

# Italian Offshore Wealth in Switzerland before and after WWII

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## 1. A capital magnet in the heart of Europe

The possibilities for circumventing domestic taxation through the relocation of assets abroad were numerous between the two world wars. The difficulties of the world economy, the instability of many large countries in the aftermath of the Great War, the lack of international cooperation in monetary and fiscal policy stimulated and facilitated such flows of money. Against this backdrop, the First World War seems to have considerably strengthened the attractiveness of Switzerland to foreign capital<sup>1</sup>. Indeed, already at the beginning of the century the increasing taxation levied on the wealthy classes in many European countries had laid the foundations for an inflow of foreign capital in Switzerland, so much so that some Swiss banks were induced to promote a massive propaganda in the neighboring countries, by praising the advantages of this country as a tax haven. However, World War I marked a real turning point that led the Confederation to be counted among the major financial centres in the world in the long term. In fact, this country turned out considerably strengthened by the status of neutrality during the conflict and had established itself as a refuge for foreign capital, causing a significant increase in funds administered by Swiss banks<sup>2</sup>.

For non-residents, Switzerland had in fact turned into a tax-free zone in the heart of Europe, gaining a leading position in the management of foreign wealth<sup>3</sup>. This applied not only to individuals but also to corporations, as was made clear by the increasingly widespread competition among the several cantons, through a policy of tax breaks to encourage the settlement of foreign holdings, which were usually operated by Swiss bankers and lawyers in order to reduce the tax burden of both companies and individuals: their number exploded from 158 to 2,017 between 1921 and 1939<sup>4</sup>.

The funds managed by the major Swiss banks grew by more than five times in ten years, from 25 billion Swiss francs in 1920 (calculated in Swiss francs of 1990) to 141 billion in 1930<sup>5</sup>. Swiss banks then began to grow rapidly, to the point that in 1929 the country boasted the highest value of bank deposits per capita in the world. Estimates of these inflows from abroad are, understandably, less precise but there is no doubt that they were considerable: before the First World War they could be around two billion Swiss francs; in 1920 they were estimated between 10 and 20 billion; at the beginning of World War II, they were still about 10 billion<sup>6</sup>.

This situation stemmed from the severe weakness affecting many countries in the aftermath of the conflict, and from the ability of Switzerland to offer an economic and institutional environment that was particularly advantageous to foreign capital seeking refuge due to a general tax rise. World War I had in fact brought about a long period of political, financial and monetary turmoil in many European countries, resulting in a strong tax increase to meet the growing needs of the state budget related to the war and subsequent reconstruction.

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<sup>1</sup> For example, on the role played by Germany in the development of the Swiss financial place between the two world wars, see M. Fior, *Les banques suisses, le franc et l'Allemagne: contribution à une histoire de la place financière suisse (1924-1945)*, Geneva 2002.

<sup>2</sup> P. Bairoch, *L'économie Suisse dans le contexte européen: 1913-1939*, cit., pp. 126-127.

<sup>3</sup> C. Farquet, "The rise of the Swiss tax haven in the interwar period: an international comparison", EHES Working paper, n. 27, October 2012, p. 12.

<sup>4</sup> Ivi, pp. 16-17.

<sup>5</sup> S. Guex, "Quelques réflexions historiques", in R. Schwok (a cura di), *Place financière suisse, évasion fiscale et intégration européenne*, Institut européen de l'Université de Genève, Ginevra, 2002, p. 23; J.-J. Friboulet, "Secret bancaire et fiscalité de l'épargne. Un nouvel accord bilatéral entre la Suisse et l'Union Européenne", *Banque & Droit*, 110 (2006), pp. 3-9.

<sup>6</sup> S. Guex, *La politique monétaire et financière de la Confédération suisse. 1900-1920*, Lausanne, Payot, 1993; M. Perrenoud, *Banquiers et diplomates suisses (1938-1946)*, Antipodes, Lausanne, 2011; C. Farquet, "The rise of the Swiss tax haven in the interwar period", cit.

Instead, such a trend did not occur in Switzerland, whose neutrality and the lower incidence of public intervention had made it possible to address and successfully resolve the post-war dilemma between inflation and taxation, keeping both values generally lower than most European countries (see tab. 1 for tax burden). As C. Farquet argues, 'In the second part of the 1920s, and following the stabilization of the monetary systems, Switzerland had by far the lowest tax burden in European countries in relation to the GDP. Moreover, with the exception of the Netherlands, inflation was less strong in the Confederation than elsewhere'<sup>7</sup>. Swiss fiscal policy, which reserved favourable treatment to foreign capital, has then proved undeniably attractive<sup>8</sup>.

Tab. 1 - General tax burden (tax revenues of the central government and local bodies) divided by the GDP, in comparison to Switzerland (=100).

	Belgium	France	Germany	Netherlands	Switzerland	UK
1920	68	167	-	-	100	316
1921	63	158	-	206	100	283
1922	66	116	-	155	100	238
1923	118	-	-	170	100	270
1924	117	154	-	164	100	266
1925	136	147	207	168	100	253
1926	128	-	192	139	100	218
1927	155	174	209	161	100	248
1928	158	191	208	153	100	249

Source: C. Farquet, «The Rise of the Swiss Tax Haven in the Interwar Period: an International Comparison», *EHES Working Papers in Economic History* 2012, p. 7.

