Forschungs- und Literaturbericht

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In the Shadow of the Golden Calf. Im Schatten des Goldenen Kalbes.

The Swiss Confederation and the German Reich During the Twenties
Die Schweizerische Eidgenossenschaft und das Deutsche Reich in den 20er Jahren

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Abstract: The article offers the first comprehensive account of relations between Germany and Switzerland in the years 1919 to 1931 based on archival sources from both countries. Emphasising the interaction between finance and diplomacy, it provides new insights into the role played by the Swiss offshore centre for the German Reich after the First World War. During the inflationist period of 1919–1923, as well as in the crisis of 1929–1931, Switzerland, like the Netherlands, welcomed a huge amount of wealth from Germany while at the same time becoming an important creditor of the Reich. These developments had a significant impact on German internal and foreign policies at the time. Nevertheless, the article argues that, despite the intensity of financial flows, Switzerland pursued a diplomatic course that was more plurilateral than the Netherlands. Even during the second part of the 1920s, when Swiss capital was placed on the German market in massive dimensions, there was no German orientation in Swiss foreign policy similar to what had happened in the years before the First World War. Switzerland’s foreign relations became more neutral during the 1920s. This article consequently proposes a nuanced perspective on the role of the small European countries in German foreign policy, highlighting the need to differentiate between them in spite of their common features and to consider, in a non-deterministic way, the interaction between finance and diplomacy.

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The role of small neutral countries in international relations in Western Europe after the First World War is little-known. The broad narratives of international relations in the *Golden Twenties* largely ignored these countries, as if their influence was so minimal that they had been reduced to being mere observers or, at best, arbitrators of foreign relations. This lacuna in European history is particularly blatant regarding Germany. Indeed, Germany has had a special position in relation to them at least since the Belle Epoque, due in part to its geographic situation with common borders with Switzerland, the Netherlands, Belgium, Denmark, and Sweden. Commerce and diplomacy with the Neutrals were thus much more important for the Reich than for other big powers, even compared to France. The war extended this significance, particularly in economic relations, since the Neutrals could be used to circumvent the blockade of Entente. Such privileged relations continued after the war and lasted until the decisive break in 1931. In concurrence with Britain, the Netherlands became the first market for German exports. Amsterdam and Switzerland positioned themselves as the main hosts for German capital flight during the hyperinflation, and during the Dawes Plan’s era these financial centres became two of the Reich’s biggest creditors. On the diplomatic level, the former Neutrals were opposed to the French foreign policy of strength against the vanquished countries, and as such were often viewed, albeit contentiously, as informal allies of Germany. For all these reasons, the 1920s probably marked the heyday of foreign relations between small countries and Germany. However, Germany’s historiography remains very incomplete regarding this topic in the same way as historical research on other great countries. It is possible to write a full account of German foreign policies during the Weimar period without granting any attention to the former Neutrals.1

Using Swiss sources and German archive papers, this article aims to partly fill this historiographical gap by analysing the relations between Switzerland and Germany during the 1920s, with a specific focus on finance and diplomacy.2 As such, it offers a fresh account of the history of both countries as this decade has been overlooked compared to the National Socialist period. Indeed, no

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2 The following archives were used: Swiss Federal Archives (SFA), Bern; Archives of the Swiss National Bank (ASNB), Zürich; Archives of the Swiss Bankers Association, (ASBA), Basel; Politisches Archiv des Auswärtigen Amts (PAA), Berlin; Bundesarchiv (BArch), Berlin Lichterfelde.
study has ever comprehensively examined economic and diplomatic relations between Switzerland and Germany in the 1920s. While German historians have almost fully ignored Germany’s relations with its small neighbouring country prior to the Great Depression, their Swiss counterparts have produced interesting but disparate information on financial relations without sufficiently integrating them into a broader international and political perspective. This article therefore reassesses, almost in total, the bilateral relations between Switzerland and Germany before 1931 by contextualizing them in a wider perspective. Relying on new archival evidence, it demonstrates how much, as in the case of the Netherlands, the Swiss banking centre’s influence on Germany’s finance and currency showed a continuous trend throughout the 1920s, which in turn indirectly impacted its foreign policy. By welcoming huge amounts of capital flight between 1919 and 1923 and substantially contributing to capital exports to Germany, the Swiss offshore centre deeply affected this great power’s monetary policy at a time when foreign relations were strongly shaped by currency rates. This influence reached its peak at the end of the Golden Twenties, between 1929 and 1931, ultimately contributing to the collapse of the German financial system. However, at the same time, this article shows that, despite the intensity of financial flows, Switzerland’s relations pursued a diplomatic course that was more plurilateral than the Netherlands, for instance. Even during the second part of the 1920s when Swiss capital was massively placed on the German market, there was no German orientation in Swiss foreign policy similar to what had happened in the years before the First World War. While the political and eco-

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4 On diplomatic and economic relations between the Netherlands and Germany, see J. Houwink ten Cate, ‘De mannen van de daad’ en Duitsland, 1919-1939. Het Hollandse zakenleven en de vooroorlogse buitenlandse politiek, Den Haag 1995; C. Kreutzmüller, Händler und Handlungs-
nomic connections between the Netherlands and Germany were clearly reinforced, Switzerland’s foreign relations became somehow more neutral during the 1920s. The paradox is that the preservation of this relative independent attitude towards Germany was often more profitable to the Swiss economy in comparison to its Dutch counterpart even in negotiations with the Reich. This article consequently proposes a nuanced perspective on the role of the small European countries in German foreign policy, highlighting the need to differentiate between them – in spite of their common features – and to consider, in a non-deterministic way, the interaction between finance and diplomacy.

1 Financial Madness and Balanced Relations (1919–1923)

1.1 The Changing Course of Financial Relations after the First World War

The impact of the First World War upon relations between Switzerland and Germany was particularly striking regarding the intensification of financial flows. It is true that, before the war, financial flows between Germany and Switzerland had already reached a relatively high level, although the extent of movements of capital across their shared borders was not at all exceptional amid the highly globalised era of Belle Epoque finance. Because of the lack of relevant statistics, it is hard to assess the extent of German investment in Switzerland and of Swiss investment in Germany prior to 1914. Paul Bairoch’s overall figures, commonly accepted by historians, are inaccurate, as the famous economist overestimated Swiss capital export in 1913 by using a much too low rate of repatriated incomes on foreign investment when he tried to deduct the capital placed abroad from contemporary estimates of annual returns of Swiss

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5 For a general view, see C. Farquet, Diplomatie de réhabilitation et politique d’équilibre. Les relations diplomatiques et économiques de la Confédération helvétique après la Première Guerre mondiale, in: Revue d’histoire diplomatique 1, 2020, pp. 51-68.
exported wealth. What is certain is that Germany was one of the main foreign investors in Switzerland before the First World War. Its placements amounted to several hundred millions, reaching perhaps one billion Swiss francs (CHF), including direct investment. From 1895 onwards, German industrialists and bankers built, together with Swiss capitalists, large electric trusts in Switzerland in order to profit from the relative abundance of capital in the Swiss Confederation and its lax regulations as well as to use Swiss neutrality to facilitate the conduct of business all over the world. Direct investments were also substantial across the Northern borders of Switzerland, where interpenetration occurred between Swiss and German industries. However, as far as portfolio investment was concerned, the main holders of Swiss bonds and shares were not the Germans but, clearly, the French. When, at the turn of the century, the public debt rose dramatically because of the nationalisation of the railways decided by popular vote in 1898, the Swiss Confederation quite naturally chose to issue huge loans in Paris, the main market for this type of business in Europe, which benefited from low interest rates. Accordingly, French rentiers owned the major part of the Swiss public debt before the war and, in total, approximately 1.5 billion CHF of portfolio investments in Switzerland. In the reverse direction of capital flows, this sort of placement between Switzerland and Germany was not further developed. Germany, the first trading partner of Switzerland, certainly became the first host of Swiss direct investments during the Belle Epoque. Nevertheless, during the pre-war years, the Swiss rentiers did not view German bonds

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6 Bairoc gives an estimate of 2.7 billion dollars, some 14 billion Swiss francs. See P. Bairoc, La Suisse dans le contexte international aux XIXe et XXe siècles, in: Idem/M. Körner (Eds.), La Suisse dans l’économie mondiale (15e-20e siècles), Zürich 1990, p. 115. The calculation is set out in P. Bairoc, Commerce extérieur et développement économique de l’Europe au XIXe siècle, Paris 1976, pp. 278-279. Bairoc has postulated that only between 40% and 70% of the incomes of Swiss exported capital were repatriated in the country. However, no archival sources have ever confirmed these figures, and the foreign securities owned by the Swiss before the war were usually estimated at around only 6-8 billion Swiss francs. See, for instance, E. Kellenberger, Kapitalexport und Zahlungsbilanz vol. 1, Bern 1939, pp. 7, 96.

7 One mark amounted to 1.23 CHF before the war (and from 1924). Swiss securities quoted on German stock markets amounted to 296 million CHF before the war. W. Stauffacher, Der Schweizerische Kapitalexport unter besonderer Berücksichtigung der Kriegs- und Nachkriegsperiode, Glarus 1929, p. 168.


