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4th International Conference

The Sub-prime Crisis and how it Changed the Past

Graduate Institute, Geneva 3-4 February 2011

Sponsored by the Norges Bank Bicentenary Project 1816-2016

The Swiss Tax Haven in the Interwar Period: An International Comparison

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03-04 February 2011
Graduate Institute, Geneva

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

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January 2011

1. Introduction[1]

With the advent of the financial crisis in 2007, Swiss bank secrecy has once again found itself to the forefront of the international stage. At a time when States have had to unfreeze huge sums to help bail out their banking systems, and when budgetary receipts have been simultaneously curtailed due to the recession, the damage caused by international tax competition has become a burning issue in political terms. The world's foremost cross-border wealth manager, the Swiss financial centre has thus become the prime target for calls for a regulation of offshore practices, which has forced the Swiss government to accept a limited cooperation against tax evasion in 2009. In such a context, it is interesting to bring one's attention to bear on the role of the tax system in the takeoff of the Swiss financial centre occurring during the interwar years (1918-1939). Although the crisis has highlighted the sheer extent of the phenomenon of international tax evasion, it tends to encourage a short-term analysis of tax havens, which are reduced to being symptoms of the dysfunctions of the present economy. This viewpoint conceals the structural importance of the taxation factor in international financial competition during the twentieth century. Furthermore, the 1920s and 30s provide instructive comparisons to the current situation. A time of acute economic disorder, they were characterized, like today, by a considerable increase in national debt and by the extreme politicization of issues to do with State financing. Analysing tax competition is all the more pertinent, therefore.

The role of the taxation in the transformation of Swiss banks into a refuge for the flight of capital after the First World War has already been identified by many historical studies. Due to the costs of war and reconstruction, the considerable increase in taxes in the former warring countries increased the incentive to relocate assets in order to escape the controls of tax administrations. In contrast, the attractiveness of the Swiss financial centre was reinforced with the maintenance in Switzerland of a low tax burden and the guarantee of a rigorous respecting of bank secrecy by the administration.[2] In external relations, these tax benefits were also vigorously defended in the face of the incipient international pressure

[1] This paper is related to a PhD thesis on double taxation and tax evasion during the interwar period. I would like to thank Marc Flandreau, Sébastien Guex, the anonymous reviewer and Marion Rosselet for their helpful comments. This paper is a draft: please do not quote without author's permission.

[2] See Guex (2000; 2002); Hug (2002); Perrenoud et al. (2002, pp. 83-100). For an opposite view of this interpretation, see Vogler (2001; 2005).

occurring at the beginning of the 1920s.[3] From these different studies the overall idea emerges, then, that an active policy of fiscal attractiveness was pursued in Switzerland and that this played a crucial role in the internationalization of the Swiss financial centre that got under way during the interwar years. Although it might be based on extensive archival documentation this interpretation still suffers from a certain bias, however—its lack of a comparative point of view. To assess the impact of taxation in the surge of capital towards the Swiss financial centre and to calculate the specificity of the country's international tax policy, it is necessary to compare the Swiss case with other banking centres. This is what this text proposes to do in three stages.

To begin with, the article demonstrates the causal link between the maintenance of a weak State in Switzerland and the novel attraction Swiss banks had for foreign assets following the First World War. In relation to the belligerent countries, the limitation of the State's financial weight facilitated the setting up of systems to attract capital through taxation, whose particularity is discussed in the rest of the text. The third section compares systematically the modalities of taxation for non-residents in Switzerland with the practices of the main financial centres. In the fourth section, Swiss policy in relation to international tax evasion is evaluated in comparison with the strategies of a great banking power. Thus, the focus is limited in order to concentrate on the attitude of the Swiss leaders, by comparison with Great Britain, in the face of multilateral and bilateral attempts at establishing a system of cooperation against tax evasion between the national administrations. This analysis has two results. On the one hand, the point of view that is proposed here as to international tax competition in the interwar years runs counter to works of political science on tax havens, which consider this period as a preparatory phase to the offshore financial boom of the postwar period.[4] At the level of taxation practices for non-residents as well as the struggle against tax evasion, the 1920s and 30s appear as something of a golden age of opportunity for avoiding taxation through the relocation of assets. In actual fact, most of the financial centres granted consistent tax benefits for imported assets, while the extremely limited degree of international cooperation prevented the taxation of exported capital. On the other hand, within this general balance sheet the specificity of Swiss policy is confirmed. Owing to its lenient fiscal legislation for non-residents, the possibility of tax evasion was greater than abroad. Moreover, in negotiations about international taxation, contrary to Great Britain, the

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[3] See Perrenoud and Lopez (2002, pp. 67-74); Perrenoud (2003; 2008); Farquet (2009a; 2009b); Schaufelbuehl (2009, pp. 316-330).

[4] See Picciotto (1999); Palan (2002); Palan, Murphy and Chavagneux (2010, pp. 107-123).

formulating of Swiss strategies was different, due to a remarkable subordination of the state apparatus to the interests of the bankers. The weakness of the Swiss fiscal State therefore permitted the Swiss financial centre to make the running in terms of fiscal attractiveness in the interwar period.

The first part of the article is based on data from historical compilations of statistics. In order to obtain more complete figures about tax burdens, the former have also been complemented by national yearbooks. In the second part, so as to compare different forms of taxation, juridical texts of the time have been coupled with different studies carried out by the tax authorities and the League of Nations (LON). These documents offer the advantage of analysing the effective taxation measures that may differ from fiscal legislation. The data in these two chapters provide, then, a new vision of tax competition during the interwar years, which in itself constitutes a contribution to the historiography of taxation. While it is customary in histories of taxation to underline the volume of resistance that occurred on the side of the well-to-do in opposition to the instituting of modern systems of taxation after the First World War, the international aspect of these reactions is still little-known.[5] The same holds true for the literature on the flows of capital during this period, which makes little allowance for the weight of taxation—in opposition to political instability, budget deficits or monetary disorders—as a factor indicative of the flight of assets.[6] Lastly, the third part is mainly based on primary archive sources. As the analysis is concerned with state policy vis-à-vis international tax evasion, it is the British and Swiss public records which have been consulted as a priority (the Public Record Office and the *Archives fédérales suisses*). By providing access to confidential debates within different administrations, these sources enable us to closely follow the decision-making mechanisms at work in discussions of international taxation.

[5] For a national perspective on this resistance, see for example Ardant (1972, pp. 493-515); Witt (1987, pp. 137-160); Hautcoeur and Sicsic (1999, pp. 38-41); Thorndike (2009, pp. 33-38).

[6] On capital flows during the interwar period, see for example Brown (1987, pp. 1-172); James (1992); Feinstein, Temin and Toniolo (1995, pp. 31-37); Eichengreen (2003, pp. 29-37).

2. The takeoff of Swiss banking and the maintenance of a weak State in Switzerland during the interwar years

The takeoff and internationalization of the Swiss financial centre following the Great War constitute an undeniable phenomenon in Swiss banking history.[7] In a subordinate position before the war, notably with regard to the competition of France and Germany, Swiss bankers profited from the new international context to affirm themselves as figures of substance in the financial world at the beginning of the 1920s. Although, for example, the cumulative balance sheets of the major Swiss banks represented only 26% of those of their French counterparts, in 1929 they subsequently amounted to 76%.[8] The Swiss financial centre acquired especial renown in the sector of cross-border wealth management. In effect, foreign capital flowed en masse towards the Swiss haven in the interwar years. According to a 1931 LON report, owing to the importance of foreign assets, at the time Switzerland possessed the highest per capita total of bank accounts in the world.[9] The lack of a reliable balance of payments, as much as the absence of the legal obligation for Swiss banks to publish details about their accounts, nevertheless gets in the way of a correct estimate of the total amount of imported capital. Banking balance sheets indicate a general trend, but are inadequate sources: as shown by the works of a committee of experts on Swiss history during the Second World War—a committee that, exceptionally, has had access to the in-house archives of the banks—holdings of securities in off-balance-sheet bank custody accounts represented, in the two biggest Swiss banks in 1931, more than three times those in their balance-sheet. Similarly, the figure of 1,359M Swiss franc (CHF) that was given during the first survey undertaken in 1937 by the Swiss National Bank (SNB) on the assets of foreign clients was amply underestimated.[10]

In order to try and get near to an order of magnitude for the foreign capital invested in Switzerland, historians have therefore based themselves on figures gleaned in archival sources. According to this method, the sums advanced were extremely high. Whereas the total

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[7] See Guex (1993, pp. 9-12); Perrenoud et al. (2002, pp. 44-71); Mazbouri and Perrenoud (2008).
[8] See 'Place financière', in *Dictionnaire historique de la Suisse*, 2010 (hls-dhs-dss.ch).
[9] See League of Nations (1931, pp. 9-11).
[10] On this SNB figure and the problems of evaluating the amounts of foreign capital, see Perrenoud et al. (2002, pp. 86-90). See also Guex, Lopez and Mazbouri (2011): according to these authors, during the 1920s and 30s, the assets under management in the Swiss banks are usually bigger than the total of their balance-sheets.

amounts cited before the Great War are around 2 billion CHF,[11] Perrenoud estimated them at a minimum of 10 billion prior to the Second World War, a figure superior to the Swiss gross domestic product (GDP) of the time (Perrenoud 2008). It was mainly French and German capital which was invested in Switzerland.[12] In the second half of the 1930s, French capital alone would attain between 4 and 8 billion CHF—and even 10 billion according to a maximum total amount cited by the Swiss government in 1937—that is, between 15 and 50% of all expatriate French assets.[13] For their part, according to the estimates of the Reich administration, German capital was situated at between 3 and 4 billion CHF in 1930. More than a third of German assets in flight would therefore take refuge in Switzerland.[14] As for capital from Italy, Austria or even from Spain, it is certain that a significant amount was involved.[15] Lastly, it is necessary to add that Swiss bankers were not satisfied with importing foreign assets. A large part of that capital was re-exported on foreign markets. This *'turntable business'* (Siegenthaler 1976, p. 566) to do with European capital was conveyed by the fact that the sum of foreign investments was roughly equivalent to the imported assets, namely between 7.5 and 19 billion CHF at the end of the 1930s.[16]

The new international attractiveness of the Swiss financial centre derived directly from Switzerland's lack of participation in the First World War. During the conflict the neutral islet had already attracted capital to it from the countries next door.[17] In the interwar years, contrary to the acute socio-political disturbances and the strengthening of the Left elsewhere

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[11] See Guex (1993, p. 150).

[12] For example, see Archives fédérales (AF), E 2001 D, 1000/1555, vol. 18, Confidential report of the Association suisse des banquiers privés, 21 April 1937. In order to gauge the importance of the figure of 10 billion francs for Switzerland, we might also note that it represented around one-eighth of Switzerland's national wealth. For exchange rates, see Appendix 2 (10 billion CHF = $2.5 billion).

[13] For estimates of French capital, see Perrenoud and Lopez (2002, pp. 18-35). The figure of 10 billion comes from the following source: AF, E 2001 D, 1000/1555, vol. 15, Minutes of the Federal Council (=government), 25 June 1937. Indeed, for 1937 contemporary estimates give the figure of 80-130 billion in 1928 French francs for exported capital, namely 16-28 billion CHF (See Rist and Schwob 1939, p. 543).

[14] See Guex (1999, p. 284); Loepfe (2006, p. 55). At the time, estimates of the total amount of flights of German capital were around 8 billion marks, namely a little less than 10 billion CHF (See James 1986, p. 298).