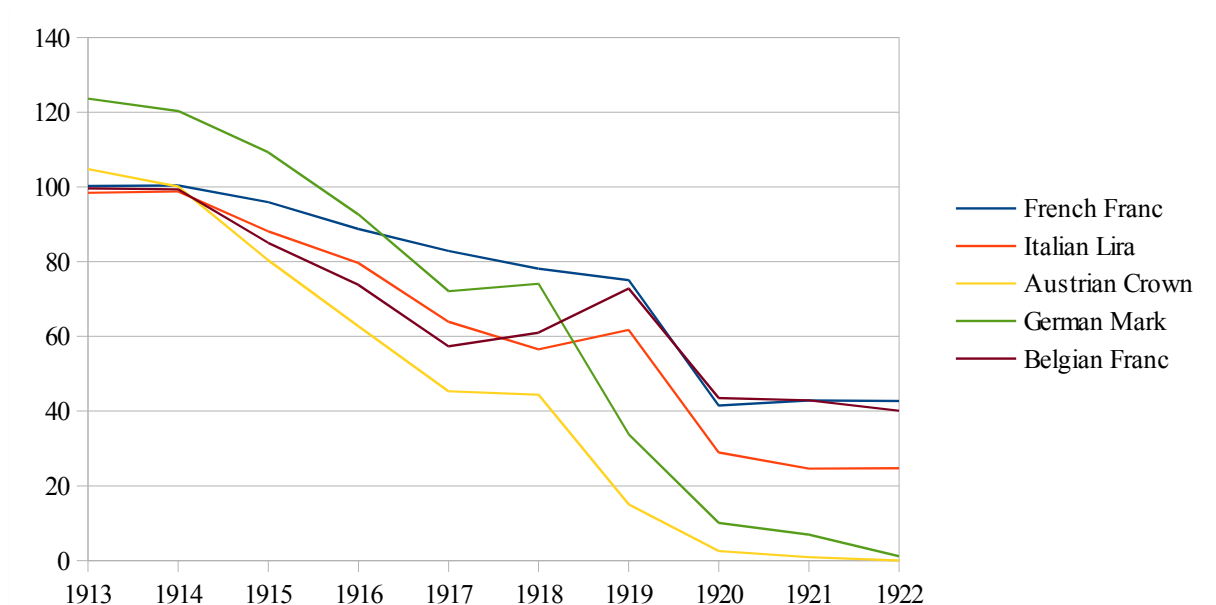
Tax, however, does not tell the whole story. Monetary disorders also encouraged the export of capital from many European countries in the postwar period. In fact, the dramatic depreciation of most of the European currencies turned the Swiss franc into a hard currency and a safe investment (fig. 1). So that a significant proportion of financial resources flowed into the Confederation. Capital mainly from France, Germany, Italy and Austria, began pouring into Swiss banks, being pushed in that direction by a number of advantages that largely compensated for the low interest rates in Switzerland: the solidity of the Swiss franc, the political stability of the Confederation, a moderate tax burden and not least the existence of a bank secrecy, a practice already in place by the end of the previous century.

<sup>7</sup> C. Farquet, "The Rise of the Swiss Tax Haven in the Interwar Period", cit., p. 7.

<sup>8</sup> S. Guex, "The Origins of the Swiss Banking Secrecy Law and Its Repercussions for Swiss Federal Policy", *The Business History Review* 2000, pp. 237-266.

Fig. 1 - Exchange rate of the Swiss franc with the major European currencies, 1913-1922 (Swiss francs per 100 units of foreign currency)

Source: Hansjorg Siegenthaler (ed.), *Historische Statistik der Schweiz*, Zurich 1996, p. 837.



This also explains the transformations of the Ticino banking centre, a Swiss canton bordering the rich Italian region of Lombardy and just a few kilometres apart from the industrial, commercial and financial city of Milan (fig. 2). In fact, soon after World War I some Italian banks settled in Ticino, joining the Banca Commerciale Italiana (BCI) which had gained control over the Banca della Svizzera Italiana (BSI) in Lugano since 1909. They established themselves either through direct branches, as in the case of the Banco di Roma, or taking over a majority stake in a local bank under Swiss law<sup>9</sup>: this was not only the case of the BSI but also of the Banca unione di credito (Buc), founded in Lugano in 1919 on the initiative of the Credito Italiano (Credit)<sup>10</sup>.

A new scenario was taking place, one characterized by a stable presence of large Italian banks in Ticino, where they could have easy access to the Swiss financial market and to the related advantages. These banks, while disinterested in the local economy, were lured there by the possibility of managing banking, commercial and industrial assets through the legal screen guaranteed by a Swiss company, which allowed them to circumvent the more restrictive Italian legislation, especially on currency matters<sup>11</sup>.

<sup>9</sup> Archivio storico Intesa Sanpaolo (Asi)-Bci, Sg, cart. 33, fasc. 22, sf 1; Ivi, AD2, cart. 17, fasc. 23. A. Confalonieri, *Banca e industria in Italia dalla crisi del 1907 all'agosto 1914*, vol. I, *Il sistema bancario in una economia di transizione*, Banca commerciale italiana, Milan, 1982, p. 398; L. De Rosa, *Storia del Banco di Roma*, vol. II, Banco di Roma, Rome, 1983, pp. 243-244.

<sup>10</sup> Archivio storico UniCredit (Asu), Direzione Centrale, Affari finanziari, Partecipazioni bancarie, Banca Unione di Credito, fasc. 73.

<sup>11</sup> R. Romano, *Il Canton Ticino tra '800 e '900. La mancata industrializzazione di una regione di frontiera*, Milan 2002, p. 102.

Fig. 2 – The canton of Ticino and the border area in Lombardy.

Source: Author's own creation.



## 2. Global challenges and national reactions between the Great Depression and WWII

In many respects, the outbreak of the 1929 crisis marked a dramatic change. In particular, financial relations between Italy and Switzerland during the 1930s can be analyzed through a dual perspective. The first is eminently economic and is to consider the effects that the Great Depression had on economic policies that Italy and Switzerland undertook to cope with the great instability and growing protectionism of international markets. The second is political, because it sheds light on the isolation of Fascist Italy following the Ethiopian campaign. This strongly affected international relations, on the one hand by bringing Mussolini closer to Hitler's Germany, on the other by causing a sudden displacement of Italian financial assets from the English and French markets to the neutral Switzerland. Both of them are to be taken into account.

As well-known, a major consequence of the global crisis was a serious monetary disorder resulted in the collapse of the gold exchange standard. In September 1931 the gold convertibility of the pound was officially suspended by the British government. This was followed by the abandonment of parity by the countries most involved in the crisis because of monetary and trade links with England. On the contrary, Italy adopted a deflationary policy in the attempt to preserve the gold standard; the country's economy soon deteriorated due to a declining foreign trade and a frail industrial

system, which eventually led to a gradual erosion of foreign exchange reserves<sup>12</sup>.

Capital flight was one of the main concerns. In fact, immediately after the pound devaluation in 1931, the widespread fear that the lira would also depreciate, led to a drain of capital: withdrawals of foreign capital invested in Italy, hoarding abroad of the currencies obtained from exports, outflow of banknotes and, increasingly, investment in foreign securities or in Italian bonds issued abroad.

