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Quantification and Revolution: An Investigation of German Capital Flight after the First

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Abstract

It is well known that after the First World War there was a massive flight of capital from the major European countries to foreign financial centres. It is surprising, however, to note that no historian to date has actually taken the trouble to make a detailed study of the phenomenon. The aim of this article is to go beyond the impressionism that characterises the historical approach to the study of capital flight following the First World War. In order to show what can and cannot be established, the subject of study will be Germany.

After presenting the main difficulties encountered in quantifying the flight of German capital, the article will go on to provide a new estimate of it. A wide range of sources were referred to for the survey: national archives, expert reports, bank statistics, and balances of payments. The application of rigorous historical method, with crosschecking and critical analysis of documents, have made it possible to establish new relevant facts regarding the flight of German capital following the First World War. The final figure obtained is greater than those generally accepted.

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It is well known that after the First World War there was a massive flight of capital from the major European countries to foreign financial centres.¹ The unstable political situation, currency depreciation, and tax increases were all reasons for this phenomenon, which, while not entirely new, constituted a major departure in financial history due to its magnitude. Who would be bold enough to assert that hyperinflation in Germany was unrelated to capital flight? It is surprising, however, to note that no historian to date has actually taken the trouble to make a detailed study of the phenomenon. This is no doubt due to the mundane nature of the subject: it scarcely meets scholarly demands for sophistication, and it is perhaps seen as taboo, or at least, doesn't fit with standard economic models. But further obstacles and attacks on the legitimacy of the subject lie in store for the historian who ventures into these troubled waters. Which sources, for example, can one turn to in order to find out the truth about practices which were opaque, and more often than not, illegal? And of course, how is it possible to transcend qualitative impressions and case studies in order to establish the macro-economic dimensions of capital flight? In the history of the years after the First World War, capital flight, self-evident to contemporaries, is most frequently referred to in a comment at the end of a paragraph without a reference to a source.

The aim of this article is to go beyond the impressionism that characterises the historical approach to the study of capital flight following the First World War. In order to show what can and cannot be established, the subject of study will be Germany. This is not an arbitrary choice, as there is every reason to believe that it was the country out of which the greatest volume of capital was moved after the war. In fact, the German Reich was the only great economic power that experienced such a major political, monetary, and financial collapse that it led to the complete destruction of its currency after the occupation of the Ruhr by French and Belgian troops in 1923. There were similar cases in Eastern Europe in the countries created following the dissolution of the Austro-Hungarian Empire, and of course in Russia, but none of these had had the financial capacity of Germany, whose industrial production had exceeded that of all other European countries before the war.

After presenting the main difficulties encountered in quantifying the flight of German capital, the article will go on to provide a new estimate of it. A wide range of sources were referred to for the survey: national archives, expert reports, bank statistics, and balances of payments. The application of rigorous historical method, with crosschecking and critical analysis of documents, have made it possible to establish new relevant facts regarding the flight of German capital following the First World War. *Surprisingly*, the final figure obtained is greater than those generally accepted.

¹ This paper is probably my last article on the history of capital flight and tax evasion with new archival materials. I would like to thank all the scholars that helped me in a way or another to accomplish my project on this issue in Lausanne, in Geneva, and in other European countries. This has resulted in the writing of a thesis, two books and some fifteen articles. By alphabetical order : Dr. Samuel Beroud, Prof. Alain Clavier, Prof. Nicolas Delalande, Prof. Marc Flandreau, Dr. Thibaud Giddey, Prof. Sébastien Guex, Dr. Ye Jin Heo, Dr. Malik Mazbouri, Prof. Matthieu Leimgruber, Prof. Martin Lengwiler, Dr. Olivier Longchamp, Dr. Isabelle Lucas, Dr. Jamieson Myles, Prof. Alexander Nützenadel, Prof. Mary O'Sullivan, Prof. Ronen Palan, Dr. Marc Perrenoud, Dr. Sabine Pitteloud, Prof. Georges-Henri Soutou, Dr. Markus Winiger, and anyone else whose name isn't accidentally included in this list. Of course, I don't forget my friend and my family, even if I know that these words won't dispel their perplexity about the choice of my topic of research (except for Nathan and Tia who didn't have to learn to read before they understood its decisive importance for the scientific knowledge). Special thanks to A. S. for the contribution to the finalization of the article in Paris – only you could estimate its real value – большое спасибо !

I.

The Amount of German Capital Moved Abroad is Unknown and Will Never Be Known

In order to demonstrate the extent to which our knowledge of German capital flight is uncertain and is more than likely to remain so, one can resort to two examples out of the many to be found in the archives. Historians, while rightly voicing their scepticism, often refer to the estimate made by the Second Committee of Experts, headed by McKenna as part of the creation of the Dawes Plan, when referring to capital flows from Germany during the inflationary period. Tasked with investigating the flight of capital and the means of resolving the problem, the committee, which, apart from the Belgian delegate, was made up exclusively of private bankers, estimated a sum of between 5.7 and 7.8 billion German gold marks in their final report on 9 April 1924.² One could just leave it at that and rightly express one's distrust of a low amount, presented by a committee whose function was highly politicised and furthermore headed by the president of the largest bank in the world. But it's possible to go further: the minutes of the McKenna Committee demonstrate that despite the wide-ranging enquiry carried out over three months, the final amount was agreed in one single meeting on 22 March 1924. On page 7 of the report minutes, the French delegate Laurent-Atthalin proposes a sum of between 5.9 billion and 8.6 billion gold marks, while the American representative Robinson favours a lower estimate of between 6 and 7.5 billion. Lastly, the final line of the page says that 'after discussion, the Committee agreed to fix the outside figures at 5.7 and 7.8, stating that the probable figure was 6.75, the mean between the two.'³ A well-known fact, however, should be taken into account: in the run-up to these final discussions, McKenna had threatened to resign, in order to put pressure on the French and Belgian delegates to reject a higher sum.⁴

There is probably nothing unusual in an international committee asserting its authority in the last phase of its work and negotiating its results rather than referring to the surveys it has commissioned. What is often forgotten, however, is that the McKenna Committee did not fulfil its mandate. The sum it presented did not refer to capital flight, but to the total of German assets abroad at the end of 1923 based on an estimate on the balance of payments and a survey carried out within Germany on the state of these assets at the time of the armistice. This is therefore very far from capital flight, strictly speaking. While the direct investment of a German company carried out before the war may be included in the calculation, the illegal opening of a Swiss bank account after the war containing funds that may have been spent in the interim is not listed, nor are many other temporary transactions or capital destroyed by inflation in other countries. In short, the McKenna report exemplifies the main difficulties in quantification: the estimates made

² *Report of the Second Committee of Experts*, 9 April 1924.

³ Churchill Archives Centre, Cambridge, MCKN7/8, Second Committee of Experts, Minutes, 22 March 1924.

⁴ Christophe Farquet. *La défense du paradis fiscal suisse avant la Seconde Guerre mondiale* (Neuchâtel: Presses universitaires suisses, 2016), 203-208.

at the time are often highly arbitrary; no standard definition of capital flight exists; and any evaluation is perilous in the extreme at a time of huge currency fluctuation.

The second example is more anecdotal, but it demonstrates that however persevering the historian may be in the painstaking establishment of statistics, some transactions may never be picked up in his research. During a survey on the flight of German capital carried out by French diplomats at the end of 1922, the French Minister in Copenhagen reported on the assets in Danish banks. He wrote to the French Premier Poincaré that numerous safe deposit boxes had been rented out to Germans and now held 'large quantities of precious stones, cash, shares, and bonds, of all kinds and from all countries'. He went on to state that there were no safes rented out in the Nationalbank, but in the bank's vaults there were 'crates with jewels and securities belonging to approximately 400 foreigners'.⁵ Indeed, the post-war flight of capital was only composed partly of international investments in foreign currency; it also included, on the one hand, the physical transfer of all sorts of assets, such as securities to other countries, which was what was apparently contained in the crates in the Danish vaults. On the other hand, capital flight was also made up of notional transactions, which only existed for accounting purposes. The transfer of profits from a company to its foreign holding company is one example. Evidently, these two categories of capital flight did not appear in the official statistics, such as in the balance of payments. Short of gaining access to all sources in private organisations involved in these transactions, which is completely unrealistic since many have disappeared, these funds will always be impossible to identify exhaustively, and therefore to measure. This is particularly so as capital was sometimes simply transferred to trusted persons abroad, with no recourse to any legally established structure and with no available records.

When tackling the quantification of capital flight following the First World War, it is essential to start from one basic premise. The existence of major movements of capital at the time is so evident that one is tempted to invert the burden of proof: it would be much more logical to request any doubters to demonstrate that it did not take place. Was it in any way conceivable that capitalists, accustomed to decades of accumulation of wealth and profits shielded from taxes and currency depreciation before 1914, would not have tried to protect their assets by transferring them abroad after the war? In a country such as Germany, racked by political turmoil so severe that it came close to civil war, in which direct taxes on high incomes had shot up, and where the currency had lost all its value within a period of just a few years, can one seriously imagine such passivity when one knows that regulations on capitals flows were ineffective by comparison to the barriers that would be built during the Great Depression, and that the banking centres in neighbouring Netherlands and Switzerland offered safe and discreet havens to foreign capital? It is not considered scientific to answer a question simply by posing it, but the fact remains that, taking into account the point of view of the Belle Epoque bourgeoisie, there is no doubt as to how to answer the question.

