

090909 NOR GOOD NOR BAD NOR NEUTRAL, colloquium, 9  
septembre 2009, Berkeley Center for New Media.

**«No money, no Switzerland»: a realistic history of Swiss  
neutrality**

*Title of this lesson seems strange, not in relation to neutrality.*

*No intention to develop a theoretical or abstract interpretation of  
neutrality.*

*Neutrality should be placed in the center of concrete history of  
Switzerland. And in this respect, we have to put attention on money  
and swiss economy.*

Before addressing the core of my argument, I urge you as a  
preamble to forget everything you may know about Swiss neutrality.  
Indeed, there are good chances that what you know may either be  
an illusory and artificial image, or a discourse justifying behind the  
scenes diplomacy. These preconceived ideas do not help us and they  
hide both the origins and finalities of Swiss neutrality.

After presenting an overview of the origins and emergence of Swiss  
neutrality, I will develop the following themes

- neutrality and the organization of foreign trade
- neutrality and financial services
- neutrality and wars
- and, last but not least, so called «fiscal neutrality»

***The emergence of Swiss neutrality***

Swiss neutrality was established in parallel to the emergence of  
Modern Switzerland, at the beginning of the 19<sup>th</sup> C. After the fall of  
the Napoleonic Empire, European Great Powers assembled at the  
Congresses of Paris and Vienna, decided to reunite the cantons and  
regions of the Old Swiss Confederation, to re-establish their

boundaries and to recognize, or rather impose, their neutrality. For the Great Powers of the time, this special statute was an integral part of the post-1815 new European order. Their aim was to create, between reactionary Austria and post-revolutionary France, a «neutral» buffer zone in the middle of conflict-ridden Europe. This goal was especially important for Great Britain, which was attempting to impose a European order without dominant powers (except its own, of course).

Let me underscore clearly this first fact: Switzerland is neutral because great powers had from the beginning a vested interest in this neutrality.

If this neutrality statute was at first grudgingly accepted by the Swiss, it became progressively, especially during the 20<sup>th</sup> C., a historical myth in Swiss collective memory. To paraphrase historians Eric Hobsbawm and Terence Ranger, neutrality became an «invented tradition» with alleged ancestral roots. Historians and political elites began to underscore the imaginary roots of neutrality, tracing them to the 16<sup>th</sup> C., while neutrality itself was portrayed as a kind of explanatory principle for the whole of the Swiss historical trajectory.

This conception is a pure fable. There existed around 1500 neither authorities nor institutions able to impose such a clear political direction to a chaotic patchwork of cities, rural cantons and patrician families. All of these actors pursued their own interests and not those of an hypothetical «Switzerland». Moreover, from the 16<sup>th</sup> C. onwards, the revenues of cantons and patrician elites depended in large part from mercenary regiments; and numerous treaties – or rather contracts regulating the drafting of mercenaries – were concluded with multiple foreign partners. In this context, it is absurd to speak about «Swiss neutrality».

Let's not forget that from the early 16<sup>th</sup> C. to the late 18<sup>th</sup> C. the Swiss sent around 400'000 able-bodied men *every century* to serve as mercenaries in the so-called «foreign service». This number is truly extraordinary if we think that the total population of the Old Confederation reached approximately 1.2 million people at the time.

And It is during this period that the famous saying «no money... no Swiss» emerged. In other words: without hard currency – at the time: gold coins and bullion – no mercenary regiments could be drafted. By the way, you find the saying «no money... no Swiss» in 1668 in a play written by the famous french author Jean Racine (*Les Plaideurs*).

I like to insert here a short symbolic formula about money and neutrality. We have, a matter a fact, two images of Switzerland: money and Switzerland on the one hand, and neutrality and Switzerland on the other hand. Between this two visions of Switzerland is a profound gap. And this is the core probleme of swiss diplomacy.

Back to the history:

At best, occasional allusions to «neutrality» were used as justifications for the sending of mercenary regiments in every direction, on all battlefields, and to service all kings, princes and Republics of Old Europe. And Swiss regiments on «foreign service» even sometimes served on opposite sides of the battlefield and fought ferociously against each other (famous examples of such fratricidal encounters range from the battle of Novarra in 1500, Ivry in 1590, Malplaquet in 1709, to Baylen in 1808).

These foreign ventures planted the seeds of a genuine «Swiss

connection». Taking advantage of mercenary contracts, the Swiss gained many commercial and financial privileges. This little known story is truly fascinating, but I lack both space of time to develop it here. One conclusion is clear: the emergence of neutrality in 1815 was neither the result of a generous political philosophy, nor the outcome of a political idea nurtured for centuries by the Old Confederation.

