figure 3*. The current account initially records the exports and imports of a country's goods. If we were to stop our considerations at this point, we would be dealing with the balance of trade. The current account, however, includes four other major components. It also considers the exports and imports of services. Moreover, it accounts for the income on investments by residents abroad or foreigners in our country, the so-called capital income. Another position of the current account is the income of nationals abroad and foreigners in our country. Essentially, these are the incomes of commuters. Finally, it includes the current transfers, i.e. payments from home to foreign countries or vice versa, for which there is no direct compensation. This includes, for example, the development aid or transfer payments from foreign workers in Switzerland to their families back home.

If the current account shows a surplus, this means the following: The added income generated by the goods and services export plus the capital and labor income from abroad and current transfers from abroad are higher than the corresponding expenditure.

A current account surplus means for a country nothing but that it spends more than it earns in transactions with other countries. A portion of the income of this country is not spent on consumption and investment at home. The savings surplus is invested abroad, so the country's balance abroad is rising.

Is the fact that there are countries with current account surpluses and those with deficits a fundamental problem at all? In fact, there are no objections to a country that rather saves and invests these savings surplus abroad, i.e. exports capital, neither to another country that consumes and invests more than it saves and thus imports capital. There is no – derived from economic theory – optimal current account balance. Basically each account surplus is optimal as long as it has developed without distorting restrictions of goods and capital. The current account balanceulti-



Data source:

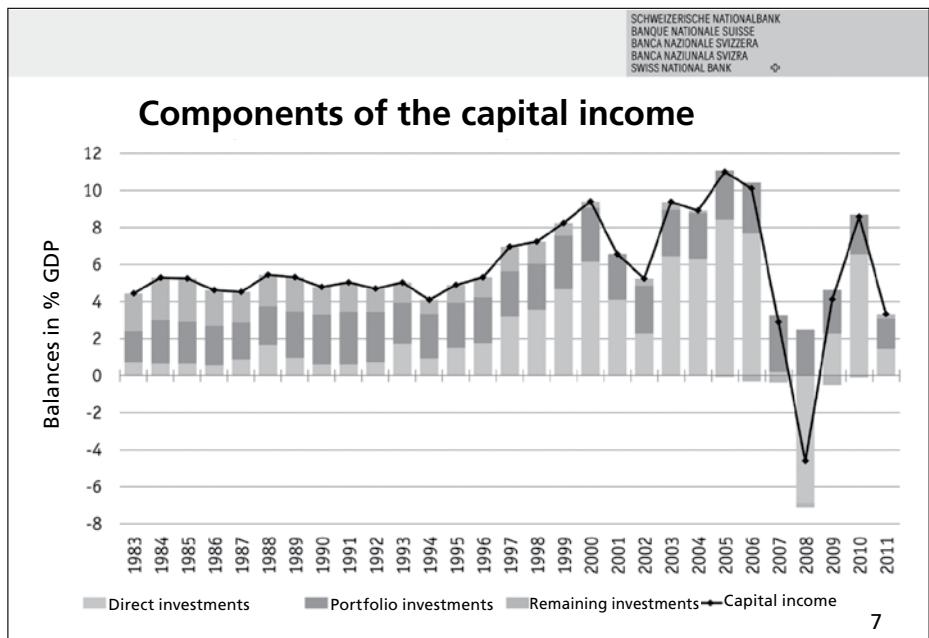
For this and all remaining figures concerning the Swiss current account and its components:

- SNB, Balance of Payments: Current Account Values

• BFS: GDP

Annotations:

- Current account = services + capital income + earned income + transfers



Annotations:

- Capital income = revenues from direct investments + portfolio investments + remaining investments

- Capital income from remaining investments = other investments + claims from reserves of pension funds

mately reflects the private savings and investment decisions and the state's fiscal policy.

A look at the economic history shows that large current account deficits, however, are often a leading indicator of financial crises. This is due to the fact that such deficits must be financed. This financing may sometimes end abruptly. Difficulties may arise in particular when a deficit country consumes the imported capital or invests in unprofitable projects. The prob-

lem will increase, if not a few, but many countries have increasingly large deficits. Such global imbalances do not constitute a basis for sustainable growth of the world economy.

Against this background, the deficit countries are usually warned not to allow their loss to escalate, respectively to reduce it. The investors might otherwise lose confidence and may not be willing to

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### "Strong Swiss franc ..."

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fund the deficit countries' spending with their savings surplus.

As I mentioned, surplus countries were also partly criticized in the face of growing global imbalances. The IMF has investigated the question in how far there are undesirable trends in surplus countries, which ought to be addressed in the interests of reducing global imbalances.<sup>1</sup>

If failures are diagnosed in surplus countries, roughly speaking there are two approaches in the foreground to possibly reduce a surplus in the current account.

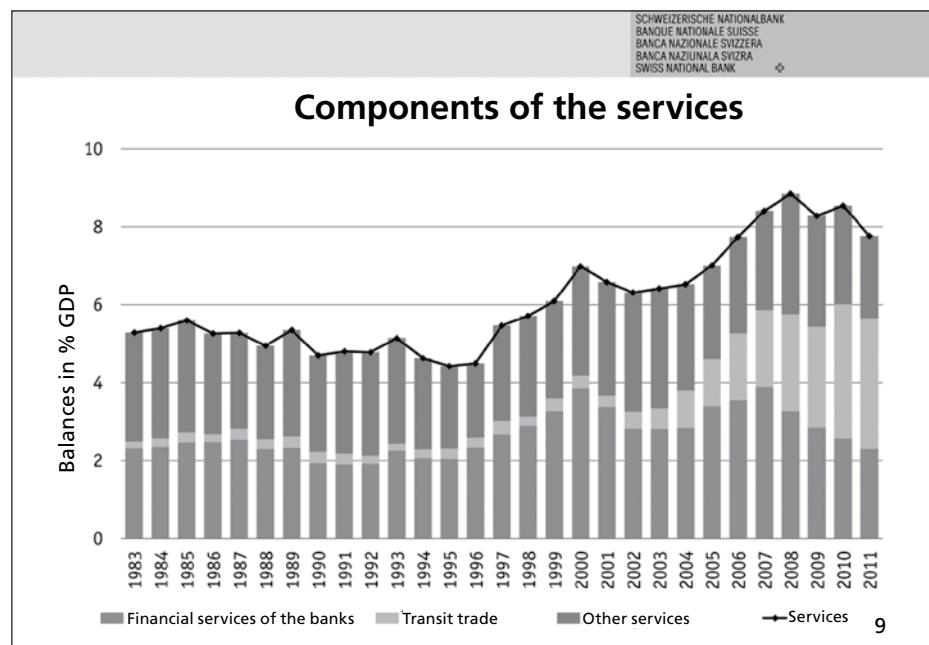
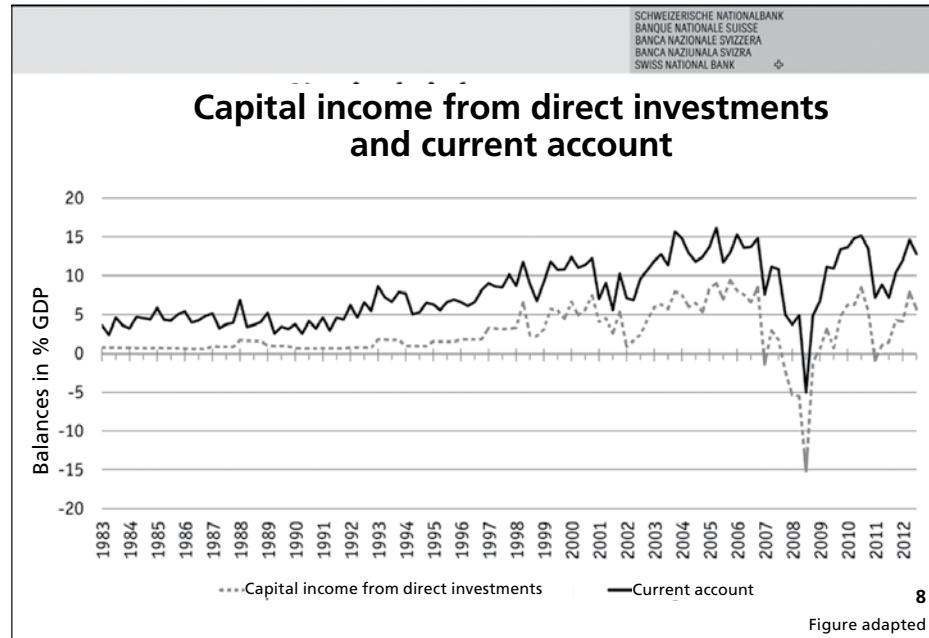
The first approach assumes that domestic demand was hampered by home-made obstacles, and therefore it was too weak. Therefore, measures should be implemented that strengthen domestic demand. This corresponds to the so-called absorption approach that aims to increase spending on consumption and investment at home. As an obstacle to a higher absorption in many cases, structural problems are diagnosed. As an example of such a structural problem China's social security system is often referred to. The idea is that if China improved this system, Chinese households would save less and consume more.<sup>2</sup> This would increase the imports, and the surplus in the current account would be lower.

