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EHES WORKING PAPERS IN ECONOMIC HISTORY | NO. 27

THE RISE OF THE SWISS TAX HAVEN IN THE INTERWAR  
PERIOD: AN INTERNATIONAL COMPARISON

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## THE RISE OF THE SWISS TAX HAVEN IN THE INTERWAR PERIOD: AN INTERNATIONAL COMPARISON

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### Abstract

The history of tax havens during the decades before World War II is still little known. To date, the studies that have focused on the 1920s and 1930s have presented either a very general perspective on the development of tax havens or a narrow national point of view. Based on unpublished historical archives of five countries (Switzerland, Great Britain, Belgium, France, Germany), this paper offers therefore a new comparative appraisal of international tax competition during this period in order to answer the following question: What was the specificity of the Swiss case – already considered a quintessential tax haven at the time – in comparison to other banking centres?

The findings of this research study are twofold. First, the 1920s and 1930s appear as something of a golden age of opportunity for avoiding taxation through the relocation of assets. Most of the financial centres granted consistent tax benefits for imported capital, while the limited degree of international cooperation and the usual guarantee of banking secrecy in European countries prevented the taxation of exported assets. Second, within this general environment, the fiscal strategies of a tax haven like Switzerland differed from those of a great financial power like Great Britain. Whereas the Swiss administration readily placed itself at the service of the banking community, British policy was more balanced between the contradictory interests of the Board of Inland Revenue, the Treasury, and the English business circles.

JEL codes: G15, F39, F53, H26, H71, N24, N44

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## ***1. Introduction***<sup>1</sup>

With the advent of the financial crisis in 2007, Swiss bank secrecy has once again found itself at the forefront of the international stage. At a time when States have had to unfreeze huge sums to help bail out their banking systems, and budgetary revenues have been simultaneously curtailed due to the recession, the damage caused by international tax competition has become a burning issue in political terms. The world's foremost cross-border wealth manager, the Swiss financial centre has thus become the prime target for calls for a regulation of offshore practices, which has forced the Swiss government to accede to limited cooperation against tax evasion in 2009. In such a context, it is worth focusing on the role of taxation in the takeoff of the Swiss financial centre which occurred during the interwar years (1918-1939). Although the crisis has highlighted the sheer extent of the phenomenon of international tax evasion, it tends to encourage a short-term analysis of tax havens, which are reduced to being symptoms of the dysfunctions of the present economy. This viewpoint conceals the structural importance of taxation in international financial competition during the twentieth century. Furthermore, the 1920s and 1930s provide instructive comparisons with the current situation. A time of acute economic disorder, they were characterized, as today's situation is, by a considerable increase in national debt and by the acute politicization of issues to do with State financing. Analysing tax competition during this period is therefore all the more relevant.

The role of taxation in the transformation of Swiss banks into a refuge for capital flight after World War I has already been identified by several historical studies. The costs of war and reconstruction brought about considerable tax increases in the former warring countries, which in turn increased the incentive to relocate assets in order to escape tax controls. In contrast, the attractiveness of the Swiss financial centre was reinforced by the maintenance in Switzerland of a low tax burden and the guaranteed rigorous respect of bank secrecy by the administration.<sup>2</sup> In external relations, these tax benefits were also vigorously defended in the face of the incipient international pressure occurring from the beginning of the 1920s.<sup>3</sup> From these different studies, the overall idea emerges, then, that an active policy of fiscal attractiveness was pursued in Switzerland and that this played a crucial role in the internationalization of the Swiss financial centre that began during the interwar years. Although it is based on extensive archival documentation, this interpretation still suffers from a certain bias, however—it lacks a comparative point of view. To assess the impact of taxation in the surge of capital towards the Swiss financial centre and to measure the specificity of the country's international tax policy, it is necessary to compare systematically the Swiss case with other banking centres. This is what this paper aims to do in three stages.

To begin with (Part 2), the article shows the causal link between the maintenance of a weak and liberal State in Switzerland and the novel attraction Swiss banks had for foreign assets following World War I. Contrary to the belligerent countries, the limitation of the State's financial weight facilitated the setting up of systems to attract capital through taxation, the special features of which are discussed in the rest of the text. The second section (Part 3)

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<sup>1</sup> This paper is related to a PhD thesis on double taxation and tax evasion during the interwar period. I would like to thank Marc Flandreau, Sébastien Guex, Marion Rosselet, Pierre Sicsic and Gianni Toniolo for their helpful comments, as well as the participants of the CEPR Past, Present and Policy 4 meeting in Geneva and of the European Historical Economics Society Conference in Dublin.

<sup>2</sup> See for example Guex (2000; 2002); Hug (2002); Perrenoud et al. (2002, pp. 83-100); Guex, Lopez and Mazbouri (2012). For an opposite view on the importance of taxation and bank secrecy for the attractiveness of the Swiss haven, see Vogler (2001; 2005).

<sup>3</sup> See Perrenoud (1999, pp. 388-397; 2003; 2011, pp. 203-226); Perrenoud and Lopez (2002, pp. 67-74); Schaufelbuehl (2009, pp. 316-330); Farquet (2009a; 2009b; 2012; 2013).

compares systematically the modalities of taxation for non-residents in Switzerland with the practices of the main financial centres. Finally, in the third section (Part 4), Swiss policy in relation to international tax evasion is evaluated in comparison with the strategies of a great banking power. Thus, the focus is limited in order to concentrate on the Swiss decision-making process, by comparison with Great Britain, in the face of multilateral and bilateral attempts at establishing a system of cooperation against tax evasion between the national administrations.

Two findings emerge from the analysis. On the one hand, the perspective that is proposed here regarding the extent of tax competition and tax avoidance supports generally the recent work of political science, which considers tax havens as a structural phenomenon of the modern economy.<sup>4</sup> At the same time, my paper radicalises the specific conclusions about the interwar period, which is described in these studies as a preparatory phase to the offshore financial boom occurring from the 1960s onward. At the level of taxation practices for non-residents as well as the struggle against tax evasion, I show that the 1920s and 1930s appear rather as something of a golden age of opportunity for avoiding taxation through the relocation of assets. Most of the financial centres granted considerable tax relief for imported assets, while the very limited degree of international cooperation and the ineffectiveness of exchange controls prevented the taxation of exported capital. On the other hand, within this general environment, the specificity of the Swiss tax policy is confirmed. Owing to its lenient fiscal legislation for non-residents, the possibility of tax evasion was greater than in most other countries. Moreover, in international taxation negotiations, in comparison with Great Britain, the formulating of Swiss strategies was different, due to a remarkable subordination of the state apparatus to the interests of the banking community. The weakness of the tax administration therefore permitted the Swiss financial centre to be at the forefront of fiscal attractiveness in the interwar period.

The first part of the article is based on data from historical statistical compilations. In order to obtain more complete figures regarding tax burdens, these were complemented by national yearbooks. In the second part, so as to compare different forms of taxation, legal texts of the time have been coupled with various studies carried out by tax authorities and the League of Nations (LON). These documents offer the advantage of analysing the actual taxation measures that may differ from fiscal legislation. The data in these two sections provide, then, a new vision of tax competition during the interwar years, which in itself constitutes a contribution to the historiography of taxation. While it is customary in histories of taxation to underline the extent of resistance that occurred on the part of the high-income circles in opposition to the institution of modern systems of taxation after World War I, the international aspect of these reactions is still little-known.<sup>5</sup> The same holds true for the literature on the flows of capital during this period, which makes little allowance for the weight of taxation—in opposition to political instability, budget deficits, or monetary disorders—as an incentive to the flight of assets.<sup>6</sup> Lastly, the third part is mainly based on primary archival sources. As the analysis is concerned with state policy vis-à-vis international tax evasion, it is the British and Swiss public records, namely the Public Record Office and the Swiss Federal Archives, which have been consulted as a priority. By providing access to confidential debates within different administrations, these sources enable us to follow closely the decision-making mechanisms at work in discussions of international taxation.

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<sup>4</sup> See Picciotto (1999); Palan (2002); Palan, Murphy and Chavagneux (2010).

<sup>5</sup> For national perspectives on this resistance, see for example, for Germany, Witt (1987, pp. 137-160); for France, Hautcoeur and Sicsic (1999, pp. 38-41); for the United States, Thorndike (2009, pp. 33-38).

<sup>6</sup> On capital flows during the interwar period, see for example Brown (1987, pp. 1-172); James (1992; 2002); Feinstein and Watson (1995); Eichengreen (2003, pp. 29-37).

## ***2. The takeoff of the Swiss financial centre and the maintenance of a weak State in Switzerland during the interwar years***

The takeoff and the internationalization of the Swiss financial centre following the Great War constitute an undeniable phenomenon in banking history.<sup>7</sup> In a subordinate position before the war, notably with regard to the competition of France and Germany, Swiss bankers took advantage of the new international context to affirm themselves as figures of substance in the financial world at the beginning of the 1920s. Although, for example, the cumulative balance sheets of the major Swiss banks represented only 26% of those of their French counterparts in 1913, they subsequently amounted to 73% in 1929.<sup>8</sup> The Swiss financial centre was particularly renowned in the sector of cross-border wealth management. In fact, foreign capital flowed en masse towards the Swiss haven in the interwar years. According to a LON report, owing to the importance of foreign assets, in 1929, Switzerland possessed by far the highest per capita total of bank deposits in the world.<sup>9</sup> The lack of a reliable balance of payments, as much as the absence of the legal obligation for Swiss banks to publish details regarding their accounts, nevertheless prevent an exact estimate of the total amount of imported capital. Banking balance sheets indicate a general trend, but are inadequate sources. A committee of experts working on Swiss history during World War II who, exceptionally, had access to the in-house archives of the banks, showed that holdings of securities, generally in off-balance-sheet bank custody accounts, represented, in the two biggest Swiss banks in 1931, more than three times their balance-sheet. Hence, the figure of 1,359.6M Swiss francs (CHF) for 1937 that was given during the first survey undertaken by the Swiss National Bank (SNB) on the assets of foreign clients was amply underestimated.<sup>10</sup>

In order to try and evaluate the magnitude of foreign capital invested in Swiss banks, historians have used figures gleaned in archival sources. This method showed that the sums proposed are very high. Whereas the total amounts cited in contemporary studies before the Great War were around 2 billion CHF, the sums rose to 10-20 billion in 1920.<sup>11</sup> Perrenoud also estimates them at 10 billion on the eve of World War II.<sup>12</sup> It was mainly French and

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<sup>7</sup> See for example Guex (1993, pp. 9-12); Perrenoud et al. (2002, pp. 44-71); Fior (2002); Mazbouri and Perrenoud (2008); Guex, Lopez and Mazbouri (2012).

<sup>8</sup> See 'Place financière'. In Dictionnaire historique de la Suisse, 2011 (hls-dhs-dss.ch).

<sup>9</sup> See League of Nations (1931, pp. 8-9). The deposits in commercial banks and other credit institutions per capita were estimated at 714 \$ in Switzerland, 438 \$ in the United States and 292 \$ in the UK.

<sup>10</sup> On this SNB figure and the problems of evaluating the amounts of foreign capital, see Perrenoud et al. (2002, pp. 85-90). The international estimations such as Feinstein and Watson (1995) are not useful because they show the net flow of capital and not the amounts of capital imports and exports. Furthermore, they do not give accurate estimates of the illegal capital flight. See also Guex, Lopez and Mazbouri (2012): according to these authors, from the mid-1920s to World War II, the assets under management in the Swiss banks were usually bigger than the total of their balance-sheets.

<sup>11</sup> For the figure before 1913, see Guex (1993, p. 150). For similar estimations, see also Sancey (2004, pp. 51-52). For the figure in 1920, see Guex (2013). In order to gauge the importance of the figure of 10-20 billion CHF for Switzerland, we might note that it represented between around 20% and 40% of Switzerland's national wealth (See Fahrländer 1921). For exchange rates, see Appendix 2 (10 billion CHF = \$2.3 billion).

<sup>12</sup> Perrenoud (2011, p. 127).

German capital that was invested in Switzerland.<sup>13</sup> In the second half of the 1930s, French capital alone would attain between 4 and 8 billion CHF—and even 10 billion according to a maximum total amount cited by the Swiss government in 1937—that would constitute between 15% and 50% of all expatriate French assets.<sup>14</sup> For its part, according to several archival sources, German capital would be situated at between 3 and 5 billion CHF at the beginning of the 1930s. In comparison with statistics of the Reich administration, this would mean that between a quarter and half of German assets in flight would have therefore taken refuge in Switzerland.<sup>15</sup> As for capital from Italy, Austria, or even from Spain, it is certain that a significant amount was also involved.<sup>16</sup> Lastly, it is necessary to add that Swiss bankers did not content themselves with importing foreign assets. A large part of that capital was re-exported on foreign markets. This *'turntable business'* (Siegenthaler 1976, p. 566) of European capital was conveyed by the fact that the sum of foreign investments was roughly equivalent to the imported assets, namely between 7.5 and 21.6 billion CHF at the end of the 1930s.<sup>17</sup>

The new international attractiveness of the Swiss financial centre derived directly from Switzerland's lack of participation in World War I and its consecutive political stability. During the conflict, the neutral islet had already attracted capital to it from the neighbouring countries.<sup>18</sup> In the interwar years, unlike the acute socio-political disturbances and the strengthening of the Left elsewhere in Europe, the hegemony of the Swiss Right during the whole period continued to reassure the high-income circles. Though a direct motive for capital investment—to which must be added the geographical proximity of Switzerland in relation to the major European States—the country's neutrality and conservatism guaranteed above all the pursuit of a liberal economic policy favourable to its financial centre.<sup>19</sup> In contrast to new regulations implanted in other countries, foreigners found in Switzerland the investment conditions that prevailed before the war in Europe, such as an absence of exchange control, an orthodox monetary policy, and a lack of state interventionism. These advantages more than compensated for the low level of interest rates in Switzerland.<sup>20</sup> As an

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<sup>13</sup> For example, see Archives fédérales suisses (AF), E 2001 D, 1000/1555, vol. 18, Confidential report of the Association des banquiers privés de Suisse, 21 April 1937.

