Capital Flight and Tax Competition after the First World War: The Political Economy of French Tax Cuts, 1922–1928

CHRISTOPHE FARQUET

Using a wide variety of European archival sources, this article analyses the development of financial policies after the First World War. Through studying French politics it demonstrates how, following the significant increase in direct fiscal charges in order to cover the costs of the conflict, international fiscal competition exercised strong pressure on the tax systems of large European countries and, as a result, contributed over the course of the 1920s to a process of lowering the taxes levied on high revenues and fortunes. Significantly, the stabilisation of the French franc in 1926 was supported by a simultaneous alignment of the French tax system and neutral tax havens which in turn enabled the return of previously exported assets.

During the liberalisation of financial markets over the last thirty years international tax competition has gradually become an unavoidable pressure acting on all tax systems. Faced with the increased mobility of capital and the simultaneous proliferation of tax havens and offshore centres, many states have chosen to prevent the relocation of investments by reducing significantly the levels of taxes on multinational corporations and wealthy taxpayers. Although some countries, as a result of the financial crisis of 2007–2008, have initiated new regulations regarding offshore practices, the basis of tax competition (the conflict between the free movement of capital and the anchoring of tax systems on national territories) has faced only minor challenges in key arenas of political decision making.

Owing to the strong influence of market deregulation on state policies across the globe during the last several decades, it is hardly surprising that the economic and historical literature has portrayed tax competition as a recent phenomenon that is

Christophe Farquet, Swiss National Foundation, Mobility Grant 2018; chr.farquet@gmail.com

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closely correlated to the current stage of financial globalisation.[1] Notwithstanding, econometric analyses of the evolution of tax rates on incomes of earlier periods have demonstrated that an initial, very sharp, decline occurred in all countries in the mid-1920s, before the resurgence of state interventionism during the Great Depression set in motion a tendency towards an increased tax burden that would continue beyond the Second World War.[2]

To what extent did the threat of a relocation of assets cause this temporary dismantling of the progressive taxation on wealth and income introduced in European countries to cover costs induced by the First World War? This simple question has received very little attention in the historical literature of the interwar period. There are several reasons for this. First of all, 'capital flight' (the large-scale exodus of capital and financial assets from a nation) is not easily measurable, and the lack of statistics may explain, at least in part, why economic historians seem to be unwilling to deal with the issue. Tax evasion and illicit flows of capital are also sensitive topics from a political point of view, often related during the interwar years to scandals and conspiracy theories, which is perhaps another reason of the reluctance shown by historians. Moreover, the study of international tax evasion and tax competition is placed between two fields of research that largely ignore each other: tax history and history of finance. This could also explain why this issue remains a black hole in the historical narrative of the interwar years.

To be sure, national fiscal histories have highlighted the strength of the resistance to progressive taxation in these years.[3] Opposition to an increase in direct taxes came particularly from conservative parties all over Europe. The huge extent of tax avoidance by capital holders is also well documented: non-compliance was stimulated during the years that followed the First World War by a sudden rise of the tax burden, as well as by the weaknesses and disorganisation of tax administrations.[4] The transformation of neutral European countries such as Switzerland into tax havens has been noted by historians. Although this change had begun before the war, it

[1] The academic debate on tax competition began at the end of the 1980s. See Dwight Lee and Richard McKenzie, 'The International Political Economy of Declining Tax Rates', *National Tax Journal*, 42, 1 (1989), 79–83; Jacob Frenkel, Assaf Razin and Efraim Sadka, *International Taxation in an Integrated World* (Cambridge, MA: MIT Press, 1991); Sven Steinmo, *Taxation and Democracy. Swedish, British, and American Approaches to Financing the Modern State* (New Haven: Yale University Press, 1993), 156–92; Vito Tanzi, *Taxation in an Integrating World* (Washington: The Brookings Institution, 1995).

[2] See, for instance, Facundo Alvaredo, Anthony Atkinson, Thomas Piketty and Emmanuel Saez, 'The Top 1 Percent in International and Historical Perspective', *Journal of Economic Perspectives*, 27, 3 (2013), 7.

[3] See, for instance, Nicolas Delalande, *Les batailles de l'impôt. Consentement et résistances de 1789 à nos jours* (Paris: Seuil, 2011), 243–374; Joseph Thorndike, *Their Fair Share: Taxing the Rich in the Age of FDR* (Washington: Urban Institute Press, 2013).

[4] See, for instance, Peter-Christian Witt, 'Tax Policies, Tax Assessment and Inflation: Towards a Sociology of Public Finances in the German Inflation, 1914–1923', in Peter-Christian Witt, ed., *Wealth and Taxation in Central Europe. The History and Sociology of Public Finance* (Leamington Spa: Berg, 1987), 137–60; Frédéric Tristram, 'L'administration fiscale et l'impôt sur le revenu dans l'entre-deux-guerres', *Etudes et documents*, 11 (1999), 211–42.

became particularly significant from the First World War onwards.[5] However, the effects of capital flight on tax systems and divergences between levels of tax burden across European countries have essentially been neglected until now. Tax competition remains a *terra incognita* as far as the interwar years are concerned.[6]

The same observation may be made regarding the history of financial relations. Economic historians have, of course, noted the link between tax increases and capital flight in the early 1920s.[7] Nevertheless, their exploration of this topic has remained on the whole superficial and incomplete. On the one hand, according to most studies, taxation appears to be a secondary factor in the matter of capital exports compared with currency depreciation or political disturbance.[8] On the other hand, even if they admit the incidence of capital flight, economic historians have neglected the reverse side of tax competition: namely, the need to decrease the tax burdens on capital owners in order to repatriate the assets that were previously sent abroad. Financial historians tend to ignore the central role played by tax reductions during the implementation of monetary stabilisation programmes in inflationary countries and the so-called return of confidence these plans were aimed at achieving during the 1920s.

The aim of this article is to explore how capital flows influenced the decision made by governments to soften direct tax burdens in the 1920s. International tax evasion and tax competition were at the time crucial issues in internal political debates and in interstate relations because, ultimately, they raised the question of the cost of the war and its distribution among social groups and countries. Of course, capital flight is above all a part of the acute conflicts between classes that erupted all over Europe after the armistice. For companies and wealthy people, the expatriation of

5 On the development of tax havens before the Second World War, see Ronen Palan et al., *Tax Havens. How Globalization Really Works* (Ithaca: Cornell University Press, 2010), 107–23; Christophe Farquet, 'The Rise of the Swiss Tax Haven in the Interwar Period', *EHES Working Papers*, 27 (2012); Christophe Farquet, *La défense du paradis fiscal suisse avant la Seconde Guerre mondiale: une histoire internationale* (Neuchâtel: Editions Alphil-Presses universitaires suisses, 2016); Christophe Farquet, *Histoire du paradis fiscal suisse*, (Paris: Presses de Sciences-Po, 2018). For the limited extent of this phenomenon before the First World War, see also Mark Spoerer, 'Wann begannen Fiskal- und Steuerwettbewerb? Eine Spurensuche in Preussen, anderen deutschen Staaten und der Schweiz', *Jahrbuch für Wirtschaftsgeschichte*, 43, 2 (2002), 35–59.

6 Recently researchers have preferred to focus on transnational influence of tax norms. See, for instance, W. Elliot Brownlee, Eisaku Ide and Yasunori Fukagai, eds., *The Political Economy of Transnational Tax Reform. The Shoup Mission to Japan in Historical Context* (Cambridge: Cambridge University Press, 2013).

7 See, for instance, Harold James, 'Financial Flows across Frontiers during the Interwar Depression', *The Economic History Review*, 45, 3 (1992), 594–613; Gerald Feldman, *The Great Disorder. Politics, Economics, and Society in the German Inflation, 1914–1924* (Oxford: Oxford University Press, 1993), 598–9; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1995), 172–83; Niall Ferguson, *Paper and Iron. Hamburg Business and German Politics in the Era of Inflation, 1897–1927* (Cambridge: Cambridge University Press, 1995), 274–7. For references on French history, see note 32.

8 There are a few exceptions. See, for instance, Barry Eichengreen, 'The Capital Levy in Theory and Practice', in Rüdiger Dornbusch and Mario Draghi, eds., *Public Debt Management: Theory and History* (Cambridge: Cambridge University Press, 1990), 202–13; Pierre-Cyrille Hautcoeur and Pierre Sicsic, 'Threat of a Capital Levy, Expected Devaluation and Interest Rates in France during the Interwar Period', *European Review of Economic History*, 3, 1 (1999), 25–56.

profits and assets was the easiest means of avoiding both taxes and inflation, while simultaneously putting pressure on governments to adopt monetary and financial policies that were favourable to them. But it was also a major source of tensions between countries. Indeed, capital flight and tax evasion prevented Germany from paying the war reparations to the Entente, or, at least, the Reich government claimed this was the case, whereas it strengthened the influence on the financial system of banking centres where assets took refuge. Consequently, tax competition appeared also on the international scene. The first attempts to implement multilateral tax regulations were made at the League of Nations during the 1920s.

After describing the functioning of international tax competition in Europe after the First World War, the article will demonstrate this process through careful consideration of French policies from the early 1920s until the stabilisation of the franc undertaken by the government of Raymond Poincaré in 1926. Because of the huge haemorrhage of capital and assets across French borders, and because of the specific interest the French had in Germany's payment of reparations, France was probably the country where this issue was the most important in political debates. Based on a wide range of French sources, as well as on archives from four other European countries, the article demonstrates the decisive influence of capital flows and foreign financial centres on French tax policies during the 1920s.