Another important point must be made: while there is clearly an element of chance in any method used to measure capital flight, the bias found in the quantification of foreign

⁵ Archives du Ministère des Affaires étrangères (AMAE), Paris, Germany Series, 511, Letter from French Minister in Copenhagen to Poincaré, French Premier, 8 November 1922.

investment is almost equally as great for the period considered. Although historians tend to be extremely tentative in estimating the amounts of capital in flight, they seem to accept the official figures on foreign investment almost without blinking. It is true that some investments became easier to identify after the outbreak of the First World War due to the end of the gold standard era of financial deregulation and a number of inventories carried out by states both during and after the conflict. It is also true, however, that numerous direct and portfolio investments went unobserved. This is particularly so, since capital flows had become more complex as a result of the pre-war globalisation, involving all kinds of cross investments with the mediation of third countries, rendering it impossible to determine the genuine origin of the money moved with any kind of rigour. The quality of macroeconomic estimates regarding external investment in Switzerland, which even before the war had become the hub of European capital and the fifth largest creditor in the world in absolute value, is not significantly better than those regarding capital flight. Given the shortcomings of the Swiss statistical apparatus and the very high degree of financial deregulation, this was true right up until the post-Second World War period, and even beyond.

Let us consider *Paul Bairoch's* estimate of the value of Swiss investments abroad on the eve of the First World War, a quantification considered by historians to be authoritative. Remarkably, it is based on questionable sources and highly speculative reasoning.⁶ In fact, the figure is built on one statistic regarding income drawn from foreign investment taken from a retrospective reconstruction of the Swiss balance of payments undertaken in 1964 by two economists. These economists arbitrarily aggregated three estimates dating from the interwar period which produced data without explaining their method.⁷ Bairoch then capitalizes this sum, assuming a return of 5-6%, borrowed from French and British historical studies, and a rate of repatriation of income of between 40% and 70%. To consider that more or less half the profits remained abroad seems somewhat bold. The percentages selected, which significantly increase the estimate of the amount of exported capital, are justified by the fact that the reinvestment of incomes abroad carried out by Swiss multinationals would be significant when compared to other countries, given the early multinationalisation of Swiss companies before the war. But the fact remains that this specificity of the Swiss economy cannot affect the calculation significantly, as Bairoch has previously posited that the value of direct investment could not exceed 12% of the total amount of foreign investment. Finally, the historian rounds the estimate. While the figures have by no means been falsified, one must agree that the statistical scaffolding of the edifice on which they are based is built on unstable ground and every storey is somewhat precarious.

⁶ This calculation, referred to in several works, is set out in Paul Bairoch, *Commerce extérieur et développement économique de l'Europe au XIXe siècle* (Paris: Ecole des Hautes études en sciences sociales, 1976), 278-279.

⁷ Alfred Bosshardt and Alfred Nydegger, 'Die Schweizerische Aussenwirtschaft im Wandel der Zeiten', *Revue suisse d'économie politique et de statistique* 1-2, (1964): 312.

II.

Capital Flight: Definition and Quantification

Can one leave it there and simply be content to refuse to quantify the amount of capital transferred abroad given the major gaps in international financial statistics? Or, on the contrary, simply to accept arbitrary estimates? Evidently not. Although the quality of evidence on capital flight is highly variable, this does not mean that one shouldn't try to establish the historical truth altogether. After all, statistics are an intellectual construction like any other, and there is always a porous dividing line between quantitative data and the qualitative evidence taken from historical sources. The extreme subjectivity involved in describing any complex event, such as the course of a war, for example, does not mean that it is not possible to try to find the truth regarding armed conflicts. So why should one abandon the attempt in the field of economics, on the pretext that the data available is fragmentary and partial, when this is actually the rule, rather than the exception in history? However, one does have to agree in advance on the exact nature of the phenomenon to be analysed. This is probably one of the main problems posed when interpreting the sources. 'Capital flight', 'evasion of wealth', 'financial haemorrhage', 'fuite des capitaux' or 'Kapitalflucht' are sometimes simply used as synonyms for any export of capital. These terms often indicate the magnitude or the haste of the financial flows when compared to the usual foreign investments.

This distinction, however, while not entirely irrelevant, is still very vague. Economists have proposed other definitions, related to either the intention or the nature of the phenomenon. The first distinction, that of intention, involves distinguishing investments abroad judged as normal, i.e., those responding to the opportunity for profit, from financial movements that are responses to political, monetary, or fiscal incentives. Such a distinction is highly risky. As will be seen in the next section, it is often impossible to identify clear reasons for the flight of capital, particularly as one can assert that, from the outbreak of the First World War onwards, taxation and currency were always involved in calculations of the return expected on investments abroad. Variation in tax and exchange rates were very often more decisive economically than differences in nominal interest rates. As far as politics is concerned, it is possible to imagine financial transactions for political reasons which are irrational from an economic point of view, but by far the most frequent motivation for the export of capital remained the search for secure investments. The distinction of supposedly normal international financial transactions from those considered to be abnormal is just a pipe dream originating in the utopia of a perfectly liberalised market in which money goes to places where it is lacking. As before the war, capital flows were above all responses to the search for profit and security based on all the economic and political characteristics of any given situation as well as expectations about them in the future. After the conflict, however, the nominal interest rate simply lost much of its importance.

The distinction based on the nature of the phenomenon is more legitimate. As mentioned, capital flight after the war encompassed financial practices that cannot be described as foreign investments and that had been much less common in the liberalised

world of the Belle Epoque. In addition to the examples cited above, very short-term foreign assets in the form of cash deposit, i.e. *hot money*, flourished at a time of monetary and political instability. The interwar period was doubtless a period when financial globalisation was on the retreat in Europe. But such an assertion, which is a truism in economic history, is only true if this globalisation is confined to portfolio and foreign direct investments.⁸ There were still considerable international flows of money, but they had changed in form. In Europe, international investment was partly replaced by other types of financial transactions, which can be considered to be capital flight.⁹ However, this doesn't resolve the problem of nomenclature. Should one exclude from capital flight all direct or portfolio investments abroad, in other words, anything that normally falls into the category of export of capital? That is an unanswerable question. If yes, it means, for example, that German shares in Swiss holding companies would not make it into the calculations of capital flight. But those transactions were crucial for German industrialists in order to circumvent financial regulations and taxes during the inflationary period, and also accelerated Switzerland's conversion into a tax haven. On the other hand, one can say that all international short-term cash deposits were far from being hot money, some of them serving simply to finance trade for example.

It is possible to apply a third distinction, based not on the economic nature of an investment, but on its legal status; exports of capital would be legal transfers, while capital flight would be illegal. This distinction is admissible, as it highlights the rupture caused by the war. Few capital flows during the Belle Epoque circumvented state regulations, as these were very flexible, while after the war the majority of foreign investments sought probably to elude exchange controls or tax laws. This distinction however is not very useful when it comes to macroeconomic quantification, as it would require every financial transaction to be closely scrutinised. The massive flight of assets from the beginning of the First World War onwards was certainly a new reality for Europe. It was embodied in the large-scale surge of economic practices rarely used before the conflict; it could be noted in the major impact of taxation, exchange rates, and the political situation on cross-border financial transactions; it was seen in the volatility of capital flows, and was characterised by the illegality of operations. Nevertheless, the description of what can be specifically named as capital flight remains somewhat vague. It tended to be made up of both international investments and other flows, real or fictitious, of moveable assets. When sources permit, it would make sense to explain what type of transactions was involved every time the term is used.

How is it possible to measure the amount of capital flight? Relatively sophisticated techniques of quantification now exist to determine the volume of capital flight to tax havens. Even though the method can vary and be improved in several ways, it is based on the following principle: given that offshore financial centres function as transit zones for capital, which are used to move money from other countries before being exported again to third markets or even back to the original country, it is possible to identify the

⁸ For example, Moritz Schularick, 'International Capital Flows', in *The Oxford Handbook of Banking and Financial History*, ed. Youssef Cassis, Richard Grossman and Catherine Schenk (Oxford: Oxford University Press, 2016), 264-292.

⁹ For example, Barry Eichengreen, *Capital Flows and Crises*, (Cambridge: MIT, 2003), 29-37; Harold James, 'Financial Flows Across Frontiers during the Interwar Depression', *Economic History Review* 45/3 (1992): 594-613.

size of transactions by comparing the volume of capital outflows with that of inflows. Since capital outflows are recorded, at least by the country receiving the investments, while capital inflows into tax havens are not, the difference between the two is an indication of the extent of the capital transfers moved essentially today in order to evade taxes. This is seen in the statistical anomalies in tax havens' balances of payments, in which there are an abnormally large number of errors and omissions. The obvious irony is that since the data on the main countries acting as the final destinations of financial flows are fairly reliable, the world as a whole is a net debtor of itself.

In order to undertake a calculation of this nature, it is necessary, however, to be in possession of a serious estimate of the volume of capital exported to the main financial markets and to know where the international flows originate. These statistics, however, do not really exist for the period after the First World War; it was not until the 1930s that sound assessments of capital imports classified by country of origin began to be produced, not only by the European states that introduced tight exchange controls, but by the United States too. It is significant according to these statistics that, after Great Britain, the Swiss tax haven was at the end of the 1930s the second largest purchaser of US securities, a position it owed to a large extent to the re-exportation across the pond of capital that had fled from the France of the Front Populaire.¹⁰ It is moreover noticeable that before that, between 1924 and 1931, the errors and omissions of all the national balances of payments are equivalent to the accumulated net debt of the largest debtor in the world, namely Germany.¹¹ This says a great deal about the reliability of the financial statistics during the interwar period, while also offering a clue to the huge extent of the 'abnormal' financial transactions, such as those quoted above during the interwar period.