[15] For Italian capital, see Hauser (2001, pp. 26-29); Gerardi (2007, pp. 465-478). The importance of Austrian capital after the First War was noted, for example, by the Swiss Embassy. See AF, E 2001 B, 1000/1509, vol. 6, Letter from the Swiss Embassy in Vienna to Félix Calonder, federal councillor (=minister) in charge of the Département politique fédéral (DPF, =Foreign Affairs), 25 October 1919.

[16] See Perrenoud (2008).

[17] See Mazbouri (1999, p. 84).

in Europe, the hegemony of the Swiss Right continued to reassure the propertied classes. Though a direct motive for capital investment in Switzerland, the country's political stability also guaranteed the pursuit of a liberal economic policy favourable to its financial centre.[18] Alongside these political factors—to which there was added the geographical proximity of Switzerland in relation to the major European States—at the end of the war Swiss banks benefited, above all, from more favourable financial conditions in the Confederation that in the former warring countries. In contrast to the explosion of government expenditure in Europe to defray the cost of the war and the ensuing reconstruction, state intervention was restrained in Switzerland in the postwar years: whereas the expenditure of all the central, regional and local state institutions relating to the GDP in 1913 attained almost the same level (11.78%) there as in Great Britain (12.13%) or France (12.34% in 1912), in 1920 it had become much lower (14.85%, as against 25.91% in France and 26.61% in Great Britain).[19] Accordingly, faced with the dilemma in the postwar period between financing through taxation or via monetary inflation to cover the extending of the public sector, Switzerland managed, at least in part, to avoid the surge in prices without the remarkable increase in tax burdens that occurred abroad.[20] As *Table 1* shows, the Swiss experience differed, on the one hand, from the inflationist countries—Germany, France and Belgium—which raised taxes too late to check the increase in prices. On the other, it differed from British policy, which soon covered expenditure through a remarkable fiscal effort. In the second part of the 1920s, and following the stabilization of the European monetary system, Switzerland was by far the country whose tax burden evolved the least in relation to GDP in the postwar period. Moreover, with the exception of the Netherlands, inflation was less strong there than elsewhere.

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[18] On political stability as an asset for the Swiss financial centre, see for example Tanner (2000).

[19] See Flora (1983, vol. 1, 345-449). General expenditure is involved, including national insurance. For the sources on GDP, see Appendix 1.

[20] On the choice between inflation and taxation after the First World War, see for example Kindleberger (1993, pp. 283-352).

1: Inflation or Taxation?

	Belgium		France		Germany		Netherlands		Switzerland		UK		USA	
	1	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**
1913	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1920	473	77	366	117	1018	*	193	*	221	112	244	221	202	*
1921	418	89	318	136	1340	*	169	189	197	123	222	241	180	*
1922	391	118	306	126	15040	*	149	179	162	173	180	250	169	164
1923	445	177	342	121	*	*	145	166	162	144	170	238	172	*
1924	518	165	390	130	*	*	145	150	167	131	172	222	172	*
1925	536	191	414	125	140	238	145	153	165	127	172	212	177	*
1926	645	220	540	130	142	273	141	155	161	154	169	220	178	*
1927	818	230	564	157	148	268	141	155	157	131	164	216	175	158
1928	854	236	564	174	152	276	141	148	159	128	162	217	173	*

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

Sources : Mitchell (2003, pp. 708-710; 2007, pp. 962-964).

2. Evolution of the general fiscal quota in relation to its level in 1913 (1913=100) (Tax revenues of the central government and local bodies divided by the GDP).

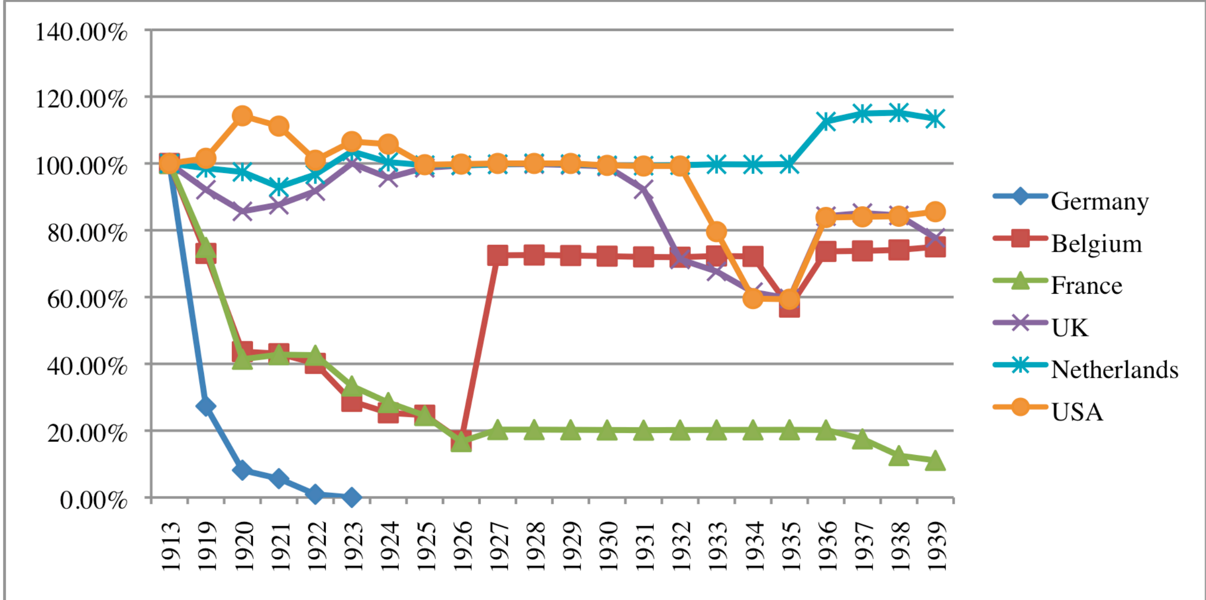
Sources: calculated on the basis of Appendix 4.

**= data unavailable.*

At the end of the First World War this configuration had two major repercussions in the attractiveness the Swiss financial centre possessed for foreign capital. Firstly, the Swiss franc, which had been a relatively soft currency before the war, became a refuge value. The orthodoxy of Swiss financial and monetary policy at the end of the fighting led to a lasting confidence in the CHF, the solidity of which was turned, in the sequel to the interwar years, into a veritable *'fetish'* by the SNB and the leaders of the Swiss Confederation (Guex 2003, p. 543). *Graph 2* illustrates the strength Swiss currency had by showing the evolution of the value of an investment made in 1913 in another currency in comparison to the CHF. Setting aside the short postwar period in which the dollar prevailed over the CHF, in 1939 the Dutch guilder alone was situated at a rate higher than that of the currency of Switzerland. The CHF became an extremely profitable investment for the French and Germans: the value of the French franc was divided by nine in the interwar years, while the mark disappeared in the hyperinflation of 1922-1923. During the Great Depression, even bearing in mind the devaluation of Swiss currency in September 1936, it was, moreover, a comparative advantage with regard to Anglo-Saxon financial centres: depending on the years, the dollar and the pound lost between 16% and 41% of their value. Secondly, the raising of tax burden in

Europe also raised the incentive to relocate assets to Switzerland. Whereas most States had recourse to indirect taxes before the war, a remodelling of the system of taxation on incomes and wealth in the postwar years was undertaken in all countries in order to finance the increase in government spending. The upper section of *Table 3* demonstrates the increase in direct fiscal pressure, measured in relation to GDP, which resulted from this in the interwar period. Although in very different ways, all States used the taxation of incomes and wealth to a greater degree than before the conflict. Furthermore, the upper classes, the holders of movable assets, were especially targeted by the new deductions: in France the theoretical maximum levels of general income tax increased, for example, from 2% in 1915 to 90% in 1924, and those in Great Britain rose between 1914 and 1921 from 17.2% to 63.33%.[21] In such a context capitalists strove increasingly to keep their assets hidden from the prying eyes of the tax authorities, notably through the expatriation of their patrimony.

2: The strength of the CHF



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

Source: calculated on the basis of Appendix 2.

[21] For the French rate of general income tax, see Piketty (2001, p. 265). For the English rate (the cumulation of income tax and supertax), see Board of Inland Revenue (1946, p. 17-18).

3: The structure of direct tax burden

1. Direct taxes / GDP							
	Belgium	**France**	**Germany**	**Netherlands**	**Switzerland**	**UK**	**USA**
1910-1913	1.81%	3.66%	1.48%	4.64%	3.82%	4.56%	4.06%
1925-1927	4.64%	5.49%	12.05%	8.34%	4.60%	12.04%	7.62%
1930-1932	*	6.76%	18.37%	8.35%	6.93%	11.74%	10.10%
1935-1938	4.73%	8.03%	16.71%	5.45%	5.54%	11.38%	9.83%
2. Centralisation of direct taxes							
	Belgium	**France**	**Germany**	**Netherlands**	**Switzerland**	**UK**	**USA**
1910-1913	67.77%	63.23%	8.47%	61.39%	1.28%	35.06%	3.36%
1925-1927	85.83%	91.76%	52.36%	58.80%	7.47%	71.30%	30.84%
1930-1932	*	91.37%	56.82%	55.00%	21.79%	68.05%	18.19%
1935-1938	77.22%	91.32%	63.37%	59.10%	10.11%	67.41%	39.28%

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

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

This involves data of a year included in the period indicated.

Sources: for tax revenues, see Flora (1983, vol. 1, pp. 257-344). For sources about GDP, see Appendix 1.

The opportunities for capturing foreign capital resulting from tax evasion were all the more plentiful for Swiss bankers since in terms of taxation—as for the monetary aspect—they benefited from a competitive advantage. Owing to the State's financial weight, which was less than in other countries, the Swiss direct tax burden remained moderate by international standards; tax pressure on incomes and wealth was on an average some 40 to 50% lower there than in the two great Anglo-Saxon financial powers. Only Belgium, a country in which resistance to taxation was particularly strong during the interwar years, presented a lower charge than Switzerland's over the period as a whole.[22] As regards taxes on capital in particular, a phenomenon specific to Switzerland tended, moreover, to accentuate their weakness: the decentralization of the fiscal system, illustrated by the lower section of *Table 3*. Unlike another federal country like the United States, the responsibility for applying all tax laws—central and local—was left up to the cantonal and communal authorities. Given that until the late-1930s no harmonization of taxation practices was initiated and that no

[22] Belgium even went so far as to temporarily abandon graduated income tax between 1930 and 1935. See Putman (1950, pp. 390-406); Hardewyn (2005, p. 289).

service for exchanges of fiscal information existed among the cantons,[23] Switzerland was, from the point of view of direct taxation, a composite constellation of minuscule States that simply paid a tributary sum to the central government. At the end of the 1930s the *Administration fédérale des contributions* (AFC; =the Swiss Federal Tax Administration) consisted of barely a hundred officials, while during the same period in the United Kingdom the Board of Inland Revenue (BIR) had for example 24,000 employees.[24] As a result, supported by Swiss conservatives and employers, this extreme decentralization of the system of deductions pushed down the level of taxes on movable assets in Switzerland for three reasons.[25] Firstly, the cantons and communes again found themselves in competition with one another to attract capital to their region. Secondly, the apparatus for collecting taxes, in the hands of small local structures, remained underdeveloped. Thirdly, business circles that were in themselves extremely well structured in Switzerland could more easily privilege their claims with regard to a rickety and fragmentary administration. It is thanks to this anaemia of the Swiss fiscal State that an intensive strategy of attracting capital through taxation could be deployed therefore by Swiss ruling circles during the interwar years. This is expressed by the creation, on the one hand, of legal provisions that were highly favourable to imported assets, which are analysed below. On the other, a vigorous defence of Swiss tax benefits in international negotiations was undertaken, which is the subject of part 4. In that sense, the flight of assets towards Switzerland was favoured not only by a push factor—the increasing of taxes abroad—but also by a pull factor—Swiss fiscal policy.