10 E. Himmel, Industrielle Kapitalanlagen der Schweiz im Auslande, Langensalza 1922.
and shares as very attractive.\textsuperscript{11} In fact, in 1913 the amount of Swiss investment in Germany was probably lower than German investment in Switzerland.

The war and the postwar period dramatically changed financial relations between Switzerland and Germany. Neutral offshore centres like Switzerland and the Netherlands played a crucial role in Germany’s economic strategies. No one other than the Germans used the opportunities granted by these banking centres to such an extent between 1914 and 1923.\textsuperscript{12} From 1916 to 1919, Germany, with 273.2 million CHF, ranked first among the recipients of the so-called semi-official credits, that were private credits negotiated between the states offered by Switzerland to belligerent countries.\textsuperscript{13} The high dependence of the Confederation on coal imports from Germany and the need to secure export markets for their industries induced the Swiss to agree to provide the German Reich with substantial amounts of money aimed at sustaining the weakening exchange rate of the mark. However, the main change in financial relations concerned not capital export from Switzerland to Germany, even if these flows undoubtedly increased during the war, but, in the reverse direction, the increase in capital flight from Germany to Switzerland. This was the real new feature. Foreign wealth, mainly from France, had already taken refuge in Switzerland during the decade before the hostilities because of the anticipation of the war and the rise in taxes.\textsuperscript{14} This capital flight, in the forms of banknotes in Swiss banks’ current accounts and of securities in their off-balance sheet deposits, remained relatively limited until the beginning of the war. To be sure, it amounted to no more than 2 billion CHF, of which a few hundred millions may have belonged to German capital owners, although sources provide little proof of a displacement of wealth from Germany to Switzerland before the summer of 1914. During the year 1915, things changed progressively with the termination of the hope that the war would be short and the beginning of the depreciation of belligerent countries’ currencies. A massive shift of German wealth across the Swiss borders occurred, above all after the armistice. In 1919, the continuation of the revolution, the implementation of the so-called Reichsnootopfer (a German capital levy, the maximum rate of which could reach, theoretically, 60 % of the whole fortune over several annuities), and the acceleration of the depreciation of the mark created strong inducements to move capital to offshore centres. Indeed, Switzerland

\begin{thebibliography}{99}
\bibitem{11} For the preference for French securities, see, for instance, \textit{T. Geering}, Die Verschuldung der Schweiz an Frankreich, Zürich 1904.
\bibitem{12} For the Netherlands, see for instance \textit{Euwe}, Dutch-German Relations, pp. 79 ff.
\bibitem{13} \textit{H. Schneebeli}, La Banque Nationale Suisse, 1907-1932, Lausanne 1932, pp. 203, 367-69.
\bibitem{14} For instance, \textit{M. Brion}, L’exodex des capitaux français à l’étranger, Paris 1912.
\end{thebibliography}
and the Netherlands were offering to foreign capitalists almost the same advantageous financial conditions that prevailed on European markets before the war—relative political stability, monetary firmness, and low taxes, as well as a high degree of confidentiality and deregulation.\(^{15}\) This temptation was all the more attractive as German control over capital flows remained lenient in practice until 1922—an attitude influenced by the deep opposition inside the state apparatus to reparations.\(^{16}\) Why, after all, combat tax evasion and monetary depreciation if, in the end, this proved to be advantageous to France?

No one will ever know how much capital fled from Germany. The amount was certainly substantial, but it remained hidden for several reasons. Capital flight is not exactly the same as capital flows, that is, genuine investments identifiable to some extent in the balance of payments. It is composed in part of the movement of wealth abroad without causing any monetary transactions, as in, for instance, the depositing of German or foreign securities into Swiss banks or short-term accounting operations between a holding company and its parent entity that are visible almost nowhere. Moreover, as the wealth came from an economy with a highly depreciated currency—Germany—to countries like Switzerland and the Netherlands with strong exchange rates, this feature tended also to diminish its visibility in the latter countries’ statistics. Certainly, the substantial net import of silver and gold from Germany to Switzerland between 1915 and 1923, despite Swiss cumulated trade deficits and new placements in Germany, must be taken as a significant indication of capital flight.\(^{17}\) Although the balance sheets of Swiss banks did not rise much before 1924, partly due to the losses they suffered on foreign markets, another sign of high offshore activities is provided by the tremendous growth of the turnovers of Swiss commercial banks after the war.\(^{18}\) However, only extensive research in unpublished archives really allows an assessment of the extent of such financial flows. A recent survey of this sort has suggested a minimum figure of 7 billion gold-marks for the total German capital flight before inflation turned into hyperinflation. What may seem anecdotal, related, for instance, to the national income of the Reich, was in fact a very high sum if compared to the movable capital that remained

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17 According to customs statistics, the net import of gold and silver amounted to 334 million CHF, while the cumulated trade deficit reached 736 million CHF. See Statistisches Jahrbuch der Schweiz, Bern 1916-1924; Historical statistics of Switzerland, L 18 and L 22 [hsso.ch].
18 Schweizerische Nationalbank, Das schweizerische Bankwesen im Jahre 1920, Zürich 1921, p. 62.
inside Germany at the time: it exceeded by far the value of all bank deposits of major German banks. Yet the Swiss tax haven was one of the main destinations of expatriated German wealth, probably after the Netherlands. Perhaps one-fourth of it found refuge in Switzerland. ¹⁹

Even if the figures remain approximate, one thing is clear: The volume of financial transactions between Switzerland and Germany accelerated at the end of the war. Inflation, taxes, and revolution in the Reich generated a frenetic offshore economy that the Swiss financial centre was keen to stimulate. The depositing of money and securities in Swiss banks was only one of these offshore practices among others. The building of holdings, trusts, and other companies was another. In 1919, Hugo Stinnes famously created a letterbox company based in the post office of the small town of Zug to manage the assets of its industrial empire Alpine-Montana. ²⁰ Additionally, before hyperinflation, Swiss banks participated in the tax avoidance practices used by wealthy Germans inside their own country. These banks facilitated the cashing of coupons of German securities or the owning of bank accounts in their own names, which is partly demonstrated by the increase in their foreign nostro accounts. ²¹ Thanks to these transactions, at the beginning of the 1920s, exported Swiss capital in the Reich was much higher than before the war, possibly over 2 billion CHF (1.7 billion gold-marks) in 1919-1920, or more or less the equivalent of German capital flight in Switzerland, although a large part of it was in fact composed of originally German wealth. ²² The economist Carl-Ludwig Holtfrerich has famously insisted on the speculative capital import to Germany that came from foreign financial centres during inflation. In addition to the crucial fact that this does not in any

¹⁹ For all this information on capital flight, see C. Farquet, Quantification and Revolution. An Investigation of German Capital Flight after the First World War, in: EHES Working Papers 149, 2019 (especially pp. 9-14 on German capital flight to Switzerland and p. 15 for the meaning of the 7 billion’s figure).
²¹ On this practice, see Rheinboldt to Reichsfinanzministerium, 8.7.1920, in: PAA, R 88494.
²² On information provided the previous year by bankers, Swiss authorities estimated it at a figure as high as 4-6 billion at the beginning of 1920. Report of Federal Political Department (Ministry of Foreign Affairs), 5.3.1920, in: SFA, E 2001 B, 1000/1502, vol. 51. Yet, this extraordinary estimate must be taken cautiously, as the source does not specify whether the amount is in CHF, gold-marks, or depreciated marks, and when in 1919 the figure was provided. If one hypothesizes that the amount is given in current marks, this figure would have amounted to 1.7 billion gold-marks using the average exchange rate in 1919, an estimate that makes sense compared to other evaluations of Swiss investments provided at the time.
way contradict the existence of a simultaneous capital flight from Germany, which reached a much higher figure, his argument is also limited by the fact that he did not note that this capital import was due partly to the circular flows of German wealth across borders.\textsuperscript{23}

After the war, French and British diplomats, well aware of what was happening, became nervous of a possible long-term penetration of Swiss capitalism by German interests.\textsuperscript{24} Even if the Swiss financial centre did indirectly participate in the preservation of German economic power, these fears happened to be almost entirely wrong. The bilateral relations with Germany exemplified the paradoxical international emancipation of the Swiss economy that occurred at the end of the war despite huge capital import. In the case of Germany, the inflation was in itself the main cause of the paradox: although capital flight was intended as a means of avoiding monetary depreciation, while in fact ultimately accelerating it, the collapse of the mark caused such losses and disturbances that it would deeply weaken the capacity of the German economy to intervene in Switzerland. Moreover, although most Swiss elites warmly welcomed German capital flight, they took active steps to avoid such penetration. The electric trusts built before the war passed into the hands of Swiss capitalists, and the boards of large commercial banks dismissed their German members.\textsuperscript{25} In July

\textsuperscript{23} C.-L. Holtfrerich, The German Inflation 1914-1923. Causes and Effects in International Perspective, Berlin 1986. Holtfrerich especially based his argument on the increase in foreign short-term deposits of German banks. They amounted to 57.8 billion marks at the end of 1921 (p. 88), whereas very cautious surveys made at the time by the Auswärtiges Amt on German capital that fled to Switzerland and the Netherlands estimated it to be a minimum of 100 billion marks but admitted that it probably had reached a much higher figure. Rheinboldt to German Foreign Ministry, 23.12.1921, in: BArch, R 3101/19550; German Foreign Ministry to Hirsch, 22.11.1921, in: BArch, R 3101/19549. The calculations of the French Minister of Foreign Affairs were a little higher. See, for instance, Allizé to Poincaré, 9.04.1922, in: Archives du Ministère des Affaires étrangères (AMAE), Paris, Series Allemagne, 510. Historical literature on Germany has never attempted to assess seriously the extent of capital flight. See, for instance, Feldman, The Great Disorder, pp. 598-599, which reproduces some published estimates with inaccuracies. Finally, note that in 1922, large German banks had 42.1% of their assets in nostro accounts by correspondent banks, compared to 4.8% in 1918, the majority of them being placed abroad. See P.B. Whale, Joint Stock Banking in Germany. A Study of the German Creditbanks before and after the War, London 1930, pp. 221 and 227.