There is nevertheless a mosaic of sources of different natures, which can be referred to in order to assess the volume of capital flight after the First World War. These include central bank and private bank statistics, estimates by governments and economists, and surveys undertaken by diplomats. The relevance of all of these must be discussed and their consistency assessed. The work to be undertaken, therefore, involves a traditional historical analysis with cross-referencing of documents.

¹⁰ Mira Wilkins, 'Swiss Investments in the United States 1914-1945', in *La Suisse et les grandes puissances, 1914-1945*, ed. Sébastien Guex (Genève: Droz, 1999), 118-120.

¹¹ Charles Feinstein and Katherine Watson, 'Private International Capital Flows in Europe in the Inter-War Period', in *Banking Currency, and Finance in Europe between the Wars*, ed. Charles Feinstein (Oxford: Clarendon Press, 1995), 110.

III.

Archive Sources and German Capital Flight

On one matter there is no doubt: any historian who delves into the European archives will initially become utterly confused in the face of so many contrary assertions on the issue of capital flight. With immense disparities among statistics, contradictions between public pronouncements and private comments, authoritative opinions, and conspiracy theories, the field is so contentious and so difficult to get an overview of that it is open to all kinds of speculation. Even if one gave up the research at this stage, however, one would nevertheless be led to an initial conclusion: capital flight, even if it were no more than an economic fantasy, enjoyed well-established diplomatic and political recognition in the period following the First World War. There is no need to rummage through archives for long to find vast amounts of correspondence and numerous reports on capital flight. To realise this, it suffices, for example, to go to *La Courneuve*, to the archives of the French Ministry of Foreign Affairs and to consult the series of commercial and political correspondence between 1918 to 1929 entitled 'Germany', 'Switzerland' or 'International'. Capital flight, tax evasion, and international currency speculation occupied a key place in the concerns of French diplomats, senior civil servants of the Quai d'Orsay, and French foreign ministers, from Pichon to Poincaré or Briand.

The exodus of wealth also ignited political action within nation states, evident in parliamentary interventions and in the reinforcement of financial regulations, while it influenced international negotiations. From 1923 onwards, governments attempted to set up bilateral and multilateral talks within the League of Nations to identify expatriated wealth. And from 1921 onwards, German capital flight was constantly linked to the contentious issue of war reparations, since, owing to the resulting currency depreciation and the loss in tax, it made it more difficult for the Reich to pay the gold marks it owed to the Entente. In January 1924, the establishment of the McKenna Committee, working alongside the Dawes Committee, was an institutional recognition of the importance accorded to the issue. Of course, it is possible to highlight the fact that these efforts would have little international impact, and their lack of teeth was doubtless an objective for some European leaders if one refers to the absence of real economic pressure against tax havens, or simply, to the composition of the Second Committee of Experts. In any event, the fact that the Americans and the British thought that they had to meet the French demands and to create such a commission in order to accelerate the elaboration of what would become the Dawes Plan is a proof that the issue entailed some political significance.

Nevertheless, what is striking when one reads the archives of the Ministries of Foreign Affairs is that, with the exception of public pronouncements, from 1920 onwards it is most uncommon to find documents challenging the importance of the phenomenon. The existence of an occasional source can always be used to counter any historical analysis, but the tendency is more than clear. And while in the public debates over reparations there were major differences of opinion between French, English, and German leaders

on the volume of capital flight and the methods to put an end to it—with the French leaders going so far as to suspect the German ruling circles of encouraging the activity—the opinions of their diplomats in Switzerland in 1921 and 1922 tended, remarkably, to agree with each other. These foreign observers of the Swiss economy, who were by no means hostile to the country and who had access to the highest echelons of the Swiss financial world, sent their observations on German capital flight to their foreign Ministries. During the second half of 1921, British diplomats confirmed on a number of occasions the magnitude of foreign financial transactions made by German industrialists in Switzerland, although no statistics were recorded. In July 1921, for example, after having met with Swiss bankers, the British consul in Zurich, Maxse, expressed his bemusement that ‘a country pleading the impossibility of paying their just war debts should still have such vast sums to deal with for commercial purposes’.¹² Several days later, the British Minister in Bern, Russell, confirmed this view on the activities of financiers and industrialists in a letter to Curzon, adding that ‘in the first place they [were], by the export of their capital, assuring it against German fiscal measures’.¹³

This correspondence is not without interest, as the British officials, ideally placed to witness the influx of capital, contradicted what was becoming the official political line in London, the British leaders being increasingly hostile to French demands regarding reparations and less and less inclined to confront the issue of capital flight out of Germany. Even more remarkably, several months later, French and German diplomats made fairly similar estimates on the sums transferred to Switzerland from Germany. In December 1921, Rheinboldt, the German consul in Zurich and one of the diplomats with the most detailed knowledge of the Swiss economy, drew up a lengthy report about the assets moved by Germans to Switzerland.¹⁴ Over twenty-three pages, he detailed the ways in which the capital was held in Switzerland: mainly in Swiss banknotes, in bank accounts, in deposits of German and foreign securities, and in investments in holding companies. Although he sought to rebut estimates made by other sources he considered to be too excessive, Rheinboldt finally concluded that a sum considerably greater than 35 billion marks had found safe haven in Switzerland. Three months later, in the course of a survey in foreign countries on the issue of capital flight carried out by the Quai d’Orsay, Allizé, the French ambassador in Bern, passed on information that he said he had received from the ‘person with perhaps the best knowledge of this issue in the financial world’.¹⁵ Capital flows from Germany to Switzerland since the war amounted to 3 billion Swiss francs, according to Allizé. The estimate was cautious in comparison with other statistics reaching Paris. At the end of 1919, for example, a report transmitted by the military attaché at the French embassy and concerned only with securities moved to Switzerland spoke of a sum of some 20 billion marks, the equivalent of nearly 7 billion Swiss francs in the average annual exchange rate.¹⁶ The same figure in Swiss

¹² National Archives, Public Record Office (PRO), London, FO 371/7144, Letter from Maxse to Russell, 13 July 1921.

¹³ PRO, FO 371/7144, Letter from Russell to Curzon, 22 July 1921.

¹⁴ Bundesarchiv (BArch), Berlin, R 3101/19550, Report from Rheinboldt to German Foreign Ministry, 23 December 1921. Also see the reaction of the German Foreign Ministry: Letter from German Foreign Ministry to Ministry of Finance, Ministry of Economic Affairs and Direction of the Reichsbank, 5 January 1922.

¹⁵ AMAE, Germany series, 510, Letter from Allizé to Poincaré, 9 April 1922.

¹⁶ AMAE, Switzerland series, 124, Report from an agent, transmitted by Pageot to the Minister of War, 22 December 1919.

francs was quoted three years later, in March 1923, this time in reference to the total of German capital flight to Switzerland.¹⁷ Many of the financial reports made by informants in the French army were not considered to be very reliable, however, and it was Allizé's estimate that was accepted by the French Ministry of Foreign Affairs and would be referred to several times subsequently.

What is the significance of these figures? At first sight, it seems that it would be enough just to convert them into a common currency in order to compare them, then relate them to an index of purchasing power to get an idea of their value today. But interpretation of these two statistics is actually highly problematic. First of all, there is the issue of nomenclature: Rheinboldt referred only to what appears to be 'unusual' capital flight to Switzerland, showing this in the types of transactions listed, while Allizé included genuine German investments. That, however, is not the greatest difficulty to overcome. The most delicate issue to grasp is the exchange rate. The 35 billion marks, a sum which a year earlier would have been extremely high, was only worth approximately 1 billion Swiss francs in December 1921 due to the collapse of the mark during the second half of the year. This means that the two estimates are relatively close. As Rheinboldt spoke of a 'significantly higher' sum than 35 billion, and since possibly a third of Allizé's estimate related to real investments, one could argue that the amount of capital flight to Switzerland was, according to these sources, between 1.5 and 2 billion Swiss francs.

Swiss bankers at the time naturally challenged the importance of German capital flight to their country. Given the desire of the Allied powers to identify, and even to seize, German assets in neutral countries, uncertainty surrounding the amount of foreign wealth became one of their best arguments in the defence of banking secrecy. When Swiss businessmen and politicians admitted that part of German capital had been shifted to Switzerland, they always hastened to add that the amounts were low compared to those hidden in Great Britain and the United States.¹⁸ This is highly debatable: numerous indications confirm the extent of capital inflows and outflows in Switzerland during the period of European inflation and, in private, high-ranking officials did not conceal the fact that the money came mainly from Germany up until the beginning of the 1920s. Remarkably, when the Swiss bankers sought to refute statistics that seemed to be too bold, they still quoted estimates on German capital flight, which are by no means insignificant. The 1923 annual report of the Swiss Bankers Association, for example, records an evaluation of 500 million Swiss francs.¹⁹ This amount, which one could legitimately believe to be significantly undervalued, is far from negligible given that it referred only to assets in bank accounts and excluded all other types of investment and relocation of capital.