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

An opening remark: Switzerland's international fiscal attractiveness in the interwar years is not reflected in the theoretical tax rates on income and the capital of movable wealth, presented in *Graphs 4*.[26] Contrary to the second half of the twentieth century,[27] a dumping

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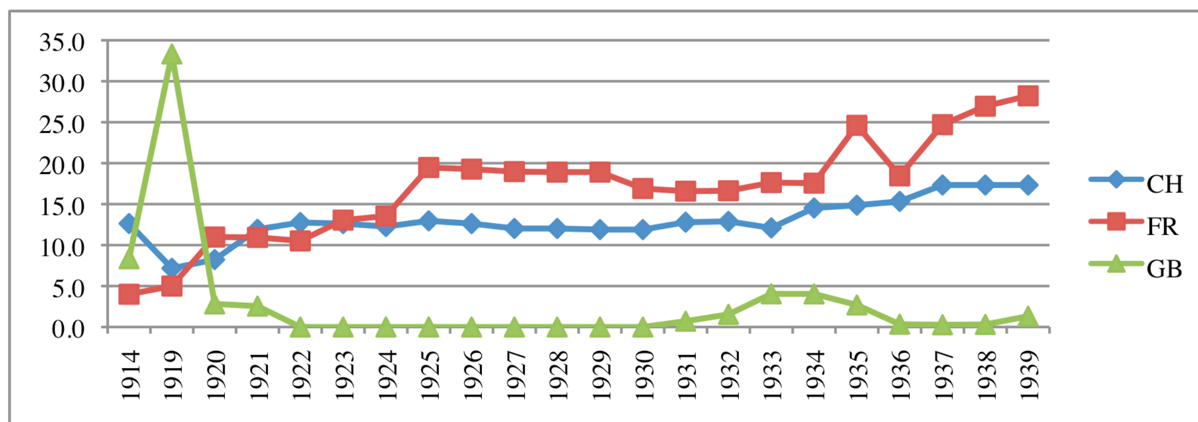
[23] On the absence of the exchange of information, see AF, E 2001 D, 1000/1555, vol. 1, Conference with a view to developing cantonal fiscal law. Minutes of the meeting of the Conference Commission of Cantonal Finance Directors, 7 September 1937.
[24] On the structural weakness of the AFC, see Müller (2010, pp. 463-467). For the number of British officials, see Griffith (1949, p. 43).
[25] See Guex (1993, pp. 145-154; 1998, pp. 83-87); Ceni (2008).
[26] This result contradicts Dell, Piketty and Saez (2007, p. 474).

policy in the tax rates of moneyed private individuals was not perceptible in Switzerland in the 1920s and 30s. For an average fortune of 100,000 CHF,[28] Swiss rates were close to French ones at the start of the 1920s, then obviously became much lower. But, owing to the high English income tax allowance introduced in 1920 (£225 for a married man; namely 4,500 CHF), the incomes on such a capital sum were, for their part, exempt from tax in Great Britain during the entire period. This observation was confirmed for the very wealthy: theoretical Swiss rates were generally higher than British ones. As for France, it was not only on top high incomes that the legal taxation was significantly heavier than that applied in Switzerland. Still, such data did not weaken Swiss effective fiscal competitiveness, given that the rates took account of neither the principles for determining the tax base nor the methods for collecting taxes. The level of prewar rates – higher in Switzerland than in the other two countries – already provides an indication of the lack of credence one must give to these figures. At that time, these values had strictly no relevance due to the liberal taxation practices of the prewar years. In 1914 the famous economist Edwin R. Seligman noted, for example, that in certain Swiss cantons, *'it has become the custom for the assessors to ask the taxpayers directly as to how much they care to pay'* (Seligman 1914, p. 359). Owing to the persistence of fiscal federalism, this gulf between theoretical rates and their real collection continued to a large extent during the interwar years: in deliberately underestimating his calculations, one of the finest specialists in Swiss financial policy arrived at an estimate of 60% for the wealth of private individuals on which federal taxes were not levied between 1929 and 1932.[29]

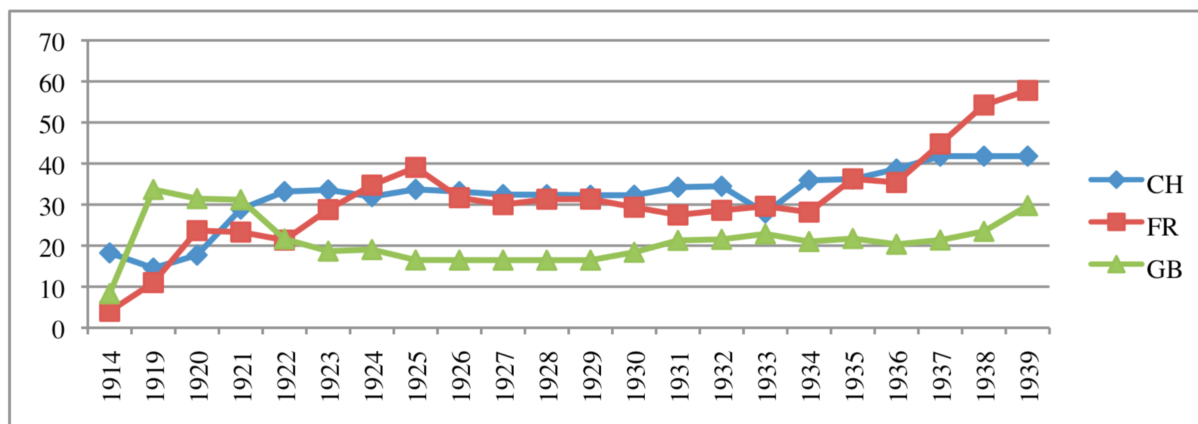
[27] For Swiss rates in comparison to international ones after the war, see Longchamp (2010, pp. 13-14).
[28] If one refers to the consumer price index, it is necessary to multiply the total amounts cited here by seven in order to get an idea of their approximate value today. (See Office fédéral de la statistique, 'Tableaux statistiques historiques': http://www.bfs.admin.ch/bfs/portal/fr/index/dienstleistungen/history/01.html).
[29] Grossmann (1935, p. 107).

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

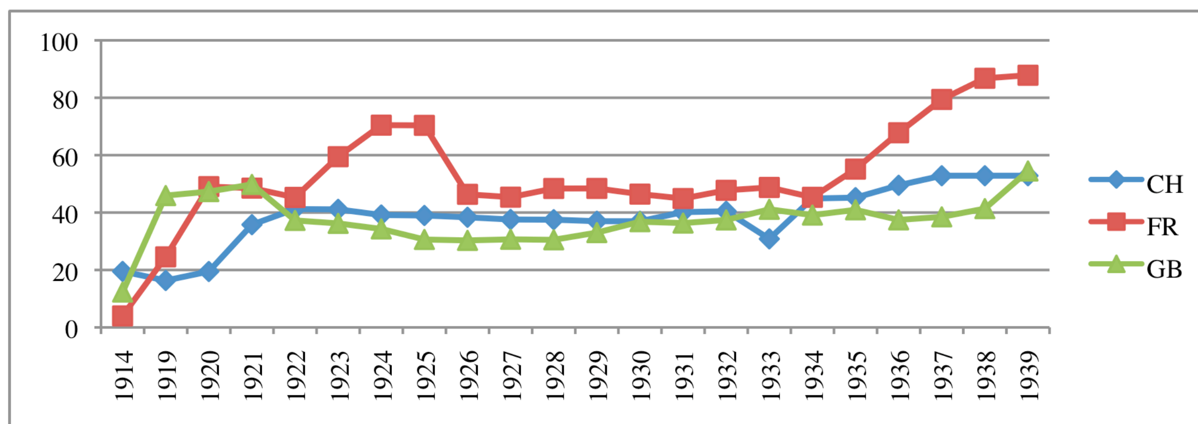
0.1M CHF :



1M CHF :



5M CHF :



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

Sources: see Appendix 3.

From the point of view of real taxation practices, the fiscal attractiveness of Switzerland proceeded, therefore, from the preservation in the postwar period of a system of taxation based for the most part on the declaration of the taxpayer.[30] In order to increase the tax yield, most of the other European States—including Germany, Belgium, France, Great Britain and even Italy— instituted, in effect, two-tier systems of taxation. The latter combined proportional taxes collected at source and a complementary progressive taxation for high incomes on declaration, which taxed the same tax base once more. Now, owing to the extent of the *'reactions to egalitarian taxation'* (Ardant 1972, p. 493) on the part of the propertied classes in the immediate post-First World War years, it was taxation at source that provided the bulk of the tax receipts on capital in Europe. In both the 1920s and 30s in France, the total amount of movable assets taxed at source was more than twice that same category of income declared to the general taxation system.[31] In Great Britain, Richard Hopkins of the BIR estimated in 1919 that the abandonment of the system of collecting of income tax at source would be *'nothing less than disastrous'* and would lead to an annual loss to the British State of £50M.[32] Accordingly, the efficiency of the English fiscal system, demonstrated by the results in *Table 3*, mainly derived, not from the consent of the British well-to-do to taxation, but from the fact that a part of the income greater than in France and than in Switzerland was taxed without the cooperation of the taxpayer.[33] The average of annual rates of income tax, collected at source on movable assets, was actually around 25% in the interwar years, while in France that of scheduled tax on this kind of incomes rose to 16%.[34] As for Switzerland, a single tax was levied at source, the tax on coupons of shares and bonds, the rates of which

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[30] See Archives of the LON (ALON), F. 34, Memorandum by Hans Blau, the Swiss representative to the LON committee of experts on double taxation and evasion, 11 May 1923. On the absence of taxation at source in Switzerland, see Blumenstein (1926, pp. 44-51).
[31] In 1922, 3,536M French francs of movable capital were declared for general taxation, while 8,200M were subject to scheduled taxation. In 1937, the proportion had not changed: 7,833M against 17,500M. For revenues declared for general taxation, see Ministère des finances (1923, pp. 476-477; 1938, p. 37bis). For estimates of movable securities subject to scheduled taxation, see Piketty (2001, p. 715). For contemporary calculations close to ours, see Piétri (1933, pp. 117-119).
[32] See Public Record Office (PRO), IR 85/1, Royal Commission on the Income Tax. Proof of Evidence of Richard V.N. Hopkins, April 1919.
[33] The French complementary tax—general income tax— and the British one—supertax— applied to very few incomes. According to contemporary estimates, French general taxation would reach slightly more than one-fifth of national revenue in 1924, and supertax 27% in 1919-1920. (See Allix and Lecerclé, 1926, pp. 344-348).
[34] For the sources on these rates, see Appendix 3.

fluctuated between 2 and 6% over the period.[35] The image that stands out of the confrontation between practices and theoretical rates to do with the taxation of capital seems thus to be the following: France had an extremely progressive legal taxation, with ample possibilities for bypassing taxation for a wide fringe of incomes; Great Britain offered a less progressive theoretical taxation, but it was harder for a more considerable part of wealth to escape taxation; Switzerland had a moderately progressive system, while allowing effective collection to depend on the goodwill of the taxpayer for almost the whole of his capital.