<sup>14</sup> For estimates of French capital, see Perrenoud and Lopez (2002, pp. 18-35). The figure of 10 billion comes from the following source: AF, E 2001 D, 1000/1555, vol. 15, Minutes of the Federal Council (=government), 25 June 1937. Indeed, for 1937, contemporary estimates give the figure of 80-130 billion in 1928 French francs for exported capital, namely 16-26 billion CHF (See Rist and Schwob 1939, p. 543).

<sup>15</sup> See Guex (1999, p. 284); Loepfe (2006, p. 55). Guex gives two amounts: 4 billion CHF for accumulated German capital flight to Switzerland during the years 1927-1930 and 3.25 billion CHF just for 1929-1930. Loepfe cites two sources about the total German capital exported in Switzerland in 1930: one gives 3.5-5 billion CHF and the other 4.35 billion CHF. The Reich Statistical Office estimated the German capital flight during 1924-1930 at 8.5-9.5 billion marks, namely 10.5-11.5 billion CHF. Another figure of 8.8 billion marks was given by the same office for the years 1927-1930 (See James 1986, p. 298).

<sup>16</sup> For Italian capital, see Hauser (2001, pp. 26-29); Gerardi (2007, pp. 465-478). The importance of Austrian capital after World War I was noted, for example, by the Swiss Legation (See AF, E 2001 B, 1000/1509, vol. 6, Letter from Charles Bourcart, minister at the Swiss Legation in Vienna, to Felix Calonder, federal councillor (=minister) in charge of the Federal Political Department (=Foreign Affairs), 25 October 1919).

<sup>17</sup> See Perrenoud (2011, p. 107).

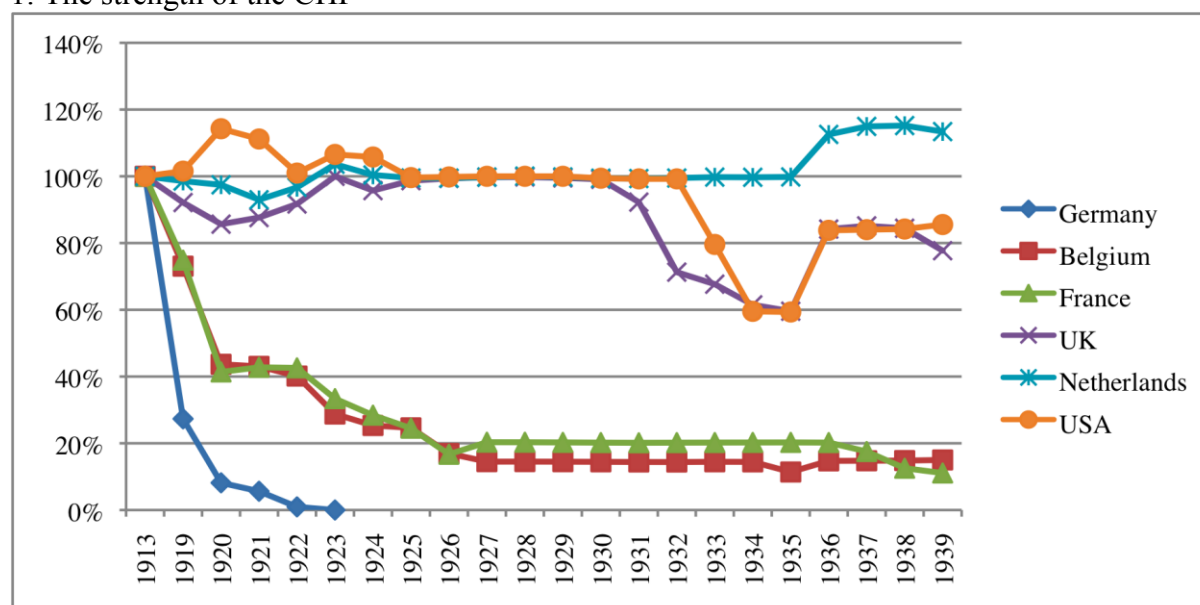
<sup>18</sup> See for example Ruggia (1993, p. 82).

<sup>19</sup> On the culture of stability in Switzerland as an asset for the Swiss financial centre, see for example Tanner (2000); Straumann (2006, pp. 165-167).

<sup>20</sup> See Siegenthaler (1976, pp. 566-568).

indication of this new international status of the Swiss financial centre, the CHF, which had been a relatively soft currency before the war, became a safe investment quoted on all the important foreign markets. The conservatism of Swiss economic policy at the end of the fighting led to a lasting confidence in the CHF, the solidity of which was turned, in the sequel to the interwar years, into a veritable fetish by the SNB and the leaders of the Swiss Confederation.<sup>21</sup> *Graph 1* illustrates the strength Swiss currency enjoyed by showing the evolution of the value of an investment made in 1913 in another currency as compared to the CHF. Setting aside the short post-war period in which the dollar prevailed over the CHF, in 1939, only the Dutch guilder was situated at a rate higher than that of the Swiss currency. The CHF thus became a very profitable investment for the French and Germans: the value of the French franc was divided by nine in the interwar years, while the mark disappeared in the hyperinflation of 1922-1923.

1: The strength of the CHF



*Evolution in % of the value of an investment made in 1913 in foreign currency in relation to the CHF.*

*Source: calculated on the basis of data provided in Appendix 2.*

If we now take a closer look at the strict financial factors of this takeoff, Swiss banks benefited from a competitive advantage because, in contrast to the explosion of government expenditure in Europe to cover the costs of the war and the ensuing reconstruction, state economic intervention was contained in Switzerland in the post-war years. Whereas the expenditure of all the central and local state institutions related to the GDP in 1913 attained almost the same level there (10.66%) as in the UK (13.04%) or in France (12.29% in 1912), in 1920, that expenditure had become much lower (14.77%, as against 25.91% in France and 28.37% in the UK).<sup>22</sup> Accordingly, faced with the post-war period dilemma of financing through taxation or via monetary inflation to cover the public sector expansion, Switzerland managed, at least in part, to avoid soaring prices without the considerable tax increase that

<sup>21</sup> See Guex (2003).

<sup>22</sup> For the expenditures, see Flora et al. (1983, pp. 345-449). General expenditure is involved, including national insurance. For the sources on the GDP, see Appendix 1.



occurred abroad.<sup>23</sup> As *Table 2* shows, the Swiss experience differed, on the one hand, from the inflationist countries—Germany, France and Belgium—that raised taxes too late to check the increase in prices. On the other hand, it differed from British policy, which soon covered expenditure through a remarkable fiscal effort. In the second part of the 1920s, and following the stabilization of the monetary systems, Switzerland had by far the lowest tax burden in European countries in relation to the GDP. Moreover, with the exception of the Netherlands, inflation was less strong in the Confederation than elsewhere.

## 2: Inflation or taxation?

	Belgium		France		Germany		Netherlands		Switzerland		UK		USA	
	1	2	1	2	1	2	1	2	1	2	1	2	1	2
1913	100	115	100	155	100	197	100	178	100	100	100	189	100	125
1920	473	68	366	167	1016	*	193	*	221	100	244	316	202	*
1921	418	63	318	158	1337	*	169	206	197	100	222	283	180	*
1922	391	66	306	116	15013	*	149	155	162	100	180	238	169	100
1923	445	118	342	*	*	*	145	170	162	100	170	270	172	*
1924	518	117	390	154	128	*	145	164	167	100	172	266	172	*
1925	536	136	414	147	140	207	145	168	165	100	172	253	177	*
1926	645	128	540	*	141	192	141	139	160	100	169	218	178	*
1927	818	155	564	174	148	209	141	161	157	100	164	248	175	115
1928	855	158	564	191	152	208	141	153	159	100	162	249	173	*

1. Evolution of the consumer price index in relation to its level in 1913 (1913=100)

Sources: Mitchell (2007a, pp. 748-750, Table H2; 2007b, pp. 962-964, Table H2). For Belgium: index of 1914 instead of 1913.

2. Evolution of the general tax burden (tax revenues of the central government and local bodies) divided by the GDP, in comparison to its level in Switzerland (=100).

Sources: calculated on the basis of Appendix 4.

\*= data unavailable.

Consequently, as far as taxation is concerned, the attractiveness of the Swiss financial centre was established by the modest use of direct taxes. The upper section of *Table 3* demonstrates the increase in direct fiscal pressure, measured in relation to the GDP, which resulted from the remodelling of the system of taxation on incomes and wealth that was undertaken in all countries in order to finance the increase in government spending in the interwar period. Although in very different ways, all States used the taxation of incomes and wealth to a greater degree than before the conflict. The high incomes, the main holders of movable assets, were especially targeted by the new deductions: in France, the theoretical maximum levels of the general income tax increased, for example, from 2% in 1915 to 90% in 1924, and those in Great Britain rose between 1914 and 1921 from 17.2% to 60%.<sup>24</sup> In such a context, investors thus strove increasingly to keep their assets hidden from the prying eyes of the tax authorities, notably through the expatriation of their patrimony. The opportunities for capturing this foreign capital resulting from tax evasion were all the more numerous for Swiss bankers, taking into account that the Swiss direct tax burden remained moderate by international standards; tax pressure on incomes and wealth was on an average over the period

<sup>23</sup> On the choice between inflation and taxation after World War I, see for example Kindleberger (1993, pp. 283-352).

<sup>24</sup> For the French rate of general income tax, see Piketty (2001, p. 265). For the English rate (the cumulation of income tax and super-tax), see *Report of the Commissioners* (1915, pp. 97 and 132; 1922, pp. 111 and 140).

some 20% to 60% lower in Switzerland than in the two great Anglo-Saxon financial powers. Only Belgium, a country in which resistance to taxation was particularly strong during the interwar years, presented a tax burden lower than Switzerland's over the period as a whole.<sup>25</sup>

### 3: The structure of the direct tax burden

1. Direct taxes / GDP							
	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
1910-1913	1,81%	3,66%	1,48%	4,64%	3,46%	5,21%	4,06%
1925-1927	4,64%	5,49%	8,62%	8,34%	5,00%	13,27%	7,62%
1930-1932	*	6,76%	12,44%	8,35%	8,10%	13,00%	10,10%
1935-1938	4,73%	8,03%	13,42%	5,45%	6,37%	12,80%	9,83%
2. Centralisation of direct taxes							
	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
1910-1913	67,77%	63,23%	8,47%	61,39%	1,28%	35,06%	2,56%
1925-1927	85,83%	91,76%	52,36%	58,80%	7,47%	71,30%	30,41%
1930-1932	*	91,37%	56,82%	55,00%	21,79%	68,05%	17,77%
1935-1938	77,22%	91,32%	63,37%	59,10%	10,11%	67,41%	35,11%

1. Direct tax revenues from state institutions as a whole (central government and local bodies) in relation to the GDP.

2. Direct tax revenues of central government related to direct tax revenues of state institutions as a whole.

*This involves data of one year included in the period indicated. Belgium: 1912, 1925, 1938; France: 1910, 1925, 1930, 1935; Germany: 1913, 1925, 1930, 1936; Netherlands: 1912, 1927, 1930, 1935; Switzerland: 1913, 1925, 1930, 1938; UK: 1910, 1925, 1930, 1935; USA: 1913, 1927, 1932, 1938.*

*Sources: for European tax revenues, see Flora et al. (1983, pp. 257-343); for the USA, see Carter et al. (2006, vol. 5, Table Ea 132-159, Ea 348-384, Ea 489-518).<sup>26</sup> For sources about the GDP, see Appendix 1.*

Finally, as regards taxes on (the income from) capital in particular, a phenomenon specific to Switzerland tended to accentuate their weakness even more: the decentralization of the fiscal system, illustrated by the lower section of *Table 3*. Unlike another federal country like the United States, the responsibility for applying all tax laws—central and local—was left up to the cantonal and communal authorities. Given that until the late 1930s nearly no harmonization of taxation practices was initiated and that no automatic service for the

<sup>25</sup> Belgium even went so far as to remove temporarily the progressive income tax during the Great Depression between 1930 and 1935 (See Putman 1950, pp. 390-406; Hardewyn 2005, p. 289). On the resistance to the progressive taxation after WWI in Belgium, see Hardewyn (2003, pp. 97-99). However, note that the general direct taxes in Belgium and in France are here a little underevaluated because the inheritance taxes are illogically considered as indirect taxes in Flora et al. (1983, pp. 286 and 289).