The Rules of the Game: Tax Hikes, Tax Avoidance and Capital Flight after the First World War

Among tax historians the post First World War period is widely considered to be a moment of acute resistance to taxes from capital owners. After the decades of tax impunity they enjoyed before the war, asset holders were suddenly called upon to finance the cost of war and reconstruction. The highest brackets of income taxes converged almost everywhere in Europe in the immediate post-war period: for example, between 1913 and 1920 they rose from 8 per cent and 17.1 per cent in Germany and Great Britain respectively to 60 per cent in both countries, while France, which had no progressive income tax before the war, introduced a similar top marginal rate of 62.5 per cent in the early 1920s.[9] These sharp increases in progressive income tax were further exacerbated in Germany, Austria, Italy and some Eastern European countries by the introduction of extraordinary capital levies that could deduct up to 65 per cent of individuals' wealth over several years.[10] Moreover, while withholding taxes on interests and dividends in Europe's largest countries also

[9] See Martin Daunton, *Just Taxes. The Politics of Taxation in Britain, 1914–1979* (Cambridge: Cambridge University Press, 2002), 47 and 138 (cumulated rates of the income tax and the super-tax); Hans-Peter Ullmann, *Der deutsche Steuerstaat. Geschichte der öffentlichen Finanzen vom 18. Jahrhundert bis heute* (München: C.H. Beck, 2005), 88 and 103; Thomas Piketty, *Les hauts revenus en France au XXe siècle. Inégalités et redistributions, 1901–1998* (Paris: Grasset, 2001), 263–5.

[10] See Victor Badulesco, *Le prélèvement extraordinaire sur le capital dans l'Empire allemand* (Paris: Marcel Giard, 1922); László Rostás, 'Capital Levies in Central Europe, 1919–1924', *The Review of Economic Studies*, 8, 1 (1940), 20–32; Eichengreen, 'The Capital Levy'.

rose severely, a number of new administrative practices were introduced to better assess taxable wealth. One striking example that contrasted with pre-war fiscal laxity concerned the taxation of bank customers. Whereas almost all Western countries' tax authorities had usually respected a degree of banking secrecy before the war with respect to ordinary taxation procedures, the confidentiality of clients' accounts and deposits was now no longer preserved by administrations in major European countries such as Germany, France and Italy. Finally, extensive controls on securities were implemented. A systematic nominalisation of bearer bonds and shares was attempted between 1920 and 1922 in Italy and, from October 1919, Germany introduced the so-called *Depotzwang* – an obligation to deposit securities inside banks, which in turn were required to automatically share the identity of their owners with the tax administration.[11]

Despite authorities' new powers, the increase in taxes encouraged widespread tax avoidance and evasion in Europe. In countries where bearer shares and bonds were still commonly used, as was the case in Belgium and France, examples of the non-reporting of securities to the tax administration increased in the early 1920s. Estimates of tax avoidance are, of course, always very problematic, but the results of the various studies undertaken by civil servants and parliamentary committees at the time remain striking: they generally evaluated the proportion of hidden returns from securities to be at least one half of taxable incomes. For example, a report by the Belgian tax administration estimated that of the 11.270 billion Belgian francs income from movable assets subject to the progressive tax, 7.46 billion were undeclared between 1919 and 1924.[12] Even when the French Ministry of Finance sought to discredit the highest estimates of avoidance of taxes on interests and dividends for political reasons, as it did in a study dating from 1924, it nevertheless revealed that 3.694 billion French francs of this kind of income were declared in 1921, compared with a total taxable income of 6–7 billion, meaning that between 38 per cent and 47 per cent remained out of reach of the tax authorities.[13] The situation was even more dramatic in countries experiencing hyperinflation, because capital owners could simply delay the payment of taxes to drastically reduce their value in real terms.[14] In every country that suffered from heavy inflation after the First World War a vicious circle started: the depreciation of the currency, which essentially resulted from the inability to

[11] See Filomena Tartaglia, *Fisco e mercato finanziario in Italia 1914–1945* (Napoli: Prismi, 2000), 21–7; Siegfried Sichtermann, *Bankgeheimnis und Bankauskunft. Systematische Darstellung mit besonderer Berücksichtigung der Rechtsprechung und unter Heranziehung ausländischen Rechts* (Frankfurt: Fritz Knapp, 1957), 61–7.

[12] See Report by Clavier, Director of the Contributions directes belges, 'La supertaxe. Ses principes, ses résultats, sa révision', 1925, Archives générales du Royaume (AGR), Brussels, T 122: 601.

[13] See 'Evaluation de la fraude en matière de déclarations d'Impôt général sur le Revenu', Note for de Lasteyrie, French Finance Minister, transmitted 25 Jan. 1924, Centre des archives économiques et financières (CAEF), Paris, B 58613.

[14] For Germany, see Witt, 'Tax Policies', 151–5. See also Charles Maier, *Recasting Bourgeois Europe. Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton: Princeton University Press, 1988), 82.

cover public budgets with sufficient tax revenues, then became the main cause of the malfunctioning of direct tax systems.

Even in Britain – where more than two-thirds of securities were registered, the fiscal administration was much more developed than in other countries and the government quickly switched to budgetary orthodoxy in order to stabilise the pound – multiple schemes were available to wealthy taxpayers eager to lower their taxes. The use of trusts and holding companies was one of them. Between 1920 and 1924 a total of 37,291 new private companies was registered in Britain, representing no less than 91 per cent of all companies created during this period, according to a report by the Inland Revenue, which emphasised that these formations were 'to a considerable extent at any rate, deliberately adopted for the purpose of escaping [death] duty'.[15] To be sure, British capitalists certainly paid more taxes than asset owners in inflationary countries after the First World War. However, it should be remembered that, at the same time, the relative stability of the pound enabled them to obtain ample and safe incomes from the British state, thanks to their subscription to public debt's bonds.[16]

Tax resistance was not only an internal, national device, it also had international ramifications. Owing to the permeability of controls on capital movements introduced during and after the Great War, the relocation of assets abroad undoubtedly influenced tax systems in major European countries. The implicit threat of capital flight was often sufficient in itself to exert considerable pressure on public policy makers and to limit the increase in taxes. Rather than the levels of tax rates, whose rise, given the abysmal level of public debt, was accepted to some extent by conservative governments at the end of the war, this factor primarily influenced fiscal practices. In France, significantly, fears of capital flight – and consequently of a depreciation of the franc and the distrust of subscribers to public loans – were regularly evoked in the early 1920s by tax officials themselves, who called for caution in the strengthening of domestic controls on securities.[17]

Was this argument a convenient pretext expressed by conservative civil servants, or a real fear? It is hard to say, and probably both factors coexisted. Nevertheless, one piece of evidence tends to show that some authorities were not particularly worried by the consequences of capital flight: at the beginning of the 1920s, while this threat was continuously expressed among French elites, pressures to weaken the fiscal attractiveness of foreign financial centres to French assets remained very muted. Although international cooperation attempts were undertaken by French and Belgian governments to identify and tax expatriated wealth (for instance by implementing cross-border exchanges of information on taxpayers), they failed miserably. In April and May 1922 the Genoa Conference relegated the issue to a sub-committee of tax officials at the League of Nations, the so-called 'Committee of Experts on double

[15] Report of Sub-Committee on Evasion of Death Duties through the medium of Private Companies, 3 Feb. 1926, Public Record Office (PRO), London, IR 40/3576.

[16] Daunton, *Just Taxes*, 62.

[17] See, for instance, 'Commission chargée d'étudier la réorganisation des régies financières, constituée par arrêté ministériel du 17 juin 1921', 24 Mar. 1922, CAEF, B 43157.

taxation and tax evasion', which later became the Fiscal Committee of the League. Its work will be discussed in more detail below, but it should be noted here that its debates quickly became bogged down by a lack of agreement. The French and Belgian leaders did not actually apply any strong economic pressure on tax havens.[18]

However, despite the reluctance to tackle it, capital flight was a real problem after the First World War, stimulated by the development of a market for tax evasion in several financial centres. In other words, capital flight was induced not only by a push factor – increases in taxes inside the assets' countries of origin – but also by a pull factor – the fiscal policies in the main countries where the exported capital was placed. Two remarks should be made on the rise of offshore centres after the First World War. On the one hand, it is extremely difficult, if not impossible, for scholars to weigh precisely the impact of the main factors explaining capital flights to these countries. Indeed, inflation, currency depreciation, political disturbances and the implementation of new taxes operated simultaneously in European countries until the mid-1920s and these different factors also acted upon each other. On the other hand, many countries were at first sight fiscally attractive at the end of the First World War. Theoretically, almost any foreign territory could be used to bypass taxes by the expatriation of wealth, at least to some extent: international tax cooperation was inconsistent, making it very difficult to identify capital owners once their assets had crossed the border,[19] and taxes on non-residents' wealth did not tend to rise as far as taxation on residents in most countries. However, few financial centres combined monetary and political stability with tax attractiveness at the end of the First World War. In Europe this situation occurred above all in ex-neutral countries such as Switzerland and the Netherlands. In these locations taxation for foreigners was extremely advantageous. Owing to the limited war expenditures that these countries incurred, their tax systems evolved only slightly and asset owners thus benefited from conditions that were not very different to the fiscal liberality of the pre-war years. For instance, Dutch and Swiss tax administrations continued to respect a very high degree of confidentiality on bank accounts during the 1920s. It is true that, even if British tax burdens were the heaviest among European countries, banking secrecy was also largely preserved in England after the First World War.[20]

Statistical evidence suggests that European assets largely took refuge in neutral offshore centres after the war. The Swiss financial centre – located geographically between four countries that were suffering from huge capital flight, namely France,

[18] See Farquet, *La défense du paradis fiscal suisse*.