What does a figure of between 1.5 and 2 billion Swiss francs of German capital mean during the winter of 1921 and 1922? Such a sum was significant for the Swiss economy. One could use the consumer price index to establish how much that is worth today. But

¹⁷ AMAE, Germany series, 511, 'A.s. des capitaux allemands en Suisse, d'un bon informateur', 29 March 1923.

¹⁸ For example, Minutes of Federal Council, 15 January 1924, in *Documents diplomatiques suisses* 8, (Berne: Benteli, 1988), 828-829. On the desire of bankers to avoid producing precise statistics on this subject see: Archives de l'Association Suisse des banquiers, Basel, Minutes of the 47th session of the Council of the Swiss Bankers Association, 20 April 1923, 9-10.

¹⁹ *XII. Jahresbericht der Schweizerischen Bankiervereinigung über das Geschäftsjahr vom 1 April 1923 to 31. March 1924* (Basel: Frobenius, 1924), 74.

does this really make any sense given that the money referred to was hardly used for trade purchases in Switzerland? It would be more appropriate to relate it to a macroeconomic index in order to evaluate its dimension in comparison to the size of the Swiss economy at the time. The higher figure is equivalent approximatively to a fifth of the Swiss gross domestic product. But is it really correct to compare a stock of capital to an aggregate of incomes? It would be more judicious to relate it to the national wealth, the money supply, or to bank balance-sheets. The average figure was about a quarter of the money supply and four tenths of the accumulated value of the balance-sheets of the large commercial banks.²⁰

But the most important issue is the influence that capital flight had on the German economy. It is very difficult to assess it because of the quick depreciation of the mark. One would need to know exactly when the German capital had been moved to Switzerland, and how much of it had been converted into francs. A simple example demonstrates the importance of these factors: if a third of the 35 billion was composed of assets imported into Switzerland at a steady rhythm between 1919 and 1921 and it had not been converted in the hope of an upturn in the German currency, the value in francs of the 12 billion at the time they entered Switzerland would have been double the 35 billion at the end of 1921, namely 2 billion Swiss francs. This hypothesis is absolutely rational, as many capitalists had long expected the mark to appreciate, a gamble that had momentarily paid off with the stabilisation of the mark from March 1920 onwards. Moreover, if just one billion had come from the money transferred during the war and had been left in marks, this amount, on the average exchange rate between 1914 and 1918, would have been worth the entirety of the remaining 34 billion in 1921. And, one could also suppose that Rheinboldt collected the information for his report throughout the year 1921. If this were so, it would be fairer to use the average exchange rate for 1921, making the 35 billion marks worth around 2.5 billion Swiss francs.

Examples like this demonstrate the difficulties of estimating the amounts of capital flight, what become even more problematic from summer 1922 with the beginning of hyperinflation. As the depreciation of the mark was a great deal quicker than the growth in the money supply, the sums expatriated were worth little in strong currencies. This does not mean that their impact on the German economy wasn't noticeable. Based on these estimates, it seems cautious to hypothesise that the capital flight from Germany was worth around 3 billion Swiss francs at the time it entered Switzerland. But let us accept that, due to the depreciation of the mark, it was only worth 2 billion Swiss francs in December 1921. At the end of the war, this figure would have amounted to little more than a tenth of the banknotes in marks in circulation. While not negligible, it is not possible to assert that this percentage would have had a decisive impact on the functioning of the German economy. Three years later, however, it amounted to more than six tenth of the monetary base. Even if one accepts the lowest estimate of 35 billion, this would still be 31% of the amount of notes in circulation at the end of 1921. This is a considerable sum. As the assets transferred to Switzerland were by no means all in the form of exported mark banknotes and also came from credit transactions, it would perhaps be fairer to compare these sums with the deposits and current accounts in

²⁰ For the money supply and balance-sheets, see the Swiss National Bank, *Séries chronologiques* [www.snb.ch].

German banks: the 2 billion Swiss francs amounted also to more than six tenths of the value of deposits and of current accounts in the seven largest Berlin banks.²¹

A sizeable proportion of German wealth left undoubtedly the country at the beginning of the 1920s. As early as 1920, and long before hyperinflation took hold, the German government itself confessed that 20 billion German marks of banknotes were outside the country, that is to say, three tenths of the value of all the banknotes, and that a part of them was the direct result of capital flight.²² The Swiss tax haven was clearly not the only destination for the capital escaping the Reich. In reality, it is likely that the Netherlands got an even greater proportion of the wealth moved from Germany. Unlike Switzerland, which received assets from many countries and whose banking world had shaken off German influence, Amsterdam became after the war an offshore centre largely focused on German customers and with activities partly handled by German banks.²³ The transfer of wealth was accompanied by a relocation of banking activities outside Germany's borders. A vast number of financial institutions, including the Deutsche Bank, founded financial companies, branches, or subsidiaries in the Netherlands in order to manage German wealth and to pursue business hindered by the regulations in force in Germany, such as foreign exchange transactions.

A month before Rheinboldt's report, the German Foreign Ministry noted that German assets transferred to the Netherlands were much greater than usually claimed: they were estimated to be between 900 million and 1.2 billion Dutch guilders, that is, between 1.8 and 2.4 billion Swiss francs approximately, according to statistics considered to be cautious.²⁴ This figure was confirmed by other estimations made at the same time. As in Switzerland, during the hyperinflation, it is true that estimates coming from Dutch bankers or from experts close to the financial world were on the low side. One should nevertheless stress that they do not deny the importance of German capital flight; rather the contrary. Sums are quoted, for example, by two major bankers in summer 1922 in a correspondence with Keynes; the German capital in Dutch banks alone was estimated by Vissering to be between 250 and 300 million Dutch guilders, while Ter Meulen spoke of some 750 and 800 million.²⁵ The second amount was supported the following year by the financial expert, Bruins, who placed the figure at between 500 and 800 million.²⁶

²¹ P. Barrett Whale, *Joint Stock Banking in Germany. A Study of the German Creditbanks before and after the War* (London: MacMillan, 1930), 210 and 216.

²² Churchill Archives Centre, MCKN 7/9 1-2, Documents collected by the Second Committee of Experts, 20 February 1924, 117.

²³ Johannes Houwink Ten Cate, 'Amsterdam als Finanzplatz Deutschlands', in *Konsequenzen der Inflation*, ed. Gerald Feldman et al. (Berlin: Colloquium Verlag, 1989), 149-179.

²⁴ Dutch banknotes held in Germany for currency speculation or to evade taxes are included in the estimate. They are estimated at 100 to 150 million Dutch guilders. BArch, R 3101/19549, Letter from German Foreign Ministry to Hirsch, Ministry of Economy, 22 November 1921, with an appended report on German assets in the Netherlands.

²⁵ Gerald Feldman, *The Great Disorder. Politics, Economics, and Society in the German Inflation, 1914-1924* (Oxford: Oxford University Press, 1993), 599; *The Collected Writings of John Maynard Keynes, vol. 18, The End of Reparations* (London: MacMillan, 1978), 55.

²⁶ Jeroen Euwe, "'It is therefore both in the German and in the Dutch Interest...'" Dutch-German Relations after the Great War. Interwoven Economies and Political Détente, 1918-1933' (PhD diss., Erasmus Universiteit Rotterdam, 2012), 81.

But German capital was also hidden elsewhere. As is well-known, major industrialists deposited the incomes of their sales in London banks.²⁷ Bank accounts were also opened in Scandinavian countries and, according to foreign diplomats, the sums were sizeable.²⁸ As for New York, it was the place of origin for immense speculative transactions in Germany, which was probably not unrelated to the export of capital from the Reich to the United States.²⁹ Even more surprising, Spain seemed to be heavily involved in the business of recycling marks.³⁰ Therefore, given the diversity of the countries receiving capital in flight, it seems difficult to believe that more than 40% to 50% of all the German wealth moved abroad since the war had gone to Switzerland and the Netherlands. This would mean that maybe at least a sum of 7 billion in gold marks (i.e. in exchange rate parity before the war) had moved abroad by the end of 1921. And capital flight didn't stop during the two following years, even if its value in gold was probably not particularly high due to hyperinflation. In 1922 and 1923, the large German banks had four tenths of their assets in *nostro* accounts by correspondent banks, the majority of them being abroad. In 1918, that proportion had not even reached one twentieth.³¹

²⁷ Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke: Palgrave MacMillan, 2009), 112.

²⁸ Large sums were deposited, for example, in Swedish and Danish banks. Following discussions with the large banks, they were estimated by the French Minister in Copenhagen to be 300 million Swedish krona and 130 million Danish krone at the end of 1922, a combined amount worth over 550 million Swiss francs. AMAE, Germany series, 511, Letter from French Minister in Copenhagen to Poincaré, 9 November 1922. Prior to this, the total of German assets in Sweden had been put at 700 million krona, worth nearly 1 billion Swiss francs. Telegram from Delavaud, French Minister in Stockholm, to Foreign Minister, 22 July 1922.

²⁹ John Williams, 'The Balance of International Payments of the United States for the Year 1921: With an Estimate of the Unfunded Foreign Balance on January 1, 1922', *The Review of Economics and Statistics* 4/3, (1922): 208.

³⁰ This is doubtless explained by the presence of institutions belonging to the major German banks in Spain. Moreover, it is interesting to note that in the Archives of the French Ministry of Foreign Affairs there is a series of telegrams intercepted by the Quai d'Orsay between Swiss and Spanish banks, providing evidence of the extent of these transactions. They can be consulted in AMAE, Switzerland series, 124, sources no. 150 and ss.