The second approach, on the other hand, builds on the exchange rate. According to this line of reasoning, the negative development is that the currency of a surplus country was artificially kept at a low level. The currency would have to revalue. This would make foreign goods cheaper and thus increase the domestic purchasing power. Simultaneously the prices of the locally produced goods would increase. According to this interpretation, the country with a stronger currency would import more and export less. The current account surplus would decrease, and in the mirror image, deficits in the deficit countries would be reduced as well.

### The current account of Switzerland

Switzerland is not in the center of this international debate about a need for adjustments by surplus countries. Mostly, however, it is also suggested to our country that the franc should – despite the already massive appreciation in recent years – continue to appreciate, so that the current account surplus would decrease. This would be Switzerland's contribution to reducing global imbalances. Let me explain now why this argument does not meet the situation in our country.

Consider *Figure 4*, which shows the current account surplus and the real trade-weighted exchange rate of the Swiss franc; the real exchange rate though, that



#### Annotations:

- *Services* = financial services of the banks + transit trade + other services
- *Other services* = post, courier and telecommunication + tourism + transports + private insurance + technologic services + remaining services

measures the performance of the Swiss franc against the currencies of Switzerland's major trading partners. As you can see, the current account surplus does not decrease automatically in the case of a real appreciation of the Swiss franc. Neither does the surplus readily increase when the Swiss franc is devaluated. The theory that a stronger real Swiss franc automatically leads to a lower current account surplus, does not empirically apply for Switzerland.

Why so? The explanation can be illustrated by *Figure 5*, which reflects the balance of trade and current account balance of different countries. Especially if the trade balance – i.e. the balance of trade in goods – determines the current account surplus, we would expect that an appre-

ciation through lower exports and higher imports of goods would lead to a lower surplus. This situation is not given in the case of Switzerland. In contrast to most other economies the balance in the Swiss commodity trading constitutes only a fraction of the high current account surplus.<sup>3</sup> This clearly contrasts with other countries, for example China. There the goods trade comprises more than 80% of the current account surplus.<sup>4</sup>

If in the case of Switzerland the trade balance does not determine the current account, then what are the factors that cause this excess? *Figure 6* illustrates that the high current account surplus is mainly due to two components. It is the investment in

**"Strong Swiss franc ..."**

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come and the services, or briefly put the services. The figure shows the balances or net income of these components. In other words, the revenues that flow abroad have been deduced from the incomes which flow from abroad to Switzerland – in this case for the invested capital and provided services. A positive balance means that the revenue is greater than the cost. I will explain later in detail that the balances of these two components are hardly affected by the exchange rate.

Traditionally, the income received by Switzerland and the surplus in the current account interrelate closely. Historically speaking, surpluses are a phenomenon typical of Switzerland. Our current account, calculated officially from 1947 on, has almost continuously shown a surplus since the mid-1960s.<sup>5</sup> There are no official time series reaching further into the past. But unofficial estimates of the current account show that the population in Switzerland saved more than they domestically invested already at the beginning of the 20<sup>th</sup> century.<sup>6,7</sup> Even then a savings surplus was invested abroad and thereby the foundation was laid for today's external assets which are considered high by international standards. These savings surpluses are principally invested in securities – i.e. portfolio investment – and in production facilities abroad, i.e. direct investment.<sup>8</sup> Thus, over the years Switzerland has built up high net foreign assets that are held mainly by multinational companies and pension funds.<sup>9</sup>

As shown in *Figure 7*, the net income from portfolio investment relative to GDP has remained relatively stable year by year.<sup>10</sup> The change in net capital income and thus the current account surplus is also mainly due to the income from direct investment. This component has significantly increased in the second half of the 1990s and contributed decisively to the rise of the current account surplus during that time. The impact of this investment income on the current account balance is clearly visible in *Figure 7*.

This recent development is not least an outcome of globalization. During the 1990s, many Swiss companies – among them almost all local large international companies – increased their foreign direct investments (FDI). Such expansion is often based on the fact that profits of subsidiaries abroad are reinvested abroad. In addition, some foreign multinational companies moved their headquarters to Switzerland to conduct their foreign investments now from here.<sup>11</sup>

Of course foreigners or foreign companies in Switzerland make direct investments. These do however not achieve the

volume of Swiss direct investment abroad. Net income from direct investment is therefore an important component of the current account balance.<sup>12</sup>

Let us now look at the revenue from services. There are two "driving forces" for the current account surplus: for one thing the cross-border financial services, for another thing the transit trade.

I do not have to say much about the revenues from cross-border financial services. The great importance of the financial sector for our country is known. The revenues that banks and insurance companies from Switzerland achieve in business with foreign customers flow into the current account. Especially the banks' financial services come into play in this cross-border trade. As you can see from *Figure 8*, the net income has been showing trends of decline since its high in 2007.

In return, the income generated by transit trade has increased significantly in the past decade and since 2010 it is higher than that of the banks' financial services. Over the last five years, it has accounted for almost a third of the current account surplus.

What is meant by transit trade? A domestic company buys and sells goods abroad, without the traded goods being altered.<sup>13</sup> These products never cross the borders of the country in which the company is headquartered.<sup>14</sup> Let me give you an example: a trading company based in Switzerland buys Zambian copper and sells it to China. The copper is directly shipped to China.<sup>15</sup> The merchandise will never touch Swiss soil and is not registered in the balance of trade. Instead, the item "transit trade" will account for the margin from the transaction as revenue in the current account. Since the margin is usually positive, a current account surplus will result for Switzerland.

The main players in this field are commodity traders, chemical and pharmaceutical companies. Measured by sales revenue in Switzerland, most of the transit trade is operated with raw materials. Therefore, transit trade and commodity trading are often used as synonyms. The commodity trading is traditionally done in US dollars, and the Swiss franc does not matter.

Transit trade in Switzerland is principally a traditional branch of trade. Its origins go far back into the history of famous Swiss trading houses. However, it has experienced a considerable boost, especially since the turn of the millennium.

How can this rapid rise in revenue in recent years be explained? These two main factors have contributed: the demand for raw materials has massively increased in recent years, which is reflected in a corresponding increase in prices. A growing demand made the sale proceeds from trans-

sit trade rise. At the same time newly settled companies and the relocation of transit trade in Switzerland have enhanced this development.<sup>16</sup>

Capital income, incomes from cross-border financial services of banks and from transit trade therefore contribute significantly to the high current account surplus. But there is a further element, which due to its magnitude must unfortunately not be neglected here; namely statistical distortions. The Swiss current account surplus is statistically overrated.

**Statistical distortions**

These distortions are associated with the internationally accepted method of calculating the income from direct investment on the one hand and the returns on portfolio investments on the other. The income from direct investment, the total profits of the subsidiaries are recorded – hence not only the dividends that were distributed. With portfolio investment in shares, however, only the dividends are taken into account. This accounting method results to an overestimation in Switzerland. Why is this so?

For the most part, Switzerland's external assets are held in the form of direct investment. Since these direct investments are high, high profits are also gained, which are accounted for as revenues in the current account. Direct investments are mainly made into foreign subsidiaries of well-known multinational companies that are listed on the Swiss stock exchange. The shares of these companies are, however, foreign-controlled by 60%. In principle, 60% of the income of these companies would therefore have to be recorded as expenditure in the current account. This is only partially true. This foreign share ownership applies not as direct, but as a portfolio investment, because it is manifest in widely spread shareholdings.<sup>17</sup> The Portfolio investment covers only part of the capital expenditure as revenue in the current account, which is actually distributed as dividends by the company. Since usually only a portion of company profits is distributed to the shareholders, the different calculation affects the current account balance. Due to the particular constellation of Switzerland – a high stock of foreign direct investment on the one hand, a high proportion of foreign shareholders in domestic enterprises on the other hand – this upward distortion is found in no other country on this scale. In the past decade, this overrating covered one fifth of the current account surplus on average.<sup>18</sup>

In addition to these accounting issues, it is also possible that the shopping tour-

## “2013 will be a weak year”

**Star economist Joseph Stiglitz says it was wise that Switzerland did not join the monetary union. The euro crisis is still far from being over**

Interview by Renske Heddema, Davos, [wirtschaft@luzernerzeitung.ch](mailto:wirtschaft@luzernerzeitung.ch)



Joseph Stiglitz  
(picture wikipedia)

ly get a little sleep on the bus to Davos. But as the bus drives off, Stiglitz begins a fervent discussion with Thomas Friedman, columnist of the “New York Times”, which sits behind him.

Just like Stiglitz, Friedman is one of the so-called hard core of the World Economic Forum WEF in Davos. While the bus passes sleepy villages with snow-covered roofs, the conversation revolves around inflation, interest rates and the Great Recession. Economists call the present age Great Recession in reference to the Great Depression of the 1930s.

The morning sun shines into the bus, sleep is no longer an option. Joseph Stiglitz is ready for an interview.