In July 1933 some European countries, including Italy, officially declared to join the Gold Bloc<sup>13</sup>; these countries tried a joint resistance against competitive devaluations, complying with the rules of the gold standard. It should be said that while in France, Belgium, Netherlands and Switzerland exchange restrictions were considered contrary to the spirit of Gold Standard, Italy was the only country of the gold bloc to defend its international position with exchange controls, introduced by legislation in 1934 and made even stricter in the following year.

In fact, the increasing trade deficit made it necessary to intervene, due to the fact that Italian reserves underwent a loss of gold for the first time. A sense of skepticism about the stability of the lira then spread in the financial markets, causing a new wave of capital outflows from the country and forcing the government to take steps to enact legislation that ended the monopoly of foreign exchange, just four years after the reintroduction of full freedom in foreign exchange transactions. The purchase of foreign securities or Italian securities issued abroad was thus prevented and the residents were expected to notify the ownership of every assets held abroad. The export of checks and bills was also banned<sup>14</sup>. Exchange controls became more and more extensive with the enactment of numerous binding rules, until 1936 at least.

The decrees issued in 1934 were directed to block any financial transaction that would result in a transfer of national wealth to foreign countries or that could have a speculative nature. All foreign exchange transactions were therefore not allowed except for those meeting the real needs of industry and commerce or those individuals wishing to travel abroad. Moreover, in 1935 imports were also limited through quotas, apart from those goods that were traded through bilateral agreements (clearings), which ended up affecting more than half of total trade<sup>15</sup>.

During 1935 – the year of the Ethiopian campaign and the sanctions against Italy by the League of Nations – the regime took over foreign exchanges and trade in order to block the capital exit and plan the use of currency reserves. In June of that year diplomatic relations got more and more troublesome, foreshadowing the economic sanctions against Italy (launched November 18, 1935 and revoked July 4, 1936). Especially Britain put in place severe restrictions against every Italian bank that would operate in the British financial sphere: acceptance credits were cut off and they were requested immediate cash repayment of all foreign credits. Relations with international finance soon deteriorated, bringing about a shortage in foreign currencies that were necessary to meet the war financial requirements.

Since the end of sanctions, in July 1936, currency stocks were almost completely depleted and Italy fell into autarky. The erosion of central bank reserves and the ailing national economies led to the disintegration of the gold bloc, following the devaluation of all currencies of the group, including the lira. The RDL 5 October 1936, n. 1745, set the new value of the lira, which was realigned to the dollar after a 40% devaluation, compared with the rate fixed in 1927<sup>16</sup>.

The capital export from Italy, although not comparable to the massive flow in the second half of the century, already had a non-negligible weight, although difficult to quantify. A survey in October

<sup>12</sup> Ufficio italiano dei cambi, *Cinquant'anni di storia*, Rome-Bari 1995; G. Raitano, *I provvedimenti sui cambi in Italia nel periodo 1919-1936*, in *Ricerche per la storia della Banca d'Italia*, vol. VI, Laterza, Rome-Bari, 1995, pp. 265-335.

<sup>13</sup> Belgium, France, Italy, Netherlands, Poland and Switzerland were included in the Gold Bloc. M. Storaci, *L'Italia e il Blocco dell'Oro (1933-1935)*, in *Ricerche per la storia della Banca d'Italia*, vol. III, Laterza, Rome-Bari, 1993.

<sup>14</sup> G. Tattara, "La persistenza dello squilibrio dei conti con l'estero dell'Italia negli anni Trenta", in *Ricerche per la storia della Banca d'Italia*, vol. 3, Laterza, Rome-Bari, 1993, pp. 380 e 402-411.

<sup>15</sup> Ivi, pp. 380-382; S. Frech, *Clearing. Der Zahlungsverkehr der Schweiz mit den Achsenmächten*, Chronos, Zurich, 2001.

<sup>16</sup> Archivio storico della Banca d'Italia (Asbi), Banca d'Italia, Vigilanza, pratt., n. 1344, fasc. 1.

1935, carried out by the Swiss National Bank, tried to assess the Italian assets in Switzerland, consisting mainly of bank deposits. A total of about 220 million francs was estimated, including bank accounts and securities, a figure certainly underestimated since only the largest banks were taken into account, while safe-deposits were not included. Only fifty million out of this sum was believed to be declared to Italian tax authorities. Indeed, it was largely a matter of capital flight after 1934, also because of the strict rules that made it compulsory to transfer the Italian assets held abroad to the National Institute for Foreign Exchange (Ince). According to a report by the Swiss Bankers Association, in 1937 Italy was placed third after Germany and France, for funds held in Confederation<sup>17</sup>. In 1944, these were estimated between 500 and 600 million francs (ie between 309 and 371 million francs in 1935, taking into account the consumer price index), excluding precious metals and jewels; these figures were a clear proof of the large amounts of lire illegally exported before and during the war<sup>18</sup>.

Italian lire exported to the Confederation had different origins. Some were Swiss capital previously invested in Italy and subsequently repatriated as well as Swiss industrial and merchants living in Italy who were seeking a safe place in Swiss banks. However, as monetary and political conditions grew troublesome, more and more Italian capitalists tried to secure their money across the border<sup>19</sup>. Monetary uncertainties and deteriorated international relations had probably had an important part in explaining the export of Italian capital. It was mainly a matter of tax fraud, that could capitalize on the Swiss bank secrecy, just strengthened in 1934. Far from blocking cross-border relations, major legislative constraints opened up new business opportunities in an attempt to evade government controls on capital mobility. This was essentially a by-product of a 'push and pull' process, because the worsening of the Italian institutional framework went hand in hand with the strengthening of Switzerland's economic attraction.

As a matter of fact, Switzerland also underwent the negative effects of the global crisis, especially because of its several financial links abroad and the tricky relationships with neighbouring countries, mostly Germany and France. Indeed, tight economic relationships with these countries could make the federal government 'import' external crises, negatively affecting the stability of its banking system. So it is not surprising that, after a decade of strong growth, the convulsions of the international economy during the 1930s and the following world war had the reverse effect of causing a fall in assets under management at Swiss banks. Since 1931, Switzerland was hit by a banking crisis of such proportions that, out of the eight major banks, one failed, another survived only thanks to state intervention, and four had to be radically reorganized.

