Attractive Sources: Tax Havens' Emergence: Mythical Origins versus Structural Evolutions

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Christophe Farquet

Historical subjects are sometimes overlooked during decades despite their recognised importance and topicality. These topics resemble shadows; their influence is mainly perceptible in historical narratives because of the puzzlement they cause and the misconceptions they generate. Tax havens may occupy a privileged place among those obscure subjects. In spite of their centrality in the current globalisation, which the financial crisis that erupted in 2007/8 revealed, offshore centres have never attracted much attention among historians. The historical analysis on their development is fragmented into several case studies, while the broader surveys of their expansion in the last two centuries mainly come from economists and political scientists. Metaphorically mirroring the popular image of the offshore world, histories of tax havens are composed of isolated islands that are linked by vague, even mysterious connexions. However, recent disclosures of the extensive use of tax havens in the global economy have disrupted this caricature of exotic paradises, and the time has also come for historians to reshape the long-term perspective on their development and to reintegrate offshore centres into the broader history of globalisation and the history of international relations.

It is easy to understand why scholars have neglected the history of tax havens. Offshore centres seem to be an inadequate topic for serious historians. Their practices appear too opaque to be firmly assessed via archival research. At the same time, their bad reputations, which provoke strong political opposition, could discourage some scholars who are accustomed to distanced debates. Tax havens are also a sort of intellectual loophole; they do not fit well within economic or political theories, nor with the history of tax systems' evolution and the history of taxpayers' consent. And, apart from demonstrating the well-known fact that some wealthy people and some companies make use of the offshore economy, is there anything to investigate? For all these reasons, and in spite of their media exposure, tax havens have remained on the margins of history. One last argument should be added to explain the lack of studies: a linguistic one. The terms 'tax haven' and 'offshore centre' are vague and ambiguous; they have no single, accepted definition, which reinforces the impression that the topic does not merit further study. Why should one concentrate on a phenomenon that does not seem to have a distinctive existence?

This article attempts to demonstrate the relevance of the history of tax havens by providing a new narrative of their long-term development. In spite of the vagueness of the concept, it is important to focus on tax havens and offshore centres in historical research because doing so helps provide a new perspective on many crucial aspects of economic history and of political history that would otherwise be overlooked. Much more than the rise and the expansion of offshore finance per se, the interaction of tax havens with the countries from which the capital flight originates deserves a closer historical look. For this purpose, 'tax havens' (when focusing particularly on tax attractiveness) or 'offshore centres' (when placing greater emphasis on the deregulation of capital flows) must not be taken as definitive categories; rather, they should be considered a way to highlight the significant difference between some countries and others with regard to the level of taxes on capital or the controls on international financial transactions at a given point in time. This flexible view, which focuses on the width of this gap rather than on the supposed nature of tax havens, proves to be an efficient linguistic tool to avoid omitting a real, important phenomenon from the historical analysis without committing anachronisms by concentrating on old legislation or practices that may appear similar to those of the offshore world today, but which were insignificant at the time. It is a means of replacing a decontextualised, often mythical history of the origins through an attempt to situate tax havens in a long-term, structural evolution and to assess their economic and political impact.

After having contested the truth of the supposed beginning of the offshore economy in the 19th century, the article firstly demonstrates that from the First World War onwards, tax havens became a decisive component of financial globalisation and, more broadly, of international relations. One cannot fully understand, for example, the gold exchange standard during the interwar years, the German hyperinflation of 1922/1923, nor the French political disturbances during the 1930s if tax havens are omitted from the historical picture. The importance of offshore finance, then, did not begin with the rise of the Welfare state after 1945 or the neoliberal turn of the 1980s; it was clearly significant over the course of the whole 20th century, albeit following a non-linear evolution, as shown by a momentary decline in its position from the late 1930s until the mid-1950s. Secondly, the article indicates that throughout their modern history, the impact of tax havens depended not only on the gap between their fiscal and financial systems and those of other countries but also relied on another variable – the wealth that could be exported abroad from big countries. A sufficient degree of financial liberalisation was always a key factor in the expansion of tax havens. During the financial globalisation of the Belle Epoque, this latter condition was integrally fulfilled, but the former was not: the very low level of taxation on incomes of capital all over the world made tax havens almost useless. This situation changed with the First World War and the rise in taxes in warring countries, while the exchange controls were not strict enough to hinder capital flight. From 1931, however, financial autarchy became so harsh that the offshore world could not prosper despite a new increase in taxes in big countries. It is only at the end of the 1950s that both conditions, as regards taxes and capital flows, were once again achieved. Thirdly, the article slightly complexifies the picture by demonstrating that, during their prosperous period, tax havens always threatened their own positions in two different manners. The tax competition they generated in other countries, amid a general trend towards liberalisation they accentuated, tended to attenuate their competitive advantages, while the disturbances they created on the international financial system endangered the liberal order they needed. Nevertheless, the development of the offshore economy from the 1980s demonstrated that tax havens could survive these two threats in the long run, at least until recent years.

The analysis proposed here for the years 1890–1970 challenges the views that the few scholars who have addressed this topic have explicitly or implicitly admitted. Political scientists Ronen Palan, Richard Murphy, and Christian Chavagneux proposed the most influential narrative on the expansion of tax havens.[1] Palan and his colleagues correctly dismissed the idea that tax havens were a product of the second post-war period. However, their account of the origin of tax havens is only a catalogue of some laws among others that should assess the early existence of offshore practices from the end of the 19th century. According to the definition they have chosen, the creation of a single legislation is enough to classify a country as a tax haven without closely examining the effect of the law and the international situation in which it was implemented. Despite a slight increase in interest in this topic in the last decade, economists, for their part, have yet to clarify the historical rise of tax havens, implicitly admitting that the offshore world is essentially a result of the financial liberalisation that occurred during the last half-century. Alternately, they seem content with myths about the origin of tax havens. A recent book exemplifies the lack of historical knowledge among economists. Although he rightly characterises the years after the First World War as a key moment in offshore history, its author claims that 'from the 1920s to the 1970s, all the wealth of Europeans who wanted to avoid paying taxes went to Switzerland'.[2] Despite the leading role of the Swiss financial centre in the offshore economy during this period, this narrow point of view differs greatly from the complex historical reality. Finally, among historians, a recent work by Vanessa Ogle deserves a short mention because it has tried to propose a new, broad narrative of the development of tax havens after the Second World War with the use of archival sources.[3] However, Ogle overestimates the influence of capital flight from extra-European countries during the post-war decolonisation on the growth of tax havens, failing to connect qualitative and micro-economic evidence with macro-economic tendencies and to correctly assess the importance of the liberalisation of capital flows in Europe at the time. Besides this work, capital flight, tax evasion, and offshore markets have raised some interest among other historians who specialise in banking and finance but only superficially and without integrating case studies in a comprehensive discussion of the expansion of tax havens.[4]

Given the current poor state of the field, this article attempts to refashion the subject to spark a fruitful debate among historians and stimulate new studies. It is based on archival investigations conducted in five countries, including the four major economic powers of the first half of the 20th century and Switzerland, deeply complementing the existing corpus of studies on economic history.[5]

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[1] Ronen Palan, Richard Murphy and Christian Chavagneux, *Tax Havens. How Globalization Really Works* (Ithaca, 2010), 107-23. See also Ronen Palan, 'Tax Havens and the Commercialization of State Sovereignty', *International Organization*, i (2002), 151-76.

[2] Gabriel Zucman, *The Hidden Wealth of Nations. The Scourge of Tax Havens* (Chicago, 2015), 23-4. See also Gabriel Zucman, 'The Missing Wealth of Nations: Are Europe and the U.S. Net Debtors or Net Creditors?', *The Quarterly Journal of Economics*, iii (2013), 1321-64.

[3] Vanessa Ogle, '"Funk Money": The End of Empires, The Expansion of Tax Havens, and Decolonisation as an Economic and Financial Event', *Past & Present*, ccxlix (2020), 213-49. See also Vanessa Ogle, 'Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s-1970s', *The American Historical Review*, v (2017), 1431-58.

[4] For a recent survey of the literature on the history before the Second World War, using a broad definition of 'offshore finance', see James Hollis and Christopher McKenna, 'The Emergence of the Offshore Economy, 1914–1939', in Kenneth Lipartito and Lisa Jacobson (ed.), *Capitalism's Hidden Worlds* (Philadelphia, 2020), 157–78. For additional references, notably in French and German, see Farquet, *Histoire du paradis*.

[5] This article relies on archival investigations conducted for my previous research on the history of the Swiss tax haven in an international comparison; the research took place in Switzerland, France, Germany, Great Britain, and the United States. The results have been published in two books: Christophe Farquet, *La Défense du paradis fiscal suisse avant la Seconde Guerre mondiale* (Neuchâtel, 2016); Christophe Farquet, *Histoire du paradis fiscal suisse. Expansion et relations internationales du centre offshore suisse au XXe siècle* (Paris, 2018). See also, for English-speaking readers, Christophe Farquet, 'Capital

Returns to Paradise

Tax Havens in a Tax-Free World

Places that permit avoiding or lowering the taxes due in other territories have a long history that can be traced to the Middle Ages or even Antiquity. Some free ports have been identified on Ancient Greece's islands, and, in a superficial way, they could be viewed as predecessors of the numerous tax havens that have proliferated in exotic places or microstates for four decades. The often-cited case of Delos's transformation into a so-called tax haven in 167 BC, when the island was transferred to Athens' control, remains a dubious paradigm considering the extraordinary political situation Polybius narrates that led to the expulsion of all the Delians and their belongings.[6] More seriously, international financial activities were already quite developed in Swiss cities such as Geneva and Basel during the Ancien Régime due to the rise of private bankers' families, who are often seen as the pioneers of Switzerland's specialisation in international wealth management.[7] However, although these historical cases clarify that the threat of the mobility of goods and money for the preservation of fiscal sovereignty is not new, and that the creation of a tax haven is often based on a pre-existing financial structure, they are not the roots of the current offshore world. It is inaccurate to identify a direct continuity between them and the tax havens that exist today. Even for Switzerland, as we shall see further regarding taxation, its seemingly long-term status as such a haven is a retrospective illusion: this view wrongly transforms some exceptional activities conducted by private bankers into a metaphor for the whole evolution of the financial sector.[8] For instance, Genevan banking experienced a deep rupture because of losses caused by the French Revolution. Then, the city unsuccessfully tried to create a universal financial centre during the second half of the 19th century, and, only during the 20th century, Geneva essentially focused on international wealth management. In any case, it should be noted that, considering the country as a whole, until the 1890s, Switzerland's banking was dominated by small, regional banks that concentrated on local business, which is quite distinct from what it became after the First World War.[9] It is important to note that all these supposed old tax havens were not part of the financial and monetary systems as they exist today, and their international impact was consequently marginal. In short, these examples remain quite anecdotal.