<sup>26</sup> For the USA, direct taxes are: property taxes + income taxes + a part of the 'other taxes' such as given in Carter et al. (2006, vol. 5). On the basis of U.S. Department of Commerce (1975, pp. 1106-1107, 1130 and 1133), this part has been approximately determined as the total of 'other taxes' for the central government + half of 'other taxes' for state governments + half of 'other taxes' for local governments. On the contrary, for the centralisation of direct taxes in the USA, the proportion is the result of: (central property taxes + central income taxes) / (total property taxes + total income taxes).

exchange of fiscal information existed among the cantons,<sup>27</sup> Switzerland was, from the point of view of direct taxation, a composite constellation of minuscule States that simply paid tribute to the central government. At the end of the 1930s, the *Administration fédérale des contributions* (AFC, the Swiss Federal Tax Administration) employed barely a hundred-odd officials, while, for example, in 1938-1939 in the United Kingdom, the Inland Revenue had 24,000 employees.<sup>28</sup> As a result, supported by Swiss conservatives and employers, this decentralization of the system of deductions pushed down the level of taxes on movable assets in Switzerland at least for three reasons.<sup>29</sup> First, the cantons and communes found themselves in competition with one another to attract capital to their region. Second, the apparatus for collecting taxes, in the hands of small local structures, remained underdeveloped. Third, business circles that were very well structured in Switzerland could more easily assert their claims against a rickety and fragmentary administration.

This anaemia of the fiscal State – resulting from the political environment and the federalist structure – enabled Swiss authorities to deploy an intensive strategy of attracting capital through taxation during the interwar years. This strategy was expressed, on the one hand, by the creation of legal provisions that were highly favourable to imported assets; these provisions are analysed below. On the other hand, a vigorous defence of Swiss tax benefits in international negotiations was undertaken, which is dealt with in Part 4. In that sense, the flight of assets towards Switzerland was favoured not only by a push factor—the tax increases in other countries—but also by a pull factor—Swiss fiscal policy.

### 3. A tax-free zone in the centre of Europe

An opening remark: Switzerland's international fiscal attractiveness in the interwar years is not reflected in the theoretical tax rates on income and the capital of movable wealth, presented in *Graphs 4*.<sup>30</sup> Unlike what happened in the second half of the twentieth century,<sup>31</sup> a dumping policy in the tax rates of private individuals was not perceptible in Switzerland in the 1920s and 1930s. For an average fortune of 100,000 CHF,<sup>32</sup> Swiss rates were close to French ones at the start of the 1920s, and then certainly became lower. However, owing to the high English income tax allowance (in 1920, £225 for a married man, namely 4,800 CHF), the incomes on such a capital sum were, for their part, usually exempt from tax in Great Britain during the period. This observation was confirmed for the very high incomes: theoretical Swiss rates were generally higher than British ones. As for France, it was only on

<sup>27</sup> On the absence of the exchange of information, see AF, E 2001 D, 1000/1555, vol. 1, Agreement in order to develop cantonal fiscal law. Minutes of the Commission of the Conference of Cantonal Finance Directors, 7 September 1937.

<sup>28</sup> On the structural weakness of the AFC, see Ceni (2008). During the Great Depression, the AFC had 87 employees on average (See Müller 2010, pp. 465). For the number of British officials, see Griffith (1949, p. 43).

<sup>29</sup> See Guex (1993, pp. 145-154; 1998, pp. 101-128).

<sup>30</sup> This result contradicts the hypothesis about Switzerland made in Dell, Piketty and Saez (2007, p. 474). From a more general point of view, the lack of link that is demonstrated here between top theoretical tax rates and real taxation questions the relevance for the interwar of Piketty's studies on the role of taxation on high incomes in reducing inequality.

<sup>31</sup> For Swiss rates in comparison to international rates after the war, see Longchamp (2010, pp. 13-14).

<sup>32</sup> If one refers to the consumer price index, it is necessary to multiply the total amounts cited here by six in order to get an idea of their approximate value today (See Office fédéral de la statistique, 'Tableaux statistiques historiques' Table 5.1.1:

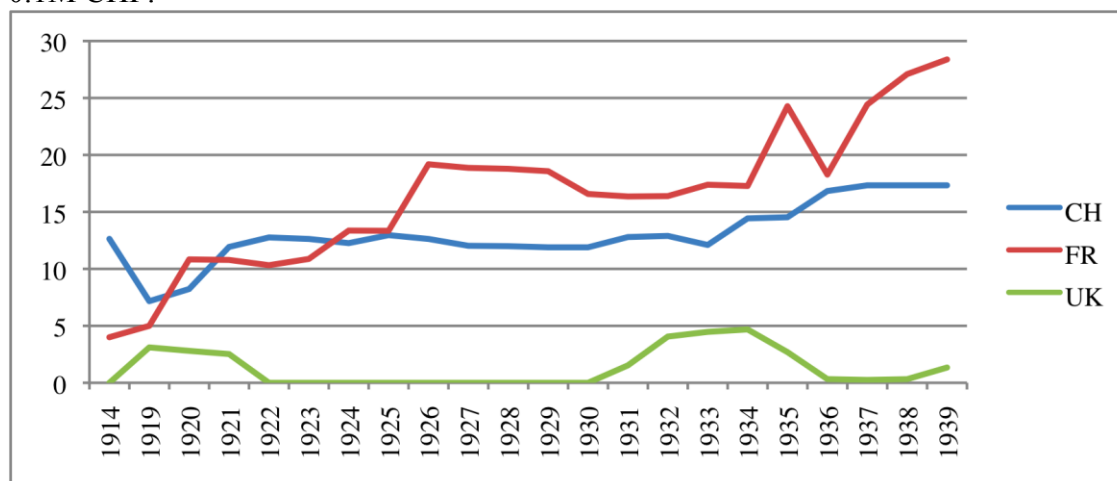
<http://www.bfs.admin.ch/bfs/portal/fr/index/dienstleistungen/history/01.html>).

top high incomes that the legal taxation was significantly heavier than that applied in Switzerland.

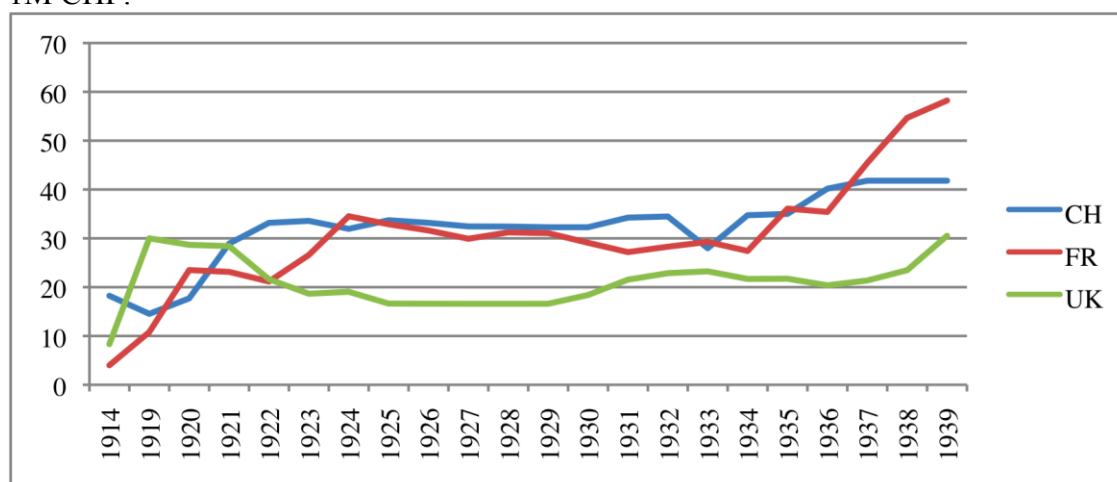
Nevertheless, such data do not indicate a weakening of Swiss effective fiscal competitiveness, given that the rates took account of neither the principles for determining the tax base nor the methods for collecting taxes. The level of pre-war rates – higher in Switzerland than in the other two countries – already provides an indication of the lack of credence one must give to these figures. At that time, these values had strictly no relevance due to the liberal taxation practices of the pre-war years. In 1914, Edwin R. Seligman noted, for example, that in certain Swiss cantons, it was the custom to simply ask the taxpayers how much they wanted to pay.<sup>33</sup> Owing to the persistence of fiscal federalism, this gulf between theoretical rates and their real collection continued to a large extent during the interwar years: in deliberately underestimating his calculations, one of the finest specialists in Swiss financial policy arrived at an estimate of around 60% of the Swiss private wealth on which federal direct tax was not levied between 1929 and 1932.<sup>34</sup>

#### 4: Theoretical rates of taxation on (the income from) capital

0.1M CHF:



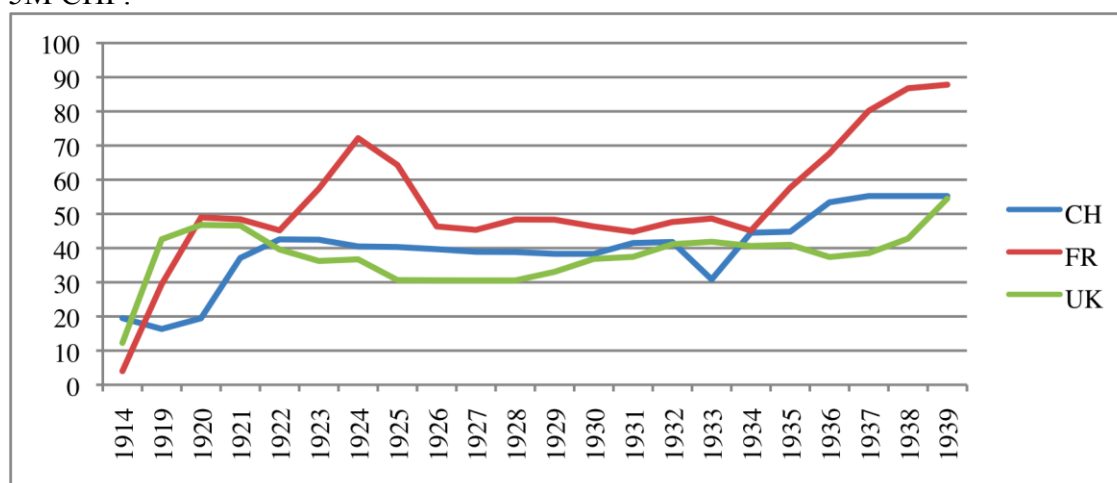
1M CHF:



<sup>33</sup> Seligman (1914, p. 359).

<sup>34</sup> Moreover, according to this study, 48% of the taxable wealth was illegally evaded to the federal tax during the same period (See Grossmann 1939, p. 136).

5M CHF:



*Income and wealth taxes for a capital of 0.1M, 1M and 5M CHF.*

*Sources: see Appendix 3.*

From the point of view of real taxation practices, the fiscal attractiveness of Switzerland resulted, therefore, from a system of taxation based for the most part on the declaration of the taxpayer in the interwar period.<sup>35</sup> In order to increase the tax yield, most of the other European States—including Belgium, France, Great Britain, and Italy— instituted, in effect, two-tier systems of taxation. Those combined proportional taxes collected at source and a complementary progressive taxation for high incomes on declaration, which taxed the same tax base a second time.<sup>36</sup> Now, owing to the high tax deductions and allowances, the weakness of the tax controls and the extent of fiscal evasion on the part of the holders of assets in the post-World War I years, it was taxation at source that provided the bulk of the tax revenues on movable capital in Europe. In both the 1920s and 1930s in France, the total amount of movable assets taxed at source was more than twice that same category of income declared to the general taxation system.<sup>37</sup> In Great Britain, Richard Hopkins, then at the Board of Inland Revenue (BIR), estimated in 1919 that the abandonment of the system of collecting income tax at source would be ‘*nothing less than disastrous*’ and would lead to an annual loss

<sup>35</sup> See Archives of the LON (ALON), F. 34, Memorandum by Hans Blau, director of the AFC, 14 May 1923. On the absence of taxation at source in Switzerland, see Blumenstein (1926, pp. 44-51).

<sup>36</sup> For an overview of the direct tax systems after WWI, see, for example, Ardant (1972, pp. 493-515).

