

14 Tax System Credibility vs. Banking System Reputation?

Tax Evasion from Sweden to Switzerland in the Early 1970s

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14.1 Introduction

“How does the money of a rich foreigner get into a secret Swiss account unnoticed?”² was the headline used by the German news magazine *Der Spiegel* in March 1973 to cover the trial of Jacques Hentsch. The Swiss banker had been caught red-handed while trying to smuggle cash out of Sweden. He was charged, prosecuted and jailed for a currency export crime that consisted of an attempt to leave Sweden with an unauthorised amount of Swedish currency, regardless of the purposes of the operation. Yet for the vast majority of commentators, the investigation had uncovered an act of tax evasion. While locally handled by the Gothenburg court of justice, the case plainly revealed, as the *Spiegel* report suggested, fraudulent transactions of international tax evasion schemes with Switzerland as the destination.

In this chapter, we analyse how tax evasion cases of the 1970s came to threaten the credibility of the Swedish tax system on the one hand, and the Swiss banking system on the other. In Sweden, which had one of the highest tax rates in the world at the time, the tax evasion cases were seen as threats to the credibility of the tax system. The fact that most of the tax evasion cases involved unreported movements of currency out of the country undermined the Swedish currency control regime as well, and thus the fixed exchange rate regime. In Switzerland, however, these very same cases did not affect taxes or the exchange rate system, but the banking system. By the mid-1970s, the international exposure of the Swiss banking system as potentially facilitating tax evasion, money laundering and white-collar crime with its secretive legal design increased the informal and diplomatic pressure on Swiss politicians to reform the system.

With the international liberalisation of the 1970s and 1980s, the Swedish tax system and currency regime became harder to maintain. Domestically,

¹ The authors are grateful to archivist Mira Barkå for her help, Nicolas Chachereau for his precious advice and Gisela Hürlimann, Dorothea Rohde and Korinna Schönhärl for their insightful comments.

² N. N. (1973a).

the attitude towards tax evasion and avoidance changed as well, further undermining the tax system's credibility. In contrast, the Swiss banking system remained largely unchanged and prospered. The Swedish tax system was reformed by the end of the 1980s. The reform contained, among other things, tax cuts to reduce the incentive for tax evasion.³ In the meantime, Switzerland had maintained its status as one of the premier financial centres for private wealth management of the world, with thriving banking secrecy regulations up to the late 2000s.

The chapter emphasises one dimension of tax evasion that is not always noticed in the existing literature, namely that tax evasion put a strain on different systems in the countries involved. In Sweden, from where the wealth was transferred, pressure was put on the *tax system* to be reformed (thereby changing the costs and benefits of tax evasion). In Switzerland, to where the wealth was transferred, the *banking system* came under pressure to reform, to make it more transparent to foreign authorities. This disparity reflects very clearly how tax evasion problems are framed in national policy, and it can explain why international cooperation and coordination remained so difficult.

Benefitting from first-hand sources—legal and administrative texts of the time, media reporting, documents from court proceedings as well as archival material—from both the Swedish and Swiss authorities, we are able to account for a case of international tax evasion, framed as illegal currency export, with a high level of detail. The transnational and multifocal perspective, from both the country of origin and the receiving country, provides an innovative approach to tax evasion and its different national legal framings.

The chapter is structured in four parts. In the next part, we outline the development of tax systems, currency regulations and offshore banking after the Second World War with an emphasis on Sweden and Switzerland. In [Section 14.3](#), we present our case study—the 1972–1973 Hentsch affair—and place it within the broader context of Swedish currency crimes. [Section 14.4](#) provides an account of the varying policy responses in Sweden and Switzerland to the Hentsch case. In the conclusion, we discuss our contributions to the research fields of (not) paying taxes through evasion and avoidance.