The neutrality articles of the 1815 Peace Treaty defined neutrality very superficially. These articles forbade Swiss cantons to participate in armed conflicts, but tolerated the setting up of mercenary regiments as well as trade in goods and weapons with countries at war against each other.

When the Modern Swiss Confederation was formed in 1848, with a central government and a Parliament, neutrality found a marginal place in two secondary articles of the Federal Constitution. These articles simply defined neutrality as a means to defend the independence of the country.

Swiss neutrality was also re-discussed during the two Peace Conferences held in The Hague in 1899 and 1907, but these brought no significant changes to the concept. At the same time, Switzerland successfully refused all attempts to define more precisely the definition of peacetime neutrality.

One of the key aspects of neutrality, and one that is often forgotten, consists in its pacifying effect on domestic politics. In a country profoundly divided along non-overlapping linguistic and religious regions, the eventuality of intense regional links with one or the other of Switzerland's neighbors might have potentially provoked internal conflicts. During World War I, for example, French-speaking

Switzerland passionately supported the Franco-British Entente, while German-speaking Switzerland enthusiastically followed the Reich's military campaigns. Solemn calls to preserve neutrality, launched by both political and intellectual elites, somewhat mitigated inter-regional tensions that might have potentially endangered national cohesion.

### ***Neutrality and trade***

The most important function of Swiss neutrality resides in the protection of foreign trade. Swiss manufacturing industries, well-developed since the early 19<sup>th</sup> C., have largely remained dependent on exports. In this perspective, neutrality was used as a label to conquer profitable markets while circumventing the political constraints usually linked to international relations. To give a paradigmatic image of this strategy, one might compare neutrality to a moral shield used to dissimulate the aggressive sword of trade. This strategy was especially important in the age of colonialism and imperialism. By displaying the «neutrality» flag, the Swiss merchant steamer could follow closely the imperial gunboats of the Great Powers. The use of neutrality enabled Switzerland to refuse all alliances while profiting from the might of colonial powers.

From 1900 onwards, Swiss financial interests began to adopt this strategy as their commercial and financial expansion was taking place during wars and armed conflicts. I will return to this dimension shortly.

Let me first underscore one considerable weakness of this conception linking trade with neutrality. At the latest since World War I, trade and finance have become determinant strategic parameters in times of conflicts. In this context, the alleged "neutral" trade lost its neutrality. By being much implicated in economic

relations with belligerent countries, peaceful Switzerland participated in the end in wars.

Confronted to this challenge as well as to mounting foreign critiques, Switzerland answered by elaborating a political discourse that magnified the value and prestige of neutrality. It is in these circumstances that Swiss elites, much helped in this task by historians, shaped the myth of neutrality. However, a growing discrepancy continued to grow between the rough reality of economic relations and the presumed ideals of neutrality.

Let's consider briefly an illustration of this problem. During the Spanish Civil of 1936-1938, Swiss banks, with the approval of the Federal government, approved to lend important sums to General Franco, facilitating in this way the military putsch against the elected Republican government. This constituted a violation of neutrality.

### ***Neutrality and financial interests***

Already by 1900, Swiss foreign direct investment had reached very substantial levels. The sum of these investments at least equaled, and often overtook, Swiss Gross domestic product (GDP), whereas Switzerland ranked among leading countries in term of capital export per capita or in relation to GDP.

At the same time, Swiss banks and financial institutions became a safe haven for foreign wealth. The opportunity to evade taxation by transferring funds in Switzerland played a key role in this evolution. It is in order to protect such transfers – and not, as a tenacious legend purports it, to protect Jews persecuted by rapacious Nazis – that the Confederation promulgated in 1934 a stringent law that punished harshly any person or institution that violated so called “banking secrecy”.

But what do these murky dealings have to do with neutrality? The answer is rather simple and straightforward:

- on the one hand, neutrality was used to both justify the investment of Swiss funds everywhere and deny the political implications of such investments. For example, by investing in Belgium funds that were destined to the Belgian colony of Congo, Switzerland participated around 1900 to the gruesome exploitation of this region, while underscoring its neutral and harmless statute as a non-colonial country. The same procedure was applied to South Africa: during the whole Apartheid period, Switzerland developed intense financial and commercial links with a pariah regime while refusing to join boycott and other international sanctions because of "neutrality".