[19] Until 1924 the only agreements on the exchange of tax information on movable assets were the following: an agreement signed in 1907 between France and Great Britain for succession duties as well as a few conventions concluded between Germany, Austria and East European countries. See Report by Carroll, Expert at the Fiscal Committee of the League of Nations, 25 Mar. 1939, Archives of the League of Nations (ALON), Geneva, F/Fiscal/114.

[20] For some details on non-resident taxes and banking secrecy in Europe, see Farquet, 'The Rise of the Swiss Tax Haven'.

Germany, Austria and Italy – grew rapidly thanks to these foreign assets.[21] During a parliamentary debate in 1920 the conservative Swiss Finance Minister Jean-Marie Musy estimated non-residents' bank deposits at more than 10 billion Swiss francs (around 2 billion dollars), an extraordinary figure, roughly three times higher in real terms than pre-war estimates and equivalent to eight-tenths of the aggregate value of all French bank deposits.[22] The export of European wealth operated not only through cash savings in bank accounts or investments in Swiss securities but also through the relocation of foreign bonds and shares. Despite the sharp depreciation of the French, Italian and German currencies, which drastically devaluated the foreign securities deposited in Swiss banks, their assets under management rose more than 50 per cent between 1913 and 1922, from 7.8 to 12.1 billion Swiss francs.[23] As far as the Amsterdam financial centre was concerned, its development after the war was due essentially to the relocation of German wealth.[24] Thanks to tax advantages – another sign of the growing market for tax evasion after the First World War – holding companies, letterbox companies or foundations were also intensively created in the Netherlands as well as in Switzerland during the 1920s in order to hide foreign capital or allow it to pass through. For instance, the number of holding companies in Switzerland grew from 158 in 1921 to 1,458 in 1931.[25]

Capital flight – real or threatened – ultimately encouraged policy makers in large European states to reduce taxes on capital and incomes during the 1920s. Through this international tax emulation process, whereby states affected by capital flight copied the tax practices of tax havens, governments solicited the previously exported assets and foreign investment for the stabilisation of the currency at a devaluated exchange rate. Stabilisation programmes in inflationary countries – Italy (1922–7), Austria (1922–3), Germany (1923–4), France (1926–8) and Belgium (1926) – were correlated with the lowering of progressive taxes. Benefiting above all wealthy taxpayers, the tax cuts were not the outcome of a logical or natural economic mechanism linked to the reduction of public debts by inflation. Indeed, taxes on consumption or trade tariffs were simultaneously *increased* in order to reach budgetary orthodoxy, and the ratio between tax revenues and GDP generally did not shrink after monetary stabilisation. Moreover, these stabilisations were linked to international loans, issued mainly in

[21] See, for instance, 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: Payot, Zurich: Chronos, 2002), 44–71 ; Farquet, *Histoire du paradis fiscal suisse*, 84-94.

[22] See Minutes of the Conseil national, 3 Feb. 1920, *Bulletin officiel de l'Assemblée fédérale*, 1 (1920), 34. For the amount of French bank deposits, see Hubert Bonin, *Les banques françaises de l'entre-deux-guerres (1919–1935)*, 1 (Paris: Plage, 2000), 524.

[23] See Malik Mazbouri, Sébastien Guex and Rodrigo López, 'Finanzplatz Schweiz', in Patrick Halbeisen, Margrit Müller and Béatrice Veyrassat, eds., *Wirtschaftsgeschichte der Schweiz im 20. Jahrhundert* (Basel: Schwabe, 2012), 477.

[24] See Johannes Houwink Ten Cate, 'Amsterdam als Finanzplatz Deutschlands', in Gerald Feldman et al., eds., *Konsequenzen der Inflation* (Berlin: Colloquium Verlag, 1989), 149–79; Jeroen Euwe, 'Financing Germany. Amsterdam's Role as an International Financial Centre, 1914–1931', in Patrice Baubeau and Anders Ögren, eds., *Convergence and Divergence of National Financial Systems: Evidence from the Gold Standard, 1871–1971* (London: Pickering and Chatto, 2010), 219–40.

[25] See *Annuaire statistique de la Suisse* (Berne, Bâle), 1921–31.

US and British financial centres as well as in neutral tax havens. The correlation between capital reflux and tax reforms in inflationary countries was expressed here very clearly: to restore the confidence of investors, cuts in progressive taxes were a prerequisite for governments to get access to foreign financial markets and the loans were then partially subscribed by the evaded assets.

In the autumn of 1922 Austria and Italy were the first countries to adopt this kind of financial scheme. In Austria, the granting of a huge loan of 156 million dollars at nominal value by a consortium of international banks under the patronage of the Financial Committee of the League of Nations was linked to an austerity plan with drastic cuts in public spending and increases in indirect taxes.[26] As a result, although these changes were not formally included in the Geneva Protocols of October 1922, the taxation of capital and high incomes was significantly reduced: the capital levy was transformed into a minimal annual tax on wealth and the top income tax rates were reduced.[27] Nevertheless, this was still only a partial shift towards real tax competition. The Financial Committee blamed the inhibiting effect of the Austrian tax system on foreign investments again and again, and some of its demands would be finally met from the mid-1920s onwards. Pressed by the dependence of Austria's financial stability on short-term foreign credits, the government almost entirely abandoned turnover taxes on financial transactions.[28] At the same time, in Italy, without an immediate setting of a new parity for the lira – the final monetary stabilisation would occur only in 1927 – the advent of the fascist regime saw a much more radical fiscal renovation. The new government went to great lengths to transform Italy into a haven for movable assets.[29] To this end, between the autumn of 1922 and the summer of 1923, it ended attempts to nominalise securities, cut the capital levy, cancelled succession duties between close relatives and removed taxes on the interest paid on foreign loans as well as on coupons of foreign securities deposited in Italian banks.[30] Besides the repatriation of wealth to the home country, large loans were granted to Italian companies by US banks after 1922.[31]

France and the Delocalisation of German Wealth (1922–4)

A careful analysis of the evolution of French fiscal policy clearly highlights the various components of the correlation between direct taxation and capital flows during the

[26] See Nicole Piétri, 'La Reconstruction économique et financière de l'Autriche par la Société des Nations (1921–1926)', Ph.D. thesis, Université Paris I, 1981.

[27] See 'Loi fédérale du 27 novembre 1922 . . . ', Appendix to a Report of the League Delegation, 15 Dec. 1922, ALON, C./S.C.A.17.

[28] Michel Fior, *Institution globale et marchés financiers: la Société des Nations face à la reconstruction de l'Europe, 1918–1931* (Berne: Peter Lang, 2008), 377.

[29] See Philippe Marini, *L'impôt sur le capital en Italie* (Paris: Sagot, 1928), 71–3.

[30] Jean Dubergé, *La politique fiscale de l'Italie fasciste* (Paris: Alcan, 1938); Gianni Marongiu, *La politica fiscale del fascismo* (Lungro di Cosenza: Marco Editore, 2005), 91–148. For the laws, see *Bulletin de statistique et de législation comparée*, 93 (1923), 356–63 and 94 (1923), 1063–79 and 1307–17.

[31] See Zara Steiner, *The Lights that Failed. European International History 1919–1933* (Oxford: Oxford University Press, 2007), 443–4.

1920s. This examination shows to what extent the process that led to the drastic tax cuts of Raymond Poincaré and his government's monetary stabilisation programme in 1926 was shaped by international financial relations.

Most economists and historians who have focused on the French monetary crisis of the early 1920s have accurately identified the increase in taxes in general, and the threat of the introduction of a capital levy in particular, as factors in the destabilisation of the French currency and financial market.[32] The significant capital flight that intensified during the centre-left *Cartel des Gauches* government, in power between 1924 and 1926, is also a well-documented episode of European financial history. However, no study has as of yet analysed carefully the decision making process that led to the tax liberalisation undertaken by the French government in 1926. In attracting large sums of money from France, while simultaneously refusing to help the French fiscal authorities to tax expatriated wealth, and denying the French state access to international loans, foreign banking centres unequivocally contributed to the financial and monetary crisis in France between 1922 and 1926. The resulting fiscal competition was a decisive factor in the sharp fall in income tax rates and the removal of tax controls on French securities in the summer of 1926. By aligning French taxation with that of tax havens, the new national unity government, led by Poincaré, sought successfully to repatriate exported capital to achieve monetary stabilisation. This repatriation operated partially through the subscription of loans placed by the French government in neutral offshore centres such as Switzerland, which included tax advantages granted to the subscribers – explicitly expressing this international tax competition process through flows and reflows of capital.

The first act of this story played out between 1922 and early 1924. During this period it was German capital flight that was a great source of worry for French leaders, more so than the flight of French capital itself. Indeed, capital export to neutral countries, with the resulting depreciation of the German currency and lowering of tax returns, made it easier for the Reich to invoke financial insolvency in the face of the Entente's demands of massive quantities of gold marks as reparations. In France especially, conspiracy theories relating to German civil servants deliberately aiding the expatriation of assets through administrative means became very popular; indeed, some leading financial experts supported them.[33] Without going so far, German diplomats in service in the Netherlands and Switzerland, just like their French and British counterparts, did admit confidentially that massive capital flows

32 See, for instance, Jean-Noël Jeanneney, *Leçon d'histoire pour une gauche au pouvoir. La faillite du Cartel 1924–1926* (Paris: Seuil, 1977), 70–7; Thomas Sargent, 'Stopping Moderate Inflations: The Methods of Poincare and Thatcher', in Rüdiger Dornbusch and Mario Henrique Simonsen, eds., *Inflation, Debt and Indexation* (Cambridge, MA: MIT Press, 1983), 54–96; Alessandro Prati, 'Poincaré's Stabilization: Stopping a Run on Government Debt', *Journal of Monetary Economics*, 27, 2 (1991), 213–39; Hautcoeur and Sicsic, 'Threat of a Capital Levy'; Kenneth Mouré, *The Gold Standard Illusion. France, the Bank of France, and the International Gold Standard, 1914–1939* (Oxford: Oxford University Press, 2002), 87.