It is commonplace among scholars to situate the beginning of the modern history of tax havens at the end of the 19th century. At first glance, this thesis, which Ronen Palan notably supports, is

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Flight and Tax Competition after the First World War: The Political Economy of French Tax Cut, 1922-1928', *Contemporary European History*, iv (2018), 537-61.

[6] Polybius, *The Histories*, ed. Frank Walbank and Christian Habicht, 6 vol. (Cambridge MA, 2012), vi, 269.

[7] For the close relations with France, see Herbert Lüthy, *La Banque protestante en France de la révocation de l'Edit de Nantes à la Révolution* (Zürich, 2005, 1st ed. 1959-1961).

[8] Malik Mazbouri, 'La banque privée comme métaphore: "vieille banque" et "banque nouvelle" en Suisse (1800-1930)', *Revue suisse d'histoire*, lxx (2020), 93-115.

[9] For the rupture caused by the French Revolution in Geneva, see, for instance, Olivier Perroux, *Tradition, vocation et progrès. Les élites bourgeoises de Genève (1814-1914)* (Geneva, 2006), 141-203. For a survey of Switzerland's banking evolution during the 19th century, see Franz Ritzmann, *Die Schweizer Banken. Geschichte-Theorie-Statistik* (Bern, 1973), 15 ff. Between 1891 and 1900, the balance sheets of big commercial banks was only worth 13% of the total of banks' balance sheets, compared to 39% in the 1920s. Historical Statistics of Switzerland, Table O.8: https://hsso.ch/de/2012/o/8.

convincing.[10] Amid the first financial globalisation, international movements of capital quickly grew during the Belle Epoque, while, at the same time, national states reinforced their structure, affirming their differences, strengthening their control over society, and increasing their expenditures. These antagonist trends towards both internationalisation and nationalism should have provided fertile ground for the rise of tax havens and offshore centres, which could have attracted foreign capital by offering lower taxes or softer financial regulations. However, despite its apparent plausibility, this idea is dubious, not because financial opacity or tax-free placements for foreigners did not exist at the time, but because it omits one crucial part of the picture. Indeed, before the First World War, taxation on capital and financial regulations remained soft in all the major economies. In the deregulated era of the gold standard, which several generations of capital owners would later view as a lost paradise, tax havens were thus simply useless. To put it in another way, according to the criteria international organisations apply today, almost every developed country could be considered a tax haven or an offshore centre before the First World War. As the existence of tax havens rely on the gap between their laws and practices compared to those of other countries, the homogeneity of the financial environment of the Belle Epoque almost entirely negates this concept.

It is important to remember that, in most countries, the 19th century was a time of regression regarding direct taxation. Whereas some level of fiscal progressivity had been experienced during previous centuries in Europe,[11] countries such as France, Great Britain, and the United States did not use any progressive taxes on income until the beginning of the 20th century. Even if this trend was slightly reversed in Europe during the Belle Epoque due to the rise of public expenditures—military spending still accounted for a third of these expenditures on average in rich countries—the first financial globalisation happened in a fiscally lenient world that, according to current standards, appears almost tax-free. The taxes on interests, dividends, and business profits in the main economies were situated at a level so low that they could hardly have incited capitalists or companies to make the effort to evade them by exporting capital or shifting profits abroad.[12] Furthermore, the leniency of the tax controls during this era of fiscal liberalism, even in large countries such as France, left sufficient room for taxpayers to manoeuvre to avoid these impositions without removing wealth abroad. One of the clearest triumphs of the new bourgeois order was to consolidate the state without the capital having to substantially pay for it. As the states primarily relied on taxes on consumption and tariffs to cover their budgets, the ratio of direct taxes compared to the gross domestic product remained low: before the war, it was approximately 1.5% in Germany, 3.7% in France, and 5.8% in Great Britain, compared to today's average of 13.5% in the OECD countries.[13] More significantly, the tax rates on high incomes from movable capital were almost risible until the First World War. In France, the "impôt sur les revenus des valeurs

[10] Palan, 'Tax Havens'.

[11] Mireille Touzery, *L'invention de l'impôt sur le revenu. La taille tarifée, 1715-1789* (Paris, 1994).

[12] For a similar perspective on this point, see Mark Spoerer, 'Wann begannen Fiskal- und Steuerwettbewerb? Eine Spurensuche in Preussen, anderen Staaten und der Schweiz', *Economic History Year Book*, ii (2002), 58.

[13] These are the ratios for general government taxes (not central government's taxes). For the ratio in 1910-13, see my calculation in Farquet, *La défense du paradis*, 86. For OECD figures (estimates in 2017 of taxes on income, profits, capital gains, and property related to the GDP), see OECD, *Revenue statistics 2019. Tax revenue trends in the OECD*, 2019.

mobilières" reached 4% at the turn of the century, whereas the corresponding income tax was at 5% in Great Britain.[14]

Before the war, a high degree of opacity regarding state controls was normal in the financial world. In fact, banking secrecy—i.e., the absence of fiscal control over bank accounts—was rarely infringed upon in all the major economies.[15] At the same time, no countries were fiscally privileged by what is now called an uncooperative attitude against international tax evasion: no countries implemented exchanges of information between national tax authorities on movable capital until the first bilateral agreement between France and the United Kingdom was signed on 15 November 1907.[16] The major criteria that have been used to define a tax haven over the three last decades—very low taxes, high opacity, and lack of cooperation—were therefore in practice almost everywhere.[17] As political scientists have been inclined to transfer such contemporary definitions into the past, they should consider the hypothesis that France, the largest financial market on the European continent, was the largest tax haven at the end of the 19th century. It had no progressive tax on income (this was first implemented in 1915 with a top marginal rate of 2%), its pre-war flat tax at source on the returns of capital was as said 4%, and the companies were still subject to a sort of franchise tax that dated to the French Revolution; this was based on their size, and they did not have to declare their benefits.[18] Seen in a broader historical context, this hypothesis is nonsensical, as France was not a special case at the time, and it never welcomed a substantial amount of capital in flight due to taxes during the Belle Epoque, nor did it host foreign domiciled companies. This argument demonstrates how much one should avoid trying to find the 'deep roots' of present practices without contextualising the approach.

Offshore centres did not flourish in the gold standard era. The cases that are usually cited to assess the early emergence of tax havens before the war are only minor or inappropriate exceptions to this rule. The most notorious is the domiciliation of numerous companies in some locations at the end of the 19th century in the United States. This mainly concerned one state before the war, i.e., New Jersey, in which as many as 61 of the 120 US companies with the highest capitalisation in 1899 were chartered.[19] However, this interesting case does not contradict the thesis supported here regarding tax havens. The growth of domicile companies in New Jersey was not primarily related to taxation, and, it could only be considered a form of offshore activities in a very broad sense, as it did not directly relate to financial markets. It was furthermore a singular case linked to a particular issue in the United States, and it had no international impact. Indeed, its main cause was strong regulations against trust companies that were implemented at the end of the 19th century, notably in 1887 with the Interstate Commerce Act and in 1890 with the famous Sherman Anti-Trust Act. Seemingly on the impulse of a New York lawyer, in 1888 and 1891, New Jersey chose to adopt attractive legislation that permitted the domiciliation of companies to avoid the regulations against

[14] Alfred Neymarck, 'Les valeurs mobilières en France', Journal de la société de statistique de Paris, xlv (1904), 17; W. H. Price, 'The British Income Tax in Recent Years', *The Quarterly Journal of Economics*, xx (1906), 288.

[15] See the retrospective survey in Siegfried Sichtermann, *Bankgeheimnis und Bankauskunft. Systematische Darstellung mit besonderer Berücksichtigung der Rechtsprechung und unter Heranziehung ausländischen Rechts* (Frankfurt, 1957).

[16] On the negotiations and the functioning of the agreement, see the sources in Centre des Archives économiques et financières (CARAN, Savigny-Le-Temple), B 41359 and The National Archives (TNA, Kew), T1/11341.

[17] These were the commonly used criteria before the crisis of 2007/8, defined by the OECD.

[18] See the summary of pre-war French tax laws by the economist Thomas Piketty, *Les hauts revenus en France. Inégalités et redistributions, 1901-1998* (Paris, 2001), 234-46. For a contextualised perspective by a historian, see Robert Kaplan, *Forgotten Crisis. The Fin-de-Siècle Crisis of Democracy in France* (Oxford, 1995).

[19] Edward Keasbey, 'New Jersey and the Great Corporations', *Harvard Law Review*, xiii (1899) 201.

monopolistic behaviour. These acts were reinforced further in 1896 and 1897, providing, among other advantages, strong protection for directors against other states' legal procedures against them.[20] At the same time, New Jersey successfully launched an advertisement campaign to attract new companies, and so-called 'corporation agencies', which artificially hosted the principal offices of the domiciled companies, were implemented. Other states, such as Delaware, followed this course, but without the same success. Yet, New Jersey's tax legislation was not particularly attractive at the time; on the contrary, corporations chose to migrate to this state despite its fiscal legislation.[21] The development thus did not fit with what is considered tax competition: New Jersey's authorities profited from the non-fiscal attractiveness of its legislation on trust to cover the state deficit with higher revenue from taxes on corporations.