\textsuperscript{24} See the sources contained of the following file: Action économique des Allemands pour l’après-guerre, 1\textsuperscript{er} June 1918-10 November 1919, in: AMAE, Suisse, 138. See, for the same fear in Great Britain, the documents in: German financial and economic penetration in Switzerland, Public Record Office (PRO), London, FO 371/7144.

\textsuperscript{25} See for instance D. Imwinkelried, Die Auswirkung des Ersten Weltkrieges auf die Beziehungen der Schweiz Banken zur deutschen Industrie. Die Schweizerische Gesellschaft für elektri-
1919, influenced by complaints from the Entente, a measure was put into law by the Federal Council (Swiss government) requiring there to be a majority of Swiss citizens on the board of every limited company. This nevertheless prevented the Germans neither from creating other structures, like holding companies, nor from utilising straw men to maintain their influence inside Swiss companies. However, this legislation contributed to the fact that the Swiss financial centre was almost never challenged by the implementation of German banks in its territory. In the same sense, the creation of large commercial and industrial companies, such as the short-lived Internationale Petroleum-Union between 1921 and 1924, a joint Franco-German venture of the Deutsche Erdöl AG and the Société des Pétroles de Dabrowa, with a nominal capital of 210 million CHF, was quite exceptional until the end of hyperinflation.

The offshore economy in Switzerland thus remained in the hands of Swiss banks. When the Germans circumvented them, they did so with small or temporary structures. In contrast to the investment made by Imperial Germany in the Swiss Confederation before the war that tended to increase the dominant position of the Reich on the small neighbouring country, it was the capital of frightened capitalists that found refuge in Switzerland, which contributed in the end to the strengthening of the Swiss financial centre, making it the forefront of European competitors. Swiss dependence on Germany was also mitigated by the fact that the capital flight came from France at the same time and, to a lesser extent, from Austria, Italy and Eastern European countries so that the cumulated evaded German fortune from the war probably did not exceed a third of the total of foreign capital that took refuge in Switzerland until the first part of the 1920s. The differences with the other offshore centres mainly used by the Germans to avoid inland regulations and inflation after the war are obvious: German money was very predominant among foreign capital in the Netherlands, and German banks had numerous financial companies that profited from the opportunities created

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27 Note that, at the beginning of 1922, the German consulate in Zurich produced a thirty-four-page list of Swiss companies in the Zurich region alone in which German capitalists had interests. Rheinboldt to German Legation in Bern, 20.02.1922, in: PAA, R 88478. On how Germans circumvented the measure, see Report probably written by the German Consulate in Zürich, “Streng vertraulich” [1927], in: BArch, R 21128.
28 Rheinboldt to Auswärtiges Amt, 18.09.1924, in: BArch, R 3101/21126.
29 C. Farquet, Histoire du paradis fiscal suisse, chapter 3.
by Amsterdam’s banking centre (e.g. foreign exchange dealings) and attracted new business generated by the capital flight from Germany. Among the seventy foreign banks established in 1926 in the Netherlands, compared to only three before the war, at least two thirds were in German hands. Next to some dubious financial establishments, some of the greatest German banks were involved in this practice. The Deutsche Bank, for instance, had a branch in Amsterdam, while other banks, such as the Dresdner Bank and the Disconto-Gesellschaft, implemented Dutch subsidiaries controlled by boards of directors dominated by Germans. Similarly, big industrialists, such as Thyssen or, to a lesser extent, Stinnes and Krupp, engaged in financial and commercial schemes in the Netherlands that were much more ambitious compared to their involvement in Switzerland during the inflationary period. The geographic location naturally played a role in this difference between the German-orientated Dutch financial centre and Switzerland’s offshore market that did not concentrate on Zurich alone; Geneva was also heavily involved. Switzerland’s plurilateral approach after the armistice was also influenced by the fact that the country had attracted significant amounts of evaded French capital and had a strong financial connection with France before the war, which continued during the years of the conflict despite the intensification of German financial relations. Nevertheless, determining how far these new international financial strategies were correlated to the general evolution of the small countries’ foreign policies, inducing them or resulting from them, is a question that necessitates a closer examination.

1.2 Maintaining Balanced Relations Amid Financial Madness

To understand the evolution of German-Swiss bilateral relations during the first postwar period, it is necessary to resituate them in relation to the broader aims pursued by both countries. Up to 1917, Swiss relations with the Allies had suffered deeply from Switzerland’s reputation for being too favourable to Germany. There was good reason for these criticisms, as demonstrated by the pro-German orientation of the majority of economic and military circles from the beginning of the 1890s to the onset of war. Although the preservation of neutrality re-

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31 Euwe, Dutch-German Relations, pp. 91-92; C. Kreutzmüller, Händler und Handlungsgehilfen.
mained the natural inclination of the Swiss Confederation during the Belle Epoque, as in other small Western European countries, the attraction of German imperialism on Swiss German-speaking elites was strong enough to alert French and British diplomatic and military rulers to the danger of a possible informal adherence of Switzerland to the Central powers. Later, during the war, a succession of scandals revealed the compromising attitude of a part of the Swiss elite towards Germany. This series of affairs culminated with the so-called Hoffmann scandal, named after the Swiss Minister of Foreign Affairs who was dismissed in June 1917 after being involved in political manoeuvres to facilitate a separate peace between Russia and Germany. The Allies were all the more furious as, two months before, the Swiss Confederation had agreed to facilitate the departure of Lenin and many other Russian political refugees to their home country, which was sustained by the Reich in order to inflame the revolution on the enemy side. It is true that after this date, under strong pressures from France and Great Britain, the Swiss tried to rebalance their foreign relations. The nomination of the Francophile Gustave Ador to replace Hoffmann and, to some extent, the renewal of credits to Allied countries in 1918–1919 were among the steps taken to improve the image of the Confederation.

However, among French political circles, suspicions of the armistice remained deep. Switzerland then embarked on a diplomacy of rehabilitation towards the victor powers. The agreement to take part in the League of Nations in 1920, despite the small infringement this decision made on Swiss neutrality, turning into a so-called differential neutrality, was a decisive step. However, this rehabilitation was almost immediately correlated with a desire to preserve good relations with Germany. Several causes explained this prudent strategy: the threat of French hegemony over the European continent, severe criticisms levied against the Treaty of Versailles and the potential economic and political disturbances it would induce in Europe, and calculations over a short-term revival of German power, as well as the continuity of pro-German feelings in the

33 On Switzerland’s foreign relations before and during the war, see, for instance, M. Mittler, Der Weg zum Ersten Weltkrieg. Wie neutral war die Schweiz? Kleinstaat und europäischer Imperialismus, Zürich 2003; H.R. Ehrbar, Schweizerische Militärpolitik im Ersten Weltkrieg: die militärischen Beziehungen zu Frankreich vor dem Hintergrund der schweizerischen Außen- und Wirtschaftspolitik 1914-1918, Bern 1976.
35 As we know, Switzerland agreed to take part in the League’s economic sanctions, but not in its military sanctions. For the acceptance of this demand by the Council of the League of Nations on 13.02.1920, see Diplomatische Dokumente der Schweiz, 7/2, Bern 1984, pp. 510-512.
army and in some economic circles. Accordingly, rehabilitation changed rapidly into a choice in favour of staying in balance between France and Germany. The nomination of a Germanophile Minister, Alfred von Planta, in Berlin in July 1919, and the rapid official recognition of the Weimar Republic were diplomatic signs of the fact that Switzerland was not keen on falling into the wake of France in international relations. As for Germany, a rapprochement with Switzerland, as with other former Neutrals, was warmly welcomed by the administration and the government in order to find some backing in the concert of nations against France. After some hesitation, the Auswärtiges Amt supported participation in the League of Switzerland and the implementation of the international organization in Geneva because these moves were considered ways of diminishing the dominance of the Entente over the international organisation. The German Minister in Bern, Adolf Müller, repeatedly reported back to the Foreign Ministry on the favourable attitude of the Federal Council towards the Reich on international matters, and the contribution made by Swiss Minister of the Economy Edmund Schulthess to opposition to the Treaty of Versailles was viewed as very significant.