14.2 International Tax Evasion, Tax Systems and Banking in Sweden and Switzerland, 1945–1980

The history of international tax evasion is closely related to the history of taxation by central governments, and for many countries, it dates back at least to the late nineteenth century. However, mandatory, general and regular taxes on citizens and legal entities were extended and broadened mainly in the course of the twentieth century. In many Western societies, national

3 Henrekson and Stenkula (2015, 13).

wealth, income and property taxes were introduced at the beginning of the century but remained relatively low until after the Second World War.⁴ In several developed economies, more and higher taxes were introduced, both to fund a growing public sector and to fulfil social welfare commitments, but also for redistributive purposes—originating in the policy programmes of broad labour movement parties.⁵

In Sweden, where the Social Democratic Party was continuously in power between 1932 and 1976, public support for a progressive tax system to redistribute wealth and resources was relatively strong by the mid-twentieth century.⁶ Combined with a golden age of economic growth and development in the 1950s and 1960s, resistance to this system was limited. Despite the absence of aggregated data on the frequency and scale of international tax evasion before the 1960s, several factors suggest that this was a minor problem at the time. For one, emigration (including for tax reasons) was restricted until after the Second World War.⁷ Also, the fixed exchange rate regime of the Bretton Woods system in general made international transfers of financial assets difficult.⁸ Many countries, including Sweden, had strict currency controls, which in effect made such operations illegal without explicit permission. The Swedish currency act of 1940 put all currency exchanges under the control of the central bank, the Swedish Riksbank. Thus, for anyone in Sweden engaging in international tax evasion, this meant that they not only infringed tax regulations, but also committed a currency crime. After the World Wars, however, the successful internationalisation of several Swedish corporations created more opportunities for Swedish companies and their staff stationed abroad to avoid high Swedish taxes on earnings and wealth. With the collapse of the Bretton Woods regime and the development of the largely unregulated euro-dollar market from the late 1960s onwards, more opportunities arose to store wealth outside the grasp of national tax collectors.⁹

The tremendous post-war growth came to an end in the first half of the 1970s. High inflation, declining production, increasing unemployment and deficits in the balance of payments contributed to a growing discontent with the economic policies of the post-war era. As a result of these deep changes, taxation lost some of its legitimacy and political support in many OECD countries. Furthermore, individual income tax progressivity had declined since the 1970s in countries such as the USA, the UK and France.¹⁰ In contrast, in Sweden, no reforms to reduce the high-income groups' tax burden took place prior to 1990; this delay increased the incentives for moving assets

4 Piketty (2019, chap. 10–13).

5 Steinmo (2003, 206–236).

6 Jansson (2018, 57–78).

7 Lindencrona (1972).

8 Helleiner (1994, 91–95).

9 Buggeln, Daunton and Nützenadel (2017, 1–31); Casey (1972).

10 Piketty and Saez (2007, 3–24).

to other jurisdictions.¹¹ In 1976, prior to the elections that ended 44 years of social democratic power in government, the famous author and popular figure Astrid Lindgren published an allegory about her absurdly high marginal tax rate of 102%.¹²

The evolution of taxation policy in the 1970s runs parallel to the rise of offshore tax havens, which also shaped the global context relevant to our case study. Vanessa Ogle recently established the deep historical roots of the offshore centres, i.e. locations allowing individuals and corporations to maintain assets while paying low or no taxes and avoiding strict regulations.¹³ Between the 1920s and the 1970s, tax havens and offshore financial centres flourished, implementing elements of free-market capitalism such as low taxation and deregulation. Switzerland played a significant part in this expansion of “archipelago capitalism”.

The Swiss Confederation became one of the earliest non-colonial tax havens, for several reasons: next to political neutrality and stability, there was a strong culture of secrecy in banking operations that was formalised in the 1934 banking act, which made the disclosure of client information an automatically prosecuted criminal offence.¹⁴ The country’s tax system, featuring low tax liabilities and small tax-to-GDP ratio, was another attractiveness factor.¹⁵ It also allowed preferential taxation for distinctive groups of individuals and companies, for example, wealthy foreigners or multinational companies.

The complacency towards tax evaders was also strengthened by Swiss law which differentiated between tax evasion (*Steuerhinterziehung*), i.e. the simple fact of omitting to declare assets, and tax fraud (*Steuerbetrug*), involving an active falsification of documents. Mere tax evasion, although considered a misdemeanour and punished by a fine, was not penalised by criminal law. Until 2009, this subtle distinction allowed the non-cooperative attitude of Swiss authorities towards requests for legal or administrative assistance from third countries, and played a decisive role in the development of Switzerland as a tax haven.¹⁶ This development met with some criticism on the international scene (USA, OECD) as early as the late 1950s. But the Swiss authorities and financial circles successfully fended off the attacks against banking secrecy and offshore services provided by the Swiss financial centre.¹⁷ In 1963, an OECD model convention against double taxation was adopted, which

11 Buggeln, Daunton and Nützenadel (2017, as note 9).

12 Henrekson (2017).

13 Ogle (2017, 1431–1458).

14 Recent research suggests that the Swiss tax haven emerged even before 1914, with significant factors such as the growth of private wealth management, luxury tourism and tax competition between cantons. See Guex (2021).