Regarding the decades before the First World War, the genealogical view on tax havens, which concentrates on some legislation that seems to be the root of the offshore world but ignores the general trend, is also unconvincing in the case of Switzerland, the most notorious tax haven during the 20th century. A recent work by Sébastien Guex has suggested that the Swiss Confederation was already a predominant tax haven in Europe well before 1914.[22] This idea is wrong. It is important to note that, as surprising as it may be, Swiss cantons were pioneers of fiscal progressiveness in Europe during the 19th century. As early as 1840, Basel-Stadt introduced a general progressive income tax, and at the end of the 19th century, only the direct tax systems of some small, rural cantons remained separated from tax progressivity.[23] An explanation for this early development can be partly found in the country's decentralised political system. This argument may seem surprising, as federalism later became one of the main causes of Swiss tax attractiveness because of the tax competition between the cantons, but fiscal federalism was a double-edged sword during the second part of the 19th century. After the commercial unification of the country in 1848, the central state had the exclusive privilege on custom duties, whereas cantons and communes were given rights for direct taxes. Even if public expenditures were quite low, according to international standards, as the latter's fiscal revenues represented some two-thirds of the overall fiscal burden before the war, direct taxes related to the gross domestic product reached a medium level.[24] Switzerland, with its strong, decentralised tax system, was thus a strange mixture of tax progressiveness and fiscal liberalism. The tax administrations in the cantons and communes

[20] *Acts of the 112th Legislature of the State of New Jersey* (Trenton, 1888), 385-6; *Acts of the 115th Legislature of the State of New Jersey* (Trenton, 1891), 329-30; *Acts of the 121st Legislature of the State of New Jersey* (Trenton, 1897), 124-5.

[21] Harold Stoke, 'Economic Influences Upon the Corporation Laws of New Jersey', *Journal of Political Economy*, v (1930), 575-6.

[22] Guex is so eager to prove that Switzerland was already the first ever tax haven in the world several decades before the Great War that, based on a superficial reading of a few documents, he has recently gone so far to claim that its origin dated back to 1816. The examples of fiscal incentive in Switzerland he has cited for the 19th Century are all negligible or wrong. See Sébastien Guex 'The Emergence of the Swiss Tax Haven, 1816–1914', *Business History Review*, article first published online on 10 June 2021 (doi:10.1017/S0007680520000914). In fact, he has sustained the exact contradictory view many times before, peremptorily highlighting the crucial importance of the Great War in the transformation of Switzerland into an offshore centre. For instance, in a previous article on the history of banking secrecy, after claiming that "the First World War represents a decisive rupture in the evolution of Swiss banks", he adds very clearly: "Internationally, the First World War, by transforming the Confederation into a fiscal, monetary and political haven, therefore endows it with a powerful attractiveness for foreign capital, especially for those who seek to escape the tax authorities of their countries." See Sébastien Guex, 'Conflits et marchandages autour du secret bancaire en Suisse à l'issue de la Grande Guerre', *L'Année sociologique*, lxiii (2013), 160 and 162.

[23] For a comprehensive presentation of Switzerland's tax systems during the 19th century, see Georg Schanz, *Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19. Jahrhunderts*, 5 vol. (Stuttgart, 1890).

[24] The ratio of direct taxes compared to the gross domestic product in pre-war Switzerland was situated at 3.46%. See note 13.

remained underdeveloped, and to compensate for evasion and leniency, the rates of direct taxes substantially increased, easily surpassing even the levels in Britain.[25] The gap between laws and practices was sometimes very wide: in some cases, such as the rural region of Nidwald, voluntary fiscal procedures were still used at the end of the 19th century.[26] In a lucid assessment of the Swiss tax system, the famous American economist Edwin Seligman highlighted the paradox. In some cantons, he wrote, "it has become the custom for the assessors to ask the taxpayers directly as to how much they care to pay. This is especially true where the rate of the property tax is so high that it is virtually impossible to pay it."[27]

Switzerland did not benefit from any substantial fiscal advantages before the First World War that could have stimulated widespread offshore activities.[28] Banking secrecy was respected by tax administrations in almost all the cantons, but, as said, it was the standard of the period.[29] It is true that, as a consequence of the paradoxical evolution of the Swiss tax system, some loopholes and exemptions for foreigners appeared. When the Canton de Vaud adopted a tax on movable assets as early as 1862, it allowed some reductions for foreign rentiers living in its territory. Four decades later, in 1903, the small canton of Glarus introduced tax privileges for domiciled companies.[30] Considering the later development of tax packages for foreigners and of privileges for holding companies in Switzerland, a superficial look at these legislations may conclude that the Swiss tax haven was already positioned at the forefront of international tax competition at the time. However, this view is anachronistic. Both cases revealed another story when situated in the historical context. Notably, privileges for foreigners introduced in 1862 only partly protected them from a newly implemented tax on movable assets perceived on a general declaration of taxpayers, a fiscal practice that, in neighbouring France, rentiers' fierce opposition would successfully veto up to the First World War.[31] Vaud's legislation, which imposed the foreigners' movable wealth inside the canton after two years of residence, cannot be characterised as an international tax dumping; it only lowered the effect of a tax that was simply not perceived before 1862.[32] Nor could it be considered as an attractive tool in favour of local finance. In fact, it even provided an incentive for foreigners to maintain their wealth abroad. As regards the second law, its competitiveness was clearer, as in the beginning, domicile companies in Glarus were exempt from taxes. Nevertheless, the law probably emanated from the demands of local textile industrialists who had previously

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[25] In 1914, the average tax rate in Zürich, Basel, and Geneva on the income from a capital of some £200,000 reached 20%, compared to Great Britain's 12%, despite the introduction of the progressive supertax in the People's Budget of 1909 that resulted in the country's reputation for fiscal intransigence. See, for the calculation, Administration Fédérale des Contributions, *Les impôts sur le revenu et le capital dans les principales communes de Suisse, 1914-1924* (Bern, 1925), 68-9; *57th Report of the Commissioners of his Majesty's Inland Revenue* (London, 1914).
[26] Max de Cérenville, *Les Impôts en Suisse. Assiette, quotité, mesures d'exécution* (Lausanne and Paris, 1898), 185-7.
[27] Edwin Seligman, *The Income Tax. A Study of the History, Theory, and Practice of Income Taxation at Home and Abroad* (New York, 1911), 359.
[28] The very minor fiscal advantages on stamp duties on bills of exchange that Swiss banks seemed to possess by comparison to their European counterparts did not benefit to offshore activities: it only lowered the rather high cost of credit in pre-war Switzerland.
[29] Regarding the extent of banking secrecy in Switzerland before 1934, see, for instance, Georges Capitaine, *La Question du secret des banques en droit suisse* (Geneva, 1933).
[30] Paul-René Rosset, *Les Holding-companies et leur imposition en droit comparé* (Paris and Lausanne, 1931), 89-94.
[31] *Loi d'impôt sur la fortune mobilière du 21 août 1862* (Lausanne, 1862).
[32] The same applies to the previous exemption of foreign rentiers to a capital levy implemented in 1816 in Geneva. 'Loi qui établit une taxe sur les fortunes, nommée Taxe de Gardes', in *Recueil authentique des lois et actes du gouvernement de la République et canton de Genève*, *Année 1816*, ii (Geneva, 1817), 297. Additionally, the law of 1862 did not resemble much to what is nowadays called a lump-sum tax, i.e. a tax perceived on foreigners in Switzerland on the estimated living expenses. One finds this principle in Vaud's fiscal legislation of 1923.

delocalised their production units abroad and were eager to lower their taxes rather than from a desire to attract foreign companies.[33] Moreover, its international impact remained minimal before the war, perfectly exemplifying the minor influence of taxation on financial transactions during the Belle Epoque. In the decade before the First World War, very few holding and domiciled companies belonging to Swiss nationals or foreigners benefitted from these tax privileges: 34 in Glarus and 11 in Schaffhausen, a canton that had followed the same fiscal pattern three years before the beginning of the hostilities. The trend was therefore confined to the margin in comparison with what happened during the 1920s after most cantons joined the tax competition. The number of holding companies in Switzerland increased by 1,368 between 1921 and 1932.[34] The annual average of new implementations in the Swiss Confederation was around thirty times higher during the 1920s compared to the decade before the war.

Before the First World War, only one development in the history of tax competition in Europe was significant – the capital flight from France that started at the beginning of the 20th century. The increase in succession duties starting in 1901, coupled with the anticipation of the implementation of the progressive income tax, led to the first substantial movement of capital caused by taxation.[35] As the French administration increasingly infringed upon banking secrecy, the French bourgeoisie feared that reinforcing the tax system could lead to a precise inventory of the entire wealth, which in the end would have permitted a socialist confiscation of fortunes or, at least, the introduction of a capital levy to finance the state. French wealth took refuge in all Western European countries. Some 1.5 billion French francs were transferred to Switzerland while large amounts of money were also hidden in the other neighbouring neutral financial centre, Belgium.[36] Regarding the history of

[33] Michael van Orsouw, *Das vermeintliche Paradies. Eine historische Analyse der Anziehungskraft der Zuger Steuergesetze* (Zürich, 1995), 41-2.

[34] Peter Stadler, *Die Besteuerung der Basisgesellschaften in der Schweiz unter besonderer Berücksichtigung der Domizil- und Hilfsgesellschaften* (Winterthur, 1970), 26; Patrick Landolt, *Standortgunst oder Wirtschaftsförderung. Der Industrie- und Gewerbestandort Schaffhausen in den Jahren 1830 bis 1914* (Zurich, 2011), chap. 3.2.2. For the numbers of holdings during the interwar period, see Eidgenössisches Statistisches Bureau, *Statistisches Jahrbuch der Schweiz* (Bern, then Basel, diverse years). In 1939, there were 2,017 holding companies compared to 158 in 1921, and 2,069 foundations compared to 64 in 1914.