Renske Heddema: Mr Stiglitz, how do you assess the current mood of the European Ministers and heads of Government?

Joseph Stiglitz: I hope that you will be right with your optimism. Because you must be very clear about one thing: the fundamental problems of the euro zone are not solved clearly, yet. National financial systems cannot be kept alive if they stay connected to the drip of the European Central Bank.

Personal information: Nobel Laureate Joseph Stiglitz (1943) is one of the most-quoted macroeconomists in the world. He was chief economist at the World Bank, was one of the advisers to US presidents Bill Clinton and Barack Obama, and wrote dozens of reports for governments and organizations. Stiglitz has repeatedly criticized the process of globalization and the design of the euro zone. In his last book, “The Price of Inequality” (2012), he criticized the role of the banking sector, which in his eyes is undermining the American society. According to “Time Magazine” Stiglitz is one of the 100 most influential people in the world.

It's Wednesday, and Joseph Stiglitz (69) has a jet lag. The 2001 Nobel Laureate in economics has come straight from New York, where he teaches at Columbia University. Joseph Stiglitz should actual-

But the euro exchange rate has skyrocketed in the past few days. That might as well be a sign of an imminent collapse of the currency, as it may indicate confidence in the entire system. The crisis exposed a fundamental flaw in this principle of a central currency: There is no central banking union. Money and people can move around freely in the euro zone. There is no common lending system, no common lending conditions or credit insurance. At best, the heads of the euro zone may fix the errors in one or two years. They should admit that the introduction of the euro has come too fast, and should develop a really new common banking system.

How is this to be achieved?

The southern countries should not be

“In 2010 the Central Bank had launched the treasury bonds program, as the yields on the bonds of those countries that were particularly hard hit by the debt crisis, increasingly climbed.”

Source: “Neue Zürcher Zeitung” of 22.2.2013 (Translation Current Concerns)

treated separately. A form of debt relief is inevitable. The euro zone is designed in a way to increase the efficiency. But exactly the opposite is happening currently. Take the example of a young Irishman: he can decide whether he wants to live in his country, which is deeply in debt due to the bad policies of the EU, which has pumped masses of taxpayers' money into the banks. Or he can move to another country that hasn't accumulated any debt. In other words, it removes labour, productivity and money where it is most needed, and thus promotes an inefficient distribution of finances. Not to mention the negative impact of tax havens in the euro zone, such as Luxembourg.

“Since Thursday it is clear that the euro system with the program and in particular with the Greece-bonds has made whopping profits. The ECB announced that it alone has made a profit over half a billion euro last year with Greek subtitles – with the entire treasury bonds program it was an increase of over one billion euro.”

Source: “Neue Zürcher Zeitung” of 22.2.2013 (Translation Current Concerns)

The response of the euro area so far has been an extremely strict budgetary discipline. You have called this a suicidal pact. Why?

This excessive austerity policy is a trap, it's not a strategy that leads to growth. For the Southern countries there is no alternative, they can never pay off their debts. Therefore a central credit system should be launched. Euro Bonds would be a good solution.

“... – is likely that the profit for the whole euro system amounts to several billion euros.”

Source: “Neue Zürcher Zeitung” of 22.2.2013 (Translation Current Concerns)

In the states of northern Europe discontent is noticeably increasing. There are many people who do not understand that the EU is helping the crisis states in the South so much. Do you understand that?

I can very well understand that people say: This Europe will not work. But if the EU wants to have a proper union, there is no other way. The states in the Southern United States have also continuously negative accounts of their households. We subsidize them in the hope that one day this will no longer be the case. But of course, the EU can also take a step back. It can become a free-trade agreement such as the one between the US and Canada. The euro zone is a semi-finished house: One should either finish or cancel.

Is it wise that Switzerland didn't join the EU?

Sure, it was wise not to join the Monetary Union. Because it was a flaw from the beginning. Switzerland is in a similar situation as the EU Member States with the bilateral treaties regarding to the free movement of persons or trade, and that's a good thing.

What do you think of tax competition, with which the cantons try to attract companies from the EU?

I think this is the wrong incentive. If the cantons want to offer tax credits for companies, it will result in a higher burden to private taxpayers. The cantons will have less money available for investment,

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**"Strong Swiss franc ..."**  
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ism in recent years has not been fully reflected in the current account.

**The Swiss surplus and global imbalances**

Ladies and gentlemen, criticizing Switzerland because of the current account surplus is therefore not justified. The high Swiss current account surplus is caused by specific factors, namely high net foreign assets, the special role of our country as an international financial center and the merchanting. In addition, the excess is overrated statistically. The income surplus in Switzerland is thus not due to a faulty development that should be corrected actively. In particular, the current account balance is not due to a weak Swiss franc. Because of these factors, which are responsible for the high current account surplus in Switzerland, the real trade-weighted exchange rate of the Swiss franc plays no decisive role.

Why is this so? The investment income on external assets is directly determined by the development abroad, mainly by the income from direct investment abroad. The same applies for the transit trade. The income from transit trade is influenced by the external demand and the associated commodity prices – denominated in US dollars. Finally, the banks' earnings from cross-border services depend to a large extent on the development of managed assets – mainly denominated in foreign currency – and thus of the international financial markets. The exchange rate of the Swiss franc has an impact only on the conversion of revenues into foreign currencies. The income on investments from merchanting and from the cross-border financial services would only be smaller

after conversion into Swiss francs in case of an appreciation.

The revenues in foreign currency would however not go back and the current account surplus would not disappear.

The large surplus in the current account in Switzerland is thus not due to a weak or a too weak Swiss franc. An exchange rate appreciation does not necessarily lead to a reduction of surpluses, not even in the trade balance in Switzerland – as the past has repeatedly shown. Let us carry the logic too far that a "real" appreciation would make the surplus disappear and let us assume the Swiss franc would extremely appreciate: such a strong exchange rate would ruin the Swiss economy, massively affect domestic production and acutely endanger price stability. This shock could also cause the import demand for foreign consumer goods, investment and advance goods to collapse. This would also have a negative impact on the majority of foreign countries.

Let me therefore emphasize again at this point that there is basically no valid economic reasoning for a balanced current account. This finding is particularly true for Switzerland: The high surplus of our country is not due to mistakes, but based on factors that cannot be influenced by the exchange rate.

Considering the current account surplus from the savings and investment perspective, it means nothing else but that a country saves more than it invests. The savings surplus is invested abroad. With an aging population, it is economically rational to save more than invest domestically. From the perspective of demography it is expected that with the progressive aging of society the savings surplus will gradually decline once more.

The high current account surplus is not a suitable measure to assess Switzer-

land's contribution to global imbalances. Rather, it is an indicator of the development abroad. This can be illustrated well in the following context: If the development abroad is successful, this income will be generated in foreign direct investments, which are recorded in the current account. Economic growth and employment in the target country are directly linked to these direct investments of Switzerland. Busy Swiss direct investors employed a total of 3.8 million people, 78% of them in overseas subsidiaries. In comparison, employment in Switzerland is about 4.1 million people.<sup>19</sup> This may be described as a contribution to a balanced global economic growth. Moreover, Switzerland is indeed a small economy, but a very open one. This is reflected not only in the export share of GDP of 50% but the import share is at a high rate of 40%, as well. Relative to its size our economy imports above average.

**Conclusion to be drawn  
for the monetary policy  
of the Swiss National Bank**

Ladies and gentlemen, the high current account balance is therefore neither mainly determined by the exchange rate of the Swiss franc nor by the Swiss economy.

Even though the Swiss franc exchange rate is not a determining factor for the development of the current account, strong real exchange rate movements due to Switzerland's openness can have a major impact on domestic production and price stability. Swiss economy can, however, deal with a gradual, long-term appreciation of the real exchange rate. But massive and abrupt changes in the exchange rate have a significant impact on prices

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**"2013 will be ..."**  
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which in turn results in less money for growth and therefore an imbalance will be created.

*Change of topic: What is your EU forecast for 2013?*

Given the current, non-functioning financial policy, 2013 will be another weak year. Spain, like Greece continue to be in a recession. Not only in these countries, throughout Europe, the voters will get enough of the austerity policies of their governments. Then the financial markets will react in a negative manner again. The euro crisis may erupt any moment.

*Is there a chance that the euro as a currency will collapse?*

I think it is unlikely that the euro zone in its current form will still exist in about five years. The result is either a small core of countries with a stronger currency, or the whole banking system is adapted to the political and economic entity which the EU is already. Fortunately, most Europeans see it that way and are about to correct the errors in this patchwork. My biggest concern is whether the corrections come fast enough.

*You have often criticized President Obama's first term. In what light do you see Obama's second term?*

Obama seems to address better long-term issues such as immigration and weapons legislation. And it is above all an improvement, that we get a finance minister who is not a puppet of Wall Street like *Timothy Geithner*. The US should now seriously deal with the restructuring of its economy, that is, creating new trainee positions for new sectors. The climate change opens up a whole new field of employment, Obama should focus on. But I do not know if the President receives the political space for public investment that are needed. The Republicans seem to prefer the useless and unproductive struggle budget deficit.