The point is that by 1930 many neighbouring countries, especially France and Germany, underwent serious financial and monetary distress and massive capital exports to safe havens such as Switzerland. These countries were thus forced to adopt a set of measures to counteract undesirable capital movements, according to a protectionist policy that was to be even more drastic than that taken in previous years. Mainly large Swiss banks were heavily affected by the general economic situation and the spread in Central and Eastern Europe, especially in Germany, of restrictions that hindered not only the outflow of German capital but also the repatriation of foreign capital previously invested in Germany and the transfer of interest<sup>20</sup>.

Besides, relations with France were even more difficult to handle, after the rise to power of a

<sup>17</sup> D. Gerardi, *La Suisse et l'Italie 1923-1950. Commerce, finance et réseaux*, Alphil, Neuchâtel, 2007, pp. 473-476; M. Kuder, *Italia e Svizzera nella seconda guerra mondiale. Rapporti economici e antecedenti storici*, Carocci, Rome, 2002, pp. 85-86; S. Guex, "Les origines du secret bancaire suisse et son rôle dans la politique de la Confédération au sortir de la Seconde Guerre mondiale", *Genèses* 34 (1999), pp. 4-27; M. Perrenoud e R. López, *Aspects des relations financières franco-suisse (1936-1946). Contribution à la recherche*, Chronos, Zurich, 2002.

<sup>18</sup> M. Kuder, *Italia e Svizzera dal 1945 al 1970. Commercio, emigrazione, finanza e trasporti*, Franco Angeli, Milan, 2012, pp. 179-180.

<sup>19</sup> V. Mazzolini, *Le banche nel Ticino*, Tipografia Mesolcinese, Roveredo, 1946, p. 119.

<sup>20</sup> F. Adank, J. Baumann, A. Cortat, R. Lopez, M. Perrenoud, S. Peters, *La place financière et les banques suisses à l'époque du national-socialisme. Les relations des grandes banques avec l'Allemagne (1931-1946)*, Chronos, Zurich, 2002.



centre-left government in 1932, due to its strong commitment to tackle the problem of tax evasion and capital exports. The most notorious episode was undoubtedly the inspection conducted by the French authorities at the Paris offices of Basler Handelsbank. It was soon clear that tax evasion already reached a large amount (something around 1 billion francs, a figure probably underestimated) and the government came to freeze assets held by three Swiss banks in France<sup>21</sup>.

In 1940 the assets managed by major Swiss banks were then halved compared to ten years ago, because the influx of foreign capital fled to Switzerland to escape devaluations and restrictions on foreign exchange could not apparently make up for the adverse effect played by a stricter legislation: large Swiss banks' total balance sheets, after reaching 141 billion francs in 1930 (calculated in Swiss francs of 1990), amounted to 97 billion ten years later, before dropping again to 68 billion in 1950<sup>22</sup>.

This situation was likely to become a serious threat to the Swiss banking system and was then one of the reasons that led the federal authorities to strengthen banking secrecy in 1934, a practice already in place by the end of the previous century as part of the civil law but that now was made subject to the criminal law. In this way, Switzerland was, among developed countries, one in which banking secrecy was applied more strictly: as claimed by S. Guex, 'For Swiss ruling circles, this was a matter of sending out a clear message to foreign customers who felt insecure after the procedures started by the French authorities, namely, that Swiss banking secrecy would continue to be defended even more rigorously in the future'<sup>23</sup>.

Swiss-Italian relations were therefore strongly influenced by these events, which on the one hand provided strong incentives to the movement of capital to Switzerland, on the other posed serious administrative constraints to these flows. Failing accurate data about the phenomenon (except for the previous estimates), it is possible to trace some clues about the consequences of such changes on the local banking systems, especially on Ticino, which represented for Italy the gateway to the Swiss market. A comparison between the deposits collected by two of the largest banks that operated on opposite sides of the border (the Banco Lariano in Como and the BSI in Lugano), highlights the troubles faced in the second half of the decade in Ticino, with due caution, however, since nothing is known of any capital and securities in custody, which do not show up on a balance sheet. While both banks had behaved synchronously during the 1920s, although with different intensity, in the 1930s they appeared negatively correlated: a moderately positive growth of the Lariano compared to a downsizing of the BSI, mostly attributable to withdrawals of foreign capital<sup>24</sup>. That was because of the severe monetary restrictions launched by Italy since 1934 and, probably, also due to the financial needs of the parent company, the Banca Commerciale Italiana (Fig. 3).

In fact, this trend was similar to other foreign affiliates of Italian banks, which had suffered heavily from the sanctions imposed on Italy by the League of Nations. Indeed, the Italian banking system abroad endured many hardships, dealing with deposit withdrawals and temporary credit restrictions by foreign banks: all in all, it turned out to be significantly damaged by the political and financial isolation of Italy.

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<sup>21</sup> S. Guex, "The Origins of the Swiss Banking Secrecy Law", cit., pp. 248-249.

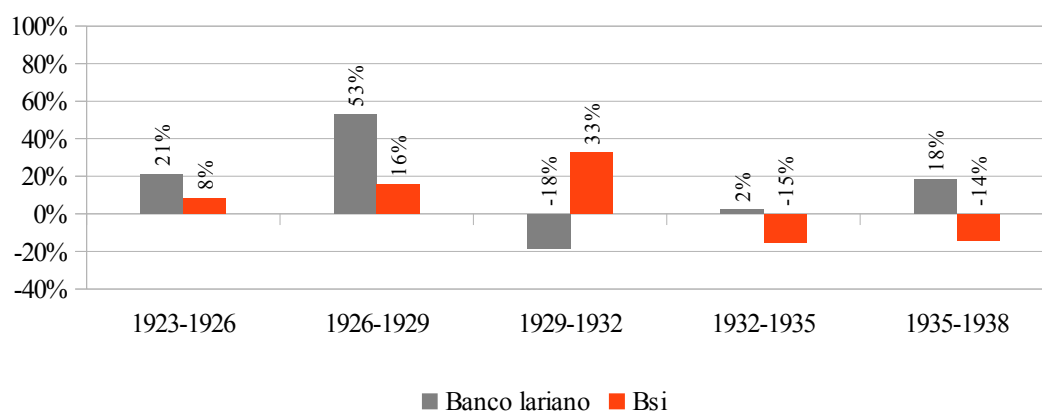
<sup>22</sup> H. Siegenthaler, *Historische Statistik der Schweiz*, Chronos, Zurich, 1996, pp. 810-811; M. Kuder, *Italia e Svizzera nella seconda guerra mondiale*, cit., p. 71; S. Guex, "Quelques réflexions historiques", cit., p. 23; J.-J. Friboulet, "Secret bancaire et fiscalité de l'épargne", cit.

