

THE ECONOMICS OF NEUTRALITY:  
SWITZERLAND AND THE UNITED STATES  
IN WORLD WAR II

A Thesis

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## **ABSTRACT**

The following study addresses the contentious issue of Swiss economic policy during the Second World War. In particular, it concentrates on the deterioration of Swiss-American relations that resulted from Switzerland's economic ties to Nazi Germany. It is argued that Switzerland's survival as a neutral and democratic country depended less on the defense preparations of the Swiss Army and more on the difficult trade negotiations with both the Axis and Allies. Varied sources that include American and Swiss governmental reports, diplomatic documents, and contemporary accounts of the war, support the argument that although moral considerations played a secondary role to economic necessities, Switzerland's trade with Nazi Germany did not prolong the Second World War nor were such ties immoral in nature. Instead, the inability or unwillingness of Allied countries like the United States and Great Britain to provide Switzerland with much-needed raw materials and food imports led the neutral country to forge closer ties with the Axis. The emphasis of the study is to assess accurately Switzerland's wartime economic conduct and is not meant to provide an apologetic rationalization of its relationship with Nazi Germany.

After first considering the historical origins of Switzerland's neutrality and its economic and political institutions, the study proceeds to examine the immediate effects of its foreign trade policy and the longer-term consequences of the damaged relations with the United States in the Cold War. The study closes by addressing the problems stemming from the poly-ethnic and multi-cultural composition of the Swiss Confederation that can provide excellent insight into the current dilemmas experienced by European countries as they strive for political and economic integration.

## CHAPTER 1: THE UNIQUE FEATURES OF SWITZERLAND

Sixty years have elapsed since the end of World War Two. For Switzerland, time has not repaired a tarnished image that resulted from its wartime conduct. The decision to remain neutral, along with its willingness to trade with and purchase gold from Nazi Germany continues to shape negatively perceptions of Switzerland held by the outside world. Those who reproach the Swiss for their actions and policies fail to see the entire picture and most often lack even the most basic understanding of their society and government. Switzerland's self-image as a small, armed neutral state clashes with external views of the country as an immoral collaborator with Nazi Germany. These two conflicting images create tremendous difficulties for the historian who aims at uncovering what really happened inside Switzerland during the Second World War. The key to understanding Switzerland's experience in the Second World War lies in exposing the unique features of Swiss society: the state maxim of neutrality, its highly specialized and foreign trade-reliant economy, as well as its practice of direct democracy within a decentralized, federalist government. It should become clear that although Switzerland did remain outside the reach of formal military conflict it failed to avoid entanglement within the economic war. Additionally, one must understand that Switzerland behaved no worse than any other Western democracy. In fact, this study will show how neutral Switzerland played a crucial role in preserving democracy on the European continent.

My thesis focuses on Swiss trade negotiations with both the Axis and Allied governments, but I especially emphasize Switzerland's relationships with the United

States and Britain. The reason for examining this element of economic policy is that for the Swiss, foreign policy is inseparable from trade policy, and it is within the realm of economics that Switzerland faced its biggest challenges. Although the Swiss Army's defense preparations certainly were important for staving off invasion, the role of trade policy was indispensable for Switzerland's survival as an independent, democratic country. At the heart of the controversial Swiss ties with Nazi Germany were issues of foreign trade. By examining the dynamics of these bilateral trade negotiations, a reader can better understand the true Swiss experience concerning World War Two. It is from trade negotiations that Switzerland chose to accept Nazi gold and forge close links with the Axis economies. It is also from trade negotiations that Swiss relations with the United States and Great Britain soured.

While it is true that certain decisions made by the Swiss policy-making elite were morally questionable-- such as the choice of the federal government to modify asylum law to limit the influx of Jewish refugees-- I cannot blindly agree with the criticisms unleashed on Switzerland by Western governments and other organizations. For example, various groups like the World Jewish Congress attack Switzerland for the asylum law restrictions but fail to acknowledge that proportionally, the Swiss accepted more wartime refugees than the United States and Britain. Other accusations, like those conveyed in a 1997 American State Department report, condemn Switzerland for its immoral, "business as usual" attitude during World War Two, arguing that the small neutral country profited handsomely from its trade relationship with Germany.<sup>1</sup> Such

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<sup>1</sup> United States Department of State, *U.S. and Allied Efforts to Recover and Restore Gold and Other Assets Stolen or Hidden by Germany during World War II*, coordinated by Stuart E. Eizenstat, Undersecretary of Commerce for International Trade (Washington D.C.: U.S. Government Printing Office: May 1997-*The First Eizenstat Report*), viii.

attacks upon the national character of Switzerland ignore the truth that World War Two represented a period of economic recession for the tiny alpine confederation. In addition, Switzerland's close trade ties to Nazi Germany resulted from years of economic cooperation. These ties therefore, did not stem from a sudden, opportunistic shift on the behalf of the Swiss government. My study will prove that Allied economic warfare against Switzerland, which included trade embargoes, naval blockades, and asset freezing, hurt the small neutral's ability to survive more dramatically than similar Axis efforts.

A study of Swiss foreign-trade policy serves a three-fold purpose. First, by examining the central component of Switzerland's foreign policy, we may better understand how the Swiss became embroiled in economic warfare. Second, the respective courses of economic action taken by all sides in dealing with Switzerland foreshadowed non-economic problems during the war and beyond. These non-economic issues include Switzerland's role as a protecting power for prisoners-of-war and its obligations as a neutral arbitrator during the Cold War era. Third, by illustrating the roots of Swiss wartime trade policies, we may take lessons from World War Two that are applicable today in the context of European political and economic integration.

In the course of examining trade negotiations, I shall also discuss the impact of total warfare on the theory and practice of neutrality and on Switzerland's role within the international community. For Switzerland, declining respect for neutrality as a viable foreign policy held dire consequences, as the country's decision to remain apart from the international community served to isolate it from the rest of the world. Comprehending the importance of neutrality for Switzerland requires an overview of its historical

development. Discussed in the remainder of this chapter are issues of identity, religion, language, and economy that illustrate the unique features of Switzerland. Particular attention is dedicated to the maxim of neutrality and the close link between Swiss foreign policy and the country's economic policy.

### **The Genesis of Swiss Neutrality, 1291-1815**

The year 1291 marked the beginnings of the first Swiss confederation. Three forest cantons, Uri, Schwyz, and Unterwald, signed treaties of alliance protecting them from “the aggression of the wicked.”<sup>2</sup> In other words, each canton pledged to mediate any conflicts arising between the others. The foundation of early neutrality rested on the notion of *Stille sitzen*, or “sitting still,” during conflicts that did not directly affect the allied cantons. Features of this type of defense alliance included a strictly internal orientation, faith in the primacy of law, and reliance on mediation or arbitration to resolve conflicts arising between the alliance members. Each signatory to the treaties of alliance sought to join with the other cantons to combat the external threats they confronted.

Because Swiss territory lacked natural resources, few jobs existed for the people living in the confederation. The dearth of employment opportunities led the Swiss to take up arms as mercenaries, fighting the wars of European powers. Mercenary service quickly became the primary form of employment for the Swiss. By the second half of the fifteenth century, stronger cantons, such as Bern, desired to control weaker cantons like Uri, leading to infighting, social unrest, and political instability. In an effort to prevent the collapse of the early confederation, the cantons began the practice of barring enemies from using Swiss territory for troop transit. To limit the possibilities of Swiss fighting

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<sup>2</sup> Jean Freymond, “Neutrality and Security Policy as Components of the Swiss Model,” *Government and Opposition* 23 (1988): 52.

one another, treaty members also agreed to refuse payment from enemies for mercenary services.

With the arrival of the sixteenth century came the threat of political disintegration for the Swiss cantons. Mercenary service during the Burgundian, and especially, the Italian, wars of the sixteenth century threatened to tear the early confederation apart. The battle of Marignano (1515) led to a ban on Swiss mercenaries serving on opposing sides of wars. Efforts taken by the stronger cantons to increase their military and political influence exposed divergent territorial aims among the confederation members. External events, namely religious, diplomatic, and military clashes among European powers, led the Swiss to seek safety inside their confederation. Those same quarrels indelibly affected Switzerland. Divided along religious, linguistic, and cultural lines, the Swiss sought recourse in the internal functions of neutrality. Due to irreconcilable differences among the peoples of the Swiss cantons, neutrality served as a means of coping with the lack of unity with which they constantly contended. Internally, neutrality acted as a unifying force in the absence of common religious, linguistic, and cultural uniformity. By constructing a political framework of neutrality and federalism, the confederates sought to blur the different experiences and beliefs of the population into a heterogeneous, but stable, society.

The pivotal roles played by the cities of Geneva and Zurich during the Reformation tested the ability of a neutrality policy to preserve peace within the confederation. Neutrality proved an essential ingredient for maintaining cohesion within the sharply divided Catholic and Protestant cantons. Efforts at preserving the confederation centered on utilizing neutrality to supersede divisive issues. Neutrality

became the defining characteristic of Switzerland, allowing the confederates to feel as if they belonged to something uniquely Swiss and beyond religion and language. As religion continued to polarize Europe, Swiss political and religious leaders felt the need to better define Switzerland's place in European affairs. These leaders embraced neutrality as a way of contributing to European diplomacy by offering impartial arbitration.

The Thirty Years' War again tested the capacity of the confederation to remain unified. A scholar of neutrality, Hanspeter Neuhold, argues, "In the religious wars of the 16<sup>th</sup> and 17<sup>th</sup> centuries in Europe, taking sides would have been disastrous for the unity and survival of the country."<sup>3</sup> The scope of this European-wide conflict forced even greater precision when defining neutrality policy. In what is termed the *Défensional* of Wyl (1647), the leaders of the stronger cantons agreed to impose the policy of neutrality on all members of the confederation to resist the centrifugal force of religion. The confederates agreed to halt any further expansion, pledging to create a federal army to protect the frontiers. It was thus in 1647 that the Swiss first adopted the principle of neutrality as a "state maxim."<sup>4</sup> The following year, in the Treaty of Westphalia, Switzerland's right to economic neutrality was alluded to, but not explicitly guaranteed. During an armed conflict between two or more foreign powers, the Swiss could trade with all sides without fear of military retribution. In exchange for this freedom, the Swiss were expected to act fairly and without favoritism.

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<sup>3</sup> Hanspeter Neuhold, "The Neutral States of Europe: Similarities and Differences," in *Neutrality: Changing Concepts and Practices*, ed., Alan T. Leonhard (Boston: University Press of America, 1988), 103-4.

<sup>4</sup> Freymond, "Neutrality and Security Policy," 55.

One result of Switzerland's maxim of neutrality was that Europe increasingly trusted Swiss power. States like Britain and France saw the Swiss as contributing to a European balance of power. In the Treaty of Utrecht (1713), France, Spain, Britain, and the United Provinces of the Netherlands recognized Swiss neutrality. The Swiss worked hard to secure this recognition, as they saw a need for external support for a policy of neutrality. That treaty recognition forced the Swiss to reorient the direction of their policy of neutrality. Previously, neutrality served as an internal mechanism to ensure cohesion within the confederation. Henceforth, neutrality possessed both internal and external functions. The Swiss state maxim now aimed to maintain stability inside the confederation while also seeking acknowledgement of its right to abstain from foreign military conflicts.

A century later, the European powers formally recognized the neutralization of Switzerland in the Final Act of the Congress of Vienna (20 November 1815). As a creation of the nineteenth-century Concert of Europe, neutralization served to manage and maintain the delicate balance of power system. In a study of neutralization, Cyril E. Black offers a general definition:

A neutralized state is one whose political independence and territorial integrity are guaranteed permanently by a collective agreement of great powers, subject to the conditions that the neutralized state will not take up arms against another state, except to defend itself, and will not assume treaty obligations which may compromise its neutralized status.<sup>5</sup>

Black's definition addresses the situation that gave rise to the internationally recognized neutral status of Switzerland after 1815. Under the conditions of the Final

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<sup>5</sup> Cyril E. Black *et al.*, *Neutralization and World Politics* (Princeton: Princeton University Press, 1968), xi.

Act of the Congress of Vienna, Switzerland's status as a neutralized state gained legal codification and protections of international law. Writing in 1927, the legal scholar Malbone W. Graham described the aim of the powers as ensuring "a return to a military, diplomatic, and political equilibrium, a creation of a new balance of power."<sup>6</sup> It is useful to envision neutralization as a process that produces a neutral state. If neutralization is a process, then neutrality is a status.

The European powers derived four benefits from the neutralization of Switzerland. First, neutralization aimed to stabilize a fragile international situation. Second, in upholding the status quo, a neutralized state contributed to peace and minimized the threats faced by small powers. Third, for the neutralized state, an international guarantee of its status bolstered its own security efforts and acted to restrain the ambitions of large powers. Fourth, from the perspective of large powers, recognizing neutralized territories allowed them to manage the balance of power.

Neutralization presented many problems from the standpoint of international law as well as those of neutralized states and of large powers. A neutralization agreement required the convergence of interests on behalf of the guaranteeing powers and presented substantial problems in terms of maintenance and enforcement. Regarding the neutralization of Switzerland, the Congress of Vienna agreed to such a status as a "conscious act of preventative diplomacy."<sup>7</sup> In other words, by agreeing to the creation of a neutralized Switzerland, the powers felt as if they were strengthening a fragile system.

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<sup>6</sup> Malbone W. Graham, Jr., "Neutralization as a Movement in International Law," *American Journal of International Law* (January 1927): 82.

<sup>7</sup> Black, *et al.*, *Neutralization*, 3.

Meeting at the Congress of Vienna, the European powers decided how best to deal with the Swiss desire to remain neutral:

Accordingly, the signatory Powers of the Vienna Declaration hereby set forth in the present act a formal and authentic recognition of Swiss perpetual neutrality and guarantee the integrity and inviolability of its territory. . . . The Powers signatory to the Declaration of 20 March 1815 authoritatively recognize by the present act the Swiss neutrality and inviolability and independence of any foreign influence are to be considered in the true interest of European policy. . . .<sup>8</sup>

The Swiss viewed neutrality in terms of its obligations during wartime. It was also seen as a peacetime policy, but primarily, it was interpreted as abstention from *all future wars*. In the article “Background Factors of Swiss neutrality” Luzius Wildhaber argues that Swiss interpretations of this policy “start[ed] from the ‘classical’ standpoint that there [are] clear, empirically observable distinction[s] between the law and policy of neutrality, between neutrality policy on the one hand and foreign policy at large on the other hand, and between war and peace.”<sup>9</sup>

In the nineteenth century, Switzerland’s permanent neutrality depended upon fulfilling three main criteria: (1) abstaining from foreign wars, (2) maintaining national defense capabilities, and (3) avoiding “policies and actions that might on some future occasion involve it in hostilities.”<sup>10</sup> At the core of Switzerland’s neutrality policy is the feature of *abstention*. Simply, this means a neutral state must avoid actions or policies that might entangle it in an armed conflict. A neutral cannot assist belligerents economically, militarily, or otherwise, in wartime. Hanspeter Neuhold notes, “In

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<sup>8</sup> Gordon E. Sherman, “The Neutrality of Switzerland, I: The Vienna Treaties,” *American Journal of International Law* (April 1918): 249.

<sup>9</sup> Luzius Wildhaber, “Background Factors of Swiss Neutrality,” in *Neutrality and Non-Alignment in Europe*, eds., Karl E. Birnbaum and Hanspeter Neuhold (Vienna: Wilhelm Braumüller), 20.

<sup>10</sup> Black, *et al.*, *Neutralization*, 22

accordance with the principle of abstention, neutral states must not provide military assistance to belligerents.” He continues by arguing, “Given the absolute character of this prohibition, a neutral would also violate it even if it observed strict impartiality, another cornerstone of neutrality, by furnishing exactly the same kind and amount of military aid to all warring parties.”<sup>11</sup> A second obligation of a permanent neutral is the duty of prevention. In accordance with its international obligations set forth in 1815, Switzerland had to repel by force if necessary any threat from a belligerent.

Connected to the feature of abstention is the *intermediate position* (*Zwischenstellung*) of a neutral in respect to each warring party. This position is exhibited in both a symmetrical or asymmetrical dynamic between neutrals and belligerents. The First World War, for example, was a symmetrical situation for Switzerland because conditions of relative equilibrium existed between the two warring factions. In the Second World War, by contrast, the asymmetrical conditions between the Allied and Axis powers greatly compromised Switzerland’s negotiating position.<sup>12</sup> A neutral aims to adopt a policy that follows a middle ground between an overly weak position of neutrality and that of a dominating position “such that its own military power is great enough to deter a potential aggressor but not important enough to play an excessively ambitious role.” By adhering to such a middle-of-the-road policy, the neutral state is able to “shorten the distance between itself and the belligerent, thereby reducing the threat of involvement.”<sup>13</sup>

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<sup>11</sup> Neuhold, “The Neutral States,” 98.

<sup>12</sup> Jürg Martin Gabriel, *The American Conception of Neutrality After 1941* (New York: Palgrave Macmillan, 2002), 10.

<sup>13</sup> *Ibid.*, 10-11.

A symmetrical dynamic exists for a neutral state if military, political, diplomatic, and legal relations between the belligerent blocs are comparable. Conversely, asymmetry is evident if these factors unequally favor one belligerent over another. Closely tied to the intermediate position are the concerns of *impartiality* and *partiality*. The distinction between these terms is affected by the policies of a neutral state for conducting its relations with opposing belligerent factions.<sup>14</sup> In the context of total war with its attached ideological and moral dimensions, impartiality became increasingly difficult to maintain.

Switzerland could remain neutral so long as it took no direct or indirect part in hostilities. The Swiss government fulfilled its obligations as a permanent neutral if declared to remain neutral in advance of all future wars and if it signed treaties with other states (which it did). By meeting all conditions for permanent neutrality, Switzerland surpassed the requirements of a neutralized state. Thus, Switzerland began to set itself apart from other neutrals. A reader must keep in mind that though Switzerland approached neutrality as if it were constitutional law, it was in fact solely a policy, or a “fundamental maxim.”<sup>15</sup>

Permanent neutrality encompasses military, political, and economic components. In the Swiss case especially, it *does not* include moral neutrality, ideological neutrality or neutrality of opinion. It implies neutrality of the state, never neutrality of the individual. Militarily speaking, the permanent neutral maintains a triangular relationship between itself and two opposing belligerent blocs. Politically, a permanent neutral is forbidden from entering into defensive alliances, treaties of guarantee, and collective security arrangements. Economically, a state like Switzerland “must not enter into a customs or

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<sup>14</sup> Daniel Frei, *Dimensionen neutraler Politik: Ein Beitrag zur Theorie der internationalen Beziehungen* (Geneva: Institut universitaire des hautes études internationales, 1969), 21-91 and 103-47.

<sup>15</sup> Freymond, “Neutrality and Security Policy,” 54.

economic union which might in any way jeopardize its independence of political action.” The danger of doing so is that “the neutral state might become dependent on its economic partner,” leading possibly to military or diplomatic entanglements.<sup>16</sup> As we will see, in the Second World War, Switzerland failed to avoid economic integration with Germany because of the Allies’ unwillingness to furnish the neutral state with much-needed food and raw materials.

Modern scholars view neutralization as a flexible and narrowly applicable concept. According to Cyril Black, “Neutralization, in effect, is a formal status of permanent neutrality. The specific attributes of the status reflect the outcome of international negotiations.” He emphasizes, “There is no single, clearly specifiable concept of neutralization but rather a variety of potential forms available to express the particular convergence of negotiating interests that results in a neutralization agreement.”<sup>17</sup> Difficulties in defining neutrality continued to plague Swiss leaders throughout the nineteenth century. The formal recognition of Swiss neutrality, however, ended more than five hundred years of evolution for the confederation’s state maxim.

Permanent neutrality for the Swiss was far more than merely a foreign policy line. The doctrine became for Switzerland a traditional symbol, having reached the “significance of myth.”<sup>18</sup> Neutrality represented a national ethos and a means of compensating for the problems of identity faced by a small state with no ambitions of territorial expansion. Two additional factors are critical for understanding the importance of neutrality for the Swiss and how deeply rooted the concept is embedded in the

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<sup>16</sup> Black, *et al.*, 23-4.

<sup>17</sup> *Ibid.*, vi.

<sup>18</sup> Sigmund Widmer, “Forms of Neutrality,” in Joseph Kruzel and Michael H. Haltzel, eds., *Between the Blocs: Problems and Prospects for Europe’s Neutrals and Non-Aligned States* (Cambridge: Cambridge University Press, 1989), 23.

consciousness of the Swiss people. First, Switzerland consistently lacked any viable alternatives to neutrality policy. Any possible alternatives were never nearly as attractive as neutrality. The second factor was the need for internal cohesion, which neutrality provided.<sup>19</sup>

Within the context of Swiss identity, there is a commonly held belief that the political uniqueness, or *Sonderfall*, of the country fosters a small-state mentality of introversion, referred to as *Kleinstaatlichkeit* in German.<sup>20</sup> Former Federal Councilor Max Petitpierre accurately summarizes the importance of neutrality and federalism for constructing the identity and national values of the Swiss Confederation. As an ardent defender of Swiss neutrality, Petitpierre asserts,

Neutrality plus federalism have made Switzerland a nation. Neutrality and federalism arose from the same need: to ensure union amongst the Confederates and then the unity of the country, one of the essential components of this unity being respect for dissimilarities. . . . Federalism formed a whole out of the many disparate elements of which the Confederation was composed.

He further argues that federalism, neutrality, and the instruments of Swiss direct democracy, like the referendum, empowered the Swiss people as “the sovereigns of the country.”<sup>21</sup> Schematically, direct democracy underlies the political organization of Swiss communities. Federalism acts as the means of managing inter-communal and inter-cantonal relations. Neutrality represents the foundation for this “inter-communal system.”<sup>22</sup> To explain the changes made to Swiss neutrality during the remainder of the

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<sup>19</sup> Edgar Bonjour, *L'Histoire de la neutralité Suisse*, 8 vols. (Neuchâtel: Éditions de la Baconnière, 1970).

<sup>20</sup> Jürg Martin Gabriel, “Switzerland and the EU,” *Beiträge der Forschungsstelle für Internationale Beziehungen ETHZ* 33 (2000): 9.

<sup>21</sup> Max Petitpierre, “Is Swiss Neutrality Still Justified?” in *Switzerland Present and Future: a small country re-examines itself*, ed. Theo Chopard (Bern: New Helvetic Society Yearbook, 1963), 50.

<sup>22</sup> Freymond, “Neutrality and Security Policy,” 53.

nineteenth century, it is necessary to discuss the development of Swiss political institutions.

### **The Swiss Political Structure**

Prior to the formal recognition of Swiss neutrality at Vienna, the early confederation faced considerable political challenges. Before Napoleon invaded Swiss territory in 1798, the loose federation of cantons suffered from unequal distribution of political power. Thirteen cantons composed this early Swiss state, logically named the Confederation of the Thirteen Cantons. Some cantons, like Bern and Zurich, held much political sway, while others, such as Glarus, did not. The looseness of this federation meant the inclusion of allied members who lacked full political power. The cantons of St. Gallen and the Grisons were such allies. Other cantons held even less influence. For example, the cantons of Vaud and Western Aargau answered to the most powerful canton, Bern, and existed as colonies or dependencies. The weakest affiliation a canton could have in this decentralized arrangement was the status of “colonial dominion.”<sup>23</sup> The cantons of Thurgau and Southern Tessin held such status within the confederation.

Wealthy elites and influential guild members sought to impose hierarchical political and social structures. They envisioned a system wherein the rural poor occupied the base of these structures while the rich and powerful composed its apex. Because of Switzerland’s lack of a titled aristocracy and its inherently decentralized political and social frameworks, such a system never gained the acceptance of the poor. The 1798 invasion of Bern and Vaud by Napoleon’s armies compounded the problems faced by Switzerland’s elite. Swiss territory succumbed to invasion swiftly because of two factors. First, no unified military command structure existed. Second, the primacy of cantonal

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<sup>23</sup> René Levy, *The Social Structure of Switzerland* (Zurich: Pro Helvetia Arts Council, 1998), 93.

sovereignty over that of federal sovereignty demonstrated the shortsightedness of relying on the voluntary cooperation of the individual cantons. Bonaparte imposed a constitution on the newly-created 19 cantonal areas giving an illusion of sovereignty. In reality, France dictated both domestic and foreign policies within Switzerland.

By 1803, the confederation proved incapable of functioning. Through Napoleon's Mediation Act, a confederation of cantons arose based on the American federal model, named the Republic of Switzerland.<sup>24</sup> The decentralized structure of this model functioned well. The defeat of Napoleon in 1814 presented the new confederation with a political predicament: what shape should the country now assume? The Swiss Diet quickly reached a solution. Under the Pact of 1815, internal and external security, organization and deployment of troops, and the appointment of the army general staff fell within the jurisdiction of the federal government. The cantons were responsible for training and other measures of military preparedness.<sup>25</sup> Napoleon himself had realized the urgent need for Switzerland to adopt a federated political structure. In 1802, he conveyed his experience managing the multi-lingual, multi-religious, and multi-cultural Swiss Confederation: "I would consider myself incapable of governing the Swiss. The more I think about [Switzerland], the more convinced I become that the disparity between its constituent parts makes it impossible to impose a common pattern on it: everything points to federalism."<sup>26</sup>

The Vienna settlement recognized the sovereignty and neutrality of Switzerland, yet the internal organization of the state remained an unresolved problem. The Pact of

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<sup>24</sup> Mitya New, *Switzerland Unwrapped* (London: I.B. Tauris, 2001), 204.

<sup>25</sup> Freymond, "Neutrality and Security Policy," 62-3.

<sup>26</sup> "A Survey of Switzerland: A Special Case," *The Economist* (14 February 2004): 6.

1815 sought to rectify this issue. An alliance among the cantons emerged whereby each canton enjoyed equal power. The aim was to reduce the power disparity that characterized the pre-1798 confederation. Although each canton was equal within the confederation, it remained autonomous in terms of local affairs. Between 1815 and 1830, the new country experienced a political restoration that returned the pre-Napoleonic conservative elites to power. Especially within the Catholic cantons, these leaders curtailed the liberal political freedoms granted by the Pact of 1815.

In the years leading up to the Swiss civil war, the Sonderbund War of 1847, politically liberal and radical Protestants sought to combat the escalating dominance of the Catholic conservative leadership. After a short but bloody conflict that divided the country along religious lines, the liberals and radicals succeeded in suppressing Catholic separatism and broke the conservative hold on political power.<sup>27</sup> Taking advantage of their recent victory, the liberal/radical leadership proclaimed the Swiss Constitution, thus creating modern Switzerland. The liberals and radicals sought a majority-based, strong central government. Similar to their conservative rivals, the liberal/radical interests led to rule by “economic barons.”<sup>28</sup> Business interests firmly entrenched themselves early in the life of modern Switzerland. The primacy of economic interests gave rise to a democratic movement opposed to rule by business elites. In 1874, the democrats succeeded in obtaining important constitutional revisions. The result was a second Swiss Constitution.