Made possible by the less urgent need to find new fiscal resources, and encouraged by federalist financial competition, the absence of taxation at source in Switzerland had a direct effect on international fiscal rivalry: for non-residents the Swiss Confederation was effectively a tax-free zone in the centre of Europe. *Table 5* compares the principles of taxation for non-domiciled individuals in the different countries at the end of the 1930s. It is necessary, right away, to draw attention to a general phenomenon: during the interwar years the relocation of patrimony abroad in order to escape taxation was strongly encouraged in most countries, and this in two ways. On the one hand, in Belgium, Great Britain, The Netherlands and even in France, taxation at source was reduced or set aside on the interest of certain types of bank accounts, if they belonged to the non-domiciled. The same held true for the cashing of foreign share and bond coupons, which were often free of taxes on the presentation of an affidavit proving the nationality of the owner. In a period characterized by monetary instability and by the volatility of international flows of capital,[36] the financial powers clearly adopted strategies for attracting foreign assets through taxation by not passing the increase in fiscal burden on to non-residents. This choice emerged as a necessary condition for the development of banking centres due to the degree of fiscal intolerance after the First World War. The case of the United States, a country of refuge that benefited from the strength of the dollar at the end of the war and of its remoteness from international tensions in the 1930s, was an exception.[37] On the other hand, the embryonic nature of international cooperation against tax evasion, associated with a guarantee of bank secrecy in many countries that were a destination for assets, considerably hindered the possibility for the

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[35] On this tax, see Guex (1994).

[36] See James (1992, pp. 596-599); Feinstein and Watson (1995).

[37] There again, at the end of the 1930s the Roosevelt government played on the hardening of taxation on imported capital in order to drive away flows of hot money, judged to be bad for monetary and financial stability. See PRO, IR 40/6156, Letter from T. K. Bewley, British embassy in Washington, to A. Holman, Foreign Office, 6 December 1936; AF, E 2001 D, 1000/1555, vol. 4, Letter from the Association suisse des banquiers (ASB) to its affiliated banks, 31 July 1937.

State of the domiciled person to strike at exported capital in fiscal terms. In France, for example, according to contemporary estimates only one-third of all assets invested abroad by private individuals was announced to the tax authorities in 1937.[38] For these two reasons, the chances of double non-taxation—at the place of domicile and at the revenue source—were increased.

Within this general framework Switzerland was positioned at the forefront of tax dumping in presenting the most favourable conditions for imported capital, which extended the offer of tax evasion of its banks. First of all, not only was no tax levied on stocks of movable assets taking refuge in Swiss banks, neither were estate duties collected in almost half of the cantons for direct descendants.[39] The comparative advantage for asset management in relation to the Anglo-Saxon countries, where inheritance rights could eat into half the capital, is evident here.[40] Even before the First World War, the refusal to pay taxes on inheritances was one of the main reasons for the placing of French assets in Swiss coffers.[41] Next, the evading of taxes on coupons deducted at source via Swiss banks was made easier by an unconditional tax exemption on dividends from foreign shares not quoted on Swiss territory.[42] In 1932, the fraud scandal to do with the *Banque commerciale de Bâle*, caught red-handed by the Paris tax authorities, revealed the volume of this type of traffic; at the time this bank alone handled, with the specific goal of avoiding scheduled taxation, between 1 and 2 billion French francs of securities on behalf of French clients.[43] Lastly, the confidentiality about imported assets was strengthened by the principled opposition of Swiss leaders to exchanging fiscal information and by an absolute respect for bank secrecy. The absence of administrative assistance with abroad left the field wide open to innovative tax-evasion activities: at the end of the 1930s, Swiss banks developed, in favour of French taxpayers, techniques for getting round the agreement against tax evasion made between France and Great Britain.[44] As for bank secrecy, after its inscription in 1934 in the banking legislation with the explicit aim of protecting the international clientele from the intrusion of foreign tax

[38] See Piatier (1938, p. 79). According to the information of the French tax authorities, cited by Piatier, the declared capital that was abroad was only 8,2 billion French francs in 1937.
[39] See Rikli (1937, p. 245).
[40] It should be noted that for 1939 the capital invested in Great Britain by non-residents affected by estate duties was significant: £13,823,281. See PRO, IR 40/7979, 'Estate Duty Statistics. Great Britain, Year 1939-1940'.
[41] See Brion (1912); Nordmann (1927, pp. 25-26).
[42] See Guex (1994).
[43] See Guex (2007, p. 91).
[44] See AF, E 2001 D, 1000 1555, vol. 7, Confidential letter from the DPF's Litigation Bureau to the ASB, 16 December 1938.

authorities, Switzerland became the only country in the world where its violation was punished from a penal point of view.[45] The Swiss empty tax box was thus also extremely airtight with respect to the outside world.

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

	Bank interests' taxation (1939)	**Foreign bond and share coupons' taxation (1935)**	**Estate duties for direct descendants (1935)**	**Guarantee of banking secrecy by the administration (1939)**	**Number of bilateral treaties signed against tax evasion (1939)**
BE	Taxation (Reduced level: 5%)	5.5-6.6%	0.75-10%	Yes (Restrictions from 1938)	3 (Luxembourg, NE, FR)
FR	No taxation	16-18% No taxation with affidavit	1-25%	No	6 (BE, UK, Italy, Monaco, Sweden, USA)
NE	No taxation	5% No taxation with affidavit	2.5-7%	Yes	1 (BE)
SWI	No taxation	No taxation	0-4.3%	Yes	0
UK	Taxation (Except on current accounts)	22.5% No taxation with affidavit	1-50%	Yes (Except on saving accounts)	1 (FR)
USA	Taxation	No taxation	1-60%	No	3 (Canada, FR, Sweden)

Sources: see Appendix 5.

The specificity of Swiss policies of fiscal attractiveness and their link with federalism found their most vital expression in the interwar years in the creation of benefits for holding companies. Even prior to the First World War, some cantons offered tax advantages for such companies. But, following the end of the conflict, and turning the new international financial context to account, a veritable rivalry to reduce taxes began among Swiss cantons in order to attract foreign holding companies.[46] At the beginning of the 1930s, fourteen of them, that is more than half, adopted legal provisions that favoured holding companies through a taxation

[45] See Guex (2000); Hug (2002).

[46] On this competition to reduce taxes, see Rosset (1931); Van Orsouw (1995, pp. 39-85). On the general development of Swiss holding companies, see Paquier (2001).

measure that applied only to their capital and not to their benefits.[47] As a result, the number of these companies increased fifteen-fold between 1921 and 1939, rising from 138 to 2,017. As shown by the lack of connection in *Graph 6* between capital growth and the creation of holding companies during the Great Depression, most companies had in fact very little capital, something that decreased their taxation. In 1931, the first year for which we have detailed figures, the small companies, with an average capital of around 500,000 CHF, represented more than 90% of all the holding companies. Managed by Swiss business lawyers and bankers, the main function of these letterbox companies was to use creative accounting to reduce the tax burden of not just the multinationals but also of rich private individuals. Through this, the latter could profit in their own countries from the tax benefits granted to non-residents, by cashing, for example, foreign security coupons on the market via a holding company.[48]

In the same way as the sweeping tax exemption allowed to imported capital, the proliferation of small holding companies revealed two features of the Swiss international fiscal policy in the interwar period. Firstly, the benefits granted to holding companies testified much more to Swiss legislation's capacity for appropriation by financial circles than to an alliance between fiscal and economic interests. For the cantons the gain in terms of tax receipts generated by the creation of holding companies was marginal in the extreme.[49] Secondly, Switzerland combined the advantages of a financial centre of international renown with the parasitic practices of small tax havens. Its main competitors in the creation of holding companies were not the other great European banking centres, which didn't use such legal contrivances, but Liechtenstein, Luxembourg and Monaco, which embarked on Swiss-style practices. In Liechtenstein, 2,504 companies were set up between 1921 and 1945, of which

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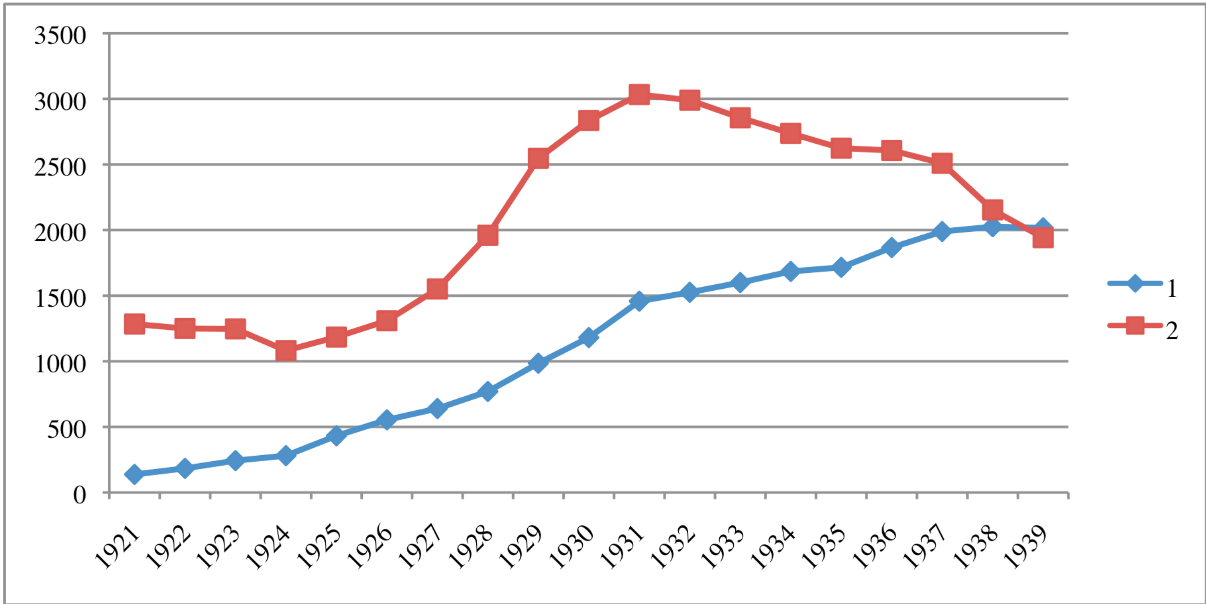
[47] See Rosset (1933, p. 325).

[48] On the utilization of holding companies for asset management, see *Finanz-revue*, 10 February 1926: 'La fondation sur une grande échelle de sociétés holdings françaises'; PRO, IR 40/4574, Memorandum confidential prepared for Board's Committee on Evasion of Income Tax and Sur-tax, September 1933. See also Perrenoud et al. (2002, p. 47).

[49] In the cantons that granted tax privileges, holding companies paid, depending on the canton, between 0.04 and 0.15% of tax a year on their capital (Rosset 1933, p. 326). If we take the average figure of 0.1%, we can then estimate that in the 1930s small holding companies brought in around 650,000 CHF-worth of receipts from taxes (see Appendix 6). As the totality of cantonal fiscal revenues was situated at the time between 250 and 300M CHF, the contribution of small holding companies would only be from 0.2 to 0.25% (See Bureau fédéral de statistique 1937, p. 160; 1949, p. 416). On the lack of interest on the part of tax administrations in the creation of holding companies, also see Jacot (1934).

more than a thousand were in fact directly linked to Swiss wealth managers.[50] In Luxembourg, the 1929 law on holding companies, deliberately drawn up in order to compete with the Swiss cantons, also met with undeniable success: the number of holding companies was 360 in 1933, then reached 1,110 in 1938.[51]

6: The increase in holding companies in Switzerland



1. Number of holding companies in Switzerland

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

Sources: see Appendix 6.