[35] See, for instance, Maurice Brion, *L'Exode des capitaux français à l'étranger* (Paris, 1912); René Depuichault, *La Fraude successorale par le procédé du compte-joint* (Paris, 1910). As said, the development of the Swiss financial centre during the second half of 19th Century was not closely correlated to international wealth management. For sure, amid the exceptional situation of the Franco-Prussian War, French wealth already moved to Switzerland in 1870, but information regarding the extent of this capital flight is scarce. The balance sheets of big banks did not demonstrate a substantial growth: between 1869 and 1871, they increased by 27 million Swiss francs, but between 1871 and 1873, growth doubled to 55 million Swiss francs (Historical Statistics of Switzerland, Table O.8: https://hsso.ch/de/2012/o/8). What is certain is that the financial movement was short-lived as the French financial market experienced a quick recovery after the war. In any case, it was not induced by taxation because of the light tax burden on movable assets in France at the time. The hypothesis that the introduction of the tax on the incomes of movable assets in 1872 would have incited French capitalists to maintain their wealth in Switzerland to circumvent the tax on foreign securities is very dubious, if not wrong: the rate was very low at the time (3%), and until 1914, almost all foreign securities (including bonds of foreign states and securities of private companies without implementations in France) were in practice exempt of the tax. See note 14 and 18.

[36] For Switzerland, see, for example, the estimates produced in French Consulate in Basel to Pichon, 28 Sept. 1908, Archives du Ministère des Affaires étrangères (AMAE, La Courneuve, Paris), Suisse, 18. The foreign wealth managed by Swiss banks reached some 2 billion Swiss francs in total at the time, which demonstrates the predominance of French clientele before the war. Sebastien Guex, *La politique monétaire et financière de la Confédération suisse* (Lausanne, 1993), 150. As for Belgium, at the end of the First World War, the securities owned by French clients in Belgian banks were estimated at 3 billion francs. The main part of this sum must have been transferred in the years before the war. Ginette Kurgan-van Hentenryk, 'La Société Générale 1850-1934', in Herman Van der Wee et al. (ed.), *La Générale de Banque, 1822–1997* (Brussels, 1997), 200.

offshore economy, it is important to note that as to taxation, Switzerland did nothing new to attract money. It continued using the practices that were employed in Europe before the war, including the protection of banking secrecy and large tax exemptions for imported capital. This does not mean that Swiss bankers did not actively seek to take part in this nascent business. Swiss banks expanded propaganda, illicitly solicited new clients on French soil, and increased the confidentiality of their accounts. Nevertheless, regarding taxation, the preservation of fiscal liberalism made Switzerland attractive to French capitalists, not the creation of new laws. This trend partly anticipated what would happen after the war on a much bigger scale. Due to the rapid transformation of direct tax systems in Europe and the relative conservation of pre-war taxation in neutral Switzerland, a gap with big countries appeared, and this differential propelled the country into the tax haven *par excellence*. At the same time, the anticipation must not be overestimated: the differences between this isolated case during the Belle Epoque and the offshore world of the 1920s are crucial.

The history of the Swiss tax haven exemplifies the deep rupture induced by the war.[37] The caesura is a quantitative one: until 1914, the displacement of the foreign wealth concerned only one country, whereas from 1914 onwards, capital flight occurred all over Europe. Capitalists from neighbouring countries were the best clients of the Swiss tax haven, but in the interwar period, the Belgians, Spaniards, Eastern Europeans, and British also used the services of the Swiss tax haven. The rupture of 1914 is also a qualitative, political one. As the level of taxes heavily influenced capital flows, Swiss cantons and communes much more aggressively chose tax dumping strategies, and the international incidence of tax legislation had an unprecedented influence on Swiss internal politics. Even if it is the situation created by the war that ultimately transformed Switzerland into a tax haven, the Swiss state did actively participate in this mutation after 1918. Additionally, the difference between the pre-war and post-war periods is obvious in the diplomatic field. While the Swiss government could easily ignore the willingness of French authorities to cooperate against tax avoidance in 1906–1907, amid very few contacts that are barely visible in archives sources, the 1920s saw the appearance of the first real pressures from foreign governments against the Swiss banking secrecy. This induced intense cooperation between the Swiss state and the economic elites, which continued throughout the 20th century. From the 1920s, the Swiss Confederation undertook intensive diplomatic efforts to protect its market for tax evasion, for example, by concluding double tax agreements with foreign countries without exchanges of information between fiscal administrations or by systematically protecting Switzerland's foreign investments abroad even when they concealed illicit offshore transactions.[38] However, in international history, the most important difference between the pre-war and post-war years is to be found in the impact on big countries' economies and politics induced by the offshore world in which Switzerland played a crucial role.

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37 See Farquet, *Histoire du paradis*.

38 See the narrative of the French attempts in 1906–1907 based on French and Swiss archives in Farquet, *La défense du paradis*, 52-61. Anecdotally, the Canton de Vaud already signed two double taxation agreements on succession duties with Russia and Great Britain in 1870 and 1872, respectively. However, it is wrong to view these conventions as ancestors of the Swiss strategies implemented from the 1920s. They resulted from the willingness of foreign countries, not of Switzerland, to solve some isolated contentious cases of double taxation. Then, their practical scope remained very limited. See, for instance, the Council of State of the Canton de Vaud to the Federal Council, 13 June 1871, Swiss Federal Archives, Bern, E 2001 D, 1000/1555, vol. 7. Vaud's archives are scarce on that issue. See, for instance, Minutes of the Department of finance, 84 and 85 (1871-1872), Archives cantonales vaudoises, Lausanne, KXA 41.

Gamblers' Zenith

Offshore in the Gold Exchange Standard

Indeed, the First World War radically changed the history of offshore finance. Between 1914 and 1918, capital moved from European warring countries to neutral banking centres. However, more than the war itself, its economic and political consequences led to the first boom of the offshore economy after 1919. The costs of the war and of reconstruction, coupled with new demands for social policies, led to a sudden rise of taxes and inflation amid general political turmoil. Within several years, the rentiers' golden age of the Belle Epoque, characterised by stable currencies and painless taxes, was replaced by top marginal income tax rates that would never be reached again in countries such as France, where the rate rose from 2% to 90% between 1915 and 1924; capital levies in Germany, Italy, or former Austria-Hungary, which could theoretically transfer up to more than the half of wealth to the states over several years; and a rapid depreciation of currencies, which would lead to the total destruction of the value of the German mark. All of these changes occurred while revolution seemed to spread all over Europe. In the spring of 1919, on the borders of Switzerland, Bavaria transformed itself into a Soviet republic. During the short-lived first *Räterepublik*, its financial policy, conducted by the highly heterodox economist Silvio Gesell, included the introduction of 'stamped money', i.e., a self-depreciating currency in order to reduce the attractiveness of accumulating movable assets.[39] Yet, despite attempts to monitor and hinder international financial transactions, capital and exchange controls remained lenient, highlighting the high degree of tolerance inside the states for those practices while the European elites were still expecting a quick return to the Belle Epoque's liberal financial environment. This tolerance was all the more visible in a country like Germany, whose state revenues should be partly transferred to the enemies through the Reparations. In this situation, it is easy to understand why capital flight increased greatly over several years.[40]

The measurement of this capital flight is a difficult issue for at least three reasons. First, capital flight, similar to tax havens, has no clear definition to differentiate it from the 'usual' export of capital. It is sometimes considered a rapid surge of capital abroad, while other times, it is viewed as a movement of capital that is not determined by interest rates, but by other considerations, such as taxes. Another view is that capital flight refers to an illegal placement of capital abroad, circumventing exchange controls or fiscal legislation. Each definition has some legitimacy. What is certain is that, according to all of these definitions, something new happened in the international financial system after the war: in response to political turbulence, currency depreciation, and tax increases, highly volatile flows of money and securities were transferred from large countries to smaller safe havens with lower interest rates, and much of this capital was, in one way or another, illicit regarding the new monetary and fiscal controls that were implemented in the countries in which they originated. Second, this volatility and illegality made it difficult to quantify these flows, as hot money quickly and unnoticeably moved from one place to another without being recorded

[39] Gesell's public statements during his time as financial minister in Bavaria are assembled in: *An Alle! Das proletarische Finanz- und Wirtschaftsprogramm des Volksbeauftragten der bayerischen Räterepublik Silvio Gesell* (Berlin, 1919), esp. 7-8.

[40] Léo Wulfsohn, Gabriel Wernlé, *L'Evasion des capitaux allemands* (Paris, 1923); Jules Lagneau, *La législation relative à l'exportation des capitaux (loi du 3 avril 1918)* (Paris, 1925).

by the yearly balances of payments, for example, while other kinds of exported wealth remained hidden, such as foreign securities' deposits, which did not appear in banks' balance sheets. Third, as the capital moved from countries with weak currencies to financial centres with stable currencies, the extent of capital flight was partly concealed by the fact that the amounts of foreign money seemed low according to the host countries' financial statistics. This was also the case because tax havens often functioned as revolving financial centres to circumvent taxes, reexporting a part of the imported capital to their home countries in expectation of a monetary revaluation, and in the end, their performance suffered from currency depreciation. This phenomenon happened with Switzerland and Germany during the period of hyperinflation.