33 See, for instance, the following book co-written by one of the foremost experts on the Swiss financial centre, Léo Wulfsohn: Léo Wulfsohn and Gabriel Wernlé, *L'Evasion des capitaux allemands* (Paris: Société anonyme d'éditions, 1923).

were illegally transferred from Germany to those countries: for instance, at the end of 1921 the German consul in Zürich described, in a twenty-three-page report, the various methods capitalists used to hide their wealth in Switzerland.[34] Accordingly, at the beginning of 1922 control of the flight of German assets became a central objective of French premier Poincaré's reparations policy. His right-wing government tried not only to stop the illicit export of capital but also to identify and tax the evaded assets. These attempts were part of a broader French strategy intended to trade off the approval of Joseph Wirth, Chancellor of Germany, and his government's demand for a temporary moratorium on the transfer of reparations against the implementation of comprehensive control over German financial policies.[35]

The French plan, however, met strong opposition from British leaders, hostile both towards the high level of reparations demanded by France and to state regulation of European financial markets. The profitable business generated by German capital hidden in the City was also a motive in this opposition: already in 1920 the British government had refused to use its right under the Treaty of Versailles to seize the huge German industrial balances kept by London banks.[36] As far as the Dutch and Swiss financial centres were concerned, their governments constantly invoked the guarantee of banking secrecy by dismissing the French plan, thus, indirectly backing up the German government's delaying strategy concerning the control of capital flight. As Poincaré speculated at the beginning of 1922, the German government was raising 'the objections through the neutrals instead of assuming them itself'.[37] During 1922, while inflation was turning into hyperinflation in Germany, the French interventionist strategy therefore confronted the liberal British policy of stabilising Germany's currency and encouraging the repatriation of exported assets through the restoration of investors' confidence. Nevertheless, at the Genoa Conference in the spring of 1922 it was Rudolf Havenstein, president of the Reichsbank, and not the French delegation, who brought up the issue of international tax evasion in order to delegate the future multilateral talks to the League of Nations.[38] This surprising move by a fervent opponent of Poincaré's policy was interpreted by some diplomats

[34] See Report of Rheinboldt, transmitted to the Auswärtiges Amt, 23 Dec. 1921, Bundesarchiv (BArch), Berlin, R 3101/19550. For French and British statements, see, for instance, Allizé, French Ambassador in Bern, to Poincaré, French Premier, 9 Apr. 1922, Archives du Ministère des Affaires étrangères (AMAE), Paris, Série Z, Allemagne, no 510; Russel, British Minister in Bern, to Curzon, Foreign Secretary, 22 July 1921, PRO, FO 371/7144.

[35] On the importance of the issue of control of German finance in Reparations debates, see Marc Trachtenberg, *Reparation in World Politics. France and European Economic Diplomacy, 1916–1923* (New York: Columbia University Press, 1980).

[36] See Robert Boyce, *The Great Interwar Crisis and the Collapse of Globalization* (Basingstoke: Palgrave MacMillan, 2009), 112.

[37] Auditions of the Financial Commission of the Chambre des députés de l'Assemblée nationale, 21 Feb. 1922, 180, Centre d'accueil et de recherche des Archives nationales (CARAN), Paris, C 14685 (translation from French).

[38] See Note of the League Secretariat on the resolution XIII of the Financial Commission in Genoa about tax evasion and capital flight, 29 May 1922, ALON, A. 165.

as a strategy aimed at eliminating the issue of tax evasion from the Reparations Commission's mandate. The Germans were correctly betting on the futility of the resolutions that would eventually be put forward by the League.[39]

During the summer and autumn of 1922 attempts to block the export of German capital by the Committee of Guarantees – the body created in 1921 to supervise the financial situation of the Reich – invariably failed as a result of the uncooperative attitude of the British delegation to the Reparations Commission. This opposition ran so deep that the Commission produced an official condemnation of the internal measures against speculation on the mark finally taken by the German government in the midst of hyperinflation in October 1922.[40] The confrontation within the Entente finally culminated in December 1922 at the London Conference. Poincaré was indignant at the British proposal of issuing an international loan to encourage the return of German expatriated wealth. The French premier, a fervent anti-socialist politician, went so far as to adopt the rhetoric of class struggle: 'if the Allies were associated with this measure, they would thus take sides against the lower classes of the population in favour of the capitalists who are responsible for the [German] situation'. But this argument had no effect at all on British Prime Minister Andrew Bonar Law, who once again vetoed proposed measures to control expatriated assets, using strikingly complacent words with regards to tax evasion. Considering the export of German capital as 'something inevitable and even natural', Bonar Law argued with undeniable fatalism that 'the only effective means to ensure repatriation [of German capital] would be to make this operation profitable to capitalists'.[41] The impasse in discussions of the policy of foreign control on German finance, in which the issue of capital flight was significant, contributed to the decision to occupy the Ruhr by French and Belgian troops on 11 January 1923.

The end of this first act is well known. In late 1923 the issue of German capital flight reappeared at the forefront of international debate after the creation by the Entente of two international committees designed to reassess the reparations and to address the problem of the depreciation of the German currency. Alongside the first commission on monetary stabilisation chaired by Charles Dawes, the second committee, headed by Reginald McKenna, was specifically devoted to assessing German exported wealth and finding means of repatriating it. This commission, composed in addition to the Belgian delegate of four private bankers – a Frenchman, an Italian, an Englishman and an American – abandoned all claims on the control of international tax evasion

[39] See Note of Léon-Dufour, French Secretary of the Financial Committee of the League of Nations, about Resolution 13 of the Financial Committee of Genoa, classified 16 May 1922, AMAE, Service français de la Société des Nations, no. 1297.

[40] See Minutes of the Committee of Guarantees, 28 Oct. 1922, CARAN, AJ/5/4.

[41] Note from a Meeting in Downing Street, 10 Dec. 1922, Ministère des Affaires étrangères, *Documents diplomatiques. Demande de moratorium du gouvernement allemand à la Commission des Réparations. Conférence de Londres. Conférence de Paris* (Paris: Imprimerie nationale, 1923), 54–5 (translation from French).

at the beginning of 1924.[42] Before the beginning of the debates, in a report transmitted to McKenna, the British Treasury had reassessed strongly its point of view:

> any attempt to seize or tamper with German property in Allied countries would be dangerous and futile. The great bulk of such property could be transferred forthwith to other countries; to Switzerland . . . and certainly to Holland and the United States of America . . . it would be a severe and certain loss to the United Kingdom; not merely would profitable business be transferred now to our rivals but bankers and traders throughout the world would be less willing in future to maintain large floating balances in London in view of the doubt which would have been created as to possible interference with the movement of funds out of this country.[43]

True, some surveys conducted during the drafting of the final report had documented extensive illicit capital export. A paper written by the Ruhr financial mission described, for instance, the processes by which the barons of German industry, including Thyssen, Krupp and Stinnes, created networks of subsidiaries with global ramifications, mainly in the Netherlands and Switzerland, in order to export their assets. This report even confirmed theories circulating at the time regarding the corruption of German officials responsible for the implementation of capital controls and the use of sophisticated trade false invoicing by businessmen to accumulate wealth abroad through the export of goods.[44] Nevertheless, the McKenna Commission chose a very low estimate of German exported assets,[45] and its final report of April 1924 did not produce a single word on either the massive evasion of taxes perpetrated via the export of capital or the role played by neutral tax havens in such schemes. The report concluded that new legislation designed to prevent capital flight and to criminalise tax evaders was superfluous. On the contrary, in line with the British position, the experts recommended that the repatriation of hidden assets be encouraged via a restoration of capital owners' confidence by providing, among others things, a suspension of penalties against them, along with favourable conditions on public borrowing abroad.[46] The report of the second committee and its refusal to penalise exported German capital was thus complementary to the conclusions of the Dawes commission, which initiated a lowering of reparations annuities and the granting of an international loan to Germany. The Dawes loan – 229 million dollars at nominal

[42] On the McKenna Committee, see, for instance, Carl-Ludwig Holtfrerich, *The German Inflation 1914–1923, Causes and Effects in International Perspective* (Berlin: Walter de Gruyter, 1986), 185 ss. The Committee was composed of the Director of the *Banque nationale de Belgique*, Albert-Edouard Janssen, R. McKenna, Chairman of the Midland Bank, André Laurent-Atthalin, Director of the *Banque de Paris et des Pays-Bas*, Mario Alberti, Director of the *Credito Italiana*, and Henry Robinson, of the First National Bank of Los Angeles.

[43] Report transmitted by Niemeyer, Controller of Finance, to McKenna, 2 Jan. 1924, Churchill Archives Centre, Cambridge, Papers of Reginald McKenna, MCKN 7/8.

[44] See 'Réponse au questionnaire du Second Comité d'experts par la Mission financière de la Ruhr', 30 Jan. 1924, Archives of the Banque nationale de Belgique, Brussels, 0312/5.

[45] See Second Committee of Experts, Minutes, 22 Mar. 1924, Churchill Archives Centre, Papers of Reginald McKenna, MCKN 7/8.

[46] See *Rapport du second comité d'experts*, Paris, 1924.

value, with an average 7 per cent interest exempted from German taxes – was issued in the autumn of 1924.