Prior to the revision of the constitution, the liberal/radical leadership sought to deemphasize the role of the churches in Swiss social and political life in an effort to avoid

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<sup>27</sup> Urs Altermatt, “Conservatism in Switzerland: A Study in Anti-Modernism,” *Journal of Contemporary History* 14 (1979): 581-610.

<sup>28</sup> Levy, *The Social Structure of Switzerland*, 96.

the religious upheavals of the Sonderbund era.<sup>29</sup> The 1874 constitution included sweeping anticlerical measures that led to outrage on behalf of the Catholic/conservative elites. Secularization efforts met with fierce resistance from the Catholic/conservative elements inside the new Swiss state. The political battle between the liberal/radical Protestants and Catholic conservatives lasted until the early 1891, when all parties agreed to reconcile their differences to ensure the future prosperity of Switzerland. The introduction of direct democratic mechanisms, like referenda and initiatives in the 1890s, served as a crucial component of the reconciliation efforts.<sup>30</sup>

Article 3 of the 1874 constitution stated that all powers not granted to the federal government were left to the cantons.<sup>31</sup> As a legacy of the civil war era, the political division between federal and cantonal authority led to a bicameral legislative branch. Within the *Ständerat*, or Upper House, cantonal sovereignty is preserved. In the *Ständerat*, each of Switzerland's 20 full cantons elects two representatives. Smaller, half-cantons like Basel-Stadt and Basel-Land each elects one representative to the *Ständerat*. The Swiss *Nationalrat*, or Lower House, elected its members by a majority-rule system until the introduction of proportional representation in 1919.

When both houses convene together as the *Bundesversammlung*, or Federal Assembly, they elect the *Bundesrat*, or Federal Council, Switzerland's unique seven-member executive branch. The election process is carried through by secret ballot. Elected every four years at the beginning of a new parliament, the Federal Councilors each assume the position of a *Vorsteher*, acting as the chief of one of Switzerland's seven

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<sup>29</sup> *The Making of Modern Switzerland*, eds. Michael Butler *et al.* (New York: Palgrave Press, 2000).

<sup>30</sup> Edgar Bonjour *et al.*, *A Short History of Switzerland* (Oxford: Clarendon Press, 1952).

<sup>31</sup> Jonathan Steinberg, *Why Switzerland?* (Cambridge: Cambridge University Press, 2000), 77.

executive ministries. Once per year, a Federal Councilor becomes the President of Switzerland while another is chosen as Vice President. Long-serving federal councilors may serve as President more than once, just not in consecutive years. The tradition remains to this day that the Federal Council acts as a collective entity with one voice and one opinion.

The *Gemeinde*, or commune, represents the most basic unit of Swiss political life. Communes possess the same degree of semi-sovereignty within cantons as the cantons have within the federal government. Like cantons, powers not enumerated to the federal or cantonal governments fall upon the communes. Inhabitants of Switzerland since the creation of the modern confederation are actually not citizens of the country, but rather, citizens of their *Bürgerort*, or commune of origin. As a whole, the citizens are “the sovereign” of Switzerland.<sup>32</sup> Although the high level of direct involvement in politics leads to an efficient system of governance, it tends to make political life boring. Parties themselves play a vital role in local, cantonal, and federal politics, creating a complete politicization of daily life. The historian Jonathan Steinberg argues, “The total politicization of Swiss life leads to its opposite, a lifelessness in daily politics and an indifference to it.”<sup>33</sup>

One reason for this indifference is the system of direct democracy itself. Constantly voting for referenda at the local, cantonal, and federal levels contributes to a mundane political atmosphere. Another factor in creating this indifference is that at all three levels political leaders traditionally hold their offices for long periods. Political longevity results from a remarkable degree of stability in voting patterns among the

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<sup>32</sup> *Ibid.*, 78.

<sup>33</sup> *Ibid.*, 112.

confederation's citizens. Finally, lacking a common language to conduct debates, Swiss linguistic diversity adds to the indifference towards daily political life.

### **The Four National Languages, Identity, and the Role of Neutrality**

Internal pressures that resulted from the linguistic, cultural, and religious diversity of Switzerland presented serious problems for identity in the nineteenth century. While neutrality offered a means of ensuring internal cohesion, the reality of four national languages denied the Swiss any chance of a universal identity. Jonathan Steinberg writes, "Language defines and at the same time denies Swiss identity; it reinforces the peculiarities of political practice and reflects them. Above all, it contributes to the bewildering variety in a small area which makes it hard to say anything general about Switzerland."<sup>34</sup> Speakers of *Schwyzerdütsch* (Swiss-German), French, Italian, and Raeto-Romansch all vied for their linguistic place within Swiss society during the nineteenth century.

Especially for Swiss-German speakers, dialect reflects identity. Many different *Mundarte*, Swiss-German for dialects, exist within the German-speaking areas of Switzerland. If, for Britons, language reflected class during the nineteenth century, for Swiss Germans, language reflected regional differences. The fact that political debates are conducted in High German and that written *Schriftdeutsch* differs considerably from *Schwyzerdütsch* historically presented serious problems for pan-Swiss communication. Swiss-German never has been a written language and for outsiders, learning its intricacies proves nearly impossible. Likewise, for Swiss Germans themselves, the gulf between High German and *Schwyzerdütsch* isolates Switzerland from Germany and

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<sup>34</sup> *Ibid.*, 130.

Austria. For foreigners, the complicated mosaic of German-speaking Switzerland “makes it hard to get ‘inside Switzerland’ or to get to know Swiss Germans.”<sup>35</sup>

German-speaking Swiss comprise approximately 70 percent of the population. *Suisse romands*, or French-speaking Swiss, make up the dominant language group in six cantons. Overall, Swiss-French lacks dialects, which sets it apart from Swiss-German. What defines *Suisse romand* culture is less clear than in the case of Swiss-German regions. French-speaking Swiss view Paris as their cultural epicenter. Because of this affinity for Parisian life, it is difficult to identify a concrete *Suisse romand* identity. Complicating matters, the six French-speaking cantons are not geographically contiguous, nor are they united by a common culture. Perhaps the biggest difference between French- and German-speaking Switzerland is that *Suisse romands* are predominately Protestant, while the Swiss-Germans are mostly Catholic.

Adding to the complicated mosaic of Swiss linguistic culture is the presence of two smaller regions, the Italian-speaking Ticino, and the Raeto-Romanic canton of Graubünden. Swiss-Italian speakers, like *Suisse romands*, view Italy as their cultural center. Like Swiss Germans, Italian speakers within Switzerland utilize many dialects that reflect local differences. While German speakers utilize two levels of speech, Italian speakers have three: the local dialect, the general dialect of Lombardy, and the literary high Italian. If German speakers use High German as a secondary language, Italian speakers rely on the Lombard dialect to compensate for local linguistic differences. A major difference between German Switzerland and Italian Switzerland is that in the former, dialect reflects regional differences; in the latter, it reflects class, sex, age and

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<sup>35</sup> *Ibid.*, 138.

other social inequalities. Both types of linguistic dialect reflect an intimacy that is hard for an outsider to penetrate.

Speakers of Raeto-Romansch represent a dying language, spoken only in isolated alpine valleys within the canton of Graubünden. Efforts to resurrect the language proved unsuccessful during the nineteenth century. The combination of alpine depopulation and the dominance of Swiss-German contributed to the decline of Raeto-Romansch language and culture. Entering the twentieth century, less than one percent of the population spoke Raeto-Romansch, with that number declining rapidly.<sup>36</sup> Nevertheless, the presence of this fourth language inside Switzerland remains a unique feature of the country.

Within the Swiss government, at all three levels, Italian Swiss are over-represented while *Suisses romands* hold their fair share of positions. German Swiss are likewise represented adequately, although their influence is more significant than any of the other three linguistic groups. Swiss Germans dominate finance, banking, the machine tool industry, and even the watch-making profession. German speakers also dominate commercial and trade associations that play vital roles in Swiss business and manufacturing. *Suisse romands* tend to specialize in smaller, more traditional banking enterprises. Compared to their German-speaking counterparts, in international finance *Suisses romands* are disadvantaged due to their unwillingness to learn High German and English. At a basic level, the centralism of French culture clashes with the federalism favored by the Swiss-German population.

Jonathan Steinberg points out that the development of Swiss culture deviated from the norms set forth by Johann Gottfried Herder in the eighteenth century. Herder argued that a common *Sprache*, or language, united the *Volk*, or people, of a country. He

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<sup>36</sup> New, *Switzerland Unwrapped*, 116.

saw the two as mutually reinforcing. Steinberg acknowledges this to be true for most countries, but that Switzerland presented an exception to the rule during its modern development. He states, “The Swiss are a *Volk*, because geography, history, political structures, and linguistic diversity have made them one, but also because all Swiss whether French, German, or Italian in language, participate in one national economy, whose features reinforce the other characteristics.”<sup>37</sup>

### **Swiss Micro-Capitalism and Economic Development**

The Industrial Revolution affected Switzerland differently than its neighbors. Between the years 1798 and 1830, Switzerland embarked on a unique path of industrial modernization. Compared to British industrialization, for example, Switzerland experienced the related social revolution more slowly. Unlike British and German industrialization, Swiss economic modernization did not destroy the traditional cellular structure of the political framework. Modernization did, however, reshape Switzerland’s economic structure, albeit slowly and in a uniquely Swiss way. By 1800, 25 percent of Swiss labor found employment within the craft and trade sectors.<sup>38</sup> The watch industry emerged in the seventeenth century in French-speaking areas surrounding Geneva and the Jura mountains. The next key industry to develop, textiles, became concentrated in the German-speaking areas of Zurich and St. Gallen, although it spread as far as Fribourg in Western Switzerland.

In the nineteenth century, the watch industry experienced few innovations while the textile industry’s growth proved explosive. Ancillary branches grew slowly out of the watch and textile sectors. These branches soon developed into the machine, the

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<sup>37</sup> *Ibid.*, 161-2.

<sup>38</sup> Levy, *The Social Structure of Switzerland*, 80.

electrical, and the chemical/dyestuff industries. The growth of these sectors was aided greatly by the development of railways and the abolition of cantonal and local tolls in 1848. In turn, the rise of the railroad led to an expansion of the banking, and later, the insurance sectors.

A key feature of Swiss industrialization was the early realization that in the textile sector, St. Gallen producers needed to specialize in high-quality goods for the export market. Because of high costs for transportation and imports, Switzerland developed a specialized, luxury-goods based economy. The high degree of specialization led to the formation of many economic “micro-societies” that “fitted into existing political units.”<sup>39</sup> The dependency on its export sector created marked vulnerability to foreign competition, especially since the textile, machinery, and watch industries lacked a domestic market upon which to fall back.

Swiss industries followed a pattern of pre-industrial development that Karl Marx termed “heterogeneous.” Marx referred to the Swiss watch-making industry as the archetype of this heterogeneous development. Following the putting-out system, Swiss watchmakers assembled pieces simultaneously, in no particular order, in many different workshops. Under the Swiss putting-out system, the capitalists held little capital, but also needed little due to the decentralized nature of this development pattern.

The decentralized settlement pattern of Swiss people contributed to relatively amicable employer-employee relations, despite huge inequalities of income and capital ownership. In fact, Switzerland was the most economically unequal society in Europe. During the nineteenth and early twentieth centuries, the richest 20 percent of the population earned 44.6 percent of the total national income. By contrast, the poorest 20

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<sup>39</sup> Steinberg, *Why Switzerland?*, 166.

percent earned 5.2 percent of the national income.<sup>40</sup> Industrialization produced less worker strife than in neighboring countries, but Switzerland did experience mass poverty, unemployment, poor working conditions, and industrial accidents. The smaller units of Swiss “micro-capitalism” allowed for less of a percentage of production to fall under the restrictions of factory legislation.

Impoverishment, unemployment, and industrial health risks led the federal government to grant workers freedom of association in the 1848 constitution. It was not until the 1870s that national political pressure groups emerged. The first of these groups was the Swiss Association of Trade and Industry, followed a decade later by the Swiss Federation of Trade Unions. White-collar organizations did not arise until the Association of Trade and Industry and Central Federation of Swiss Employers’ Organizations were formed in 1918. The year was significant, for in 1918 Switzerland experienced its first (and only) general strike, the *Landesstreik*.

Because of guild restrictions within towns, new industries spread to Eastern Switzerland. In 1875, for instance, only 10 percent of the population lived in towns with more than 10,000 inhabitants. The shift to urbanization led to a decline in agricultural productivity, attributable mostly to the drastically lower number of full-time farmers. While a doubling of the population between 1800 and 1900 coupled with increased mechanization in farming served to offset losses in agricultural productivity, the number of farmers in this period declined from 65 percent of the population (1800) to 30 percent (1900). Another means of offsetting alpine depopulation was the employment of specialists that aimed at increasing the efficiency and profitability of Swiss agriculture using technological innovations like crop rotation and the utilization of fertilizers.

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<sup>40</sup> *Ibid.*, 196.

Mechanization in agriculture allowed for an increase in productivity despite a decline in the number of farmers.<sup>41</sup> A restructuring of the Swiss economy away from agriculture occurred slowly. The result of the slow changes to the economy was the unique Swiss phenomenon of the “half-bourgeois,” or the “farming factory worker.”<sup>42</sup>

Economic restructuring allowed for the number of workers and the value of production to increase while the proportion of people engaged in full-time agriculture declined. Workers increasingly found employment in factory-type situations and less in traditional cottage industries as the nineteenth century unfolded. A second important aspect of Swiss industrialization was the high level of concentration. In this sense, concentration referred to the consolidation of many small enterprises into fewer, but much larger units. Concentration occurred most dramatically within the banking and chemical industries.

In his study of watch making, the economic historian David Landes points out that prior to the First World War, Switzerland produced more than 50 percent of the world’s watches.<sup>43</sup> Although Switzerland’s population in 1913 totaled a miniscule one percent of the world’s total, it exported three percent of all European goods and held approximately 10 to 20 percent of its fixed capital abroad. Proportionately, in the nineteenth and early twentieth centuries, Switzerland ranked among Europe’s most industrialized countries.<sup>44</sup> As early as 1815, Swiss bankers accumulated huge capital surpluses that were invested heavily abroad. The Swiss labor force adapted quickly to light manufacturing. The growing importance of Swiss financial and banking services,

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<sup>41</sup> Levy, *The Social Structure of Switzerland*, 84.

<sup>42</sup> *Ibid.*, 88.

<sup>43</sup> David Landes, *Revolution in Time: Clocks and the Making of the Modern Watch* (Cambridge: Cambridge University Press, 1983), 326.

<sup>44</sup> *Ibid.*, 378.

the highly specialized and export-dependent economy, and the role of neutrality within the rapidly emerging international community contributed to Swiss prosperity in the twentieth century. The combination of foreign trade and neutrality policies enabled Switzerland to overcome the global depression of the 1930s and thus prepare itself to survive the Second World War. Central to Switzerland's legalistic defense of its neutrality were the rights and duties of neutrals outlined in the 1907 Hague Conventions.

### **The 1907 Hague Conventions and the Rights and Duties of Neutrals**

In the early years of the twentieth century, Switzerland sought legal protections to ensure the survival of its neutrality policy. The Swiss gained such assurances through the multilateral treaties that produced the Fifth and Thirteenth Hague Conventions of 18 October 1907. While Switzerland's proletarian unrest proved less violent than in other countries, Swiss workers clashed with employers over dangerous factory conditions, the dominance of industrial cartels, and the right of labor to organize. Job insecurity, poverty, and short life expectancy characterized the life of the average Swiss worker. In sharp contrast, Swiss employers benefited from weak labor protection laws, the prevalence of cartels, and generally low wages for both skilled and unskilled workers. Given the high level of internal strife inside Switzerland, the leaders of the country believed neutrality would best maintain national unity. These conventions upheld the classical form of neutrality that Switzerland practiced. The European powers and the United States emphasized two duties of neutrals in wartime: (1) the duty of abstention, and (2) the duty of prevention.

The signatories of the Hague Conventions separated the rights of neutral states from the rights of private firms or individuals. While no general restriction covered

economic neutrality, the signatories agreed that neutral states must uphold their right to impartiality. Private interests within a neutral state may conduct trade with belligerents but the government may not. Trade between private firms from a neutral country and a government of a belligerent state must adhere to specific limitations on volumes and values of goods or services. Both the neutral and the belligerent must agree upon pre-set limits, referred to as *courant normal* levels. These levels typically follow pre-war patterns. In the Second World War, for example, *courant normal* meant trade volumes could not exceed 1938 levels. The intention was to prevent wartime profiteering and unfair trade relationships that favored one belligerent faction over another.<sup>45</sup>

Article 1 of the Fifth Convention reinforced the traditional obligations of neutrals. It stated, “The territory of neutral powers is inviolable.” For Switzerland, its primary obligation as a neutral state was thus to ensure its territorial integrity and sovereignty at all costs. Article 2 stipulated that belligerents could transport neither troops nor war material across neutral territory. Article 6 outlined limitations on the responsibility of a neutral state: “A neutral power is not called upon to prevent the export or transport, on behalf of one or other of the belligerents, of arms, munitions of war, or, in general, of anything which can be of use to an army or a fleet.” In other words, it remained the responsibility of a belligerent to abide by international law, while a neutral government could not engage in trade with any warring camp. Finally, Article 9 required neutrals to conduct its relations with belligerents in an impartial, unbiased manner. The Thirteenth

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<sup>45</sup> Jean Monnier, “La Neutralité du point de vue du droit internationale public,” in *Les États neutres européens et la Seconde Guerre mondiale*, ed. L-E Roulet (Neuchâtel: Editions de la Baconnière, 1985), 17-21.

Hague Convention sought similar requirements for neutrals and belligerents in case of naval war, but the Convention's signatories never agreed on its ratification.<sup>46</sup>

### **Changing Perceptions of Neutrality and Diverging Worldviews**

For most of the nineteenth century, neutrality was a normal element of the Concert of Europe while military alliances were not. Neutrality had been merely one means of conducting foreign policy, and it lacked any negative connotations. Following the First World War this no longer held true. As the international community, led by President Woodrow Wilson, sought a system of collective security, neutrals suffered stigmatization. Collective security required the participation of the international community to impose military and economic sanctions against nations that violated the principles of Wilson's Fourteen Points. Switzerland, bound by its impartial foreign policy could not impose such punishments without expressly violating its duties as a neutral. Because of this incompatibility with the dominant tenet of international relations, critics in the United States and elsewhere came to view neutrality as a "residual category," not a legitimate foreign policy line.<sup>47</sup> Harsher condemnations of neutrality often viewed it as a "manifestation of national selfishness."<sup>48</sup> A common criticism of Swiss neutrality in the First World War was that averting military responsibilities "was to shrink from taking part in what the participants-amounting to a high proportion of the

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<sup>46</sup> "Extracts from the Hague Conventions of 1907," in *The Theory and Practice of Neutrality in the Twentieth Century*, ed. Rodrick Ogley (London: Routledge, 1970), 33-40.

<sup>47</sup> Periti Joenniemi, "Models of Neutrality: The Traditional and Modern," *Cooperation and Conflict* 2 (1988): 54.

<sup>48</sup> Jacques Freymond, "The European Neutrals and the Atlantic Community," *International Organization* (Summer 1963): 599.

inhabitants of the globe- regarded as a crusade.”<sup>49</sup> The scope of total war drastically altered perceptions of both war itself and of neutrality.

Total war shattered the classical view of neutrality. Before the First World War, neutrality depended on armed conflicts being clearly distinguished from peacetime, on foreign policy being separated from economic relations, and on military action being separable from non-military behavior.<sup>50</sup> The First World War blurred these distinctions and demonstrated an increased correlation between security policy and economic policy. From its own domestic problems, Switzerland learned that ensuring full employment and sustained economic growth were essential ingredients to uphold domestic order.

### **Swiss Neutrality versus International Collective Security**

Switzerland hoped to hold a peace conference in Geneva during 1918, but the unstable domestic situation that stemmed from massive unemployment and economic stagnation meant that such an opportunity was unrealistic. The *Landesstreik* of 1918 led to a referendum on proportional representation which the Swiss electorate approved by a margin of nearly 150,000 votes and an overwhelming cantonal majority of 19.5 to 2.5. To lessen further the radicalization of workers, the federal government implemented gradually a social security system and greater protections to ensure the sanctity of contracts with employers.<sup>51</sup> In the political elections of 1919, the radical/democratic leadership faced a formidable challenge from socialists and farmers. The huge losses by the Liberal Democrats and the correspondingly large increases won by the Social Democrats demonstrated a greater politicization of marginalized segments of the Swiss

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<sup>49</sup> Detlev F. Vagts, “Switzerland, International Law, and World War II,” *American Journal of International Law* (July 1997): 466.

<sup>50</sup> Joenniemi, “Models of Neutrality,” 57.

<sup>51</sup> Steinberg, *Why Switzerland?*, 59.

population.<sup>52</sup> The new political elite sought to inject Swiss foreign policy with a greater degree of openness in order to combat the “perceived isolation” of the Confederation from the rest of Europe.<sup>53</sup> Social Democrats opposed Switzerland’s League membership, however, making those who favored Swiss accession work harder to achieve their goal of economic integration with the international community.

Although countries like Britain condemned Switzerland for remaining neutral, the country managed to secure recognition of its foreign policy from the victorious powers. Under Article 435 of the 1919 Versailles Treaty, the victors reaffirmed the legal right of Switzerland to practice neutrality, stating that its foreign policy line remained in the best interests of European peace and stability. Troubling to the Swiss, however, was that their integral, or complete neutrality, meant they were ineligible to join the new League of Nations. With the backing of President Wilson, the Swiss managed to have the League headquartered in Geneva. Despite efforts at accommodating the League, traditional Swiss neutrality and collective security remained incompatible concepts. To prevent the economic, intellectual, and moral isolation of the Swiss Confederation, a drastic modification of traditional neutrality proved urgent.

The Federal Council addressed the delegates at the Paris Peace Conference on 8 February 1919 regarding this incompatibility between neutrality and League membership. The Swiss sought to gain support for their centuries-old foreign policy:

At the moment when the representatives of the Powers . . . are about to build the foundations of a new international organization, the Swiss Federal Council desires to recall the origin and character of Swiss neutrality. It considers it politic to affirm the necessity of this secular institution, and

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<sup>52</sup> Levy, *The Social Structure of Switzerland*, 99.

<sup>53</sup> Georg Kreis, *Switzerland in the Second World War: Responding to the Challenges of the Time* (Zurich: Pro Helvetia Arts Council, 1999), 13.

to point out the part it may be called upon to play in the future.<sup>54</sup>

The Covenant of the League precluded Switzerland from joining the organization due to the country's policy of neutrality. Fearing isolation, the Federal Council sanctioned a commission of experts headed by Max Huber to find a way to force compatibility between neutrality and participation in the League. To Federal Council President Giuseppe Motta the League represented "an instrument of international collaboration, of conciliation among nations and of peaceful settlement of disputes."<sup>55</sup> Among the Swiss public, however, League membership proved a divisive issue.

In the debate over League membership, internal divisions between linguistic, cultural, religious, and political groups reemerged. These problems were especially acute given the rapid social and economic changes of the postwar period and the clash between statism and federalism that preoccupied domestic policy debates. Foreign pressures exposed the division of opinion within Switzerland. Most alarming of these pressures was the drastic shift in perceptions of neutrality by the international community. The declining respect for neutrality had been evident during the war. Most directly affecting Switzerland was the British blockade that blatantly disregarded neutral rights during wartime as codified by the 1907 Hague Conventions. Equally outraged was another neutral, the United States. "The belligerents' nonobservance of rules of international law brought with it," according to Luzius Wildhaber, "a correspondingly elastic interpretation of those rules on the part of the neutrals."<sup>56</sup> To Switzerland's detriment, its own

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<sup>54</sup> Walter R. Zahler, "Switzerland and the League of Nations; A Chapter in Diplomatic History," *The American Political Science Review* 30 (August 1936): 754.

<sup>55</sup> J.R. De Salis, *Switzerland and Europe: Essays and Reflections*, trans. Alexander Henderson and Elizabeth Henderson (Mobile: University of Alabama Press, 1971), 99.

<sup>56</sup> Luzius Wildhaber, "Commentary," in *Between the Blocs*, 15.

flexibility toward neutrality and the later renunciation of neutrality by the United States would drastically compromise Swiss negotiating power.

### **The Swiss “Special Case”**

Perhaps the most striking example of an elastic interpretation of the rules of neutrals was Switzerland’s decision, reached through popular referendum, to adopt a form of partial neutrality that was compatible with the principles of the League. To overcome the restriction outlined in Article 20 of the Covenant -- “the members of the League severally agree that this covenant is accepted as abrogating all obligations or understandings *inter se* which are inconsistent with the terms thereof . . .” -- Switzerland adopted the practice of so-called “differential neutrality.”<sup>57</sup> Because the League required its member states to participate in collective economic and military action, Switzerland had to alter the characteristics of its policy of neutrality. Integral neutrality forbade Switzerland from becoming involved in any type of sanctions. To join the League, a special solution had to be developed.

Differential neutrality allowed Switzerland to participate in economic sanctions against violators of the Covenant of the League while abstaining from any direct military or political action. Article 21 of the League’s charter was amended on 13 February 1920 to include language that viewed Swiss neutrality as an “international engagement for securing the maintenance of peace.”<sup>58</sup> The Council of the League declared, “The perpetual neutrality of Switzerland and the inviolability of its territory, as they are acquired in public international law, by the treaties and by the act of 1815, are justified by the interests of general peace and are therefore compatible with the Charter of the League

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<sup>57</sup> Zahler, “Switzerland and the League,” 754-55.

<sup>58</sup> Salis, *Switzerland and Europe*, 97.

of Nations.”<sup>59</sup> The unique position of Switzerland within international affairs thus was once again recognized.