³¹ The percentage is precisely 4.8% in 1918, 11.7% in 1921 and 42.1% in 1922. P. Barrett Whale, *Joint Stock Banking in Germany*, *op. cit.*, 221 and 227.

IV.

Capital Outflows and Inflows

But is 7 billion not a somewhat embarrassing figure? Indeed, German outward investment exceeded 20 billion marks before the war.³² Since the portfolio of investments had decreased significantly following confiscation in enemy countries and because of currency depreciation, in Austria particularly, foreign assets were less sizeable than before the war. This is the confusion that the McKenna Committee played on to minimise the extent of capital flight: the final calculation in the report didn't distinguish clearly between the value of the capital that was moved during the post-war inflationary period from that resulting from investments before the war. In 1922, there were perhaps no more than 5 billion gold marks remaining in foreign investments made before 1914.³³ German foreign assets would therefore amount to some 12 billion at the beginning of the 1920s, a hypothesis formulated by the French Ministry of Foreign Affairs, which Allizé considered to be an underestimate.³⁴ This is not the main point, however. What is important here is that the 7 billion were exported at a time when the German national wealth was being whittled away due to monetary depreciation and that, in 1921, the 7 billion were worth far more than all the deposits in the large German banks. These 7 billion, removed from Germany in a decade in which the gold value of the money supply had gone down significantly, were almost as much as all the German foreign investments made during the golden age of globalization of the Belle Epoque.

And this seems a cautious estimate. It would be enough that not half but a third or only a quarter of the capital flight had gone to the Netherlands and Switzerland for the figure to go up by 50% or even to double. According to archival sources, it seems difficult to think that half of the entire capital flight went to these two countries. One could certainly counter that much more modest statistics were put forward by eminent experts at the time, including Keynes or Havenstein, the president of the Reichsbank. But what faith can one have in the public stances taken by notorious opponents of war reparations? Indeed, in the face of these denials of capital flight, there are numerous other statistics that are much more ambitious than the one quoted above. In summer 1922, *The Times* estimated the sum of foreign securities and bank deposits belonging to the Germans to be between 800 and 900 million pounds, the equivalent of 16 to 19 billion gold marks at pre-war rate, while in 1919, the *Frankfurter Zeitung* claimed German assets in Switzerland to amount to an astonishing 35 billion marks, worth more than 10 billion Swiss francs at the time.³⁵ Based on cross-referenced confidential documents drawn up

³² For a summary of the estimates: Harold Moulton and Constantine McGuire, *Germany's Capacity to Pay. A Study of the Reparation Problem* (New York: McGraw Hill, 1923), 260.

³³ For the amount of 5 billion gold marks, which is very low, since the McKenna Committee had estimated the value of German assets abroad at the beginning of the war to be 28 billion gold marks, see, for example: Archives nationales (AN), Paris, AJ/5/280B, Report by Julius Hirsch, reproduced by the Committee of Guarantees of the Reparations Commission, 9 May 1924. For another estimate, which is not fundamentally different, see: Churchill Archives Centre, MCKN 7/9 1-2, Note by Robinson on Shrinking of German Foreign Assets during the War, 17 February 1924.

³⁴ AMAE, Germany series, 511, Letter from Allizé to Poincaré, 2 October 1922.

³⁵ For a summary of the estimates: Archives de la Banque nationale de Belgique, Brussels, 0312/5, Report of the Delegation of the Committee of Guarantees, 'L'évaluation de la fortune allemande', 19 January 1924. The

by authoritative sources with opposing political objectives, the figure proposed for capital flight lies at the midpoint between these two extremes. It is above the public statements made expressly to deny the existence of capital flight and below the controversial figures put forward, which, in the light of the current state of research, cannot be accepted. The fact remains that the 7 billion gold marks represented an extraordinary sum for Germany during the inflationary period.

There is another question to answer about these 7 billion of German capital flight. Weren't they offset by capital flows in the reverse direction, from abroad to Germany? Indeed, much has been said about money imported from foreign countries into the Reich after the war. The phenomenon is striking.³⁶ 35% of the value of the accounts held in the major Berlin Banks in 1919 belonged to foreign residents, while this had only been 20% the year before.³⁷ This percentage remained stable until 1921, before declining significantly during the hyperinflation. This is one more indication of the high volume of financial flows after the First World War. However, historians have made the mistake of seeing this foreign capital imported into Germany at the beginning of the inflationary period as a rebuttal of the thesis of massive capital flight out of Germany. But it is nothing of the sort. There is no economic law that states that it is not possible for capital to be moved into a country at the same time as it is being taken out. One could retort that on a macroeconomic level the two phenomena should offset each other and neutralise the effect of capital flight. But can we really accept such a thesis? Firstly, the sums of foreign money placed in German banks were probably much lower than those transferred out of the country. They amounted to 57.8 billion marks at the end of 1921. Both the revenue and the volume of profits and losses that these speculative transactions generated were certainly considerably higher, but this was also the case for expatriated assets. Secondly, given that the capital coming to Germany from abroad during the inflationary period was composed of short-term investments aimed at taking advantage of currency fluctuations to make substantial profits, this stimulated on the whole rather than offset the artificial economy of inflation. It did not compensate for the tax evasion of the Germans because it was not subject to the capital levy, nor to progressive income tax. And it posed a sword of Damocles over Germany because it could be withdrawn at any time. In fact, it would *be* withdrawn, contributing to plunge the German economy into hyperinflation.

But the truth of the matter is that much of the capital supposedly from abroad belonged actually to German residents. How much is not known, but the archives clearly demonstrate that the German Ministry of Finance was aware of the extent of the phenomenon.³⁸ The reason for these circular financial flows was simple: taxation.

Frankfurter Zeitung amount is reproduced in the above-mentioned December 1921 report on German capital in Switzerland.

³⁶ Carl-Ludwig Holtfrerich, *The German Inflation 1914-1923. Causes and Effects in International Perspective* (Berlin: Walter de Gruyter, 1986), 279-296; Frank Graham, *Exchange, Prices, And Production in Hyper-Inflation: Germany, 1920-1923* (New York: Russel & Russel, 1930), 250 and ss.

³⁷ Churchill Archives Centre, MCKN 7/9 1-2, Documents collected by the Second Committee of Experts, 20 February 1924, 134.

³⁸ Politisches Archiv des Auswärtigen Amtes (PAA), Berlin, R 87989, Letter from Ministry of Finance, signed by Schröder, to German Foreign Ministry, 31 July 1920. On this matter, also see Jean-Claude Debeir, 'Comment [on Carl. L. Holtfrerich, 'Domestic and Foreign Expectations and the Demand for Money during the German Inflation, 1920-1923']', in *Financial Crises. Theory, History, and Policy*, ed. Charles Kindleberger and Jean-Pierre

Placing one's wealth in the name of a foreign resident made it possible to evade German taxes without any real transfer of capital. It was only one of the many types of accounting transactions carried out by banks with the help of foreign financiers. The cashing of share and bond coupons by foreign representatives inside Germany was also advantageous from a fiscal point of view. According to a law on tax evasion put in place at the end of 1919, all securities belonging to German residents had to be deposited in German bank accounts, where they were subjected to strict controls, the banks being obliged to automatically provide statements to the tax authorities. The cooperation of a foreign representative became necessary to avoid these controls within the country.³⁹

German motivation is quite clear, then, but what of the interests of foreign capitalists? Historians who think that more than a third of deposits in German banks between 1919 and 1921 really belonged to foreigners will one day have to provide clear explanations as to why so many accounts were opened during the inflation. As currency speculation was possible outside Germany, it would result only from arbitrage because, given its volatility, the rate of the mark could vary substantially on the exchange markets. But is arbitrage really sufficient to explain the extent of imported capital in Germany during the inflation? Actually, the chronology validates the hypothesis of a circular flow of capital at the time: the percentage of bank accounts held by foreigners increased significantly in 1919, i.e. during the same year of the Erzberger tax reforms which instituted the special levy on capital.⁴⁰ Therefore, the removal of foreign assets from German banks, which played its part in triggering hyperinflation, was largely the result of a stop to the re-exportation in Germany of the capital flight. In summer 1922, with exchange controls being introduced within the Reich, 'Steuerflucht' transformed itself into 'Kapitalflucht'.

After the war, the entire economy of capital flight was based on the recycling of money, fictitious or real, between offshore centres and countries with high inflation. Industry barons such as Stinnes set up for this purpose whole networks of companies in tax havens, which were connected to their trading world-wide empires.⁴¹ These holding and letter-box companies were used to enable credit transactions of all kinds, to camouflage profits and wealth, and to make currency exchanges. Archive sources substantiate for example over and over again the point to which international trade was one of the main

Laffargue (Cambridge and Paris: Cambridge University Press and Éditions de la Maison des sciences de l'homme, 1982), 133. Debeir highlights the fact that it is difficult to distinguish between German capital and foreign capital in bank accounts because foreign capital may come from branches of German banks abroad. This is pertinent. Curiously, at the Deutsche Bank, it was the Spanish who were the second highest holders of bank accounts, after the Americans, which is doubtless explained by the business of German banks in Spain.

³⁹ On the 'Depotzwang' and ways of getting around it using Swiss banks, see Farquet, *La défense, op. cit.*, 121-124.