However, despite all these difficulties, it is still possible to obtain an overall idea of the extent of foreign capital in tax havens and its impact on large countries by carefully cross-referencing different types of sources. A recent comprehensive survey on German capital flight has concluded that at least 7 billion gold-marks had left the country between the beginning of the war and the end of 1921.[41] This flow seems small when compared to Germany's national income, but, as movable wealth radically diminished because of the depreciation of the currency, it amounted to almost twice the value of all the bank deposits in the German Reich. While inflation destroyed the capital inside the Reich, the major part of the remaining financial wealth had thus moved abroad, which in return accelerated the inflationary process through the monetary depreciation. German money and securities were largely hidden in the Netherlands and Switzerland, but German capitalists also extensively used the other bordering neutral countries, such as Sweden and Denmark.[42] Another statistic provides some food for thought. At the beginning of the 1930s, according to admissible estimates based on extrapolating figures from several banks' archives, the securities Swiss banks managed amounted to 29.2 billion Swiss francs, approximately four times more than before the war. This sum, half of which certainly belonged to foreigners, was tremendous considering the size of European financial markets. For instance, this amount was twice as much as the total of French banks' deposits, although France's economy was eight times larger than Switzerland's at the time.[43] The Kreditanstalt and the Bankverein (today, Credit Suisse and UBS), the two major players in Switzerland in the offshore economy during the interwar, had already acquired the privileged position in European markets for tax evasion that they maintain today.[44]

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[41] Christophe Farquet, 'Quantification and Revolution. An Investigation of German Capital Flight after the First World War', *EHES Working Paper*, cxlix (2019).

[42] Cautious surveys made at the end of 1921 by the Auswärtige Amt on German capital that fled to Switzerland and the Netherlands alone estimated it at a minimum of 100 billion mark, but the German Foreign Ministry admitted that it had probably reached a much higher figure. Rheinboldt to German Foreign Ministry, 23 December 1921, Bundesarchiv, Berlin, Lichterfelde (BArch), R 3101/19550; German Foreign Ministry to Hirsch, 22 November 1921, BArch, R 3101/19549. This amount could be compared to the foreign short-term deposits of German banks, to which economic historians have wrongly granted much more importance than capital flight. They amounted in total to 57.8 billion mark at the end of 1921. Carl-Ludwig Holtfrerich, *The German Inflation 1914-1923. Causes and Effects in International Perspective* (Berlin, 1986), 88.

[43] Malik Mazbouri et al., 'Finanzplatz Schweiz', in Patrick Halbeisen, Margrit Müller and Béatrice Veyrassat (ed.), *Wirtschaftsgeschichte der Schweiz im 20. Jahrhundert* (Basel, 2012), 477; Hubert Bonin, *Les Banques françaises de l'entre-deux-guerres (1919-1935)*, 3 vol. (Paris, 2000), i, 524. Compared to the present situation, this ratio between managed securities in Switzerland and French deposits was higher in 1930, despite the fact that the vast majority of the foreign wealth came from Europe at the time.

[44] On statistics of wealth management by these two banks, see Marc Perrenoud et al., *La Place financière et les banques suisses à l'époque du national-socialisme. Les relations des grandes banques avec l'Allemagne (1931-1946)* (Lausanne and Zürich, 2002), 620-3. For their leading role in Switzerland's international banking activities during the 1920s, see, for instance,

The Swiss banks were certainly positioned at the forefront of the offshore economy, but they were only one of the many actors that actively participated in it. The architecture of the offshore world during the interwar period could be divided into three categories of countries in Europe, which, despite the sophistication of capital flows starting in the 1980s, resemble the situation today. First, micro-states were used as conduits for fake transactions that often were only real on paper. The most common of these practices was the implementation of holdings, domicile companies, and foundations by foreigners. While rentiers used these financial structures to increase the opacity of their portfolio assets or to benefit from the tax exemptions granted to non-residents' investments in their home country, multinational companies employed them to artificially repatriate international profits in a place where, often, only the nominal capital of companies was moderately imposed and incomes were tax-free. In the 1920s, due to favourable tax legislation on domiciled companies introduced in 1923 and modified in 1924, Lichtenstein, like the Swiss cantons, had already acquired a high reputation for such services on the European continent.[45] At the same time, the Channel Islands, exempt from British taxation, became a refuge for the British aristocracy and high bourgeoisie, who used, for example, private investment companies in Jersey or Guernsey. Monaco, meanwhile, was another tax haven that permitted these opportunities for artificial domiciliation.[46] In 1929, Luxembourg followed this trend by implementing a highly competitive tax law on holding companies that was inspired by the Swiss cantons' practices.[47] Finally, Andorra developed some offshore activities during the 1930s.[48] Almost all the micro-states of Western Europe thus became tax havens during the interwar years.

The proximity of the fiscal administrations, lawyers, and businessmen in these small jurisdictions favoured the creation of tax avoidance services for foreigners due to a mixture of financial opacity, advantageous tax laws and practices, and notaries' procedures. These services provided a supplement for state revenues and created new local business activities. However, although countries such as Lichtenstein or Luxemburg hosted some banks, they were not true financial centres, and their offshore activities were deeply associated with a second type of tax haven consisting of medium-sized banking centres that were far more important than the micro-states in terms of the volume of imported capital. This second category perfectly exemplifies the aforementioned transformation into tax havens because of the conservation of financial liberalism after the First World War. Having been neutral during the hostilities was the pre-condition for this change until the mid-1920s. Indeed, although the neutral countries did experience some economic and political turbulence and had to increase their taxes, these changes were nevertheless minor compared to those in previously warring countries. These countries thus preserved the financial conditions that prevailed elsewhere before the war: their currencies were usually stabilised at their

Christophe Farquet, 'The Swiss Confederation and the German Reich during the 1920s', *Economic History Yearbook*, forthcoming.

[45] From the beginning of the 1920s to 1945, 2,504 domiciled companies were implemented in Liechtenstein. However, foreigners also used other sorts of companies and financial structures. See Hanspeter Lussy and Rodrigo López, *Finanzbeziehungen Liechtensteins zur Zeit des Nationalsozialismus*, 2 vol. (Vaduz and Zürich, 2005), i, 96-7.

[46] Note of the Board of Inland Revenue, 'Avoidance of British direct taxation…', 1927, TNA, IR 40/3323; Report of the Director of the Enregistrement of Alpes-Maritimes, 3 March 1923, CAEF, B 43157.

[47] *Loi sur les holdings companies. Travaux préparatoires et Discussions parlementaires, séances des 16 et 17 juillet 1929* (Luxembourg, 1929); Bernard Delvaux, *Les sociétés « holding » au Grand- Duché de Luxembourg. Étude théorique et pratique de la loi du 31 juillet 1929* (Paris and Luxembourg), 1938.

[48] Marc Galabert Macià, *Desenvolupament econòmic als Pirineus : el clúster bancari andorrà en perspectiva històrica, 1930-2007*, PhD Thesis, Universitat de Barcelona, 2018, 69 ff.

pre-war level during the 1920s, they continued to guarantee banking secrecy, and most did not introduce exchange controls. This difference with big economies transformed them into tax havens and offshore centres, and all former neutral Western European countries to some extent welcomed foreign capital and offshore transactions after the war, even Spain.[49] There is no doubt, however, that the largest offshore markets appeared in Switzerland, followed by the Netherlands. These medium-sized financial centres became the privileged destinations of European hot money and foreign securities, and, due to their imported capital, they acquired an influence on the international financial and monetary system that was far greater than the size of their economies would suggest. In the case of the Netherlands, German banks moved to Amsterdam to manage the assets in flight after the war, and the Dutch city became an offshore centre that focused especially on Germany.[50] Until 1931, it kept this role, and, as a whole, probably received a larger portion of German wealth than Switzerland. Despite Amsterdam's rise, the Swiss Confederation, ideally placed in the middle of four countries suffering from inflation and capital flight, was the most important tax haven in Europe, specialising in the depositing and management of securities that belonged to foreigners with 'a banking system carefully designed to be a gigantic conspiracy against the fiscal authorities of other countries', according to an expert at the Bank of England.[51]

Third, the offshore world was connected to the two largest financial centres in the world, New York and London, which were the final destinations of much of the wealth that passed through the tax havens after the First World War. These centres formed the roof of the building of the new offshore nexus. Although Britain could not be considered a tax haven like Switzerland, it did conserve some forms of tax liberalism after the war, such as partial banking secrecy to preserve its financial attractiveness and prevent capital flight. For British rulers, the loss of tax revenues this policy induced was a small concession to maintain the capitalists' confidence they needed to stabilise the pound at its pre-war rate and to help Britain recover the central role it had enjoyed in the international monetary system before 1914.[52] The City's involvement in the offshore markets in the 1920s indicates how much these practices were now placed at the heart of the functioning of international finance. Indeed, one cannot understand the interwar international monetary system without mentioning the new role tax havens and offshore activities played. Much more than the change in the composition of central banks' reserves, capital flight and the new position of the financial centres that hosted it were crucial features that differentiated the gold exchange standard in the 1920s from the gold standard of the Belle Epoque. Between the end of the war and the mid-1920s, a massive move of wealth from the warring countries in Continental Europe occurred, which accelerated inflation. This was followed by a repatriation of assets and new foreign placements to these countries after deflationary measures had been implanted and an international loan, that was often linked with creditors' supervision over internal policies, had been raised. The League of Nations' programme for Austria, which started at the end of 1922, was the first step in the financial restoration, and the Dawes Plan for Germany followed in 1924. This was the

[49] See, for instance, the evidence collected about Spain and Sweden by the French Foreign Ministry at the time of German hyperinflation in AMAE, Germany series, 511 and Switzerland series, 124.
[50] Johannes Houwink Ten Cate, 'Amsterdam als Finanzplatz Deutschlands', in Gerald Feldman et al. (ed.), *Konsequenzen der Inflation* (Berlin, 1989), 149-79. See also this thesis: Wouter Hartmann, 'Amsterdam als Financieel Centrum. Een Beschruvende, Critische en Vergelukende Studie', PhD Thesis, Ghent University, 1937, especially 24.
[51] Siepmann to Rodd, 3 September 1930, Archives of the Bank of England, London, OV 63/22.
[52] The Income Tax Act of 1918 even contained an explicit guarantee of banking secrecy, albeit quite ambiguously, as other clauses in the same act contradicted it. See 'Income Tax Act 1918, section C.8, 354' in *The Income Tax Act, 1918, and Finance Acts. Years 1919 to 1941 inclusive* (London, 1946).

fundamental shift that led to the precarious monetary stabilisation of the 1920s in continental Europe, before the system collapsed amid the banking crisis in 1931. Tax havens had a significant influence on this process, not only because they attracted capital flight during the first phase, but also because they actively participated in the second phase.[53]