Switzerland was the only potential League member to submit the question of accession to the public. Robert C. Brooks followed closely the contentious referendum debate within Switzerland. He observed, “To partisans and opponents of the League alike the principle of neutrality, consecrated by the history and embedded in the constitution of Switzerland itself, was the central point of the whole controversy.”<sup>60</sup>

Opposed to the League were the Army and the Social Democratic Party. In favor of the League were the Federal Council and the majority of the Swiss press. Federal Council President Motta and finance minister Edward Schulthess appealed to voters on 7 May 1920:

. . . a decision of the people against the League would bring with it irreparable damage to the prosperity of Switzerland, to the unity of the country, and to the respect which it enjoys abroad. It would involve the gravest danger to our commerce, our industry, and our agriculture . . . . The League of Nations aims at the protection of labor; it assures just consideration to the mutual commerce and intercourse of its members; it promotes the development of international law. It opens the way to gradual disarmament and seeks to settle controversies arising between nations by judicial arbitration and peaceful mediation. Above everything else it will hinder or make difficult the beginning of armed conflicts. Switzerland cannot refuse her cooperation when humanity undertakes a broadly devised plan to bring justice and peace to the world.<sup>61</sup>

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<sup>59</sup> Georges-André Chevallaz, *The Challenge of Neutrality: Diplomacy and the Defense of Switzerland*, trans. Harvey Fergusson II (Lanham: Lexington Books, 2001), 3.

<sup>60</sup> Robert C. Brooks, “Swiss Referendum on the League of Nations,” *The American Political Science Review* (August 1920): 478.

<sup>61</sup> *Ibid.*, 478.

## Concerns Regarding the Policy of Differential Neutrality

The proposed experiment with differential neutrality required a fundamental reorientation of Swiss foreign policy. Political and military neutrality remained unchanged. The approach toward economic neutrality, however, underwent profound transformation. Traditional integral neutrality implied strict adherence to all three components to ensure consistency of the policy. Differential neutrality, in comparison, allowed for a large measure of latitude in the realm of economics. The debate surrounding League membership focused on fears that differential neutrality would jeopardize Swiss sovereignty in future wars. Opponents of the referendum worried that Switzerland's need to participate in economic sanctions against violators of Covenant principles would translate to a total disregard for neutrality policy. In response to these fears the Federal Council argued "entry into the League of Nations in no way diminishes our independence; on the contrary, it strengthens it." Furthermore, the Federal Council stated, "It involves no denial of our traditional neutral policy of peace; rather it will permit us to pursue that policy in broader ways."<sup>62</sup> With 77.5 percent turnout, the 16 May 1920 referendum returned a victory for proponents of League membership with a popular vote of 414,870 in favor to 322,937 opposed. For a referendum to pass, however, it needed the approval of the cantons. The cantonal vote was even narrower. Had 94 people decided differently in the canton of Appenzall Ausserhoden, Switzerland would have not joined the League.<sup>63</sup>

The experiment with differential neutrality served to obscure the definition of Switzerland's state maxim to a greater degree. By following a more flexible foreign

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<sup>62</sup> *Ibid.*, 15.

<sup>63</sup> Kreis, *Switzerland*, 14.

policy, the Swiss demonstrated a willingness to compromise the integrity of neutrality to gain economic advantages from League membership. Many scholars view the adoption of differential neutrality as having been inevitable, arguing that such a modification showed the dynamism, flexibility, and strength of Switzerland's state maxim. J.R de Salis, the World-War-Two radio correspondent and historian, supports this view of Swiss adaptability. He argues that differential neutrality was critical for the export-and-trade-reliant Switzerland:

Because economic dependence on other countries always has been a determining factor in our foreign relations . . . there is nothing else for us to do except to accommodate ourselves to the world as it happens to be . . . . We have to export in order to meet the needs of domestic consumers. Our integration into Europe and the world is a fact . . . our relations are universal . . . . Both the principle of neutrality and trade interests required, and today still require, a foreign policy with an international, universal orientation, open in all directions. To a large extent, Swiss foreign policy is foreign trade policy.<sup>64</sup>

The economic historian Paul Erdman agrees with Salis. In a study of Swiss-American bilateral relations, Erdman asserts that a "nation's economic dependency upon the world economy varies in an inverse proportion to its size."<sup>65</sup> Echoing Salis, he emphasizes that Switzerland "must accept the fact that its survival is largely dependent upon developments in the world at large, upon forces over which it has no decisive influence; that its prosperity depends upon the successful operation of an international division of labor."<sup>66</sup> Despite the need for Switzerland to adapt economically, the experiment with differential neutrality and the League produced severe repercussions for the small country in the years of the Depression and the Second World War.

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<sup>64</sup> Salis, *Switzerland and Europe*, 44.

<sup>65</sup> Paul Erdman, *Swiss-American Economic Relations: Their Evolution in an Era of Crisis* (Basel: Kyklos, 1959), 5.

<sup>66</sup> *Ibid.*, 8.

## The Failure of the League of Nations

Swiss membership in the League proved contentious from the outset. While Switzerland agreed in spirit with the 1928 Kellogg-Briand Pact outlawing war, it refused to support arms limitations due to the needs of Swiss armed neutrality. At the 1932 Geneva Disarmament Conference, Federal Council President Motta pushed for a ban on aerial bombardment. He argued before the plenary council, “Our people have renounced armed conflicts with foreign countries if it is not in our own defense.”<sup>67</sup> Disputes between Motta and the Soviet Union-- particularly concerning weapons proliferation, political repression, and economic cooperation-- escalated to the point where the Swiss delegation tried to block Russian membership in 1934. Represented on the plenary council, but not the security council, Switzerland generally avoided overtly political issues.<sup>68</sup>

The impotence of the League became clear during the Italian-Ethiopian crisis of 1935-36. Given the need for Switzerland to pursue relations based on impartiality and universality, it imposed economic sanctions on both Italy *and* Ethiopia. Yet these dual sanctions undermined the very essence of such a punishment, as it failed to distinguish between the offending nation, Italy, and the victim, Ethiopia. Such collective action also demonstrated the weakness of Switzerland’s attempt to join traditional neutrality and international security. Motta’s widely known affection for Mussolini joined with the fact that economic sanctions really only hurt Italy lessened the enthusiasm of the Swiss

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<sup>67</sup> Kreis, *Switzerland*, 16.

<sup>68</sup> The Swiss delegation made a few exceptions, most notably in the territorial disputes in Danzig and Upper Silesia. Switzerland refused, however, to send neutral observers for the Saar elections of 1934-35

president for the League.<sup>69</sup> On 22 December 1937, based in part on Motta's reluctance to harm Italy, the Federal Council announced to parliament that Switzerland would end its experiment with *neutralité différentielle*.

In the Memorandum on the Neutrality of Switzerland within the League of Nations (29 April 1938), the Confederation publicly reverted to integral neutrality, with its political, military, *and* economic components. The memo explained why Switzerland was to withdraw from the ineffective system of collective security. The Federal Council stated:

Swiss neutrality has a specific character which distinguishes it from any other neutrality. It is one of the essential conditions of the internal peace, of the union, and hence of the independence of a nation composed of elements which differ in language and culture . . . . The maintenance of this centuries-old institution is as precious for Europe as for Switzerland itself. It is neutrality which has held together for centuries peoples of different race, language, and religion.<sup>70</sup>

The Spanish Civil War, the Italian-Ethiopian crisis, and the Austrian *Anschluss* led the Swiss public to realize that the League lacked any power to protect the small neutral. In March 1938, the Federal Council argued before the plenary council that Germany should be prevented from annexing Switzerland, as it was in the best interest of Europe that it remained independent and neutral. The German annexation of Austria represented to Motta a "reprehensible crime against international law."<sup>71</sup> Pushed by the United States, Motta appealed to Czech President Eduard Beneš and Adolf Hitler to resolve peacefully their dispute, but the Swiss refused direct mediation as it represented a

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<sup>69</sup> Motta's admiration of Mussolini largely stemmed from his cultural affinities for Italian culture, as the Swiss President lived in Italian Switzerland. Motta disagreed sharply with Mussolini's suppression of democracy, but respected his assertive leadership skills and his efforts at modernizing Italy's battered economy.

<sup>70</sup> Stephen P. Halbrook, *Target Switzerland* (Rockville Centre: Sarpedon Press, 1998), 52.

<sup>71</sup> Kreis, *Switzerland*, 17.

political conflict. The passive nature of this neutrality served as an indication that Switzerland needed a more active foreign policy in the case of another general European war. The withdrawal from the League of Mussolini's *Imperio* and Hitler's *Reich* led to Switzerland's April 1938 return to its traditional, integral form of neutrality. Partly stemming from domestic opposition to the League as an undue burden, Switzerland renounced participation in economic sanctions.

Through its practice of differential neutrality, League members saw Switzerland as hoping to exploit the protections and benefits of both international integration and neutrality. Credibility and consistency, the hallmarks of a strong policy of neutrality, were disregarded in favor of short-term gain. Switzerland would suffer as a result in the immediate future. The Federal Council's decision to revert to integral neutrality was based upon the fact that "To remain credible," Swiss foreign policy required "constancy and duration and could not oscillate according to circumstances, opportunism, or the unpredictable dance of the alliances."<sup>72</sup>

In a 14 May 1938 resolution, the Council of the League agreed to the Swiss "special case," allowing them to remain as members despite their renegeing on obligations to participate in economic sanctions. The Council declared:

The League of Nations, taking into consideration the unique position of Switzerland which derives from her perpetual neutrality . . . accepts and acknowledges the intention proclaimed by Switzerland that, on the basis of her perpetual neutrality, she will henceforth cease to participate in the implementation of sanctions, as regulated by the Covenant, and declares she will not be required to do so.<sup>73</sup>

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<sup>72</sup> Chevallaz, *The Challenge of Neutrality*, 4.

<sup>73</sup> Edgar Bonjour, "Swiss Neutrality in Two World Wars," in *History of Switzerland*, ed. J. Murray Luck (Palo Alto: The Society for the Promotion of Science and Scholarship, 1985), 428.

Reverting to integral neutrality seemed to the Federal Council the best solution to its League dilemma, yet in the years leading up to World War Two, the inconsistent Swiss foreign policy allowed the future belligerents to take advantage of the neutral in the realm of trade negotiations.

## CHAPTER 2: THE ECONOMIC WAR BEGINS

The Second World War tested Switzerland's ability to remain free and neutral. To preserve their existence, the Swiss relied upon economic, diplomatic, and military dimensions of neutrality policy. Switzerland needed to demonstrate to Axis and Allied belligerents alike that its national defense preparations remained within the framework of neutrality law. The doctrine of Swiss armed neutrality asserted that offensive arms contributed to a destabilization of the international order while defensive arms contributed to the maintenance of peace. The maxim "peace through strength" summed up Swiss defense preparations.<sup>1</sup> Such a maxim clashed head-on with the Wilsonian doctrine of collective security.

For Switzerland, the ideas of collective security and an international community threatened its time-tested policy of perpetual neutrality. Three new realities undermined the chances of remaining neutral: (1) that the fundamental nature of warfare had changed; (2) that neutrality law, traditionally the main source of strength for neutrality, applied less and less to wars of the twentieth century; (3) that the shift to a system of collective security drastically undermined Swiss policies rooted in the outmoded balance of power system.

### **The Changing Nature of Warfare and the Impact on Swiss Neutrality**

The classical view of neutrality relied on the recognition of neutrals as valuable components of the delicate European power balance. Under the nineteenth-century

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<sup>1</sup> Dietrich Fischer, "Invulnerability Without Threat: The Swiss Concept of General Defense," *Journal of Peace Research* 82 (1982): 214.

balance of power system, war was normal and rational while conflicts remained short and narrow in scope. The post-World War One international system of collective security, according to Jürg Martin Gabriel, “vacillated regularly between extreme polarization on the one hand and attempts at multilateral pacification on the other.”<sup>2</sup> At first, for example, the League of Nations sought to ostracize and punish a vanquished Germany. Then, realizing the dangers that stemmed from a vindictive Nazi regime, the League aimed at drawing Germany closer into the fold of the international community.

The instability of the international system in part stemmed from the new reality that wars became wider in scope and longer in duration. Changing perceptions of armed conflicts now meant hostile military actions were immoral and unjustifiable. Yet Switzerland based its policies on the fact that war was inevitable and that bilateralism was the best course for conducting economic and diplomatic relations. By contrast, the United States began to view war as preventable through wider, multilateral cooperation.<sup>3</sup> Neither the United States nor Switzerland could deny, however, that economic factors increasingly shaped the outcomes of armed conflicts.

One country that led the shift toward economic warfare was Great Britain. In his discussion of British economic warfare and blockade measures, Donald C. Watt pinpoints the factors that led to this clash of worldviews between great powers and small neutrals. He argues that the more willing British policymakers came to accept the phenomena of economic warfare, total war, and ideological conflict, “the more their perceptions of ‘neutrality’ came to be influenced by the geopolitical, strategic, economic, and ideological relations between each neutral state and the enemy coalition.” Watt notes that

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<sup>2</sup> Gabriel, *The American Conception of Neutrality*, 232.

<sup>3</sup> Gabriel, “Swiss Neutrality and the ‘American Century:’ Two Conflicting Worldviews,” *Beiträge der Forschungsstelle für Internationale Beziehungen ETHZ* 33 (2000): 3.

none of these new dimensions of warfare paid much attention to classical neutrality rights.<sup>4</sup>

### **Switzerland and the Importance of Defense and Dissuasion**

To contend with a new international reality that cared little for Swiss rights and duties as a neutral, the policy-makers within the Confederation constructed a multi-tiered defense policy anchored in the state maxim of neutrality. At the root of this policy was the attempt to show a potential invader the value of an intact Swiss economy and transit infrastructure. Switzerland's mercenary tradition meant a strong emphasis on the army as an instrument of ensuring sovereignty and independence. This policy aimed to show that "services rendered by Swiss neutrality toward other countries outweigh[ed] the possible benefits of an invasion of Switzerland."<sup>5</sup> Along with services like good offices and diplomatic mediation, British Ambassador David Kelly observed in 1939 that Swiss efforts to rig its infrastructure and factories with explosives meant the small alpine country would be difficult to occupy. He reported to London that the Swiss Army's commander-in-chief, General Henri Guisan, gave him "assurance that if one German soldier set foot on Swiss soil, he would 'press the button' and the mines in the tunnels would go off."<sup>6</sup>

The army provided Switzerland with valuable weapons of dissuasion to bolster the argument that an invasion of the country presented an unacceptably "high admission

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<sup>4</sup> Donald C. Watt, "Britain and the Neutral Powers 1939-1945: Some General Considerations," in *Les Etats neutres européens et la Seconde Guerre mondiale*, ed. Edouard Roulet (Neuchâtel: Editions de la Baconnière, 1985), 252.

<sup>5</sup> Max Habicht, "The Special Position of Switzerland in International Affairs," *International Affairs* (October, 1953): 460.

<sup>6</sup> Sir David Kelly, *The Ruling Few: or The Human Background to Diplomacy* (London: Hollis and Carter, 1952), 278.

price” that offset any desire to challenge Swiss neutrality.<sup>7</sup> By serving as an instrument of peace, the army ensured that an invader would face: (1) loss of men and material; (2) loss of time and the distinct possibility of third party intervention; (3) loss of the benefits reaped from Switzerland’s highly specialized precision industries, (4) loss of men and material due to stiff national resistance; (5) loss of international credibility for violating the sanctity of Swiss neutrality.

In addition to the protection afforded by the armed neutrality of Switzerland, it is possible to identify seven methods of maintaining the independence and territorial integrity of the small neutral state. First, as a permanent neutral, Switzerland promised never to engage in pre-emptive military attacks. Second, the armed neutrality of Switzerland indirectly supported the defense efforts of its immediate neighbors, especially Germany and France. Third, Switzerland pledged non-participation in wars or defense alliances.

Fourth, Switzerland offered its services as a protecting power and intermediary through its good offices and other institutions. Fifth, the natural alpine fortifications of the Swiss landscape provided for a national redoubt that counteracted weaknesses within the country’s general defense plans. Sixth, non-violation of Swiss neutrality meant economic incentives for supportive belligerents. Seventh, through its asylum policy and its humanitarian organizations like the International Committee of the Red Cross, Switzerland could offer valuable help in minimizing the depredations of total war.

### **Contending with Economic Difficulties**

The lasting effects of the 1918 *Landesstreik* saw Switzerland experience high unemployment levels through 1938. Unemployment peaked in 1936 with 5 percent of

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<sup>7</sup> Habicht, “The Special Position of Switzerland,” 460.

the population, or 93,000 people, out of work.<sup>8</sup> A lack of internal import and export controls led to foreign meddling in Swiss economic affairs. The failures of the government and military to stockpile advance reserves had heightened Swiss susceptibility to belligerent demands in the First World War, and this continued into the interwar period. Switzerland's deficiency of industrial raw materials, its lack of arable land, and its heavily trade-reliant economic structure produced constant problems both in peace and in wartime. Policy-makers therefore sought to construct a war economy that could insulate the small state from these difficulties.

The overwhelming reliance on foreign trade forced a reorientation in Swiss foreign policy. Unpredictable business-cycle fluctuations led to the Swiss withdrawal from participation in international economic flows during the volatile 1930s. The sharp drop in its import trade volumes and values resulted from the American adoption of protectionist policies. Once the American government decided to employ trade diverting and suppressing mechanisms, demand for Swiss luxury and precision goods disappeared. Without a dependable market for these goods, Switzerland encountered serious liquidity issues. By 1936, for example, Swiss exports to the US suffered a 77 percent drop while US imports declined by 71 percent.<sup>9</sup>

Swiss trading practices with larger economies, especially Germany and the United States, centered on the principle that import volumes correlated with changes in income. Due to the negative balance of payments that resulted from Switzerland's dependency on its export sector, the volume and value of received imports violently changed with the international business cycle, causing unusually high-income elasticity of imports.

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<sup>8</sup> Kreis, *Switzerland*, 40.

<sup>9</sup> Erdman, *Swiss-American Economic Relations*, 46.

Problems resulting from the British dropping of the gold standard in 1931 spurred fears from small European economies that the dominance of American and German influence over international trade flows presented tremendous concerns for currency convertibility and the securing of dollars with which to conduct foreign trade.

Thanks to the high convertibility of the Swiss franc with other foreign currencies, the small neutral avoided the issue of the “dollar gap” that plagued other European economies. The dollar gap referred to the situation that arose in the 1930s whereby many European nations experienced a shortage of freely convertible currencies. This lack of available foreign currencies hurt their abilities to conduct international trade with the United States. In large economies, producers avoided slumps in certain sectors by finding substitute domestic markets for goods. In micro-economies such as in Switzerland, this prospect was impossible. Switzerland, more so than any other nation, depended on its service sector to ensure positive balance of payments. Switzerland’s service sector included tourism, insurance, and transportation. A positive balance indicates a nation exports more goods than it does import, but Switzerland battled a chronic and costly gap between import expenditures and export proceeds. The gap widened as war raged outside Switzerland’s borders. Current account deficits increased from Sfr. 993 million (1932) to Sfr. 1.5 billion (1947). Luckily for Switzerland, service sector proceeds provided a means to equalize this potentially crippling concern.<sup>10</sup> In 1947, for example, income from the service sector, especially returns on foreign investments, negated entirely the huge deficits of the visible sector. Despite the recessionary effects of war on the Swiss industrial sector, manufactured goods,

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<sup>10</sup> *Ibid.*, 18.

weaponry, and other precision products enabled Switzerland to maintain a manageable trade balance, particularly with its primary trading partner, Germany.

### **The Modification of Swiss Economic Strategies and the Shift to Bilateralism**

Switzerland's economic standing depended on the revision of fiscal and currency policies to contend with the changing international situation. In the post-depression years, Switzerland increasingly balanced its current accounts via bilateral clearing and payment agreements. Reacting against America's imposition of excessively high trade barriers through the Smoot-Hawley tariff legislation, the Federal Council adopted a trade diverting policy to contend with US protectionist measures. American economic uncertainty contributed to a curtailment of money spent on Swiss luxury and precision goods. To cope with the loss of US and British revenues, Switzerland implemented a retaliatory trade diverting policy, referred to as the *Stützungspolitik*. The aim of this "inverted system" was to keep Swiss domestic prices artificially high in order to shift demand away from the export market to favor importers.

To offset the flow of cheap imports, the Federal Economic Department employed quantitative import controls and foreign exchange regulations through bilateral trade agreements with foreign nations. According to the Swiss economist Hans Schaffner, Swiss quantitative import regulations "mainly served as a defense against restrictive measures applied to the Swiss export trade by foreign governments."<sup>11</sup> At the same time Switzerland implemented the *Stützungspolitik*, the Federal Council expressed outrage at what it saw as an unjustified decision by the US to devalue the dollar during 1933 to deal with similar British actions taken in 1931. As a second component of its trade diversion

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<sup>11</sup> Hans Schaffner, "Swiss Economic Policy in the Course of History," in Theo Chopard ed., *Switzerland Present and Future* (Bern: New Helvetic Society Yearbook, 1963), 96.

scheme, the Federal Council decided to engage in competitive devaluation of the Swiss franc. Switzerland aimed to allow more flight capital to enter the country by lowering the exchange rate of the franc. Throughout its long history, Switzerland usually favored free trade over protectionism. The global depression stunted the growth of Switzerland's micro economy. In response, the Swiss adopted measures to insulate themselves from the volatility of currency fluctuations and unpredictable business cycles.

American quantitative export controls and foreign exchange restrictions led the Swiss to reject multilateral trade negotiations in favor of a bilateral framework for such talks. The rationale behind this shift was that Swiss trade negotiators would fare better in one-on-one situations as opposed to dealing with many large countries at once. In a bilateral situation, the Swiss felt they could exercise more influence. Such logic was inherently flawed. The Confederation's decision to base its balancing of payments operations on clearing credits, compensation agreements, and quota limitations would compromise the negotiating position of Swiss commercial delegates in the numerous bilateral trade agreements that dictated economic relationships in the coming war. Switzerland lacked the foresight to realize the negative aspects of bilateral trade agreements, fixating on its loathing of tariffs as an economic stabilizer.

Switzerland's survival depended on its "use [of] the newest and best weapons of economic warfare."<sup>12</sup> Swiss economists and policy-makers realized quickly that issues of economics would dictate its ability to survive another world war. These new economic policy tools had begun to be incorporated during the early 1930s to maintain equilibrium in Switzerland's trade balances. The use of clearing credits and payment agreements insulated the financial sector from the volatile nature of international gold

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<sup>12</sup> Erdman, *Swiss-American Economic Relations*, 51.

and capital movements. While such trade suppression and diversion tactics proved effective in the short-term, the vulnerabilities of the Swiss market to international events soon showed that these methods of fiscal and monetary management were poorly suited for Swiss wartime needs.

### **Switzerland Decides to Alter Its Capital Flight Behavior**

Beginning in the late depression years of the 1930s, Swiss investors and policy-makers feared that political instability would affect the global economy in a negative way. Thus, the Swiss began a historic shift in their capital movement practices, favoring the stability of the US domestic market. Traditionally, concerns of profit motivated the capital flight behavior of Swiss investors. A gentleman's agreement between the Swiss National Bank (SNB) and larger private banks, like Credit Suisse, sought to keep capital flowing into Switzerland. The worsening international situation "erode[d] Switzerland's significance as an investment destination" and created anxiety in both investors and political leaders.<sup>13</sup>

With the coming of the Second World War seen by Swiss investors as an unavoidable consequence of Nazi aggression, they withdrew their assets and relocated them to sit dormant in US accounts for the purpose of safety, not profit. In the short term, this move toward protecting capital investments from economic volatility produced favorable results. In the long term, these dormant Swiss funds held in the US provided the Allies with a powerful tool of manipulation in negotiations with Switzerland. Due to the small size of Switzerland's economy, its export-orientation, and the highly specialized nature of its industries, short-term volatility could potentially paralyze the

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<sup>13</sup> *Credit Suisse Group Banks in the Second World War: a critical review*, ed. Joseph Jung (Zurich: Neue Zürcher Zeitung Publishing, 2002), 13.

nation. The additional pressures of total war and the difficult transition from a peacetime to a wartime economy produced an exceedingly complex and unstable situation for Switzerland. Swiss investors and economists decided that shifting funds into idle US accounts represented their best option, as few alternatives existed. Had investors left their assets in German accounts, for instance, these funds would have been seized by Allied officials and used to rebuild Europe. Although the frozen assets of Swiss nationals held in US accounts led to a great deal of blackmail during the war, once Switzerland resolved its disagreements with the Allies, the majority of Swiss flight capital returned to the rightful owners.

### **Domestic Policy, Emergency Powers, and the War Economy**

Despite the obvious increase in military contracts, Swiss consumer industries suffered greatly as they proved unable to compensate for the drop in demand for civilian goods. Swiss economic policies in World War Two stressed the need for full employment, control of foreign trade, and an active defense of its rights as a neutral. Switzerland linked its fate to both the German and American economies' abilities to weather the coming war. Switzerland needed these markets to survive, as its policies were "dictated by economic necessity," while those of Germany and America were shaped by "political expediency."<sup>14</sup>

The Swiss economy proved especially vulnerable because of the huge levels of its foreign investment. In 1939, for example, Swiss foreign capital investments reached 17 billion Swiss francs (Sfr.). Comparing this figure to the national income of Sfr. 9 billion demonstrates the importance of Swiss foreign investment practices. Examining figures from 1941, Switzerland ranked third in the world, behind Canada and Britain

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<sup>14</sup> Erdman, *Swiss-American Economic Relations*, 13.

respectively, for investments in the United States. Swiss investors poured \$1,210.6 million into the US, representing 14.9 percent of European total investments and 9.5 percent of the world total. The next biggest investor, Canada, shifted \$1,709.2 million into US accounts. Canada thus contributed 13.4 percent of the world total. The single largest investor in the US economy, Great Britain, relocated \$3,238.9 million into US accounts that totaled 39.4 percent of European totals and a staggering 25.4 percent of the global level.<sup>15</sup> Switzerland “had to fulfill its task as a financial transit point as a mission of its neutrality and a condition of its economic survival.”<sup>16</sup>

Trade division head Jean Hotz saw the control of foreign trade as the “essential precondition for conducting the war economy.”<sup>17</sup> The Swiss historian Jakob Tanner describes the wartime economy as relying on a “traditional structure” despite the aim of breaking with failures of the past.<sup>18</sup> Successful operation of such an economy depended on sustained economic growth, accessible capital assets, and high quality, specialized goods for export. Through centralized control, the Federal Council claimed it could prevent foreign interference in Swiss economic affairs while maintaining full employment.

In late 1937, the Federal Council appointed a delegation to organize the war economy. Preparations for military readiness took an unacceptably long time due to an unwillingness of Social Democrats to inject funds into the Army. That year, the Social Democrats altered their views concerning defense preparations, thus allowing parliament

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<sup>15</sup> Jung, *Credit Suisse*, 49.

<sup>16</sup> Daniel Bourgeois, *La Troisième Reich et la Suisse* (Neuchâtel: Éditions de la Bacconaire, 1974), 180.