⁴⁰ Added to this, it should be noted that the exact same thing occurred a decade later. At the beginning of the Great Depression, the proportion of sums in foreign accounts in German banks reached the same levels as in 1920 and 1921, but at that time the mark fluctuated little, while capital flight had taken off again. Karl Born, *Die deutsche Bankenkrise 1931. Finanzen und Politik* (München: Piper, 1967), 20; Harold James, *The German Slump, Politics and Economics 1924-1936* (Oxford: Clarendon Press, 1986), 298-301.

⁴¹ For a concise exposé, carried out during the work of the McKenna Committee, see: ABNB, 0312/5, Letter from the Financial Mission of the Ruhr to Laurent-Atthalin, 2 February 1924, with an appendix containing a response to a survey from the committee, as well as the very detailed report sent by the French Ambassador in Bern at the beginning of 1923, appended to AMAE, Germany series, 511, Letter from Allizé to Poincaré, 5 February 1923. See also on Stinnes, Richard Lewinsohn, *Histoire de l'inflation. Le déplacement de la richesse en Europe* (Paris: Payot, 1926), 78-145.

sources of capital flight after the war. With the Netherlands receiving approximately one fifth of all German exports, there were countless opportunities to move money across the borders at the same time as goods.⁴² As for multinationals, transfer pricing between parent companies and their subsidiaries were doubtless used for sending income abroad, but shrewder ways were also employed for this purpose.⁴³ One should not be misled by the relatively limited number of holding companies officially registered in Switzerland: by the end of 1923 there were 243, almost all of which created after 1914. But other legal structures, such as foundations, were also widely used by Germans.⁴⁴ In 1922, the German consulate in Zurich produced a thirty-four-page list of Swiss companies in the Zurich region alone in which German capitalists had interests.⁴⁵ These structures were a major vehicle for capital flight outside Germany. However, the relationships between them and the German economy were not one-sided, as they did not limit themselves to simply receiving capital: some of them had, at least from an accounting point of view, large investments in Germany.

Do the banking statistics of tax havens reveal information on these international transfers from and to Germany? Here one is confronted with several difficulties when scrutinising Swiss bank data. The first problem is that despite the increase in business generated by the capital brought in, the activities of Swiss banks were also hit fairly hard by the war, political troubles, and the depreciation of foreign exchange rates. Currency depreciation, suspension of payments and nationalisation reduced foreign investments considerably, given that Switzerland acted as a transit zone for foreign capital. According to League of Nations statistics, the reduction of the volume of foreign investments of Switzerland between 1914 and 1923 due to exchange rate losses alone could be as much as 3 billion Swiss francs, or around a quarter of their total value before the war.⁴⁶ On the whole, there is no doubt that, thanks to a stable currency, low taxes and banking secrecy, the Swiss banks had profited from the country having stayed out of the war.⁴⁷ Counter to the trend in Europe, the liberal conditions of the Belle Epoque were almost entirely maintained in the Swiss financial market after 1918, and this made it all the more attractive to foreign capitalists. Nevertheless, most of the ‘dividends of neutrality’ were paid out later, during the second half of the 1920s. This development of the Swiss financial centre reminds us that offshore centres need both stimulation abroad

⁴² BArch, R 3101/19550, Letter from the German Consulate in Amsterdam to the German Foreign Ministry, 5 July 1923.

⁴³ A circular letter for tax inspectors from the German authorities dated 10 April 1922, identified eleven methods used by companies for capital transfer. It was sent in 1923 to the Reparations Commission: AN, AJ/6/807, Letter from the German Ministry of Finance to the Berlin delegation of the Committee of Guarantees, 22 August 1923, with the attached document entitled ‘Transferts de capitaux à l’étranger’. For an exhaustive presentation of the procedures used by German industrialists, see Léo Wulfsohn and Gabriel Wernlé, *L’évasion des capitaux allemands* (Paris: Société anonyme d’éditions, 1923).

⁴⁴ *Annuaire statistique de la Suisse, 1923*, 59 and 65. The number of foundations increased from 64 to 1054 between 1914 and the end of 1923.

⁴⁵ PAA, R 88478, Letter from Rheinboldt to German Legation in Bern, 20 February 1922.

⁴⁶ League of Nations, *Memorandum on Balance of Payments and Foreign Trade Balances 1911-1925*, vol. 1, (1926), 101.

⁴⁷ Malik Mazbouri and Marc Perrenoud, ‘Banques suisses et guerres mondiales’, in *Economie de guerre et guerres économiques*, ed. Valentin Groebner, Sébastien Guex, and Jakob Tanner (Zurich: Chronos, 2008), 233-253.

to capital flight and a sufficiently liberalised international environment to carry out their business.⁴⁸

So, while foreign capital flowed into Switzerland and some of it was re-exported to external markets, former international investments decreased substantially at the same time. The two phenomena tended to offset each other, but to what extent? This is not known. It is true that the balance-sheets of the eight major Swiss commercial banks grew rapidly between 1914 and 1923. Their combined value almost doubled, jumping from 2.37 to 4.26 billion Swiss francs. This growth, however, was very much in line with the consumer price or the M3 money supply index. Between 1914 and 1923, the aggregate value of the balance-sheets of large commercial banks went up by 80%, but prices increased by 64% and money supply by 86%.⁴⁹ All this says little about foreign customers' business: although the balance-sheets were stagnant in real terms, as currency from large European countries depreciated at a faster rate in comparison to the Swiss franc than the increases in price and the money supply within Switzerland, the value of foreign capital in Swiss bank accounts grew significantly in relation to the purchasing power in the countries of origin. However, for this period, there are no figures, as in Germany, to distinguish foreign assets from Swiss assets in bank accounts.

Worse still, the management of securities for clients, the main private banking activities of Swiss banks, was simply invisible in those statistics. It didn't appear on their balance-sheets, and the banks didn't publish statistics of this nature. Nevertheless, researchers from the Bergier Commission, mandated at the end of the 1990s by the Swiss government to study economic relations between Switzerland and Nazi Germany, were given access to the private archives of several banks.⁵⁰ This made it possible to make extrapolations on the entire volume of securities managed in Switzerland. What is immediately striking about these statistics is the large amount of off-balance sheet business in Switzerland. Already before the war, the amount of managed securities in all Swiss banks was almost the same as the sum of their balance-sheets, while the aggregate value of the managed securities in the large commercial banks was almost double the amount of their balance-sheets. At first sight however, this business was also stagnant during and after the war: even if the total value of securities reached the extraordinary sum of 12.1 billion Swiss francs in 1922, compared with 7.8 in 1913, the growth was comparable to that of the bank balance-sheets.⁵¹

But to measure how high was the volume of wealth management in Switzerland after the war, one needs to take into account several factors: the sharp decline in the stock market index for Swiss shares, the decrease in the value of foreign securities, especially because of the depreciation of currencies in comparison to the Swiss franc, and the fact that the Swiss economy experienced a zero growth during the decade 1913-1922. Given all this, it seems cautious to assume that the onshore portfolio of Swiss-owned securities

⁴⁸ Christophe Farquet, *Histoire du paradis fiscal suisse: Expansion et relations internationales du centre offshore Suisse au XXe siècle* (Paris: Presses de Sciences Po, 2018).

⁴⁹ All these statistics come from the Swiss National Bank, *Séries chronologiques* [www.snb.ch].

⁵⁰ Marc Perrenoud et al., *La place financière et les banques suisses à l'époque du national-socialisme. Les relations des grandes banques avec l'Allemagne (1931-1946)* (Lausanne: Payot and Zurich, Chronos, 2002).

⁵¹ Malik Mazbouri, Sébastien Guex, and Rodrigo López, 'Finanzplatz Schweiz' in *Wirtschaftsgeschichte der Schweiz im 20. Jahrhundert*, ed. Patrick Halbeisen, Margrit Müller, and Béatrice Veyrassat (Basel: Schwabe, 2012), 477.

had at best maintained its pre-war value in 1922, the 4.3 billion increase being solely attributable to capital inflows from foreign countries.⁵² Consequently, this 12.1 billion is a clear evidence of a major increase in wealth management during and after the war. To understand what this amount means, one can highlight the fact that it accounted for the entire amount of money deposited in French banks.⁵³

A second Swiss figure may be quoted to support the thesis of a massive inflow of foreign capital. At the beginning of 1920, Musy, the Swiss finance minister, ventured to evaluate the value of foreign bank deposits in Switzerland during parliamentary debates. His estimate was extremely high, over 10 billion Swiss francs.⁵⁴ Given that before the war the sum cannot have been more than 2 billion, it would mean that at least 8 billion Swiss francs had found shelter in Swiss banks. How much credit can one give to this figure? It came from a very conservative minister close to business circles, and it was one of the more modest sum mentioned in the parliamentary debates. What is surprising is that the figure refers only to bank deposits and not to all forms of capital flight. At any rate, if one takes it as an indication of the entire amount of wealth that had been moved to Switzerland by the beginning of the 1920s, this amount would be more or less in line with the sum of 3 billion Swiss francs for German assets in Switzerland, as well as with estimates on the value of securities belonging to foreigners. As mentioned before, capital from all the countries bordering Switzerland was moved to the tax haven at the outbreak of war.⁵⁵