Within Germany the tax system made a simultaneous shift towards increased attractiveness. During the period of hyperinflation the extraordinary capital levy had been transformed to a very limited tax on wealth, whereas the *Depotzwang* was abandoned on 20 March 1923 under strong pressure from the German central bank and financial circles.[47] The majority of the Reparations Commission's financial experts, contrary to the views of the French and Belgian representatives, approved this partial reintroduction of banking secrecy amid the Ruhr occupation.[48] Thereafter, income tax reform in February 1925 lowered the progressive income tax, with the top rate dropping to 30 per cent – that is, half its level at the end of the war – while trade tariffs and taxes on beer and tobacco were simultaneously increased.[49] In the years that followed, and up until the 1931 crisis, economic experts constantly pushed for an alignment with the conditions of tax havens, including the full restoration of banking secrecy *vis-à-vis* the tax administration.[50]

Significantly, even though this goal was not achieved, non-residents did not have to face controls on their banking deposits by German authorities during the second half of the 1920s.[51] Boosted by the return of investor confidence, the Reich was able to attract massive foreign investments between 1924 and 1930, the equivalent of one-third of world capital exports during this period.[52] It is clear that tax reforms, along with high returns on investments and the stability of the new German currency, contributed to make the German financial market particularly attractive. For instance, the decision during the winter of 1926–7 to temporarily remove the tax exemption granted to the interests on public bonds floated abroad was followed immediately by a stop of new issues.[53] In the period following the issue of the Dawes loan, the Netherlands and Switzerland, bursting with German assets, made a very significant

47 See Sichtermann, *Bankgeheimnis und Bankauskunft*, 67–8. For examples of these pressures, see Report of the Reichsbank-Direktorium transmitted to Hermes, German Finance Minister, 9 Oct. 1922, BArch, R 901/28335; *Bank-Archiv*, 22, 3, 1 Nov. 1922, 29–32.

48 See Report of the Financial Service of the Reparations Commission, 'Abolition par le Gouvernement allemand du contrôle fiscal par l'intermédiaire des banques', 29 May 1923, CARAN, AJ/5/33.

49 See *Bulletin de statistique et de législation comparée*, 97 (1925), 789–92. In August the top rate was nevertheless increased to 40 per cent. See *Bulletin de statistique et de législation comparée*, 98 (1925), 598. For a general view see Ullmann, *Der deutsche Steuerstaat*, 108–9.

50 See, for instance, the letter from twelve economic associations, including the Reichsverband der Deutschen Industrie and the Centralverband des Deutschen Bank- und Bankiergewerbes, to Luther, German Finance Minister, 'Wiederherstellung des Bankgeheimnisses', 6 Aug. 1924, BArch, R 3101/10036.

51 See Letter from the Reichsfinanzministerium to the German Committee of the International Chamber of Commerce, 21 Jul. 1927, BArch, R2/19799.

52 See Charles Feinstein and Katherine Watson, 'Private International Capital Flows in Europe in the Inter-War Period', in Charles Feinstein, ed., *Banking, Currency, and Finance in Europe Between the Wars* (Oxford: Clarendon Press, 1995), 101.

53 William McNeil, *American Money and the Weimar Republic. Economics and Politics on the Eve of the Great Depression* (New York: Columbia University Press, 1986), 138–41.

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contribution to the reflux of capital.[54] On the eve of the financial crisis of 1931 they held, respectively, 18 and 13 per cent of the German international debt of 25.6 billion marks (around 6 billion dollars). These two neutral financial centres were, in absolute terms, Germany's second and fourth largest creditors after the United States (39 per cent), and approximately on a par with Great Britain (15 per cent).[55]

Moreover, during the period of monetary stability Amsterdam had become the largest centre for the issue of German securities in continental Europe, exceeding even London in terms of bond issuances between 1926 and 1927.[56] The key point for the history of tax competition is that the extraordinary position of these two small countries was largely due to the recycling of German capital that was transiting for fiscal reasons through the Dutch and Swiss tax havens. According to contemporary estimates cited by Stephen Schuker, capital flight from Germany would amount to no less than half of the two neutral financial markets' investments in the Reich.[57] After monetary stabilisation, even if the German tax system was not competitive enough to hinder international tax evasion it was obviously attractive enough to facilitate the reinvestment of the illicit assets into the home market.

The *Cartel des Gauches*, Taxation of French Securities and International Financial Centres (1924–5)

The Dawes Plan marked the beginning of the second act of French fiscal policy transformation. From then onwards tax evasion by French capital holders became one of the main financial concerns of the government. While the tax normalisation process was undertaken in Germany the very opposite was being done in France by Poincaré. On 22 March 1924 the French parliament approved a tax bill that included the *double décime* – that is, an across-the-board tax hike of 20 per cent – as well as a control measure on securities, the *bordereau de coupons*. By this simple device, beneficiaries of interest and dividends were required to fill out an identity certificate that the bank was required to make available to tax authorities upon request. While the French franc was suffering from a sudden speculative attack, launched from abroad in the middle of the Dawes Plan negotiations,[58] the Poincaré government was

[54] The Dawes loan was divided into several issues: USA, 110 million dollars (around 22 million pounds); Great Britain, 12 million pounds; Switzerland, 3 million pounds; France, 3 million pounds; the Netherlands, 2.5 million pounds; and some small issues in Sweden, Belgium, Italy and Germany. See 'Report of the Agent General for Reparation Payments', *Federal Reserve Bulletin*, Aug. 1925, 552.

[55] This figure is for the end of 1930: Karl Born, *Die deutsche Bankenkrise 1931: Finanzen und Politik* (München: R. Piper, 1967), 18.

[56] See Jeroen Euwe, '"It is therefore both in the German and in the Dutch interest . . . ": Dutch-German relations after the Great War. Interwoven economies and political détente, 1918–1933', Ph.D. thesis, Erasmus Universiteit Rotterdam, 2012, 112–5.

[57] See Stephen Schuker, 'American "Reparations" to Germany, 1919–33: Implications for the Third-World Debt Crisis', *Princeton Studies in International Finance*, 61 (1988), 117. See also Harold James, 'The Causes of the German Banking Crisis of 1931', *Economic History Review*, 37, 1 (1984), 77–8.

[58] See Jean-Noël Jeanneney, 'De la spéculation financière comme arme diplomatique. A propos de la première "bataille du franc" (novembre 1923–mars 1924)', *Relations internationales*, 13 (1978), 5–27.

inclined to initiate effort to balance the budget in order to secure a short-term credit from J.P. Morgan to defend the franc.[59] The 22 March law could be interpreted as the expression of the failure of French diplomatic efforts on capital flight: while France was simultaneously abandoning its claims to exported German wealth and accepting a reduction in reparations annuities, the right-wing government had no other choice but to increase the tax burden on French taxpayers. Following the May elections and the defeat of Poincaré, it was a centre-left coalition – the *Cartel des Gauches* – that would be in charge of implementing tax reform.

In the autumn of 1924, after Finance Minister Etienne Clémentel had announced on 16 September the introduction of the *bordereau de coupons*, to take place at the beginning of the following year, the French securities market was increasingly undermined.[60] Other events stimulated investors' misgivings. The communist demonstrations that took place in November of that year, as well as the Cartel's anti-clerical campaign, amplified public distrust of the new government. Abroad, increased tensions with the United States on the settlement of inter-Allied debts were also a source of worry.[61] However, the evidence suggests that the new taxation measure played an important role in this financial destabilisation. In fact, the *bordereau* had the effect of uniting French conservative forces' opposition to the radical-socialist government, including a heterogeneous circle with the very wealthy, the Regents of the Bank of France and the right-wing press.

The crisis of confidence was, of course, not entirely unforeseeable, as the plan to identify securities holders could be perceived as a first sign that the application of a capital levy was not far off. Members of the Socialist Party (*Section Française de l'Internationale Ouvrière*; SFIO), who supported the government without taking part in it, made strong demands for the introduction of an extraordinary tax on wealth. Thus, the denunciations of the *bordereau* project were particularly virulent, considering the relative banality of such tax controls. For example, an article in a November 1924 edition of the leading French newspaper *Le Temps* entitled 'The Capitalist Defeatism' referred to the *bordereau* as a 'mechanism whose stupidity would have astonished Gribouille' and went on to qualify the Cartel's tax programme as 'pure nonsense that push[ed] one to contemplate suicide'.[62] Meanwhile, the destabilisation of the French financial market influenced capital flight to neighbouring countries. In December the Consul of France in Lausanne relayed to the President of the Council, Edouard Herriot, evidence picked up from Swiss financial circles of how French

59 See Stephen Schuker, *The End of French Predominance in Europe. The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: The University of North Carolina Press, 1976), 31–123.

60 See Hautcoeur and Sicsic, 'Threat of a Capital Levy'. For the decrease of the value in real terms of French bonds and shares see also the figures in Alfred Sauvy, *Histoire économique de la France entre les deux guerres*, I (Paris: Fayard, 1965), 392.

61 On the crisis of confidence of the Cartel at the end of 1924 see Jeanneney, *Leçon d'histoire*, 58–78. On the relations with the United States see Benjamin Rhodes, 'Reassessing "Uncle Shylock", The United States and the French War Debt, 1917–1929', *The Journal of American History*, 55, 4 (1969), 794–5.