<sup>17</sup> *Final Report of the Independent Commission of Experts, Switzerland: Second World War*, by Jean-Francois Bergier, chairman (Zurich: Pendo), 177.

<sup>18</sup> Jakob Tanner, “Or et granite: la Defense Nationale et les liens economics entre la Suisse et la Troisième Reich durant la Second Guerre Mondiale,” *Les annuelles* 1(1990): 47.

to approve a Sfr. 235 million armaments credit.<sup>19</sup> Appeals to Swiss nationalism produced two tangible results. First, in the efforts to achieve consensus, Switzerland experienced a marked shift towards political centrism. For example, the Social Democrats had previously refused to support any increase in military spending. With the push to achieve political consensus, the Social Democrats changed their position. By the end of the 1930s, they too advocated higher levels of defense spending. Second, a degree of industrial cooperation between managers and workers produced so-called peace agreements in the metal, watch making, and engineering industries. Negotiations now would be the basis for change with both employers and employees renouncing the use of force. What prevailed were attitudes of moderation to ensure sustained economic growth.<sup>20</sup>

To construct an efficient and centralized war economy, the Federal Council freed itself of the constraints imposed by the Swiss constitution and the practice of direct democracy. The *Vollmachtenbeschluss*, or Emergency Plenary Powers Act, of 30 August 1939, suspended civil liberties and the instruments of Swiss direct democracy. With civil liberties curtailed and the right to referenda revoked, the actions of Swiss parliament and the Federal Council swiftly eliminated popular political participation along with any potential opposition from the legislative or judicial branches of the federal government. The only means of exercising the power of the legislative branch was through the seldom held and entirely symbolic *Vollmachtenkommissionen*, or Parliamentary Committees Granting Emergency Plenary Powers.

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<sup>19</sup> Kreis, *Switzerland*, 22.

<sup>20</sup> Levy, *The Social Structure of Switzerland*, 88.

The Federal Council was henceforth empowered to take “all measures necessary to maintain Switzerland’s security, independence, and neutrality.”<sup>21</sup> Free from the restraints of the constitution and political accountability, the wartime *Vollmachtenregime* signified a break with democratic and liberal tradition at a time when totalitarian ideologies imperiled Europe. Emergency powers produced the opposite of their intended effect. Instead of increasing the power of the Federal Council, emergency powers actually lessened its ability to cope with the pressures of war. Without a parliamentary buffer, the influence of special interest groups greatly increased. For some Federal Councilors, such a development was desirable, but for others, it signaled a dangerous primacy of economic interests over all else.

Higher levels of government expenditure met with greater demands imposed on the Swiss citizenry at a time when civil liberties ceased to exist. In readying the country for war, all males fell subject to compulsory military service in the long-standing tradition of the Swiss militia, while the government imposed mandatory crop cultivation in an effort to reduce dependence on food imports. The military remained subordinate to the Federal Council, but at the local and cantonal levels, it assumed precedence over the judiciary and the police. The only foreseeable alternative to the suspension of civil liberties by the federal government would have been similar actions taken by the army, likely resulting in a military dictatorship.

### **Problems Concerning Transportation**

Greater emphasis on the regulatory role of the state led to price controls, salary assessment commissions, and rationing measures. The export of strategic goods, including ammunition, explosives and detonators as well as aviation equipment, military

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<sup>21</sup> Bergier, *Final Report*, 392.

chemicals, and communication equipment required Federal Council approval per an 8 July 1938 decree. Switzerland realized the need for an organized and efficient system of transportation, but transit policy remained a central concern throughout the war.

Transportation problems exemplified the interface between security, foreign policy, and economics. The War Transport Office focused especially on the Gotthard and Lötschberg-Simplon railways that were of particular military interest to the Axis powers. These rail links would soon supply the German *Afrika Korps* with goods. With Italy's entrance into the war, they served to circumvent the British blockade.

Before the war, approximately 2.5 million tons of goods passed through Switzerland annually en route to Germany, France, and other European regions. Once the war began, the importance of the north-south railways became clear as volumes increased to nearly 6 million tons per year.<sup>22</sup> The Swiss railway workers' union assured both the Swiss government and foreign nations that no troops or war goods would pass through Switzerland in accordance with the Fifth Hague Convention of 1907. Being a landlocked country in the heart of Europe did not stop the Swiss from creating a complex system of sea transportation. The Wartime Economy Office looked for states likely to remain neutral during the war to utilize their shipping fleets for Swiss import and export needs. The Scandinavian neutrals, Norway and Sweden, refused to allow Switzerland access to their fleets. Greece, however, allowed Switzerland to borrow fifteen freighters. Italy's invasion of Greece complicated matters for Switzerland.

With Greek defeat imminent, Switzerland bought ships from Greece and other nations, creating a Swiss high seas fleet. By 1 January 1943 due to mining and aerial bombardment, direct shipping to the ports of Marseilles and Genoa was no longer safe.

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<sup>22</sup> Kreis, *Switzerland*, 41.

Switzerland then had to look elsewhere for a solution to its transportation nightmare. Transport by air and land offset the loss of direct sea shipping. Difficulties and dangers associated with both land and air transport, however, produced a crisis in Switzerland by 1941. Even if trade representatives succeeded in procuring necessary food and raw materials, no safe means of getting those goods into Switzerland existed.

### **The Structure of Switzerland's War Economy**

As Jean Hotz stated, trade policy proved central to Switzerland's economic survival. That Swiss industries all profited handsomely from the Second World War is a common misconception. While it is true that between 1938 and 1941, Swiss business earnings increased 5 percent, and that the agricultural sector experienced profit increases of nearly 40 percent, by 1942, all sectors encountered economic recession. Overall, farmers earned the most while commercial ventures fared worst. In 1941, the commercial sector made less money than in 1938; by 1944, this segment of the economy earned 10 percent less than it did in 1938.<sup>23</sup> Due to the stagnating productivity of Switzerland's commercial and agricultural sectors, efficient organization of the economy proved imperative to the country's efforts to survive the war with its institutions intact. The federal government, through the Central Office for Wartime Economy imposed regulations and constructed the organizational framework while para-governmental groups were responsible for details and policy implementation.

The Central Office for Wartime Economy staffed six divisions with experts and civil servants. The most important of these was the Division of Commerce that oversaw bilateral trade negotiations with the Axis and Allied governments. The Price-Control Authority sought to prevent runaway inflation and excessive increases in the cost of

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<sup>23</sup> *Ibid.*, 50-3.

consumer goods. Despite rationing measures, price controls, and the freezing of rents to equalize purchasing power among the Swiss public, consumer prices climbed ever higher. The consumer price index, set at 100 in 1939, grew to a dangerous 146 by 1942. This index increased to 152 between 1942 and 1945.<sup>24</sup> Until 1942, both import and export volumes increased by 50 percent over 1939 levels, but prices climbed nearly 110 percent, and the cost of living more than doubled. The Price-Control Authority did little to reverse a decline in wages and salaries, as incomes could not match the rise in prices. Swiss gross national product (GNP) declined 15 percent by 1941 from the pre-war real level of Sfr. 4,376 per capita.<sup>25</sup>

Three other divisions, the Agriculture Office, the Wartime Nutrition Office, and the Wartime Welfare Division all aimed at combating rising prices and the declining standard of living with varied degrees of success. The Wartime Industry and Employment Office, with subsections for raw materials and the branches of Swiss production had more luck than the agricultural, welfare, and nutritional offices. A mixed management scheme that combined private-sector specialists and federal civil servants succeeded in coordinating military and civilian interests to maintain morale levels. The structure of this office mimicked the militia structure of the Army. Although a shift towards corporatism arose from the needs of the war economy, the mixed management structure did allow specialists to play a role in decision-making that streamlined the bloated Swiss bureaucracy and offset the pro-business attitudes of the Federal Council.

On 2 September 1939, the war economy authorities began taking swift measures to organize Swiss industry and agriculture. A Federal Council decree of 22 September

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<sup>24</sup> Erdman, *Swiss-American Economic Relations*, 155.

<sup>25</sup> Steinberg, *Why Switzerland?*, 182.

gave priority for all raw materials and war-related items to the Swiss Army. An effort to prevent foreign meddling in Swiss trade policy was made in October by creating the Central Office for Foreign Trade, a subordinate of the Division of Commerce. The Central Office for Foreign Trade played a pivotal role in monitoring private Swiss firms. The Federal Council forbade Swiss companies from submitting to foreign export controls. Corporatism and the tremendous power of the business and policy elites integrated the import, utilization, and export of goods “into a complete mechanism of supervision.”<sup>26</sup> As the war unfolded, however, it was clear that these steps were insufficient.

### **The War Begins**

The joint Anglo-French declaration of war against Nazi Germany on 3 September 1939 signaled the construction of Britain’s maritime blockade. Speaking four days later, the Swiss Army’s commander-in-chief, General Henri Guisan, announced to the Federal Council, “On Sunday, 3 September 1939, when at 12:10 Central European Time, Great Britain declared war on Germany, our entire army had been in its operational positions for ten minutes.”<sup>27</sup> The readiness of the Army to defend Switzerland did act as a deterrent, but if the country was to survive the war unscathed, other measures of economic preparedness proved necessary. What follows is an account of Swiss efforts to maintain trade impartiality, neutrality, and ultimately, independence. The events of World War Two are divided into four distinct phases. Covered in this chapter are the first two phases. The first phase lasted from the outbreak of war in September 1939

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<sup>26</sup> Bergier, *Final Report*, 179.

<sup>27</sup> Steinberg, *Why Switzerland?*, 65.

through the defeat of France in June 1940. On the morning that the *Wehrmacht*'s swept through Poland, the Federal Council formally decreed:

The international tension, which has motivated the Swiss Confederation to take military measures, obliges it to declare its unshakable will not to depart in any way from the principles of neutrality which for centuries inspired its policy and to which the Swiss people are profoundly attached.

The Swiss Confederation pledged to “maintain and defend by every means at its disposal” its territorial integrity, sovereignty, and neutrality.<sup>28</sup> Its obligations as a neutral meant Switzerland was to maintain equal trade volumes with each belligerent, but the necessities of survival and restrictive trade policies on the behalf of both blocs made such universality impossible. Due to its close ties with the German economy and the disparity between the relative military positions of the Axis and Allied armies, Switzerland could not keep the same trade levels, but attempted to keep the values to both belligerents comparable. Initially, the Swiss expressed a false sense of hope in the military capabilities of the Allies. Soon, however, widespread fears of an Axis invasion would devastate Swiss morale.

During 1939, Switzerland conducted a balanced export trade with both belligerent blocs that slightly favored the Allies. To the Axis, Switzerland provided Sfr 272 million in goods, with Germany receiving Sfr. 191.5 million of that total. To the Allies, Swiss industries exported goods worth Sfr. 305 million. Britain benefited from Sfr. 164.5 million while France received Sfr. 140.1 million. In comparison to exports, the level of imports lacked a similar balance, as the Axis eclipsed the volumes and values that the Allies delivered. The Axis provided Switzerland with Sfr. 576 million in goods, the bulk

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<sup>28</sup> *Ibid.*, 77.

of which came from Germany. From the Allies, Switzerland received Sfr. 384.6 million in food, coal, and other vital goods.<sup>29</sup> Switzerland's right to import and export strategic war goods proved a contentious issue throughout the war.

Between April 1939 and March 1940, the average value of weapons delivered to the Allies reached Sfr. 264 million while the Axis received a significantly lower amount of Sfr. 150,000. Although this disproportionate situation violated Switzerland's responsibility to conduct trade based on impartiality, a main reason for the Allies' receipt of such an overwhelming amount of Swiss weaponry was Germany's desire to remain self-sufficient in terms of its rearmament. Britain's Industrial Intelligence Centre conveyed a second reason in 1939: "As a neutral in wartime, [Switzerland] would remain an invaluable source, which could be considerably expanded, of machinery and components for armament production."<sup>30</sup>

### **France Succumbs to Defeat While Switzerland Prepares for the Worst**

The defeat of France and the construction of Germany's counter-blockade caused a marked shift in Swiss trade relations. Between 1939 and 1941, exports to the Axis increased three-fold to Sfr. 577 million per year; goods to Italy doubled in value to Sfr. 185.6 million per year. Imports from the Axis also increased in value. In those same years, goods from Germany nearly tripled to Sfr. 656.2 million. Italian imports more than tripled to Sfr. 244.5 million per annum. In comparison, goods to and from the Allies declined considerably. After the defeat of France, Switzerland exported goods worth Sfr. 91.4 million to France and Sfr. 23 million on average to Britain between 1939 and 1941. Likewise, Switzerland received drastically lowered amounts of goods from the Allies.

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<sup>29</sup> Kreis, *Switzerland*, 55.

<sup>30</sup> Neville Wylie, *Britain, Switzerland, and the Second World War* (Oxford: Oxford University Press, 2003), 123.

From France, the Swiss gained Sfr. 72.1 million worth of goods. British imports to Switzerland declined by a third to Sfr. 68 million.<sup>31</sup>

The lack of equilibrium between the belligerents like those during the First World War and the export dependency of its economy meant the return of blockade restrictions held potentially devastating consequences for Switzerland. The naval historians David L. Gordon and Royden Dangerfield identify offensive and defensive dimensions to the economic war. The offensively oriented policies of the belligerents engaged the defensive posture of “self-consciously” neutral Switzerland.<sup>32</sup> The offensive British blockade and competing German counter-blockade incorporated the manipulation of neutrals as instruments of their respective foreign policies.

Gordon and Dangerfield describe the role of neutrals as providing “loopholes” to circumvent enemy blockade restrictions.<sup>33</sup> One such loophole was the Swiss Geneva-Annemasse Railway “gap” which allowed Swiss companies to smuggle goods through France into Britain. This “gap” continued to operate after the defeat of France. In the months following the German victory over France, the *Wehrmacht* lacked the troop strength to monitor the flow of goods passing between Geneva and Annemasse. Another such loophole was the complex process of circumventing German export restrictions by diverting trade to South America, into the United States, then back into Britain and France. Switzerland demonstrated an ideological alignment with the Allies by temporarily ignoring Axis blockade restrictions, but once Germany discovered the nature of these smuggling operations, Switzerland had to show the Nazi regime its willingness

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<sup>31</sup> Kreis, *Switzerland*, 57.

<sup>32</sup> David L. Gordon and Royden Dangerfield, *The Hidden Weapon: the Story of Economic Warfare* (New York: Harper and Brothers, 1947), 5.

<sup>33</sup> *Ibid.*, 12.

to cooperate. The German ambassador cabled to Berlin in 1940 “That in disregard to permit procedures, great quantities of goods subject to permits were exported from Switzerland to enemy countries and the US without the required transit permits.”<sup>34</sup> Between July and August 1940, the military situation perceptibly shifted to favor the Axis. Pressure from the German government caused Switzerland to close the railway “gap.”

### **Swiss Economic Alignment and the Issue of Strategic Exports**

To gain concessions from Germany, Switzerland showed the Axis preferential treatment by temporarily aligning with the counter-blockade. Such alignment clearly violated of the Fifth Hague Convention’s principle of parity in neutral trade. On 6 August 1940, trade delegate Hotz struggled to prevent the total blockading of Swiss exports. He argued to German ambassador Köcher, “As the establishment of the system of escort documents will take some time and as the Swiss-French border can not yet be monitored, the Swiss are prepared for the time being not to issue any export permits for goods subject to escort documents.”<sup>35</sup> The willingness of Swiss trade negotiators to grant the Nazi government preferential treatment indicated a decline in the power of the Allies. As Gordon and Dangerfield aver, “One of the major problems of economic warfare [for Switzerland] was to reconcile the conditions and methods of total war with traditional concepts of neutral rights.”<sup>36</sup>

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<sup>34</sup> Klaus Urner, *Let’s Swallow Switzerland: Hitler’s Plans against the Swiss Confederation*. Lanham: Lexington Books, 2002), 111.

<sup>35</sup> *Ibid.*, 85.

<sup>36</sup> Royden and Dangerfield, *The Hidden Weapon*, 3.

Based on an “anti-balance of power formula,” Swiss policy-makers aligned with the stronger belligerent as determined by military developments.<sup>37</sup> It remained critical nonetheless to keep foreign trade policy as universally oriented as conditions allowed. One method of ensuring impartiality was the ban issued by the Federal Council preventing private Swiss firms from exporting war materiel to belligerents despite their right to do so under the umbrella protections of the 1907 Hague Conventions. The Federal Council’s Ordinance on the Treatment of Neutrality (14 April 1939) prohibited private firms from exporting any weaponry or weapons-related goods to belligerents. In its decision to impose the ban, the Federal Council aimed to bolster the damaged credibility of the policy of neutrality. “This self-restriction,” in the view of Swiss legal scholar Dietrich Schindler, was “motivated by neutrality law” so as to demonstrate a “morally indisputable neutrality policy.”<sup>38</sup>

The Federal Council, urged by trade experts and economists, reversed the ban soon after its imposition. By changing its mind, the Federal Council clearly acknowledged the critical role played by Swiss weapons and munitions firms in the national struggle to remain sovereign and neutral. Political scientist Efraim Karsh sees reversing the ban on strategic exports as demonstrating a “willingness to risk a certain erosion in the image of [Swiss] neutrality in order to further what they considered vital economic interests.”<sup>39</sup> The Federal Council ended the restrictions on 8 September 1939. It was far better to uphold full employment, according to Marcel Pilet-Golaz, than

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<sup>37</sup> Philippe Marguerat, *La Suisse face au Troisième Reich: réduit national et dissuasion économique* (Lausanne: Éditions 24 heures, 1991), 63.

<sup>38</sup> Dietrich Schindler, *Fragen* (Zurich: Publications of the Independent Commission of Experts, 2000), 92.

<sup>39</sup> Efraim Karsh, “International Cooperation and Neutrality,” *Journal of Peace Research* (March 1988): 65.

“dogmatically stick to a system.”<sup>40</sup> Marcel Pilet-Golaz, foreign affairs minister and soon president of the Federal Council, admitted the “moral position of the country would be bolstered by keeping up” the ban. He argued the continuation of such a restricted foreign trade stance would come “at the price of very serious economic and financial difficulties, which would serve as a social de-stabilizer.”<sup>41</sup>

Former Federal Councilor Georges-André Chevallaz argues that the Swiss government’s decision to resume weapons trading was a critical element of Switzerland’s resistance to invasion threats and demands for economic alignment.

To wear a mantle of virtuous neutrality and complete pacifism while refusing all weapons trade would have led to nothing more than economic strangulation, unemployment, stagnation, and in the short term, the invasion of a country unable to defend itself, its absorption by the Axis bloc, and the take-over of its industries.<sup>42</sup>

In the decision to rescind the export ban, the Federal Council aligned behind the importance of the “national interest” (*Staatsraison*) over the concerns of the “national morality” (*Staatsmoral*).<sup>43</sup> Returning to a more open trade policy proved both a positive and negative development for the Swiss. On the positive end, such trade enabled the war economy to function by securing needed industrial raw materials and food. By protecting the national economic interests, the federal government was best able to defend Swiss sovereignty, territorial integrity, and neutrality. Full employment contributed to social stability and acted as a defense against subversive political ideologies. By engaging in active trade with the belligerents, Switzerland benefited from a rapid development of new

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<sup>40</sup> Bergier, *Final Report*, 194.

<sup>41</sup> Chevallaz, *The Challenge of Neutrality*, 7.

<sup>42</sup> *Ibid.*, 156.

<sup>43</sup> Bergier, *Final Report*, 29-30.

and traditional industries, the access to new technologies and production efficiency techniques, and complimented expansion of the financial sector.

On the negative end of the spectrum, the encouragement of strategic exports sales to belligerents consumed urgently needed raw materials for the Swiss domestic market. Such an emphasis on weapons trading resulted in a stunting of certain non-military sectors and contributed to the war efforts of both belligerent camps. More times than not Swiss elites favored profit over principle.<sup>44</sup> For Gabriel, the policy-making elite, “traditionally a tiny group of people intimately tied to the business community, has at times used neutrality in a self-serving manner that did not always serve the best interests of the country.”<sup>45</sup>

### **The First War Trade Agreement Talks**

Switzerland confronted economic warfare on an unprecedented scale during the Second World War. In preparing its position towards trade with the belligerents, Switzerland faced pressures from blockades and counter-blockades, asset freezing measures, and outright economic coercion. The requirements of impartiality in trade relations trapped Switzerland in a vicious cycle. If the Swiss agreed to concessions for one bloc, the other side would impose countermeasures. Concessions to one side always brought punishments from the other. Thus, the anti-balance of power formula provided Switzerland with a guideline. Willingness to compromise on the part of the belligerents changed depending on the dynamic of military power. Military setbacks, such as those experienced by Britain after France succumbed to defeat allowed Switzerland to gain

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<sup>44</sup> *Ibid.*, 413.

<sup>45</sup> Gabriel, “Swiss Neutrality,” 21.

valuable concessions, while the strength of the Axis military machine during the same period led to overt manipulation of Swiss weaknesses as an export-reliant neutral state.

The approaches of the belligerent powers toward the Swiss constantly shifted according to the perceived utility that Switzerland's industries could provide for the respective war efforts of the Axis and Allies. While geo-strategic considerations often brought the threat of invasion to Switzerland, issues of economic warfare dictated belligerent policies towards neutrals. Britain's reliance on economic warfare measures like blockading and blacklisting, according to Roderick Ogley, "gave her a powerful weapon with which to dictate to neutrals how much trade they should do with Germany." Ogley continues, "...but every curtailment in Germany's share of a neutral's trade gave Germany that much greater incentive to attack and occupy it. Britain was aware of this, and usually moderated her demands accordingly."<sup>46</sup>

Switzerland's strategy for preserving its neutrality depended greatly on the respective policies of the belligerents. In conducting its war trade talks with the belligerents, Switzerland aimed to minimize "temptations and give each potential attacker the greatest possible incentive to respect its neutrality."<sup>47</sup> Marc Perrenoud, an expert on the history of Swiss banking, argues the Allies "had greater means at their disposal to exert financial pressure [on Switzerland] than did the Axis."<sup>48</sup> In the first phase of the war, Allied diplomacy focused on expanding its Swiss contracts. Their interests centered on ensuring access to Swiss goods more so than reducing Swiss exports to Germany. Overall, the economic war proved more important to the Allies, while the receipt of

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<sup>46</sup> Roderick Ogley, *The Theory and Practice of Neutrality in the Twentieth Century* (Barnes and Noble, 1970), 9.

<sup>47</sup> *Ibid.*, 14.

<sup>48</sup> Marc Perrenoud, "Banques et diplomatie suisses á la fin de la Deuxième Guerre Mondiale. Politique de neutralité et relations financières internationales," *Studien und Quellen* 13/14 (1988): 41.

Swiss credit clearances was the Nazi regime's primary goal. Both blocs nevertheless acted similarly through their indirect attacks on their enemy by way of attacking neutral Switzerland.

### **Britain's Reliance on Swiss Strategic Exports**

Increasingly apparent was that the belligerents on each side drastically altered their views of Swiss neutrality. As the war progressed, the belligerents conceived neutrality more so as an instrument of their own foreign policies, in terms of the practical applications such a policy offered to their war efforts. The interwar experiment with differential neutrality that distanced the policy from rigid legalistic terms continued to threaten the power of Swiss trade negotiators in their dealings with the belligerents.

Certain Swiss goods proved essential to the early British war effort. For example, by using the limited and valuable Swiss franc reserves to purchase dyes and paints from chemical companies in Basel, Switzerland discovered how important such goods were to Britain. To Britain's dismay, the raw materials for those goods came directly from Germany. Prior to American entry, and because of poor British structuring of their war economy, the Allies relied on Swiss exports in products like jewel bearings, diamond-dies, watches, and theolodites. Outstanding Oerlikon anti-aircraft gun orders became "absolutely vital" to the Admiralty after the March 1941 Dunkirk losses. The Admiralty conveyed to the Swiss government that it was willing to pay "almost any price" for the weaponry. Of the total requested 20,000, the Admiralty had yet to receive even 100.<sup>49</sup> Ambassador Kelly threatened Switzerland "that the deliveries would at least be made according to the minimum program of orders and, if that were not the case, Great Britain

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<sup>49</sup> Wylie, *Britain*, 125.

would consider it an unfriendly act.”<sup>50</sup> Paul Erdman interprets such threats by Britain as an indication of the weakness of Switzerland’s negotiating position. “Due to Switzerland’s slight economic and political weight,” Erdman argues, “this country must accept the developments in the world as independent variables; this country’s trade policy is therefore basically defensive in nature.”<sup>51</sup>

Concurrent talks with the Allied and Axis governments began in November 1939 and lasted until April 1940. Matters took a turn for the worse in Switzerland when the British returned to its export certification and licensing regime. Dubbed the “navicert” (naval certification) or “commercial passport” system, the British Ministry for Economic Warfare (MEW) constructed an elaborate means of monitoring neutral trade.<sup>52</sup> The MEW granted navicerts to neutral states promising not to re-export war materiel. The system first operated on a voluntary basis. Private firms within neutral countries who violated the re-export requirements faced punishments like placement on the British Statutory Lists, or blacklists.

The economic ramifications of full military mobilization became too grave for the Swiss to bear. In December, the Federal Council pleaded with General Guisan to demobilize gradually militia troops with industrial skills. British ambassador David Kelly conveyed his general outlook on Swiss policies in January 1940. He wrote to the English historian E.H. Carr:

The Swiss appear to be (and their survival is probably due to) a hard-headed and practical race, who are not desperately interested in the rights and wrongs of a war

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<sup>50</sup> Hans Schaffner, “Swiss Foreign Trade Policy during World War II: Successful Perseverance of a Besieged Country,” in Donald P. Hilty ed., *Retrospectives on Switzerland in World War Two* (Rockport: Picton, 2001), 40.

<sup>51</sup> Erdman, *Swiss-American Economic Relations*, 51-2.

<sup>52</sup> Gordon and Dangerfield, *The Hidden Weapon*, 25.

which they detest . . . . [T]he majority of them have long ago calculated that while a Nazi victory would not at all suit their interests, it is up to them to keep as much trade going in all directions as they can get away with.<sup>53</sup>

Kelly pointed to the goal of Swiss commercial negotiators: universally oriented and unrestrained trade relations. Past preferences for Allied weapons contracts hurt the Swiss in their negotiations with the increasingly powerful Nazi war machine. As the Axis came closer to achieving hegemonic control over Europe, the German coal embargo of March 1940 indicated to Switzerland that drastic change was imminent. After six months of stalemated negotiations between Switzerland and Britain and France, the Allies secured the first trade agreements with the neutral state on 25 April 1940.