<sup>37</sup> In 1921, 3,536M French francs of incomes from movable capital were declared for general taxation, while 8,200M were subject to scheduled taxation. In 1937, the proportion had not changed: 7,833M against 17,500M. For revenues declared for general taxation, see Ministère des finances (1923, pp. 476-477; 1938, p. 37bis). For contemporary estimates of incomes subject to scheduled taxation, see Piketty (2001, p. 715). According to contemporary estimates, at least 50% of movable assets evaded illegally the French general tax in the 1920s and the 1930s (See Hautcoeur and Sicsic 1999, p. 40). The estimates of the French tax administration varied from around 40% to 70% (See Farquet 2012, p. 99). In Belgium, the situation was even worse. According to a study of the Belgian tax administration, 14,920M Belgian francs of incomes of bonds and shares were taxed at source in 1919-1924, whereas only 3,810M were declared to the general income tax. The same study estimated that 66% of those incomes would have escaped this latter tax because of fraudulent acts (See Archives générales du Royaume, T 122, 601, Report of Charles Clavier, director of the Belgian direct tax administration, 1925).

to the British State of £50M.<sup>38</sup> Accordingly, the efficiency of the English fiscal system, demonstrated by the results in *Table 3*, derived not only from the consent of the British people to taxation, but also from the fact that a portion of the income, greater than in France and in Switzerland, was taxed without the cooperation of the taxpayer.<sup>39</sup> The average of annual rates of income tax, collected at source on movable assets, was actually around 24% in the interwar years, while in France that of scheduled tax on this kind of incomes rose to 16%.<sup>40</sup> As for Switzerland, a single tax was levied at source, the tax on coupons of shares and bonds, the rates of which fluctuated between 2% and 6% over the period.<sup>41</sup> The image that seems to emerge from the confrontation between practices and theoretical rates of capital taxation is thus the following: France had a strong progressive legal taxation, with ample possibilities for bypassing taxation for a wide fringe of incomes; Great Britain offered a less progressive theoretical taxation, but it was harder for a greater portion of wealth to escape taxation; Switzerland had a moderately progressive system, while allowing effective collection to depend on the goodwill of taxpayers for almost the whole of their capital.<sup>42</sup>

Made possible by the less urgent need to find new fiscal resources, and encouraged by federalist financial competition, the absence of taxation at source in Switzerland had a direct effect on international fiscal rivalry: for non-residents, the Swiss Confederation was actually a tax-free zone in the centre of Europe. *Table 5* compares the principles of taxation for non-domiciled individuals in the different countries at the end of the 1930s. It is first necessary to draw attention to a general phenomenon: during the interwar years, the relocation of patrimony abroad in order to escape taxation was strongly encouraged in most countries in two ways. On the one hand, in Belgium, France, the Netherlands, and the United States, taxation at source was reduced or set aside on the interest of bank accounts, if those were held by non-domiciled holders. Even in Great Britain, contrary to the legislation, the BIR admitted that it '*deliberately turn[ed] the blind eye*' on this kind of incomes.<sup>43</sup> The same held true for the cashing of foreign share and bond coupons, which were often free of taxes on proving the domicile of the owner by, for instance, presenting an affidavit. In a period characterized by monetary instability and by the volatility of international capital flight,<sup>44</sup> the financial powers clearly adopted strategies for attracting foreign assets through taxation by not passing the increase in fiscal burden on to non-residents. This choice emerged as a necessary condition for the development of banking centres due to the degree of fiscal intolerance after World War I. On the other hand, the embryonic nature of international cooperation against tax evasion and a guarantee of bank secrecy in many countries that were a destination for assets – associated with the ineffectiveness of exchange controls<sup>45</sup> – considerably hindered the

<sup>38</sup> Public Record Office (PRO), IR 85/1, Royal Commission on the Income Tax. Proof of Evidence of Hopkins, April 1919.

<sup>39</sup> The French complementary tax—general income tax—and the British tax—super-tax—applied to very few incomes. According to contemporary estimates, French general taxation would reach slightly more than one-fifth of national revenue in 1924, and super-tax 27% in 1919-1920 (See Allix and Lecerclé 1926, pp. 344-349).

<sup>40</sup> For the sources on these rates, see Appendix 3.

<sup>41</sup> On this tax, see Guex (1994). For the rates, see Oechslin (1967, pp. 122-125).

<sup>42</sup> The gap between legal rates and real taxation should be tested more systematically with the revenue of taxes on movable capital, as well as with other countries. For instance, during the whole period, the Netherlands seemed to have much lower tax rates than Switzerland: rough average for 0.1M CHF: 2%; for 1M: 6%; for 5M: 17% (Calculated with Centraal Bureau voor Statistiek 1922-1939b).

<sup>43</sup> PRO, IR 63/126, Finance Bill 1930, Memoranda, vol. 1, Note from the BIR to Hopkins, Second Secretary to the Treasury, and Philip Snowden, Chancellor of the Exchequer, 6 March 1930.

<sup>44</sup> See James (1992, pp. 596-599; 2002).

<sup>45</sup> A control of capital export was in force from 1918 to 1928 in France but was inadequate to check the capital flight. The same is true for the exchange controls that were implemented in Germany and

possibility for the State of the domiciled person to strike at exported capital in fiscal terms. In France, according to low estimates, only 30% of all assets invested abroad by private individuals would have been reported to the tax authorities in 1937, while the German exported capital that was declared in 1925 was totally insignificant.<sup>46</sup> For these two reasons, the chances of double non-taxation — at the place of domicile and at the revenue source— were increased.

Within this general environment, Switzerland was positioned at the forefront of tax dumping in presenting, maybe with the Netherlands, the most favourable conditions for imported capital. As shown by the examination of the relations with French clients, the country extended the offer of tax evasion of its banks. First, not only was no tax levied on movable assets taking refuge in Swiss banks, but neither were estate duties collected from direct descendants in almost half of the cantons.<sup>47</sup> The comparative advantage for asset management relative to the Anglo-Saxon countries, where inheritance rights could eat into half the capital, is evident here.<sup>48</sup> Even before World War I, the refusal to pay taxes on inheritance was one of the main reasons for placing French assets in Swiss coffers.<sup>49</sup> Next, evading foreign taxes on dividends via Swiss banks was made easier by an unconditional tax exemption on the cashing of coupons of foreign shares and bonds not quoted on Swiss stock markets.<sup>50</sup> In 1932, the fraud scandal of the *Banque commerciale de Bâle*, caught red-handed by the Paris tax authorities, revealed the volume of this type of traffic; at the time, this bank alone handled, with the specific goal of avoiding scheduled taxation, between 1 and 2 billion French francs of securities on behalf of French clients.<sup>51</sup> Lastly, confidentiality regarding imported assets was strengthened by the principled opposition of Swiss leaders to exchanging fiscal information with foreign countries and by an absolute respect for bank secrecy. The absence of administrative assistance left the field wide open to innovative tax-evasion activities: at the end of the 1930s, Swiss banks developed, in favour of French taxpayers, techniques for circumventing the agreement against tax evasion on estate duties concluded in 1907 between France and Great Britain.<sup>52</sup> As for bank secrecy, according to Guex,

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Central Europe after the financial crisis of 1931. On the loopholes of these laws, see Germain-Martin (1926); Ellis (1941).

<sup>46</sup> For France, see Piatier (1938, p. 79). Indeed, this figure seems to be very underevaluated. According to the information of the French tax authorities, cited by Piatier, the declared capital of individuals that was abroad was only 8.2 billion French francs in 1937. (Compare with the estimation of French capital flight in note 14). For Germany, see Bundesarchiv (BArch), R2/19814, Report of the Reich Statistical Office, transmitted to Herbert Dorn, German Ministry of Finance, 18 April 1930. The declared exported fortune was 129M marks, whereas the Reich Statistical Office estimated the total exported capital at 5 billion marks.

<sup>47</sup> See Rikli (1937, p. 245).

<sup>48</sup> It should be noted that for 1939-40 the capital invested in Great Britain by non-residents affected by estate duties was significant: £13,823,281 (See PRO, IR 40/7979, 'Estate Duty Statistics. Great Britain, Year 1939-1940').

<sup>49</sup> See Brion (1912); Nordmann (1927, pp. 24-26).

<sup>50</sup> See Guex (1994, pp. 229-231). Actually, as Guex demonstrates it, almost all foreign securities were detaxed (See also Treyer 1939, pp. 83-98). Indeed, the numbers of foreign shares and bonds quoted on Swiss markets were low. For instance, at the end of 1938, there were only 34 foreign companies that had quoted their shares in the Zürich stock market (See Schweizerischer Bankverein in Zürich 1938).

<sup>51</sup> See Guex (2007, p. 91).

<sup>52</sup> See AF, E 2001 D, 1000 1555, vol. 7, Confidential letter from the Federal Political Department's Litigation Bureau to the ASB, 16 December 1938; Notice of Robert Kohli, head of Federal Political Department's Litigation Bureau, on a phone conversation with Maurice Berthoud, Swiss banker. On the other side, British bankers complained to the Treasury of losing French clients in favour of Dutch and Swiss banks because of this agreement and tried, without success, to abolish it (See PRO, T

Switzerland became in 1934 the developed country where the principle was the most strongly protected after its inscription in the banking legislation with the explicit aim of protecting the international clientele from the intrusion of foreign tax authorities.<sup>53</sup> Swiss bank secrecy was in fact subject to criminal law, which meant that its violation would be automatically prosecuted by the authorities. The Swiss empty tax box was thus very airtight with respect to the outside world.

## 5: Principles of taxation of non-residents at the end of the 1930s

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1/11341, Letter from W. R. Malcolm, senior partner at Coutts & Co, to George Murray, Permanent Secretary to Treasury, 8 May 1911; T 160/146, Letter from Hopkins, BIR, to George Barstow, Controller of Supply Services to the Treasury, 28 July 1922).

<sup>53</sup> See Guex (2000, p. 244).



	<b>Taxation of bank interests</b>	<b>Taxation of foreign bond and share incomes</b>	<b>Estate and succession duties for direct descendants</b>	<b>Guarantee of bank secrecy by the tax administration</b>	<b>Number of bilateral treaties signed against tax evasion</b>
<b>BE</b>	- Taxation at source at reduced rate for non-residents	- Taxation at source - Rates: 5.5-6.6% - No taxation on foreign securities deposited into bank accounts	1.25-14%	- Yes, with exceptions: Investigation rights on foreign securities and on successions	- 4 treaties: FR, Italy, Luxembourg, NE.
<b>FR</b>	- No taxation	- Taxation at source - Rate: 25% - No taxation with affidavit	3-25%	- No Investigation rights on bank accounts + automatic information on securities	- 6 treaties: BE, Monaco, Italy, SWE, UK, USA.
<b>NE</b>	- No taxation	- Taxation at source - Rate: 2% - No taxation with proof of the domicile	2.5-7%	- Yes	- 1 treaty: BE
<b>SWE</b>	- Taxation by the depositor	- No taxation	1-20%	- No Investigation rights on bank accounts + automatic information on securities	- 3 treaties: Germany, FR, USA.
<b>SWI</b>	- No taxation	- Taxation at source - Rates: 4-6% No taxation for securities not quoted on Swiss stock market	0-4.3%	- Yes	- 0 treaty
<b>UK</b>	- Taxation by the depositor	- Taxation at source - Normal rate: 25% - No taxation with affidavit	1-50%	- Yes, with exceptions: Investigation rights on British untaxed government bonds + automatic information on savings banks accounts	- 1 treaty: FR
<b>USA</b>	- No Taxation	- No taxation	1-60%	- No Investigation rights on bank transactions + automatic information on interests and dividends	- 3 treaties: Canada, FR, SWE

*Sources: see Appendix 5*

In the interwar years, the Swiss policies of fiscal attractiveness and their link with federalism found their most powerful expression in the creation of tax benefits for holding companies. Even prior to World War I, some cantons offered tax advantages for such companies. After the conflict, taking advantage of the new international financial context, a veritable competition to reduce taxes began among Swiss cantons in order to attract foreign holding companies.<sup>54</sup> At the beginning of the 1930s, fourteen of them (that is, more than half) had adopted legal provisions that favoured holding companies through a taxation measure that applied only to their capital and not to their profits.<sup>55</sup> As a result, the number of these companies increased thirteen-fold between 1921 and 1939, rising from 158 to 2,017. As shown in *Graph 6* by the lack of connection between capital growth and the creation of holding companies during the Great Depression, most companies had in fact very little capital, something that decreased their taxation. In 1931, the first year for which we have detailed figures, the small companies, with an average capital of around 500,000 CHF, accounted for more than 90% of all the holding companies. The main function of these letterbox companies managed by Swiss business lawyers and bankers was to use creative accounting to reduce the tax burden of not just the multinationals but also of private individuals. Through this system, the latter could profit in their own countries from the tax reliefs granted to non-residents, by cashing, for example, foreign security coupons on the home market via a holding company.<sup>56</sup>

Like the sweeping tax exemption granted to imported capital, the proliferation of small holding companies revealed two features of the Swiss international fiscal policy in the interwar period. First, the benefits granted to holding companies showed the capacity of financial circles to appropriate Swiss legislation far more than an alliance between fiscal and economic interests. For the cantons, the gain in terms of tax revenues generated by the creation of holding companies was very marginal.<sup>57</sup> Second, Switzerland combined the advantages of a financial centre of international renown with the practices of small tax havens. Its main competitors in the creation of holding companies were not the other great European banking centres, which did not use such legal provisions, but Liechtenstein, Luxembourg, and Monaco, which embarked on Swiss-style practices. In Liechtenstein, 2,504 domiciled companies were set up between 1921 and 1945, of which more than 1,000 were in fact directly linked to Swiss wealth managers.<sup>58</sup> In Luxembourg, the 1929 law on holding

<sup>54</sup> On this competition to reduce taxes, see Rosset (1931); Van Orsouw (1995, pp. 39-85). On the general development of Swiss holding companies, see Paquier (2001).