What is striking is how little inflation disturbed this course of bilateral relations. As already mentioned, by inducing capital flight to Switzerland while causing several losses on foreign markets, European inflation was for Swiss banks as much a chance as a burden. The losses on investments in Germany were substantial so that Swiss assets reached hardly more than 1 billion CHF in


37 On von Planta’s nomination, which the Entente tried to prevent, see Müller to Auswärtiges Amt, 10.07.1919, in: PAA, Bern, 709. On the recognition of the Republic of Weimar, which also provoked reactions in Britain and France because it happened before the signature of the Treaty of Versailles, see Swiss Division of Foreign Affairs to the Swiss Legations abroad, 17.04.1919, and Carlin to the Division of Foreign Affairs, 23.04.1919, in: Diplomatische Dokumente der Schweiz, 7/1, Bern 1979, pp. 673-674 and 692. Note moreover that Swiss diplomats represented German interests in Entente countries until 1920.

38 See the diplomatic correspondence in Beitritt der Schweiz zum Völkerbund, 1919-1920, in: PAA, Bern, 1696.

39 Müller to Auswärtiges Amt, 6.01. and 12.07.1921, in: PAA, R 71695; Müller to Auswärtiges Amt, 4.01.1922, in: PAA, R 71694.
1924.\(^{40}\) This ambivalent effect, together with the plurality of Switzerland’s financial relations, could help explain why the increase in capital flows did not so much affect Swiss diplomatic orientation. However, one must not overlook the fact that maintaining a balanced attitude in international relations had become a goal in itself for the Swiss rulers at the time, irrespective of the short-term evolution of economic relations. This diplomatic stance explains why diplomatic tensions with the Reich remained low despite the fact that the Swiss economy as a whole was hardly touched by the German inflation. Commercial exports to Germany literally collapsed, while the uncompetitive Swiss agriculture sector suffered from imports in devaluated currencies.\(^{41}\) Whereas before the war, the value of Swiss exports to Germany amounted to 23% of the entire exports of the country, the Reich accounted for only 7% of the value of Swiss exports in 1923.\(^{42}\) Nevertheless, the Swiss reaction remained almost strictly commercial, using, as in the financial market, protectionist measures on trade. From 1921 onwards, quota systems were implemented in Switzerland to limit importation from Germany, and the two countries embarked in tortuous commercial negotiations that would find a successful resolution only after the period of hyperinflation.\(^{43}\) Still, Swiss elites were not disposed to burn bridges with Germany. For instance, in December 1921, the Swiss Confederation concluded its first postwar treaty of arbitrage with Germany, which was seen as a first step towards diminishing the diplomatic isolation of the Reich among Western countries.\(^{44}\) Swiss elites’ interpretation of the causes of German inflation also had some influence on their accommodating diplomatic attitude. The Treaty of Versailles and French demands on reparations were viewed as the main reasons for the economic difficulties of the Reich. Thus, as economic and political difficulties in Franco-Swiss bilateral relations increased at the beginning of the 1920s – symbolised in the fierce dispute over the free-trade area around Geneva called the zones – France, not Germany, became the first target of Swiss criticism. This orientation found

\(^{40}\) See the survey conducted by the German administration in 1924 that estimated German indebtedness to Switzerland at 914 million CHF: German Foreign Ministry, 16.02.1924, in: BArch, R 3101/20059.

\(^{41}\) For the so-called reconversion crisis in Switzerland, see D. Fahrni, Die Nachkriegskrise von 1920-1923 in der Schweiz und ihre Bekämpfung, Basel 1977.

\(^{42}\) Historical statistics of Switzerland, L 18-L 26 [hsso.ch].

\(^{43}\) H. Miele, Die deutsch-schweizerischen Handelsbeziehungen von Kriegsausbruch bis zur Gegenwart, Telgte 1926.

\(^{44}\) Bundesblatt, 1/6, 1922, pp. 179-200. For a summary of the origins of the negotiations, Auswärtiges Amt to Wirth, 9.08.1921, in: PAA, Bern, 1769. See also Akten zur Deutschen Auswärtigen Politik, 1918-1945, Göttingen 1987, pp. 478-479.
vast support among the Swiss population after the Ruhr occupation, although Switzerland did not go so far as to protest against French foreign policy at the League of Nations.\textsuperscript{45}

The comparison with the Netherlands reveals a slight difference between the Swiss and the Dutch official attitude towards Germany. For sure, the Netherlands played a rather similar role to Switzerland in post-First World War European diplomacy. While the Dutch were also accused of being too pro-German during the war – a charge that was aggravated by the asylum granted to the Kaiser in November 1918 – they willingly accepted a rather neutral position in the concert of nations during the 1920s. Like Switzerland and other European small countries, Dutch officials supported a return to normalcy in international relations, and as such, disagreed with French foreign policy after the Paris Peace Conference. From time to time, for instance, during the Genoa Conference in 1922, Swiss and Dutch diplomats and businessmen collaborated to protect small countries’ interests and propose some solutions to the European monetary crisis.\textsuperscript{46} Similarities in the diplomatic field, like in finance, were then more pronounced than differences. Nevertheless, the Dutch did not follow exactly the same line as their Swiss counterparts as regards foreign policy. On the one hand, the Netherlands seem to have been less sensitive on issues regarding neutrality than the Swiss Confederation. Contrary to Switzerland, the Netherlands became a member of the League without being lifted from the possibility of applying military sanctions under article 16, and, unlike the Swiss, the Dutch did not embark on a comparable balanced diplomacy aimed at politically compensating their adherence to a multilateral organization that was still dominated by Great Britain and France.\textsuperscript{47} More significantly, on the other hand, the Netherlands were not able to counteract the dangerous increase in the Reich’s economic influence.

This influence did not only materialize in the financial sphere. Commercially, because of its geographic situation and its maintenance of free trade, the Netherlands was placed in a rather subordinate position to Germany. Whereas the Dutch market became the first destination for German exports at the beginning of the 1920s, absorbing 11.2% of German exports compared to 5.7% for

\textsuperscript{45} See the survey made by the German Consulates in Switzerland, in: PAA, Bern, 1646, January-February 1923, and the general evaluation in Müller to Auswärtiges Amt, 22.06.1923, in: PAA, Bern, 1650. On the refusal to intervene at the League, see Minutes of the Federal Council, 23.01.1923, in: Diplomatische Dokumente der Schweiz 8, Bern 1988, pp. 677-679.
\textsuperscript{46} C. Fink/A. Frohn/J. Heideking (Eds.), Genoa, Rapallo and European Reconstruction in 1922, Cambridge 1991, pp. 201-216.
Switzerland in 1923, Dutch exporters, for whom the German market represented as much as half of total exports before the war, experienced heavy difficulties selling their products in Germany due to the higher tariffs and the depreciation of the mark. Even if these problems were also common in Switzerland, the Netherlands did not have as many replacement markets to sell its food-dominated exports and did not possess similar commercial weapons in negotiations. The fact that Germany was able to take advantage of its financial and commercial position over the Netherlands is demonstrated by the loan negotiations that occurred in 1920. The Dutch were compelled to provide Germany with a very substantial and revolving credit of 200 million gulden to secure their coal imports and stimulate their exports. Broadly speaking, this exceptional foreign help during the German inflation, amounting to about seven tenths of the U.S. tranche of the Dawes loan, could surely be viewed as a sign of the Netherlands’ new financial strength; but conversely, it expressed above all the degree to which the Dutch were becoming subservient to their big neighbour. The Netherlands did not obtain any significant benefits from the loan, economically or politically. Only 30% of the credit was dedicated to Dutch trade with Germany, while the remaining part could be used by the Reich to import raw materials worldwide. Moreover, the financial help did not counterbalance Dutch negotiators’ position of weakness in further economic discussions with Germany during the 1920s.

While Switzerland was balancing its diplomatic and economic relations, being able to preserve a relative independence towards the great powers, the Netherlands evolved to some extent in the wake of Germany in the early 1920s despite the adherence to the League. However, even if the rise of the Swiss offshore centre did not have a decisive influence over the course of Swiss foreign policy after the war, this does not mean that Swiss diplomats and bankers were not cooperating closely during these years. On the contrary, the first postwar years saw an increase in the collaboration between them in order to protect Swiss money abroad from regulations, taxes, and monetary disturbances. High officials were often included in the debates of the private defence committees created by the Swiss Bankers Association for this purpose, such as its Germany

48 Euwe, Dutch-German Relations, chapter 4.
50 For examples of financial diplomacy, see C. Farquet, La défense du paradis fiscal suisse avant la Seconde Guerre mondiale. Une histoire internationale, Neuchâtel 2016.
Committee, implemented in 1920. At the same time, the foreign and financial ministries, as well as the Swiss National Bank, strongly supported the transformation of the country into a tax haven. This policy did not disturb bilateral relations with the Reich, as Germany took almost no international steps to counteract these tendencies. Pressure against banking secrecy came, at the beginning of the 1920s, almost exclusively from France and Belgium, amid the discussion of the Fiscal Committee of the League of Nations or diverse bodies of the Commission of Reparations. Their governments criticised, above all, the fact that German money was hidden in Switzerland, depriving the Reich of the wealth it needed to pay for reparations. 51 After a few diplomatic exchanges with the federal government on this matter, stimulated by Matthias Erzberger at the end of 1919, which demonstrated the difficulties involved in reaching an agreement, the Reich finally agreed in March 1923 to conclude a double taxation convention with certain Swiss cantons without any exchanges of information to protect against tax evasion. 52