62 *Le Temps*, 'Le défaitisme capitaliste', 11 Nov. 1924 (translation from French). Gribouille is, in French popular theatre, a comic character who jumps into the water to protect himself from the rain.

capital flows into Switzerland were directly connected to the imminent adoption of the *bordereau*.[63]

In the autumn of 1924, in order to address the recurring problem of capital flight, which discredited the new tax control and threatened financial stability, the French government decided to raise the issue in international negotiations. To this end, it adopted a two-fold diplomatic ploy. First, on the same day that the implementation of the tax controls planned for the following year was announced, Etienne Clémentel showed his determination to expedite the conclusion of a bilateral agreement against tax evasion with Belgium, France's major ally on this issue since 1922.[64] In seeking to sign a treaty that could at first sight be easily concluded, the French government was clearly attempting to demonstrate that international agreements on the exchange of fiscal information were by no means impossible. Second, the French Ministry of Finance changed its strategy at the Fiscal Committee of the League of Nations. Rather than pushing for a hypothetical multilateral convention against tax evasion – the initial aim of the Geneva negotiations – the director of the French direct tax administration, Marcel Borduge, tried to obtain an official approval for securities controls from the Fiscal Committee. Legitimisation by this international organisation would strengthen French policy in the face of the attacks on the *bordereau* and would eventually open the door to the automatic exchange of information on cross-border portfolio investments holders between national tax administrations.[65]

Unfortunately for the Cartel this dual strategy faced two obstacles from abroad. The first was, somewhat unexpectedly, presented by Belgian Prime Minister Georges Theunis, who had been France's main ally in international tax evasion debates since the end of the war. He immediately rejected Clémentel's proposition of a bilateral treaty, suggesting that such a treaty would encourage capital flight to other financial centres. For Theunis, 'an isolated Franco-Belgian agreement would only benefit the Netherlands and Switzerland'.[66] The Belgian premier was also ill-disposed towards the idea of multilateral discussions on the matter taking place within the League of Nations. Facing a domestic press campaign against tax agreements launched by his

[63] See Poriquet, French consular in Lausanne, to Herriot, President of the Council, 5 Dec. 1924, AMAE, Série Y Internationale, no. 259. On the capital flights to Switzerland during the Cartel see Pierre Guillen, 'Les relations financières franco-suisses après la Première Guerre mondiale', in Raymond Poidevin and Louis-Edouard Roulet, eds., *Aspects des rapports entre la France et la Suisse de 1843 à 1939* (Neuchâtel: Editions de la Baconnière, 1982), 166–7; Michel Fior, *Les banques suisses, le franc et l'Allemagne. Contribution à une histoire de la place financière suisse (1924–1945)* (Genève: Droz, 2002), 48–9. Extraordinary estimates of capital flight were circulating in French ruling circles at the beginning of 1925. For instance, Clémentel's successor Anatole de Monzie said in parliamentary hearings that during the three first months of 1925 14 billion French francs were hidden in one single foreign bank. See Minutes of the Financial Commission of the Chambre des députés, 7 Apr. 1925, 78, CARAN, C 14776.

[64] See Clémentel, French Finance Minister, to Herriot, President of the Council, 16 Sep. 1924, and attached to it a copy of a letter from Clémentel to Theunis, Belgian premier, 16 Sep. 1924, CAEF, B 54216.

[65] See Minutes of the Experts Committee on double taxation and tax evasion, 21 Oct. 1924, ALON, EFS/DT/4^{e} session/PV3.

[66] Cited in Jaunez, Chargé d'affaires of France in Brussels, to Herriot, President of the Council, 30 Sep. 1924, CAEF, B 54216 (translation from French).

own political camp,[67] Theunis dissociated himself from his own representative at the League of Nations, the Director of the tax administration Charles Clavier.[68] But Theunis's opposition was not limited to a simple defensive retreat. In the autumn of 1924 the Belgian leader adopted a competitive strategy towards tax in order to capture assets leaving France. Just a few days after rejecting Clémentel's demand, Theunis lowered the tax withheld on non-residents' bank deposits.[69] According to the French Ambassador based in Brussels, Belgium's decision to compete against foreign tax havens was a success: in early 1925 Maurice Herbette wrote to Herriot: 'the benefits of this measure [the partial non-taxation of deposits on non-residents' accounts] have helped increase the inflow of foreign capital [into Belgium, and] particularly that coming from France'.[70]

More predictably, the second obstacle originated in the Swiss and British financial centres. At the League of Nations the Swiss delegate Hans Blau, the director of the federal tax administration, had appeared somewhat hesitant regarding his position with regard to tax cooperation at the beginning of the Geneva discussions in 1922–3.[71] Now, under pressure from the Swiss Bankers Association and the government, Blau adopted an attitude of steadfast opposition to the fight against tax evasion and the lifting of banking secrecy. If the French proposals were to be adopted, he predicted 'a mortal blow' to the banks[72] and the 'hoarding of money and its flight to countries that would not sign the proposed agreements'.[73] Blau and the federal government then went on to opt for an all-or-nothing approach, advocating for full multilateral cooperation on tax evasion rather than bilateral conventions.[74] This was, of course, a tactical move in order to eliminate any semblance of substance from the discussions, given the evident obstacles to such a solution: not only the US's absence from the fiscal debates in Geneva but also the hostility of the economic and government elites in Belgium and the Netherlands to tax cooperation, which was confirmed by a survey

[67] See Jaunez, Chargé d'affaires of France in Brussels, to Herriot, President of the Council, 8 Oct. 1924, AMAE, Série Y Internationale, no. 259. For an example of the press campaign, see *La Libre Belgique*, 'Le bordereau excellent . . . mais pas chez nous', 19 Nov. 1924.

[68] See Herbette, French Ambassador in Belgium, to Herriot, President of the Council, 27 Nov. 1924, AMAE, Série Y Internationale, no. 259.

[69] The normal rate of 15 per cent was lowered to 4 per cent. See Letter of 4 Oct. 1924, signed in the name of Theunis, Belgian premier, by Clavier, Director of the Belgian Contributions directes, cited in *La Libre Belgique*, 17 Nov. 1924, AMAE, Série Y Internationale, no. 259.

[70] Herbette, French Ambassador in Brussels, to Herriot, President of the Council, 21 Jan. 1925, AMAE, Série Y Internationale, no. 259 (translation from French).

[71] See Christophe Farquet, 'Le secret bancaire en cause à la Société des Nations (1922–1925)', *Traverse. Revue d'histoire*, 1 (2009), 102–15.

[72] Minutes of the Experts Committee on double taxation and tax evasion, 21 Oct. 1924, 8, ALON, EFS/DT/4^{e} session/PV3 (translation from French).

[73] Minutes of the Experts Committee on double taxation and tax evasion, 22 Oct. 1924, 4, ALON, EFS/DT/4^{e} session/PV4 (translation from French).

[74] See Minutes of the Experts Committee on double taxation and tax evasion, 23 Oct. 1924, 2, ALON, EFS/DT/4^{e} session/PV7; Minutes of the Experts Committee on double taxation and tax evasion, 3 Feb. 1925, 9–10, ALON, EFS/DT/5^{e} session/PV3; Minutes of the Federal Council (=government): 'Völkerbund: Konferenz betr. Internationale Doppelbesteuerung und Steuerflucht', 23 Jan. 1925, Swiss Federal Archives (SFA), Bern, E 2001 B, 1000/1508, 34.

conducted by Swiss diplomats in early 1925.[75] Moreover, since 1923 the Swiss leaders had benefited from the support, albeit moderate, of the British representatives at the League of Nations. Adopting a stance similar to that of Blau, the Inland Revenue became more vocal in its opposition to the French initiatives at the end of 1924.[76]

While the British and Swiss administrations became spokesmen of their financial markets by refusing to decrease their tax attractiveness for French capital, at the same time their banks vetoed issues of international French loans needed to deal with the budget crisis in the country. In November 1924, after the fall of the Labour government, an embargo on foreign issues was restored in the City with the help of the British member of the League of Nations' Financial Committee, the Treasury delegate Otto Niemeyer.[77] This measure was essentially intended to facilitate the legal stabilisation of the pound at its pre-war parity, but France's financial difficulties were also targeted. In yet another hostile move, the Swiss banker Leopold Dubois, who had also recently been appointed to the Financial Committee, discouraged the French government from trying to issue a loan in Switzerland in early 1925.[78] Simultaneously, in Geneva, Niemeyer and Dubois pushed British and Swiss tax delegates to resist French demands for international cooperation against capital flight.[79] The President of the Swiss Bankers' Association, Alfred Sarasin, drew a direct link between the pressures against banking secrecy at the League of Nations and the refusal of international credits to the Cartel. In his words, 'an appropriate tone must first be adopted [by the French government] vis-à-vis the Swiss banks' before the Swiss National Bank could discuss a loan.[80]

In early February 1925, just one month after the beginning of the application of the *bordereau*, the fiscal experts of the League of Nations delivered their verdict.

[75] See Barbey, Swiss Minister in Brussels, to Motta, Swiss Minister of Foreign Affairs, 8 Jan. 1925; de Pury, Swiss Minister in the Hague, to Motta, 20 Jan. 1925, SFA, E 2001 B, 1000/1508, 34.

[76] See, for instance, Minutes of the Experts Committee on double taxation and tax evasion, 22 Oct. 1924, 7, ALON, EFS/DT/4e session/PV4.

[77] See John Atkin, 'Official Regulation of British Overseas Investment, 1914–1931', *The Economic History Review*, 23, 2 (1970), 330–1.

[78] See Telegram from Hennessy, French Ambassador in Bern, 3 Mar. 1925, AMAE, Série Z, Suisse, no. 127. See also, in the same archive box, the telegrams from Hennessy, 24 Feb., 28 Feb., 1 Mar. and 2 Mar. 1925, as well as the Minutes of the Federal Council, 'Frankreich. Anleihe in der Schweiz', 28 Feb. 1925, in *Documents diplomatiques suisses*, 9 (Berne: Benteli, 1980), 19, and Guillen, 'Les relations financières franco-suisses', 166–8.