The constant negotiations between November 1939 and April 1940 saw the Allies argue that previous trade agreements with Switzerland were invalidated by the notion of *clausula rebus sic stantibus*, or that the contracts were only valid if the situation stayed the same. In declaring pre-war trade agreements invalid, the Allies demanded that Switzerland pledge not to re-export goods. The Federal Council responded to this by arguing it was an illegal interpretation of public international law. The British War Trade Agreement and the parallel French *Accord du Blocus* established parameters for future negotiations.

Despite France's comparatively weaker negotiating position than Germany's, in the first phase of the economic war, Swiss weapons and precision goods disproportionately ended up in French hands. The British and French concerned themselves with ensuring their outstanding Oerlikon anti-aircraft guns received priority from the Swiss weapons manufacturer. The British MEW concerned itself more with

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<sup>53</sup> Wylie, *Britain*, 60.

trade objectives than economic warfare during the period before the war trade agreement. As the war changed, so too did this priority. In this early period, the British government viewed Switzerland as an “entirely respectable client” and the “only decent neutral in the world.”<sup>54</sup> The Allies imposed limits on exports, restricted the conditions for re-exports, and demanded priority in obtaining Swiss armaments and munitions. In return, Switzerland received an empty promise that neither Britain nor France would meddle in the Swiss domestic economy. Switzerland also received a weak assurance that the Allies would abide by the Fifth Hague Convention and allow trade with Nazi Germany to continue.

The April 1940 War Trade Agreement included four conditions. First, the agreement imposed a ban on pure transit of imported, finished goods. Switzerland could not transport imported goods in their original state. Switzerland could re-export processed goods to Germany, but could not do so with unprocessed goods. Second, the British drew up a detailed list of banned exports. The extensive list included goods Switzerland never would have exported. France, more so than Britain, allowed Switzerland to engage in multilateral trade by lowering obstructions to trade with Germany. Third, export quota lists established *courant normal* volumes set at 1938 levels. These quota lists formed the foundation for the navicert system in terms of regulations concerning the origin of goods and the percentage of enemy content included in items intended for export. Fourth, the Allied governments allowed Switzerland to trade goods that were absent from the lists without restriction. The Swiss, however, usually ignored this condition, since such trade potentially could disrupt trade balances.

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<sup>54</sup> *Ibid.*, 29.

Immediately apparent was the emptiness of the Allied promise that Switzerland could monitor its own trade relations. The creation of the Allied *Commission Mixte Permanente* constituted a flagrant disregard for neutrality law as it limited the freedom of Swiss trade monitors by having them answer to Allied representatives posted inside Switzerland. An upside to this measure of heightened inter-Allied cooperation was the ending of a complex system of dual licensing requirements for food and materials. A downside was an intensification of British economic warfare against the Swiss. Although British officials acknowledged that Swiss trade with Germany was a matter of national survival, they aimed to supply Switzerland with the absolute minimum of commodities and food, intending to prevent hoarding and stockpiling of these resources.

The Federal Department of Economics would henceforth be required to issue a *Certificate de Garantie*, which promised that goods for export abided by Allied trade regulations.<sup>55</sup> To Switzerland's dismay, these restrictions were far from the only problems it faced. The defeat of France, for instance, led to an escalation of transportation problems. Before June 1940, Switzerland utilized its high seas fleet to deliver goods to the ports of Marseilles and Genoa, which then traveled overland into Switzerland. After France fell, such a transit route no longer presented itself as safe. Switzerland sought to bring goods solely by overland truck routes, but confronted logistical and financial nightmares that intensified its reliance on Germany.

The mining of Norwegian territorial waters by Britain and the invasions of Scandinavian countries by Germany caused a rise in suspicions regarding economic warfare objectives intended for Switzerland. British strategies for dealing with neutrals had changed at the end of the Phony War period. Relatively amicable Anglo-Swiss

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<sup>55</sup> Erdman, *Swiss-American Economic Relations*, 88.

relations now deteriorated as Britain intended Switzerland to share in the hardships of war. As an example of this shift, Winston Churchill warned from the Admiralty, “Small nations must not tie our hands when we are fighting for their rights and freedoms.”<sup>56</sup> The future prime minister, in a 30 March 1940 BBC radio broadcast, repeated his warning. Churchill asserted, “There can be no justice if in a mortal struggle the aggressor tramples down every sentiment of humanity, and those who resist him remain entangled in the tatters of violated legal conventions.”<sup>57</sup> The tone of Churchill’s warning demonstrated to Switzerland that British regard for neutrality rights had all but disappeared. A complete embargo of Switzerland, lasting from 14 through 18 June 1940, intended to force Swiss alignment with the Allies and reverse Germany’s progress toward achieving European hegemony. The growing impatience towards neutrals actually helped Swiss interests in London, however, as the declining respect for neutrals like Norway served to strengthen the Swiss “special case.”

Once the Axis launched “Operation Yellow” on 10 May 1940, the deterioration of Anglo-Swiss relations quickened. Under this plan, Germany would penetrate France and indirectly force Britain into signing an armistice favorable to the Axis.<sup>58</sup> Compared to the flexible and adaptive *Blitzkrieg* tactics of the *Wehrmacht*, French divisions were immobile. Other French problems included low morale within the High Command, popular opposition to more military spending, and over-reliance on the Maginot Line defenses. The combined British, Belgian, and French forces proved ill-matched and ill-prepared for the confrontation with Germany. A sense of relief swept over Switzerland

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<sup>56</sup> Jerrold M. Packard, *Neither Friend nor Foe: the European Neutrals in World War II* (New York: Scribner, 1992), 132.

<sup>57</sup> Wylie, *Britain*, 88.

<sup>58</sup> Packard, *Neither Friend nor Foe*, 143.

when the *Wehrmacht* by-passed Switzerland and the Maginot Line in favor of sending armored tank divisions through the Belgian Ardennes Forest. The relief subsided quickly, as the Swiss knew they were not yet safe.

### **Difficult Trade Negotiations with the Axis**

Capitalizing on the British and US withdrawals from a pre-war clearing agreement with Germany, the three largest Swiss banks, on 18 September 1939, in cooperation with the Swiss Banking Association (SBA), entered into trade and financial negotiations with Germany similar to those begun with the Allies. From these talks came the first wartime trade agreement between Switzerland and Germany. The pattern set forth in these talks “formed an irrevocable basis” for future Swiss-German bilateral relations.<sup>59</sup> The conditions of the agreement demonstrated the effects of increased “global economic complexity” and the great difficulties faced by Swiss policy-makers in attempting to mesh the conditions of total war with the requirements of neutrality.<sup>60</sup>

Despite the hostility of the Swiss press and the attacks it provoked from Nazi officials, the Reich did issue a statement that pledged its support for Swiss neutrality, without the preconditions the French and British guarantees first required of the Swiss. Following the signing of the first Swiss-German trade agreement, the Nazi regime stated its views:

The German government is of the view that economic neutrality implies the continuation of normal merchandise and transit trade . . . . [I]t is prepared in principle to maintain exports and trade with neutral states. It expects that they, in principle, will act the same way with Germany. It follows that Germany will make no objection if these states continue their normal trade, even with countries at

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<sup>59</sup> Bergier, *Final Report*, 265.

<sup>60</sup> Arthur L. Funk, “American Wartime Relations with Neutral European States: the Case of Switzerland and the United States,” in *États neutres*, 252.

war with the Reich. The German government assures the neutral states that it does not consider this activity to be incompatible with neutrality.<sup>61</sup>

The bankruptcy of this pledge became clear almost immediately, not just for Germany, but also for the other belligerents. By June 1940, Switzerland faced demands by the Axis to end completely its trade relations with Britain as the military situation worsened for the Allies.

With no symmetrical situation, Switzerland had trouble upholding the appearance of partiality and universality in its foreign trade policy. The Allies lacked the power to suppress trade with Germany with the exception of cutting off overseas markets and supplies through the British naval blockade. In comparison, Germany possessed the ability to cut off trade with neutrals and the occupied nations. Switzerland relied on a two-front strategy for dealing with Germany. First, the Swiss offered generous clearing credits, steadily increasing the debt ceiling of Germany. While these excessive credits did violate neutrality, without them, Germany undoubtedly would have invaded Switzerland. Second, Switzerland relied on the need of Germany to supply Italy, and vice versa, through its north-south transit tunnels. With every credit extension, Germany promised more coal and raw materials. Yet Germany used the pretext of the Swiss-Allied trade agreement to extract further concessions from Switzerland. The *Deutsche Nachrichten Büro*, for example, stated in mid-1940 that Switzerland violated its neutrality if it “would permit other countries to force them into actual restrictions or formal controls against the continuance of normal exchange and transit of goods from

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<sup>61</sup> Heinrich Homberger, *La Politique commerciale de la Suisse durant la Deuxième Guerre Mondiale* (Neuchâtel: Éditions de la Bacconaire, 1972), 27.

neutral states to Germany.”<sup>62</sup> The article mentioned nothing about Germany doing the same thing exactly to Switzerland.

### **The Changing Military Dynamic and President Pilet-Golaz’s Infamous Speech**

After June 1940, Switzerland faced the harsh reality of encirclement by fascist regimes. Jean Hotz described the fragile position of Swiss trade negotiators following the defeat of France. Hotz recalled his experiences in this period of transition:

While there were comprehensive contractual rules governing war-related trade which applied to the Axis powers from 1940 (adapting to changing conditions, but admittedly also repeatedly disregarded in the absence of any reality), economic relations with the Allies during the whole period when our country was surrounded by the Axis were in a state of permanent crisis.<sup>63</sup>

The British historian Neville Wylie offers a similar perspective. He asserts, following the fall of France, “what little was left of Switzerland’s economic freedom was slowly whittled away through a combination of German and Italian pressure, French pusillanimity, and British parsimony.”<sup>64</sup> The German “pressure” led to constant credit concessions by Swiss banks while the “parsimony” of Britain prevented Swiss industries from receiving raw materials and the population its food. For example, British willingness to participate in smuggling operations declined as German counter-blockade efforts intensified. Because Britain confronted shortages of convertible foreign currencies, it became less able and less willing, to purchase precision goods from Switzerland. As Britain reduced its trade with Switzerland, the neutral country lost a vital source of foodstuffs. Thus, Switzerland turned to Germany in order to compensate for the decline in food imports. After June 1940, weapons and related goods surged to

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<sup>62</sup> Schaffner, “Swiss Foreign Trade Policy,” 46.

<sup>63</sup> Bergier, *Final Report*, 197.

<sup>64</sup> Wylie, *Britain*, 89.

Sfr. 623 million to Germany, Sfr. 148.2 million to Italy, while all other nations' (Allied and otherwise) export receipts totaled Sfr. 190 million.

In a radio address delivered 25 June 1940, Federal Council President Marcel Pilet-Golaz conveyed a defeatist outlook that warned the public to brace itself for a new German-led world order. He claimed that greater willingness to collaborate with Nazi Germany would serve to lessen Nazi demands of Switzerland in the long-term. The tone of the speech exemplified the fears of German victory that came to dominate the decisions of the Swiss policy elites. President Pilet-Golaz's speech remains fiercely debated by historians. What follows is an excerpt, as the speech serves as a good indicator of the weaknesses of the wartime Federal Council. Pilet-Golaz began:

France has just concluded a truce with Germany and Italy . . . . It is for the Swiss a matter of great relief to know that our three great neighbors are on the road to peace . . . . This appeasement- is that not the word?- is natural and human, especially for the modest neutrals who have been spared up to now in every respect . . . .

Europe must find a new equilibrium, so different than from before, which will understandably be grounded on other foundations than those which the League of Nations was unable to establish, despite its vain efforts . . . .

Everywhere, in all fields, spiritual and material, economic and political, an indispensable realignment will need strenuous efforts that will have to be applied beyond outdated formulas if they are able to have any effect. This cannot be done without giving up a good deal and without painful sacrifices . . . .

There is no doubt we will have to give up many conveniences and commodities we hold to because they are unconscious manifestations of our egotism . . . .

The speech continued, as Pilet-Golaz called for the blind obedience and unquestioning support for its policies that were described as ensuring work for the population and preparing for national defense. He finished by asserting that Swiss

economic survival served as the basis for all of the Federal Council's decisions and actions: "individual, regional, and partisan differences will disappear in the melting pot of national interest, the supreme law."<sup>65</sup> Robert Kohli, head of the wartime Political Department and member of the Permanent Delegation for Negotiations of the Federal Council, summarized the outlook of Pilet-Golaz by simply stating the obvious: He observed that Germany was "very close to us, and Britain . . . very far away."<sup>66</sup>

Impressions of the speech continue to polarize Swiss historiography and block possible consensus on the period of the Second World War. The orthodox view, established by Edgar Bonjour in the 1960s, interprets the speech in a wholly negative light. Bonjour's writings embody the view that wartime Switzerland was merely a "victim of developments in world politics."<sup>67</sup> In his multi-volume official history of Swiss neutrality, Bonjour consistently attacks Pilet-Golaz and the authoritarian tendencies of the wartime Federal Council. While Bonjour feels that economic ties with the Third Reich were acceptable morally on the basis that this trade ensured national survival, he condemns Pilet-Golaz for his defeatism and his desire to appease Germany. As Bonjour correctly notes, it was possible to trade with Germany without resorting to appeasement tactics.

A major source of difficulty in understanding the intentions of Pilet-Golaz's speech was the often-conflicting statements he made. In a rare full powers committee meeting held 26 June 1940, Pilet-Golaz maintained that an invasion was highly unlikely. If so, the ominously defeatist tone of his radio address lacked credibility. To the

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<sup>65</sup> Edgar Bonjour, *L'Histoire de la neutralité Suisse*, vol.4 (Neuchâtel: Éditions de la Baconnière, 1970), 117-20.

<sup>66</sup> Bergier, *Final Report*, 188.

<sup>67</sup> *Ibid.*, 24.

committee he stressed that Swiss “. . . efforts should be directed at avoiding subjection to any one economic bloc. We need to establish counter-weights to certain economic pressures that could be brought to bear on us from the north, the south, and the west.”<sup>68</sup>

In a July 1940 letter to Swiss minister to Berlin Hans Frölicher, Pilet-Golaz expressed a desire to align economically with the Axis via the trade negotiation that would be completed the following month. Pilet-Golaz wrote,

We are pleased to hope that the conclusion of the trade negotiations currently in progress will give us an opportunity to indicate our willingness to adapt to the new situation on the continent, and to collaborate with Germany in the field of business. Should this create the impression of a détente-- as we expect it will-- it will be easier to find ways of German sympathy in other areas without exposing ourselves to accusations of servility.<sup>69</sup>

### **The Swiss-Nazi Counter-Blockade Agreement**

The trade negotiations Pilet-Golaz referred to in his correspondence with Frölicher yielded the Swiss-Nazi trade agreement of 9 August 1940 and a fundamental change in the position of Switzerland in relation to the belligerent blocs. Such an effort to uphold economic neutrality as he stressed in the emergency powers committee meeting vanished with the conclusion of the agreement, called the Counter-Blockade Agreement (*Gegenblockadeabkommen*).<sup>70</sup> Two concentric circles, the British blockade and the new German counter-blockade, now greatly increased the possibility of economic strangulation for the Swiss. Under these conditions, Switzerland demonstrated (as it should have) greater willingness to accommodate the Axis. As the first condition of the Counter-Blockade Agreement, Germany received a credit clearance of Sfr. 150 million

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<sup>68</sup> Bonjour, *L'Histoire*, vol 4, 112-6.

<sup>69</sup> Bergier, *Final Report*, 186.

<sup>70</sup> Urs Schwarz, *The Eye of the Hurricane: Switzerland in World War II*, Westview Press, Boulder, 1980, 82.

while Italy received Sfr. 200 million. In return for this violation of Swiss neutrality rights, Germany promised the delivery of 170,000 tons of coal, iron, and mineral oils per annum.<sup>71</sup>

The German trade negotiators also freed three-fourths of Switzerland's exports from counter-blockade restrictions and set fixed quotas for non-essential Swiss exports, thus ensuring customers for those goods. Additionally, Germany gained the assurance that Switzerland would continue to recognize the 1909 Gotthard Treaty that allowed for access to the north-south transit routes. Regarding the demand that Switzerland participate directly in the counter-blockade, the Swiss trade delegation vehemently refused.<sup>72</sup> They were able to stall and wait for the military situation to change. In fact, trade negotiator Robert Kohli felt the policy of Switzerland "will consist of playing for time."<sup>73</sup>

The Swiss-Axis Supplementary Agreement of July 1941 increased the Nazi debt ceiling to Sfr. 850 million in exchange for more coal and iron and a lowering of restrictions concerning exports to non-Axis countries. Because of the Swiss-Axis trade agreements, Swiss exports to Germany increased from Sfr. 191.5 million in 1939 to Sfr. 284.8 million in 1940. By 1941, this figure had shot upward to a staggering Sfr. 577 million. Imports from Germany stayed more stable, increasing only in the years of Nazi hegemonic control of Europe, 1941 through 1943. To offset the negative trade balance with Germany, Switzerland relied on its invisible sector extensively as well as gold transactions. The Swiss National Bank acted as a reserve bank for the *Reichsbank* during

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<sup>71</sup> Kreis, *Switzerland*, 62.

<sup>72</sup> Chevallaz, *The Challenge of Neutrality*, 149.

<sup>73</sup> Bergier, *Final Report*, 22.

the war, with deposits of gold coins, ingots, and bars totaling approximately Sfr. 1.7 million between 1939 and 1945.<sup>74</sup>

### **The *ligue du Gotthard*, the *Aktion Nationaler Widerstand*, and the *Volksbund***

Gold purchases and credit clearances to the Axis served to heighten Allied suspicions of Swiss activity. Although it banned all extreme political parties, the Federal Council still faced a growing number of organizations within Switzerland that desired political and economic integration with Nazi Germany. At the same time, fierce resistance to such collaboration reflected the sentiments of the majority of Switzerland's population. Most famous of the groups that opposed the authoritarian and pro-business attitudes of Federal Councilors like Pilet-Golaz was the so-called *ligue du Gotthard*. Consisting of 8,000 army officers loyal to General Guisan and his calls for unconditional resistance, the Gotthard League publicly criticized the steps taken by the government toward closer collaboration with Nazi Germany.

A second group with the same anti-Nazi agenda was the secretive but influential *Aktion Nationaler Widerstand*. The officers that participated in this group felt the best means of preserving sovereignty was to support Pilet-Golaz's de-mobilization efforts, but for a different reason. The *Aktion Nationaler Widerstand* believed that a large-scale de-mobilization was compatible with Guisan's plan for the alpine fortress known as the *Réduit national*. The aim was to create a more realistic military defense plan that relied less on Swiss frontier guards. By focusing on the *Réduit*, Switzerland hoped to appear non-aggressive to the Nazi regime. The desire of this group to resist military invasion meant relegating concerns of economic neutrality to the periphery of its position. Guisan's second in command, Colonel Jakob Labhart, supported efforts "to put the Swiss

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<sup>74</sup> Jung, *Credit Suisse Group*, 18.

economy more at the service of Germany policy.” He also expressed a desire to “fulfill Germany’s industrial orders, in order to participate this way, in the Axis’ new economic policy.”<sup>75</sup>

Pilet-Golaz’s personal notes convey his concerns at the end of July 1940. He wrote, “The Reich’s brilliant victory has created German-Italian hegemony on the continent. It is difficult to see who could break it . . . *The economic situation is grave*; we are surrounded and our neighbors control our food supply. Risk of unemployment.”<sup>76</sup> In July 1940, the *Volksbund*, an extreme-right organization, demanded publicly that the Federal Council sever the remaining financial ties with the now lifeless League of Nations. Pilet-Golaz met with the leadership of the collaborationist group. They urged him to strengthen both military and economic ties with the Axis and to impose strict censorship to silence the press. The *Volksbund* felt victorious due to Swiss participation in the Nazi-led *europäische Zentralclearing* system. Switzerland had become a de facto member of this system following its decision to grant credit clearances to Germany and Italy. *Volksbund* leader Wilhelm Frick relayed to Pilet-Golaz the mounting German impatience with the Swiss press. In a 21 September 1940 letter, Frick urged the Federal Council to take bold steps to suppress anti-Nazi press statements and adopt a militarily and economically flexible doctrine of neutrality. Frick saw that adapting to the military situation as essential.

Another major effort at greater collaboration with Germany came through the so-called “Petition of the Two-Hundred.” The goal of the petition, signed by 173 business leaders and *Volksbundists*, was to “harmonize [Switzerland’s] policy with that of the

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<sup>75</sup> Marguerat, *La Suisse*, 17-23.

<sup>76</sup> J-F Bergier, ed., *Documents Diplomatiques Suisses*, vol. 13 (Zurich: ETH, 1998), 791-6.

Reich” and curtail the Swiss freedom of opinion by censoring the press. They campaigned against cultural and economic dependency while pushing to achieve a high level of domestic political consensus. Reminding the Federal Council of its unique role, the petition called for resistance against foreign ideologies. While less extreme than other government opposition groups, the Federal Council still refused to acknowledge the petition.

In a May 1941 report published by army colonel Gustav Däniker, the high-level officer urged the Swiss foreign policy elites to foster closer ties with Nazi Germany. In this report, he argued,

If Switzerland is to play a role in the new Europe, if it desires to be a truly useful member of Europe it will have to join it. Such collaboration is not anti-Swiss. On the contrary, in view of our future and our nature, it respects our traditions. Collaboration with the new Europe does not contradict the idea of Switzerland; it merely discards some old and obsolete forms. One can be a good citizen of Switzerland while thinking in European terms and committing one’s self to the new Europe. What is incomprehensible is that we are proud of our stubborn determination to stay out.<sup>77</sup>

Aligning with the views of the *Volksbund*, Däniker blamed the posture of the press for elevating German hostility toward Switzerland. Hans Frölicher supported Däniker by claiming “. . . the overwhelming disproportion of military forces and Switzerland’s strong dependence on the Axis, especially the German Reich which totally surrounded it, for its economic prosperity, provisions, survival, and international trade.”<sup>78</sup> The Army High Command sanctioned Däniker for his intransigent behavior.

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<sup>77</sup> *Ibid.*, 261-72.

<sup>78</sup> *Ibid.*, 934-7.

Defending himself from attacks by Swiss foreign affairs minister Pierre Bonna, the Nazi sympathizer Frölicher softened his assault on the validity of neutrality, claiming he agreed

. . . that our situation, faced as we are with the two Axis powers, implies a new direction in our foreign policy . . . . This new direction is indispensable in economic policy; it has already had its concrete application . . . . But there is no question of giving up our traditional neutrality policy willingly.<sup>79</sup>

Instead, he urged the Federal Council to declare it “ready to collaborate in the reconstruction of Europe” and consciously “set about the functions and tasks which a politically and economically neutral Switzerland is able to fulfill in the new continental Europe.”<sup>80</sup> Swiss commercial delegate Heinrich Homberger increasingly worried about the issue of strategic exports, and especially Axis attacks on Switzerland for upholding its right to trade with the Allies. Desperately vulnerable to Axis blackmail, Switzerland granted sweeping economic concessions to Germany and Italy.

No matter how a reader may interpret the desires of the pro- and anti-collaboration movements inside Switzerland, it is clear that without some degree of cooperation with Nazi Germany, democratic Switzerland would have ceased to exist as a free country. The ramifications of total Nazi hegemony over Europe offered a worse prospect for the future than did Switzerland’s willingness to trade with the Axis. Switzerland represented the last bastion of democracy on the European continent. With Britain powerless, and largely unwilling to provide Switzerland with the materials and food it needed to survive, the neutral had no choice but to seek help from wherever it came. The Swiss confronted a genuinely drastic situation and acted to ensure the

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<sup>79</sup> *Ibid.*, 963.

<sup>80</sup> *Ibid.*, 964.

independence of a country that posed no threat to either Axis or Allied war efforts. As the Swiss saw it, the disregard for their rights and the imposition of economic warfare by both blocs tended to obscure the moral arguments forwarded by the Allies. The Axis supplied Switzerland with the commodities it needed for national survival, not the Allies.

In the period after the French defeat, Nazi negotiators secured the majority of Swiss strategic exports. The Germany ability to obtain these weapons and munitions was limited only by their ability to secure Swiss credits. Soon enough, the Swiss found themselves thrust into the “Nazi economic orbit” because the Allies denied them comparable access to Allied goods.<sup>81</sup> Closer economic ties with Germany inevitably meant further reductions in Swiss trade with the Allies.

Mimicking the British navicert system, Germany enacted its *Geleitschein* export restrictions via decree on 1 September 1940. The decree prevented Switzerland from re-exporting processed and strategic goods without the newly required certifications. Germany constructed the *Ständige gemischte Kommission*, which was analogous to the Allied *Commission Mixte Permanente*. The trade monitoring apparatuses of each bloc functioned almost identically to the oversight commissions of Britain and Germany during the First World War. Allowing these foreign bodies to operate inside Switzerland showed that Swiss planners failed to achieve their fundamental objective for the war economy: remaining in complete control of trade. With the new export licensing system came the requirement of the Federal Economics Department to grant a *Certificate de Garantie* for items to receive an Axis *Geleitschein*.<sup>82</sup>

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<sup>81</sup>Anthony Adamwaith, “Great Britain and Neutral Switzerland,” in *Etats neutres*, 259.

<sup>82</sup>Erdman, *Swiss-American Economic Relations*, 89.