Germany’s lenient attitude towards the Swiss tax haven during the inflationist period was perceptible on other financial issues. At the beginning of 1920, the Reichsfinanzenministerium agreed to soften the controls over the cashing of German coupons by Swiss banks, despite the fact that tax evasion practices on behalf of German citizens were involved in this business. That same year, it concluded on December 6th an agreement favourable to Swiss banks on the payment of interests on their German mortgages, the Goldhypotheken, amounting to some 150 million gold-marks and labelled with a currency guarantee. Furthermore, until 1921 and despite acute financial difficulties, the Reich continued to reimburse the credits granted by Switzerland during the war. 53 Although, unlike

52 Farquet, La défense du paradis, pp. 130-140. One should add that, admitting that capital flight in face of taxes was one of the main causes of the depreciation of the mark, the Direction of the Reichsbank had in fact contemplated the inverse strategy to hinder it: the reintroduction of banking secrecy in Germany. This goal would partially have been achieved on 20.03.1923 with the abolition of the so-called Depotzwang, i.e. the obligation for Germans to deposit their securities in German banks that were subject to state supervision. For the position of the Reichsbank, Reichsbank-Direktorium to Hermes, 9.10.1922 in: BArch, R 901/28335. For the abolition of the Depotzwang and banking secrecy, see S. Sichtermann, Bankgeheimnis und Bankauskunft. Systematische Darstellung mit besonderer Berücksichtigung der Rechtsprechung und unter Heranziehung ausländischen Rechts, Frankfurt a.M. 1957, pp. 67-68.
53 On these three negotiations, see respectively, Minutes of the Germany Defense Committee of the SBA, 19.02.1920, in: ASBA; Reichsfinanzenministerium toAuswärtiges Amt, 13.04.1920, in: BArch, R 901/28333; Akten zur Deutschen Auswärtigen Politik, 1918-1945, 4, Göttingen 1986,
the Netherlands in 1920, Swiss banks refused to help the Reich with a substantial loan, all the evidence suggests that Germany, embarking on a highly inflationist policy and a revision at all costs of reparations, was willing to tolerate the neighbouring presence of the Swiss tax haven. If relations between Switzerland and the Reich were not led by financial flows at the time, this attitude is a final factor explaining why the bilateral relations remained relatively cordial during hyperinflation. It seems that the Reich’s complacent attitude towards Switzerland was in some cases even more blatant than with the Netherlands, as the latter was subjected to a stronger German influence and was thus more exposed to the pressures from its big neighbour on some specific financial issues.

2 Hesitations, Then Frenzy (1924‒1931)

2.1 Reluctances and Rapprochement

While the years 1919‒1923 were a lukewarm moment in relations between Switzerland and Germany, historians commonly view the post-inflation years as a new golden age. After the stabilisation of the Reichsmark in 1924, Swiss banks experienced years of high growth, while very substantially increasing their investment in Germany. Before the eruption of the banking crisis, Germany had become by far the first destination for Swiss investments. In the reverse direction, Switzerland was also a privileged place for exported German capital. Not only, as will be explained in the last section, did the Swiss financial centre welcome a new wave of German capital flight from 1928 onwards, the extent of which would exceed even the sums that had been expatriated during the inflationist period, but Switzerland had now emerged in absolute terms as one of the most important markets for Germany’s foreign direct investment. As years be-


Rheinboldt, 23.01.1920, in: PAA, R 87973; German Legation in Bern to Auswärtiges Amt, 16.12.1921, in: PAA, R 87974. Swiss banks granted nonetheless small short-term credits in 1921 to help the Reich pay for the reparations.

See below for the estimation of capital export. Note that Swiss multinational companies also increased substantially their foreign direct investment and the implementation of new establishments in Germany until 1931. See: Die schweizerischen Beteiligungen an deutschen Aktiengesellschaften, in: Neue Zürcher Zeitung, 21.12.1931.
fore, many of these flows resulted from offshore transactions, which were sometimes purely accounting operations involving no real investment or movement of wealth; however, there were also some clear signs of a deeper rapprochement between Swiss and German big business. One of the most visible steps in this cooperation was the creation in 1928 of a holding company in Basel called IG Chemie by IG Farben with the help of local businessmen in order to manage its international assets.\textsuperscript{56} A year later, after an increase in the nominal capital of the company, IG Chemie owned the largest financial surface among all Swiss companies. At the same time, commercial relations intensified between the two countries due to monetary stabilisation and the trade agreements concluded between 1924 and 1926. Soon, Germany recovered its pre-war rank as the main trading partner of the Swiss Confederation. In 1929, Germany absorbed 17\% of the value of Swiss exports, while German exports amounted to 25\% of total Swiss imports.\textsuperscript{57} There is no doubt that diplomatic relations improved, to some extent, along with economic ones. The foreign policy conducted by Gustav Stresemann, which combined a reintegration of Germany into the international sphere with moderate revisionism on the Treaty of Versailles, found strong support inside Switzerland, whose government had favoured German insertion into the League from the very first Assembly in November 1920.\textsuperscript{58} Everything seemed to indicate that Swiss elites were succumbing once again, as during the Belle Epoque, to a sort of German temptation during the so-called Locarno era.

This picture, albeit not entirely wrong, must be strongly qualified on the basis of Swiss and German archival materials. The years following the Dawes Plan cannot be viewed as the heyday of a German orientation in Swiss foreign relations, as historians have usually viewed it. Commerce and diplomacy did not evolve in such a favourable way as before the war. Despite strong resentment against France, which did not diminish after the Ruhr episode because of the distrust of the Cartel of the Left and the aggravation of the crisis of the French


\textsuperscript{57} See Historical statistics of Switzerland, L 18-L 26 [hss.ch].

Swiss elites never abandoned their balanced policy towards European powers during the 1920s. This became even truer after the return to power of Raymond Poincaré and the rise in summer 1926 of a national union government whose foreign policy, led from the previous year by Aristide Briand, became smoother towards Germany. In many respects, Switzerland’s European policy looked like the British one during the second part of the 1920s: with a willingness to appease Germany about the Treaty, the aim of favouring the restoration of the gold standard in Europe, and mixed feelings about the League of Nations, both Britain and Switzerland welcoming its economic programme, while being wary of any reinforcement of its political power. Although British elites had often contemplated the small state of Switzerland with some condescension and indifference, they were probably, among the great powers, the best disposed towards the Swiss Confederation. One should remember, moreover, that Britain, not Germany, was on average the first destination for Swiss exports over the whole of the 1920s thanks to its stable currency and its maintaining of free trade. Yet relations with Germany remained more complicated even after the implementation of the Dawes Plan. A final commercial agreement was concluded only on July 14th, 1926, after almost five years of non-stop negotiations, but because of the difficulties facing the German economy, bilateral trade never reached its pre-war level at purchasing-power parity. Politically speaking, it would be equally wrong to think that Switzerland unanimously welcomed with satisfaction the shift to the right that occurred from the mid-1920s inside Germany. Even if Swiss liberal-conservatism was not without certain affinities to authoritarianism, as shown by the enthusiastic reaction of most Swiss elites to the rise of fascism in Italy, the memory of the war remained strong enough for Swiss ruling circles to contemplate the Prussian power’s potential renaissance with some apprehension.

Impressed by the tremendous increase in Swiss investment in Germany up until 1931, historians have failed to note that, at least until 1928, financial rela-

60 On the strong diplomatic relations between the two countries, see Annual Reports of the British Legation in Bern, 1919-1929, in: PRO, FO 500/17. On their economic relations, see, for instance, W. Waldvogel, Les relations économiques entre la Grande-Bretagne et la Suisse dans le passé et le présent, Neuveville 1922, pp. 213 ff.
61 See, on the final stage of commercial negotiations, Windel to Auswärtiges Amt, 29.05., 30.05. and 6.07.1926, in: PAA, R 88165; Stucki to Rüfenacht, 12.07.1926 in: Diplomatische Dokumente der Schweiz 9, Bern 1980, pp. 355-357.
tions between the two countries evolved in the same hesitant way. In 1924 and 1925, after the hyperinflation, banking circles remained reluctant to invest on the German market. Swiss capitalists were not disposed to acquire German bonds and shares. The Dawes loan, the success of which in Switzerland was undoubtedly due to the adherence to the political goals it embodied, was the exception that proved the rule. A consortium of Swiss banks led by the Kreditanstalt took a relatively substantial tranche of the loan, amounting to 3 million pounds, or one-fourth of Britain’s tranche and an equal amount of France’s. The issue in Switzerland was highly oversubscribed.  

However, after this initial success, German diplomats repeatedly complained about the reticent attitude of large commercial banks when asked to grant credit to German industry and the limited opportunities for the issuance of long-term German loans on the Swiss financial market. The statistics definitely support this assessment. The placements in Germany of the two biggest banks, the Kreditanstalt and the Bankverein (now Credit Suisse and UBS), remained moderate in the aftermath of hyperinflation. At the turn of 1925-1926, they amounted to 98.9 million CHF in the latter bank and 83.7 million CHF in the headquarters’ former bank; in 1930 they reached 281 million and 424.1 million CHF, respectively. During the year 1925, no long-term public loan for the Reich, the German states, or the communes was issued on the Swiss financial market, and the issuances of German private companies were not at all impressive. The Dawes Plan did not propel a surge of Swiss capital into Germany comparable to the flows it incited from the United States. Yet 1925 belongs together with 1927 and 1928 to the three years during which the net import of foreign capital in Germany was at its highest level.