[79] On Dubois's attitude, see Minutes of the Federal Council, 'Völkerbund. Konferenz betr. internationale Doppelbesteuerung und Steuerflucht', 23 Jan. 1925, 11, SFA, E 2001 B, 1000/1508, 34. On Niemeyer's position on tax evasion, see Note of Niemeyer to Chamberlain, Chancellor of the Exchequer, 7 Nov. 1923, PRO, IR 40/3419. In June 1925, after receiving encouragement from these two experts, the Financial Committee published an official reservation about the League's efforts against tax evasion. See Minutes of the Financial Committee of the League of Nations, 6 and 7 June 1925, ALON, F/18e session/PV6 and 7.

[80] Minutes of the Direction of the Swiss National Bank, 178, 19 Feb. 1925, 29, Swiss National Bank Archives, Zürich (translation from German). However, the French government received some financial support in the United States from J.P. Morgan, its best foreign partner since the war: in September 1924, before the beginning of the collapse of the franc, the bank prolonged the 100 million dollar short-term credit granted in March, which was converted in November in a long-term loan. Schuker, *The End*, 140–68.

Their recommendations on measures against tax evasion and double taxation largely followed the Swiss and British positions: indeed, the League officials advocated for the adoption of exchanges between tax authorities that would be limited to information obtained in 'the due course of their fiscal administrations', as well as their implementation 'at least by a majority of States'.[81] Clearly, this was meant as a guarantee to countries respecting banking secrecy and as a clear sign that the conclusion of an international convention on the matter would remain nothing more than a fantasy to some. In Switzerland, the federal government concluded that 'all the reservations that the text contain[ed] would allow Switzerland to avoid any international agreements on the fight against tax evasion'.[82]

This failure to frame the fight against tax evasion in international terms had immediate consequences in France. After the retreat of Belgium, its only real ally in matters pertaining to tax cooperation, and the opposition of the Swiss and British representatives at the League of Nations, the third and fatal blow to the Cartel's international tax policy came from the home front. A few days after the meeting of the League of Nations' Committee, the Regents of the Bank of France, led by Edouard de Rothschild, submitted an ultimatum to the Herriot government: as the French state had secretly resorted to monetary inflation by dissimulating information on the size of the money supply from the public – according to a practice initiated by the previous government and as a direct result of the budget difficulties – the Regents demanded that, in exchange for their silence on the fraudulent balance sheets, the *bordereau* plan be scrapped by the government. On 14 February, during a meeting between Herriot and Clémentel, at which other prominent French political figures, including Vincent Auriol and Léon Blum, were present, the Cartel leaders surrendered. Faced with the central bank's ultimatum, Herriot effectively refused to bring down his cabinet by maintaining the *bordereau* policy.[83] Two days later, on 16 February, after outlining its failed initiatives at the League of Nations meeting, the Cartel leader announced before parliament the suspension of the securities controls, and by July they were formally repealed. Herriot concluded this struggle by identifying the twin causes of the *bordereau* policy fiasco: namely the 'haemorrhage' of French assets and their failure to be 'offset by foreign capital coming to France'.[84]

Tax Standardisation, Capital Reflux and Loans in Neutral Countries (1926–8)

The fiscal normalisation process in France – the third and final act of the story – was completed a year and a half later. After the *bordereau* episode several radical-socialist

[81] League of Nations, *Double Taxation and Tax Evasion. Report and Resolutions submitted by the Technical Experts to the Financial Committee* (Geneva: League of Nations, 1925), 35.

[82] Minutes of the Federal Council, 'Völkerbund. Konferenz betreffend internationale Doppelbesteuerung und Steuerflucht', 19 Mar. 1925, 3, SFA E 2001 B, 1000/1508, 34 (translation from German).

[83] See Jeanneney, *Leçon d'histoire*, 88–94.

[84] Chambre des députés, 16 Feb. 1925, in *Journal officiel. Débats parlementaires*, 17 Feb. 1925, 902 (translation from French). However, the balance sheets were eventually disclosed, and Herriot's cabinet was brought down in April of the same year.

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coalitions had succeeded one another and various tax projects on capital had been aborted amid a worsening financial and monetary crisis. By reducing public debt in real terms, and by demonstrating once again the inevitable political impasse caused by the adoption of tax measures that clashed with financial orthodoxy, speculation against the franc in 1925–6 purged the projects aimed at covering the costs of the war with the taxation of large fortunes. For the national unity government, a conservative coalition that succeeded the Cartel in July 1926, the *de facto* stabilisation of the franc at a level five times lower than its pre-war parity was achieved with great ease at the end of the year. Before the adoption of any real monetary programme, the depreciation of the franc was promptly stopped by Poincaré's return to power and the presentation of his budgetary plan.[85] During the subsequent years former French exiled capital and foreign investments came back in large sums. More than 50 billion French francs (around 2 billion dollars) were imported to France between 1927 and 1931, a figure roughly equivalent to the outflows between 1921 and 1926. In June 1928 the stabilisation was legally enforced.[86]

As far as taxation was concerned this 'Poincaré miracle' was in many ways symptomatic of the general European trend towards fiscal normalisation during the 1920s. First, monetary stabilisation was linked to the dismantling of progressive taxation which, coupled with increases in taxes on consumption and flat taxes, and the return to a balanced budget, proved to be efficient in repatriating exiled French capital, whose owners, moreover, could now cash the currency premium. While the French premier had emphatically denounced British and German projects that sought to repatriate wealth by granting tax benefits to investors during the debates on reparations that had taken place in 1922, he now applied the same strategy to France.[87] On 3 August the largest income tax cut in the contemporary history of France was adopted: top rates were reduced from 60 to 30 per cent.[88]

Second, this return to normality expressed itself through the removal of tax controls on securities. In effect, in that same August the Poincaré government repealed the so-called *carnet de coupons*. This measure, quite similar to the *bordereau*, had been reintroduced during the Cartel's last months in power, although it never entered into force. The new government followed the plan outlined by a Committee of Experts, dominated by French bankers, that had been established in May to find a remedy to the crisis of the franc. It concluded that the *carnet de coupons* could 'only cause the export of securities and capital'.[89] Such attempts to control securities did not reappear

[85] See Jean-Noël Jeanneney, *François de Wendel en République. L'argent et le pouvoir 1914–1940* (Paris: Seuil, 1976), 321–54.

[86] See Mouré, *The Gold Standard*, 129 for the estimates on inflows and outflows. See also Léonard Rist and Philippe Schwob, 'Balance des paiements', *Revue d'économie politique*, 53 (1939), 536–9. On the monetary stabilisation, see Pierre Blancheton, *Le Pape et l'Empereur. La Banque de France, la Direction du Trésor et la politique monétaire de la France (1914–1928)* (Paris: Albin Michel, 2001).

[87] For this contradictory attitude, see Etienne Weill-Raynal, *Les réparations allemandes et la France*, 2 (Paris: Nouvelles éditions latines, 1947), 611–3.

[88] See Piketty, *Les hauts revenus*, 267 (rate for for married couples).

[89] 'Rapport du Comité des experts (créé par décret du 31 mai 1926)', 3 Jul. 1926, in *Les Documents politiques diplomatiques et financiers*, Jul. 1926, 318 (translation from French).

until the Great Depression, although it is true that their removal was mitigated by an increase in withholding taxes on interests and dividends.[90] Moreover, as in Germany, the ultimate benefit for capital holders of the *bordereau* crisis in February 1925 was a partial reintroduction of banking secrecy for assets subject to progressive income tax. With the repeal of the Act of 22 March 1924, which contained, among others, an article pertaining to banks' taxation procedure, the administration concluded at the end of 1925 that 'the legislator had in all probability intended to grant bank transactions the highest degree of secrecy possible concerning Treasury agents' rights of inspection'.[91] From the point of view of progressive taxation on incomes, the tax impunity capital owners had enjoyed in the pre-war period was thus largely restored in France by the late 1920s. A report prepared by Borduge and sent to Poincaré in 1928 concluded that for 'large taxpayers . . . the general tax [on incomes] tend[ed] increasingly to take the form of a voluntary contribution'.[92]

Third, neutral offshore centres contributed actively to this tax standardisation and the reflow of assets to France. Because of the conflicts over war debts with the United States and Great Britain, the Poincaré stabilisation programme was conducted without an international financial plan. However, a small loan of 60 million Swiss francs bearing an interest rate of 7 per cent and tax-free in France was floated in Switzerland for the French State Railway Company (*Chemins de fer de l'Etat français*) in early September.[93] Even if the issue was incomparable with the huge stabilisation loans in Austria or Germany, its success contributed to the return of investors' confidence. Subscribed to more than twenty times over,[94] the operation was a show of strength by the French government. It was also the first case in a series of similar loans. Between 1926 and 1932 Switzerland, the Netherlands and Sweden replaced US and British financial centres as the main foreign market for the issue of French bonds. According to a retrospective survey by the League of Nations the significant sum of 199 million dollars – an amount that is almost equivalent to the Dawes loan – was floated in these three small countries.[95]

One last point should be noted: the same processes were simultaneously at work in Belgium after the fall of the centre-left Poullet–Vandervelde cabinet – a victim, like

[90] See, for instance, Tristram, 'L'administration fiscale'.

[91] Borduge, Director of the Administration des Contributions directes, to Painlevé, French Finance Minister, 10 Nov. 1925, CAEF, B 56813 (translation from French).

[92] Note from Borduge, Director of the Administration des Contributions directes, to Poincaré, President of the Council, 1 Oct. 1928, CAEF, B 56813 (translation from French).

[93] See 'Prospectus: Emprunt 7 per cent des Chemins de fer de l'Etat français', *Journal de Genève*, 3 Sept. 1926.