<sup>55</sup> See Rosset (1933, pp. 325-326).

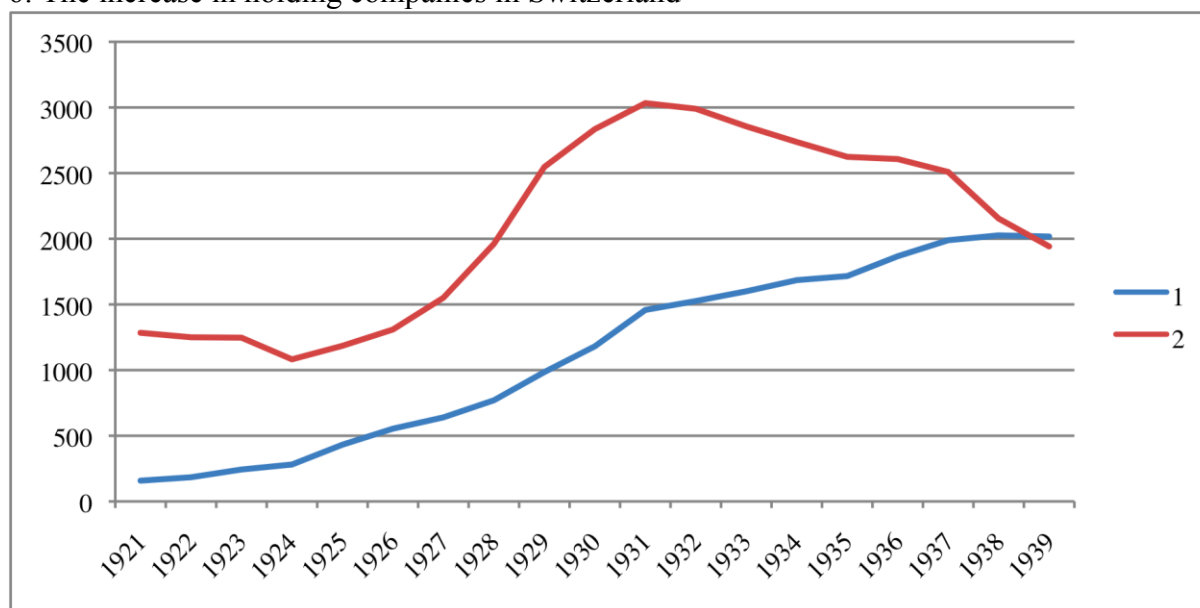
<sup>56</sup> On the utilization of Swiss holding companies for asset management, by French people, see Centre des archives économiques et financières (CAEF), B 43380, Report of the French consul in Geneva to Aristide Briand, French Président du Conseil (=prime minister), 5 janvier 192[6] ; by English people, see PRO, IR 40/4574, Confidential memorandum prepared for Board's Committee on Evasion of Income Tax and Sur-tax, September 1933. According to this report, the use of foreign holdings and trusts was one of the most common ways to avoid the British sur-tax legally. The loss of sur-tax revenue was estimated at least at £1,451M by the BIR for 1931/1932. See also Perrenoud et al. (2002, p. 47). Note that foundations were also widely used for the same purpose. Their numbers rose in Switzerland from 384 in 1919 to 2069 in 1939 (See Bureau fédéral de la statistique 1939, p. 309).

<sup>57</sup> In the cantons that granted tax privileges, holding companies paid, depending on the canton, between 0.04% and 0.15% of tax a year on their capital (Rosset 1933, p. 326). If we take a rough average figure of 0.1%, we can then estimate that in the 1930s small holding companies brought in around 650,000 CHF revenues from taxes (See Appendix 6). As the totality of cantonal fiscal revenues was situated at the time between 250 and 300M CHF, the contribution of small holding companies would only be from 0.2% to 0.25% (See Bureau fédéral de la statistique 1940, p. 352).

<sup>58</sup> See Lussy and Lopez (2005, pp. 96-97). The great majority of these domiciled companies were created before the war (*Ibid.*, p. 90).

companies, deliberately drawn up in order to compete with the Swiss cantons, also met with undeniable success: the number of holding companies was 360 in 1933, then reached 1,110 in 1938.<sup>59</sup> By contrast, a court decision in 1928-9 confirmed the right for companies residing abroad to be registered in the United Kingdom without paying British taxes in full – a decision, according to Picciotto, that ‘created a loophole which in a sense made Britain a tax haven’ (Picciotto 1992, p. 8). It does not appear, however, that this provision was widely used for tax purposes during the interwar period.<sup>60</sup>

#### 6: The increase in holding companies in Switzerland



1. Number of holding companies in Switzerland.

2. Nominal capital from holding companies as a whole (in millions of CHF)

Sources: see Appendix 6.

#### 4. Swiss strategies in international negotiations

Alongside the application of internal legislation favourable to foreign capital, the Swiss policy of fiscal attractiveness was also vigorously defended in external relations. In order to contain the loss of the tax base caused by the flight of capital at the end of World War I, the major European States— France and Germany especially—attempted to intensify cooperation between the national tax authorities.<sup>61</sup> At the end of the conflict, bilateral negotiations were initiated regarding international assistance against tax evasion, before discussions also turned to the multilateral scene at the LON in 1923. These debates were coupled with discussions on double taxation, a problem that had greatly affected the multinationals since the war. Due to the extension of taxes collected at source, their profits were in effect liable to be taxed several

<sup>59</sup> For the drawing up of the law referring to Swiss practices, see *Loi sur les holding companies* (1929). For the figures, see Delvaux (1938, pp. 7-8).

<sup>60</sup> There were few registered foreign companies only: around 150 in 1932. Moreover, according to the BIR, the British registration of these companies was generally not linked with the tax advantages (See PRO, IR 40/4008, Report of Suggett, Chief Inspector at the BIR, ‘1932. Budget – Proposals for New Taxation’, 16 April 1932).

<sup>61</sup> See Farquet (2009a; 2009b; 2010; 2012).

times over in the different countries in which these companies conducted their business.<sup>62</sup> Hence, the connection established between these two problems provided a bargaining chip for the countries requesting tax cooperation: the abolition of double taxation could be strictly subject to the simultaneous institution of fiscal information exchanges. Yet, despite this advantage, attempts at intensifying fiscal cooperation led to rather meagre results. Attempts to reach an overall agreement at the LON quickly foundered in the face of the differences in presence between advocates of the fight against tax evasion and representatives of the major financial centres. Moreover, while around sixty general bilateral agreements against double taxation were signed before World War II, under half of them only contained binding provisions regarding tax evasion.<sup>63</sup>

At first glance, the policy implemented by Swiss leaders with regard to these attempts to extend the fight against tax evasion differed only slightly from the line taken by a great banking power like Great Britain. Although the latter continued to apply an agreement signed in 1907 with France for the exchange of information on inheritance taxation,<sup>64</sup> English and Swiss representatives found themselves together in the camp of opponents to the fight against tax evasion at the LON, and neither State signed any convention of fiscal assistance in the interwar years. In the two countries, banking circles vetoed participation in international collaboration on fiscal matters. Whereas in Switzerland this political line had become dogma by 1923, following intense pressure from the influential organization of Swiss bankers, the *Association suisse des banquiers* (ASB),<sup>65</sup> in the years 1935-1936, the City also managed, in extremis, during the negotiations for an agreement with France, to steer the British authorities away from international fiscal collaboration.<sup>66</sup> The ability to keep the English financial power away from fiscal cooperation, imitated by its North American counterpart until the very end of the 1930s, confirmed the extended capacity of the high-income circles to obstruct taxation practices during the interwar years. By contrast with the period after World War II, which witnessed the spread of assistance agreements, the avoidance of taxation for non-residents via the major banking centres did not circumvent international accords or make use of small tax havens; in a way, avoidance was endorsed by the vacuum existing at the level of international law.

Beyond this general assessment, a very active defence of banking interests characterized both internal and external aspects of Switzerland's fiscal policy. In that sense, it differed from British policy in two essential ways. First, from the beginning of multilateral talks in 1923, Swiss negotiators presented a more categorical opposition to the fight against tax evasion than all the other delegates. Unlike the Swiss experts – but nonetheless without

<sup>62</sup> See Picciotto (1992, pp. 1-37).

<sup>63</sup> See ALON, F/Fiscal/99, Memorandum by Mitchell B. Carroll, representative of the United States at the fiscal committee of the LON, 28 September 1937; Carroll (1939).

<sup>64</sup> This convention introduced automatic exchange of information on movable capital owned by French residents in Great Britain and vice versa. Between 1908 and 1910, 859 cases affecting French residents were reported by Great Britain to the French authorities for a total capital sum of £2,752,957. In the other direction, 151 cases (£554,426) were reported by France to Great Britain (See PRO, T 1/11341, Report of the BIR, 'Anglo-French Agreement of 15th November 1907'). Between 1919 and 1921, 1,244 cases (£2,668,425) were reported by Great Britain to France and 404 cases (£930,834) were transmitted by France to Great Britain (See PRO, IR 62/1161, Note by the BIR on Measures for International Co-operation to Prevent Evasion of Taxation, 1922).

<sup>65</sup> See Archives of the ASB, Minutes of the Committee of the ASB, 19 November 1923; Farquet (2009a, pp. 103-108).

<sup>66</sup> On the pressures of the City, relayed by the Bank of England and the Treasury, see PRO, T 160/956, Letter from Kenneth Peppiatt, Chief Cashier of the Bank of England, to Warren Fisher, Permanent Secretary to the Treasury, 30 December 1935; IR 40/16898, Report from E. R. Forber, BIR, to Neville Chamberlain, Chancellor of the Exchequer, 28 May 1937.

accepting the lifting of bank secrecy – the British representatives did not reject the principle per se of fiscal information exchanges.<sup>67</sup> At the beginning of the 1920s, the issue of tax evasion was highly sensitive due to the flight of German capital, which deprived the Reich of part of the taxes necessary for the payment of war reparations. From a diplomatic point of view, it was therefore difficult to oppose international cooperation openly. Nevertheless, in Geneva, the Swiss delegates became the voice of international finance against the joint advocates of a rapprochement between tax authorities. The Swiss attitude caused quite a stir at the LON.<sup>68</sup> Later on, even if their position was less decisive, the Swiss delegates pursued the same policy. To illustrate the extent to which Swiss obstruction was a reality, we may note that the Swiss government was the only one to steer clear of scientific cooperation in the Geneva organization by avoiding to respond in 1938 to a simply survey on the subject of the taxation practices of non-residents. Any ‘*publicity*’ on this subject was now deemed to be ‘*undesirable*’ by the Minister of Foreign Affairs.<sup>69</sup> As decisions were taken unanimously at the LON, Swiss leaders accordingly hastened the burial of a multilateral solution, the only one that could have met the usual objection to the signing of bilateral agreements on tax evasion: the flight of assets they would cause in the direction of a third country.<sup>70</sup>

In the midst of bilateral negotiations on international taxation, the Swiss government also developed a more combative strategy than the British one in seeking to obtain tax relief for Swiss investments abroad, without however modifying its line regarding tax evasion. Unlike Great Britain, which did not sign any overall agreement on double taxation, Switzerland put its name to three general treaties against double taxation with important economic partners; these treaties contained provisions favourable to its multinational industries and to its financial centre. With regard to the banks, the agreement signed in 1927 with Austria removed taxes on certain loans granted to Austrian clients.<sup>71</sup> The agreement with Germany, signed in 1931 and ratified in 1934, reduced the taxes on the huge number of German mortgages in the hands of the Swiss banks and offered certain benefits, though ambiguous ones, for the German owners of Swiss holding companies.<sup>72</sup> Lastly, the treaty with France, signed in 1937 and ratified in 1939, was favourable to the direct investments of Swiss banks and facilitated their access to French markets.<sup>73</sup> Put simply, not only did Swiss ruling

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<sup>67</sup> For the British position to the LON, see ALON, F. 7, Memorandum of the BRI, annexed to a letter from Charles Tufton, Foreign Office, to Eric Drummond, Secretary General of the LON, 3 January 1923; PRO, IR 40/3419, Report by Percy Thompson, BIR representative to the LON Experts Committee on double taxation and fiscal evasion, to Chamberlain, Chancellor of the Exchequer, 30 October 1923; IR 40/3798, Report by Thompson to Winston Churchill, Chancellor of the Exchequer, 7 September 1928.

<sup>68</sup> On Switzerland’s delicate situation at the fiscal committee of the LON, see for example AF, E 2001 B, 1000/1508, vol. 34, Minutes of the Federal Council, 21 March 1924; Rappard (1925, p. 72).

<sup>69</sup> AF, E 2001 D, 1000/1554, vol. 27, Confidential letter from Giuseppe Motta, federal councillor in charge of the Federal Political Department, to Albert Meyer, federal councillor in charge of the Federal Department of Finance and Customs, 2 March 1938.