15 Huerlimann (2018).

16 Emmenegger (2014, 146–164).

17 Farquet (2018b).

included an article on the exchange of tax information, but Swiss representatives refused any restrictions on banking secrecy.¹⁸

During the 1970s, at a time of the globalisation of offshore financial operations and with the development of the euro-dollar market and the breakdown of the Bretton Woods system, the Swiss tax haven was faced with a resurgence of international criticism.¹⁹ It arose both from multilateral arenas (OECD, Council of Europe, European Commission) and bilateral negotiations. Between 1969 and 1972, the French, German and US governments separately initiated diplomatic pressure on the Swiss tax haven in order to fight tax evasion and capital flight. The only tangible result of the international pressure was the signing of a bilateral treaty introducing—at least nominally—judicial assistance for money laundering issues between Switzerland and the USA in May 1973.²⁰ However, the scope of the treaty was limited to criminal cases related to organised crime, as well as insider trading, meaning that individual tax fraud by ordinary US citizens could still not trigger an information exchange by Swiss banks or authorities.²¹

Banking confidentiality and low tax regimes were some of the factors, alongside political stability and neutrality, geographical location, a strong and freely convertible currency and qualified multilingual banking staff, which contributed to the attractiveness of Switzerland for international capital. The post-war boom, 1945–1975, is widely considered as the golden age of Swiss banking.²² The total assets of Swiss banks, inflation-adjusted, increased six-fold between 1945 and 1971.²³ The development of Swiss banking was significantly shaped by the massive influx of international capital flows. The number of foreign deposits increased from 5.6 to 28.6 billion Swiss francs between 1957 and 1968.²⁴ This internationalisation and the dramatic growth were particularly strong in large commercial banks, but private banks such as Hentsch & Cie, traditionally specialised in cross-border wealth management, also witnessed a rapid development of their international business.²⁵

14.3 The Hentsch Case—Tax Evasion and Avoidance from Sweden to Switzerland

On Friday 27 October 1972, Jacques Hentsch was arrested by the Swedish police as he was trying to board a flight from Gothenburg to Copenhagen, carrying a considerable amount of cash—451,200 Swedish crowns and

18 Farquet and Leimgruber (2015).

19 Farquet (2018a).

20 Loepfe (2011, 291–298).

21 Steinlin and Trampusch (2012, 242–259).

22 Mazbouri, Guex and Lopez (2012, 494–499).

23 Giddey (2019, 330–331).

24 Peyer (1971, 101) (not inflation-adjusted).

25 Mazbouri (2020, 93–115).

23,900 Norwegian crowns, a total equivalent to US\$98,000 (in today's US\$600,000)—in his luggage.²⁶ Currency and foreign exchange control regulations stated that an individual was only allowed to export a maximal amount of 6,000 Swedish crowns for private purposes. Yet Jaques Hentsch was not just a conventional tourist, he was the 34-year-old son of Robert E. Hentsch, partner of one of the oldest and most reputable private banks in Switzerland, Hentsch & Cie, founded in 1796 in Geneva.

Between 18 and 27 October, Hentsch had been on a business trip to Norway and Sweden, in part with his father, Robert Hentsch. After two days in Oslo meeting with representatives of a Norwegian bank and an insurance company, he flew to Stockholm and was later invited by Swedish friends to an elk hunt. Afterwards, the banker was to fly to Malmö for his final meetings with Swedish clients and banks. According to his statement to the police, however, no flight was available to Malmö that afternoon, and this forced him to fly to Copenhagen.²⁷

The police interrogations of Hentsch convey an impression of a poor defence strategy (successive varying versions of the story and retractions) and provide details on the rookie mistakes made in his attempted illegal export of currency. Hentsch stated that the cash in the carry-on belonged to some of the Swiss bank's clients in Sweden and Norway. He would not mention the names of the clients, referring to the 1934 Swiss Banking Act under which a bank employee committed a federal crime if s/he disclosed any information about bank clients to third parties without their consent. But the investigators found a notebook in his luggage containing a coded list of about 50 potential clients. Even carrying a coded list could be considered serious negligence according to Swiss banking practices.