Finally, a third Swiss figure from the beginning of 1920 also provides food for thought. According to information from the banking circles reproduced by the Swiss Ministry of Foreign Affairs, Swiss wealth in Germany amounted to between 4 and 6 billion Swiss francs.⁵⁶ These amounts are so high that they are difficult to accept: the total of foreign investments in Germany before the war was probably lower than them. The high value

⁵² For the Swiss stock exchanges index, see the *Annuaire statistique de la Suisse, 1918*, 125 and *1922*, 164. At the end of 1922, the index on shares was 48,2 (100=December 1913). As for the value of the Swiss investment abroad, it is possible that it had decreased by almost half during this period. It should be noted that before the war, there was very little economic interest in wealth management in Switzerland for non-residents, so that securities administered on behalf of foreigners weren't worth more than 1.5 billion Swiss francs. The final result seems to make sense: the inflow of foreign capital to the Confederation had increased the value of securities by about 4.3 billion since the beginning of the war, the total reaching nearly 6 billion, i.e. half of the total sum of securities under management, which fits with the accepted percentage for subsequent periods regarding the Swiss tax haven. The question here is to know what percentage of these securities was held by Germans. Very hypothetically, one could suggest a proportion of one third of foreigners' wealth, which would mean that a sum equivalent to 2 billion Swiss francs had been moved from Germany. Finally, it should be added that these estimates of securities held by foreigners are very close to those supplied by the young economist Gabriel Zucman, despite the fact that this student of Thomas Piketty has based his academic career on systematically underestimating the weight of offshore finance in the world economy.

⁵³ Bank deposits in France amounted to 30.4 billion French francs in 1922, around 13 billion in Swiss francs. Hubert Bonin, *Les banques françaises de l'entre-deux-guerres (1919-1935)*, vol. 1 (Paris: Plage, 2000), 524.

⁵⁴ Minutes of the Conseil national [=Lower house of the parliament] , 3 February 1920, in *Bulletin officiel de l'Assemblée fédérale* 1 (1920): 34.

⁵⁵ To sum up, one could formulate the following estimates on capital flight to Switzerland (in billion Swiss francs):

	Securities under management			Capital Flight since WWI	Other types of Capital flight			Capital Flight Since WWI	Capital Flight (Total)
	Total	Foreigners	Swiss		Banking Accounts	Holdings, foundations, other corporations	Other types of wealth		
1913	7,8	1,5	6,3		0,5		0,2		2,2
1922	12,1	5,8	6,3	4,3	1,5	1,5	1,2	3,5	7,8+2,2=10

⁵⁶ Archives fédérales suisses (AF), Bern, E 2001 B, 1000/1502, vol. 51, Report of Federal Political Department (=Foreign Affairs), 5 March 1920.

of investments made from Switzerland after 1914 is nevertheless documented in other estimates made at the same time. According to figures of both the German administration and the Swiss banks, the sum of German mortgages held by Swiss banks amounted to more than 200 million Swiss francs, while German banknotes held by them were estimated to be worth 3 billion marks. The second figure, at the exchange rate of the beginning of 1920, must be divided by 10 to be converted into francs, but if it had been imported over the course of the previous year, it would have been worth 1 billion Swiss francs at the time of its import in Switzerland.⁵⁷ As for the portfolio of German shares and bonds, it alone was worth perhaps 1 billion Swiss francs. But this capital was far from representing the total amount of Swiss wealth in Germany. One should add the capital and investments of domicile and holding companies, those belonging to individuals, and other forms of bank investments, particularly short-term ones, as for example nostro accounts in foreign banks which increased massively after the war.⁵⁸ One can get an idea of the volume of these other investments from an inventory drawn up by the German authorities at the end of the hyperinflation: while the Swiss banks had long disengaged at the time from the German markets, there was still a debt to Switzerland of 914 million Swiss francs.⁵⁹ It is above all the types of investment that are interesting. Mortgages with a gold clause or a franc clause amounted to 155 million Swiss francs, while portfolio investments with no guaranteed exchange rate were only worth 80 million due to monetary depreciation. The whole remaining sum was made up of other investments and loans. It thus seems possible to accept the lower estimate of 4 billion Swiss francs. This is the equivalent of 3.25 billion in gold marks at pre-war parity, the real sum in 1920 being slightly lower due to the temporary depreciation of the Swiss franc.⁶⁰ A minimum of 2.9 billion gold marks, if one admits it, is still a very impressive sum, and there is no doubt that it was made up not only of Swiss savings, but also of offshore transactions from Germany. For the following period, the same phenomenon is better documented. From 1924 to 1931, three tenths of the vast foreign investments made in Germany after the beginning of the Dawes plan came from the Netherlands and Switzerland, but half of them were probably of German origin.⁶¹

⁵⁷ Mortgages were the subject of a very precise inventory by the Swiss Bankers Association, although it admitted that the inventory was still incomplete. The majority of mortgages had exchange guarantee clauses: AF, E 2001 B, 1000/1509, vol. 2, Letter from Germany Defense Committee of the Swiss Bankers Association to the Foreign Affairs Division, 8 March 1920. The estimate of 3 billion marks in the form of banknotes was proposed several times during the first half of 1920. It is quoted by the Swiss National Bank, for example. Archives de la Banque nationale suisse, Zürich, Minutes of the Direction of the Swiss National Bank, 264, 18 March 1920.

⁵⁸ For instance, at the Swiss Bank Corporation, the assets in correspondent banks saw exponential growth between 1914 and 1920, rising from 28.9 million to 182.6 million Swiss francs. *Rapport et bilan de la Société de banque suisse 1914*, 34 and *1920*, 17.

⁵⁹ BArch, R 3101/20059, German Foreign Ministry, 'Die schweizerische Anlagen an deutschen Werten oder die Verschuldung Deutschlands an die Schweiz', 16 February 1924.

⁶⁰ In March 1920, the Swiss franc exchange rate decreased by 12% in relation to the dollar when compared to its pre-war rate. But we do not know when this figure was produced by the bankers. At any rate, all currency conversions are highly problematic due to the extreme volatility of exchange rates after the war. Before the Swiss franc stabilised definitively to pre-war parity during the second half of 1924, its exchange rate against the dollar increased, on a yearly average, by a maximum of 18% in 1918, and went down by a maximum of 13% in 1920, compared to its rate before the war. In December 1921, at a time when Rheinboldt drew up the above-mentioned report on German capital flight, the Swiss franc exchange rate was exactly at pre-war parity in relation to the dollar.

⁶¹ Stephen Schuker, 'American "Reparations" to Germany, 1919-33: Implications for the Third-World Debt Crisis', *Princeton Studies in International Finance* 61 (1988): 117.

V.

Purchase of Currency and Balance of Payments

From 1914, then, there was a massive flight of capital out of Germany. The relocation of wealth reached dramatic dimensions during the post-war inflationary period. Part of the capital was initially re-invested in Germany, until that route was closed during hyperinflation. The recycling of assets by tax havens, moreover, encompassed all kinds of financial transactions, which needed neither genuine investments abroad nor the real transfer of assets outside German borders. Thus, estimates on the stock of capital moved abroad do not account for the complete amount of capital flight. It would be necessary also to look closely at the increase in the turnover of financial flows between banking centres and Germany. In order to make a clear judgement, careful research should be undertaken into the transaction carried out on a daily basis by Dutch and Swiss banks. At least, in the current state of research, Swiss banking statistics demonstrate that, at the beginning of the 1920s, the turnover of the major Swiss commercial banks increased much more quickly than their balance-sheets. According to the Credit Suisse, it shot up by an extraordinary amount of 100 billion Swiss francs in one year, between 1919 and 1920, reaching a figure of 286 billion, while their balance sheets only recorded at the same time an increase of 200 million added to a total of 4.66 billion.⁶² Such growth was doubtless the result of a huge increase in the volume of international financial flows.

One last objection needs to be discarded. Capital was moved abroad for escaping taxes, currency depreciation, or political and economic instability, often all three at the same time. But to what extent could the purchase of foreign currency within Germany, still legal until the beginning of hyperinflation, be considered to be capital flight? The effects were fairly similar: it contributed to the depreciation of the mark and there is scarcely any doubt that an appreciable part of the currencies hoarded by Germans evaded taxation. One should not forget, moreover, that monetary depreciation, accelerated by speculation, provided one of the best opportunities for the capital holders to reduce in real terms their tax burdens: all they needed to do is to delay settling the tax bill for as long as possible.⁶³ It is true, however, that during hyperinflation, foreign banknotes within Germany contributed to the functioning of the German economy. For practical reasons, they replaced the mark as a means of payment. In that sense they were not exactly the same as exported capital. At any rate, there is not really any need to provide a definitive answer to this question, which highlights once again the problem of taxonomy when studying capital flight. It should simply be noted that a proportion of the flight from the mark took place within Germany's borders.

This by no means contradicts the arguments made hitherto: if one looks carefully at statistics on the purchase of foreign currency in Germany, it tends to confirm, rather

⁶² *Bulletin financier du Crédit suisse* 4, 30 April 1921.