<sup>70</sup> The argument for the need of a general agreement, signed by all the financial powers, was constantly mobilized at the LON. For example, see League of Nations (1925, p. 26); ALON, F/Fiscal/95, Government observations on the proposals of the Committee tending to prevent tax evasion to do with income from movable capital, 8 September and 5 October 1937.

<sup>71</sup> See AF, E 2001 C, 1000/1536, vol. 10, Minutes of the Federal Council, 15 November 1927.

<sup>72</sup> See AF, E 2001 C, 1000/1536, vol. 4, Minutes of the Federal Council, 9 January 1934; Guex (1999, pp. 281-286).

<sup>73</sup> On the implications of Swiss banks, see AF, E 2001 D, 1000/1555, vol. 18, Minutes of the Federal Council, 25 June 1937; E 2001 D, 1000/1555, vol. 16, Letter from the Federal Political Department’s Litigations Bureau to the ASB, 10 February 1938. On this agreement, also see Perrenoud and Lopez (2002, pp. 71-74); Schaufelbuehl (2009, pp. 316-330).

circles manage to protect the importing of assets in flight by firmly refusing bilateral and multilateral fiscal information exchanges, but the Swiss financial centre also obtained substantial advantages on the other side of its turntable business, the (re)exporting of capital. Conversely, the international fiscal policy of Great Britain was marked by extreme prudence and a very clear wait-and-see policy. Setting aside the limited negotiations about the tax surcharge of English industries in France—which did not succeed—the Chancellor of the Exchequer put a brake on talks about double taxation in the second half of the 1930s, despite repeated complaints from business circles.<sup>74</sup> In 1938, a member of the BIR summarized this position: *‘Our policy in double taxation is festina lente – and Hopkins [of the Treasury] is interested as well as the Inland Revenue in ensuring that nothing is done to accelerate the pace.’*<sup>75</sup>

These differences derived in part from the general orientation of the Swiss and British economies in the interwar period. The English refusal of some degree of financial liberalization, which signing a double taxation convention with a foreign country would have represented, was inscribed within a general falling back of English foreign investments on the Empire after World War I, in contrast to Swiss finance, which strove towards expanding in all European markets.<sup>76</sup> These different options in relation to international taxation were also strongly influenced by the respective weight and degree of independence of tax authorities. In the same way as for tax reliefs granted to imported capital, the leanness of the Swiss fiscal State facilitated the application of strategies based on the unique principle of defending Swiss investors. In contrast, the policy of Great Britain was divided between the contradictory interests of its tax authorities and its business groups. Actually, in Great Britain, the balance of power did not work against the BIR because of the choice made at the end of the war to cover the increase in public budgets through much heavier taxation. At the time, the development of a fiscal bureaucracy assumed a decisive function for British banks since budgetary balance — deemed by banks to be essential to the pound recovering its pre-war rate—depended on the efficient collecting of taxes.

On behalf of this unnatural alliance, the BIR thus enjoyed great autonomy vis-à-vis the City, which intervened directly very little in fiscal matters.<sup>77</sup> In international taxation negotiations, this was also the case. The centre of decision-making was at the BIR—obviously supervised by the Chancellor of the Exchequer and the Treasury, and sometimes backed up by the Board of Trade. In order to make their voices heard to the British authorities, economic circles turned into lobbies by gathering around organizations like the Taxation Committee of the Federation of British Industries and the British National Committee of the International Chamber of Commerce.<sup>78</sup> They also took direct advantage of the contacts they had within the state apparatus. When it came to brushing aside the measures

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<sup>74</sup> See Picciotto (1992, pp. 25-26); PRO, IR 40/7463, Memorandum of Hopkins, Second Secretary to the Treasury, 29 May 1933; IR 40/3419, Extract from the Minute to Chamberlain, 20 February 1934. Also see *Parliamentary Debates, Daily Reports*, vol. 319, 46, col. 1418/9, 2 February 1937; Modern Record Center (MRC), MSS.200/F/3/E4/4/9, British National Committee of the International Chamber of Commerce, Minutes of the Meeting of the Sub-Committee on Double Taxation, 30 April 1934 and 30 November 1934.

<sup>75</sup> PRO, IR 40/6156, Letter from E. R. Copleston, BIR, to John Winniffrith, Treasury, 28 May 1938.

<sup>76</sup> On this drop in British investments, see for example Cain and Hopkins (1993, pp. 44-46).

<sup>77</sup> On the autonomy of the British administration on tax issues, see Middleton (1985, pp. 57-77); Daunton (1996, pp. 917-918). On the acceptance by financial circles of heavy direct taxation in order to maintain budgetary orthodoxy, see for example Cronin (1991, pp. 77-78).

<sup>78</sup> On their lobbying, see for example MRC, MSS.200/F/1/1/131, Interview of the Federation of British Industries with the BIR, 14 March 1929; PRO, IR 40/4511, International Chamber of Commerce. British Sub-Committee on Double Taxation. Interview with the BIR, 13 July 1934.

of assistance against tax evasion, the City benefited from the support of the Treasury, which demonstrated intense ideological and sociological collusion with the bankers of London.<sup>79</sup> Nevertheless, the bankers were manifestly excluded from the internal decision-making process and were not officially informed of the evolution of negotiations.<sup>80</sup> During a survey conducted in 1925 among British bankers as to their opinion of the LON debates on taxation, the Swiss ambassador remarked in particular that *'three of the biggest bankers in London,'* had only *'a vague understanding of what it was all about.'*<sup>81</sup>

A corollary of the stranglehold the BIR had on the talks was that Great Britain's international fiscal policy was conditioned by a constant concern to preserve tax revenues. The taxation at source of the incomes of non-residents as well as the taxation of exported British capital provided substantial revenue that the BIR was loath to lose entirely. In 1919, the authorities underlined the *'giving up of considerable amounts'* that the total resolution of double taxation would mean.<sup>82</sup> Moreover, some business groups, active in the home market, could also support taxation at source as a way to protect themselves from foreign competition. Admittedly, this point of view was not unanimously accepted by the BIR's top officials: the British expert at the LON supported the abandoning of taxation at source, along with limited arrangements for exchanges of information, during the 1920s.<sup>83</sup> Yet, at the beginning of the 1930s, at a time when the issue of signing fiscal agreements was posed in concrete terms, the interest in tax revenues predominated at the BIR and prompted it to arrive at only very limited agreements on the reciprocal removal of taxes for commercial agencies and shipping companies.<sup>84</sup> The negotiations on the international tax system constituted, then, neither a weapon for the external expansion of British investments nor a means of attracting foreign capital. Furthermore, although it refused to enter into confrontation with the City about bank secrecy and administrative assistance, the BIR simultaneously engaged in a unilateral fight against international tax evasion that was relatively developed for the times. Between 1936

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<sup>79</sup> On the opposition of the Treasury to infringements of bank secrecy, see PRO, IR 40/3419, Note from Otto Niemeyer, Controller of Finance at the Treasury, to Chamberlain, 7 November 1923. On the collusion between the City and the Treasury, see, among others, Ingham (1984, pp. 170-200); Peden (2000, pp. 128-302); Peden (2004). At the end of the 1920s, in regard to the extent of tax evasion, the BIR proposed to demand automatic information from the British banks about their depositors, but rapidly stopped these attempts in part because of the Treasury's wish not to frighten the foreign clients of the City (See PRO, IR 40/4576, Report, 'Bank interest paid or credited to customers. Furnishing of information by the banks', annexed to a letter from Ernest Gowers, BIR, to Frederick Pethick-Lawrence, Financial Secretary to the Treasury, 29 July 1929; IR 63/126, Finance Bill 1930, Memoranda, vol. 1, Note from the BIR to Hopkins and Snowden, 6 March 1930). The bankers were of course opposed to the BIR's proposition (See Metropolitan Archives, CLC/B/MS 32006 6, Minutes of the Committee of London Clearing Banks, 6 March 1930).

<sup>80</sup> See for example PRO, T 160/956 Peppiatt to Hopkins, 23 January 1936; IR 40/5070, Letter from Clifford Wakely, BIR, to D. F. Howard, Foreign Office, 18 September 1937.

<sup>81</sup> AF, E 2001 B, 1000/1508, vol. 34, Letter from Charles Paravicini, minister at the Swiss Legation in London, to Paul Dinichert, head of the Foreign Affairs Division, 26 March 1925. Note that the minutes books of the Committee of the British Bankers' Association, as well as those of the Committee of London Clearing Banks do not mention during the interwar the attempts against international tax evasion, whereas the ASB discussed this question constantly. For the minutes, see Metropolitan Archives, CLC/B/029/MS32015/001; CLC/B/MS 32006 5-7.

<sup>82</sup> PRO, IR 85/10, Memorandum by the BIR on the subject of double income tax elsewhere than within the British Empire, November 1919.

<sup>83</sup> See PRO, IR 40/3798, Letter from Thompson to Churchill, 7 September 1928.

<sup>84</sup> On the reticence of the BIR to enter into negotiations in the 1930s, see PRO, IR 40/4680, Report of the Double Taxation Relief Committee, 27 January 1930; IR 40/4156, Memorandum by Gerald Canny, BIR, 'Musings on Double Taxation', 29 July 1932.

and 1938, many legal provisions against fraud were adopted relative to the utilization of holding companies in the tax havens, the cashing of British banks coupons abroad or, more simply, the transfer of capital outside British territory.<sup>85</sup> Sheltered from the pressures of the financial world by the maintenance of consensus on the most sensitive issues, the English administration therefore developed a strategy of international taxation guided by the need to preserve the tax base.<sup>86</sup>

In contrast, the international fiscal policy of Switzerland was characterized by placing the state apparatus at the service of the different economic groups. This was expressed by the omnipresence of banking and industrial organizations, the ASB and the *Union suisse du commerce et de l'industrie* (USCI, the Swiss Union of Commerce and Industry) in the decision-making processes; their experts were always included in the official Swiss delegation during interstate negotiations.<sup>87</sup> As a result, within this liberal corporatism, the role of the Swiss administration and government consisted in arbitrating between the points of view of these two associations, which could diverge: the industrialists were usually more interested in agreements about double taxation than the bankers. In 1935, during negotiations with France, such subordination was shown explicitly by the Minister of Foreign Affairs to an important Swiss banker: '*It is fully understood that the Authorities will do nothing without the consent, indeed the instigation, of the interested parties*'.<sup>88</sup> Unlike the situation in Great Britain, the influence of the employers on the talks was clearly favoured by the position and the structure of the fiscal administration, which did not defend interests of its own regarding international taxation. On the subject of double taxation, the desire for reciprocal removal of taxes on external investments abroad, expressed by both bankers and industrialists, was not opposed by the Swiss tax authorities or by businessmen active in their home market because of the lack of taxes at source. The director of the federal fiscal administration thus became one of the strongest advocates of agreements against double taxes.<sup>89</sup> Issues regarding international tax evasion were neglected due to the federal system. The top officials of the AFC were not directly involved in the problems regarding tax collection, and they were in a

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<sup>85</sup> See especially Clause 18 of the Finance Act 1936 and Clause 23 and 28 of the Finance Act 1938 in Board of Inland Revenue (1946, pp. 430-470); PRO, T 175/98, Report by Canny to John Simon, Chancellor of the Exchequer, 'Finance Bill. Tax Avoidance', 11 February 1938. On the origins of this policy, see PRO, T 175/98, Confidential Report of the Evasion Committee, February 1934; Stopforth (1985; 1992).

<sup>86</sup> With the advent of World War II, this policy went into overdrive: in 1939, the guarantee of bank confidentiality vis-à-vis the revenue authorities was rescinded for British securities owned by British residents, before bank secrecy for this kind of incomes was also relaxed in 1945 for non-residents in the fiscal assistance planned in the convention on double taxation with the United States (See Clause 18 of the Finance Act 1939 in Board of Inland Revenue 1946, pp. 502-503; PRO, IR 40/10018, Note of the Inland Revenue on a memorandum by Geoffrey Lloyd, Minister of Information, to John Anderson, Chancellor of the Exchequer, 9 April 1945; Double taxation Agreement with United States. Meeting with Banks, 10 April 1945; War Cabinet. Secret: Double Taxation, 12 April 1945). Despite this improvement in the fight against tax evasion, one of the main opponents against this agreement was John Maynard Keynes because he feared that solving double taxation would lead to an influx of US investments to the UK (See PRO, T 160/1403, Note of Keynes, 17 February 1944; Memorandum of Keynes, 'The proposed Double Taxation Agreement with the United States', 28 August 1944).

<sup>87</sup> This inclusion was decided in 1929 (See AF, E 2001 C, 1000/1536, vol. 4, Report by Motta to the Federal Council, 'Doppelbesteuerung auf dem Gebiete der direkten Steuern. Verhandlungen mit Deutschland', 12 June 1929).

<sup>88</sup> AF, E 2001 C, 1000/1536, vol. 15, Letter from Motta to Albert Pictet, Banque Pictet & Cie, 1st February 1935.