4. A policy of international tax evasion

Alongside the application of internal legislation favourable to foreign capital, the Swiss policy of fiscal attractiveness was also vigorously defended in external relations. In order to check the loss of the tax base caused by the flight of capital at the end of the First World War, the major European States— France and Germany especially—attempted to intensify cooperation between the national tax authorities.[52] At the end of the conflict bilateral negotiations got

[50] See Lussy and Lopez (2005, pp. 96-97). More than 80% of these holding companies were created before the war (*Ibid*., p. 90).
[51] For the drawing up of the law referring to Swiss practices, see *Loi sur les holdings companies* (1929). For the figures, see Delvaux (1938, pp. 7-8).
[52] See Farquet (2009a; 2009b; 2010a).

underway about international assistance against tax evasion, before discussions also turned to the multilateral scene at the LON in 1923. These pourparlers were coupled with discussions on double taxation, a problem which had greatly affected the multinationals since the war. Due to the extending of taxes collected at source, their profits were in effect liable to be taxed several times over in the different countries in which these companies conducted their business.[53] As a result, the connection established between these two problems provided a bargaining chip for the plaintiff countries in negotiations to do with tax cooperation: the abolition of double taxation could be strictly subject to the simultaneous institution of exchanges of fiscal information. Yet despite this advantage, attempts at intensifying fiscal cooperation led to a rather meagre balance sheet. Attempts at the LON to reach an overall agreement quickly foundered in the face of the differences in presence between defenders of the struggle against tax evasion and representatives of the major financial centres. While around sixty bilateral agreements against double taxation were signed before the Second World War, just under half of them only contained restrictive measures about tax evasion.[54]

At first glance, the policy implemented by Swiss leaders with regard to these attempts to extend the fight against tax evasion differed only slightly from the line taken by a great banking power like Great Britain. Although the latter continued to apply a far-reaching agreement signed in 1907 with France for the exchange of information on the taxation of inheritances,[55] English and Swiss representatives found themselves along each other in the camp of opponents to the struggle against tax evasion at the LON and neither State signed any convention of fiscal assistance in the interwar years. In the two countries, banking circles vetoed participation in the international collaboration of fiscal matters. Whereas in Switzerland this political line had become dogma by 1923, following intense pressure from the influential organization of Swiss bankers, the *Association suisse des banquiers* (ASB),[56] in the years 1935-1936 the City also managed, in extremis during the negotiations for an agreement with France, to steer the British authorities away from international fiscal collaboration.[57] The holding aloof from fiscal cooperation of English financial power, imitated

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[53] See Picciotto (1992, pp. 1-37).
[54] See Carroll (1939).
[55] Between 1919 and 1921, 1,244 cases affecting French residents were reported by Great Britain to the French authorities for a total capital sum of £2,668,425. See PRO, IR 62/1161, Note by the Board of Inland Revenue on Measures for International Co-operation to Prevent Evasion, 1922.
[56] See Farquet (2009a, pp. 103-108).
[57] On the pressure of the City, relayed by the Bank of England and the Treasury, see PRO, T 160/956, Letter from Kenneth O. Peppiatt, Chief Cashier of the Bank of England, to Waren

by its North American opposite number until the very end of the 1930s, confirmed the extended capacity for obstruction on the part of the propertied classes to taxation practices during the interwar years. Contrary to the postwar period, which witnessed the rapid spread of agreements to do with assistance, the avoidance of taxation for non-residents via the major banking centres had no need to get round international accords or to make use of tax havens, but was in a way endorsed by this vacuum at the level of international law.

All the same, beyond this general assessment the outer part of Switzerland's fiscal policy was, like its inner part, characterized by an extremely active defence of banking interests. In that sense it differed from British policy in two essential ways. Firstly, in multilateral discussions, following the opening of talks in 1923, Swiss negotiators presented a more categorical opposition than all the other delegates to the struggle against tax evasion. Contrary to the Swiss experts – but nonetheless without accepting the lifting of bank secrecy – the British representatives did not reject the principle per se of exchanges of fiscal information.[58] At the beginning of the 1920s the question of tax evasion was highly strained due to the flight of German capital, which deprived the Reich of a part of the taxes necessary for the payment of war reparations. From the diplomatic point of view it was therefore delicate to openly oppose international cooperation. However, in Geneva the Swiss delegates became the mouthpieces of international finance against the joint advocates of a rapprochement between the tax authorities. The Swiss attitude did not fail, moreover, to make *'a lot of noise'* at the LON.[59] Later on, even if their position was less decisive, the Swiss delegates pursued their policy in the same way. To illustrate the extent to which Swiss obstructiveness was a reality, we may note that the Swiss government was the only one to steer clear of the scientific cooperation of the Geneva organization in avoiding to respond in 1938 to a simply inquiry on the subject of the taxation practices of non-residents. Any *'publicity'* on this subject was now deemed to be *'undesirable'* by the Minister of Foreign

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Fischer, Treasury's Secretary, 30 December 1935; IR 40/16898, Report from E. R. Forber, of the BIR, to John Simon, Chancellor of the Exchequer, 28 May 1937.

[58] For the British position to the LON, see PRO, IR 40/3419, Report by Percy Thompson, BIR representative and expert on the Fiscal Committee of the LON, to Neville Chamberlain, Chancellor of the Exchequer, 30 October 1923; IR 40/3798, Report by Thompson to Winston Churchill, Chancellor of the Exchequer, 7 September 1928.

[59] See AF, E 2001 B, 1000/1508, vol. 34, Letter from Max Vischer, secretary of the ASB, to the members of the ASB Committee, 6 November 1923. On Switzerland's delicate situation on the fiscal committee of the LON, also see Rappard (1925, p. 72).

Affairs.[60] As decisions were taken unanimously at the LON, Swiss leaders accordingly hastened the burial of a multilateral solution, the only one that might have permitted them to ward off the usual objection to the signing of bilateral agreements on tax evasion: the flight of assets they would cause in the direction of a third country.[61]

In the midst of bilateral negotiations on international taxations, the Swiss government also worked out a more combative strategy than the British in seeking to obtain, without however modifying its line on tax evasion, tax relief for Swiss investments abroad. Unlike Great Britain, which did not sign any overall agreement on double taxation, Switzerland put its name to three general treaties against double taxation with important economic partners, which contained provisions favourable to its multinational industries and to its financial centre. With regard to the banks, the 1927 agreement with Austria detaxed certain loans conceded to Austrian clients;[62] the 1934 agreement with Germany reduced the taxes on the huge number of mortgages in the hands of the Swiss banks and offered certain benefits, ambiguous ones at that, for the German owners of Swiss holding companies;[63] lastly, the 1939 treaty with France was slightly more favourable to the direct investments of Swiss banks and facilitated their access to French markets.[64] Put simply, not only did Swiss executive circles manage to protect the importing of assets in flight by firmly refusing bilateral and multilateral exchanges of fiscal information, but at the same time the Swiss financial centre obtained substantial advantages on the other side of their turntable business, the (re)exporting of capital. Conversely, the international fiscal policy of Great Britain was marked by extreme prudence and a very clear wait-and-see policy. Setting aside the limited negotiations about the surtaxing of English industries in France—which didn't succeed—the Chancellor of the

[60] AF, E 2001 D, 1000/1554, vol. 27, Confidential letter from Giuseppe Motta, federal councillor in charge of the DPF, to Albert Meyer, federal councillor in charge of the Federal Department of Finance and Customs, 2 March 1938.
[61] The argument for the need of a general agreement, signed by all the financial powers, was constantly mobilized at the LON. For example, see League of Nations (1925); ALON, F/Fiscal/95, Government observations on the proposals of the Committee tending to prevent tax evasion to do with revenue from movable capital, 8 September and 15 October 1937.
[62] See AF, E 2001 C, 1000/1536, vol. 10, Minutes of the Federal Council, 15 November 1927.
[63] See Guex (1999, pp. 279-286); AF, E 2001 C, 1000/1536, vol. 4, Minutes of the Federal Council, 9 January 1934.
[64] See AF, E 2001 D, 1000/1555, vol. 16, Letter from the DPF's Litigations Bureau to the ASB, 10 February 1938. On this agreement, also see Perrenoud and Lopez (2002, pp. 67-74); Schaufelbuehl (2009, pp. 316-330).

Exchequer put a brake on the holding of talks about double taxation in the second half of the 1930s, despite repeated complaints from business circles.[65]

These divergences derived in part from the general orientation of the Swiss and British economies in the interwar period. The English refusal of a degree of financial liberalization, which the signing of a double-taxation convention with a foreign country would have represented, was inscribed within a global falling back of English foreign investments on the Empire after the First World War, in opposition to Swiss finance, which strove towards expanding in all European markets.[66] But these different options in relation to international taxation were also strongly influenced by the respective weight and degree of independence of the tax authorities. In the same way as for tax benefits granted to imported capital, the leanness of the Swiss fiscal State facilitated the application of strategies based on the unique principle of the defence of Swiss investors, whereas the policy of Great Britain was, on the contrary, divided between the contradictory interests of its tax authorities and its financial groups. Actually, in Great Britain the balance of power did not work against the BIR because of the choice made at the end of the war to make good the increase in public budgets through much heavier taxation. At the time, the development of the fiscal bureaucracy assumed a decisive function for British banks since budgetary balance—deemed by said banks to be essential to the pound sterling recovering its prewar rates—depended on the efficient collecting of taxes. On behalf of this unnatural alliance, the BIR thus enjoyed great autonomy vis-à-vis the City, which intervened very little in fiscal questions.[67] In negotiations on international taxation, this was also the case. The centre of decision-making was at the BIR—obviously supervised by the Chancellor of the Exchequer and the Treasury, and sometimes backed up by the Board of Trade. In order to make their voices heard to the British authorities, industrial and banking circles turned, on the one hand, into lobbies by gathering around organizations like the British Committee of the International Chamber of Commerce.[68] On the other, they also took direct advantage of the intermediaries they had within the state

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[65] See PRO, IR 40/3419, Extract from the Minutes of the Chancellor of the Exchequer, 20 February 1934. Also see *Parliamentary Debates, Daily Reports,* vol. 319, 46, col. 1418/9, 2 February 1937; PRO, IR 40/6156, Letter from E. R. Copleston, BIR, to A. J. D. Winnifrith, BIR, 28 mai 1938.

[66] On this drop in British investments, see Aldcroft (1970, pp. 262-266).

[67] On the autonomy of the British administration on tax issues, see Middleton (1985, pp. 55-77); Daunton (1996). On the acceptance by financial circles of heavy direct taxation in order to maintain budgetary orthodoxy, see Cronin (1991, pp. 65-111).