Source: "Zentralschweiz am Sonntag" of 27.1.2013 (Translation *Current Concerns*)

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and production in Switzerland. They can lead to deflation and recession. What does all this mean for the monetary policy of the Swiss National Bank?

It means that we do not orient our monetary policy towards the current account balance. The current account balance is not an indicator for production capacity utilization in Switzerland; in particular, it is also not an indicator of price stability. The SNB therefore has no aim for the current account balance.

Our monetary policy is aimed at maintaining price stability in Switzerland. We thus take the economic development into account. To fulfill this mandate, the SNB must ensure appropriate monetary conditions. In the summer of 2011, the Swiss franc rapidly and massively appreciated as a result of international developments. The appreciation reflected the fear of investors and the function of the Swiss franc as a safe haven but it did not reflect fundamental factors. In early August, the real trade-weighted exchange rate of the Swiss franc was about 40% above its long-term average. As you may recall, temporarily the euro cost just 1 Swiss franc and the dollar was at 0.70 Swiss francs. This enormous appreciation acutely threatened Swiss economy and risked a deflationary development. It has also reduced the level of Swiss consumer prices significantly.

The SNB had to act in order to maintain price stability in Switzerland. With the introduction of the minimum rate of the Swiss franc against the euro, we have prevented serious damage for the Swiss economy caused by a massive and potentially prolonged overvaluation of the Swiss franc. Moreover, in a critical situation the economy has obtained predictability. The SNB set the minimum price at a level at which the Swiss franc is still highly valued. The introduction of a minimum price did not create a competitive advantage and operated no "beggar thy neighbour" policy. On the contrary: the competitive disadvantage resulting from market failures at the foreign exchange market in summer 2011 was reduced only partially. The SNB had a stabilizing effect and provided the foreign exchange market with a guardrail after a period of extraordinary volatility.

Our current monetary policy still applies unconditionally. With an interest rate at virtually zero the enforcement of a minimum exchange rate for the foreseeable future is the appropriate instru-

ment to ensure price stability in Switzerland. We welcome the slight weakening of the Swiss franc against the euro since the beginning of this year, which shows economically in the right direction. As long as the fiscal and structural problems in the euro zone have not been solved, the danger of an immediately returning appreciation pressure is not banned. The minimum price fights such a development. The SNB will therefore enforce the minimum price with all due consequence. If necessary, we are ready to take further measures at any time.

Source: *Swiss National Bank*

(Translation: *Current Concerns*)

<sup>13</sup> In contrast to a broker the transit dealer remains owner of the goods during the time from the purchase to the sale.

<sup>14</sup> "Transithandel in der Schweiz", Swiss National Bank, "Zahlungsbilanz, 2011" 34-41st-E. Beusch, B. Döbeli, A. Fischer, P. Yesin (2013), Merchanting and Current Account Balance, mimeo, Swiss National Bank.

<sup>15</sup> Here, the trading company will organize the control of goods and the financing of the purchase price by bank credit. Since the seller in Zambia wants to be paid immediately and not wait until the customers in China pay for the goods.

<sup>16</sup> A feature of these companies is their high geographic mobility.

<sup>17</sup> According to international standards, share ownership is recorded as portfolio investment, as long as each investor holds less than 10% of the capital.

<sup>18</sup> IMF, Article IV, Reports 2007-2011

<sup>19</sup> According to employment statistics of the Federal Statistical Office, recorded methodologically in the same way as the number of staff abroad.

<sup>1</sup> O. Blanchard, G.M. Milesi-Ferretti (2009), Global Imbalances: In Midstream?, IMF Staff Position Note.

<sup>2</sup> This is not necessarily the case, as the example of Switzerland with its extended mandatory pension scheme shows.

<sup>3</sup> Against the euro area, the largest trading partner of Switzerland, our country has traditionally made a trade deficit, which has remained so in recent time.

<sup>4</sup> Another part of the explanation can be seen from Figure 5, which shows the individual components of the Swiss current account over the past two decades. During this period one can observe a slight upward trend in merchandise trade balance. At the same time, the Swiss franc has shown a real appreciation, as can be seen in Figure 4. So it is not necessarily the case that in case of an appreciation the trade surplus is declining.

<sup>5</sup> Only in 1980 the current account of Switzerland showed a deficit.

<sup>6</sup> Even then the savings surplus was based on net revenues from assets abroad and on net revenues from services with foreigners.

<sup>7</sup> T. Schlip, "Zahlungsbilanz", in: "Historisches Lexikon der Schweiz", electronic edition (e-HLS).

<sup>8</sup> In portfolio investment and direct investment

Switzerland shows large net foreign assets, which account for 84% of the Swiss net assets. In some years, the increase in net foreign assets, caused by the current account surpluses, was however variably ruined by currency-related losses on the assets held abroad.

<sup>9</sup> Since 2011, the foreign exchange reserves are another important component of net assets.

<sup>10</sup> These revenues include inter alia the capital income of pension funds on their foreign assets and transactions carried out by households in foreign portfolio investments. Particularly the foreign investments placed under the occupational pension funds virtually face no foreign obligations. The net foreign assets of the pension funds and private household yields relatively constant returns each year, contributing to that net income in the portfolio investment and thus to a surplus in the current account.

<sup>11</sup> These companies are then considered domestic companies, because their capital is not in the hands of direct investors, but in those of portfolio investors – even if they are mainly foreign portfolio investors. They have a positive effect on the current account, in contrast to the foreign-controlled holding companies of foreign corporations, whose revenues and expenditures are balanced in the long term.

<sup>12</sup> Since the financial crisis this net income, however, has become volatile. In 2007, only a small increase was recorded, and in 2008 even a sharp decrease resulted. This decline was due to losses at subsidiaries of financial institutions during the financial crisis. As a result, the current account surplus fell temporarily to just 2% of GDP.

# Drop off the stranglehold of “shock strategy”: “The selling out of Europe must be stopped”

by Dieter Sprock

*The EU puts pressure on Switzerland. It allows participating in the European electricity market only in case Switzerland automatically takes over EU-legislation. However, both have practically nothing in common. For over fifty years now electricity has been traded across borders without EU diktat. That worked best.*

*At the same time the Department Leuthard (Department of Environment, Transport, Energy and Communication) is pushing the liberalization of the electricity market in Switzerland, although liberalization hasn't brought benefits to any single country yet. In all the concerned countries, prices rose, and power supply security decreased.*

*The Head of the Government Department tries to blur the connection between the two dossiers. But the interrelation is so obvious that you can't hide it. On 23 January of this year The “Neue Zürcher Zeitung” writes: “Leuthard intends to separate the issue of market opening from the electricity agreement currently under negotiation between the EU and Switzerland. However, there is a connection: The access to the European electricity market requires full liberalization”. However, this cannot be reasonably justified.*

*The EU is known to push Europe's liberalization in and the privatization of large state-monopolies as its core business. Reading the book “The shock doctrine” by Naomi Klein<sup>1</sup> under this aspect, one's hair stands on end. The shock strategists are capable of more than only just blackmail. The book, written in 2007 dealing with thirty years of “shock strategy” has not lost any of its topicality. To the contrary reading it is a must to him or her who wants to understand the proceedings in today's Europe.*

Employing many well-documented examples and starting with Pinochet's Chile Naomi Klein shows how wars and disasters were used to enforce the radical free-market economy ideas of Milton Friedman and his followers. There is a system in this strategy: Countries that were driven into a state of shock by a disaster are forced to open their economies to international financial investors, to sell state property, to privatize public services and to make massive savings in the social services. IMF and WTO, both dominated by the United States often serve as henchmen. This way accelerated developments have been enforced, which would not have been conceivable without a shock or would

## You can make it without the EU

You can make it without the EU. From now on, the police authorities of Switzerland, Austria and Liechtenstein will cooperate more closely. These days, the Swiss Federal Council has approved of a new police contract. It aims at achieving a greater efficiency against serious crime. In addition, the above mentioned States shall foster cooperation concerning the witness and victim protection. Additionally, the contract facilitates cross-border cooperation and the fight against illegal migration. Furthermore,

the police contract includes the clause that the three countries support each other in traffic offenses. It will allow to better penalise infringements that have been committed by motorists from Switzerland, Liechtenstein and Austria (in one of these partner countries). Also, the countries will help each other in collecting the fines of their neighbors, if necessary. This way, one relevant loophole will be closed. [...]

Source: Swiss Confidential letter No. 1348 dated 2.2.2013

have taken years to complete. In Friedman's words, “only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.” Over more than three decades Friedman and his followers have perfected this strategy: “Waiting for a major crisis, then selling off pieces of the state to private players while citizens were still reeling from the shock, then quickly making the ‘reforms’ permanent.” (Klein, p. 6)

## A trail of blood and misery around the globe

Lies, propaganda and blackmail; debt and inflation shocks; war, torture and terror are the methods the shock strategists used to urge the liberalization of markets, as some examples shall show:

After the bloody military coup in 1973, Chile was in a state of shock. “Friedman advised Pinochet to impose a rapid-fire transformation of the economy – tax cuts, free trade, privatized services, cuts to social spending and deregulation. Eventually, Chileans even saw their public schools replaced with voucher-funded private ones.” (p. 7) According to Friedman “the entire concept of a state-run school system reeked of socialism.” Free education was for him “an unfair interference in the market”.