Financial history has above all emphasised the large flows of money that came from the United States into Germany because of the Dawes Plan. However, the Dutch and Swiss financial centres extensively contributed to foreign investment in the Reich between 1924 and 1931. Their share of the total export of capital amounted to no less than three-tenths of the total when the financial crisis erupted.[54] Similarly, economic historians have failed to notice how much capital flows from these two offshore centres helped the French monetary stabilisation of 1926. As the French government was not willing to ask for an international loan from Great Britain or the United States because of political concerns, it instead raised a series of small loans in Switzerland and the Netherlands, and these almost reached the total of the European tranches of the Dawes loan in 1926-1927.[55] These credits contributed to the recovery of the confidence in the French franc. Similar examples could be cited regarding the stabilisation processes in Eastern countries, such as Hungary, where the Swiss capital, together with that of the United States and Great Britain, played a leading role from 1924 onwards.[56] It is important to emphasise that many of the investments from the offshore centres were in fact not Swiss or Dutch, but rather belonged to foreign capitalists, and often to investors domiciled where the assets were placed. In the German case, perhaps half of Swiss and Dutch investments after 1924 were of German origin, with the wealth passing through the offshore centres mainly for tax purposes after the monetary stabilisation.[57] This turntable business had a sizeable influence on the economic policies of European countries. First, as exchange controls were no longer in effect after the monetary stabilisation, the countries in which the assets originated were pushed to join the tax competition in order to avoid further capital flight or to ensure that the exported capital would be reinvested in their homeland. Fiscal liberalism thus spread all over Europe during the so-called Roaring Twenties. Banking secrecy was reintroduced, at least partially, in Germany amid a process that had already started during the hyperinflation. On the eve of the Great Depression, the German Reich and France even envisaged competing with small tax havens by implementing tax privileges for holding companies.[58] Second, offshore flows accentuated the lack of confidence in the financial environment that characterised the gold exchange standard. Because of the legitimate doubts about the solidity of the monetary system after the inflationary period, much of the European wealth that was still held offshore was

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53 League of Nations, *Europe's Capital Movements, 1919-1932. A Statistical Note*, unpublished paper, 1943, especially 33.

54 At the end of 1930, 18% for the Netherlands and 13% for Switzerland, compared to 39% for the United States and 15% for Great Britain, according to Karl Born, *Die deutsche Bankenkrise 1931: Finanzen und Politik* (Munich, 1967), 18.

55 Christophe Farquet, 'A Beggar Became A Banker: Financial Relations between Switzerland and France and the Implications for Foreign Policy, from the Belle Epoque to the Phoney War', *The International History Review*, ii (2021), 297-316

56 György Péteri, 'Reserve and 'vehicle currencies' in the financial structures of Hungary, 1924-1931', *Journal of European Economic History*, ii (1993), 339-46.

57 Stephen Schuker, *American 'Reparations' to Germany, 1919–33: Implications for the Third World Debt Crisis*, (Princeton, 1988), 117.

58 For France, see Note of 7 August 1930 and Note of the Director of French Direct Tax Administration, 12 December 1930, CAEF, B 43301. In Germany, holding privileges were even made law several weeks before the turn to financial autarky amid the banking crisis: 'Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen vom 5. Juni 1931', *Reichsgesetzblatt. Jahrgang 1931*, (Berlin, 1931), i, 312. On banking secrecy and tax competition in Europe during the 1920s, see Farquet, *Histoire du paradis*, 125-35.

mainly made available to other countries in short-term placements. In a vicious circle, the volatility of the credit aggravated doubts.

Offshore centres thus contributed to the 'return to normalcy' in the 1920s, which, concerning taxation, was marked by a partial rollback to pre-war fiscal liberalism. Tax havens profited much from the financial liberalisation during the second part of the 1920s, but the trend towards tax competition posed a threat to their attractivity. In the end, offshore centres were contaminated by the other disease that they had contributed to spreading: the instability of the international monetary system. The collapse of the German banking system in 1931 was directly correlated with the capital flight to the Netherlands and Switzerland that again began in 1928. More than the repatriation of American investments, the desertion of inland money anticipated and accelerated the financial and monetary crisis and led Brüning's government to turn to financial autarky in July 1931.[59] This time, these financial centres also influenced Britain's gold drain on a scale comparable to France, which pushed the pound out of the gold exchange standard in September.[60] In 1931, the impact of offshore centres probably reached its peak during the interwar years, but tax havens themselves were hurt by the economic turbulences that they had partly caused. Swiss and Dutch banks suffered heavily from the European banking collapse, and the consecutive turn to financial autarky in Central and Eastern Europe hindered the revival of widespread offshore activities like those of the previous decade. The power of tax havens consequently became less visible during the rest of the 1930s. This decline in offshore finance does not mean that capital flight disappeared before the Second World War. Notably, during the French Popular Front, a new wave of capital went abroad, and it significantly contributed to political destabilisation. Switzerland again welcomed a significant part of it and then reexported French wealth to the United States amid political threats throughout Europe.[61] At the same time, across the Atlantic, wealthy Americans used new tax havens, such as the Bahamas, in response to Roosevelt's highly progressive fiscal policy.[62] However, the offshore world had lost its centrality in the international financial system. At the start of the Second World War, it seemed that its golden age had passed forever.

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[59] See, for instance, Heilbron to Auswärtiges Amt, 8 November 1930, Politisches Archiv des Auswärtigen Amts, Berlin, R 88404. Although it aimed to deny high figures regarding German capital flight in Switzerland published in newspapers, this highly detailed report situated it at 4 billion Swiss francs during the past year, a higher figure than the diminution of all foreign credits between mid-1930 and July 1931, which amounted to no more than 3 billion Reichsmark. On the international role of Swiss banks in 1931, see also Report of Welles Cannon, 5 April 1932, National Archives and Records Administration, College Park, Maryland, RG 59/854.516.

[60] William Hurst, 'Holland, Switzerland, and Belgium and the English Gold Crisis', *Journal of Political Economy*, v (1932), 640.

[61] On French capital flight, see, for instance, Robert Frank, *Le prix du réarmement français 1935-1939* (Paris, 1982), 96-162. Switzerland became the second largest foreign buyers of US securities during the second half of the 1930s, behind Great Britain. See Mira Wilkins, 'Swiss Investments in the United States 1914-1945', in *La Suisse et les grandes puissances, 1914-1945* (Geneva, 1999), 118-20.

[62] *Hearings before the Joint Committee on Tax Evasion and Avoidance. Seventy-fifth Congress* (Washington, 1937), especially ii, 29 June 1937, 199.

Vital Offshore

Tax Havens after the Second World War

There is no doubt that capital flight and tax havens had serious consequences for the international monetary system in Europe after the First World War. Karl Polanyi is one of few recognised political and economic theorists who has observed this role.[63] Even if *The Great Transformation* is not an accurate source for historians, it does have at least one merit: it highlights how much other political scientists, in their search for the roots of further offshore expansion in a single piece of legislation, have failed to understand where and what the offshore economy was during the interwar period. Sol Picciotto, an expert on international tax avoidance, has traced Great Britain's supposed shift to a tax haven to a judiciary decision from 1928 regarding Egyptian Delta Land and Investment Co. This company was managed in Cairo but nominally registered in London, and it was recognised as being taxable in Egypt rather than in England.[64] This thesis, which is widely accepted among scholars, is inaccurate. First, the court decision was merely a clarification of a typical English tax practice that primarily concerned several companies whose boards of directors had previously been transferred abroad; it did not truly increase the attractiveness of Great Britain for foreign companies. Second, the decision confirmed an interpretation of the law that was unrelated to tax competition or evasion per se. Tax havens are used to implement a fiscal residence in a territory where no real economic activities are conducted. Here these companies were nominally registered in London, mainly for political reasons, without fiscally residing in the English capital.[65] At the time, as noted above, fiscal domiciliation could be found elsewhere, such as in the Channel Islands, whose offshore practices could be viewed as an early move towards the rise of tax havens' activities in the British Empire. However, the real historical issue concerning England during the interwar is different: to what extent did the City host foreign hot money after the First World War? In other words, what was the precise role Britain played in the offshore world before the rise of the Eurodollars market starting in the 1960s?[66]

The same objection must be formulated concerning the importance historians and political scientists have granted the well-known article 47 of Switzerland's bank legislation, which was adopted on 8 November 1934.[67] Even if there is no doubt that preserving banking secrecy played a major role in the fiscal attractiveness of the Swiss financial centre from the 1920s onwards, this precise article had almost no influence on it, at least until the Second World War. The article

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[63] Karl Polanyi, *Origins of Our Time. The Great Transformation* (New York, 1944).
[64] Sol Picciotto, *International Business Taxation. A Study in the Internationalisation of Business Regulation* (Cambridge, 1992), 7-8. The final court decision occurred on 23 July 1928 (not in 1929, as it typical in the literature). The case is the following: Todd (H.M. Inspector of Taxes) v The EgyptianDeltaLand and Investment Company, Limited (14 TC 119).
[65] See the sources collected on these cases, including the Egyptian Delta, in TNA, IR 40/3380 and IR 40/4008.
[66] Archival evidence indicates that a fair amount of German capital was probably illegally transferred to London banks during the hyperinflation, but further investigation is needed. See, for instance, Report transmitted by Niemeyer to McKenna, 2 January 1924, Churchill Archives Centre, Cambridge, Papers of Reginald McKenna, MCKN 7/8.
[67] Sébastien Guex, 'The origins of the Swiss Banking Secrecy Law and its Repercussions for Swiss Federal Policy', *Business History Review*, ii (2000), 237-66; Peter Hug, 'Steuerflucht und die Legende vom antinazistischen Ursprung des Bankgeheimnisses. Funktion und Risiko der moralischen Überhöhung des Finanzplatzes Schweiz', in Jakob Tanner and Sigrid Weigel (ed.), *Gedächtnis, Geld und Gesetz: Vom Umgang mit der Vergangenheit des Zweiten Weltkrieges* (Zürich, 2002), 269-321; Marc Perrenoud, 'Secret bancaire et politique étrangère de la Suisse (1932-1962)', *Relations internationales*, i (2003), 27-31.

reinforced banking secrecy by providing a penal protection against any infringements, which was exceptional at the time in Europe. This means that, if an employee gave information on clients' accounts to someone outside the bank, he would immediately be prosecuted, even without a complaint from the client. Article 47 was introduced primarily to prove to depositors that the implementation of a piece of banking legislation was not a step against financial liberalism, but rather a means to strengthen the banking system at a time when Switzerland had suffered from major banks' failures and was struggling to defend the stability of its currency. On a secondary level, it originated from reactions against previous attempts of the French authorities to try to obtain information on the clients of Swiss banks and against some decisions of the Swiss Federal Court between 1930 and 1932 that had slightly weakened Swiss banking secrecy.

