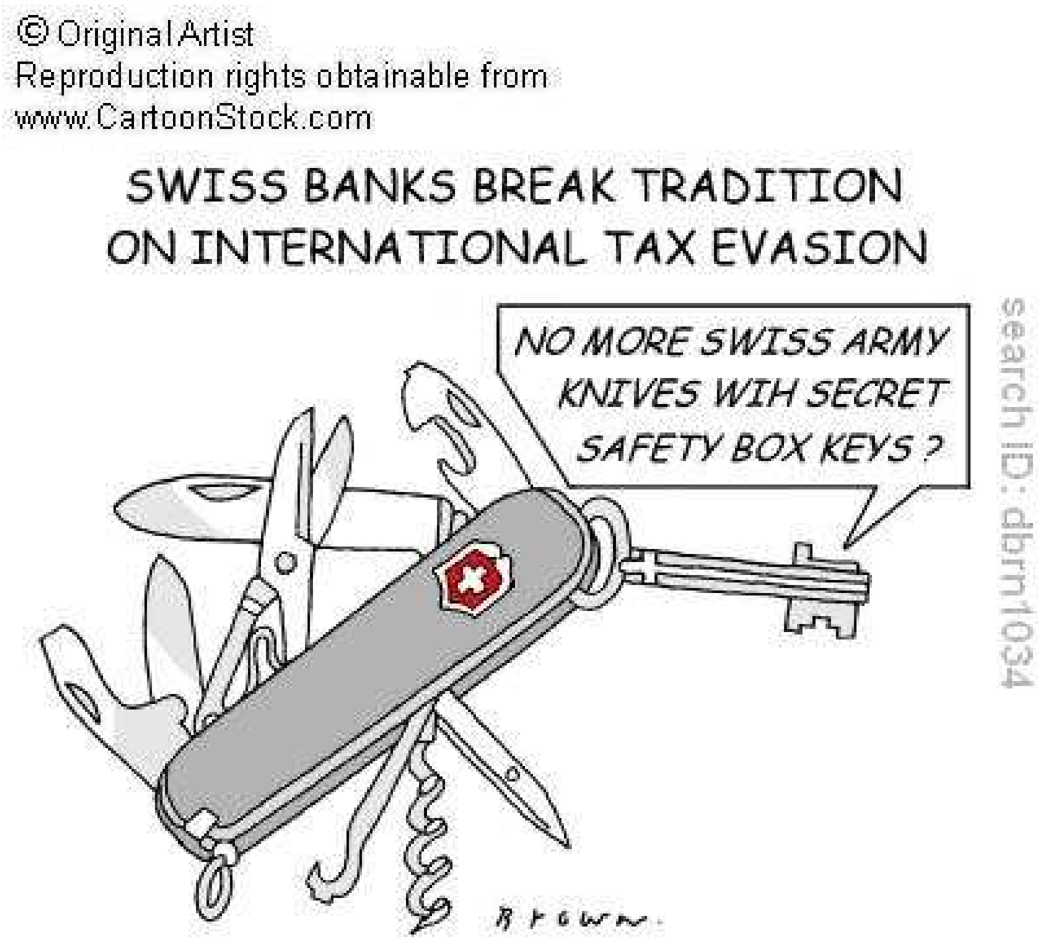

THE SWISS TAX HAVEN IN THE INTERWAR PERIOD: AN INTERNATIONAL COMPARISON

Christophe Farquet

COMMENT

by

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Who can teach dolphins to swim?

On Jan. 27 2011, a seminar was held in Switzerland to teach the use of tax havens for tax evasion.

It was attended by 300 Italians.

There are those who can teach even dolphins to swim..

Aim of Farquet’s paper

From early 1920s, Switzerland pursued active policies of fiscal attractiveness to foreign financial capital

These policies played a large role in establishing Zurich as an important financial center

The paper aims at explaining how this happened in a comparative perspective

What made Switzerland attractive?

- Lean state → low tax rates
- Favourable tax deals for non residents
- Lax attitude to international tax evasion
- Rigorous respect (both legal and *de facto*) for bank secrecy

In general: *a remarkable subordination of the state apparatus to the interests of the bankers* (p. 4)

Praise for the paper

Topic: novel (at least for me), interesting and *hot*

A story with well-identified causality (the weakness of the state and the prevailing business interests)

Blend of economic and institutional analysis.

Emphasis on the political economy, both domestic and international

3 questions for the author

- What was the most powerful driving force of capital inflow into the Swiss banks?
- Were the Netherlands similar? In what respect? Why?
- To what extent did the Swiss policy of attracting foreign capital impact on the macro picture of international caoital flows in the interwar years?

Drivers of international private capital movements

a) Return / risk profile of investments

b) Expectations about exchange rate movements

c) Asset allocation (portfolio diversification)

d) Safety (from expropriation, war, revolution, disclosure)

e) Fiscal treatment

- Relative tax rates
- Tax benefits for non residents
- Cost / benefits of tax evasion