Much more than the period 1924–25, the years 1926-28 marked a real improvement of financial relations between the two countries. The environment of international relations undoubtedly warmed up due to the Locarno Pact and Germany’s entry into the League. This general situation may have had some in-

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63 See Rheinboldt to Auswärtiges Amt, 8.11.1924, in: PAA, R 88478, who speaks of an oversubscription of five to nine times the amount of the Swiss tranche.

64 For instance, Auswärtiges Amt, Die allgemeine wirtschaftliche Lage der Schweiz, 1925, pp. 15-16, in: BArch, R 3101/2859.


fluence over Swiss financial relations, as, despite the sharp economic recession that occurred in Germany in 1926, confidence in the international position and the internal stability of the Reich tended to increase in Switzerland. Nevertheless, financial diplomacy also played a role in this improvement. In August 1926, an agreement was signed between Germany and Switzerland on the reimbursement of former loans granted to municipalities by Swiss banks during the war with a guarantee of exchange. Confirming a promise it had made to Swiss banks during the London Conference in October 1924, which was infringed afterwards by some cities, the Reich accepted, after the intervention of the Reichsbank, that these loans were not affected by the clauses of the German revalorisation laws, so that they had to be paid in full gold-mark. Although the amounts in play in these *Valutaschulden* were not substantial – some 61 million gold-marks – this favourable attitude did contribute to reinforcing the confidence of Swiss investors and opening the gate to a further series of issuances of loans on the Swiss market.67 Contrary to what happened in other creditor countries, neither the decision of the Reichsbank at the beginning of 1927 to diminish Germany's foreign indebtedness with the use of fiscal measures on loans issued abroad nor the eruption of the stock market “Krach” in May really hindered Swiss placements in Germany, although German loans issued in Switzerland in the aftermath of the crisis were unsuccessful.68 At this time, a modus vivendi was put in practice between Swiss banks, the central bank, and the Swiss financial ministry. In order to guarantee that foreign loans were not depriving the Swiss economy of the investment it needed, in response to demands made by representatives of socialists and the peasantry in the parliament, Swiss banks agreed to inform the Swiss National Bank before issuing a large foreign loan on the Swiss market. This regulatory practice, albeit very smooth and informal, did contribute to the linkage of industrial contracts to the granting of loans to Germany. Half of the German public loans issued in Switzerland between 1927 and 1930 were accompanied by orders for Swiss industries, which strengthened both Swiss financial capitalism and the collaboration between the German and Swiss economies.69

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67 For these negotiations, see BArch, R 3101/20060 and SFA, E 2001 B, 1000/1507, vol. 24. However, Swiss banks had to accept a ten-year freezing of two-thirds of their assets.


69 For a summary of the economic advantages obtained thanks to the issuance of loans, see *Ausländische Anleihensensionen in der Schweiz, 1927-1930*, in: ASNB, 2.6/2421, 262. However, a substantial amount of loans avoided these informal regulations because they were placed *unter der Hand* by Swiss banks without publicity. The German Legation in Bern estimated that, between 1924 and 1928, this sort of issue reached a figure of between 175 and 275 million CHF,
The financial rapprochement between 1926 and 1928 was therefore indisputable. Nevertheless, one must not forget what was happening elsewhere during these years. Swiss banks were also increasingly involved in the French market. In fact, as far as long-term loans were concerned, they played a much more important role for France than for Germany during this period. As Poincaré chose to stabilise the franc from the summer of 1926 onwards without the help of British and American finance, he relied on neutral offshore centres to reinforce the international confidence in the franc. In 1926 and 1927, 2.4 billion French francs, or almost the equivalent of the total of the European tranches of the Dawes loan, were issued on the account of French public railways companies in the Netherlands and Switzerland. Thus, while the Swiss financial centre was orientating itself on the German market, it made at the same time an incomparable contribution to French monetary stabilisation that helped France to recover its financial power over European countries between 1926 and 1933. It even becomes difficult to differentiate between French and German-orientated banks during the 1920s, as the main actors in Switzerland were essentially the same on both markets. The Kreditanstalt and the Bankverein, acting together with other commercial banks, but often circumventing Swiss Bankers Association’s debates, led the largest French and German issues, the former outpacing the latter on the Dawes and Young loans as well as on the French railway loans. Considered by the Entente as one of the most Germanophile banks in Switzerland during the war, the Kreditanstalt, which had become one of the largest international wealth managers on the European continent, succeeded in recovering its reputation among French elites during the 1920s without burning bridges with Germany. At the Bankverein, the Francophile director Léopold Dubois also played a bilateral game during the 1920s, acquiring a strong reputation among German ruling circles. Foreign long-term loans were certainly not only business as usual at

70 See Farquet, A Beggar Became a Banker.
71 See Minutes of the Ausschuss and the Vorstand of the SBA, 1918-1931, in: ASBA. In fact, the decision-making process on loans involving large commercial banks, the central bank, and the finance ministry, albeit sometimes with the involvement of the foreign ministry, looked somehow like what has been called the City-Bank of England-Treasury nexus in Great Britain.
72 See Allizé, to Briand, 21.09.1921, French Consulate in Zürich to Allizé, 12.06. and 12.07.1922, in: AMAE, Suisse, 128.
73 Müller to Auswärtiges Amt, 11.04.1924, in: PAA, Bern, 1661. Dubois was considered a potential candidate for foreign representative to the board of the Reichsbahn in 1924: Stresemann to Dubois, 29.09.1924, in: PAA, Bern, 1663.
the time: they were politicised among the disturbed financial area of interwar Europe. Yet, it seems that during the second part of the 1920s, international loans supported the balanced Swiss foreign policy more than inducing a German-orientated strategy. Although they almost never intervened against the issuance of a German loan on the Swiss market between 1926 and 1929, neither the Swiss National Bank nor the Foreign and Financial Ministries were openly encouraging loans to Germany, as leniency in informal regulation was the rule rather than the exception during these years.74

2.2 Offshore High Rush

From the second part of 1928, a year before the Wall Street Crash, capital flight started once again to cross the German border. Thus, before foreign investors repatriated their assets, German capital was already fleeing the home country.75 Some 500 million CHF, or around 400 million RM, were expatriated from Germany to Switzerland in the space of a few months, before the summer of 1929.76 Several factors explain why German wealth was moving abroad at the time. The constitution of the grand conciliation in the summer of 1928, led by the Social Democrat Hermann Müller and including the contested Rudolf Hilferding as financial minister, surely played a role in the vanishing confidence of capitalists as well as in the weakening of economic conjuncture.77 However, according to German officials, its main causes were to be found in the fear that the reopening of the negotiations over reparations would lead to a revival of international tensions and then in disappointment about the results of the Young Plan, signed on June 7th 1929, despite the reduction of the reparations annuities. From these first movements, albeit with some variations of intensity, capital flight from Germa-

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74 One exception was the attempt by the Kreditanstalt to issue a loan on behalf of the Deutsche Rentenbank in 1929 that was intended to be used to support agriculture. The central bank opposed it on the grounds that Swiss peasants were themselves having difficulties borrowing money. See Direction of the Swiss National Bank to Musy, Swiss Finance Minister, 11.06.1929, in: SFA, E 2001 C, 1000/1531, vol. 90.
76 Heilbron to Auswärtiges Amt, 21.08.1929, in: PAA, Bern, 2529. See also the sources in: PAA, Bern, 2550, on particular, the Report of the Generalkonsulat of Zürich, 6.05.1929.
ny to Switzerland was not to cease until the paroxysm of the banking crisis in July 1931. According to all sources, the amounts involved were extreme, reaching in total probably some 5 billion CHF (4 billion RM), thus a much higher sum than the amounts expatriated during hyperinflation when measured in goldmarks.78 Although this difference was mainly due to the fact that, contrary to what had happened at the beginning of the 1920s, German wealth was not shrunk by the depreciation of the mark this time, it is almost certain that Switzerland welcomed a larger share of capital in flight owned by Germans between 1929 and 1931 – at least one-third of the total and possibly more. It is probable that this time, German wealth in Switzerland equalled or even exceeded German capital in the Netherlands. After almost two decades of constant imports of foreign wealth, while the Swiss franc had become established as a very solid currency by international comparison and the internal political situation was calmest at the beginning of the Great Depression, Switzerland had with its banking secrecy acquired the highest reputation for the safe deposit of European fortunes thanks to “a banking system carefully designed to be a gigantic conspiracy against the fiscal authorities of other countries”, as was stated by an expert at the Bank of England.79 Following plausible estimates concerning off-balance sheets securities accounts, Swiss banks were managing a huge portfolio of some 29.33 billion CHF in 1930, or the equivalent of all Germany’s foreign debts. The Kreditanstalt alone, the Swiss bank that was most involved in wealth management, was in charge of some 5.15 billion CHF of securities, more than three times the size of its balance sheet.80

At exactly the same time that capital flight was pouring from Germany to the Swiss Confederation, capital export from Switzerland to Germany started to rise tremendously. Swiss investments amounted to some 4 billion CHF in 1931, compared to less than 1 billion in 1924.81 As most of the placements were made

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78 See, for instance, the very detailed report of 42 pages in Appendix to Heilbron to Auswärtiges Amt, 8.11.1930, in: PAA, R 88404. Although it aimed to deny very high figures on German capital flight in Switzerland published in newspapers, the report situated it at 4 billion Swiss CHF during the past year. On the extent of German capital flight, see also the files in: PAA, Bern, 2550 and BArch, R 3101/20060.