[68] On its lobbying of the BIR, see for example PRO, IR 40/4511, International Chamber of Commerce. British Sub-Committee on Double Taxation. Interview with the Board of Inland Revenue, 13 July 1934.

apparatus. When it came to brushing aside the measures of assistance against tax evasion, the City benefited from the support of the Treasury, whose ideological and sociological collusion with the financiers of London was of course intense.[69] All the same, the bankers were manifestly excluded from the internal decision-making process and were not officially informed of the evolution of negotiations.[70] During a survey conducted in 1925 among British bankers as to their opinion of the LON's debates on taxation, the Swiss ambassador remarked in particular that *'three of the biggest bankers in London,'* have only *'a vague understanding of what it's all about.'* [71]

A corollary of the stranglehold the BIR had on the talks was that Great Britain's international fiscal policy was conditioned by a constant concern to preserve the receipts from taxes. The taxation at source of the incomes of non-residents as well as the taxation of exported British capital was an important revenue that the BIR was loath to entirely give up. In 1919, the authorities underlined the sacrifice of *'considerable sums'* that the total resolution of double taxation would mean.[72] To be sure, this point of view was not accepted unanimously by the BIR's top officials: the British expert at the LON, close to business circles, supported the abandoning of taxation at source, along with limited arrangements for exchanges of information, during the 1920s.[73] Yet at the beginning of the 1930s, at a time when the issue of signing fiscal agreements was posed in concrete terms, an interest in tax revenues predominated at the BIR and prompted it to arrive at only very limited agreements on the reciprocal detaxation of commercial agencies and shipping companies.[74] The negotiations on the international tax system constituted, then, neither a weapon for the external extending of British investments nor a means of attracting foreign capital. Furthermore, although it refused to enter into confrontation with the City about bank secrecy

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[69] On the opposition of the Treasury to infringements of bank secrecy, see for example PRO, IR 40/3419, Note from Otto E. Niemeyer, Controller of Finance at the Treasury, to Neville Chamberlain, Chancellor of the Exchequer, 7 November 1923. On the collusion between the City and the Treasury, see, among others, Ingham (1984, pp. 170-200); Peden (2000, pp. 128-302).

[70] See for example PRO, T160/956 Peppiatt to Hopkins, Second Secretary at the Treasury, 23 January 1936; IR 40/5070, Letter from Clifford. H. Wakely, of the BIR, to D.F. Howard, of the Foreign Office, 18 September 1937.

[71] AF, E 2001 B, 1000/1508, vol. 34, Letter from Charles Paravicini, Swiss minister at the embassy in London, to Paul Dinichert, head of the Foreign Affairs Division, 26 March 1925.

[72] PRO, IR 85, Memorandum by the Board of Inland Revenue on the subject of double income tax elsewhere than within the British Empire, November 1919.

[73] See PRO, IR 40/3419, Letter from Thompson to Churchill, 13 February 1929.

[74] On the reticence of the BIR to enter into negotiations in the 1930s, see PRO, IR 40/4156, 'Musings on Double Taxation', Memorandum by Gerald Canny, of the BIR, 19 July 1932.

and administrative assistance, the BIR simultaneously engaged in a unilateral struggle against international tax evasion, which was relatively developed for the standards of the period. Between 1936 and 1938 many legal measures were adopted against fraud in the utilization of holding companies in the different tax havens, in the cashing of the coupons of British banks abroad or, more simply, in the transfer of capital outside British territory.[75] Sheltered from the pressures of the financial world by the maintaining of a consensus on more sensitive issues, the English administration therefore developed a strategy of international taxation guided by the preservation of the tax base.[76]

In opposition to this, the international fiscal policy of Switzerland was characterized by a placing of the state apparatus at the service of the different economic groups. This was expressed by the omnipresence in the decision-making processes of banking and industrial organizations, the ASB and the *Union suisse du commerce et de l'industrie* (USCI; =the Swiss Union of Commerce and Industry), whose experts constantly formed a part of the official Swiss delegation during interstate negotiations.[77] As a result, within this liberal corporatism the role of the Swiss administration and government consisted in arbitrating between the points of view of these two associations, which could diverge, the industrialists being more often interested in agreements about double taxation than the bankers. In 1935, during negotiations with France, such subordination was shown explicitly by the Minister of Foreign Affairs to an important Swiss banker: '*It is fully understood that the Authorities will do nothing with the consent, indeed the instigation, of the interested parties*.'[78] Unlike Great Britain, the influence of the employers on the talks was clearly favoured by the position and the structure of the fiscal administration, which did not defend interests of its own on

[75] See PRO, T 175/98, Report of the Evasion Committee, confidential, February 1934; T 175/98, Report by Canny to John Simon, Chancellor of the Exchequer: 'Finance Bill. Tax Avoidance', 11 February 1938. On the origins of this policy, see Stopforth (1985; 1992).

[76] With the Second World War, this policy went into overdrive: in 1939, the guarantee of confidentiality vis-à-vis the revenue authorities was largely rescinded for British residents, before bank secrecy was also relaxed in 1945 for non-residents in the convention on double taxation with the United States. See Clause 18 of the Finance Act 1939 in Board of Inland Revenue (1946, pp. 502-503); PRO, IR 40/10018, War Cabinet. Secret: Double taxation discussions with the United States. Provisions for Exchange of Information, Memorandum by John Anderson, Chancellor of the Exchequer, 22 March 1945; War Cabinet. Secret: Double Taxation, 12 April 1945.

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

[78] AF, E 2001 C, 1000/1536, vol. 15, Letter from Motta to Albert Pictet, of the Banque Pictet & Cie, 28 January 1935.

international taxation. On the subject of double taxation, the desire for reciprocal detaxation on exterior investments abroad, expressed by both bankers and industrialists, was not opposed by the Swiss tax authorities, who did not, in any event, levy tax at source. The director of the federal fiscal administration thus became one of the strongest advocates of the concluding of agreements against the double taxes.[79] As far as the problems of international tax evasion were concerned, these were neglected due to federalism. The top officials of the AFC were not directly involved by the problems of collecting taxes and found themselves in a position of extreme institutional weakness. For their part the cantonal finance ministers, theoretically more affected by the loss of the tax base, were relegated to the wings of the decision-making process being staged in Bern and showed themselves to be ever readier to react to the demands formulated by economic groups because of their limited power and their fragmentation. When in 1936 the Socialist minister for Geneva came out in favour of international collaboration against tax evasion, he was easily kept away from the debates on the initiative of the banking world.[80]

The striking power of business circles in the international relations was, therefore, inversely proportional to the weakness of the Swiss fiscal State. As no obstacle was placed in the way of the views of the employers within the Swiss Confederation, a very aggressive policy was implemented towards the outside world in order to obtain tax relief on exported Swiss capital without establishing in return a system for fighting tax evasion. At the end of the war the Division of Foreign Affairs, which significantly occupied a more central place in international fiscal issues than the AFC, advocated the unconditional defence of Swiss investors in all the disputes about taxation that they encountered abroad, even when the latter had made use of illicit operations.[81] Within the official talks on double taxation, the adherence of the government and the administration to the programme of the ASB and the USCI also reinforced the Swiss position. Swiss negotiators were prepared to trade other economic issues off against the resolution of double taxation, as was the case with Germany in 1934 when the agreement was ratified by the Nazis within the framework of a general deal between the two

[79] See AF, E 2001 C, 1000/1536, vol. 3, Report by Blau : 'Thesen zu der Frage des Abschlusses von Doppelbesteuerungsverträgen durch die Schweiz mit dem Auslande', 1928.
[80] See E 2001 D, 1000/1555, vol. 17, Letter from Albert Naine, Socialist State Councillor for Geneva, to Maxime de Stoutz, head of the Division of Foreign Affairs, 5 January 1935; Letter from Motta to Meyer, 15 November 1935; E 2001 C, 1000/1536, vol. 15, Letter from Pictet to Motta, 9 November 1935.
[81] For the repeated defence of fraudulent cases, see Farquet (2010b).

countries.[82] The impact of this coordinated strategy was even clearer in the negotiations with France in 1937-1939. For the first time certain industrialists, in opposition to the bankers, wanted to make Swiss policy on tax evasion more flexible in order to speed up the conclusion of an agreement on double taxation. The internal conflict was overcome thanks to the granting of three huge loans to the French State and to the bribing of its negotiators orchestrated by the ASB and the USCI.[83] The cohesion between the administration and Swiss business circles was decisive, here, in the final phase of talks; simultaneously, Great Britain was unable to link the credits granted by the English banks to France with the signing of a limited agreement on double taxation.[84] Finally, not only was no provision against fraudulent capital export introduced in Swiss laws, but the AFC itself made a contribution to the Swiss policy of tax evasion by legitimizing it with other States. The subservience of the tax authorities to the interests of finance in the 1930s contrasted with the measures taken at the same time by the BIR against tax fraud in Great Britain: within the framework of disputes on the subject of the application of the German-Swiss agreement on holding companies, the director of the AFC used his influence, for instance, with the Reich to detax the subsidiaries of Swiss front companies used by rich Germans in order to reduce their tax burden.[85]

While in Great Britain the compromise between the views of the BIR and those of the financial world led to a gradual distancing from international fiscal negotiations, a sacred union was formed in Switzerland to make common cause against the demands of Europe's revenue authorities. Swiss strategies could not have been successful, however, without the reciprocity of foreign backing. As it was, the signing of agreements with Switzerland was doubly unfavourable for the European States. From the point of view of tax receipts, a loss was agreed to on the taxing at source of Swiss investments without any compensation being offered in return on the possibility of fiscally striking at their taxpayers' capital invested in Switzerland. From the point of view of capitalist competition—contrary to an agreement with Great Britain—external markets opened up to Swiss capital, even though no reciprocal

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[82] See AF, E 2001 C, 1000/1536, vol. 5, Minutes of the Federal Council, 28 December 1933.

[83] Three loans in 1937-1939 were placed in Switzerland for a total amount of 530M CHF of the time, namely 1% of the French State's national debt in 1939. See Schaufelbuehl (2009, pp. 320-330). For the national debt, see United Nations (1948, XVI.I) On the end of the negotiations and the bribery affair, see Perrenoud (2008).

[84] See PRO, T 160/956, Letter from Simon to the Board of Trade, 11 January 1938.

[85] See AF, E 2001 D, 1000/1555, vol. 13, Letter from the Division of Foreign Affairs to Blau, 11 September 1935; Letter from Blau to Pierre Bonna, head of the Division of Foreign Affairs, 16 September 1935. Note that at the same time this same director defended maintaining the privileges of holding companies in federal taxation (Müller 2010, pp. 439-444).

concession was agreed for foreign investors, already detaxed at source in Switzerland. This situation was summed up by the head of the Foreign Affairs Division in 1937: *'The consequences of this highly liberal practice are […] that foreign countries have no interest in negotiations about double taxation with Switzerland.'*[86] This a priori negative balance of power was nevertheless always counterbalanced by the many acts of collusion between the Swiss financial centre and the European elites, acts generated by the presence of foreign capital taking refuge in Switzerland. In other words, the Swiss Confederation's particular stand on the offer of tax avoidance laid it open, to be sure, to international pressure—stronger than that exerted on the City—but paradoxically constituted an asset in its foreign relations. These overlaps were of the economic, sociological and ideological kind. The *Banque Commerciale de Bâle* affair in 1932 immediately revealed, in a grotesque sort of way, the extent to which the Swiss haven was utilized by all the fringes of French high society to dissimulate its funds. Deputies, press magnates and even churchmen figured among the lists of people guilty of fraud.[87] To the support of the Swiss tax haven given by the aristocracy and the big bourgeoisie was added that of the industrial and financial groups, which had recourse to the services of the first. Among others, the powerful *Reichsverband der Deutschen Industrie* placed itself in the Swiss bankers' camp in supporting the abandonment of the demands on tax evasion formulated by the Reich in order to guarantee the resorting of German enterprises to holding companies in Switzerland.[88] In the last instance, this indulgence towards the liberal islet of Switzerland even permeated the administrations of different States. High-ranking French and German tax officials were in general little inclined to relay governmental and parliamentary pressure in the direction of Switzerland.[89]

But the alliance foreign elites formed with the Swiss tax haven and which explained its remarkable success was also of a political kind. In applying pressure in the name of reducing taxation and weakening the financial programmes of the Left after the First World

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[86] AF, E 2001 D, 1000/1555, vol. 15, Letter from Bonna to Alphonse Dunant, Swiss minister in the Embassy in Paris, 20 April 1937.