British reaction was unduly harsh given the compromised military situation of the Allies in summer 1940. The Allies demanded Swiss firms to reduce sharply the enemy content of finished goods from 25 percent to 5 percent for them to be eligible for navicerts. Encroaching further into Swiss domestic affairs, the Allies imposed the same condition as the Axis' *Certificate de Garantie* through its version, referred to as a Certificate of Origin and Interest. These new pre-certification restrictions acted to make the procurement of needed goods even more difficult for Swiss industrial firms.<sup>83</sup>

## **Phase Two**

The second phase of economic warfare lasted from the fall of 1940 through the spring of 1943. Switzerland failed to see the Nazi invasion of the Soviet Union in July 1941 and the American entry into the war as major turning points. The Swiss did believe however, that Field Marshall Erwin Rommel's November 1942 defeat and the battle of Stalingrad in January 1943 provided clear indications that Nazi hegemony would soon be broken. More so than in the first phase, Switzerland experienced the physical realities of total war. With Italy serving as a combat zone during 1943, Switzerland's southern border troops feared German invasion and/or an Allied pre-emptive incursion into Swiss territory. During this phase, the British blockade and the American operations to freeze Swiss assets shaped relations between the neutral and the Allies. The entry of the United States meant an intensification of the economic war. While Germany received Swiss strategic exports valuing Sfr. 122 million and Italy secured Sfr. 61 million in similar

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<sup>83</sup> Heinz K. Meier, *Friendship Under Stress, U.S.-Swiss Relations: 1900-1950* (Bern: Herbert Lang, 1970), 140.

goods, the Allies received nothing during 1941, mostly because of the massive output of US industries.<sup>84</sup>

### **US Capital Freezing Operations and Omnibus Accounts**

The US Treasury Department froze all continental European assets on 14 June 1941 through Executive Order 8785. By issuing this order, the Treasury Department reinforced its earlier measures that blocked all European assets taken from Europe and deposited in US accounts. US officials estimated that the total foreign deposits, investments, interests and other funds in American accounts equaled \$12.7 billion. With the executive order, \$6 billion of that total now fell subject to the blocking restrictions.<sup>85</sup> Through the executive order, the Commerce Department aimed “to prevent the liquidation in the US of assets looted by duress or conquest” and sought “to prevent the use of the financial facilities of the US in ways harmful to national defense and other American interests.”<sup>86</sup>

Swiss investors understandably expressed their outrage at this action. Because Swiss banks and investment firms had opened branches in New York during the 1930s, before the asset freeze, Swiss clients proved able to conduct transactions in the United States despite the war. Swiss investments in the US ranked third behind Canada and Britain. Of the total \$12.7 billion in blocked assets, Swiss investors owned \$1.2 billion (Sfr. 5.2 billion), or 9.5 percent of the total and 15 percent of the European total. The Swiss Federal Political Department mistakenly declared before the asset freeze “blocking measures against non-combatant or non-occupied European states are not anticipated by

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<sup>84</sup> Heinz K. Meier, “Between Hammer and Anvil: Neutrality and the Necessities of Trade,” in *Switzerland Under Siege 1939-1945: a Neutral Nation’s Struggle to Survive*, ed. Leo Schelbert (Rockport: Picton, 2000), 139.

<sup>85</sup> Jung, *Credit Suisse Group*, 23.

<sup>86</sup> Erdman, *Swiss-American Economic Relations*, 94-7.

the relevant US agencies.”<sup>87</sup> It was loans and the gold and currency transactions with Germany that caused this precipitous decline in Swiss-American relations. The freezing of Swiss assets was but one of many steps taken to curtail trade between the small neutral and the hegemonic Nazi state.

Due to Swiss banking secrecy laws, another issue arose: that of “omnibus” or “collective securities” accounts. Omnibus accounts allowed for the transactions of two or more investors to be combined into an anonymous portfolio. Such an account protected the identities of the individual account holders because the broker transacted for them in his name. With the assets of more than one investor combined into a single account, it proved difficult for American authorities to identify the source and amount of funds held within a particular omnibus account. Making matters more difficult for the American Treasury Department, since the brokers and clients were Swiss nationals, these omnibus accounts benefited from Switzerland’s banking secrecy laws that had been enacted in 1934. American regulators feared that omnibus accounts served to hide Nazi funds behind the veil of banking secrecy protections.

Omnibus accounts, along with gold and currency transactions, formed the basis of American criticisms of Swiss wartime economic behavior.<sup>88</sup> The Federal Council instructed their ambassador in Washington, Karl Bruggmann, to express the profound anger of the Swiss people regarding the frozen assets to Secretary of State Cordell Hull. Bruggmann relayed the “deep-rooted mistrust” of the American authorities that stemmed from Switzerland’s relations with Italy and Germany.

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<sup>87</sup> Jung, *Credit Suisse Group*, 47.

<sup>88</sup> *Ibid.*, 41.

Bruggmann identified five reasons for this mistrust:

The principal accusations involve the flight of American-held Axis assets through Switzerland, the transfer of Axis assets to Swiss persons, trade in *Sperrmarks* [blocked marks], the repatriation of German and Italian dollar bonds, the purchase of dollar banknotes, etc. It is assumed that such activity is still being conducted to the extent possible, even today.<sup>89</sup>

To deal with the frozen asset problem and to ensure adequate reserves of US dollars, the Swiss Banking Association and the Swiss National Bank entered into a gentlemen's agreement. The most important element of this agreement was the creation of two categories for transactions in US dollars: "finance dollars" (*Finanzdollaren*) and "export/merchandise dollars" (*Warendollaren*). Under this system of "managing the dollar, or *Dollarbewirtschaftung*, the Swiss National Bank reduced the rates of exchange between the franc and the dollar.<sup>90</sup> Banks had free access to finance dollars for the purposes of financing international investments. Merchandise dollars, although heavily restricted, existed for exported goods, payments for diplomatic services, and insurance transactions. All transactions utilizing merchandise dollars fell subject to fixed rates of exchange.

The Swiss Banking Association entered into the gentlemen's agreement with the hope that the National Bank would compensate for the frozen assets in the US by making available to the banks an equivalent amount of Swiss francs within the confederation. The prediction that dollar credits and debits would be nearly equal proved an erroneous assumption. What occurred instead was that available dollars for exports exceeded greatly the demand for US currency to pay for imported goods into Switzerland from the

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<sup>89</sup> *Ibid.*, 50.

<sup>90</sup> Erdman, *Swiss-American Economic Relations*, 90-4.

dollar area. By the end of the second phase of the war in June 1943, Switzerland's blocked currency holdings in the US increased by another Sfr. 161 million while the small neutral faced a complete embargo by the Allies. It was the freezing of assets by the US and the strength of the Swiss franc that led to increased gold transactions with the German *Reichsbank*.

From the Axis perspective, Germany desired to offset the gains made by Britain through the Lend-Lease Program. One means of achieving this goal was to threaten Switzerland into reducing its trade levels with the Allies. Starting in 1941, the Swiss franc became the most freely convertible, and thus most desirable, currency in Axis-controlled Europe. Germany benefited from the Allies' harsh stance toward Switzerland. Intensely angry over what they deemed illegal freezing of their US assets, Swiss investors and government officials alike sought recourse in heightened trade with the Axis powers. The Swiss government reacted to Allied pressure by refusing to subject the foreign exchange market and capital transactions to restrictive controls and by extending a Sfr. 850 million loan to Germany.

The loan constituted the largest concession Switzerland made up to that point, but it must be seen as a form of defensive economic warfare. If the Allies refused to assist Switzerland, it had to seek assistance wherever it became available. The supplementary loan aroused little public debate inside Switzerland due to the tremendous anger felt towards the United States and Britain. One exception to the lack of public inquiry regarding the loan came from the Social Democratic National Councilor Hans Oprecht. He worried about the long-term consequences of the loan. In a speech to the *Nationalrat*, Oprecht asked, "Won't this ordering of our foreign trade mean that Switzerland is

economically bound into the ‘new Europe’ against our will, and in such a way that our absolute and integral neutrality appears to be at risk?”<sup>91</sup> Pilet-Golaz defended the loan to British ambassador Kelly. He argued, “Even if our [German] credits were never repaid,” the Federal Council “would rather spend 800,000,000 francs on keeping factories going than spend it on the dole with the ensuing social and moral disintegration.”<sup>92</sup>

Switzerland’s hard-line stance against the Allies soon would change. The defeat of France marked a clear turning point in the economic war for Switzerland. Prior to France’s defeat, Switzerland traded extensively with the Allies, with Germany receiving little from the small neutral. Once Italy joined the war in June 1940, Switzerland faced no other choice than to increase its trade volumes with the Axis countries. Before Italy entered the war and Germany occupied France, a relatively symmetrical military situation presented itself. In the period when Britain effectively stood alone, Swiss weapons and munitions proved exceedingly important to that country’s efforts to resist Nazi military aggression. The situation would soon change again.

With the United States becoming a belligerent nation, Britain relied less on Swiss strategic exports and more so on American contributions. As we will see in the third chapter, the entry of America into the war also changed the situation in terms of international respect for neutrality. Henceforth, Switzerland sought much closer trade ties with Germany as it contended with the Allied war effort that displayed little sympathy for the plight of the small neutral. Despite the pressures faced by Switzerland, the period discussed in the following chapter is undeniably one of the most exciting (and difficult) times that country faced in its seven-hundred-year existence.

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<sup>91</sup> *Ibid.*, 195.

<sup>92</sup> Wylie, *Britain*, 56-8.

## CHAPTER 3: THE SOURING OF SWISS-AMERICAN RELATIONS

After the Japanese attacked Pearl Harbor on 7 December 1941 and the German-Italian declaration of war four days earlier, the United States abandoned its neutrality and joined the Allies. For Switzerland, the loss of its former partner in neutrality meant it soon would face pressure from the United States to alter its own foreign policy course. Even before the United States officially renounced its neutral status, programs like Lend-Lease enabled the American government to disregard traditional definitions of neutrality, especially in terms of foreign trade policy. The United States no longer interpreted neutrality in the classical manner as it ignored the requirements of impartiality and universality in terms of trade with belligerents. Furthermore, the United States refused to acknowledge that neutrals maintained the legal right to trade with Germany.

### **Declining Respect for Swiss Neutrality**

The historian Jürg Martin Gabriel notes that the Lend-Lease program and the American practice of a “moderate type of internationalism” resulted in a “decline of classical neutrality.”<sup>1</sup> That is, by interpreting neutrality in their own terms, the US government threatened the existence of Swiss permanent neutrality. The American State and Treasury Departments increasingly aimed to ensure that Switzerland shared in the burdens of total war. With their common link severed, Swiss-American bilateral relations turned from bad to terrible.

Still worse, for the Swiss, the already ambiguous role of neutrals became even more uncertain. The international community agreed upon no single definition of

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<sup>1</sup> Gabriel, *The American Conception*, 234.

neutrality. Luzius Wildhaber addresses this issue, stating that Switzerland desperately needed to reassert its policy of neutrality in clear language. The Swiss government undertook no such effort until the postwar period. In the Second World War, Switzerland continued to justify its neutrality by seeking recourse in the protections of international law. Given the ideological component of total war and the fact that Switzerland faced coercion from all belligerents, a definitive Swiss interpretation of neutral rights and duties was imperative. Wildhaber argues,

It would seem evident that where the rules of international law are unclear and ideologically charged, matters of style, linguistics, and symbolism become all the more important. The neutral state will be well advised to realize its own values and to seek its own terminology and symbolism, so that even stylistically, its non-involvement becomes clear.<sup>2</sup>

Competing notions of neutrality inside Switzerland vied for support, thus eliminating the possibility of a clear definition of the nation's foreign policy line. The inability of the major parties to agree upon a unified position concerning Germany harmed greatly any hope of sustaining political consensus. Supporters of center-right and right-wing political factions like the Radical Party, the Christian Democratic People's Party, and the Swiss People's Party sought greater economic integration with the Axis. Those belonging to left-leaning parties such as the Social Democrats, Liberals, and Democrats desired to distance Switzerland from what they viewed as an ideologically and morally repugnant Nazi regime. Disgust for Nazi Germany still could not fix the economic crisis that Switzerland confronted. If the Allies could not provide Switzerland with the commodities it needed to survive, ideology became a secondary consideration for trade negotiators. The Allies demanded that Switzerland sever its ties to Germany but

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<sup>2</sup> Luzius Wildhaber, "Swiss Neutrality on the East-West Axis," in *Neutrality and Non-Alignment in Europe*, 29.

offered no concessions in exchange. Once the United States entered the war, the perceived utility of Swiss industries declined. At the same time, however, with Switzerland seemingly less attractive to the belligerents economically, it became less of a target for invasion. Although Nazi military strategists had drawn up many possible invasion scenarios with names like “Operation Tennenbaum” and “Case Switzerland,” these plans never reached fruition. Operation Tennenbaum, for example, never gained Hitler’s approval because the invasion of the Soviet Union tied up all the military resources intended for attacking Switzerland. Nevertheless, the Germans continued to exploit fears of a *Wehrmacht* attack on Swiss targets.<sup>3</sup>

### **The Central Role of Trade Negotiations**

After December 1941, the Swiss increasingly relied on the skill and persistence of their trade negotiators to resist the excessive demands of the belligerents. Swiss trade officials shouldered the incredible burden of keeping export and import channels open so that adequate raw materials and food were available to sustain the war economy. So long as the Nazi military machine remained intact, trade with Germany was an inescapable necessity for Switzerland. To compensate for the pressures associated with the blockade and counter-blockade, Switzerland sought to protect itself through extending credits to Germany as a form of defensive economic warfare.

In its relations with the United States, however, no such safety net existed. Switzerland traditionally had relied on the American economy in times of crisis, but during the Second World War, the Swiss lost access to that market. Allied blacklisting measures combined with escalating efforts to end gold transactions with Axis countries

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<sup>3</sup> Stephen Halbrook’s *Target Switzerland* and his new book *The Swiss and the Nazis* both discuss the many Nazi invasion plans in detail. Halbrook forwards the thesis that the Swiss Army primarily was responsible for thwarting such invasions.

forced the Swiss government to take swift action. As a study of Credit Suisse banks in the Second World War observes, “Rising gold prices and the increased demand for gold at home and abroad made legal regulation of the Swiss gold trade unavoidable.”<sup>4</sup> The Federal Council’s decree of 7 December 1942 marked a turning point in the war for Switzerland. From then on, the free market trade in gold became replaced by a highly centralized system overseen by the Swiss National Bank.

Three fundamental changes resulted from the Federal Council’s decree. First, maximum prices for gold sales were determined. One result of these price regulations was that Swiss banks experienced a decline in foreign gold sales, contributing to smaller profits. Second, banks wishing to conduct trade in gold became subject to strict compulsory licensing requirements. Third, all imports and exports of gold now needed authorization from the Swiss National Bank. An unintended consequence of these restrictions was an explosion in the volume of illegally exported gold for which exact figures are impossible to locate.

In anticipation of Allied efforts to oversee the international gold trade, the Federal Council enhanced greatly its own regulatory role as well. The Allied measures came through the London Declaration of 5 January 1943 (“Inter-Allied Declaration against Acts of Dispossession Committed in Territories under Enemy Occupation or Control”). Through this declaration, the Allies refused to recognize as legal any gold transfers to or from occupied territories, even if such transactions abided by international financial laws. Allied officials sought to curb “compulsory transfers” within the Third Reich, to restrict

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<sup>4</sup> Jung, *Credit Suisse Group*, 19.

the trade in “looted assets” from occupied territories, and to limit “hot money” or “country-hopping capital” that weakened the stability of European capital markets.<sup>5</sup>

Under the conditions of the London Declaration, the Allied governments jointly pledged to reduce transactions in looted assets “against the countries and peoples who have been so wantonly assaulted and despoiled.”<sup>6</sup> In forceful language, the Allies explained that American and British officials would now watch the actions of Swiss bankers and gold brokers closely. The Swiss, according to the declaration, were to end immediately gold transactions with the Axis governments. Switzerland ignored this warning. Meeting with Swiss trade negotiators in London, MEW official Dingle M. Foot insisted that Switzerland reduce the number of specialists working for Germany.

### **The Allied Embargo of Switzerland**

Strengthening the stern warning issued by Foot, the British decided the best means of ensuring Swiss compliance was through a total economic embargo that began in April 1943. Justifying the embargo, Anthony Eden insisted that “Switzerland should do all it can not to prolong the war.”<sup>7</sup> At the same time, the US government expressed its “profound concern” over the Swiss-Nazi trade relationship.<sup>8</sup> An article in the 23 January 1943 *Saturday Evening Post* articulated the views of many in the United States. In this article, the journalist Charles Lanius accused Switzerland of indirectly becoming an Axis-occupied state because of its economic ties with Germany. In response to these criticisms

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<sup>5</sup> *Ibid.*, 13.

<sup>6</sup> Eizenstat, *Eizenstat Report*, 6.

<sup>7</sup> The issue of Switzerland prolonging the Second World War through its trade with Germany is discussed in the concluding chapter of my study.

<sup>8</sup> Tom Bower, *Nazi Gold: The Full Story of the Fifty-Year Swiss-Nazi Conspiracy to Steal Billions from Europe's Jews and Holocaust Survivors* (New York: Harper Collins, 1997), 47-9.

of Switzerland, an article written by Walter Lippmann appeared in the *New York Herald Tribune*. Lippmann wrote,

What was not so obvious to Mr. Lanius, though it should have been, is that the Swiss nation which is entirely surrounded by the Axis armies, beyond reach of any help from the democracies, cannot live without trading with the surrounding Axis countries, still is an independent democracy. The engulfing sea of 125 million hostile neighbors has not yet engulfed the Swiss.<sup>9</sup>

Lippmann accurately gauged the situation faced by Switzerland. Without the possibility of trade with Allied governments, Switzerland saw no other possibility than intensified trade with the Axis. If the Allies refused to supply Switzerland with what it needed to survive the war, then it would look elsewhere. Instead of restricting Swiss access to Allied economic markets and trade, it seemed to Lippmann that a better course of action would have been to provide the Swiss with the needed goods and materials to remove any enticements for trading with the Axis. With Nazi armies surrounding Switzerland, had the Swiss forged closer ties with the Allies at the price of lessening contact with Germany, the chance of an Axis invasion certainly would have increased tremendously.

By June 1943, the Allies demanded the unconditional surrender of Germany.<sup>10</sup> In September, British MEW officials felt the American policies towards Switzerland were unduly harsh. Jürg Martin Gabriel encapsulates the Swiss predicament during this period of isolation from the Allies. He believes that from the outset of the war,

. . . the Americans wanted to put more pressure on the European neutrals than the British had. In 1942 and 1943, this was easier said than done, because the military situation was so unfavorable that the Allies lacked the

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<sup>9</sup> Halbrook, *Target Switzerland*, 176.

<sup>10</sup> Incidentally, the Allied demand for total surrender is widely seen as a factor that prolonged the war more so than Swiss-Axis trade. See Chapter 4.

necessary leverage. On the contrary, as long as the Germans completely dominated the Continent, the neutrals were clear assets. It was perhaps unfortunate that they all traded with Germany, but this was preferable to having them, as occupied territories, become fully integrated parts of the German war economy. In economic warfare, too, it was better to have a neutral than another enemy.<sup>11</sup>

Gabriel alludes to the fact that neutrals like Switzerland remained tempting targets for German occupation and indirect tools of Allied economic warfare. He also suggests that the Allied policies toward Switzerland proved more confrontational than similar Axis efforts, although both blocs placed tremendous pressure on the Swiss to align with their respective economic and military objectives. While the British and American measures to cripple Switzerland's trade with Germany provided the Allies with a powerful weapon against the neutral state, "every curtailment in Germany's share of [Switzerland's] trade gave Germany that much greater incentive to attack and occupy it."<sup>12</sup> It was no coincidence, therefore, that in 1943, once the previous Swiss-German trade agreement expired, Switzerland faced overwhelming pressure from the Axis to continue trading with and extending credits to the totalitarian bloc.<sup>13</sup>

### **Swiss Trade Negotiators in London**

From Switzerland's perspective, the inability to secure sufficient raw materials and food from the Allies meant granting greater concessions to Germany. The Allies expressed escalating anger toward Switzerland for its refusal to end credit clearances to Germany. An unnamed British MEW official commented in mid-1943, "The Americans are suggesting a very tough line with the Swiss and are contemplating demands which I

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<sup>11</sup> Gabriel, "Swiss Neutrality," 47.

<sup>12</sup> Ogley, *The Theory and Practice of Neutrality*, 9.

<sup>13</sup> Trade agreements between Switzerland and the belligerents were re-negotiated annually, and their outcomes closely mirrored the military situation.

feel no neutral country can accept.”<sup>14</sup> Echoing this sentiment, the American ambassador to London cabled the State Department with a warning not to act in a confrontational manner during talks with the Swiss delegation. Ambassador Winant wrote,

You seem to feel that Swiss negotiators if once they were here would be forced to concede quick concessions. We feel that, once they are in London, they will be able to interpose innumerable delays in the negotiations (at which they are past masters) unless we succeed in forcing the Swiss Government into a spirit of compromise before the delegation is dispatched.<sup>15</sup>

While the American ambassador was correct in his assessment of Swiss abilities to resist excessive demands, he failed to realize the desperate situation in which Switzerland found itself during 1943. Given the weak negotiating position of Switzerland, concessions proved unavoidable. In October 1943, the Federal Council began to reduce export quotas for strategic goods intended for Germany. One month later, a second decree made it illegal for Swiss firms to deal in any capacity with foreign embassies. Through these concessions, Swiss officials sought to reduce the Allied pressures applied to Switzerland by way of blocking assets, blacklisting, and other forms of economic reprisal.

Having been in London since 1942, Swiss trade delegates Keller, Sulzer, and Rappard remained in constant contact with American Bureau of Economic Warfare negotiators and British MEW officials Winfield Riefler and Dingle M. Foot. The constantly eroding trust between Swiss and Allied officials limited the success of these talks. The two sides only reached compensation agreements. The historian Georg Kreis

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<sup>14</sup> W.N. Medlicott, *The Economic Blockade*, vol. 2 (London: Longmans and Green, 1952), 512n.

<sup>15</sup> *Foreign Relations Series of the United States*, 1943, vol. 2 (Washington D.C.: United States Government Printing Office, 1961), 883.

saw that by 1943, “Swiss foreign trade was trapped in a vicious circle.”<sup>16</sup> The Swiss desperately needed Axis industrial contracts to prevent massive unemployment. To the Swiss trade negotiators, the fact that unemployment had declined to 8000, or 0.6 percent of the population from a high of 28,000 in 1939 was attributed to the industrial relationship with Germany.<sup>17</sup> At the same time, the Swiss increasingly relied on the Allies for food deliveries. Reacting to criticisms from British officials concerning Swiss trade with Germany, negotiator Paul Keller issued a stern memorandum to the Allies following the December 1942 compensation agreements. To the Allied representatives Keller explained the predicament faced by him and the other Swiss trade negotiators:

We cannot have unemployment in the metal industry, particularly that employing highly skilled labor. It is impossible politically for us to say to our people they must go on relief because we will not let them manufacture for Germany, especially when Germany is willing to furnish all of the materials and we furnish only the employment. You can cut down on our food if you want to go that far and we can tighten our belts and still remain free, but if you force us to throw our skilled workers into unemployment they will either go to Germany to work and we won't dare to stop them under the circumstances, or they will force us to come to terms with Germany completely.<sup>18</sup>

The limited progress of Swiss-Allied trade talks caused the two sides to agree in principle to maintain reciprocity in imports and exports. While the Swiss upheld their end of the agreement, the Allies withheld promised food deliveries. Part of the reason for difficulties was that during 1943 the ratio of Axis to Allied trade was dramatically unbalanced. In that year, the ratio equaled Sfr. 425 million in exports to the Axis and Sfr. 17.8 million to the Allies. Credit clearances to Germany had surpassed the billion-franc

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<sup>16</sup> Kreis, *Switzerland*, 65.

<sup>17</sup> *Ibid.*, 40.

<sup>18</sup> *Foreign Relations Series of the United States*, 1942, vol. 3 (Washington D.C.: United States Printing Office, 1960), 382.

mark, thus further damaging the dynamic of Swiss-Allied relations. Dingle M. Foot compared these credit clearances to Germany with that of “political life insurance.”<sup>19</sup> The Allies became aware that Germany’s policy of securing credits from Switzerland proved more effective than the economic warfare efforts of the British blockade.

### **US General Ruling No. 17**

The contentious issues surrounding Swiss omnibus accounts and blocked assets held in the US reached new intensity in late 1943. Although Swiss officials agreed earlier that year to release the names of omnibus account holders to the US Treasury Department, the major banks and the Federal Council expressed their anger over a new regulation called General Ruling No. 17. In a memorandum to the Swiss National Bank dated 20 October 1943, American financial negotiators attacked Switzerland. In bellicose language, the Treasury Department criticized the Swiss banking industry and the federal government. “You Swiss,” began the memo, “you had the chance to provide the proof that the money deposited with you actually belonged to you. You did not provide the proof therefore you will have to suffer the consequences.”<sup>20</sup>

General Ruling No. 17 intended to distinguish between assets held by Swiss individuals or firms in the United States that were seen as legitimate by the Treasury Department, and those for which no such proof had been provided. Swiss banks were required to establish the nationality of clients or face blacklisting and freezing of the assets in question. The Swiss government’s financial advisor, Joseph Staessle, outlined the issues bankers faced under these new US restrictions in a letter to foreign policy

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<sup>19</sup> Meier, *Friendship Under Stress*, 282.

<sup>20</sup> Jung, *Credit Suisse Group*, 60.

analyst Pierre Bonna. Staessle accurately gauged the tone of American policies toward Switzerland. He wrote to his colleague in Bern that the US Treasury Department's

. . . attitude toward our country is so biased and unfriendly that it will be no small task to surmount it. They make the accusation that all of our economic and financial actions shows that we are subject to German pressure and that apparently are willing to make concessions to our northern neighbor that we do not likewise extend to the Allies.<sup>21</sup>

Despite Staessle's comments that American officials viewed the Swiss as unaccommodating, on 19 December 1943, Swiss negotiator Keller agreed to compile a new list of allowable exports that reflected the weakened position of Switzerland vis-à-vis the Allies. Through this new Swiss-Allied trade agreement, Switzerland reduced arms and munitions deliveries to Germany by 45 percent of the 1942 levels. A second condition of the new trade agreement stipulated that Swiss firms had to cut exports of other precision goods and components by 60 percent. Angering the Allied trade officials was the refusal of Switzerland to reduce credit extensions to Germany.<sup>22</sup> One result of these limitations on Swiss weapons deliveries was that during 1943, Switzerland maintained a positive trade balance with Germany for the first time in the Second World War. Imports from Germany totaled Sfr. 532.5 million while exports to the Third Reich reached Sfr. 598.4 million. The export figure declined from the wartime high of Sfr. 655.6 million during 1942.<sup>23</sup>

Through the 22 February 1944 Declaration on Gold Purchases, the Allies refused to recognize transfers of looted gold from Germany and henceforth blocked all gold trade with countries that maintained relations with the Axis. American officials demanded

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<sup>21</sup> *Ibid.*, 61.

<sup>22</sup> Jean Ziegler, *The Swiss, the Gold, and the Dead*, trans. John Brownjohn (New York: Harcourt Brace and Co., 1998), 149.