A similar case has been Libya at the time when an embargo has been imposed. Switzerland, arguing with neutrality, refused to join the embargo, and could make in the meantime good affairs with Libya. As you probably know, Switzerland is today in a hard conflict with Khaddafi of Libya, and Switzerland can't find any support of other countries. This is the price to be paid for neutrality and profits.

- on the other hand, neutrality symbolized the opacity of Switzerland, where foreign wealth could find a safe haven thanks to banking secrecy, and therefore escape foreign interference and taxation.

### ***Neutrality and wars***

The numerous and bloody wars that engulfed Europe have shaped Switzerland and its role on the international scene. The Thirty Years War of the 17<sup>th</sup> C. (ranging from 1618 to 1648) has inaugurated lasting political and economic traits that still find echoes in

Switzerland today. While Swiss mercenaries were directly involved in battles, Swiss cantons avoided all formal alliances so as not to put under pressure the fragile equilibrium that reigned domestically between Protestants and Catholics. This ambivalent attitude brought fruitful outcomes: untouched by war devastations, Switzerland could develop its economic base and hone its commercial skills.

This political and financial strategy was so successful that François René de Châteaubriand, the famous French writer and politician, remarked with irony that: "Switzerland [has] established banking by preying on the disasters that have stricken Europe" (*Mémoires d'Outre Tombe*, quoted by Herbert Lüthy, *GW*, 1/395).

The second Thirty Years War, the one that engulfed Europe during the first half of the 20<sup>th</sup> Century only reinforced these evolutions.

In 1912, two years before the outburst of World War I, the Secretary of the Swiss National Bank, a future President of Credit Suisse, wrote in a book that a future great war "may provoke an important influx of monies originating from neighboring countries and looking for a haven in Swiss banks. All this might well bring a handsome growth to domestic banking profits."

By 1914, the concept of Swiss neutrality had been both sharpened and well defined. Its mainstays were the following: political abstention in the field of international relations, but, under the mantle of neutrality, intense participation in the field of trade and financial relations with all belligerents. The result: Switzerland emerged from World War I with an intact economy and much reinforced financial punch.

A similar pattern repeated itself during World War II. Nazi Germany

respected Swiss neutrality because Switzerland provided the III Reich with key services. Furthermore, as Switzerland could provide the III Reich with the only freely convertible money available in Europe, the Swiss Franc, Nazi Germany had no interest to violate Swiss sovereignty. In 1997, US Under Secretary of State Stuart E. Eisenzadt, in charge of assessing Swiss dealings with Nazi Germany, severely condemned these aspects and questioned the soundness of the foundations of Swiss neutrality.

### ***Fiscal neutrality***

In 1998, right in middle of this controversy, a new formula combining neutrality with financial interests was developed in the *Neue Zürcher Zeitung* (New Zürich Gazette), the leading Swiss newspaper and the authoritative voice of financial and banking circles. In a well-received article, a German professor specializing in economic ethics examined the legitimacy of Swiss banking secrecy. In his conclusion, which justified unequivocally banking secrecy, this expert argued that: "Swiss banking secrecy is a form of fiscal neutrality vis-à-vis foreign tax administrations and financial competitors". Once again, the recourse to the "neutrality formula" was used to justify banking practices that have been heavily criticized by foreign countries and, most recently, by international organizations such as the OECD.

We could also say, in comparing with the old times of the Swiss Confederation, that our bankers are now the mercenaries of the modern times.

This example shows again how Switzerland has repeatedly used neutrality to legitimize and defend its international economic activities. One may compare the use of neutrality with the early 20<sup>th</sup> C. US use of the "open door" strategy, that is the US claim to

have a right to access all markets and foreign countries without having to bring forward justifications or concessions to other actors.

This said, we should not forget that Swiss neutrality is often combined with an important "humanitarian" apparatus. Switzerland proposes its services as an intermediary in times of conflicts or as a host for international organizations or congresses. The role of these services is to give moral legitimacy to the practice of neutrality and to enhance Switzerland's standing on the international scene.

The creation of the International Committee of the Red Cross (ICRC), the offering of diplomatic services between belligerents, the protection of war prisoners, or humanitarian actions during wars and catastrophes constitute telling examples of this humanitarian apparatus. Switzerland's territory was also used by intelligence services or spies. During World War II, one could find Germans, British and American spies in Switzerland. It is in Bern that Alan W. Dulles had set up the Office of Strategic Services, one of the forerunners of the CIA. One may of course ask oneself whether this spying activities did not constitute in the end a gross violation of Swiss neutrality.