From 1976 to 1978 thirty thousand people – mainly left activists – disappeared in Argentina under the Videla junta, to enforce the “Chicago policy”.

Margaret Thatcher used the confusion during the Falklands war in 1982 to “use tremendous force to crush the striking coal miners.” She was the one who started the first “privatization frenzy” in a Western democracy.

In 1999, the NATO attacks on Belgrade “created the conditions for rapid privatizations in the former Yugoslavia – a goal that predated the war.” (p. 10)

Immediately after the attacks on the Twin Towers in 2001, the war against Afghanistan began to take advantage of the shock, with so far uncounted victims.

In 2003 the approach successfully applied in Chile 30 years ago was repeated in Iraq, even more brutally! After the war the state-owned enterprises and oil resources were privatized and passed on to Western companies.

Even catastrophes such as the tsunami in Sri Lanka 2004 and the hurricane Katrina in New Orleans 2005 were used to promote radical free-market restructuring. The local population was expelled and land in prime locations sold to international investors. In a military-like rush in New Orleans, based on Friedman's advice, “within nineteen months, with most of the city's poor residents still in exile, New Orleans' public school system had been almost completely replaced by privately run charter schools.” (p. 5) Laid-off teachers of public schools had to watch “money allocated for the victims of the flood being diverted to erase a public system and replace it with a private one.” For them, Friedman's plan was “an educational land grab”.

Naomi Klein admits that none of the mentioned wars was economically motivated only, but in all cases “a major collective shock” (p. 10) was used to radically transform the economy.

## United States: from liberalism to the corporate state

When the planes hit the World Trade Center on 11 September 2001, the White House was full of Friedman followers who were designated as neo-conserva-

**"Drop off the stranglehold ..."**

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tives at that time in the US. "The Bush team seized the moment of collected vertigo with chilling speed." The "War on Terror" was immediately launched and a new industry, the "disaster capitalism complex", was built that served only to have profits and that "has breathed new life into the faltering US economy." This was much further-reaching than the "military-industrial complex", as president Eisenhower had warned at the end of his second term: Today it was a matter of a global war, conducted at all levels by private companies, whose efforts were paid by public funds: "In only a few years, the complex has already expanded its market reach from fighting terrorism to international peace-keeping, to municipal policing, to responding to increasingly frequent natural disasters. The ultimate goal for the corporations at the center of the complex is to bring the model of for-profit government, which advances so rapidly in extraordinary circumstances, into the ordinary and day-to-day functioning of the state – in effect, to privatize the government", as Naomi Klein writes. (p. 12) In 2003 the US Government signed 3512 contracts with security companies, and over the following three years the *Department of Homeland Security* signed 115,000 contracts. The global "homeland security" is a "200 billion dollar business". But real money is earned in the overseas war. "Now wars and disaster responses are so fully privatized that they are themselves the new market; there is no need to wait until after the war for the boom." (p. 13)

"A more accurate term for a system that erases the boundaries between Big Government and Big Business is not liberal, conservative or capitalist but corporatist." The formations are not under any direct state control in the neo-corporatism. "Its main characteristics are huge transfers of public wealth to private hands, often accompanied by exploding debt, an ever-widening chasm between the dazzling rich and the disposable poor and an aggressive nationalism that justifies bottom-less spending on security." (p. 15)

**"Shock strategy" for Europe**

It takes no special talent to recognize the impact of the "shock strategy" in Europe. True to the motto: "If you don't believe it – go and see for yourself."

In shock, triggered by the collapse of *Lehman Brothers* and American junk bonds, Europe is also pushing the liberalization of markets. In detail this means: countries which have run into debts too deeply lose their sovereignty. After – like in most cases – American rating agencies

**Like an octopus, the EU is increasingly reaching for direct power in the individual Member States****Help in case of "exceptional circumstances" in the interior**

Like an octopus, the EU increasingly reaches for direct power in the individual Member States. In a played-down manner, the now-formulated "Solidarity Clause" in the *Lisbon Treaty* promises help to the EU Member States for "exceptional circumstances" in the interior(!). The European Commission and the High Representative of the Union for Foreign Affairs and Security Policy have put forward a proposal for the design of the so-called "Solidarity Clause". The paper refers to article 222 which was the cause for a dispute at the adoption of the *Lisbon Treaty*. The institutions of the European Union and its Member States are obliged to support each other in case of a harmful event. This includes explicitly the use of police forces, intelligence service and military forces(!). [...]

In the current proposal, a mutual support obligation is provided for "exceptional circumstances". Political clashes though are not specifically mentioned in the proposed applications of the "Solidarity Clause". However, the provided definition of a "catastrophe" could include riots, actions of blockade or sabotage: any situation that has or could have adverse impacts on people, the environment or property. The worked out definition of a "crisis" as a trigger covers all other conceivable threats, including any "[...]" serious, unexpected and often

dangerous situation requiring timely action" and "may affect or threaten lives, environment, critical infrastructure or core societal functions". Among these situations are in addition continued refusal of work, e.g. by dockworkers or a general strike. Especially if security authorities participate in protests, the capacity of a state would be severely restricted. In our country hard to imagine: But in Greece and Portugal, police and some military forces have been on strike in recent years. [...]

The EU commission and its sub commissions do not lose time in this matter. Three six weeks' exercises of European police authorities have already taken place on the training places of *Eurogendarf* at a training area near Potsdam. These "European Police Force Trainings" (Eupft) are to illustrate and evaluate the capability of counter-insurgency(!) of different countries. Policemen and gendarmes were involved of those units which come into consideration for operations abroad. For professionals, it is clear: these exercises are also to be understood as a preparation of operating the realization of article 222. On 7 March, a "first reading" of the newly proposed "Solidarity Clause" shall be effected in Brussels. [...]

Source: Confidential Swiss letter No. 1349  
of 12 February 2013  
(Translation Current Concerns)

have first downgraded their credit status, a troika consisting of the *European Central Bank* (ECB), the European Commission and the *International Monetary Fund* (IMF), dictates the conditions under which these countries receive more credit. Foremost is the privatization of large state monopolies: electricity, telecommunication, public administration, waste disposal, public transport, health, and education, and more recently also the privatization of water. Furthermore there are job cuts, pay cuts, massive cuts in social services and pensions.

In many European countries wages have already become so low that often both father and mother have to work to support the family, which is cynically marketed as women's liberation. Meanwhile, politics is increasingly controlled by globally operating think-tanks and consulting firms. Transnational projects such as *nature parks* and a *Europe of regions* are part of the strategy. With these projects parallel structures are being built that cannot be democratically controlled.

**Mass unemployment and poverty**

While the EU warmongers dream of a new empire with control over taxes and

education, and also advocate a European army deployable throughout the world, globalization is leaving behind a trail of destruction in Europe: Since the Second World War unemployment has never been so high, especially youth unemployment. In some countries there is already acute poverty.

Tourists tell about Portuguese restaurant, for instance, where locals ask if they may finish the guests' leftovers.

In Greece, there are already "400,000 families in which nobody has a job. According to estimates almost one in three employable Greeks will be without a job by the end of 2013." ("Neue Zürcher Zeitung", 21 Feb 2013). There is a lack of food and medicines.

In France, the unemployment figure exceeds 5 million. "Since the beginning of the year, the specter of violent social conflicts threatens to paralyze entire industries." ("Neue Zürcher Zeitung", 15 February 2013)

In the UK, Bulgarian and Romanian migrants are looking for odd jobs on the road. "As day laborers on the edge of the expanding British construction sec-

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**"Drop off the stranglehold ..."**

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tor, they provide a steady supply of cheap labor – useful but not welcome." ("Neue Zürcher Zeitung", 14 February 2013) A result of poverty in Bulgaria and Romania. And the forced freedom of movement within the EU means that often the strongest and well-educated people leave their homelands, and are thus missing in helping rebuild a sustainable society. The same holds true for many other EU member states. A mess!