<sup>23</sup> S. Guex, "The Origins of the Swiss Banking Secrecy Law", cit., p. 252. See also Id., "Le secret bancaire suisse. Une perspective historique", *Revue économique et sociale* 60 (2002), n. 1, pp. 9-20.

<sup>24</sup> BSI, *Rapporto agli azionisti*, 1934 e 1937, in Asi-Bci, Us, b, 8.

Fig. 3 – BSI and Banco lariano: percentage change, on a four year basis, of deposits and current accounts (deflated values, base year 1914).

Fonte: Asi-Bci, Us, b, 8; <http://imitadb.unisi.it/home.asp> (last accessed: April 9, 2013).



That being said, it must also be pointed out that after the Ethiopian campaign financial relations between Italy and Switzerland had been gradually intensifying, since Swiss banks had replaced the US, British and French in granting loans to Italian banks<sup>25</sup>. This is clearly proved, in August 1939, when the upcoming conflict foreshadowed a freezing of Italian funds deposited in the warring countries. Therefore, the Italian minister for trade and currencies, Felice Guarneri, ordered banks, administrations, government and parastatal agencies to transfer to Switzerland, preferably to Lugano, the capital placed in London and Paris<sup>26</sup>.

In fact, the Swiss financial centre became crucial for Italian state and parastatal agencies: as a result, some previously existing Italian financial companies were preserved and other were set up from scratch. In 1935 the Justa in Lugano became the holding company to which the Institute for Industrial Reconstruction (IRI) transferred part of its foreign holdings, with the aim of circumventing the sanctions imposed by the League of Nations after the Italian invasion of Abyssinia. This until the end of World War II, when the Italian financial companies in Switzerland were eventually dismantled: by that time, they had become unnecessary, since they held property and loans in Central and Eastern Europe that had been lost due to the conflict<sup>27</sup>. By then, however, Ticino was no longer a marginal area for international capital flows: precisely because of its geographical proximity to the Italian border and in particular to the financial centre of Milan, as well as the common language that made contacts with Italy easier, it had indeed turned into a strategic hub for Italian interests abroad.

### 3. Capital flight from the Golden Age to the 1970s crisis

The illegal flows of capital from Italy to Switzerland grew dramatically in the 1960s, just when the fast economic expansion of the Golden Age was gradually abating. Unlike the 1930s, when a global economic crisis was at its height, this time Italy went through a slowdown of the exceptional

<sup>25</sup> On the Swiss-Italian financial relations between 1936 and 1943, see B. Hauser, *Netzwerke, Projekte und Geschäfte. Aspekte der schweizerisch-italienischen Finanzbeziehungen 1936–1943. Beitrag zur Forschung*, Chronos, Zurich, 2001.

<sup>26</sup> F. Guarneri, *Battaglie economiche tra le due grandi guerre*, vol. II, Garzanti, Milan, 1953, p. 419; M. Kuder, *Italia e Svizzera nella seconda guerra mondiale*, cit., p. 86.

<sup>27</sup> M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., pp. 178-179; R. Di Quirico, *Le banche italiane all'estero. Espansione bancaria all'estero e integrazione finanziaria internazionale nell'Italia degli anni tra le due guerre*, European Press Academic Publishing, Fucecchio, 2000, cit., pp. 268-270; Asi-Bci, Carte Mattioli, cart. 153, fasc. Lory Antonio.



growth recorded during the so-called 'miracolo' (1958-1963), while a widespread international crisis would take shape only in the following decade. Nevertheless, a sizeable exodus of Italian capital was already in place. In many respects, the weak Italian institutional framework was largely responsible for this process, but also the investment opportunities in the international markets were to act as a veritable magnet.

It must be said that the illegal export of Italian capital to the Confederation had never ceased to be carried out in the previous years of strong economic growth. A part of the savings of Como, an Italian province immediately bordering Switzerland, had long since fled into the coffers of Swiss banks, even at the expense of the necessary investments for the modernization of local industries<sup>28</sup>. But if it is virtually impossible to detect the time when such cross-border transfers began, it is certain that it was no longer possible to ignore them in the 1950s, probably even causing a contraction in the growth rate of bank deposits in Como<sup>29</sup>.

The issue deserves attention because it sheds new light on the financial relations between the two countries throughout the 1950s. It is usually argued that this decade was a phase when the Swiss market was mainly a supplier of cheap capital (loans and bond issues at interest rates less than 2.5% -3.5% compared to similar operations carried out in Italy) on behalf of Italian public bodies and private companies<sup>30</sup>. This view, however, may be fully understood only if it is related to the presence of large Italian financial resources within the Confederation. For instance, the successful bond placement by the Italian company Montecatini in Switzerland in the mid decade was mostly explained by the existence of these funds<sup>31</sup>.

That said, the illegal export of currency became really worrying on a national scale in the 1960s, as witnessed by the increasingly frequent seizures of Italian banknotes at the border. The process was speeding up dramatically: multifaceted reasons of both structural and cyclical nature brought about a real flight of capital from Italy, so much so that it ended up to adversely affect the national balance of payment. The Italian political and economic framework was actually marked by noticeable changes during the 1950s and 1960s. The gradual disappearance of the 'economic miracle' was the most striking change in this regard. Wage rises and reduced investments and profits were among the factors that led to a slowdown in growth and to a greater economic instability<sup>32</sup>.

The illegal export of capital was not driven only by declining profit rates, but more generally by the desire to escape the strict exchange controls for a variety of reasons, among which the fear of fiscal control in the face of increasing levels of evasion, the existence of tax incentives, the concerns about a possible devaluation of the lira, the uncertainty on the evolution of the national political-economic context, as well as the backwardness of the Italian financial market<sup>33</sup>.