The safe-haven motivation

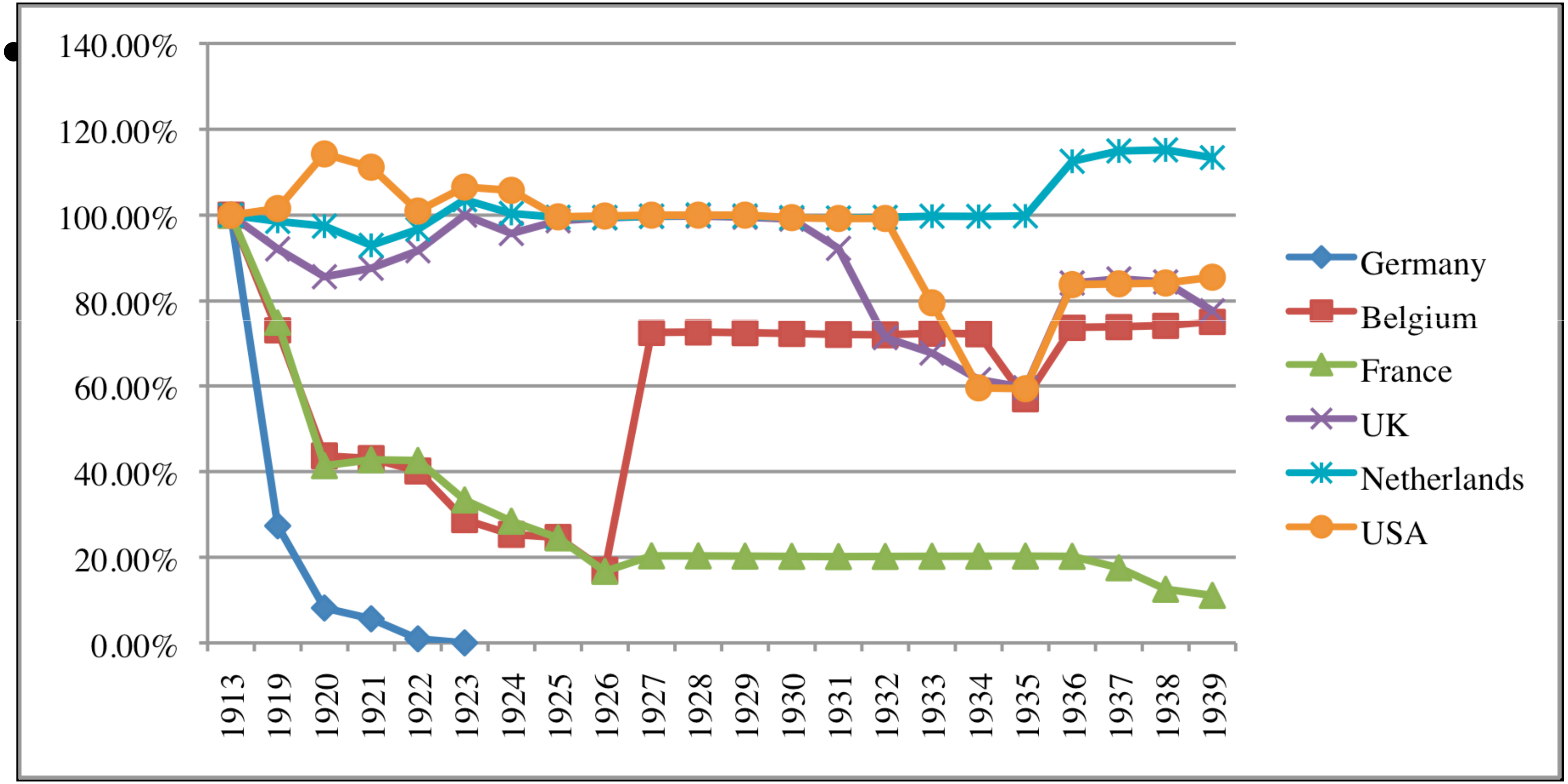
- Confidentiality in banker-client relations was a proverbial feature of Swiss banks long before it was sanctioned by the 1935 banking law
- Was opportunity for tax evasion the main attractiveness of bank secrecy?
- Particularly after Jan 1933, was not the protection of assets from expropriation (and later war) the main incentive to move private fortunes to Switzerland? (Proximity helped. People however moved money to the US for the same reason)

What about the Netherlands?

Paper’s comparative analysis is largely focused on FR & GB, competitors on capitals market but very different from CH in size (pop about 10-12 times CH’s, international position, mix of domestic interests)

Perhaps CH / NL comparative analysis more illuminating (Swiss Pop about 65% of NL)

The attractiveness of Dutch investments



Dutch tax rates for non residents less so..

- Foreign bonds not taxed in CH, taxed at 5% in the NL
- Estate duties 0-4.3% in CH, 2.5 – 7.0% in the NL
- NL has a tax treaty with B, CH has none

BOTH guarantee and enforce bank secrecy

Balance of current account, gold and foreign currencies. European creditors ($ ml)
Source: Feinstein

	1924-30	1931-37
UK	1,300	- 4,000
France	1,340	- 690
Netherlands	380	- 290
Switzerland	370	- 340
Czechoslovakia	250	90
Sweden	180	- 20

According to Feinstein* Switzerland was a net capital exporter in 1924-30 & importer in 1931-37

Do we have any idea of the amount of capital imports? Even a rough order of magnitude, if significant, would support Farquet's story (foreigners would deposit with Swiss banks and the latter would invest their (+ their Swiss clients') money abroad.

Data for the 1930s are consistent with Farquet's story (& confirm the relevance of the safety motivation for sending money to CH)

* C.H. Feinstein & W. Watson, "Private International capital flows", in C-H. Feinstein (ed.) Banking, Currency, & Finance in Europe between the Wars, Clarendon, Oxford 1995, p. 116

Estimates of capital movements?

Feinstein: Switzerland (with the US, UK, France and the Netherlands) was a **net** capital **exporter** in1924-30 and a net capital **importer** in 1931-37.

Feinstein does not give a breakdown of import and export of capital

Do we have such estimates for Switzerland now?