[87] Guex (2007).

[88] See AF, E 2001 C, 1000/1536, vol. 3, Letter from Eduard Feer, Councillor in the Swiss Embassy in Berlin, to Hans Frölicher, First Secretary at the Division of Foreign Affairs, 1 August 1929.

[89] This sympathy for Swiss interests was noted at different times by Swiss negotiators. See for example AF, E 2001 C, 1000/1536, vol. 5, Letter from Dinichert, Swiss minister at the Embassy in Berlin, to Frölicher, member of the Swiss Legation in Berlin, 16 September 1932; AF, E 2001 D, 1000/1555, vol. 15, Letter from Dunant to Bonna, 15 April 1937. On the hesitations of the French administration in relation to the fight against fiscal fraud during the interwar years, see Tristram (1999).

War, the Swiss tax shelter became a weapon for conservative European forces in the internal politics of their respective countries. The case of France provides a remarkable example of this. Under the *Cartel des Gauches* (Left-wing Coalition) in 1924-1926, as under the *Front Populaire* in 1936-1937, a similar schema was produced. In the first instance, with the arrival of the Left in power, French assets poured massively into Switzerland. This prompted the government to increase its pressure against Swiss bank secrecy at the LON in the 1920s and in bilateral relations during the following decade.[90] Not only did these offensives twice meet with the refusal of the federal authorities to collaborate, they contributed to the cooling of relations with Swiss banks, which cut their credits to France. As a result the French Treasury was caught in a vice between two fronts, interior and exterior: to internal resistance to taxation was added international tax evasion, while the difficulties of raising capital on the local market were combined with the lack of opportunity to have recourse to foreign assets.[91] In the second instance, due essentialy to its financial problems, the government fell, a more Right-leaning coalition came to power and capital flowed back, notably by way of external loans. Swiss banks acceded to the demands for credits of a government more disposed towards their interests and which abandoned its attacks on bank secrecy. These loans were partly underwritten by expatriated French capital, which meant, in concrete terms, that after being shielded from the taxes of the Left the '*wall of money*' was paid a dividend by the Right for its repatriation.[92] In extending the room for manoeuvre of the French well-to-do, the Swiss tax haven thereby contributed to the maintenance in France, not of a weak State like the Swiss Confederation, but a poor and non-egalitarian one; its financing was constantly at the mercy

[90] At the LON, see Farquet (2009a, pp. 108-111). In the 1930s, see Schaufelbuehl (2009, pp. 316-330).

[91] On the Cartel's financial difficulties, linked to the flight of capital, then the change in policy, see Jeanneney (1977); Mouré (1998, p. 33-80). In the 1930s, see Margairaz (1991, pp. 265-496).

[92] For the influx of French capital in Switzerland in the 1920s and the refusal of credits to France, then the granting of loans with the return of the Right to power, see Guillen (1982, pp. 166-171). In the 1930s, see Perrenoud (1999, pp. 388-397). According to Perrenoud, between 1937 and 1939 half the visible exports of Swiss capital went in the direction of France. For foreign loans, partly underwritten by foreign capital, see Berthoud (1967, p. 12; 254): the total sum of French loans in Switzerland between 1922 and 1939 was 1.41 billion CHF. To appreciate this, the total of French visible capital import – excluded revenue of war reparations and currency operations – was appromitavely 3.64 billion CHF between 1922 and 1937 (Calculated on the basis of Rist and Schwob 1939, pp. 548-549).

of the *'capitalist blackmail'* (Sauvy 1965, p. 383) of relocating assets and the costs of the State were paid by a heavy taxation of consumption.[93]

5. Conclusion

After the First World War, the considerable rise in direct tax rates in Europe went hand in hand with the preservation of deficient methods for their actual deduction. What holders of capital had to let go of from the legal point of view, they preserved to a large extent in actual practice. The flight of assets in the face of taxation seems to be caused as much by the increasing of the tax burden within different States as by the opportunities for detaxation that presented themselves for exported capital. In view of the European bourgeoisie's allergy to taxation, tax benefits for imported assets, bank secrecy and a lack of international cooperation against tax evasion were actually guaranteed on a more or less grand scale by all the major banking centres in order to attract fugitive assets. In this context, as we have seen, the particularity of Swiss policy in relation to other financial powers resulted from the limitation of the state sector after the Great War. This situation favoured strategies for attracting capital in two ways. Firstly, the Swiss authorities placed no obstacles in the way of evading taxes through an abandonment of all its requirements about taxing imported assets. Switzerland thus positioned itself as the front-runner in international fiscal dumping. At the end of the 1930s a French study estimated, for example, that it was considered '*the dream country'* for fugitive capital (Piatier 1938, p. 253). Secondly, contrary to the British case, the state apparatus readily placed itself at the service of the employers in order to take an active part in the preservation of their fiscal advantage with regard to abroad. As a result, the Swiss Confederation also distinguished itself from the small tax havens that were proliferating at the time through its capacity for intervening in international relations and organizations. In this way Swiss banking circles could lean for support on the administration and the government in order to protect the exterior side of their turntable business in negotiations on double taxation. At a more general level, this Swiss policy of tax evasion helped create an obstruction to a minimum multilateral agreement against fraud, while putting pressure on other States so they

[93] In the second half of the 1930s, the share of indirect taxes in relation to tax revenues as a whole was the following: Germany: 39%; United Kingdom: 39.1%; Switzerland: 43.3%; The Netherlands: 57.8%; France: 58.1%; Belgium: 64.3%. See Flora (1983, vol. 1, pp. 257-344).

would not enter into a bilateral cooperation that could prompt capital to take the direction of Switzerland.

Swiss international fiscal policy held to the same line after the Second World War. While it agreed to certain compromises, such as the introduction during the conflict of the taxation at source of bank accounts,[94] the Swiss fiscal system remained famous for its attractiveness to foreign capital. Internally, a low tax burden, combined with a laxity in terms of control and collection practices, was preserved thanks to fiscal federalism.[95] Externally, the defence of bank secrecy still relied on a principled refusal of international exchanges of fiscal information.[96] Contrary to the Great Depression of the 1930s, cracks have nevertheless appeared in this legal order since the financial crisis in 2007. The current pressure against bank secrecy is, however, inscribed within a movement that is wholly at odds with the interwar years. Whereas that period was distinguished by a marked increase in the theoretical taxation of capital, in leaving the door wide open to its evasion through the relocation of assets, a general trend towards the lessening of fiscal burden on high incomes has been perceptible since the liberalization of financial markets.[97] It would seem as if the international competition to reduce taxes, accepted by both Right and Left, can henceforth do without the most visible assistance of the tax havens.

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[94] See Oechslin (1967, pp. 162-165).

[95] See Guex (1998); Longchamp (2010).

[96] Setting aside purely formal provision, at the turn of the twentieth century Switzerland still did not accept any international exchange of information, except with the United States. See Oberson and Hull (2006, pp. 255-269).

[97] Between 1995 and 2010, despite the crisis, the top tax rates on personal income went down by an average of 9.9 percentage points in the twenty-seven nations of Europe. They didn't increase in any European countries, except Latvia, Portugal, United Kingdom. See Eurostat (2010, p. 109).

6. Appendices

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

	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
1913	8647	49571	48480	2414	4696	2517	36716
1919		175371			10601	5586	
1920	28519	175371			11019	5982	
1921	28481	133729		5792	9327	5134	
1922	29127	155636		5523	7755	4579	72819
1923	35222	188961		5323	8569	4385	
1924	42558	217288		5598	9633	4419	
1925	44717	247945	45515	5733	10093	4644	
1926	55235	323766	43688	5849	10077	4396	
1927	70110	304506	51806	6032	10711	4613	96802
1928	79721	330369	52969	6308	11764	4659	
1929	89485	346426	53596	6489	12181	4727	
1930	90645	334084	50326	6248	12039	4685	
1931	82337	298785	45223	5774	11125	4359	
1932	70724	266224	41011	5233	9973	4276	58800
1933	68936	248740	45068	5044	10003	4259	
1934	66675	229990	49395	4959	9883	4513	66000
1935	65362	204412	53856	4886	9680	4721	
1936	71496	246318	59511	4955	9724	4905	83700
1937	85638	346764	63098	5409	10612	5289	
1938	83018	413953	67967	5506	10670	5572	86100
1939	81958			6061	10877	5958	

Sources:

- For Germany, Belgium, France, The Netherlands and the United Kingdom: Smits (2009).
- For the United States: Carter et al. (2006, vol. 3, Table Ca9-19)
- For Switzerland: Andrist, Anderson and Williams (2000, p. 66). Two GDPs are given in constant prices for 1990. Here, this means the average of the two, which has been converted into current prices with the consumer price index of Ritzmann-Blickenstorfer (1996).

2. CHF exchange rates

	Belgium	France	Germany	Netherlands	UK	USA
1913	99.6	100.3	123.7	208.7	2531	519
1918		78.2	74.1	203.7	2089	438
1919	72.8	75.1	33.8	205.7	2332	527
1920	43.5	41.5	10.1	203.4	2168	593
1921	42.9	42.9	7.0	194.0	2218	577
1922	40.0	42.7	1.2	201.8	2321	524
1923	28.7	33.5	0.0	216.3	2531	553
1924	25.2	28.5	125.9	209.5	2423	549
1925	24.5	24.6	123.1	207.7	2498	517
1926	16.9	16.8	123.2	207.6	2515	518
1927	72.2	20.4	123.4	208.2	2524	519
1928	72.3	20.4	123.9	208.8	2526	519
1929	72.2	20.3	123.5	208.3	2519	519
1930	72.0	20.3	123.1	207.5	2508	516
1931	71.8	20.2	121.8	207.3	2335	515
1932	71.7	20.2	122.3	207.6	1804	515
1933	72.0	20.3	122.6	208.2	1713	413
1934	71.9	20.3	121.5	208.1	1556	309
1935	56.8	20.3	123.7	208.3	1508	308
1936	73.4	20.3	174.6	234.9	2131	435
1937	73.6	17.6	175.2	239.9	2155	436
1938	73.8	12.6	175.5	240.4	2137	437
1939	74.8	11.1	177.6	236.7	1967	444

Notes:

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

Sources:

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

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

	France			Switzerland			UK		
	0.1m	**1m**	**5m**	**0.1m**	**1m**	**5m**	**0.1m**	**1m**	**5m**
1914	4	4	4	12.63	18.23	19.5	8.3	8.3	12.3
1919	5.0	11.0	24.6	7.17	14.5	16.3	33.3	33.7	45.9
1920	11.0	23.7	49.0	8.23	17.7	19.5	2.8	31.5	47.3
1921	10.9	23.3	48.5	11.93	28.9	35.8	2.6	31.2	49.8
1922	10.5	21.4	45.3	12.76	33.2	41.2	0.0	21.6	37.3
1923	13.1	28.8	59.5	12.63	33.6	41.1	0.0	18.7	36.2
1924	13.5	34.7	70.5	12.26	31.9	39.2	0.0	19.1	34.3
1925	19.5	39.1	70.4	12.96	33.7	39.0	0.0	16.5	30.6
1926	19.3	31.7	46.4	12.63	33.2	38.4	0.0	16.5	30.3
1927	19.0	30.0	45.4	12.03	32.4	37.6	0.0	16.5	30.7
1928	18.9	31.3	48.4	12.03	32.4	37.5	0.0	16.5	30.5
1929	18.9	31.3	48.4	11.89	32.3	37.0	0.0	16.5	33.0
1930	16.9	29.4	46.4	11.89	32.3	37.0	0.0	18.4	36.8
1931	16.6	27.5	44.9	12.79	34.2	40.2	0.7	21.3	36.3
1932	16.6	28.6	47.8	12.89	34.5	40.5	1.5	21.5	37.4
1933	17.6	29.6	48.8	12.10	28.0	30.8	4.1	22.9	41.1
1934	17.6	28.2	45.3	14.53	35.9	44.9	4.0	21.0	39.1
1935	24.6	36.3	55.1	14.87	36.2	45.2	2.7	21.7	41.0
1936	18.5	35.4	67.8	15.33	38.7	49.5	0.3	20.3	37.5
1937	24.7	44.8	79.4	17.33	41.8	52.8	0.3	21.4	38.5
1938	27.0	54.3	86.8	17.33	41.8	52.8	0.3	23.5	41.4
1939	28.2	57.8	87.8	17.33	41.8	52.8	1.3	29.8	54.5