[94] See Letter from Hennessy, French Ambassador in Switzerland, to Briand, French Minister of Foreign Affairs, 24 Sep. 1926, AMAE, Série Z, Suisse, no. 127. For the negotiations on the loan, see Minutes of the Federal Council, 'Französische Anleihen', 19 Aug. 1926 and Minutes of the Federal Council, 'Emprunt français', 24 Aug. 1926, in *Documents diplomatiques suisses*, 9, 362–5. For French loans in Switzerland at the end of the 1920s see also Marc Perrenoud and Rodrigo López, *Aspects des relations financières franco-suisses (1936–1946)* (Lausanne: Payot, Zurich: Chronos, 2002), 42–4.

[95] See League of Nations, 'Europe's Capital Movements, 1919–1932. A Statistical Note', June 1943, 32–3, and Appendices 3d–3i.

the Cartel, of massive capital flight and speculation against the Belgian franc between 1925 and 1926.[96] A national unity government headed by Henri Jaspar was formed in May 1926 and placed at the head of the financial stabilisation programme two members of the country's largest banks, Emile Francqui of the *Société Générale* and Maurice Houtart of the *Banque de Bruxelles*. In order to stop capital flight and stabilise the Belgian franc – at one seventh of its pre-war rate – this new coalition undertook a drastic currency reform plan coupled with an increase in customs duties, excise taxes and property tax. However, as in France, a decline of the progressive taxation of movable assets was underway: banking confidentiality was strengthened *vis-à-vis* the administration and some relief on financial transactions was granted.[97] Nowhere else did the fiscal restoration go so far as in Belgium. In fact, this move ultimately culminated with the Act of 13 July 1930, which replaced the progressive income tax on declaration by one that was calculated on the basis of external signs of wealth. Through the adoption of this measure, typical of pre-war fiscal liberalism and which divided income tax revenue by six, the government chose to remove the progressive tax on securities portfolios completely, as they were 'impossible to control', according to Houtart, 'without pushing them to run away abroad'.[98]

This ordinary programme, combining financial orthodoxy and a reduction of the fiscal burden carried by the wealthy, contributed to the return of investors' confidence from the autumn of 1926. In November the Belgian National Bank characterised capital inflows as having 'impressive continuity and force'.[99] As in Germany and France, these capital reflows were stimulated by neutral tax havens. The previous coalition was unable to obtain credits from international bankers; attempts made by the former Minister of Finance, Albert-Edouard Janssen, to get support from the Financial Committee of the League failed during the first half of 1926.[100] Now, with the assistance of L. Dubois and the Swiss Bank Corporation, the new Belgian government contracted a loan in Switzerland and the Netherlands on behalf of the

[96] See Guy Vanthemsche, 'De val van de regering Poullet-Vandervelde: Een "samenzwering der bankiers"?', *Revue belge d'histoire contemporaine*, 9 (1978), 165–214. The Swiss legation in Brussels reproduced estimates of Belgian assets deposited in foreign banks – specifically in the Netherlands, Great Britain and Switzerland – of more than 15 billion Belgian francs. See Political Report of the Swiss Legation in Brussels, transmitted to Motta, Swiss Minister of Foreign Affairs, 5 Jul. 1926, SFA, E 2200.44, 1000/598, 2.

[97] On monetary stabilisation see Fernand Baudhuin, *Histoire économique de la Belgique. 1914–1939*, 1 (Bruxelles: Emile Bruylant, 1946), 161–73; Hermann Van der Wee and Karel Tavernier, *La Banque nationale de Belgique et l'histoire monétaire entre les deux guerres mondiales* (Bruxelles: Banque Nationale de Belgique, 1975), 169–203. For the fiscal plan see André Hardewyn, *Tussen sociale rechtvaardigheid en economische efficiëntie. Een halve eeuw fiscaal beleid in België (1914–1962)* (Brussels: Vubpress, 2003), 155–7 and 187 (note 42).

[98] Minutes of the Conseil des ministres, no. 80, 27 Jun. 1929, 9, AGR (translation from French). For the fiscal normalisation see Hardewyn, *Tussen sociale*, 172–82. On the willingness of some members of the government to dismantle progressive taxation at the end of 1926 see, for instance, Minutes of the Conseil des ministres, no. 46, 15 Dec. 1926, 2–3, AGR.

[99] National Bank of Belgium to Houtart, Belgian Finance Minister, 23 Nov. 1926, Archives of the Banque nationale de Belgique, 0150/4 (translation from French).

[100] See Van der Wee and Tavernier, *La Banque nationale*.

Belgian National Railway Company (*Société Nationale des Chemins de fer*) in August 1926 – premium shares bearing an interest rate of 6 per cent and tax free in both Switzerland and Belgium, as well as a dividend on the railway company's profits. Later in the autumn the United States and Britain launched an international monetary stabilisation loan of 100 million dollars at 7 per cent, of which small parts were issued in neutral countries.[101]

Foreign financial centres therefore played a key role in the crisis of the Franco-Belgian financial system and its subsequent resolution by closing and then opening the valve of credits: they provided a haven for assets seeking protection and then participated in their repatriation.[102] In a way, albeit limited in scope, Swiss loans in 1926 were the quintessence of European economic stabilisation programmes in the 1920s. According to the Swiss National Bank, these issues were probably subscribed to for 'a considerable part not by Swiss savings but by foreign capital in flight'.[103] Quite literally this meant that, after having evaded the higher tax burdens and avoided currency depreciation, Belgian and French capital holders gained a tax-free return as a reward for their consent to financial programmes undertaken by the two countries' national unity coalitions. Last but not least, after 1926 the issue of international tax evasion did not resurface in the international debates. Thanks to 'a banking system carefully designed to be a gigantic conspiracy against the fiscal authorities of other countries', according to Harry Siepmann of the Bank of England, Swiss offshore services were certainly still widely used, despite the overall weakening of post-war direct taxation in Europe, in order to avoid, for example, withholding tax on interests and dividends of foreign securities.[104] Nevertheless, Franco-Belgian pressure on banking secrecy disappeared.[105]

[101] Swiss issues were 200 million Belgian francs (30 million Swiss francs) for the first loan and 32 million Swiss francs for the second. See 'Prospectus: Société nationale des Chemins de fer belges', *Journal de Genève*, 20 Aug. 1926; 'Prospectus: Emprunt de stabilisation du Royaume de Belgique, 7%, 1926', *Journal de Genève*, 30 Oct. 1926.

[102] For the same analysis on relations between Switzerland and France, see Guillen, 'Les relations financières franco-suisses', 166–71.

[103] Minutes of the Direction of the Swiss National Bank, no. 1061, 18 Nov. 1926, 5, Swiss National Bank Archives (translation from German). See also Peltzer, Belgian Minister in Bern, to Vandervelde, Belgian Minister of Foreign Affairs, 25 Sep. 1926, AGR, T 073: 493. It is true that contradictory information was produced on the subscription to the first French loan in Switzerland in 1926. See Hennessy, French Ambassador in Switzerland, to Briand, French Minister of Foreign Affairs, 24 Sep. 1926, AMAE, Série Z, Suisse, no. 127. However, one thing is clear: if the Swiss banks were able to grant these loans, it was thanks to the abundant imported capital placed in their accounts and deposits. See Switzerland. Extracts from the Report of the Department of Overseas Trade, Feb. 1927, Archives of the Bank of England, London, OV 63/1.

[104] Siepmann to Rodd, 3 Sept. 1930, Archives of the Bank of England, OV 63/22.

[105] In April 1927 Belgian delegate C. Clavier was even forced to read in front of the Fiscal Committee of the League a formal denial, written by M. Houtart, of his own previous efforts to fight international tax evasion. See Minutes of the Experts Committee on double taxation and tax evasion, 8 Apr. 1927, 12–13, ALON, EFS/DT/8e session/PV5. For precision on offshore finance and the disappearance of pressure against it after the monetary stabilisations see Farquet, *La défense du paradis fiscal suisse*.

Conclusion

The partial return to pre-war economic normality that occurred in the middle of the 1920s was linked to the transformation of European tax systems. Despite the increases in state revenue aimed at contributing to the consolidation of public finances, monetary stabilisations were correlated with a lowering of direct top tax rates, a loosening of fiscal controls and the renunciation of efforts to exert pressure on offshore fiscal practices. In the hope of achieving a reflux of evaded capital, these plans adopted a tax policy designed to reinforce the confidence of asset holders. In this light, it appears that the dictates of budget orthodoxy, a principle held dear by holders of securities, were put aside for the fiscal contribution of these very same capital holders. As the French case demonstrates, the flight of assets proved to be decisive for those who had to justify this manoeuvre. The evaded wealth destabilised the progressive tax systems that it was eluding and stimulated the very inflationary crisis that it was avoiding. Thus, it contributed to make necessary the return to liberal taxation practices in order to achieve monetary consolidation: a relaxation of taxes on movable capital became a prerequisite for its repatriation. The efficacy of this self-fulfilling mechanism was ultimately increased by the intervention of foreign financial centres, and especially of neutral tax havens, for whom illicit imported assets had become the preserve in international negotiations on the matter.

After the war the strong resistance shown by asset holders to taxation and their willingness to return to pre-war fiscal liberalism despite the expansion of states was a major source of economic and political disturbance. As we have seen, capital flight and tax competition help explain why, ultimately, tax policies adopted amid monetary stabilisations were most favourable to the capital owners. In a way, this was the cost that each government had to pay to them to stop financial disorders. The so-called roaring twenties were therefore a golden age of fiscal conservatism all over Europe. However, this was only a temporary achievement. These issues would soon be replaced at the forefront of political conflicts with the advent of the Great Depression and European banking crisis in 1931. And, in the countries that suffered from hyperinflation during the 1920s, the reactions against capital flight would, this time, be much more dramatic.