In Italy, a strong Communist Party – one of the most influential in Western Europe – and the first center-left governments since 1962 spread concern in business and financial circles, especially after a number of measures such as the nationalization of the electricity sector and the attempt to enforce the registration of shares. In January 1963 a tax on dividends was also introduced, which distin-

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<sup>28</sup> Asbi (Como), *Relazione sull'andamento economico nella Provincia di Como*, 1955; G. Nardozzi, *Miracolo e declino: l'Italia tra concorrenza e protezione*, Laterza, Rome-Bari, 2004, pp. 28-29.

<sup>29</sup> Asbi (Como), *Relazione sull'andamento economico nella Provincia di Como*, 1956 e 1963.

<sup>30</sup> Especially in the 1950s, Switzerland was a source of capital for Italy: between 1954 and 1961, Italy received about 900 million francs of public and private loans and bonds issued in Switzerland. L. Segreto, "Le relazioni finanziarie tra l'Italia e la Svizzera (1945-1971)", *Rivista di storia economica* XVII (2001), n. 2, pp. 201-234; M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., pp. 193-200.

<sup>31</sup> Asbi (Como), *Relazione sull'andamento economico nella Provincia di Como*, 1954.

<sup>32</sup> A. Cardini, *Il miracolo economico italiano (1958-1963)*, Il Mulino, Bologna, 2006; G. Crainz, *Storia del miracolo italiano: culture, identità e trasformazioni fra anni Cinquanta e Sessanta*, Donzelli, Rome, 2005; M. Salvati, *Occasioni mancate. Economia e politica in Italia dagli anni '60 a oggi*, Laterza, Rome-Bari, 2000.

<sup>33</sup> Securities investments were hampered by the small number of listed companies, a lack of transparency and a regulatory regime that was not conducive to the spread of modern financial instruments such as investment funds. F. Barbiellini Amidei, C. Impenna, "Il mercato azionario e il finanziamento delle imprese negli anni Cinquanta", in F. Cotula (ed.), *Stabilità e sviluppo negli anni Cinquanta*, vol. 3, Laterza, Rome-Bari, 1999, p. 808.

guished between residents (subject to a tax of 15% as a down payment) and non-residents (only subject to a single tax of 15%). Doing so, however, Italian investors were encouraged to hide their own identity behind a foreign entity. The rule was modified a year later, removing any convenience to relocate abroad, and again in 1967, when unequal tax treatment in favor of foreign investors was eventually reintroduced, although in this last phase fiscal reasons seem to have had a secondary effect on these financial outflows. These latter, instead, were increasingly attracted by the high yields provided by the Eurodollar market<sup>34</sup>.

This process would not have been possible without significant changes in currency regulations. These have taken place since the mid 1950s and have led to a greater liberalization in foreign exchange. In addition, the 1958 European Monetary Agreement restored the external convertibility (for non-residents) of the lira, while Italians were still not allowed to export lire, to own foreign currency and to make investments abroad without official permission.

Italy had then to confront the need of attracting foreign investments, while preserving the national balance of payments. To this end, only foreign capital invested in Italy for productive purposes was initially granted full and free transferability abroad, but this possibility was not envisaged as to 'portfolio' investments, which kept to be subject to some restrictions. The distinction between the two kinds of investment entailed two different types of accounts which foreign capital was credited to: the 'conti estero', where productive investments were collected thus benefiting from the free convertibility and transferability; and 'conti capitale', where other forms of investments were grouped together, such as securities and real estate.

Such a situation went on until 1961, when a possibility to transfer funds from the 'conto capitale' to the 'conto estero' was eventually introduced, opening a gap in the system of exchange control. With this, any capital payable to non-residents, productive or non-productive, became immediately convertible and transferable, while the prohibition of exporting lire and holding foreign currencies continued to be applied only to Italian people and companies<sup>35</sup>.

This made it therefore possible and advantageous to relocate illegally Italian capital abroad, especially in times of institutional crisis, ie in 1963 and in 1968-69. The negative effects that occurred on the balance of payments forced the Italian authorities to undertake a credit crunch and appropriate fiscal measures to return to a situation of stability. However, this outflow reached such an intensity as to cause a tightening of exchange control and capital movements in the 1970s (for example, the possibility of changing the Italian banknotes reimported was suspended), leading ultimately to the introduction of a criminal law for currency matters. Even so, the leakage of money from Italy did not come to an end<sup>36</sup>.

It is not possible to quantify precisely the actual size of capital flowing to Switzerland, nevertheless, the available estimates – exceeding nine billion francs in 1969 – suggest that, during the 1960s, Italy was no longer a net debtor but a net creditor to the Confederation. Since much of the Italian capital flight was still carried out as banknote smuggling, we can assume that remittances of Italian notes from abroad were a good proxy in this regard. Such flows occurred in two distinct phases, a first illegal (export of Italian banknotes to Switzerland) and a second legal (Swiss banks sending these notes back to Italian banking correspondents). It follows that Italian banks served as terminals for the lire previously exported through illegal channels. This way, the illegal export of lire to Switzerland is estimated to reach an amount equal to 2.5% of Italian GDP in 1963 and 2.3% in 1969 (tab. 2 and fig. 4)<sup>37</sup>.

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<sup>34</sup> M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., pp. 201ff.

<sup>35</sup> Ufficio italiano dei cambi, *Aspetti giuridici e principali strumenti tecnici del controllo dei cambi*, Laterza, Rome-Bari, 1996, pp. 258-262.

<sup>36</sup> Ufficio italiano dei cambi, *Cinquant'anni di storia*, cit., pp. 64-69 and 302-308.

<sup>37</sup> M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., pp. 212-220; Banca d'Italia, *Assemblea generale ordinaria dei partecipanti. Anno 1962*, Banca d'Italia, Rome, 1963, pp.159-160; Documenti Diplomatici Svizzeri, banca dati online Dodis: [dodis.ch/18759](http://dodis.ch/18759).