<sup>89</sup> See AF, E 2001 C, 1000/1536, vol. 3, Report by Blau, 'Thesen zu der Frage des Abschlusses von Doppelbesteuerungsverträgen durch die Schweiz mit dem Auslande', 1928.



position of institutional weakness. For their part, the cantonal finance ministers, theoretically more affected by the loss of the tax base, were sidelined in the decision-making process centred in Bern. Their limited power and fragmentation made them highly responsive to the demands expressed by economic groups. For instance, when in 1936 the socialist minister of Geneva came out in favour of international collaboration against tax evasion, the banking world easily kept him away from the debates.<sup>90</sup>

The strike power of business circles in international relations was, therefore, inversely proportional to the weakness of the Swiss fiscal State. As no obstacle was placed in the way of the employers' views within the Swiss Confederation, a combative policy was implemented towards the outside world in order to obtain tax reliefs on exported Swiss capital without establishing in return a system for fighting tax evasion. At the end of the war, the Foreign Affairs Division, which significantly occupied a more central place in international fiscal issues than the AFC, advocated the unconditional defence of Swiss investors in the main disputes about taxation that they encountered abroad, even when they had made use of illicit operations.<sup>91</sup> Within the official talks on double taxation, the adherence of the government and the administration to the programme of the ASB and the USCI also reinforced the Swiss position. Swiss negotiators were prepared to trade other economic issues off against the resolution of double taxation. That was the case with Germany in 1934 when the tax agreement was ratified by the Nazis within the framework of a general economic deal between the two countries that forced the German Ministry of Finance to give up its demands for the enforcement of information exchange regarding tax evasion.<sup>92</sup> The impact of this coordinated strategy was even clearer in the negotiations with France in 1937-1939. For the first time, certain industrialists, in opposition to most of the bankers, wanted to make Swiss policy on tax evasion more flexible in order to speed up the conclusion of an agreement on double taxation. The internal conflict was overcome by granting three huge loans to the French State and bribing its negotiators, an operation orchestrated by the ASB and the USCI.<sup>93</sup> In this case, the cohesion between the administration and Swiss business circles was

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<sup>90</sup> See E 2001 D, 1000/1555, vol. 17, Letter from Albert Naine, state councillor of Geneva, to Maxime de Stoutz, head of the Foreign Affairs Division, 5 January 1935; E 2001 D, 1000/1536, vol. 15, Letter from Pictet to Motta, 9 November 1935; Letter from Motta to Meyer, 15 November 1935.

<sup>91</sup> For the repeated defence of fraudulent cases, see Farquet (2013). In 1922, for instance, the Federal Political Department wrote about the French tax on movable property: *'it seems that we cannot reproach the French tax administration for an unfair interpretation of the law [but...] it's obvious that if we could find an expedient to escape Swiss corporations from a foreign tax burden [...] our right to make use of it would remain completely'* (AF, E 2001 B, 1000/1509, vol. 7, Letter from the Federal Political Department to Jean-Marie Musy, federal councillor in charge of the Federal Department of Finance and Customs, 28 April 1922).

<sup>92</sup> See BArch, R2/19900, Report of the Reich Ministry of Finance, 'Deutsch-schweizerisches Doppelbesteuerungs- und Rechtshilfeabkommen', 30 October 1933. Switzerland and the Netherlands were considered at the time as the main destinations of the huge amounts of German capital flight after the financial crash in 1931. That is why the German parliament refused to ratify their double tax agreements – which were signed in 1931 for Switzerland and in 1928 for the Netherlands – without the enforcement of measures against tax evasion (See BArch, R2/19900, Report of Hermann Dietrich, German Minister of Finance, to the German Ministry of Foreign Affairs, 'Aufnahme von Verhandlungen über den Abschluss von Rechtshilfeabkommen in Steuersachen mit dem Königreich der Niederland und mit der Schweiz', 14 December 1931). Contrary to Switzerland, the Netherlands did not succeed to ratify their agreement.

<sup>93</sup> Linked with the negotiations, three loans were placed in 1937-1939 in Switzerland for a total amount of 530M CHF. (See Schaufelbuehl 2009, pp. 328-330). On the bribery affair, see AF, E 2200.41, 1000/1680, vol. 39, Note of Henry de Torrenté, Swiss Legation in Paris, 7 December 1937; Archiv für Zeitgeschichte, 75.1.1.3, Letter from Otto Hultegger, first secretary of the Direction of the

decisive in the final phase of talks; simultaneously, Great Britain was unable to link the credits granted by the English banks to France with the signing of a limited agreement on double taxation.<sup>94</sup> Finally, not only was no accurate provision against fraudulent capital export introduced in Swiss laws, but the AFC itself made a contribution to the Swiss policy of tax evasion by legitimizing it with other States. The subservience of the tax authorities to the interests of finance in the 1930s contrasted with the measures taken at the same time by the BIR against tax fraud in Great Britain. Within the framework of disputes on the subject of the application of the German-Swiss agreement regarding holding companies, the director of the AFC used his influence, for example, to remove the taxes on the incomes of Swiss-domiciled companies used by Germans in order to reduce their tax burden.<sup>95</sup> To sum up, while in Great Britain the compromise between the views of the BIR and those of the financial world led to a gradual distancing from international fiscal negotiations, Switzerland presented a united front whereby the various parties joined forces against the demands of Europe's revenue authorities.

## 5. Conclusion

After World War I, the considerable rise in direct tax rates in Europe went hand in hand with the preservation of flawed methods for effective collection. What asset holders had to relinquish from a legal point of view, they preserved to a large extent in actual practice. Capital flight in the face of taxation appeared to be caused not only by the tax burden increase within different States, but also by the opportunities for tax removal that arose for exported capital. In view of the European allergy to taxation, tax benefits for imported assets, bank secrecy, and a lack of international cooperation against tax evasion were actually guaranteed on a more or less grand scale by all the major banking centres in order to attract fugitive assets. From this perspective, the tax haven boom that occurred during the last forty years of the twentieth century reflected a revival of old practices, after the post-war Keynesian interlude, much more than any acceleration in a progressive development through the century.<sup>96</sup>

In this context, as we have seen, the particularity of the Swiss policy in relation to other financial powers resulted from the limitation of the state sector after the Great War. This situation favoured strategies for attracting capital in two ways. First, the Swiss authorities placed no obstacles in the way of tax evasion by abandoning all their tax requirements of imported assets. Switzerland thus positioned itself as a front-runner in international fiscal dumping. For instance, in 1932, a Bank of England report considered Switzerland as *'the international safe deposit of Europe'*. For the Old Lady, the reason for this status was clear: *'The facilities offered by the Swiss banks for fiscal evasion have resulted in a steady influx of*

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USCI, to Hans Sulzer, chairman of the Direction of the USCI, and Ernst Wetter, member of the Direction of the USCI, 11 June 1937; Perrenoud (2011, pp. 212-214).

<sup>94</sup> See PRO, T 160/956, Note of Frederick Phillips, Under-Secretary to the Treasury, 25 October 1937; Letter from Simon to Oliver Stanley, President of the Board of Trade, 11 January 1938.

<sup>95</sup> See AF, E 2001 D, 1000/1555, vol. 13, Letter from the Federal Political Department to Blau, 11 September 1935; Letter from Blau to de Stoutz, 16 September 1935. Note that, at the same time, this same director defended maintaining the privileges of holding companies in federal taxation (See Müller 2010, pp. 439-444).

<sup>96</sup> In this way, the history of tax havens would be consistent with the history of the liberalization of financial markets. See for example Helleiner (1994).

*capital into their country from more nervous countries less fortunate in their governments.*<sup>97</sup> Second, contrary to the British case, the state apparatus readily placed itself at the service of the employers in order to take an active part in the preservation of their fiscal advantage in regard to other countries. In the debates about international taxation, the director of the AFC explicitly praised the '*fiscal liberality*' of his country.<sup>98</sup> Despite the economic orthodoxy that prevailed in the administration, it would certainly be hard to find a single British civil servant who would have supported such a view. The main lessons of this study for political science might thus be that the degree of subservience of the tax administration to business interests is a good criterion to distinguish tax havens from other financial centres, even if the latter also provide large opportunities for tax evasion. However, there is at the same time a hierarchy among tax havens. The Swiss Confederation also differentiated itself from the very small offshore centres that were proliferating during the period through its capacity for intervening in international relations and organizations. This had a concrete impact on Swiss financial attractiveness: banking circles could therefore count on the support of the administration and the government to protect the other side of their turntable business in negotiations on double taxation.

Strengthened once more by the country's neutral stance, the Swiss international fiscal policy held the same line after World War II. While it agreed to certain compromises, such as the introduction, during the conflict, of taxation at source of bank accounts,<sup>99</sup> the Swiss fiscal system remained famous for its attractiveness to foreign capital. Internally, fiscal federalism enabled the preservation of a low tax burden combined with lax control and collection practices.<sup>100</sup> Externally, the defence of bank secrecy still relied on a principled refusal of international exchanges of fiscal information.<sup>101</sup> In contrast to what happened during the Great Depression of the 1930s, cracks have nevertheless appeared in this legal order since the financial crisis in 2007. The current pressure against bank secrecy is actually inscribed within a movement that is wholly at odds with the interwar years. Whereas that period was distinguished by a marked increase in the theoretical taxation of capital, while leaving the door wide open to tax evasion through the relocation of assets, a general trend towards lessening the fiscal burden on high incomes has been perceptible since the liberalization of financial markets.<sup>102</sup> It would seem as if the international competition to reduce taxes could henceforth work without some of the most visible practices of the tax havens.

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<sup>97</sup> Archives of the Bank of England, OV 63/1, Memorandum of the Overseas Department, 'Switzerland', 11 November 1932.

<sup>98</sup> AF, E 2001 D, 1000/1555, vol. 11, Letter from Blau to de Stoutz, 7 February 1933.

<sup>99</sup> See Oechslin (1967, pp. 162-165).

<sup>100</sup> See Guex (1998, pp. 101-128); Longchamp (2010, pp. 59-81).

<sup>101</sup> Setting aside purely formal provision, at the turn of the twentieth century, Switzerland still did not accept any international exchange of information on tax evasion, except with the United States (See Oberson and Hull 2006, pp. 255-269).

<sup>102</sup> Between 1995 and 2012, despite the crisis, the top tax rates on personal income went down by an average of 9.3 percentage points in the twenty-seven nations of Europe. They did not increase in any European countries, except Greece, Portugal, and the United Kingdom (See Eurostat 2012, p. 33).

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## 7. Appendices

### 1. GDP in national currencies (at current prices) in millions

	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
<b>1913</b>	8647	49571	48480	2414	5192	2342	36716
<b>1919</b>					9758	5303	76571
<b>1920</b>	28519	175371			11073	5612	87062
<b>1921</b>	28481	133729		5792	8245	4732	73940
<b>1922</b>	29127	155636		5523	7700	4140	72819
<b>1923</b>	35222	188961		5323	8357	3931	84908
<b>1924</b>	42558	217288		5598	9069	3989	87023
<b>1925</b>	44717	247945	63673	5733	9285	4215	91349
<b>1926</b>	55235	323766	61789	5849	9196	3947	97456
<b>1927</b>	70110	304506	76456	6032	9590	4134	96802
<b>1928</b>	79721	330369	80616	6308	10292	4166	96805
<b>1929</b>	89485	346426	82394	6489	10475	4251	103700
<b>1930</b>	90645	334084	74272	6248	10305	4228	91300
<b>1931</b>	82337	298785	61179	5774	9915	3900	76600
<b>1932</b>	70724	266224	49176	5233	8938	3786	58800
<b>1933</b>	68936	248740	53348	5044	8817	3773	56400
<b>1934</b>	66675	229990	59989	4959	8630	4006	66000
<b>1935</b>	65362	204412	66235	4886	8182	4199	73300
<b>1936</b>	71496	246318	74105	4955	8169	4348	83700
<b>1937</b>	85638	346764	78571	5409	9410	4707	91900
<b>1938</b>	83018	413953	85679	5506	9272	4985	86100
<b>1939</b>	81958			6061	9698	5318	92000

#### Sources:

- The GDP figures are taken from the compilation made by Smits, Woltjer and Ma (2009).
- For Germany, the GDP is shown in Smits only in constant prices. The data have been 'reinflated' with the consumer price index in Mitchell (2007b, Table H2).
- For the United Kingdom, Smits shows only the GDP (at factor cost) from Feinstein (1976) in constant prices. The data in current prices (at factor cost) have been taken from the latter study (Table 3).
- For the United States, the data are incomplete in Smits. The GDP is taken from Carter et al. (2006, vol. 3, Table Ca9-19).
- For Switzerland, the data are not included in Smits. The GDP is taken from David and Ritzmann (2002).