⁶³ Wages couldn't benefit from inflation in the same way, as income was taxed at source. For the huge impact of inflation on the distribution of taxation, see, Peter-Christian Witt, 'Tax Policies, Tax Assessment and Inflation: Towards a Sociology of Public Finances in the German Inflation, 1914-23', in *Inflation through the Ages: Economic, Social, Psychological and Historical Aspects*, ed. Nathan Schumkler and Edward Marcus (New York: Brooklyn College Press, 1983), 450-472.

than contradict, the importance of capital flight. Experts who have tackled this topic say that currency was acquired mostly in three ways: sales of mark notes abroad; accounts opened by foreign residents in German banks; and foreign purchases of German moveable and immovable wealth. The McKenna Committee insisted chiefly on the importance of credit bank accounts, which alone would have made it possible for Germans to accumulate 7 to 8 billion gold marks in foreign currency after the war. One can certainly criticise this estimate, which was not based on a rigorous examination, but it does not alter the fact that there was a very high volume of marks transferred in the three ways mentioned above. While the McKenna Committee overestimated the amount of foreign currency obtained by the opening of bank accounts, it largely ignored other ways of acquiring foreign currency,⁶⁴ even though in its preparatory studies paper marks purchased by foreigners after the war alone were estimated to amount to at least around 3.4 billion gold marks according to statistics of the Reichsbank, and probably closer to 4 billion.⁶⁵ Keynes, who tended to undervalue all international financial flows during German inflation, estimated a maximum of 8 billion gold marks for all these transactions.⁶⁶ Other studies present a total amount of 15 billion, and notorious historians have insisted on the highest figures.⁶⁷ Nevertheless, what is interesting is that, at the end of the hyperinflation, the sum of all the foreign currency in Germany was by all accounts very low, no more than 1 or 2 billion gold marks, according to various statistics.⁶⁸

One question naturally arises: what happened to the major part of these foreign currencies? Was it used entirely for trade purchases abroad? In order to answer precisely the question, one would have to undertake a painstaking examination of the trading statistics of the Reich. Indeed, as the level of the annual reparations payments depended at the time to a certain extent on the level of German trade, the Reich tended to overestimate trade deficits: the documentation collected by the Reparations Commission

⁶⁴ *Report of the Second Committee of Experts*, 9 April 1924. The sales to foreigners of moveable and immovable property after the war were only estimated to be 1.5 billion gold marks.

⁶⁵ AN, AJ 6/807, Report of the Delegation of the Committee of Guarantees in Berlin, 'L'évaluation de la fortune allemande à l'étranger', signed by Pilotti, 19 January 1924. According to von Glasenapp, vice-director of the Reichsbank, around 60 billion paper marks had been acquired by foreigners between 1914 and 1923, either by the opening of bank accounts after the conflict (35 billion), or by the purchase of banknotes between 1914 and 1921 (25 billion, or even 30 billion). With regard to the latter, 18 billion had been bought between 1919 and 1921. As the report estimates a sum of 10 billion gold marks for the value of all the transactions after the conflict (53 billion), one can deduce that the banknotes bought after the war must have been worth 3.4 billion gold marks, according to the exchange rate at the time they were acquired. The amount would be considerably higher if one took 30 billion and not 25 billion as the reference figure. It would amount to over 4.3 billion gold marks and one would have to add the amounts from transactions carried out in 1922 and 1923. It is not over-ambitious to contemplate a figure of 4 billion gold marks. Moreover, von Glasenapp indicates an amount of 35 billion paper marks for sales abroad of German securities from 1919 onwards. If one uses the same exchange rate, it would be worth 6.6 billion in gold marks. While considering the sum of 35 billion as too low, the report seems to incline towards taking into account an exchange rate that would lower the result, but without providing an estimate.

⁶⁶ *The Collected Writings*, *op. cit.*, 53.

⁶⁷ Carl-Ludwig Holtfrerich, 'Internationale Verteilungs-Folgen der deutschen Inflation 1918-1923', *Kyklos* 30/2, (1977): 271-292; Schuker, 'American "Reparations"', *art. cit.*, 112; Niall Ferguson, *Paper and Iron. Hamburg Business and German Politics in the Era of Inflation, 1897-1927* (Cambridge: Cambridge University Press, 1995), 243; Feldman, *The Great Disorder*, *op. cit.*, 1993, 598.

⁶⁸ AN AJ 6/807, Report of the Delegation of the Committee of Guarantees, 19 January 1924. The McKenna Committee estimated a sum of 1.2 billion gold marks. On this issue, see AN, AJ/5/280B, 'Le montant des billets de banque étrangères en Allemagne', Report by Pilotti, 9 May 1924.

offers convincing proof on this issue. The real aggregated deficits recorded by the balance of trade between 1919 and 1923 varied considerably, according to various estimates, from 4.5 to 11.1 billion gold marks. Although the second amount comes from official statistics, the German government himself admitted to the McKenna Committee that the trade deficits were in fact overestimated. The total amount between 1919 and 1923, according to him, was only 8.9 billion, a figure that was still contested by the committee.⁶⁹ To work out Germany's main payments of foreign currency after the war, one would have also to add to these deficits the financial transfers caused by reparations. These payments were relatively low until 1924, the majority of them being made in kind. But one has also to take into account on the other side other transactions, which rebalanced the balance of payments, such as the sale of assets outside Germany and gold exports.

Let us make a quick calculation. Let us accept that on the one hand that the cumulative trade deficit was of 7.3 billion gold marks—the maximum amount taken into account by the McKenna Committee. This is a median figure in comparison to various estimates.⁷⁰ If one adds the 2.2 billion paid as reparations, one would get a figure of 9.5 billion for the foreign currency ceded. Let us accept on the other hand, an estimate of 11.5 billion for purchases of marks by foreigners. This figure is very cautious. It is based on the idea that the amount of 7 to 8 billion in gold marks, coming from bank loans, has been considerably over-evaluated, and that it has to be reduced by half, to 3.75 billion. One has to add the purchase of mark banknotes, estimated to be around 4 billion on the basis of the indications from the Reichsbank mentioned above, as well as the income of the sale to foreigners of German securities, evaluated at 3.75 billion. This last amount seems to be very moderate, given both the size of Swiss investments in Germany and the statistics of the German central bank. It would be necessary to then add the sales of assets owned previously by Germans abroad, which probably result in a sum of at least 1.75 billion, as well as the sales of gold and silver which alone amount to nearly the same value according to the official statistics recorded by the McKenna Committee.⁷¹ Other items, such as profits and revenue from other economic activities—for example, tourism and services—appear to be more or less balanced, and, at any rate, have little influence on the final result.

The final figure is 5.5 billion gold marks. This is considerably higher than the 1.5 billion, corresponding to the average of estimates on foreign currency owned inside Germany at the end of the hyperinflation. Consequently, the remaining 4 billion must have been sent to foreign countries. Of course, we should not take this calculation at face value, as

⁶⁹ Churchill Archives Centre, MCKN 7/9 1-2, Documents collected by the Second Committee of Experts, 20 February 1924, 28 and ss.

⁷⁰ See, for example, Ferguson, *Paper and Iron*, *op. cit.*, 478, which puts the combined deficits at 7.06 billion gold marks.

⁷¹ Between 1919 and 1922, foreign securities held by Germans that were legally exported out of Germany in order to make commercial purchases amount alone to 1 billion gold marks. There are good reasons for believing that the figure for sales of all foreign assets was worth twice this amount, but as a precaution, the figure used here is the lower sum of 1.75 billion. Moreover, according to statistics collected at the Reich Statistical Office by the McKenna Committee, the gold exports carried out by the Reichsbank between 1919 and 1923 amounted to 1.435 billion gold marks, to which the illegal shipments of gold and silver by individuals, estimated to be worth 200 million, must be added. Churchill Archives Centre, MCKN 7/9 1-2, Documents collected by the Second Committee of Experts, 20 February 1924, 104c and 265.

it is based on too many unverified hypotheses. But the fact remains that unless one accepts the highest estimates for the trade deficit, which seems simply impossible, one is forced to admit that the amount of foreign currency purchased by Germany exceeded what they ceded or hoarded. One could certainly argue over the trade figure selected, a key variable, but one should remember that the sums on foreign currency have been deliberately kept as low as possible. This calculation, however rough, thus reminds us that the huge purchases of mark by foreigners support the thesis of massive capital flight, and is not an evidence to the contrary.

It is somewhat satisfying to note that the result of 4 billion backs up the estimate of 7 billion for the flight of capital at the beginning of the 1920s, as the latter incorporates the wealth moved during the war as well as the assets transferred and left in marks abroad between 1914 and the start of the hyperinflation. It seems reasonable to evaluate it at 3 billion gold marks, that is to say, a sum a little lower than the flight of capital after the war. The amount of capital expatriated during the war was considerable, but it was probably not as voluminous as the wealth moved from 1919 onwards. As far as the assets in marks were concerned, they depreciated significantly at the beginning of the 1920s, without losing all their value, except for bonds.⁷² One could object that the evaluation proposed on capital flight covered the period before the outbreak of hyperinflation and not up to the end of 1923 like the estimate on the balance of payments. But this does not fundamentally undermine the argument, since, even if capital flight didn't stop in 1922 and 1923, the value in gold of the wealth moved abroad and left in marks went down sharply during the hyperinflation.

The conclusion is clear. This study on Germany demonstrates that the flight of European capital after the First World War can be firmly established through the analysis of archives and statistics. But was the historian's desire for coherence perhaps too powerful? I should confess that, in the end, my argumentation resembles the *neoclassical creations* so beloved in the 1920s by those who upheld the need for a return to order, those who, after the war, had sent their capital abroad.

⁷² Charles Maier, *Recasting Bourgeois Europe. Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton: Princeton University Press, 1975), 483-494.

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