However, the validity of the article 47 of the Federal Act on Banks and Savings Banks against tax procedures, which were still mainly in the hands of cantonal jurisdictions, was anything but clear.[68] The same was true regarding international tax laws in the case of a conclusion of a tax assistance treaty with a foreign country: as recent developments from 2013 have proved, this article was not a barrier against international exchanges of information on bank accounts. Swiss banking secrecy thus remained protected not by article 47, but rather by fiscal laws and practices, and by the lack of international convention against tax avoidance. Certainly, the article could be useful in protecting clientele against more hidden manoeuvres launched by foreign authorities to identify assets in Switzerland, but the article's existence was not widely publicised abroad at the time, and thus it could not have been a serious incentive for European capitalists.[69] This case illustrates how much the history of offshore finance, in its attempts to strengthen its legitimacy by focusing on past events that seem striking, is built on misconceptions. Decades later, Swiss bankers would use article 47 to prove the morality of banking secrecy by wrongly pretending that its introduction in 1934 was due to the desire to protect Jewish assets from the Nazis.[70] Historians have rightly deconstructed this myth, but without noticing how insignificant this article was at the time for the Swiss financial attractiveness. They have thus unwillingly replaced a legend with another fiction.

Scholars have been somewhat more accurate when addressing the post-war period. However, some confusion remains about the revival of the offshore economy in the years before the collapse of the Bretton Woods system. First, it is important to remember that, as noted above, the immediate post-war years were neither the birth of the offshore economy nor a period of rapid growth for these activities. Some studies are still inclined to defend the thesis that the high top tax rates and the growth of the Welfare state after 1945 led to a boom for tax havens, but this is fully inaccurate. It does not take into account that, for more than a decade, offshore finance was on the margins of the world economy. The reasons for this situation are obvious. After fifteen years of financial deglobalisation and destruction of capital, first due to the Great Depression and then the war,

[68] In 1938, the Swiss Federal Court chose to leave this issue open, and it had to be resolved on a case-by-case basis: 'Tribunal fédéral (Section de droit public). Audience du 24 juin 1938', *Semaine judiciaire*, xiii, 28 March 1939, 197. For divergent views on this issue, see, for instance, Georges Capitaine, *Le secret professionnel du banquier. En droit suisse et en droit comparé* (Geneva, 1936), 43-83; François Delachaux, *Le secret professionnel du banquier en droit suisse* (Neuchâtel, 1939), 28-44.

[69] Despite years of investigations in European archives, I have never found a single foreign source that indicated a crucial importance to this reinforcement of the Swiss banking secrecy before the Second World War. See, for instance, Montagu Norman's appreciation of the law. Norman to Lefeaux, 17 January 1935, Archives of the Bank of England, OV 63/1.

[70] Conference of Schweizer in front of the Bankers Association for Foreign Trade, in Virginia Beach, 18-22 May 1958, Swiss Federal Archives, E 2200.36(-), 1972/18, vol. 41.

movable wealth had drastically diminished in comparison with the 1920s. The post-war monetary system, which was based on controls of capital flows and financial repression, further hindered the growth of offshore services. In fact, the recall of capital flight's deep impact during the interwar played a substantial role in reshaping the international financial architecture after 1945. In the process that led to the Bretton Woods Agreement, Keynes and White agreed on the need to offer the states the right to supervise movements of capital—for White, at least temporarily—because they were both inspired by the high turbulence generated by hot money in the 1920s and 1930s.[71] Up to a point, despite some waves of capital flight from European countries, notably in the aftermath of the war,[72] these views contributed to the low growth of offshore economies until the end of the 1950s.

Certainly, tax havens did not disappear all over the world at a time when maximum rates of taxes reached peak levels in Western countries. Small tax havens continued to have some room to manoeuvre for providing services for artificial domiciliation and fake financial transactions. In Europe, Lichtenstein never fully lost its position in the offshore market, and, after the end of Spanish occupation, Europeans extensively utilised Tangier in order to implement companies.[73] However, even for these kinds of limited business, the post-war years were not golden ones. Tangier international zone's status as tax haven was short-lived because of the decolonisation: its absorption by Morocco in 1956 almost closed the offshore market at the time. Other countries, such as Luxembourg, momentarily disappeared from the offshore world. Regarding larger tax havens, Switzerland, with its lack of exchange restrictions and its banking secrecy, was the only real financial centre that kept its pre-war status. Nevertheless, the 1940s and 1950s were also a period of slow growth for the Swiss tax havens. During the war, contrary to the common view, Swiss commercial banks decided to re-orientate their business towards the home market, and they extensively bought Swiss public bonds. Until the very end of the war, they did not furnish substantial credit to Nazi Germany or any other belligerent countries, nor did they welcome foreign capital in flight to an extent similar to that of prior periods of offshore frenzy. The main financial service neutral Switzerland provided the German Reich, i.e., recycling gold that had been stolen in occupied countries, was almost exclusively performed through the Swiss central bank from mid-1941 onwards.[74] During the post-war years, even if they continued to welcome some capital in flight, Swiss commercial banks' wealth management stagnated until the mid-1950s, and the number of holding companies shrank. At the end of 1957, there were still fewer holding companies in Switzerland than before the Second World War.[75] This evolution exemplified how much tax havens needed, as before, a decent degree of liberalisation to grow.

From the end of the 1950s, offshore finance experienced a clear revival. Contrary to what Vanessa Ogle recently claimed, decolonisation was not the driving force of this second life of the offshore

[71] See Eric Helleiner, *States and the Re-Emergence of Global Finance. From Bretton Woods to the 1990s* (Ithaca, 1994), 25-50. Compare Keynes's and White's plans in 1942, reproduced in J. Keith Horsefield (ed.), *The International Monetary Fund, 1945-1965. Twenty years of International Monetary Cooperation*, 3 vol. (Washington DC, 1969), iii, 13 and 47.

[72] See, for instance, Arthur Bloomfield, *Speculative and Flight Movements of Capital in Postwar Finance* (Princeton, 1954).

[73] See Paul Decroux, *Les sociétés au Maroc. Zone française, zone tangéroise. Statut juridique et fiscal* (Paris, 1950).

[74] Unabhängige Expertenkommission Schweiz-Zweiter Weltkrieg, *Die Schweiz und die Goldtransaktionen im Zweiter Weltkrieg* (Zürich, 2002).

[75] Eidgenössisches Statistisches Amt, *Statistisches Jahrbuch der Schweiz* (Basel, 1957), 403. Note that, in absolute terms, the amount of the wealth under management in the Credit Suisse did not reach the level of 1930 before 1954 (see note 43 and 44).

economy. This is the second mistaken view that must be clarified. Although there were some important movements of capital from North Africa and from Latin American countries to France and the United States, respectively,[76] the fortunes of rich countries constituted the bulk of the wealth that nourished the rebirth of offshore finance. Evidence from the Swiss archives is very clear on this point: the vast majority of the capital placed in Switzerland came from neighbouring countries.[77] Illicit money and illegal business from decolonised countries contributed to the growth of the Swiss offshore economy in several ways, but this contribution was not decisive in any of the cases shown by Ogle. Firstly, from 1953, Swiss banks welcomed some hot money, which appeared in the statistics of foreign funds established by the Swiss National Bank, but the growth was not extraordinary until 1955, and no evidence proves that the largest part of these funds came from the decolonising world.[78] Secondly, several banks from countries in Africa and the Middle East were formed in Switzerland from the mid-1950s onwards amid the international opening of the Swiss market, but their share of the total assets of foreign banks, except for Israelian banks, remained minimal at the time.[79] A much more crucial fact was the numerous base companies that US multinational companies created for their European businesses in the Swiss Confederation, complemented by incorporations from Germany.[80] Thirdly, Swiss banks accounts began to host the infamous fortunes of some African and Southern American dictators, but one must be cautious when dealing with public archival sources on such delicate issues. However solid the evidence, which varies significantly in each case,[81] this phenomenon was not comparable with the Western countries' elites' use of the Swiss market for tax evasion. Lastly, regarding the idea that the repatriation of European money in former colonies would have decisively fuelled the offshore economy, it is possible that a part of the capital placed in Algeria that was imported in France in 1962 ultimately ended up in Swiss banks accounts, but Algeria is a peculiar case for capital flight, and in the Swiss archives, it is difficult to differentiate this supposed triangular flow from the

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[76] Poul Host-Madsen, 'How Much Capital Flight from Developing Countries?', *Finance and Development, The Fund and Bank Review*, i (1965), 25-33.

[77] Christophe Farquet, 'Les banques suisses et la libéralisation financière. Essor et protection du marché de l'évasion fiscale, 1958-1963', *Revue suisse d'histoire*, lxvii (2018), 298-328.