## 2. CHF exchange rates

	Belgium	France	Germany	Netherlands	UK	USA
1913	99,6	100,3	123,7	208,7	2531	519
1918		78,2	74,1	203,7	2089	438
1919	72,8	75,1	33,8	205,7	2332	527
1920	43,5	41,5	10,1	203,4	2168	593
1921	42,9	42,9	7,0	194,0	2218	577
1922	40,0	42,7	1,2	201,8	2321	524
1923	28,7	33,5	0,0	216,3	2531	553
1924	25,2	28,5	125,9	209,5	2423	549
1925	24,5	24,6	123,1	207,7	2498	517
1926	16,9	16,8	123,2	207,6	2515	518
1927	14,4	20,4	123,4	208,2	2524	519
1928	14,5	20,4	123,9	208,8	2526	519
1929	14,4	20,3	123,5	208,3	2519	519
1930	14,4	20,3	123,1	207,5	2508	516
1931	14,4	20,2	121,8	207,3	2335	515
1932	14,3	20,2	122,3	207,6	1804	515
1933	14,4	20,3	122,6	208,2	1713	413
1934	14,4	20,3	121,5	208,1	1556	309
1935	11,4	20,3	123,7	208,3	1508	308
1936	14,7	20,3	174,6	234,9	2131	435
1937	14,7	17,6	175,2	239,9	2155	436
1938	14,8	12,6	175,5	240,4	2137	437
1939	15,0	11,1	177,6	236,7	1967	444

### Notes:

- This means the value in CHF of one hundred units of national currency. (Spot exchange rates, bid rates in Brussels, Paris, Berlin, Amsterdam, London and New York).
- For 1936, the average for the months after the devaluation of the CHF in September has been used.

### Sources:

Bureau fédéral de la statistique (1939, p. 211).

## 3. Theoretical tax rates on (the income from) movable capital

	France			Switzerland			UK		
	0.1m	1m	5m	0.1m	1m	5m	0.1m	1m	5m
1914	4	4	4	13	18	20	0	8	12
1919	5	11	29	7	15	16	3	30	43
1920	11	23	49	8	18	19	3	29	47
1921	11	23	48	12	29	37	3	28	47
1922	10	21	45	13	33	43	0	22	40
1923	11	27	57	13	34	42	0	19	36
1924	13	35	72	12	32	40	0	19	37
1925	13	33	64	13	34	40	0	17	31
1926	19	32	46	13	33	40	0	17	31
1927	19	30	45	12	32	39	0	17	31
1928	19	31	48	12	32	39	0	17	31
1929	19	31	48	12	32	38	0	17	33
1930	17	29	46	12	32	38	0	18	37
1931	16	27	45	13	34	41	2	22	37
1932	16	28	48	13	34	42	4	23	41
1933	17	29	49	12	28	31	4	23	42
1934	17	27	45	14	35	45	5	22	41
1935	24	36	58	15	35	45	3	22	41
1936	18	35	68	17	40	53	0	20	37
1937	24	45	80	17	42	55	0	21	39
1938	27	55	87	17	42	55	0	23	43
1939	28	58	88	17	42	55	1	31	54

#### Notes:

- This means the theoretical rates of direct taxation on wealth and income for a capital of 100,000 CHF, 1M CHF and 5M CHF for a married man without children.
- For Switzerland, the rate is the average of the total sum of communal, cantonal, and federal taxes in Basle, Geneva, and Zürich, as provided by the AFC in its annual study *Les impôts sur le produit du travail et du capital*. To this has been added the federal tax on coupons on shares, which was not always taken into account by the AFC. The theoretical return on capital considered was 4% in 1914, 5% in 1919, 6% in 1920-1921, 5% in 1922-1930, and 4% in 1931-1939. Based on the AFC figures, English and French rates have been calculated for the corresponding incomes by utilizing the evolution of exchange rates shown in Appendix 2. For 1914, the exchange rates of 1913 have been considered.
- For France, the rate is the total sum of the general tax on income and the scheduled tax on income from movable property in shares. The flat deductions for a married man have been taken into account, as have the different tax increases for couples without children, as well as retroactive increases in the tax rate.
- For the United Kingdom, this means the cumulative rates of income tax (on unearned/invested income) and super-tax/sur-tax. Account has been taken of the deductions for a married man, as well as the reduced rates on the lower income brackets. For similar calculations close to mine, see Shirras and Rostas (1942, pp. 58-59).

#### Sources:

- France: for income tax rates: Piketty (2001, pp. 263-279). For scheduled tax rates: Hautcoeur (1994, p. 228).
- Switzerland: Administration fédérale des contributions (1919-1939). For the federal tax rates on coupons, see Oechslin (1967, pp. 122-125).
- UK: *Report of the Commissioners* (1914-1940).

#### 4. Total tax receipts of the central State and local entities related to GDP

	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
1913	5,71%	7,68%	9,77%	8,81%	4,96%	9,39%	6,19%
1920	4,39%	10,84%			6,50%	20,55%	
1921	5,09%	12,79%		16,65%	8,09%	22,84%	
1922	6,72%	11,74%		15,75%	10,15%	24,20%	10,14%
1923	10,12%			14,61%	8,59%	23,17%	
1924	9,44%	12,46%		13,25%	8,08%	21,48%	
1925	10,94%	11,83%	16,61%	13,49%	8,04%	20,38%	
1926	12,59%		18,89%	13,69%	9,84%	21,43%	
1927	13,14%	14,80%	17,72%	13,64%	8,50%	21,07%	9,76%
1928	13,49%	16,25%	17,74%	13,01%	8,52%	21,17%	
1929	13,16%		17,45%	13,40%	8,98%	20,54%	
1930	10,86%		19,04%	13,75%	10,67%	20,46%	
1931	11,28%	16,50%	19,91%	13,89%	9,71%	22,59%	
1932	13,10%	14,18%	20,90%	14,23%	10,39%	24,83%	13,57%
1933	14,61%		20,00%	14,87%	10,13%	24,17%	
1934	14,03%		19,91%	15,76%	10,80%	22,69%	13,42%
1935	14,51%	18,83%	20,42%	16,45%	11,96%	22,12%	
1936	14,44%	15,99%	21,10%	15,99%	11,86%	22,17%	12,64%
1937	12,68%		23,95%	16,20%	10,62%	21,92%	
1938	13,33%		26,87%	16,53%	11,25%	21,83%	15,04%
1939	13,23%			15,89%	11,32%	22,62%	

#### Notes:

- This has been calculated in relation to the GDP shown in Appendix 1.
- For Belgium, the data are for 1912 instead of 1913.

#### Sources:

- The data in compilations like Flora et al. (1983) and Mitchell (2007a and b) are very incomplete. I have therefore tried to obtain more complete data with the help of national collections of statistics and statistical yearbooks. The results must be considered as work in progress. Further research is needed.

- Belgium: tax revenues have been calculated from Office central de statistique, *Annuaire statistique de la Belgique et du Congo belge* (1918-1944). However, the revenues from taxes are not shown for communes of fewer than 40,000 inhabitants. Now, the revenues of the large communes represented 52.2% of the overall revenues of communes of more than 5,000 inhabitants in 1938 (*Annuaire* 1940, p. 170), which themselves represented 81.41% of the overall revenues of communes in 1941 (*Annuaire* 1943, p. 125). The revenues of the big communes have accordingly been multiplied by  $1/(0.522 \times 0.8141)$ . In the interwar years, in relation to the figures Flora shows for Belgium total taxes in 1925, 1936, and 1938 (1983, p. 286), the figures correspond on the whole for 1936 and 1938 and are just under 8% higher for 1925.

- France: the tax revenues of the central State are shown retrospectively in Institut national de statistique, *Annuaire statistique de France* (1946, pp. 273-274). For the departments and the communes, the data shown in the *Annuaire* (1919-1946) are very incomplete. The figures have been taken from Villa (1997, Table Etat TaxG3):

<http://www.cepii.fr/francgraph/bdd/villa/mode.htm>

For 1913, the data for the communes and departments have been estimated based on their total revenues (*Annuaire* 1946, p. 294). As in 1920 their *tax* revenues (in Villa) amounted to 16.74% of their *total* revenues (in the *Annuaire*), this proportion has been applied to the total revenues for 1913. Even if the tax revenues of the central State in the *Annuaire* are quite

coherent with the few figures shown in Villa (1997, Table Etat TaxG1), the results must be considered, however, as approximate only!

- Germany: Hoffmann (1965, p. 801). Compare with the figures in Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich* (1920-1940), which differ relatively slightly.

- Netherlands: tax revenues are to be found in Centraal Bureau voor de Statistiek, *Jaarcijfers voor Nederland* (1930-1942a). For each year between 1920 and 1939, the yearbook shows the total revenue (*Jaarcijfers* 1930, p. 430; 1932, p. 376; 1941-1942, p. 336). For 1913, the figure is an average for the 1910-1914 bracket (*Jaarcijfers* 1939, pp. 418-419).

- Switzerland: tax revenues come from Bureau fédéral de la statistique, *Annuaire statistique de la Suisse* (1940, p. 352; 1949, p. 416). The figures for 1913 are not included. The data are taken for that year from *The Swiss Economic and Social History Online Data Base* (Table U.10a and U.15):

<http://www.fsw.uzh.ch/hstat/nls/overview.php>

For the communes and the Confédération, this means for 1913 the average of the revenues recorded for 1910 and 1915.

- United Kingdom: tax revenues are taken from Feinstein (1976, Table 14). To those, we have added the taxes on capital that appear in Table 34. For these taxes, which represent about 5%-10% of all revenue, the figures for 1913 and 1939 are nevertheless lacking. For 1939, the total of the taxes on capital for 1938 has been used; the figures for these taxes in 1913 have not been included.

- United States: tax revenues are taken from Carter et al. (2006, vol. 5, Table Ea 132-159; Table Ea 348-384; Table Ea 489-518).

## 5. Taxation for non-residents

### Sources:

- Except for Switzerland, taxation methods on bank interests and foreign bonds are well described in a survey of different tax authorities undertaken in 1938 by the LON: ALON, F/Fiscal/Evasion 1-42, 'Réponses au questionnaire du Comité fiscal', 1938.

- The respect of bank secrecy by the authorities in taxation practices (not in judicial procedures) is broadly specified in the LON study cited above. The contemporary studies on this question are very incomplete: Sacker (1933, pp. 122-125); Capitaine (1936, pp. 198-209); Sichtermann (1957, pp. 301-329). 'Automatic information' means here that the banks had to provide information on their clients even without the request of the administration.

- The rates for estate duties (lowest and highest) and the taxing of securities are those of the central states and have been taken from a study supervised by the LON, carried out among most of the world's tax authorities on their taxation practices: Tax Research Foundation (1938):

- Belgium: the rate on securities is the rate of the tax on income (of foreign origin) from personal property in 1937 (p. 363). The rates on estate duties are those in 1938 (p. 365).

- France: the rate on securities is the rate of the tax on income from movable capital in 1937 for foreign securities not under *abonnement* (p. 363). The rates on estate duties are those in 1938 (p. 365).

- The Netherlands: the rate on securities is the rate of the coupon tax in 1936 (p. 320). The rates on estate duties are those in 1938 (p. 365).

- Sweden: the rates on estate duties are those in 1938 (p. 365).



- UK: the rate on securities is the rate of the income tax (schedule D) in 1937 (p. 363). The rates on estate duties are those of the estate tax, combined with the legacy and succession duties, in 1938 (p. 365).
- USA: As Tax Research Foundation (1938, p. 365) does not give the highest rate on estate duties, the rates are those in 1935 (Tax Research Foundation 1935, p. 340).
- Switzerland is not included nor in the LON report nor in the summary tables of Tax Research Foundation (1938, pp. 363-365).
  - Swiss practices on taxing foreign securities and bank accounts are described in Guex (1994). There were no substantial changes in these tax practices during the interwar years (See Treyer 1939, pp. 57-60; 83-98).
  - As there is no federal tax on successions, Swiss rates on successions are the cantonal rates for a fortune of 20,000 and 500,000 CHF shown in Rikli (1937, p. 245).
  - Swiss rates on shares and bonds are those in 1937: Oechslin (1967, pp. 122-125).
- The number of assistance agreements in 1939 has been calculated on the basis of: ALON, F/Fiscal/99, Memorandum by Mitchell B. Carroll, 29 September 1937; ALON, F/Fiscal/Evasion 1-42, 'Réponses au questionnaire du Comité fiscal', 1938; Piatier (1938); Carroll (1939); Henggeler and Rosendorff (1943). Treaties on successions and/or on income taxes that provided exchange of information on assets of individuals have been included.

## 6. Holding companies in Switzerland

	Total number of holdings	Nominal capital of the holdings (millions CHF)	Number of "small" holdings	Nominal capital of the "small holdings" (millions CHF)
1921	158	1284		
1922	184	1250		
1923	243	1247		
1924	281	1083		
1925	432	1185		
1926	554	1309		
1927	640	1551		
1928	770	1961		
1929	985	2548		
1930	1181	2835		
1931	1458	3033	1315	666
1932	1526	2990	1375	696
1933	1600	2856	1444	694
1934	1685	2737	1530	661
1935	1716	2624	1563	653
1936	1867	2607	1716	636
1937	1980	2509	1835	640
1938	2026	2155	1888	638
1939	2017	1942	1881	582

### Notes:

This involves the number of holding companies at the end of the year. From 1931 on, the *Annuaire statistique* separates such companies into three groups: 1) Investment trusts, 2) Controlling companies, and 3) Others of the holding kind. It is the third sort which is classified here under 'small' holding companies.

**Sources:**

Bureau fédéral de la statistique (1921-1947).

Compare with the figures shown in Paquier (2001).

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