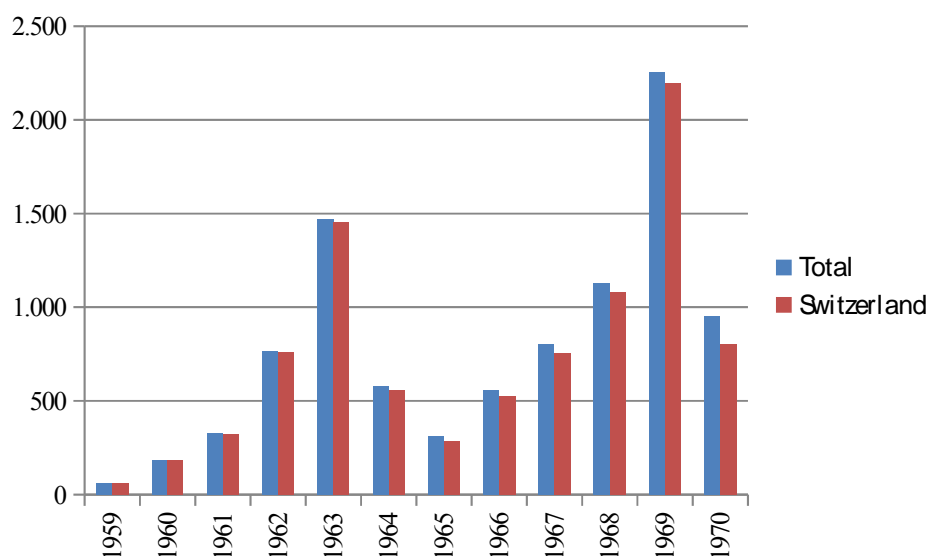
Tab. 2 – Banknotes remittances (lire) from Switzerland to Italy (million dollars and as a percentage of total remittances from abroad)

Year	Switzerland	Switzerland/Total
1959	62	99,4%
1960	185	99,9%
1961	319	96,8%
1962	762	99,5%
1963	1.456	99,0%
1964	557	96,5%
1965	287	91,6%
1966	523	93,6%
1967	757	94,5%
1968	1.079	95,7%
1969	2.193	97,2%
1970	802	84,3%

Source: M. Kuder, *Italia e Svizzera dal 1945 al 1970. Commercio, emigrazione, finanza e trasporti*, Franco Angeli, Milan, 2012, p. 341.

Fig. 4 – Banknotes remittances (lire) from Switzerland to Italy and total from abroad (million dollars)

Source: author's elaboration.



How much of this money has been collected by Ticino banks is hard to say, but the dramatic growth of the managed funds (increased by 242% between 1956 and 1966 – from 796 to 2,722 million francs – compared to a 168% for Swiss banks as a whole) and the establishment of several banks in Lugano clearly pointed out to the contribution of the nearby Peninsula to the Ticino's 'banking boom'<sup>38</sup>. After all, bringing money to Switzerland, especially to Lugano, was now very common among wealthy Italians and entrepreneurs, as vividly described by Norris Willat, who

<sup>38</sup> P. Cornaro, *Le banche ticinesi. Premesse, vicende, realtà*, Casagrande, Bellinzona, 1969, pp. 117ff.; L. Segreto, "Le relazioni finanziarie tra l'Italia e la Svizzera (1945-1971)", cit., pp. 219-221 and 224-225; S. Toppi, "La crescita economica (1945-1975): la ricerca di aperture e l'avvento del terziario", in R. Ceschi (ed.), *Storia del Cantone Ticino*, t. II, Casagrande, Bellinzona, 1998, pp. 633-636.

emphatically headlined an article in the journal 'The Banker' in February 1969: 'Lugano: New Banking Magnet'<sup>39</sup>.

While large public and private Italian companies such as Pirelli, Fiat, Finsider, Montecatini and Imi had established their own financial companies in Zurich, Basel and Geneva, the long list of banks set up by Italian economic actors (banks, businessmen, financiers or stockbrokers) in Ticino was almost unbelievable given the small size of the canton: Banco di Roma per la Svizzera (1947), Cornèr Bank (1952), Interchange Bank (1954), Banca di credito e commercio (1954), Banca del Gottardo (1957), Banca del Ceresio (1958), Banca del Sempione (1960), Banca Prealpina (1963), Banca commerciale di Lugano (1963) and Banca Vallugano (1964). These banks joined the already existing Banca Unione di Credito – founded by the Credito Italiano in 1919 and taken over by Fiat in 1947 – and the BSI, which was still under control of the Banca Commerciale Italiana<sup>40</sup>.

The issue is by no means negligible and proves how the birth and growth of the Ticino banking place was not only associated to, but also developed before the sharp increase in capital export in the 1960s. Indeed, it was a necessary premise. The reason for such a success was ultimately related to the fact that Switzerland had taken on an intermediary role with international markets, thanks to a more liberal legal framework and financial tools more advanced than Italy<sup>41</sup>. On the contrary, the Italian long-term growth was seriously affected by two heavy obstacles such as a backward financial market – a narrow stock market, also due to a legislation penalizing any equity investment – and a widespread tax evasion<sup>42</sup>.

It is important to note that the Swiss banking system was influenced not only by the huge influx of foreign capital, but also by the new investment opportunities offered by international markets, as well as by the government measures to curb the inflationary impact that these flows were likely to have on the national economy. In short, changes in Swiss banking were the joint result of a complex interplay of factors that partly came from outside the country (the inflow of foreign capital and the simultaneous attraction exerted by international markets) and partly derived from specific decisions made by the Swiss state seeking to preserve the strength and stability of the national currency.

This seems particularly apparent when you consider how the final destination of Italian capital exported to Switzerland has changed over time. In fact, while a part of them was initially re-invested in Italy under Swiss nationality, in the late 1960s these funds tended to remain in Switzerland or to be invested in the Euromarket, a new source of international capital, which was rapidly growing in those years thanks to higher returns on capital<sup>43</sup>. Such a change was also a by-product of the measures adopted by the Swiss government in order to slow inflation down, by diverting foreign capital from domestic market to the international ones. It thus acted as a spur for Swiss banks to embark on a multinationalisation process and to set up affiliated companies in several offshore centres<sup>44</sup>.

Moreover, this went hand in hand with a remarkable increase in off-balance-sheet business

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<sup>39</sup> N. Willat, "Lugano: New Banking Magnet", *The Banker*, 1969, pp. 148-153.