It is significant for this strategy, that after World War II, when the reputation of Swiss neutrality was very bad, the federal council in charge of the foreign affairs proposed a new formula: he call it «neutrality and solidarity». In the same time, Switzerland created a foundation for bringing humanitarian help to foreign countries.

However, the diplomatic services offered by Switzerland have declined during the last decades. Since the 1970s other countries, such as non-neutral Norway, have also stepped up their activity in this domain, with often the same efficiency as Switzerland.

***Conclusive remarks***

We now have enough elements to synthesize both the uses and strategies of Swiss neutrality.

In my view, the most important conclusion of this overview is the following: neutrality is not a concept that can be designed in an autonomous way by a specific country. On the contrary, as the Swiss case demonstrates, it is indeed neighbors and/or great powers which contribute to shape and define the use of neutrality.

In other words, neutrality is only working when the neutral country is able to "sell" neutrality to its neighbors and to great powers as well as to shape neutrality in a way that is profitable to these foreign actors. Without meeting these preconditions, neutrality will be neither recognized nor respected.

This specific configuration of neutrality implies non negligible constraints for the neutral country. In the case of Switzerland, recognition of the neutrality statute always depended and had to be obtained from foreign countries. When needed, these countries used this peculiar dependence to reach their own objectives by exerting pressure on Switzerland.

Swiss neutrality has no explicit finality. The concept is mentioned in the Federal Constitution among the state tools used to defend the country's independence. In the real world, it has been repeatedly used to frame Swiss interests abroad. During the 19<sup>th</sup> C, for example, the Swiss present in the regions dominated by colonial powers put themselves – according to existing material opportunities – under the protection of the locally available power.

In the context of the mediation services which usually associated to the "duties" of a neutral state, the role of intermediary played by Switzerland helped it to gain access to international diplomacy. By extension, this international presence was used to reinforce Swiss trade and financial positions.

The interdependency between international relations and neutrality have often led to compromises that erode the very spirit of neutrality. A country like Switzerland, with its strong international economic presence, cannot avoid treaties that curtail neutrality. The Hotz-Linder Agreement signed in 1951 is a good example of such a situation. Under pressure from the United States, Switzerland had to join the technological and trade embargo against Eastern European countries. As the US National Security Council underscored with satisfaction and without irony: "The Swiss concept of neutrality has [...] become less inflexible." (Schaller 161).

These compromises have led the Swiss government to adopt a very questionable interpretation of neutrality after World War II, notably by differentiating between "technical" international treaties which allegedly did not violate neutrality and "political" treaties that allegedly contradicted it. These convoluted distinctions have led to paradoxical situations. For example, Switzerland joined in 1948 the Marshall Plan and the OEEC (predecessor of the OECD) by arguing that these initiatives pursued only "technical" goals while their anticommunist and, by extension "political", character was obvious for all. And in private conversations, the federal councilor for foreign affairs declared clearly: «There is no doubt that the Marshall Plan have also a political goal.»

Some Swiss public personalities, conscious of the ambivalence and contradictions of neutrality, have sometime underscored the

“schizophrenia of the Swiss political consciousness” (von Salis, Festschrift Oprecht 244). Moreover, the Swiss government has routinely defended neutrality in public discourses while recognizing in closed administrative circles that Switzerland “departed from the very principle of neutrality” (Petitpierre 1947, DDS 17, 87).

In a perfect example of “political schizophrenia” the very author of this judgment, Federal Councilor Max Petitpierre, the Swiss Minister of Foreign Affairs after 1945, declared peremptorily that: “the history of Swiss neutrality is the very history of Switzerland, which so to say developed itself around the principle of neutrality”. This denotes not only schizophrenia but an artificial and very ideological conception of history.

Yet, even if the politics of neutrality are laden with ambiguity and fake, they have much contributed to the economic and financial success of Switzerland. As a concept, neutrality was sufficiently pliable and adaptable to the ebbs and flows of international relations, while offering a kind of moral shield that facilitated the pursuit of Swiss material interests. But this strategy works only as long as neighboring countries and great powers have an interest in Swiss neutrality. If this interest declines one day, then Swiss neutrality may become extremely fragile.

I know, I did not show you the sunny side of swiss neutrality. But the hard praxis of neutrality and diplomacy in a world of power and constraints. This was the story of «No money, no Switzerland», with or without neutrality. This depend on circumstances and the good will of the other countries.

---