<sup>23</sup> Kreis, *Switzerland*, 59.

compliance with the February declaration. To force cooperation, the Treasury Department threatened Swiss banks with being placed on a list of firms that acted in an “imprudent” manner by “promoting the enemy war effort.”<sup>24</sup> Applying even more pressure on Switzerland, the Allies demanded that trade with Germany had to be reduced by an additional Sfr. 100 million over the course of 1944. In exchange, the Allies promised navicerts for 350,000 tons of wheat, sugar, and fats.<sup>25</sup>

### **The Slow Collapse of Nazi Hegemony and Transitioning to Phase Three**

The German defeat at Stalingrad in February 1943 marked the transition to phase three of the war for Switzerland. The previous pattern that had characterized relations with Nazi Germany no longer held true during 1943. Germany’s withholding of coal, iron, and other industrial commodities forced Switzerland in turn to withhold ball bearings, fuses, motors, and other goods, thereby necessitating a new trade agreement. On 15 January 1943, the previous Swiss-German trade agreement expired. Allied pressure to end credit extensions and trade with Germany led to hostile negotiations with the Axis. The ability of the Allies to intensify their economic warfare objectives was tied directly to the decline in Germany’s dominance over the European continent. In this period of uncertainty for Germany, Nazi State Secretary Landfried commented on the outlook of Hitler:

He thought it desirable in principle to be tough towards Switzerland; but one must not go too far, as one had to assume that if we were to wage an open trade war, Switzerland would find other alternatives . . . . The Führer therefore considers it right that we do not block all further opportunities for negotiation, in case Switzerland does not give in to our demands.<sup>26</sup>

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<sup>24</sup> Jung, *Credit Suisse Group*, 64.

<sup>25</sup> Schwarz, *The Eye of the Hurricane*, 94.

<sup>26</sup> Bergier, *Final Report*, 191.

By the summer of 1943, German debt to Switzerland had skyrocketed while the counter-blockade had begun to show clear signs of weakness. The German debt had reached Sfr. 1.5 billion which is often called the “clearing billion,” or “collaboration billion.”<sup>27</sup> Gold transactions with Germany also continued. Between January and October 1943, Swiss officials and the Army General Staff felt as if a Nazi invasion was most probable. Until Switzerland and Germany reached a new trade agreement in October, public fears of such an invasion spiraled out of control. A commonly held belief among the Swiss public was that Germany would not pay back its debt and would thus invade Switzerland to ensure the continued flow of weapons and precision goods into the Reich. The credit extension of Sfr. 270 million to Germany that Switzerland conceded in the new trade agreement deepened both Swiss and Allied suspicions of German intentions.<sup>28</sup>

A December 1943 Nazi report commented on the continued importance of Switzerland’s contributions to the German war effort. The so-called *Studie Böhme* noted the pivotal role of Swiss north-south transit routes and communication links. The authors of the report argued:

The prize to be realized [by an invasion] will be the elimination of the last anti-German army in Central Europe, the taking of arms as booty, the possession of valuable industrial plants for the war industry, and the control of important railway lines. However, even after the subjugation of the Swiss army, German security forces will have to stay permanently to pacify the country. As to time, in principle we might say this must preclude an invasion of Allied forces in Europe . . . . Should Switzerland behave in a way unacceptable to Germany, the complete

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<sup>27</sup> Tanner, “Or et granite,” 47.

<sup>28</sup> Bower, *Nazi Gold*, 49.

encirclement of the country already offers the possibility to press for policy changes by blocking all supplies.<sup>29</sup>

The study failed to take into account the shifting military situation that increasingly favored the Allies. An example of this altered shift of military power was that only in 1943 was Switzerland's trade balance with Germany positive. In this year, it proved impossible to conduct *courant normal* trade with Germany, while the central importance of Switzerland's invisible export sector was evident.

### **The Safehaven Program**

The decline of German military power led to a corresponding increase in Allied fears of Germany seeking to hide assets in order to prevent their use for reparations and European reconstruction. According to the US *Eizenstat Report*, published in 1997, the goal of Allied economic warfare against Germany now expressly intended to confront this problem. The Allies demanded that Switzerland not cooperate in the transfer of looted assets and flight capital into Swiss accounts. US Treasury Secretary Henry Morgenthau, Jr. was responsible for implementing Operation Safehaven. The US-led effort aimed to locate Nazi "safe havens" throughout the world and block the transfer of funds into them.<sup>30</sup> By the spring of 1944, American economic warfare goals consisted of the following:

. . . to restrict and prevent German economic penetration beyond Germany, to block Germany from transferring assets to neutral countries, to ensure that German wealth would be accessible for war reparations and for the rehabilitation of Europe, to make possible the return to legal owners of properties looted from countries once occupied by the Germans, and to prevent the escape of strategic German personnel to neutral havens.

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<sup>29</sup>Jürg Stüssi-Lauterburg, "The Threat of Three Totalitarianisms: The Swiss Response," in Leo Schelbert, ed., *Switzerland Under Siege, 1939-1945: a neutral nation's struggle for survival* (Rockport: Picton, 2000), 37.

<sup>30</sup>Ziegler, *The Swiss, the Gold, and the Dead*, 152.

The “overall purpose,” in the view of the *Eizenstat Report*, “was to make it impossible for Germany to start another war.”<sup>31</sup> On 9 April 1944, Cordell Hull issued an ultimatum to neutrals. Punishment would result for countries that continued to assist the Nazi war effort. The tone of Hull’s speech was firm and failed to recognize the reality that a large part of Swiss trade with Germany was due to the Allied inability to supply needed materials to Switzerland. The US demanded that Switzerland cease all trade with Germany by 1 January 1945. Hull’s speech began,

We can no longer acquiesce to those nations drawing upon the resources of the Allied world when they at the same time contribute to the death of troops whose sacrifice contributes to their salvation as well as ours. We have scrupulously respected the sovereignty of these nations, and we have not coerced, nor shall we coerce, any nation to join us in the fight. We have said to these countries that it is no longer necessary for them to purchase protection against aggression by nourishing aid to our enemy. . . . We ask them only, but with insistence, to cease aiding our enemy.<sup>32</sup>

According to Dean Acheson’s memoirs, he persuaded Hull to harden the position of his speech. “I had long waited,” recalled Acheson, “for an opportunity to push economic warfare a stage further ahead.”<sup>33</sup> Medlicott views the Anglo-American debate over Safehaven as a prime example of the different approaches toward economic warfare taken by Britain and the US. From the British perspective, the actions of the US State and Treasury Departments towards Switzerland were counterproductive. British economic warfare officials felt that the hostility of the US would lead Switzerland to continue its trade relationship with Germany. Britain desired to continue its naval blockade to choke Germany further, while the US sought to shift the focus of economic

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<sup>31</sup> Eizenstat, *Eizenstat Report*, 15.

<sup>32</sup> Cordell Hull, *The Memoirs of Cordell Hull*, vol. 2 (New York: Macmillan Company, 1948), 1321.

<sup>33</sup> Dean Acheson, *Present at the Creation* (New York: New American Library, 1969), 89-90.

warfare to purely financial attacks against countries that still cooperated with the Nazi regime. The inability to reach a coordinated policy towards Switzerland led to “the last of the long series of Anglo-American differences over tactics, and it arose, as so often before, through the American tendency to concentrate on a single objective to the exclusion of supply and other interests which the British could not so readily ignore.”<sup>34</sup> Switzerland could not ignore such interests either.

The historian Tom Bower observes, “The Foreign Office and the State Department were resigned to the fact that the Swiss would always choose the Germans in preference to the Allies unless there was an opportunity to drive a wedge between Switzerland and Germany.”<sup>35</sup> Safehaven provided the Allies with such an opportunity. The collapse of Nazi hegemony on the European continent forced Switzerland to contend with outrageous demands dictated by the Allies. By the middle of 1943, Switzerland deeply resented the treatment it received from the Allies. In fact, Federal Councilor Walther Stamfli noted, “We were never as badly treated by the Germans as we are now by the Allies.”<sup>36</sup> The Allies demanded in April 1944 that Switzerland disregard its obligations as a neutral and side exclusively with Britain and the United States against Germany. Doing so would have signaled a retreat from the foreign policy line that had until this point enabled Switzerland to remain a sovereign and independent democracy.

The capitulation of Italy in the autumn of 1943 brought Nazi armies to Switzerland’s southern border and generated shockwaves of fear throughout the small country that invasion remained a genuine possibility. During this period, no Swiss-Nazi trade agreement existed and greatly increased the likelihood of Germany taking measures

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<sup>34</sup> Medlicott, *The Economic Blockade*, vol. 2, 625.

<sup>35</sup> Bower, *Nazi Gold*, 49.

<sup>36</sup> Erdman, *Swiss-American Economic Relations*, 148.

against Switzerland. British Foreign Secretary Anthony Eden commented on the precarious position of Switzerland vis-à-vis Germany. Eden felt that in September 1943, the Allies were

. . . not in the present circumstances to be too severe with the Swiss. . . . on the whole they are behaving pretty well. . . . We are at present expecting them to receive large numbers of escaped British prisoners from Italy. . . . The closing of [the port of] Genoa cuts their last link with the outside world. Until we clear the Germans out of Northern Italy the Swiss will be even more completely surrounded and even more subject to German pressure.<sup>37</sup>

The Soviet victory at Stalingrad, the defeat of the *Afrika Korps*, and the Normandy invasions of 1944 led to a shift in the tide of war that now overwhelmingly favored the Allies. With the military situation altered, so too did Allied economic warfare objectives change. The blockade remained an integral component of Allied plans, but now included the goal of preventing Germany's access to the resources of neutrals to ensure that Nazi military power would not increase again, thereby shortening the duration of the war. The main goal therefore was to prevent Germany from being able to rearm itself over the long term.

### **Bretton Woods and the Swiss-Allied Trade Agreement of 1944**

The United States unquestioningly led the way towards implementing Operation Safehaven. Stuart Eizenstat correctly notes that internal disagreements among the Allies and within the United States hurt the effectiveness of the program. Safehaven nevertheless presented Switzerland with the need to justify and defend its wartime conduct. The Allies launched Safehaven following the end of the United Nations Monetary and Financial Conference (Bretton Woods Resolutions) in July 1944. The

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<sup>37</sup> Medicott, *The Economic Blockade*, vol. 2, 507.

focus of the Bretton Woods talks was the creation of the World Bank and the International Monetary Fund. These organizations demonstrated to Switzerland that the US now possessed the power to shape the outcome of the conference in its favor. In essence, the United States now proved able to define the international system as it saw fit, while Switzerland's world power continued to wane.

Resolution VI barred neutrals from receiving looted assets from Germany in order to free these funds for use in European reconstruction. The resolution aimed to “prevent any disposition, transfer, or concealment of looted gold or other assets from the occupied nations of Europe.”<sup>38</sup> The Allies issued a stern warning to neutral Switzerland: “. . . that under the prevailing circumstances, it would be in the banks' own interest to exercise the greatest caution and restraint in all transactions with foreign countries.”<sup>39</sup> Resolution VI became the cornerstone of the Safehaven Program in general and specifically set up the framework for subsequent negotiations with neutrals. The actual text of the resolution ominously warned that “enemy leaders, enemy nationals and their collaborators are transferring assets to and through neutral countries in order to conceal them and to perpetuate their influence, power, and ability to plan future aggrandizement and world domination.”<sup>40</sup>

While it is undeniably true that Nazi officials and businessmen sought to remain powerful despite the decline of German military power, it is my belief that Switzerland was unfairly demonized. Throughout the war, Switzerland sought the assistance of the Allies in order to reduce their reliance on the Third Reich. Switzerland risked Axis retribution for allowing the US to set up the Office of Strategic Services headquarters for

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<sup>38</sup> Eizenstat, *Eizenstat Report*, xxiii.

<sup>39</sup> Jung, *Credit Suisse Group*, 64.

<sup>40</sup> Bergier, *Final Report*, 273.

Europe in Bern. The OSS proved an invaluable source of intelligence for the Allies in uncovering the trail of looted Nazi gold and other assets. Both the British and American militaries repeatedly commented on the cooperation of Swiss industries in providing the Allies with precision goods and weaponry. The Swiss firm Oerlikon, for example, allowed the production of their patented weaponry to occur in the United States in order to allow the Allies to circumvent the German counter-blockade. Safehaven seemed excessively harsh given the attitude expressed by the State Department in a mid-December 1944 report.

The US State Department's Western European experts then expressed their understanding of "Switzerland's unique position as a neutral." The American report saw that "for political reasons and for reasons arising out of the benefits to us of Switzerland's neutral position and her future potential usefulness in the economy of Europe, it was inadvisable to place too great a pressure upon the Swiss Government at this time in order to attain pure economic objectives."<sup>41</sup> Unfortunately, for Switzerland, precisely the opposite situation developed. The State Department experts were largely ignored because the requirements of Bretton Woods and Safehaven meant the Allies had to assume a harsh stance towards neutrals that were seen as uncooperative. The efforts to eliminate the last bastions of Nazi power led to Switzerland's entanglement in an economic war in which it desired no part. It is thus reasonable to criticize the US for acting in a dualistic manner. If American interests were best served by manipulating and coercing Switzerland, the attitude taken by US officials was that of disregard for Swiss rights as a sovereign and neutral country. As such, the hostile stance of the United States led to an equally stubborn stance on behalf of Swiss trade delegates.

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<sup>41</sup> Eizenstat, *Eizenstat Report*, 28-9.

By the end of 1944, it was clear to the US that Switzerland's contributions as a protecting power for American and British prisoners-of-war and its mediation services as a neutral necessitated a modicum of restraint in forcing Switzerland to comply with Safehaven financial restrictions. An example of American moderation toward Switzerland is evident in the Allied reversal of the embargo that had been in force since April 1943. The June 1944 lifting of this embargo saw Switzerland become more conciliatory regarding Allied demands. The *Foreign Affairs* contributor Warner Richter observed in the July 1944 issue of the journal a reason why Switzerland expressed greater willingness to comply with American and British war objectives. Richter wrote, "As the war in Europe reaches its climax the position of Switzerland becomes more precarious."<sup>42</sup> With Germany proving less able to provide Switzerland with needed coal and other industrial commodities, the small state faced no other choice than to shift its economic priorities to favor the Allies.

Beginning in August 1944, joint Anglo-American talks with Switzerland had secured a concrete pledge that the neutral would reduce its export deliveries to Germany. Following the fall of Rome and the Allied landings in Southern France, the State Department again escalated its demands of the Swiss Federal Council. On 7 September 1944, the State Department issued a statement to the Swiss government. The State Department insisted that Switzerland cease trading with Germany and close the Gotthard and Simplon Tunnels to Axis transit. The tone of the statement was forceful:

The rapid changes during recent weeks in the military situation, whereby Allied forces have reached the Swiss border and Germany's blockade has been raised, have radically altered the economic position of Switzerland. Her Majesty's Government and the United States Government

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<sup>42</sup> Halbrook, *Target Switzerland*, 206.

. . . feel impelled to request the Swiss Government to prohibit at once all economic assistance to the United Nations' enemies of immediate benefit to the latter's war effort.<sup>43</sup>

Partly because of an Allied warning, but more so due to economic realities, the Federal Council issued a decree on 1 October 1944 that banned the export of strategic goods and closed the north-south transit routes to *all* belligerents. Another concession had previously been granted in September of that year. The Swiss Banking Association and the Credit Suisse banks now prohibited gold transactions with Germany. The Credit Suisse Group presented the SBA with a list of new recommendations to cope with the Bretton Woods Resolutions and the Safehaven Program. On 12 September 1944, the bank executives set forth that "Effective immediately, we strictly prohibit the following types of transactions:

The import and export and all trade in pounds and dollars for one's own account or a third-party account. Currency and gold transactions, whether spot or forward, with enemies of the government of Great Britain or the USA.

The opening of any new account of any type for or on behalf of enemies . . .

The receipt of deposits . . . of any kind for or on behalf of enemies . . .

Purchase and sales, or the facilitation of transactions, or the extension of any credit involving assets in which the enemy . . . has a direct or indirect interest . . .

The extension of loans, advances or account overdrafts, or any other financial services that in any way facilitate or enable trade with the enemy . . .

The extension of new loans, advances or overdraft provisions to enemies . . .<sup>44</sup>

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<sup>43</sup> *Foreign Relations Series of the United States*, 1944, vol. 4 (Washington, D.C.: United States Printing Office, 1966), 768-9.

<sup>44</sup> Jung, *Credit Suisse Group*, 65.

On 2 October 1944, the United States and British governments instructed their embassies in Switzerland to take steps to ensure successful implementation of Safehaven objectives. In December, the US State Department issued its Circular Instruction to US Missions on how to enforce Bretton Woods Resolution VI. Stuart Eizenstat notes that the distribution of this memo marked the beginning of the political and diplomatic phases of the Safehaven Program began. It was clear that the economic blockade measures by themselves were ineffective in thwarting Nazi trade with neutrals. He observes, “Only as the military balance passed permanently to the Allied side, and recognizably so to the neutrals, did the economic blockade and with that the Safehaven program, begin to show results.”<sup>45</sup> The policy paper argued that Switzerland remained unique in comparison with other European neutrals and that the good offices and humanitarian services, as well as the possible financial contributions to postwar reconstruction were invaluable to the Allies. Softening of the United States position was more rhetoric than reality; it was the United States that remained the most hostile towards Switzerland.

### **The Currie Mission**

The stalemate in Swiss-Allied negotiations continued into January 1945. For Switzerland, the inability of either bloc to provide necessary raw materials and food imports made the situation all the more urgent. To break the deadlock in Swiss-Allied negotiations, President Roosevelt decided to send a delegation to Switzerland. He chose his personal assistant, Lauchlin Currie, to head the US negotiating team. Britain in turn chose Dingle Foot to represent the interests of the UK. The negotiations that led to the so-called Currie Agreement began on 12 February 1945. The Swiss entered into parallel negotiations with Germany on the same day. Regarding the Swiss-German relationship,

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<sup>45</sup> Eizenstat, *Eizenstat Report*, 24.

the main issue at hand was the possible extension of a trade agreement that was due to expire three days later.

Swiss negotiators aimed to act in such a manner as to force the Germans to refuse the renewal without making Switzerland seem as the culprit. At the start of its negotiations with the Allies, the Swiss representatives received the text of Bretton Woods Resolution VI. Switzerland argued that this resolution and the Safehaven Program were inconsistent with the international conventions that formed the basis for Swiss neutrality. The need presented itself, therefore, to devise a solution that proved compatible with the unique Swiss situation. In an effort to break the stalemate, the Federal Council issued a decree on 16 February that blocked all German assets held in Swiss accounts. Swiss negotiator Walter Stucki hoped this act would be interpreted as a gesture of goodwill at the outset of the talks.

The action served little purpose, as the Allies insisted Switzerland conduct a survey of all capital assets of Axis nationals held in Swiss banks. Such a survey not only violated Swiss banking secrecy but also instilled fear within the Swiss delegates that the position of Switzerland as a major player in the international capital markets would be compromised severely. The Federal Council complied with American demands anyhow. From then on, two new departments of the Swiss Compensation Office would control all Swiss assets blocked in the US: (1) the Department for German Assets, and (2) the Department for US Certification.<sup>46</sup>

The Currie Agreement was finalized by means of exchanging notes between the US and Switzerland on 8 March 1945. Many issues remained unresolved until the signing of the 1946 Washington Accord. Perhaps the most contentious issue was the

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<sup>46</sup> Jung, *Credit Suisse Group*, 70.

continuance of Allied blacklisting measures against Switzerland. Switzerland, for its part, granted sweeping economic concessions in order to end its isolation from the Allies. Although the Swiss delegates protested, the Federal Council decided to rescind banking secrecy protections to provide the US with names of the account holders in question. The United States in return agreed to open French transit routes to supply Switzerland with desperately needed coal and food supplies. In his discussion of the Currie Agreement, Eizenstat argues that despite the persistent disagreements between Switzerland and the United States, the negotiations “represented both a substantive and psychological watershed for the Swiss.” He means that for the first time since June 1940, Switzerland was freed of the threat posed by Nazi aggression.

The historian Arthur L. Funk interviewed Lauchlin Currie in 1983, inquiring into the outlook of the head US official. Funk asked Currie what he felt were the principal issues of the agreement. Currie responded that he had been well aware of the tremendous difficulties faced by Switzerland in obtaining coal imports. Currie recalled “for that reason I relied on this as our main bargaining point.” He told Funk that the United States did not substitute “the carrot for the stick but we supplemented threats with promises.” The United States aimed to curtail all gold and weapons transactions between Switzerland and Germany. Currie also noted his surprise concerning the vehemently anti-Nazi stance of the Swiss delegation.<sup>47</sup> Despite the progress made through the Currie Agreement, deep-rooted mutual mistrust continued to characterize Swiss-American relations. In the concluding chapter, I shall examine the steps taken by the United States and Switzerland to reduce this tension. As the final issue of my study, I shall then

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<sup>47</sup> “Appendix: Memorandum from Lauchlin Currie for Arthur L. Funk, Answers to Questions on Currie Mission to Switzerland,” in *États neutres*, 298-300.

analyze the various arguments of Swiss and American officials concerning Swiss conduct during the Second World War and into the postwar period.

## CHAPTER 4: SWITZERLAND IN THE POSTWAR ERA

The Currie Agreement left many issues unresolved between Switzerland and the United States. Actions taken by Swiss businessmen and bankers during the war continued to plague Swiss-American relations into the postwar period. For allowing looted gold and plundered art into Switzerland, the Federal Council and the Swiss National Bank faced harsh criticisms from Allied officials. Blacklisting of Swiss companies continued, while the frozen assets held in the United States remained inaccessible. Tensions mounted between Allied and Swiss negotiators. One reason for the worsening relations stemmed from a *Newsweek* article published on 15 January 1945. In this article, *Newsweek* reported that Swiss firms continued to provide Germany with “war-aiding material,” despite the 1944 ban. The American government threatened Switzerland with intensified sanctions and continued the blacklisting of offending weapons firms.

American Secretary of State Edward Stettinius reacted to the accusations by arguing that the United States sought to improve Swiss-American relations, not to worsen them further. Stettinius stated that the American government viewed Switzerland as “the guardian of American interests in both Germany and Japan” and that “if Switzerland’s neutrality were ended suddenly by a Swiss-German break, the United States would also lose its direct link with its interests in Germany.”<sup>1</sup> Despite the reassuring words of Stettinius, the American government continued to demand that Switzerland align behind US interests. President Roosevelt wrote to Swiss President Eduard von Steiger on 19

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<sup>1</sup> “The Swiss War,” *Newsweek*, 15 January 1945: 56.

January 1945 regarding the press reports of continued Swiss-German trade. FDR warned:

We have respected the traditional neutrality of your country and have sympathized with the past difficulties of your position. We forbore pressing our demands when you were isolated by our enemy and were in no position to do other than carry on a large trade with him. Now, however, the fortunes of war have changed. We are now in a better position to meet your most urgent needs if they are threatened.<sup>2</sup>

The Swiss saw the situation differently. From the perspective of President Steiger, because the Allies did not adequately help Switzerland during the war, it had no choice other than to forge tighter trade ties with Germany. Thus, once the Allies agreed on the conditions of the 2 August 1945 Potsdam Protocol, Swiss and American rapprochement efforts both ended swiftly.

### **The Potsdam Declaration and the Allied Reparations Policy**

While the victorious Allies drafted the Potsdam Protocol, the issues of Nazi gold, dormant assets, and Swiss wartime conduct figured into their thinking. Through the Potsdam Declaration, the Allies formally adopted the Safehaven Program that aimed to pinpoint looted Nazi assets and ensure adequate funds for European reconstruction. The Potsdam conference built upon the Bretton Woods Resolutions and outlined the Allied reparations policy. German assets in neutral countries would revert to the Allied powers in the western part of the former Third Reich while the Soviet Union demanded all capital held in areas occupied by the Red Army. Reparations were to be paid via unclaimed German assets held outside Germany. The Allies informed Switzerland of this policy in a note dated 4 August 1945. In their communiqué to the Federal Council, the

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<sup>2</sup> L-E Roulet and Philippe Marguerat, eds., *Documents Diplomatiques Suisses*, vol. 15 (Neuchâtel, Université de Neuchâtel, 1998), 844-5.

Allies informed the Swiss government that the best way to secure funds for reparations was through the seizing of German assets held outside the defeated Axis country.

From the Swiss standpoint, the problems of blacklists, blocked assets, and tax receipts continued to distance the neutral state from the former belligerents. The Federal Council delayed its response until 27 September 1945. In its reply, the Swiss government argued that no legal basis existed for the Allied reparations policy. The Swiss government never allowed foreigners access to funds held in Switzerland, and it felt this situation was no different. Furthermore, the Federal Council argued it was against Western legal concepts to force German citizens to pay based on the notion of collective guilt for Nazi actions in the Second World War.<sup>3</sup>

Although the Federal Council waited to react to the Potsdam conditions, one Federal Councilor, Max Petitpierre, offered his opinion to the *New York Times*. Petitpierre boldly asserted that “Those who reproach us today for our neutrality forget that this country, even when in mortal danger and practically alone as the representative of democratic ideals on the subjugated continent of Europe,” resisted all pressures from the outside and remained an independent country. He continued by asking a question: “As a belligerent state, invaded as the other countries of the continent, would we have been more useful than by remaining neutral?”<sup>4</sup> The answer for the majority of Swiss people was a resounding “no.”

### **Allied Control Council Law No. 5**

Yet another turn for the worse in Swiss-Allied relations occurred on 30 October 1945. The Allied Control Council issued its Law No. 5, “On the Vesting and Marshalling

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<sup>3</sup> Jung, *Credit Suisse Group*, 71.

<sup>4</sup> *New York Times* 2 August 1945: 5.

of German External Assets,” which revoked the right of German individuals and companies to access to their assets held outside of Germany. Although American President Harry Truman backed this demonstration of Allied legal force, British Prime Minister Clement Atlee and Soviet dictator Joseph Stalin were not as certain. The Allied Control Council Law No. 5 broke the consensus previously enjoyed by the Allies.<sup>5</sup> With their unified stance threatened, the Allies faced a difficult negotiating situation with Switzerland.

The Federal Council argued that Law No. 5 was inapplicable to assets held inside Switzerland, as Swiss law protected the property of foreigners and that the “Allied demands were diametrically opposed to international private law.”<sup>6</sup> The British position remained less hostile than that of the United States. The Treasury Department, for example, felt it inappropriate to lessen its demands upon Switzerland since, in its view, that country had failed to fulfill the obligations outlined by Operation Safehaven. Despite disagreements among the Allies, Truman proved able to secure a plan to deal with the disposition of monetary gold found inside Germany. Truman’s idea was to establish a “gold pot” whereby the Allies would collect all monetary assets held in Germany and the neutral countries. The pooled funds would then be redistributed to the occupied countries whose central banks had been looted by the conquering Nazi armies.<sup>7</sup>

### **The Paris Reparations Conference**

In November and December 1945, eighteen nations met for the Paris Reparations Conference. At this conference, the Allies expanded the Bretton Woods and Potsdam efforts to collect and redistribute looted assets and outlined a policy to liquidate German

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<sup>5</sup> Eizenstat, *Eizenstat Report*, xxiv.