### **Forcible international coordination of education**

Education is at odds in many places. In schools, substance is being replaced by competencies in order to train an artificial "European identity". Pisa (OECD) and Bologna (EU) serve as tools for the implementation: "Since 2000, the system Pisa (Programme for International Student Assessment) has caused several real shock waves. This seems to be systematic: Wherever these standardized tests have been utilized, often serious shortcomings of general knowledge among students come to light. As Naomi Klein worked out in her book "The Shock Doctrine", such shocks pave the way for far-reaching changes with far-reaching consequences. This happened in the wake of PISA: the media repeated the bad news a thousand times that our children (and our school system) had allegedly fundamentally failed. The shocking announcement put the responsible people under pressure to quickly take action. Accordingly, the following "reforms" are characterized by "a rash and rapid adoption of ready solutions without sufficient academic and public de-

bate" (Langer, p. 61)<sup>2</sup>. But, where does the idea come from to expose our schools and school systems to competition followed by such far-reaching consequences for our students and our school system? Briefly, it comes from the US, which exported it to our countries via OECD. (*Current Concerns* No 25, 7 November 2012)

### **The investors come after the shock**

"After four years of standstill Greece seems to become more attractive for foreign investors. International companies recently announced plans to expand their presence in the country", wrote the "Neue Zürcher Zeitung" dated 22 February 2013. The *London Regional Properties*, the Israeli *Elbit* and Greek *Lamda Development* take part in the tender for the Hellenikon project, the expansion of the old Athens airport, "besides *Qatari Diar* in the final phase. Hereby the government expects revenues of 5 billion euro. The contract is to be awarded in summer". In the last few weeks also other well-known international companies have stated that they wanted to increase their presence in Greece. A Chinese group called *Cosco* "is interested in the forthcoming privatizations of the railway and the port company of OLP." And French President *Hollande*, who visited Athens on 19 February, "now expressed his interest in an increasing French presence in Greece, especially in the exploration and exploitation of possible natural gas and oil resources." The French are also interested in the privatization of the electricity company and the waterworks.

### **"Shock wears off:**

#### **The Rise of People's Reconstruction"**

With this title on the final chapter of her book Naomi Klein opens the view to the future, and she's right. The shock loses effectiveness if the people see through the strategy behind it.

Why don't we interpret Friedman's above mentioned quote ("When that crisis occurs, the actions that are taken depend on the ideas that are lying around") as a possibility to turn away from the neo-liberal doctrine looking for new ideas? Klein sees signs of such a development particularly in Latin America. The most important protection against future shocks in Latin America was "the continent's emerging independence from Washington's financial institutions". The *Alternativa Bolivariana para los Pueblos de Nuestra América* (ALBA, Bolivian Alternative for the Peoples of Our America), a kind of barter system, is Latin America's answer to the "now buried corporatist dream of a free-trade zone stretching from Alaska to Tierra del Fuego. [...] each country pro-

vides what it is best placed to produce, in return for what it most needs, independent of global market prices.' So Bolivia provides gas at stable discounted prices; Venezuela offers heavily subsidized oil to poorer countries and shares expertise in developing reserves; and Cuba sends thousands of doctors to deliver free health care all over the continent, while training students from other countries at its medical schools."(p. 456) Each country can decide for itself how high it will set the value of a good or service instead of having set prices by dealers in New York, Chicago or London.

In Brazil, one and a half million farmers have organized in the *Landless Workers Movement* (MST) and have founded hundreds of cooperatives. In Argentina 200 bankrupt companies have already been revived by their workforces in the form of democratically-run cooperative ventures. In 2006 there were around one hundred thousand cooperatives with seven hundred thousand employees in Venezuela. (pp. 455) – Are these options for Europe, too?

Also in Switzerland, and in the rest of Europe a rethinking has started. Many have become thoughtful, even in politics. In the universities, which have really stuffed their students with the proper market doctrine for a long time, meanwhile, other approaches are discussed. More and more people no longer believe that "free markets" benefit all. The system is threatened with collapse, and people are tired of being constantly deceived. They reject any further impoverishment of Europe, any further education cuts, any further breakdown of social structures. The European sell-off must be stopped. Now the politicians could appear before their citizens to admit that they were mistaken. Like most of us they did not understand this system and did not foresee where it will lead to; it is a unique historic opportunity, there has never been a better time for that. They could invite the citizens, to seek for new solutions together with them. But the solutions would have to be honest. It is not enough to adjust the old system's screws a bit, to keep the people happy. Solutions are needed that lead out of the financial dictatorship clearing the unproductive speculation rubbish so that the people in their countries develop their own way to reclaim their freedom and dignity. •

<sup>1</sup> Naomi Klein, *The Shock Doctrine. The Rise of Disaster Capitalism*, New York 2007, Frankfurt am Main 2009

<sup>2</sup> Roman Langer: "Warum haben die Pisa gemacht?", in: id. "Warum tun die das? Governance-Analysen zum Steuerungshandeln in der Schulentwicklung". Wiesbaden 2008



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# "I will never be on the side of the powerful!"\*

*Strategy expert Albert A. Stahel is 70 years old*



ISBN 978-3-7281-323-7

On 3 March 2013, Albert A. Stahel, strategy expert and Professor of Political Science and of Strategic Studies at the University of Zurich as well as former full-time professor of Strategic Studies at the Military Academy (MILAK), ETH Zurich, celebrated his 70<sup>th</sup> birthday. The clear, straightforward and precise analyses of this independent strategy expert have been in great demand up to this day. In the course of writing them, Albert Stahel is able to draw on his wealth of unique experience in the focus of geopolitics – Afghanistan. He knows Afghanistan like nobody else in his field; that is so not only for his study of the literature and sources, but also because of his numerous travels and conversations, by which he became acquainted with many important personalities from Afghanistan, with whom he has remained on friendly terms for years.

As early as 1979 he travelled to Peshawar, Pakistan, and met the current President of Afghanistan, Hamid Karzai. Since 1989, he has repeatedly trav-

elled to vehemently war-ridden Afghanistan, has spoken to many people and, on the spot, seen the actual conditions for himself. Numerous publications impressively document his dedication.

Albert Stahel would not be Albert Stahel, had he not always looked for ways to change the development of the traumatized country for the better: He did so by attending seminars in Afghanistan, by personally counselling leading Afghan politicians and personalities, and by means of his seminars on Afghanistan at the University of Zurich – sometimes attended by high-ranking Afghan personalities such as former President Burhanuddin Rabbani, who was assassinated in the year 2011, MP Amanullah Paiman, and Pair Sayed Ishaq Gailani, with whom Stahel has been on friendly terms ever since his first trips. He has not only advised the Afghan state on political matters, but also helped effectively by his active support and advice during the setup of the "House of Science" in Bamyan, which has been supervised and mentored by the ETH Zurich since its opening in 2006.

At the invitation of the Afghan government and with the support of the Federal Department of Foreign Affairs, he went on a fact-finding mission in Afghanistan in 1995, along with Peter Arbenz and a group of experts. The compiled report presents recommendations for the reconstruction of the war-stricken country that are still valid today – and not just for Afghanistan:

They include the recognition of the fact that the solution of the political problems must come from the Afghans themselves and mu from inside out, and also the observation, that a centralized form of government under the domination of one ethnic group or of one party is not going to work in the multi-ethnic state of Afghanistan, and that, on the other hand, there are many groups in Afghanistan who are striv-



*Albert Stahel  
(picture Jean-Jacques Ruchti)*

ing for a federalist solution while maintaining the national unity of the country. And, above all, the overwhelming majority of the Afghan people wish for only one thing: peace!

It is that goal which Albert Stahel has had in mind invariably, even in Switzerland: He has repeatedly suggested a diplomatic representation of Switzerland in Afghanistan, as, due to our neutrality and our country's federal structure, which allows for the peaceful coexistence of different cultures, Switzerland enjoys great respect in Afghanistan. Much credit also goes to Albert A. Stahel as it is mostly due to his commitment in making sure that our country withdrew from the disastrous NATO mission in Afghanistan, that we have succeeded in retaining this appreciation. The Swiss are particularly grateful to him for this. We wish Albert Stahel all the best.

•  
Erika Vögeli

\* Albert Stahel on the occasion of the preview of the commemorative publication "Strategic versus humanitarian thinking. The example of Afghanistan" Claudine Nick Miller (Ed.), vdf Hochschulverlag Zurich, 2009. .

# Awash in hypocrisy and hubris, Obama and his party push toward despotism

by Michael Scheuer\*

*Josef Stalin* is reputed to have said something akin to “one death is a tragedy, 25,000 deaths are a statistic.” Surely, President *Obama* has proven that Uncle Joe was right almost every day since the shootings in Connecticut.

Remember the President’s “touching”, tear-filled statement after the shootings? Weeping crocodile tears over the deaths of those 20 youngsters, Obama played his scene with actor-like skill and sincerity. Indeed, he almost made you forget that he leads a party that has protected a “right” of American women – and their profiteering executioners at the *American Medical Association* – that has yielded the murder of more than 50 million other American youngsters since 1973. The deaths of those Connecticut youngsters were nothing short of a human calamity; that said, the death of those 50 million other youngsters is a human holocaust that makes *Hilter* look like an amateur murderer and puts Obama, *Clinton*, *Carter*, and their party in the running with Stalin and *Mao* for the top spot on history’s list of all-time mass murderers.