[78] The foreign funds, as recorded in Swiss banks' balance sheets, grew from 3 252 million to 3 828 million between 1953 and 1955, that is a growth of 17.7%. Although this led to the reestablishment by the central bank of a gentlemen's agreement against excessive capital inflows already in May 1955, due to the inflation inside Switzerland, this was not an impressive increase at all. For instance, during the time that preceded the first implementation of the gentlemen's agreement, between 1935 and 1937, the growth reached 64.2% because of the capital flight from France during the Popular Front. Perrenoud et al, *La place financière*, 584-5. In any case, the qualitative evidences of imported capital from the decolonizing world to Switzerland cited by Ogle start all from 1956.

[79] Thibaud Giddey, 'The Regulations of Foreign Banks in Switzerland (1956-1972)', Paper Presented at the Foreign Financial Institutions and National Financial Systems, EABH Annual Conference, 8 June 2013. Indeed, 70.8% of the assets were in the hands of Western European countries' banks, 12.3% of Israelian banks, and 9.3% of US banks in 1958.

[80] See on that topic Matthieu Leimgruber et al., 'Explaining the Failure of International Tax Regulations Throughout the 20th Century', *Working Papers of the Paul Bairoch Institute of Economic History*, vi (2016), 7. This paper is methodologically of some interest, as it adopts a strong anti-trans-national perspective on this issue.

[81] I have summarised the results of my investigation of Swiss archives regarding these cases, indicating the quality of archival materials for each in: https://archive-ouverte.unige.ch/unige:93527.

continuous evasion of French money into the Swiss tax haven.[82] Macroeconomic evidence must be produced to validate all these ideas.[83]

In fact, much more than decolonisation, the main cause of the new golden age of the Swiss tax haven was the liberalisation of capital flows that occurred starting at the end of the 1950s in Europe. After years of high growth, the capital that the offshore economy needed to prosper was thus available, even more so since the taxes on wealthy people remained high until the 1980s, while the opportunities for tax havens to replace it on foreign markets were multiplied. In this situation, next to France and Germany, Italy intensively fuelled the Swiss offshore market. According to the figures of the Banca d'Italia, the recycling of paper notes from Italy to Switzerland between 1959 and 1963 reached 12 billion Swiss francs.[84] At the same time, the management of securities quickly expanded thanks to a clientele that was still concentrated in European countries. For example, in one single bank, Credit Suisse, the value of securities deposits doubled between 1957 and 1962, reaching 19.3 billion Swiss francs in 1962.[85] According to other estimates, based on the balance of payments, at least some 18.3 billion Swiss francs would have been imported in Switzerland between 1958 and 1963, due mainly to the return to convertibility of European currencies.[86] These dozens of billions should be compared to the capital inflows stated by Swiss banks' balance sheets between 1953 and 1955 that amounted to no more than 576 million Swiss francs, supposedly coming from the decolonizing world – the only macro-economic evidence cited by Ogle regarding Switzerland. In parallel to this tremendous growth of the Swiss tax haven, the other key evolution that stimulated both the liberalisation of capital flows and the offshore economy but was not directly connected with decolonisation was the rise of the Eurodollar market in London at the turn of the 1950s/60s. This helped the City regain its position as an international financial centre, which it had lost after the war. This business, which was primarily driven by the exportation of dollars resulting from the US balance of payments' deficits, circumvented the exchange controls in place at the time. Due to deregulation and the lack of supervision, the Eurodollar market, partly managed by US banks installed in London, soon became the main international interbank market in the world. The use of foreign currencies in banking relations was not an invention, as interwar practices demonstrate,

[82] On French banknotes' smuggling into Switzerland in 1962, see, for instance, Minutes of the Governing Board of the Swiss National Bank, 15 February 1962, Swiss National Bank's Archives, Zürich. This Algerian hypothesis is rarely mentioned in Swiss archives despite the fact that banking secrecy was hotly discussed in Switzerland and in foreign countries in 1962. For instance, the French Ministers of Finance and of Foreign Affairs recognized the large extent of capital flight to Switzerland from France in a conversation with the Swiss Ambassador, without a mention of Algerian funds: Soldati to Micheli, 20 July 1962, *Diplomatische Dokumente der Schweiz* (Zürich, 2009), xxii, 197-9. See also, among others, the Minutes of the Verwaltungsrat of the Swiss Bankers Association, number 242-245, 1962, Archives of the Swiss Bankers Association, Basel; and the files in E 2001 E, 1976/17, 155, Swiss Federal Archives.

[83] Note that an international project I conducted between 2014 and 2016 attempted to address the issue of capital flight from poor countries after the Second World War. However, the project did not meet its goals because of the lack of evidence regarding archives and statistics: https://snis.ch/projects/taxation-and-international-development-north-south-conflicts-over-capital-flight-and-international-taxation-issues-after-wwii-1945-1970/

[84] In these five years, the Banca d'Italia recorded a total of $2 813.5 million of lira banknotes' reflows from abroad. Almost all of them were money smuggling, which was indicated by the fact that 99% of the banknotes were coming from Switzerland and Lichtenstein. Banca d'Italia, *Assemblea Generale Ordinaria dei Partecipanti, Anno 1962* (Roma, 1963), 159; Banca d'Italia, *Assemblea Generale Ordinaria dei Partecipanti, Anno 1963* (Roma, 1964), 195.

[85] As this perhaps represented a fifth of the total in Swiss banks (see note 43 and 44) and it is usually considered that half of the wealth under management belonged to foreign residents, the securities owned by the latter should have reached some 50 billion Swiss francs.

[86] Hanspeter Roth, *Die Bedeutung des Kapitalimportes für den Finanzplatz Schweiz in den Jahren 1959-1964* (Basel, 1971), 50.

but, in the strongly regulated international financial era of the 1950s, this offshore device opened a decisive loophole.[87]

A new architecture of the offshore world thus appeared in the 1960s, and it to some extent resembled that of the second part of the 1920s. The Eurodollar market was at the top of it, but it was intensively fuelled by the foreign money placed in the Swiss financial centre. Starting in the mid-1960s, due to offshore transactions, Switzerland became the first supplier of deposits in the Eurodollar market.[88] The rise of the Eurodollar market in London was furthermore connected to smaller tax havens that increased the opacity of offshore transactions. Indeed, simultaneously, tax havens expanded in the British Empire's territories. In Caribbean Islands such as Bermuda or the Bahamas, Eurodollars boosted a nascent offshore business that dated to the interwar, while bankers also rediscovered the Channels Islands' tax havens.[89] In the end, this new offshore world was one of the leading forces that broke the financial straitjacket of the Bretton Woods system during the 1970s. The liberalisation of capital flows favoured the proliferation of offshore centres, which then contributed to the trends towards deregulation by making the controls on capital mobility inefficient and by exerting a structural pressure on other countries' financial and tax systems. Although signs of growth could be perceived during the two previous decades, the tremendous rise of Asian banking centres, such as Singapore and Hong Kong; the revival of Luxembourg and the Netherlands, together with Netherlands Antilles as tax havens; and the affirmation of the Cayman Islands as a leader in the Caribbean offshore economy dated to the 1970s.[90] In the next decade, the race to the bottom for taxes induced by offshore centres' competition became a common feature of economic policies in Europe, while the US joined the trend by heavily deregulating their financial market for non-residents through the International Banking Facilities and by enacting dramatic tax cuts on high incomes from 1981 onwards.

This turn to neoliberalism could have eventually threatened the existence of tax havens by progressively diminishing their attractiveness or by inducing a reaction against the menace caused by the offshore world to the international financial system. The Swiss tax haven from the 1990s onwards experienced a continuous expansion of wealth management, which became more concentrated in the two biggest banks – UBS and Credit Suisse –, but, at the same, it faced a growing international pressure due to the increasing number of offshore centres and criticisms against banking secrecy. However, on the whole, despite some attempts at regulation, the neoliberal trend stimulated the exponential growth of the offshore economy, which was incorporated as a natural segment of international financial markets at the end of the 20th century. The regulations and taxes in large countries remained sufficiently strict to maintain the competitiveness of tax havens, which profited from the massive expansion of international finance. In other words, everything happened as if the expansion of the offshore world became a necessary component of a second financial globalisation that surpassed by far the extent of the first, while the size of public

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[87] Gary Burn, *The Re-emergence of Global Finance* (Basingstoke, 2006).
[88] Bank for International Settlements, *Thirty-Seventh Annual Report, 1st April 1966–31st March 1967* (Basel, 1967), 140.
[89] See, for instance, the studies in Richard Roberts (ed.), *Offshore Financial Centres* (Aldershot, 1994).
[90] International deposits in tax havens (which are the deposits of non-residents and the foreign currency deposits of residents) grew from $10.6 billion in 1968 to $384.9 billion in 1978. Richard Gordon, 'Tax Havens and their Use By United States Taxpayers – An Overview', A Report to the Commissioner of Internal Revenue, the Assistant Attorney General, and the Assistant Secretary of Treasury, 12 January 1981, 41. See also Swiss central bankers' views on the revival of Luxembourg's offshore centre, in Minutes of the Governing Board of the Swiss National Bank, 27 August 1981, 510, Swiss National Bank's Archives.

expenditures in rich countries, compared to the gross domestic product, remained three times larger than that of the Belle Epoque. It is true that the number of tax havens rose so significantly before the crisis in 2007/8 that the relevance of the concept became questionable, as it included almost all the biggest financial centres. Moreover, even if a gap was still perceptible between countries, such as France or Germany and Switzerland, the impact of tax havens on these big economies was now attenuated by the extent of daily transactions on currency markets which, together with the single currency in Europe, reduced the causal effect of capital flight on monetary disorders. At last, neoliberalism seemed to have domesticated the tax havens.

As we know, this stability was a mirage. The crisis of 2007/8 heavily shook the house of cards, the fragility of which had been previously augmented by the financial frenzy of the offshore world. Tax havens experienced the strongest pressures in their history, and new international fiscal rules were implemented worldwide during the last decade. Whether the extension of these new standards will really hinder illicit capital flows and threaten the existence of tax havens in the near future is a legitimate cause for reflection. It is not a historical question. Rather than trying to teach the lessons of history or looking for anything that resembles the current situation in the past, historians should start doing what they are expected to do – finding, reading, and contextualising sources.