

2. Economic Vulnerability and Political Responses to International Pressure: Liechtenstein, Switzerland and the Struggle for Banking Secrecy

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Abstract: After doggedly opposing any increase in exchange of information on tax matters for several decades, both Liechtenstein and Switzerland have made significant concessions over recent years. However, the two countries have reacted rather differently to international pressure: while Liechtenstein has adopted a more proactive approach, offering far-reaching bilateral deals to several major economies, Switzerland has been slow to react to international pressure, despite calls for a more proactive strategy by its financial services industry. We suggest that these differences have a range of causes; in Liechtenstein, in particular, the pressure was more evenly distributed, thus allowing the financial services industry to close ranks and use its privileged access to the government to shape the government's response decisively. By contrast, there was internal division in the Swiss financial services industry and it was soon on the back foot in public debate, eventually losing control over the issue.

Introduction

Roughly thirty years ago, Peter J. Katzenstein (1985) published a seminal book on politics in small European democracies that went on to shape how the economic success of these small states was understood. Being more dependent on foreign markets, small states are more vulnerable to change in the world economy than larger ones but have less political clout; their inability to shape world markets