<sup>40</sup> L. Segreto, "Le relazioni finanziarie tra l'Italia e la Svizzera (1945-1971)", cit., pp. 220-221; M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., pp. 201-203; G. Biscossa, F. Van Kuyk, D. Ambrosioni, *1947-1987 I quarant'anni del Banco di Roma per la Svizzera nella realtà luganese e ticinese*, Banco di Roma per la Svizzera, Lugano, 1987.

<sup>41</sup> M. Kuder, *Italia e Svizzera dal 1945 al 1970*, cit., p. 201.

<sup>42</sup> F. Barbiellini Amidei, C. Impenna, "Il mercato azionario e il finanziamento delle imprese negli anni Cinquanta", cit.

<sup>43</sup> C. Schenk, "The Origins of the Eurodollar Market in London: 1955-1963", *Explorations in Economic History* 35 (1998), n. 2, pp. 221-238; S. Battilossi, "L'Italia e l'internazionalizzazione del sistema bancario e finanziario (1958-1981)", in A. Giovagnoli, S. Pons (eds.), *L'Italia repubblicana nella crisi degli anni settanta*, vol. 1, Rubbettino, Soveria Mannelli, 2003, pp. 197-231.

<sup>44</sup> According to the 1960 Gentlemen's Agreement, for example, banks gave up collecting overseas demand deposits, agreed not to pay interests on the long-term and to charge negative interests on the increase in the latter. Besides, restrictions were envisaged on foreign investments in Swiss securities. On the basis of a 1965 law, a withholding tax on income earned from assets such as Swiss bank deposits, stocks and bonds, etc. was also levied on foreigners. This did not applied, however, to fiduciary deposits placed abroad, whose interests were paid without deduction of any withholding tax and wholly credited to the customers. In addition, these transactions were not subject to stamp duty. *L'economia svizzera. Cifre, fatti, analisi 1946-1986*, Unione di banche svizzere, Zurich, 1987, pp. 87, 96, 183-187; S. Toppi, "L'economia: l'età delle incertezze (1975-1990)", in R. Ceschi (ed.), *Storia del Cantone Ticino*, t. II, cit., p. 646.

(fiduciary and securities transactions, asset management, etc.). It is a distinctive feature of Swiss banking, especially when reference is made to the 'foreign banks' category, one made up of institutions mainly under control from abroad and branches of foreign banks, where fiduciary transactions were typically more than the whole balance-sheet<sup>45</sup>. For example, following the inflow of sizeable fiduciary funds (which enjoyed more favorable tax conditions than traditional forms of bank deposits), a major Ticino bank such as the BSI was pushed to place them in foreign affiliates that had been established since the 1970s, especially in offshore centres, e.g. Bahamas, Channel Islands, Monaco and Luxembourg.

#### 4. Concluding remarks

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In the long run, financial relations between Italy and Switzerland are clearly influenced by a complex set of economic and institutional imbalances which have put in place a 'push-pull' mechanism. In Italy, on the one hand, a political and economic instability has given rise to large outflows of capital towards Switzerland. Some examples of this were provided by the risk of currency devaluation in the early 1930s, the international tensions following the Ethiopian campaign a few years later, or the widespread concerns to the entrepreneurial class after the coming to power of centre-left governments in the 1960s. In Switzerland, on the other hand, a long-standing stability, together with an effective state commitment in preserving banking secrecy, have been key advantages for this country worldwide.

Of course, national specificities have interacted with broader changes in the world economy and international political relations, since the Great Depression to the international exchange control under the Bretton Woods system, until the rise of the Euromarket. Faced with these new scenarios and the increasing internationalisation of the world economy, what role for the nation state?

The Italian state, heavily affected by periodic national and international crises, has repeatedly stepped in to try and limit the negative consequences on the balance of payments and exchange rate stability. So it happened in 1934, leading to the re-introduction of monopoly on foreign exchange, so it was repeated during the 1960s and even more in the next decade in an effort to put a stop to capital flight abroad. The point, however, is that these interventions seem, after all, have had only partial effectiveness, since they did not interfere with the structural roots under the problem.

Rather, under the Bretton Woods system (according to the trilemma by Obstfeld and Taylor, fixed exchange rates and free monetary policies involve restraints on capital movements<sup>46</sup>), such controls made capital export illegal and closely related to the central issue of tax evasion which, from a social and economic point of view, was a widespread plague. Therefore, free capital mobility, in itself desirable to benefit from the increasing investment opportunities provided by international markets, was mixed up with the unlawful embezzlement of taxable income and the weakening of a distinctive nation state's prerogative, i.e. the ability to tax.

The Swiss state, for its part, has played a central role in ensuring the stability of the institutional framework and the maintenance of banking secrecy against international pressures, especially in times of serious crisis of public finance and balance of payments. Of course, Switzerland has largely benefited from instability abroad, which probably explains the 'benign neglect' the central government had for Swiss banks, except when the inflow of foreign capital reached such an amount as to threaten the very stability of the national economy, forcing the Swiss authorities to adopt anti-cyclical measures in order to dampen inflationary pressures.

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<sup>45</sup> A fiduciary deposit is an investment placed provisionally with an overseas bank, in the name of the Swiss bank, but for the account and at the risk of the customer. Banks receive fees for the intermediation service. *L'economia svizzera. Cifre, fatti, analisi 1946-1986*, cit., pp. 93, 96.

<sup>46</sup> M. Obstfeld, A. Taylor, *Global Capital Markets: Integration, Crisis and Growth*, Cambridge University Press, 2004, pp. 29-41.

Ultimately, the nation state had to confront the deep changes occurred in the international economy during these decades, not having sufficient power or lacking a real will/convenience to step in and influence them decisively. The case presented in this article shows, however, as state action has never been passive. The measures taken at national level have in fact been able to shape and direct money flows: the Italian protectionist legislation, even though failed to stop capital flight, has confined a non-negligible part of international capital movements to a 'black economy'; Swiss interventions against the re-use of foreign capital within the Confederation have encouraged their placement abroad, so that Switzerland would play the renown function of 'capital turntable'.

Italian capital has still been exported to the Confederation in the past few decades, as witnessed by the tax shields decreed by the Italian government in the new millennium (and also by the recent Italo-Swiss agreement on February 2015 that put an end to banking secrecy), and this would leave no room for doubt about the everlasting interplay between global forces and national needs. The question is what new function will be played by the Swiss state in the face of an ever-increasing demand of tax cooperation from major world powers.

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