According to Hentsch, the cash he carried was to be deposited on behalf of some Swedish and Norwegian clients in Hentsch & Cie's account at SE-Banken, one of the largest banks in Sweden. The Norwegian and Swedish clients' money was to be invested in shares in major Swedish stock companies that the Swiss bank owned. Hentsch thus denied that the money was being taken to Switzerland. However, the investigation showed that the Swiss bank did not have an account at either the Gothenburg or the Malmö branch of SE-Banken. Furthermore, on the day of Hentsch's planned arrival in Malmö, the banks would be closed, making his statement questionable.²⁸

During the first interrogation by the police, Hentsch stated that he had brought in the Swedish currency from Norway, a statement he retracted in later interrogations. Indeed, importing such an amount into Sweden would

26 N. N. (1973a, 118). Exchange rates conversion: OECD National Accounts Statistics: exchange rates.

27 Riksbanken Archive, Valutaavdelningen, Åtalsärenden 70/73, Swedish police report, interrogation of Jacques Hentsch on 28.10.1972.

28 Ibid.

have been a second offence, since both export and import of cash were restricted under the currency act. Hentsch confessed to bringing Norwegian cash out of Norway—and thus also violating the currency laws of Norway. However, he claimed not to have known about the Norwegian and Swedish laws against moving currency out of the country without the permission of the central banks. Regarding the violation of the Swedish currency laws, he argued that his flight arrangements had forced him to commit a technical violation of the rules. Had he been able to fly from Gothenburg to Malmö as intended, no crime would have been committed.²⁹

The banker remained in custody for 25 days and was released with a travel ban in late November. On 19 December 1972, the Gothenburg lower court of justice acquitted Hentsch with a very narrow margin. The court accepted the defence that he only committed a technical violation of the currency act by boarding an outbound flight, and that Hentsch had not intended to leave the country. However, the state prosecutor, who had requested a five-month prison sentence, appealed against the acquittal. The travel ban was thus extended and Hentsch remained in Sweden. When the case was brought to the higher court in early 1973, the prosecution could present the testimony of one of the major Swedish clients of the Swiss banker, the business man Arne Lundberg,³⁰ who admitted that he had given Hentsch the specific task of depositing SEK 300,000 in a Swiss bank account, and not in a Swedish one in Malmö.³¹ On 16 February 1973, Hentsch was sentenced to a four-month prison sentence, five-year re-entry ban and the confiscation of the incriminated SEK 451,200. Hentsch appealed to the Supreme Court, but the appeal was dismissed. He served the remainder of his sentence in the state penitentiary of Mariestad. According to a report by a Swiss Embassy representative who visited him, his detention conditions were rather good.³² Hentsch returned to Switzerland in May 1973.

This case is in many ways just the tip of the iceberg and represents one of many examples of international tax evasion from Sweden to Switzerland—or other lower-tax jurisdictions—that occurred in the early 1970s and escaped detection. It stood out as the largest currency-bust by the Swedish customs, but this does not necessarily mean that larger amounts were not involved in other unreported cases.

29 Riksbanken Archive, Valutaavdelningen, Åtalsärenden 70/73, Swedish police report, interrogation of Jacques Hentsch on 28.10.1972.

30 N. N. (1973b, 5); IngaBritt och Arne Lundbergs forskningsstiftelse (2013, 12).

31 A[ndreas] O[platka] (1973).

32 Hentsch was well-treated, although he was the only foreigner in a prison mainly holding thieves and drug traffickers. He had access to a TV in the canteen and a radio in his cell, was happy with the “military” food and enjoyed the gardening job he had been assigned. See: Swiss Federal Archives (hereinafter SFA), CH-BAR#E2001E-01#1987/78#5042*, Letter from Faessler to Thalmann, 17.05.1973.