And Obama’s eagerness to use the deaths of the Connecticut youngsters to further his ideological quest to destroy the 2<sup>nd</sup> Amendment is not his sole use of dead Americans to further his ideological goals and lust for power. Every Marine and soldier who has died in Afghanistan since Obama’s administration announced US-forces would leave that country in 2014 has died for absolutely nothing. Their lives were wasted to further Barack Obama’s political career. In announcing that decision, Obama and his party declared America’s defeat, and, while history-ignorant Americans applauded the action, America’s enemies – the Taliban, al-Qaeda, Saudi Arabia, etc. – took the full measure of the man. They knew that Obama had white-flagged them, in essence saying “You win, we’ll get out soon after I am

re-elected.” Having re-won the presidency, Obama will complete the US withdrawal from Afghanistan and will waste every life the US military losses from now until the withdrawal is completed. And what do you think will happen to Afghans who allied themselves with the United States and NATO? Well, they will be dead, killed by the Islamist militant groups that Obama’s administration – under orders from the *Committee on American Islamic Relations (CAIR)* – refers to as unIslamic, Violent Extremist Organizations. Before long, Americans will find that these groups, abetted by the Democrats and CAIR, will be waging war inside the United States.

Obama’s dabbling with the personal and political usefulness of gratuitous murder is never more apparent than in his and the Democratic Party’s intimate ties to the merchants of death who dominate the US entertainment industry. Throughout the late presidential campaign, we saw Obama pass up no chance to appear with actors and directors who produce films and TV programs that condition America’s youngsters to accept large-scale murder and mutilation as commonplace, as well as to regard women essentially as whores. He also appeared with singers who use lyrics that celebrate and even advocate murder and describe women as sub-humans worthy only of servicing the desires of men, as well as with IT geniuses who specialize in producing video games that allow youngsters to kill huge numbers of people for multiple hours a day. Just this month, as Obama, Vice President *Biden*, and New York Governor *Cuomo* campaigned for abrogation of the 2<sup>nd</sup> Amendment, their pals and funders in Hollywood were raking in 40-plus million dollars a week from their most recent lets-kill-for-the-fun-of-it movies: *Texas Chainsaw – 3-D* and *Django Unchained*.

Obama and his party prate endlessly about education, but seem to carefully define it in the narrow sense of a classroom education, the milieu in which they and their teacher-union friends deliberately have taught several generations of grammar and high-school students to misunderstand and so grow to hate America; to dismiss religion as a form of superstition or even mental illness; to look to the federal government for life-long help and so avoid hard work; and to fanatically believe in the indefinable but society-destroying concepts of diversity and multiculturalism.

But as pathetic and perverse as is the substance of grammar and high-school education in today’s America, the more per-

vasive, powerful, insidious, and violence-enabling form of education our children receive flows from the main, death-oriented beliefs of Obama and Democratic Party:

The “right” of female US citizens to have human beings murdered at their discretion by the American Medical Association’s federal government-protected executioners-for-hire.

The “right” of the federal government’s executive branch to enforce only the laws its likes; to aggressively seek to eliminate religious faith from the public square; to destroy US national security by refusing to control our borders; and to send our soldiers and Marines overseas to fight in wars it does not intend to win and to keep them dying there until it is politically expedient to bring them home.

The “right” of the entertainment industry to massively profit from products that return our children to a value system worthy of kill-at-will savages, while at the same time convincing them that misogy-

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\* cc. Michael Scheuer was born in 1952, historian and political analyst. During 22 years Scheuer was a CIA intelligence officer until 2004, where he served as the Chief of the “Osama bin Laden tracking unit” from 1996 to 1999. After leaving the CIA, he worked as a journalist for the news company CBS News and The Jamestown Foundation. Today Scheuer teaches at Georgetown University in Washington. He is also a security expert for various television stations and he writes books. He became a public figure mainly by the book “Imperial Hubris: Why the West is Losing the War on Terror”, at first anonymously published by request of the CIA. In 2012 he supported the candidacy of Ron Paul, referring to his foreign policy views.

**"Awash in hypocrisy and ..."**

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ny, sexual perversion, and every variety of human depravity is simply another form of "normal" that they must not only tolerate but also celebrate as evidence of their allegiance to diversity.

The "right" of the American educational establishment to abandon educating children in favor of serving as the Democratic Party's in-school recruiting agents who propagandize kids to become dependent on the federal government; to demonize America's founders as dead, white, male, slave drivers, and denigrate what they accomplished; to mindlessly support an interventionist foreign policy that is yielding an endless war with Islam – or, if you like to be politically correct, Violent Extremist Organizations – that

will bleed America to death in lives, finances, and domestic stability.

In all, the America created over the past 60 years when power was held by Obama, his Democratic predecessors as president, and their party – and supported by the allies in Hollywood, Silicon Valley, and the teacher unions – is one that is more divided on serious substantive issues than at anytime since the eve of the Civil War. It also is a country whose Constitution is under direct attack by the Obama administration. First, Obamacare's birth-control/abortion provisions have violated the 1<sup>st</sup> Amendment rights of America's Catholic community, as well as parts of the Protestant, Muslim, and Jewish communities. And, yesterday, Biden told his allies in the whining, effete, and anti-gun media that Obama may abridge 2<sup>nd</sup> Amendment rights by executive order.

The possibility of arbitrary attacks on the Constitution and/or the *Bill of Rights* by the national government's Executive Branch is precisely why the Founding Fathers made sure Americans had the right to be as well-armed as they deem necessary. The Constitution and the *Bill of Rights* can be amended by the Constitution's formal amendment process, but it cannot be amended by congressional legislation alone or by executive decree. Amending via the Constitution's guidelines is legal and commands the obedience of the populace, but amendment by legislation or by presidential diktat is simply rank despotism, the destruction of which the Founders would have favored and which they meant to facilitate by the 2<sup>nd</sup> Amendment. •

Source: *non-intervention.com* of 10 January 2013

## **«Accountability and Justice for Iraq»**

### **Geneva conference United Nations – Palais des Nations: The 10th Commemoration of the Invasion and Occupation of Iraq**

March 2013 marks a decade since the US and its «coalition of the willing» invasion and occupation of Iraq. Yet justice for those affected by war – illegal under international law – and occupation remains an unlikely prospect. Civil society organizations and human rights defenders, together with several academic institutions, have committed to this long, overdue obligation and have organized a series of side events under the title «Accountability and Justice for Iraq». Participants will commemorate the tenth anniversary of the US-led invasion of Iraq, and will explore means and actions to achieve accountability and restore justice for the Iraqi people.

**Thursday, 14 March 2013, 12.00h - 18.00h**

Topics: Accountability – Collapse of Institutions – Institutional Corruption

**Freitag, 15 March 2013 , 12.00h bis 18.00h**

Topics: Social Breakdown – Systematic Destruction – Restoring Justice

#### **Contributors (amongst others):**

*Rémy Pagani*, Mayor of Geneva

*Dr Hans Christof Graf von Sponeck*, Former UN Assistant Secretary General

*Shabah Al-Mukhtar*, President of the Arab Lawyers Association-UK

*Dirk Adriaensen*, BRussels Tribunal

*José Del Prado*, Former Chairperson of the UN Human Rights Council's Working Group on the Use of Mercenaries

*Prof. Dr. Abdul Kadhum Al Aboudi*, Professor and Scientific Researcher, University of Oran (Algeria)

*Prof. Dr Alfred de Zayas*, United Nations Independent Expert on the Promotion of a Democratic and Equitable International Order

*Dr Karen Parker*, Attorney in Human Rights and Humanitarian Law

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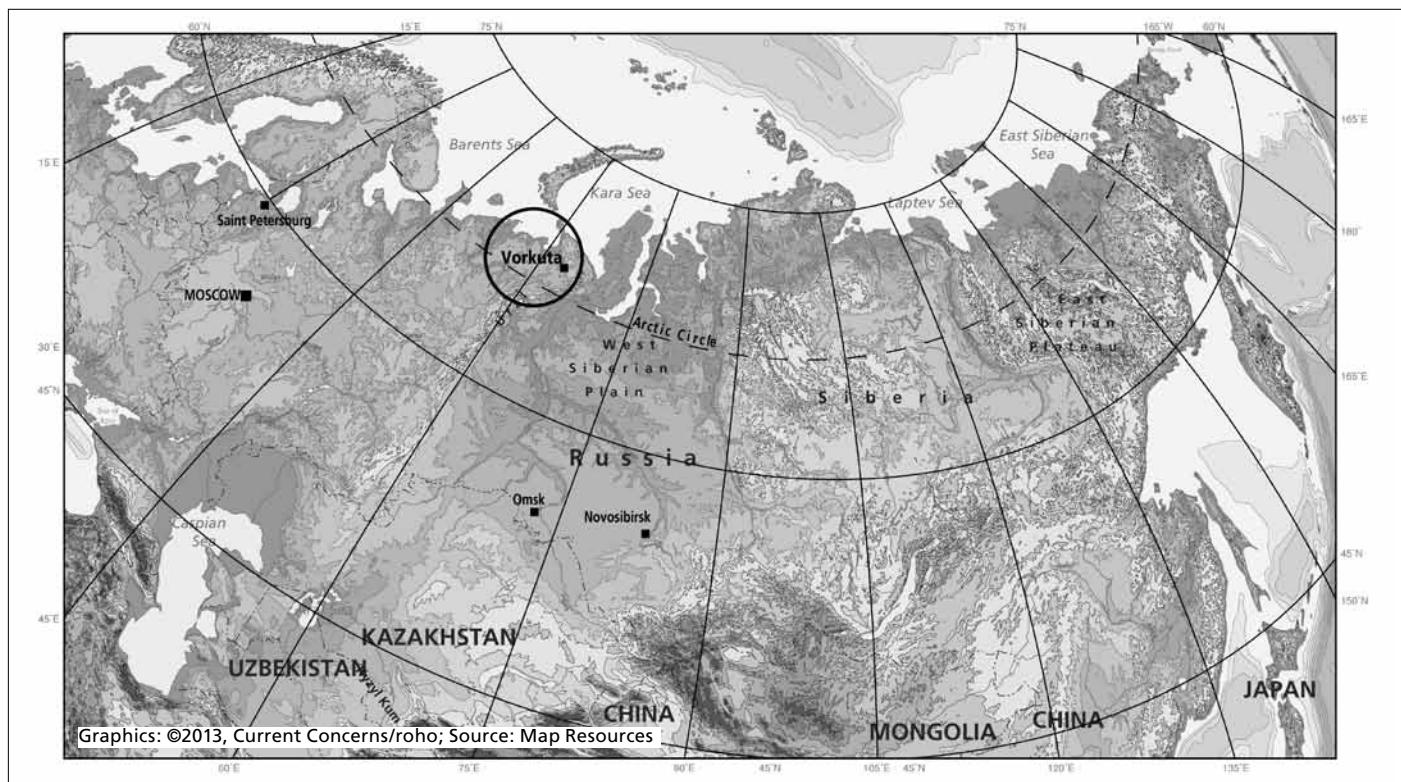
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# The day when Stalin died