80 Farquet, Histoire du paradis, pp. 22-23.

81 It is well known that the Wiggin Committee underestimated the short-term debt of Germany in August 1931. Afterwards, varying estimates were produced on the real extent of short-term credits according to which Swiss credits (without BIS credits), like Dutch credits, would have amounted to more or less 2 billion RM among some 12 billion in total. The Swiss share, albeit lower than the United States’, was on a par with Britain’s. See Ritter to Rüfenacht, 26.11.1931,
between 1928 and 1931, capital export to Germany and capital flight to Switzerland almost compensated themselves during these years. This was no coincidence at all, as a large part of German capital flight – perhaps half of it – was once again re-exported through Switzerland into the home country. This turntable business, that was similarly in force in the Dutch financial centre, took different forms. The holding companies established in offshore centres – in Switzerland and the Netherlands, but also Luxemburg after the favourable tax law implemented on July 31st 1929 – were important creditors of their own German parent companies. This indebtedness was often nothing more than an accounting trick to lower German taxes. Nonetheless the amounts involved were substantial, explaining why the proportion of short-term debts owned by Dutch and Swiss non-banks appeared so high in the statistics regarding foreign capital in summer 1931. At the same time, Swiss commercial banks were also simply re-exporting on a huge scale the hot money that came from Germany, profiting from the higher interest rates in this country and betting wrongly on the low financial and monetary risks of short-term credits granted to German industries or banks. However, the re-exportation of German capital flight through portfolio or long-term investments remained much less significant. Two-thirds of the capital exported from Switzerland to Germany were short-term credits, amounting to not less than 18% of the total of this sort of foreign asset in Germany. This proportion was much higher than the average of foreign creditor countries, which narrowly exceeded half of it. The involvement of the largest Swiss commercial banks on the German market was thus much deeper, relative to their financial size, compared to British and US banks. On the contrary, as far as the

in: PAA, Series Bern, 2553; and for Dutch credits, Euwe, Dutch-German Relations, p. 117. See other estimates in 1929 and 1930 in: BArch, R2501/6633.

82 According to Schuker, who based himself on French sources, half of the capital exported from the Netherlands and Switzerland to Germany after the Dawes Plan would have been of German origin. S. Schuker, American ‘Reparations’ to Germany, 1919-33: Implications for the Third World Debt Crisis, in: Princeton Studies in International Finance 61, 1988, p. 117. See also H. James, The Causes of the German Banking Crisis of 1931, in: Economic History Review 37/1, 1984, pp. 68-87, here: pp. 77-78.

83 According to a memorandum of the League of Nations, the Netherlands ranked first among the short-term non-bank creditors of Germany, whereas Switzerland was third, almost on par with the United States. League of Nations, Europe’s Capital Movements, 1919-1932. A Statistical Note, June 1943, p. 24.

84 During the second half of 1929, Kreditanstalt’s and Bankverein’s German investments constituted 24% and 17% of all their assets, this ratio reaching a level as high as 46% in the Banque fédérale in July 1931. International Committee of Experts Switzerland-Second World War, La place financière, pp. 199-200.
German loans issued abroad were concerned, Switzerland’s share remained reasonable for a medium-sized financial centre between 1928 and 1931, despite the increase in amounts by comparison to the years 1924-1927.\textsuperscript{85} Interestingly, German long-term issues in Switzerland encountered more enthusiasm among Swiss capital owners compared to German clients of Swiss banks.\textsuperscript{86} Indeed, even during the few good years of economic growth after the Dawes Plan, the Germans remained reluctant to acquire their country’s public bonds.\textsuperscript{87} On the Swiss market, their attitude differentiated itself from that of their French counterparts. If the French were still hiding a fair amount of wealth in Swiss banks after the beginning of the stabilisation of the franc in summer 1926, they were at least ready to reinvest a part of it in French public railway loans issued in Switzerland. French diplomats repeatedly underlined the fact that foreign subscriptions to German loans in Switzerland were composed of French money.\textsuperscript{88}

The historical accounts of the German banking crisis have not taken seriously enough the degree to which offshore transactions aggravated the fragility of Germany’s financial system. The 4 billion Swiss CHF of German capital flight that had possibly taken refuge in Switzerland during one single year from the end of 1929 were larger than the diminution of all foreign credits between mid-1930 and July 1931, which amounted to no more than 3 billion RM.\textsuperscript{89} Everything indicates, therefore, that all offshore centres welcomed an amount of German capital flight that exceeded more than twice the net repatriation of foreign investment, while at the same time, Switzerland and the Netherlands were (re)exporting in the form of short-term credits a sum that would reach a third of the total of these foreign loans in 1931. Once again, as during the inflation, German wealth was moving abroad on a huge scale. As this time the government was committed to the stability of the currency, capital flight increased the cost of deflationary policies, depriving the Reich of taxes it needed to cover the budget and pushing up the price of credits, whereas it placed a Damocles’ sword upon the stability of a

\textsuperscript{85} Between 1924 and 1927, German loans amounted to 204 million CHF, whereas, between 1928 and 1931, they reached 247 million. \textit{Banque nationale suisse}, Manuel statistique du marché financier suisse, Zurich 1944, pp. 24-25. Although during the latter period German issues constituted one-third of the sum of foreign issues in Switzerland, this was a small amount of money for Germany. Only in 1930, the total of German bonds issued abroad was 1161 million RM, some 1428 million CHF. \textit{Balderston}, The Origins, p. 455.


\textsuperscript{88} For instance, Peron to de Marcilly 17.07.1931, in: AMAE, Suisse, 218.

\textsuperscript{89} See note 80 and \textit{James}, The causes, p. 76.
monetary system that was relying in part on volatile short-term reinvestments into the home market. The offshore economy was one of the weakest pillars upon which the house of cards of German foreign indebtedness was built, and it played an advanced role in the activation of the banking crisis in 1931. In the last months that preceded German financial collapse in July 1931, the rush of capital outflows, made by both foreign withdrawal and capital flight, heavily implicated the Netherlands and Switzerland. Between the end of March and mid-July, the diminution of short-term credits owned by the two countries amounted to one third of the total reduction, a sum almost equivalent to the decrease due to the United States. At the same time, the flow of hot money across the German borders to the Netherlands and Switzerland was massive, as indicated by the huge Dutch and Swiss gold import.90

What is surprising is how hesitant Swiss financial circles were to react against a threat that they themselves were aggravating. To be sure, from 1929 worries were regularly expressed about the high level of Swiss investments in Germany, but large commercial banks, like most other foreign creditors, increased their credits, at least until the second half of 1930. Moreover, despite the fact that the Swiss tranche of the Young loan had little success in 1930, as late as April 1931 German public loans continued to be issued in Switzerland, usually without the Swiss National Bank opposing them.91 The central bank, together with the Federal Council, even deplored the Swiss banks’ refusal to participate in the foreign credit granted to the Reich under the patronage of Lee, Higginson, and Company in October 1930.92 Indeed, while the banking world was experimenting with aggressive speculative international finance on a scale never reached before, most Swiss politicians remained unconscious of the threat posed by Switzerland’s placements abroad. One argued that the re-export of capital to Germany,

91 A loan of 25 million Swiss CHF was issued in April 1931 for the state of Württemberg with some success. See Report of Hellenthal, 2.05.1931, in: PAA, Bern, 2554. On the attitude of the SNB, see, for instance, Minutes of the Direction of the SNB, 414, 498 and 517, 22.05., 19.06. and 26.06.1930, in: ASNB; Bachmann to Musy, 1.05.1931, in: ASNB, 2.6/2421, 262. On the negotiations conducted by the Bankverein and the Kreditanstalt for the Swiss tranche of the Young Plan, which amounted to 15 million dollars out of a total of 300 million, see, for instance, Schnyder to McGarrah, 6.05.1930, in: ASNB, 2.6/2421, 262, and Minutes of the Direction of the SNB, 366, 2.05.1930, in: ASNB. On the relative failure of the Young loan in Switzerland, see Report of Heilbron, 17.07.1930, in: PAA, Bern, 2554.
was aside from being a way for banks to make profits also a convenient means—
along a circuit considered safe—to remove another threat: the extent of hot
money flowing into Switzerland at the beginning of the 1930s, which threatened
to destabilise the Swiss financial centre and its monetary system. 93 In any case,
the Federal Political Department, acting in close contact with banks and diplo-
mats, still pursued with an undeniable zeal its protection of Swiss interests
abroad, and officials were generally not disposed to counteract international
financial practices. Protection of banking secrecy and offshore activities, con-
sidered as a precondition for the strength of the Swiss economy and the stability
of the franc, had been unchallenged by officials and the government since the
beginning of the 1920s. Indeed, on July 15th 1931, exactly the same day on which
exchange controls started to be reintroduced in Germany, the Reich and Swit-
zerland signed an agreement against double taxation containing, unusually, no
collaboration between the two countries against tax evasion, once again
demonstrating this common front in Switzerland as well as the extraordinary
tolerance of the German finance administration for the Swiss tax haven. 94