Notes:

- This means the theoretical rates of direct taxation on wealth and income for a capital of 100,000 CHF, 1M CHF and 5M CHF for a married man without children.
- For Switzerland, the rate is the average of the total sum of communal, cantonal and federal taxes in Zurich, Basel and Geneva, such as they are given by the AFC in its annual study '*Les impôts sur le produit du travail et du capital*'. To this has been added the federal tax on coupons, which were not always taken into account by the AFC. The return on capital was 4% in 1914; 5% in 1919; 6% in 1920-1921; 1922-1930: 5%; 1931-1939: 4%. On the basis of the AFC figures, English and French rates have been calculated for the corresponding incomes by utilizing the evolution of exchange rates given in Appendix 2.
- For France, the rate is the sum total of the general tax on income and the scheduled tax on income from movable property. The flat deductions for a married man have been taken into account, as have the different tax increases for couples without children, as well as retroactive increases in the tax rate.
- For Great Britain, this means the cumulative rates of income tax (on unearned income) and supertax. Account has been taken of the deductions for a married man, as well as the reduced rates on the first income bracket. For similar calculations, see Shirras and Rostas (1942, pp. 58-59).

Sources:

- Switzerland: Administration fédérale des contributions (1919-1939). For the federal tax rates on coupons, see Oechslin (1967, pp. 122-125).
- France: for income tax rates: Piketty (2001, pp. 263-274). For scheduled tax rates: Hautcoeur (1994, p. 228).
- Great Britain: Board of Inland Revenue (1946, pp. 17-18).

4. General tax burden

Total of fiscal receipts of the central State and local entities (national currency in millions)

	Belgium	France	Germany	Netherlands	UK	Switzerland	USA
1913	480.2	4732.8	4737.0	212.6	220.0	273.6	2271.0
1920	1253.0	19645.1		992.7	1153.0	719.2	
1921	1450.7	17426.2		964.3	1081.0	666.7	
1922	1956.1	18785.2		869.9	1002.0	781.6	7387.0
1923	3564.4	21830.1		777.5	911.0	717.8	
1924	4017.5	27061.1		741.5	857.0	733.2	
1925	4892.0	29482.4	10578.0	773.5	859.0	746.8	
1926	6956.6	40125.3	11675.0	800.8	846.0	904.8	
1927	9212.9	45719.7	13546.0	822.6	871.0	814.7	9451.0
1928	10751.2	54963.0	14298.0	820.6	882.0	876.7	
1929	11777.8	64000.3	14379.0	869.3	873.0	940.3	
1930	9847.9	53033.8	14142.0	843.3	865.0	1099.5	
1931	9290.7	51843.9	12182.0	802.0	881.0	963.1	
1932	9265.2	40627.1	10280.0	744.4	940.0	928.7	7977.0
1933	10070.8	46969.5	10670.0	750.1	912.0	893.5	
1934	9352.4	44798.7	11943.0	781.8	909.0	932.0	8854.0
1935	9483.9	41499.6	13526.0	803.7	929.0	978.6	
1936	10325.7	42736.0	15636.0	792.3	964.0	969.1	10583.0
1937	10859.4	47875.9	18818.0	876.5	1032.0	999.1	
1938	11069.1	61118.5	23021.0	910.2	1088.0	1042.7	12949.0
1939	10844.6	69629.1		963.0	1203.0	1097.4	

General tax burden (total tax receipts related to GDP)

	Belgium	France	Germany	Netherlands	Switzerland	UK	USA
1913	5.71%	9.55%	9.77%	8.81%	5.83%	8.74%	6.19%
1920	4.39%	11.20%			6.53%	19.27%	
1921	5.09%	13.03%		16.65%	7.15%	21.06%	
1922	6.72%	12.07%		15.75%	10.08%	21.88%	10.14%
1923	10.12%	11.55%		14.61%	8.38%	20.78%	
1924	9.44%	12.45%		13.25%	7.61%	19.39%	
1925	10.94%	11.89%	23.24%	13.49%	7.40%	18.50%	
1926	12.59%	12.39%	26.72%	13.69%	8.98%	19.24%	
1927	13.14%	15.01%	26.15%	13.64%	7.61%	18.88%	9.76%
1928	13.49%	16.64%	26.99%	13.01%	7.45%	18.93%	
1929	13.16%	18.47%	26.83%	13.40%	7.72%	18.47%	
1930	10.86%	15.87%	28.10%	13.50%	9.13%	18.46%	
1931	11.28%	17.35%	26.94%	13.89%	8.66%	20.21%	
1932	13.10%	15.26%	25.07%	14.23%	9.31%	21.98%	13.57%
1933	14.61%	18.88%	23.68%	14.87%	8.93%	21.41%	
1934	14.03%	19.48%	24.18%	15.76%	9.43%	20.14%	13.42%
1935	14.51%	20.30%	25.12%	16.45%	10.11%	19.68%	
1936	14.44%	17.35%	26.27%	15.99%	9.97%	19.65%	12.64%
1937	12.68%	13.81%	29.82%	16.20%	9.41%	19.51%	
1938	13.33%	14.76%	33.87%	16.53%	9.77%	19.53%	15.04%
1939	13.23%			15.89%	10.09%	20.19%	

Notes:

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

Sources:

- The data in compilations like Flora (1983) and Mitchell (2007) are very incomplete. We have therefore tried to obtain more complete data with the help of national collections of statistics and statistical yearbooks:
- Germany: Hoffmann (1965, pp. 800-801). Compare with the figures in James (1986, p. 374) and in Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich* (1920-1940), which differ relatively slightly.
- Belgium: tax revenues have been calculated from Office central de statistique, *Annuaire statistique de la Belgique et du Congo belge* (1918-1944). The problem is that the revenues from taxes are not given for communes of fewer than 40,000 inhabitants. Now, the revenues of the large communes represented 52.2% of the overall revenues of communes of more than 5,000 inhabitants in 1938 (*Annuaire* 1940, p. 170), which themselves represented 81.4% of the overall revenues of communes in 1941 (*Annuaire* 1943, p. 125). The revenues of the big communes have accordingly been multiplied by 2.35. In the interwar years, in relation to the figures Flora gives for 1925, 1936 and 1938 (1983, vol. 1, pp. 257-344), the figures correspond for 1936 and 1938 and are just under 8% higher for 1925.

- France: the tax revenues of the central State are given retrospectively in Institut national de statistique, *Annuaire statistique de France* (1946). For the deductions by communes and departments, we have made estimates on the basis of the figures given for the years 1934 and 1938 (Annuaire 1938, p. 246; Annuaire 1940-1945, pp. 312-313). Over 95% of the tax revenues of the departments were made up of 'centimes' and 'assimilated taxes,' on which data appears in different yearbooks. The revenues from these two taxes have accordingly been multiplied by 1.05. For the communes, direct taxes were made up of not only 'centimes' and 'assimilated taxes,' but also of municipal taxes, which have been estimated at 25% of the direct taxes on the basis of the 1934 figures. Indirect taxes are made up of local taxes —which we have the figures for—and other taxes that have been estimated at 10% of indirect taxation on the basis of the 1934 figures. With regard to Flora's data, the figures tally for the 1930s, but are higher by 35% for 1920 (!); and lower by 13% for 1925.
- Great Britain: tax revenues are taken from Feinstein (1976, Table 12, 13, 14). To them we have added the taxes on capital that appear in Table 34. For these taxes, which represent about 1% of all revenue, the figures for 1913 and 1939 are nevertheless lacking. For 1939, the total for 1938 has been used; the figures for 1913 have not been counted.
- The Netherlands: tax revenues are to be found in Bureau voor de Statistiek, *Jaarcijfers voor Nederland* (1920-1942). For each year between 1921 and 1939, the yearbook gives the total revenue (*Jaarcijfers* 1930, p. 430; 1932, p. 376; 1941-1942, p. 336). For 1913, the figure is an average for the 1910-1914 bracket (*Jaarcijfers* 1942, p. 418-419).
- Switzerland: tax revenues come from Bureau fédéral de statistique, *Annuaire statistique de la Suisse* (1930, p. 352; 1937, p. 360; 1949, p. 416). The figures for 1913 are not included, apart from those of the cantons (Annuaire 1920, pp. 382-383). The data for the communes and the Swiss Confederation are taken for that year from Ritzmann-Blickenstorfer (1996). For the communes, this means the average of the revenues recorded for 1910 and 1915.
- The United States: tax revenues are taken from Carter et al. (2006, Table Ea 132-159; Table Ea 348-384; Table Ea 489-518).

5. Taxation for non-residents

Sources:

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

- The rates for estate duties and the taxing of securities are those for 1935. They have been taken from a study supervised by the LON, carried out among most of the world's tax authorities on their taxation practices: Tax Research Foundation (1935, pp. 335-336; 339-340).

For Swiss rates and practices on inheritances: Rikli (1937, p. 245). For Swiss practices on taxing dividends: Guex (1994).

- The respecting or otherwise of banking secrecy by the tax authorities is broadly specified in the LON study cited above. Also see: Sacker (1933, pp. 117-131); Capitaine (1936, pp. 198-209); Sichtermann (1957, pp. 39-81; pp. 301-329).

- The number of assistance agreements has been calculated on the basis of: ALON, F/Fiscal/99, Memorandum by Mitchell B. Carroll, 29 September 1937; Piatier (1938); Carroll (1939); Rosendorff and Henggeler (1942).

6. Holding companies in Switzerland

	Total number of holdings	Nominal capital of the holdings (millions CHF)	Number of "small" holdings	Nominal capital of the "small" holdings (millions CHF)
1921	138	1284		
1922	184	1250		
1923	243	1247		
1924	281	1083		
1925	432	1185		
1926	554	1309		
1927	640	1551		
1928	770	1961		
1929	985	2548		
1930	1181	2835		
1931	1458	3033	1315	660
1932	1526	2990	1375	696
1933	1600	2856	1444	694
1934	1685	2737	1530	661
1935	1716	2624	1563	653
1936	1867	2607	1716	636
1937	1989	2509	1835	640
1938	2026	2155	1888	638
1939	2017	1942	1881	582

Notes:

This involves the number of holding companies at the end of the year. From 1931 on, the Annuaire statistique separates such companies into three groups: 1) Companies for marketable assets 2) Finance control companies 3) Others of the holding kind. It is the third sort which is classified here under 'small' holding companies.

Sources:

Bureau fédéral de statistique (1921-1947).

Compare with the figures given in Paquier (2001).

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