**Warm greetings to Erwin Jöris**

by Prof Dr Werner Gumpel



60 years ago, on 5 March 1953, *Iosif Visarionovic Stalin* died, with his real name *Djugashvili*, one of the worst dictators the world has ever seen. At first, this day was a day like any other day for the political prisoners in Camp No 13, Shaft 9 and 10, in Vorkuta, 160 km north of the Arctic Circle: At seven o'clock in the morning, after the roll call they had to line up in front of the camp gates, where they were received by the "convoy". It consisted of a group of armed soldiers with machine guns who had to ensure that the prisoners were brought to their assigned work object and that none of them dared to escape, an everyday procedure. Another daily occurrence was the warning against an escape attempt. With a loud voice the convoy commander announced: "One step to the left, one step to the right is considered as an attempt to escape. The convoy will shoot without warning. Hands behind your back! In step – forward!"

In a row of five *Erwin Jöris* and I were marching as well. *Erwin Jöris'* adventurous life was reported in *Current Concerns*, No 5 of this year on occasion of his hundredth birthday. After a march of about an hour the column reached the work object. As paradoxical as it may sound: In the middle of the tundra, a cold store was to be built. Even in the few weeks of the Arctic summer, there were days, that is to say, with temperatures of over ten degrees. The meat of the reindeer, the breeding and sale of which the indigenous people of the

Nenets lived on, had to be stored in cool conditions until its removal to southern climes, so that it did not spoil. The property was secured with guard towers and a death zone, which no one was allowed to enter. Otherwise, he would be shot. And that happened even if the person was forced by his activity, to enter the "forbidden zone".

Three days ago, through the speakers in the camp barracks we had already come to know that Stalin was ill. "I hope, that the devil will take him", *Erwin Jöris* said to me. "It's our only chance to get out of here". As we all, *Erwin* suffered emotionally and physically. No contact with the loved ones at home, hunger, and the uncertainty, whether the 25 years of hard labor would ever come to an end, to which he, as well as I had been condemned by a Soviet military tribunal. But he never lost his optimism, always won his "Berlin lip", which for us other Germans, who had been "disposed of" by the East German regime to Vorkuta as opposition activists, had a refreshing and encouraging effect. Among us Germans only very few wailed. In no case *Erwin* was among them. In the end, we all had the same fate.

In early March the polar night had given way to daylight. On 5 March even the sun came out for a few hours. Good omen? We worked on the excavation of the ditches for the foundations of the cold store. This required the permafrost to be broken with a pickaxe – it was like

trying to smash concrete with a pick-axe. But prisoners' labor was slave labor and did not cost anything. The ditches had to reach a depth of three to four metres, they had to be deep enough to reach gravel or rocks. Only on that it made sense to set the foundations of the house. The shift took twelve hours, then the night shift arrived. There was no lunch break. In the morning we received a bowl of cabbage soup and a heel of bread, now we longed for the "Last Supper", consisting of a bowl of porridge, only, depending on the fulfillment of the standards, partially filled and a piece of meat, and two or three grams of oil. So finally, departure to the camp came. After arriving there, counting and search took place. Any "dangerous" objects could indeed have been smuggled into the camp. As soon as we had passed through the camp gate, first prisoners came our way. An Ukrainian, with whom I had worked in a brigade for many years, walked towards me and cried out his voice breaking: "Stalin is dead! Stalin is dead!" He shook my hand and walked to *Erwin*: "Stalin is dead! Now everything will change! Hurrah! Stalin is dead!" *Erwin* and I took each others' hands, but couldn't find any words to say. I was so excited that I was not able to speak, and I think that it was just the same with *Erwin*. Even joy may leave you speechless.

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**"The day when Stalin died"**

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Excitement rose in the barracks. People of the various from the Soviet Union and from Eastern Europe, who were thrown together here, united in the uniqueness of this historic event, that was of momentous importance. But it was not noisy, there was no buzz. Everybody talked in a hushed voice. Only a few dared to show their pleasure openly: Who really knew what would happen next, who would take the place of Stalin? Above all: Would his successors, would the apparatus punish those people who expressed their satisfaction at the dictator's death, and shoot them as it had been the custom before? Even the guards and the camp administration were confused. We noticed this because they exercised restraint and showed up as little as possible.

On the next day there was the old procedure. Life went on as usual: gathering at the camp, calling up by name and prisoner number, warning, departure. As always, the path led along the only major road of the city of Vorkuta, which had been built by forced laborers. The inhabitants of Vorkuta were mainly exiles and released prisoners. The throng of guarded, ragged and starving prisoners was barely paid attention: there were too many of them, one was accustomed to the sight. But one man was standing still on the roadside. He fixed us. "Look at him!" said Erwin. Then we heard the voice of this man. He planted himself on the road and shouted as loud as he could: "Podochla sobaka!" (The bastard has croaked!) And again and again: "The bastard has croaked! The bastard has croaked!"

Soon he fell behind us. Millions of Russians may have thought as he did, only they did not dare to express their thoughts, the fear was gone too deep in their minds from decades of terror. But even among the prisoners there were people who complained loudly: "Our great leader is dead. What is to become of us, what is to become of Russia?" If you followed the press (a copy of the party newspaper "Pravda" was hung up in the camp), Russia was frozen in grief.

It took only a few months, and remarkable things happened. Almost daily a list of names was read over the camp loudspeakers. Subsequently they added: "Unjustly convicted. Those named are to be released immediately." They were, almost exclusively, citizens of the USSR. Many of them had unjustly spent ten or more years in a prison camp, where they had witnessed the death of hundreds of other prisoners. A particularly tragic case, which I will never forget was the following: A Russian-German Protestant pastor with the German name *Karl Weber* was arrested because of his pastoral activities at the end of the 30ies, and was sentenced to ten years of hard labor. After ten years it was said he would be released. When he came to the camp gate on the appointed day, he was informed that his sentence was extended by five years. He signed and was returned to the barracks. When the five years were over, he was now to be dismissed for good. On release day he walked to the camp guard, but again he had to sign: "Your detention has been extended by five years' imprisonment." Such extensions could be disposed from Moscow without any lawsuit. That way it was also possible to convert custodial sentenc-

es into capital punishment subsequently by decree. But now, after almost twenty years, in the summer of 1953, Pastor Weber was on the list of those people of whom it was said: "Wrongly convicted. To be released immediately." We congratulated him warmly. He was so excited, he did not speak a word. When he was told to come to headquarters and get his discharge papers, he dropped dead. His heart had failed.

For us Germans there was no great change at first, except that the conditions in the camp improved. When on 1 August 1953 the workers of Shaft 29 rose to a peaceful strike, the camp was surrounded by troops, which fired onto the protesting people at the camp gate. 53 prisoners were shot, including 2 Germans, 123 were seriously or slightly injured, among them 14 Germans.<sup>1</sup> But the death toll, their sacrifice was not in vain. Not only the conditions in the camps were being changed now, the number of prisoners who were released, also increased. A group of Germans was to return home in September 1953. Others were lucky two years later, two and a half years after the dictator's death. Among them were Erwin Jöris and I. •

(Translation Current Concerns)

<sup>1</sup> Figures in Wladislaw Hedeler / Horst Hennig (ed.): "Schwarze Pyramiden, rote Sklaven. Der Streik in Workuta im Sommer 1953" ("Black pyramids, red slaves. The strike in Vorkuta in the summer of 1953"). Federal Agency for Civic Education, Bonn 2008, p. 135

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