Had Switzerland tried to revive a German orientation in its foreign relations
during the final years before the financial crisis? This idea raises two objections.
First, despite the acceleration of capital flows and the relative common interest of
Swiss and German rulers on financial issues, the Swiss government was not in-
clined to abandon the balanced diplomatic strategy in relation to foreign powers it
had pursued since the armistice. After the warming of relations that had occurred
from 1926 onwards, Franco-Swiss diplomatic relations did not really cool down.
On the economic side, both countries signed a commercial agreement in 1928-
1929 following years of contentious negotiations. 95 Certainly Briand’s European
initiatives were welcomed in the small Swiss Confederation, as in other Western
countries, with mixed feelings, as all supranational intentions expressed at the
League; but one should remember that at the beginning of 1931 even the pro-
German Federal Councillor Edmund Schulthess reacted negatively against Ger-
many’s custom union scheme with Austria. 96 In both cases, however, Swiss diplo-
macy chose to adopt a reserved attitude. Switzerland seems to have taken care

93 Minutes of the Direction of the SNB, 817, 9.10.1930, in: ASNB.
94 Farquet, La défense du paradis, pp. 310-325.
95 See, for instance, R. Rusterholz, Les rapports économiques franco-suisses depuis la guerre,
Bordeaux 1938, pp. 98 ff.
96 On the Swiss attitude to Briand’s Plan, see Schulthess to Motta, 16.07.1930 and Minger to
Motta, 5.01.1931, in: Diplomatische Dokumente der Schweiz 10, pp. 66-72, 130-132. On the
reaction of the German-Austrian custom union scheme, see Schulthess to Swiss Legation in
to show its inclination to remain as far removed as possible from the recrudescence of international tensions at the beginning of the Great Depression. Second, as far as economic relations were concerned, strong differences were still visible compared to the Netherlands. Certainly, at first sight, it seems that the relations between Switzerland and Germany got closer to the Dutch-German connections between 1928 and 1931. Swiss offshore centre’s role for the Reich progressively resembled the financial function acquired by the Netherlands. As shown above, the extent of German capital flight probably reached a relatively similar level in both countries, and their involvement in the final months of the financial collapse was comparable. The short-term credits provided by both financial centres until 1931 almost equalled to the same amounts, and compared with the United States and Great Britain, they shared the particularity of being credited to a substantial part by non-banks, indicating the importance of circular flows of capital. Although the presence of German banks in Amsterdam continued to be a Dutch specificity, these banks were not allowed to rediscount their acceptances until 1926, and their share of short-term credits to Germany remained low thereafter. Moreover, the increase in German direct investments in Switzerland and the resumption of Swiss trade with its neighbour after the hyperinflation tended to lower the differences in the economic relations of both countries with the Reich.

Nevertheless, one should not overlook the Swiss capitalists’ reticence to long-term commitments with Germany by comparison to the Netherlands. Even though the Dutch tranche of the Dawes loan was slightly smaller than the Swiss one, from 1925 onwards, German bonds and shares issued in the Netherlands attained an extraordinary amount, reaching almost four times the sum of German issuances in Switzerland. Accordingly, Dutch financial relations did not appear as plurilateral as the Swiss. While the French issuances in the Swiss Confederation still amounted to three quarters of German issuances during the heyday of capital export to the Reich in 1925-1930, the Dutch involvement in the French monetary stabilization seemed almost quantitatively insignificant compared to the long-term capital export from the Netherlands to Germany. Between 1926 and 1928, German issuances in the Netherlands reached some 423 million gulden (713 million RM) compared to a sum of 148 million for the French ones. Yet once again the Netherlands did not profit from its apparent financial strength over Germany. Due to their commercial subordination to the Reich, which was tinged to a certain extent with a political dependence, the Dutch used their financial weapon in

markedly fewer cases than the Swiss.\footnote{On the amounts of the Netherlands’ short-term and long-term investments compared to Switzerland’s and on the limited use of the financial weapon by the Dutch, see the excellent analysis in \textit{Euwe}, Dutch-German Relations, pp. 112-114, 117, and 132-139.} This confirms that the Swiss Confederation’s maintenance of a balanced position among European countries paradoxically facilitated its relations with Germany throughout the 1920s. The neutral stance provided it with relative independence and latitude, without which a country could not take advantage of its financial strength, as demonstrated by the Dutch case. However, in the end, both Swiss and Dutch bankers found themselves in a very delicate situation because of the German economy’s dive into the abyss they had contributed to. The German banking crisis of 1931, followed by the freezing of a significant portion of short-term assets – less than half as far as Switzerland is concerned\footnote{Approximately, the situation could be reconstructed as follows: Germany’s total foreign indebtedness before the crisis amounted perhaps to some 25 billion RM, half of it probably in short-term credits. The Swiss share was respectively 13 % of the former and 18 % of the latter (without BIS’ credits, see note 80). The short-term credits subjected to the freezing reached in autumn 1931 5.8 billion RM in total, 16 % of them being in the hands of Swiss creditors, i.e. around 1 billion. See \textit{E. Wenzel}, Die deutschen Stillhalteabkommen und ihre Auswirkungen auf die Schweizer Banken, Zürich 1940, pp. 82-83. Compare with \textit{International Committee of Experts Switzerland-Second World War}, La place financière, pp. 157-166, especially p. 162.} – led to the biggest slump ever experienced by Swiss banks in modern history, the consequences of which were visible until the end of the Second World War. 1931 marked a decisive rupture in the small countries’ relations with Germany, which deepened in 1933, economically and politically. Scholars should therefore be most cautious when extrapolating their conclusions on this subject in the 1920s to the next decade or to the Second World War.

3 Conclusion

Switzerland’s relations with Germany exemplified, on the one hand, that the influence of small countries on big politics in Europe was far from anecdotal during 1920s. For Switzerland, this was mainly caused by the new position acquired by its financial centre after the war as a host of foreign capital flight. European inflation and subsequent monetary stabilization were closely linked to the capital flows of neutral financial centres like Switzerland, and this influence over the international monetary system indirectly impacted the great powers’ foreign policies about crucial issues such as, in the case of Germany, reparations. With the shock induced by capital flight and capital reflows to other
countries, these banking centres significantly contributed to the return to normalcy in Europe in the late 1920s through the re-establishment of the gold standard. As shown, however, they were participating in the building of a deficient financial architecture characteristic of the gold-exchange standard years that was based on short-term capital flows and that already collapsed in 1931. Paradoxically, the stability of their financial centres, in contrast to the situation in former belligerent countries, induced a highly unstable environment in which big countries were threatened by hot money, and the exported wealth in offshore centres was made available only through short-term investments. This article thus encourages scholars to consider more seriously the role of small countries in the international monetary system and European economic relations during the 1920s.

On the other hand, the analysis proposed in this article supports the existence of a dissociation between the intensity of capital flows with one or another country and Switzerland’s foreign relations. Although capital flows and the small countries’ diplomacy often contributed to aims of Germany’s foreign policy, Switzerland was not ready to embark on an informal alliance with the Reich and stayed far more reluctant than the Netherlands to any long-term economic interconnections with Germany. Despite the huge increase in German capital in Switzerland and in Swiss capital in Germany, Switzerland’s foreign relations were less one-sided than during the Belle Epoque. For sure, this choice of neutrality and balanced relations was not integrally disconnected from the development of Switzerland’s offshore centre. The financial deregulations upon which its growth was based fit well with the neutral, balanced policy pursued by the Swiss Confederation during the 1920s. The same is true regarding financial diplomacy, which experienced a new phase after the Great War, notably to defend the banking secrecy: as this diplomacy was conducted with all foreign countries, this important feature of Swiss foreign policy did not run counter to its overall balanced orientation. Nevertheless, this statement must not overlook the fact that the strengthening of a neutral stance was, above all, a direction in itself based on political considerations that raised almost no internal opposition. This simple assertion challenges both the old Swiss diplomatic history that has overestimated the consequences of the so-called ‘differential neutrality’ at the League and the history of economic relations which remains too sympathetic with the idea of a pre-eminence of financial interests and the long-term German affinities during the first part of the 20th century.

On major diplomatic issues, the primacy of Swiss neutral policy, which was specific to some extent among small countries, was a well-recognized fact among the big countries during the 1920s. This is exemplified by the installation
of the Bank of International Settlements in Basel as decided in November 1929. According to the sources, this choice was much more the result of the great powers’ appreciation of a small country’s neutral position in Europe than a consecration of the new power that Switzerland acquired in international relations owing to its banks. The Swiss option, which depended only slightly on Swiss lobbying, did not sanction a supposed German orientation in Switzerland’s foreign policy induced by financial relations. On the contrary, it can be argued that it was despite, and not because of, Switzerland’s huge placements on the German market that Basel was chosen. Similar to a decade before when the seat of the League was given to Geneva, it was Switzerland’s balanced attitude to foreign powers that contributed to the fact that the Rhine city, with its common border to France and Germany, was eventually preferred.¹⁰⁰

This decision was paradigmatic of the whole 1920s. The neutral Confederation appeared to be the less bad choice compared to the gainless Belgian candidate and the candid Hague’s own postulation, championed respectively by France and the German Reich.

Bionote

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