<sup>6</sup> Jung, *Credit Suisse Group*, 73.

<sup>7</sup> Eizenstat, *Eizenstat Report*, xxv.

assets held in neutral safe havens. To contend with American pressures, the Federal Council dispatched a delegation to Washington, DC on 23 November 1945. On the agenda were eight problematic issues from the standpoint of the Federal Council. These points of contention formed the basis for later talks between the Allies and Switzerland during 1946. The US continued to pressure Switzerland to grant the Allied Control Council access to Swiss funds. Treasury Department officials succeeded in withholding \$1.2 billion in Swiss assets until the German reparations and monetary gold questions were resolved. Blacklisting continued while the Allies sought to galvanize international public opinion and the press to isolate Switzerland, thus allowing for a stronger Allied negotiating stance.

On 14 January 1946, the Allies concluded the Paris Reparations Agreement. A main result was the establishment of the Tripartite Gold Commission whose task was to distribute the liquidated assets held in neutral countries and monetary gold held within Germany itself. In Article 6a of the agreement, the United States, France, and Great Britain were to negotiate with Switzerland issues of Nazi gold and looted assets held inside Switzerland. Compliance on behalf of Switzerland meant the Allies would begin removing Swiss firms from American and British blacklists. The Allies stipulated in Article 6c that

German assets in those countries, which remained neutral in the war against Germany, shall be removed from German ownership and control and liquidated or disposed of in accordance with the authority of France, the United Kingdom, and the United States pursuant to arrangements to be negotiated with the neutrals by these countries. The net proceeds of liquidation or disposition shall be made available to the Inter-Allied Reparations Agency.<sup>8</sup>

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<sup>8</sup> Erdman, *Swiss-American Economic Relations*, 148.

The Swiss delegation sent to Washington during 1945 experienced no success in lessening the demands of American negotiators. In response to the negotiating standstill, the Federal Council appointed a new delegation, headed by Walter Stucki. Treasury Department official Rudolph Paul led the United States' delegation. In February 1946, after six tough plenary sessions, Stucki returned to Switzerland to develop a new strategy. Problems arose immediately. On the side of the Allies, British and French disagreements over the harsh stance of their American counterparts caused serious policy-making setbacks. Not only were the Allies divided, but so too was the American government. Secretary of State Byrnes clashed with the Treasury Department. The Treasury Department advised Byrnes to impose full economic sanctions if negotiations failed, but luckily, for Switzerland, the Secretary of State ignored that recommendation. Switzerland, for its part, continued to abide by its argument that Allied Control Council Law No. 5, the Potsdam Protocol, and Operation Safehaven violated its rights under international law.

### **Negotiations for the Washington Accord Begin, March 1946**

On 29 March 1946, the Allies outlined their demands of Switzerland in a memorandum. Preventing the rearmament of Germany through dispossessing assets held inside Switzerland and freeing those funds for reparations and European reconstruction were the main American objectives. Urged by the State Department, the American delegation demonstrated a degree of flexibility by compromising on the issue of the final distribution of the German assets. Instead of direct Allied distribution of seized assets, the US conceded that a Swiss governmental body, supervised by a mixed Allied-Swiss commission, place the proceeds in a fund in which some of the total would go to

Switzerland. The American concession offered little hope for breaking the stalemated talks. More than one month passed, and the negotiators had accomplished nothing. The Swiss delegation refused to acknowledge the legality of Allied claims to German assets. Even worse, the Swiss refused to admit they had received any monetary gold *at all* during the Second World War. Later on, however, the Swiss reversed their position on that issue.

Switzerland argued that because Germany had been a conquering nation, under the conditions of international law, they had the right to the looted assets as war booty. The Allies frustrated the Swiss by employing precisely the same argument to rationalize the Safehaven Program. In response to this Allied position, the Swiss continued to insist that no foreign government had the right to seize assets held in Switzerland since it was not a conquered nation and had always remained outside the scope of the military conflict.

Although Stuart E. Eizenstat's 1997 report aimed at lambasting Switzerland for its wartime trade with Germany, he articulates the Swiss position succinctly and clearly:

Swiss leadership believed that Swiss actions during the war were fully consistent with the internationally recognized obligations and rights of a neutral power. The Swiss asserted that they were equally convinced that Nazi Germany's seizure of monetary gold from the occupied countries accorded with international law; therefore, Switzerland's receipt of such gold was legal. On the other hand, Swiss officials contended that Allied claims to German assets beyond Germany's borders were illegal and an assault on Swiss sovereignty.<sup>9</sup>

Since the Swiss were correct in their legalistic justifications, the Americans then switched strategy, henceforth appealing to the moral and humanitarian reasons for seizing the

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<sup>9</sup> Eizenstat, *Eizenstat Report*, 83.

assets in question. The American delegation argued that these funds would be dedicated to European reconstruction and in assisting war victims and refugees.

On 12 April 1946, the Washington negotiations resumed after the failed March round of talks. To break the stalemate, Stucki offered to allocate Sfr. 100 million for European reconstruction. The Swiss refused, however, to submit to any legal commitment or binding obligation. The Americans in turn lowered their estimate of looted monetary gold held in Switzerland from \$ 398 million to \$130 million (the amount of gold looted from the Belgian central bank). With the reduced estimate, Switzerland owed \$130 million to settle the gold question. As a condition for agreeing to this gold amount, Stucki demanded that Switzerland receive two-thirds of the proceeds from liquidated German assets.<sup>10</sup> Switzerland refused this revised offer. As a result, negotiations continued into May with little success.

In May, both sides agreed to a two-part compromise. First, the Swiss conceded they held approximately \$88 million in looted gold from the Belgian central bank. Keeping with the initial US demand that Switzerland pay two-thirds of its questionable monetary gold to the Allies, the American delegation agreed that the Swiss would pay \$58 million. Second, the American and Swiss delegates agreed to split the proceeds of German liquidated assets. Half became the property of Switzerland, while the other half ended up in Allied accounts. Neither side could agree on an estimate of German assets held inside Switzerland. The Swiss conceded a value of \$250 million, while US estimates were much higher. Swiss delegation head Stucki informed the Allies that this figure represented Switzerland's contribution to European reconstruction. After the Swiss received support for their proposal from the British and French governments,

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<sup>10</sup> *Ibid.*, xxvii.

reluctant Treasury Department officials softened their stance and accepted the two-part offer.<sup>11</sup>

### **The Washington Accord**

The Allies and Switzerland signed the Washington Accord on 25 May 1946. In return for Swiss compliance with the conditions of the accord, the United States began to unblock frozen assets of the Swiss government and the Swiss National Bank that remained in American accounts. In addition, the US ended the blacklisting of Swiss firms and individuals while establishing an agency inside the government for liquidating German external assets. The U.S. removal of Swiss firms from the blacklists coincided with the signing of the Washington Accord in May 1946. A problem soon arose, however, concerning the exchange rate for liquidating German assets. Switzerland demanded a fair rate of exchange between the Reichsmark and the Swiss franc. Until the Allies agreed upon such a fair rate, the Swiss refused to implement the conditions of the accord. The Swiss government cooperated regarding the payment of the Sfr 250 million (\$58 million) for reconstruction, but refused to proceed with the liquidation of German assets. The issue of the Reichsmark-Swiss franc exchange rate remained unresolved until 1952.

In July 1947, the *New York Times* reported that France and Britain desired Swiss involvement in the Marshall Plan. The American paper sympathized with the Swiss position despite the hostility exhibited by the Treasury Department toward Switzerland. The *New York Times* argued, “In the numerous trade and payments agreements concluded [thus far], Switzerland has gone as far in rendering financial aid to Europe as was consistent with her own economic stability.” The newspaper article supported the Swiss

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<sup>11</sup> Jung, *Credit Suisse Group*, 74-81.

position, stating that proportionally, Switzerland had been more than generous in terms of dealing with the postwar refugee and reconstruction crises, despite their unwillingness to participate directly in the war. “Observers here say,” the article continued, “the record proves that the aims of Swiss policy always have been identical with those of the Marshall Plan.”<sup>12</sup> Thus, the American paper supported the notion that Switzerland best served the interests of the Allies by remaining a neutral bystander.

Two months later, the *New York Times* reported on the progress of implementing the Washington Accord. The article’s caption, “Liquidation of Nazi Funds Halted in Switzerland” summed up the situation.<sup>13</sup> The Swiss government refused to implement the accord because the United States insisted on setting the Reichsmark-Swiss franc exchange rate unilaterally. To the Swiss, the American exchange rate greatly devalued the franc. To the Americans, the Swiss were simply stubborn. Later in September, due to the stalemate over the exchange rate, the Americans turned the issue over to the Inter-Allied Reparations Agency.

Switzerland demonstrated willingness to compromise once again despite its sense that German asset holders deserved some form of compensation for their cooperation. The Swiss government offered Sfr. 50 million (\$11.7 million), but the US thought this would harm the urgent effort to liquidate Nazi external assets. Because the US viewed Switzerland’s cooperation as vital for accomplishing the liquidation efforts, American officials agreed to lower their estimate of German assets from \$230 million to \$115 million.<sup>14</sup> In 1948, the US agreed to accept Sfr. 20 million as an advance on the total amount owed by the Swiss. The following year, the implementation of the accord again

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<sup>12</sup> *New York Times* 13 July 1947: 4.

<sup>13</sup> *New York Times* 15 September 1947: 6.

<sup>14</sup> *New York Times* 29 September 1947: 5.

confronted obstacles. Once the US sought further funds from Switzerland, the Swiss refused to cooperate until the issue of the Reichsmark-Swiss franc exchange rate was settled. State Department officials felt as though Swiss intransigence in implementing the accord would harm US-West German relations and might lead to further calls for compensation to the owners of the liquidated assets.

### **The Struggle to Implement the Washington Accord**

In autumn 1950, the US faced the problem of harming its relations with West Germany. The State Department decided the best course of action was to view the 1946 Washington Accord as flawed, proposing that the Allies withdraw from implementation of the agreement. The accord effectively became a dead letter, enforced but not implemented. In mid-1951, Switzerland and the Allies finally made progress on the issue of the exchange rate with West Germany. Switzerland and the Allies reached a new agreement in August 1952 after threats from the Swiss that they wanted to settle the issue through international arbitration. By sticking to their legalistic arguments against the Allies, Switzerland proved able to combat excessive US pressure. The final 1952 settlement called for the Swiss to pay Sfr. 121.5 million (\$28 million) for liquidated German assets held in Switzerland. Because Switzerland had already paid Sfr. 20 million (\$4.7 million) to the International Refugee Organization, the 1952 payment totaled Sfr. 101.5 million (\$24 million). The West German government paid Switzerland Sfr. 121 million as a final condition of the 1952 Swiss-Allied agreement.<sup>15</sup>

### **Swiss Neutrality in the Cold War Era**

During the Second World War, American policy tolerated Swiss neutrality because it provided the US with political and economic benefits. Likewise, entering the

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<sup>15</sup> Eizenstat, *Eizenstat Report*, 104-10.

Cold War, the State Department viewed Swiss neutrality as a tool to combat the spread of communism in Eastern Europe. The issues of European integration and Swiss membership in the United Nations in turn preoccupied the Swiss. Following the Czech coup of 1948, for example, the Swiss government sought to find its place in a new European order. The *New York Times* reported, “What is emerging is not a movement to abandon political neutrality.” Instead, “It is rather a redefinition of neutrality in stricter terms, combined with a reassurance of the right to take sides morally and even economically, as the Swiss have often done during past conflicts.”<sup>16</sup> In other words, the impact of World War Two forced Switzerland to reassess its role as a neutral. The Swiss government thus sought a more active foreign policy to contend with the challenges of security, economics, and political stability in the Cold War environment.

Federal Councilor Max Petitpierre spearheaded the Swiss efforts to redefine neutrality for the Cold War era. On the issue of Switzerland’s place in an integrated Europe, Petitpierre argued the following before the organization in charge of implementing Marshall Aid: “Our status as neutrals forbids us to take part in any political alliance, whether open or disguised, but it does not prevent us-- indeed the sense of solidarity which is the natural counterpart of this same neutrality-- compels us to take part in the economic rehabilitation of Europe.”<sup>17</sup> Switzerland thus confronted the same issue that it had faced since the interwar period: how best to ensure that economic integration would not lead to political dependence on Europe and the United States. The export-reliant Swiss economy required integration into the growing global marketplace, but the Swiss government and public feared the loss of sovereignty that came with European

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<sup>16</sup> *New York Times* 11 March 1948: 12.

<sup>17</sup> Jacques Freymond, “Switzerland’s Position in the World Peace Structure,” *Political Science Quarterly* (December, 1952): 531.

political unity. The 1950s was a decade of economic recession for Switzerland that made integration with other European economies imperative. The Swiss historian Jonathan Steinberg addresses this issue. He states,

For roughly thirty years, international fascism and the ensuing Cold War threatened the Confederation externally. As in the years 1618 to 1648, an entire Swiss generation had been hermetically sealed off from the general trends of European development, and in both post-war periods, the sudden reappearance of strife, rapid change, and innovation was a shock.<sup>18</sup>

In this period of transition, Switzerland sought to insulate itself from trouble by reaffirming its commitment to neutrality. While Switzerland battled the threats of nationalism, fascism, Nazism, and communism, it made sense to remain aloof from the chaos of the outside world. Now, in the face of rapid efforts to unify Europe that characterized the 1950s, the possibility of a singular Europe threatened to isolate the Confederation. The Federal Council, led by Petitpierre, sought to transform Switzerland's previously passive role in foreign policy into an active platform for participating in European affairs. Petitpierre discussed the transformation of Swiss neutrality in an article entitled "Is Swiss Neutrality Still Justified?" He wrote:

Of itself, neutrality is negative since it ordains abstention and sets limits to a neutral state's activities in the international sphere. But our concept of neutrality has changed. We have striven to make it a basis for action. While Switzerland's neutrality may have lost its early historic significance from the European point of view, on a wider scale it still has value because it alone allows the undertaking of certain activities and certain services.<sup>19</sup>

In referring to activities and services, Petitpierre wisely mentioned the benevolent aspects of Swiss neutrality. The "certain activities" he alludes to included Switzerland's role as a

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<sup>18</sup> Steinberg, *Why Switzerland?* 70.

<sup>19</sup> Max Petitpierre, "Is Swiss Neutrality Still Justified?," in *Switzerland Present and Future: a small country re-examines itself*, 60.

protecting power for Allied prisoners-of-war as well as its ability to arbitrate disagreements between Germany, Japan, and the Allies. Petitpierre's mention of services referred to the Swiss contribution to humanitarianism through international organizations like the Red Cross and the assistance it provided (despite its non-member status) to the newly created United Nations.

### **Super-Neutrality**

One way Petitpierre sought to re-energize Swiss neutrality was by switching the emphasis of the country's foreign activities away from strictly humanitarian efforts towards other social and economic means of participation in the new Europe. In 1954, Petitpierre and Political Department head Rudolph Bindschedler developed so-called "super-neutrality." Petitpierre envisioned this newly defined foreign policy course as "neutrality that supersedes all else."<sup>20</sup> The Bindschedler Doctrine outlined the requirements of this super-neutrality. First, the Swiss government distinguished between multilateral organizations as either "political" or "technical." Participation in political organizations violated super-neutrality, while those of a technical nature did not. Second, Switzerland pledged non-participation in customs and economics unions. Third, Switzerland refused to impose economic sanctions on foreign countries. Almost immediately, pressure from the United States for Switzerland to help restrict the flow of strategic exports into Eastern Europe saw the violation of super-neutrality.

To avoid economic isolation, Switzerland agreed to help restrict arms sales to Eastern Bloc countries. In essence, Switzerland's willingness to cooperate with the United States on this issue created a situation wherein the neutral aligned with the

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<sup>20</sup> Max Petitpierre, *Seize ans de neutralité active: Aspects de la politique étrangère de la Suisse, 1945-1961* (Neuchâtel: Secrétariat de l'Université de Neuchâtel, 1980), 35.

Western Bloc. By supporting American efforts to contain communism, the aims of super-neutrality became obsolete. Switzerland thus encountered the same problem it faced during the interwar period. The only difference now was that the United Nations and the European Community presented realistic long-term opportunities for the establishment of a functioning international system while the League of Nations did not.

### **Final Thoughts on Switzerland's Role in Prolonging the Second World War**

Just as Swiss foreign trade policy had been dictated by the whims of the belligerents during World War Two, so too was Swiss neutrality policy shaped by international law. I disagree with American criticisms that Switzerland clung to an excessively legalistic defense of its neutral rights. In comparison to the tremendous power and influence of the United States, the opposite situation presented itself to the Swiss. The United States proved able to transcend the limits of the international order, actually redefining the global economic and political framework as it saw fit. Despite his ultra-nationalist, social democratic views, the current National Councilor Christoph Blocher's views regarding the unfair treatment of Switzerland by the United States have merit. Blocher refutes the "accusations of 'legalism'" expressed by the United States as "nothing other than the expression of a way of thinking which places the power of mighty nations above the law and rights of the small state."<sup>21</sup> He rightly identifies the main source of Swiss-American tensions as stemming from the small state's lack of power and the larger states' monopoly over such power.

The accusation that Switzerland prolonged the war disregards the hardships the small neutral confronted during the Second World War. It was the American decision to

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<sup>21</sup> Christoph Blocher, "Switzerland and the Eizenstat Report," [text-of-speech] (Bern: 1997, accessed 15 May 2005); available at <http://www.blocher.ch/en/artikel/970621eizenstat.pdf>, Internet: 17.

freeze Swiss assets that led the Swiss National Bank to accept the first delivery of Reichsbank gold. It was the Allied blockade and blacklisting measures that forced Switzerland to align more closely with the German economy. While it is true that Switzerland did contribute to Nazi Germany's war effort through the extension of credits and the export of weapons, its contribution was quantitatively small. Former Federal Councilor Georges-André Chevallaz correctly asserts, ". . . the economic and commercial agreements negotiated by Switzerland showed this country's determination to affirm its identity and its efforts to make its sovereignty and its neutrality respected."<sup>22</sup> Swiss national survival depended on trading with Germany not only to avert invasion, but more urgently, because the Allies were either unable or unwilling to provide Switzerland with the goods and food it needed. Switzerland undoubtedly would have preferred not to trade with Germany, but the exigencies of total war and the asymmetry of the military situation made such trade unavoidable and inevitable.

Chevallaz believes that because of the high level of assets held abroad, the dependency of Switzerland on its invisible sector, and the increasing tendency to export investment capital abroad, the country ". . . had to fulfill its task as a financial transit point as a mission of its neutrality and a condition of its economic survival."<sup>23</sup> Because economic figures for the war are still debated to this day, it is difficult accurately to assess Switzerland's role in prolonging the conflict. Of the total amount of money poured into Germany's war effort (Sfr. 1172 billion), Switzerland's yearly contribution was approximately Sfr. 320 million, or .3 percent overall.<sup>24</sup> Thus, even if these exports were qualitatively significant (which they were not), in no way were they quantitatively

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<sup>22</sup> Chevallaz, *The Challenge of Neutrality*, 162-3.

<sup>23</sup> *Ibid.*, 157.

<sup>24</sup> Marguerat, *La Suisse face*, 94-7.

important. By contrast, especially before the United States entered the war, Swiss strategic exports to Britain and France were essential for the successful campaign to end Nazi aggression.

Switzerland's efforts at adaptation and resistance were not any worse than the behavior of other neutrals or other belligerents. As a nation, it was aiming to survive and nothing more. Accusations of profiteering and moral collusion with the Nazi regime fail to take into account the fact that during the Second World War, the Swiss economy was in a recession. Skyrocketing prices without a corresponding rise in wages meant economic hardship for the vast majority of the Swiss people. The Swiss historian Daniel Bourgeois addresses these accusations. He argues that a complete break with Germany during the war or a total end to Swiss weapons exports would have spelled disaster for the economic, financial, and industrial sectors. It is his contention that "wear[ing] a mantle of virtuous neutrality and complete pacifism while refusing all weapons trade would have led to nothing more than economic strangulation, unemployment, stagnation" and the real threat of invasion.<sup>25</sup>

In the postwar period, Switzerland's international image remained tarnished. The move toward European integration and the creation of the United Nations served to test the Swiss commitment to neutrality. While the preceding chapters have attempted to dispel the myths surrounding Swiss wartime behavior, such a clearing of the decks between the United States and Switzerland has yet to occur.

### **Switzerland, European Integration, and the Future**

In formulating its foreign trade policy for the Cold War era, Switzerland knew economic openness remained essential. During the Cold War, the central problem that

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<sup>25</sup> Bourgeois, *La Troisième Reich*, 180.

Switzerland confronted was how to prevent its economic ties from developing into political dependence on the Western Bloc. Four possible alternatives were open to Swiss policy-makers. First, Switzerland could continue to follow the path characterized as the Swiss “special case.” Switzerland had pursued some variation of the special case since its experiment with differential neutrality during the 1930s. Continuing to abide by this option meant Switzerland would maintain a high degree of national political and diplomatic autonomy while at the same time seeking greater economic integration with the rest of Europe. The special case option provided Switzerland with the opportunity to increase its foreign trade, but required a great deal of restraint in terms of foreign policy-making.

The pursuit of its second option, two-track isolationism, meant that Switzerland would retreat from cooperating economically with Europe while also abandoning any effort to participate in European political integration. Switzerland’s second option allowed it to practice dual restraint. The second option offered Switzerland the ability to protect the domestic market from foreign competition using government subsidies, support for cartels and monopolies, much like the policies enacted during the 1930s. Informal agreements between business leaders and the government ensured that a form of “politics of concordance” would control Swiss foreign trade policy.<sup>26</sup> This path inevitably would have led to powerful, pro-business interests assuming primacy over policy-making, resulting in a sharp redistribution of the national income. Most assuredly, such a situation would contribute to domestic instability and unrest.

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<sup>26</sup> Gerald Schneider, *Returning to Normalcy: an Introduction to Swiss Foreign Policy* (Zurich: Pro Helvetia Arts Council, 1999), 17.

The third option open to Switzerland, European political integration, offered it a chance to combine protectionist economic measures with active engagement in international politics. Following this path most likely would have meant the renunciation of Swiss neutrality. Abandoning neutrality was never an option. Furthermore, reversing its progress toward economic openness and its embrace of free trade principles could have produced serious repercussions for Switzerland's businesses, banks, and industries.

Finally, pursuing the normal case option would have completely removed any remnants of the Swiss "special case," leading the small neutral to become just another European state. Choosing this fourth option, like option three, would have led to a complete renunciation of neutrality in the long term. The normal case path meant fully integrating, both politically and economically, with the rest of Europe. The desires of expanding foreign trade overshadowed the political ramifications of such openness. For Switzerland, such a course of action would have been dangerous, if not outright foolish.

By choosing a unique, Swiss path toward integration with Europe (the special case scenario), the small neutral has proved able to preserve its traditional, federated system of government. While the Swiss have decided to remain apart from the European Union, doing so has not resulted in economic or political isolation. Switzerland matters, in the eyes of historian Jonathan Steinberg because of its genuinely skeptical outlook towards the EU. Steinberg argues "that Switzerland gets the government it wants" which demonstrates a sharp "contrast to the bloated Brussels bureaucracy."<sup>27</sup> Furthermore, Switzerland represents the "Europe that did not happen."<sup>28</sup> The lesson to be gleaned from Switzerland's experience as a neutral is that the small state can serve as a micro-

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<sup>27</sup> Steinberg, *Why Switzerland?*, 238.

<sup>28</sup> *Ibid.*, 259.

model for how best to govern the multi-national, multi-lingual EU. The decentralized political structure of Switzerland offers insight into how the EU might govern itself more effectively while maintaining regional autonomy and sovereignty.

Switzerland finally decided to join the United Nations in 2002. The Swiss public decided the best way to preserve the Confederation was to continue to place greater emphasis on an active foreign policy. Walter Kalin, a professor at Bern University argues, “Switzerland can play a role that many larger countries cannot.” He believes that Switzerland “can be a bridge builder.”<sup>29</sup> Additionally, a strong, reliable neutral like Switzerland can rally support for contentious issues like reforming the bloated UN bureaucracy, changing the way that organization deals with human rights violations, and perhaps overhaul the inefficient apparatus of the Security Council. One professor at the University of Geneva, René Schwok, argues, “Foreign countries are more likely to listen to Switzerland as a mediator in UN reform.” Although Switzerland’s membership in the UN requires it to participate in both military and economic sanctions, Schwok points out that “It is less likely to have a hidden agenda as it is neither a member of the European Union nor of NATO.”<sup>30</sup>

The progress towards European integration forces Switzerland to confront the same problems of identity it has faced since the Thirty Years’ War. Linguistic and regional differences between German Switzerland and French Switzerland have injected new life into the importance of Swiss neutrality. However, two Switzerlands exist. The country is divided between those in French-speaking Switzerland who desire a more active role in the European Union, and those in the German-speaking east who want the

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<sup>29</sup> *International Herald Tribune* 30 June 2005: 2.

<sup>30</sup> *Ibid.*, 2.

country to remain isolated. Thus, the limits of a more active Swiss foreign policy are affected by the degree of openness within domestic politics.

In an interesting twist of fate, Switzerland faces the exact same issues that had divided the nation during the 1930s. The failed experiment with differential neutrality might not have been as catastrophic as politicians of the Second World War imagined. One cannot help but speculate that such a differential form of neutrality that allowed for economic integration with the international community during the League of Nations era might have best served Switzerland during the Second World War. Had the nation continued on its path of differential neutrality, the economic manipulation that Switzerland confronted might have been avoided. Regardless, it remains imperative that Switzerland interpret its neutrality policy as a living organism, and not as a sacred, unalterable dogma.

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## VITA

The author became interested in Swiss history during his junior year at Union College, located in Schenectady, New York. That year, he participated in a term abroad in Geneva, Switzerland. His course of study led him to develop a fascination with Swiss economic history and the origins of the unique institution of neutrality practiced by Switzerland for nearly seven hundred years. As a result, he chose European History as his major. After returning home to New York, Matthew spent the remainder of his time at Union College preparing his undergraduate thesis on the role of the Swiss Army during the Second World War. His interest in the Swiss Army then led him to examine other factors that enabled Switzerland to remain a free and neutral country. This research led him to focus on Swiss economic policy as the topic of his master's thesis.

Born in Chappaqua, New York, the author plans on returning home after graduating from Louisiana State University and will begin his doctoral studies in 2006. He plans to shift his focus away from Switzerland and towards American and German foreign policy, yet will always remain a student of Swiss history. Following the completion of his program of study, Matthew hopes to become a Political Officer in the United States Foreign Service.