Table 14.1 Number of currency crimes reported and cleared from 1967 to 1979 by the Swedish authorities

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Reported cases by the Riksbank*	2	1	44	27	35	29	65	72	120	114	n.i	n.i	n.i
Reported cases to the police, total	n.i	10	68	48	69	97	100	137	233	150	484	202	389
Cleared cases by the police, total	n.i.	8	41	29	44	31	43	64	39	57	42	61	49

Sources: *Sveriges Riksbank 1901–1998, serie A3A Valutastyrelsens protokoll, volymerna A3A:4 – A3A:27 (collected by Mira Barkå, archivist at Sveriges Riksbank); Kriminalstatistik, Del 1 Polisstatistik, Statistiska centralbyrån, 1967–1973; Rättsstatistik årsbok 1975–1980. N.i. = no information.

Table 14.1 shows the number of currency crime cases reported to and cleared by the Swedish police from 1967 to 1979, with some data gaps. As mentioned, the currency crimes are connected to—or an expression of—tax evasion at this time. While some breaches of the currency act were possibly not committed for the purpose of tax evasion, in the legal sense this was still the outcome, since currency exchanges without permission implied shirking taxation.

The data show an increase in the number of reported cases from the early 1970s with a peak of 484 cases in 1977. The number of cleared cases, either by closing the investigation or after a court verdict, did not increase to the same degree, suggesting that many cases took several years to process. It is also possible that cases were dropped if the evidence was deemed too weak. It is furthermore possible that the data underestimate the actual number of currency crimes, since the Riksbank's Board for Currency Affairs (*valutastyrelsen*) had some discretion in deciding which cases it would hand over to the police. The basis of the Board's powers to grant and reject applications for currency exchange as well as to report cases to the police was at times criticised for being in conflict with the basic laws of Sweden (*regeringsformen*). Most importantly, the Riksbank's institutional and legal independence made the accountability of the Board difficult to exercise.³³

While currency exports as exemplified by the Hentsch case were illegal forms of tax evasion, alternative forms of legal tax avoidance co-existed at the same time, and gained momentum. Between 1965 and 1989, around 30,000 Swedes emigrated from Sweden for tax-related reasons.³⁴ Many high-profile Swedish businessmen moved to Switzerland during this time, in part for

33 Sundberg (1970, 288).

34 Lindkvist (1990).

tax reasons. Among them were Ruben Rausing, founder of Tetra Pak, who moved to Lausanne in 1969, and Ingvar Kamprad, founder of IKEA, who settled there in 1976.

14.4 Swedish and Swiss Policy Responses to Hentsch and Other Tax Evasion Cases in the Early 1970s

14.4.1 Policy Reforms in Sweden

The Hentsch case made the headlines of most newspapers in Sweden at the time of his arrest, exemplifying the strong media interest in tax evasion cases from the early 1970s. While we cannot determine the causal drivers for certain, we find that policymakers also reacted in their responses to tax evasion problems starting in the mid-1960s and intensifying in the 1970s.

In 1963, a government committee presented a proposal for legal reforms to handle tax evasion.³⁵ The committee rejected the idea of a general tax avoidance law on the grounds that it would be difficult to formulate without allowing unconstitutionally wide room for court discretion. Instead, the committee argued for the legislature—rather than the courts—to spearhead the fight against tax avoidance—by swiftly processing prescriptive laws to stop tax-avoidance schemes upon detection. The committee’s proposed strategy was followed, but, as Gustaf Lindencrona put it, “as soon as one [tax evasion] variety was outlawed it was immediately replaced by two new ones”.³⁶ Nevertheless, rather than considering a redesign of the tax system and its strong emphasis on redistribution and progressiveness, policy responses continued to focus on intensifying the pursuit of tax evaders. The overall objective, or fairness, of the tax system was not challenged.

Following a high-profile case of tax evasion by currency crime in 1969 (concerning Victor Hasselblad, the founder of the camera company of the same name), the government created a new commission that investigated the case as well as the related actions of the central bank. As a result, the Swedish Riksbank, in a bid to pass on some of the critique it received for its actions, launched an advertising campaign for a commission to investigate commercial banks’ participation in currency crimes and tax evasion.³⁷ The call did not lead to such a commission being formed.

In 1974, the government appointed a commission to analyse the Swedes’ attitudes to paying taxes and to tax evasion. The commission conducted a survey that found that close to a third of all Swedish taxpayers had evaded taxes at some point.³⁸ The two main motivations identified were an awareness of

35 Statens offentliga utredningar (1963, 52).

36 Lindencrona (1993, 160).

37 N. N. (1969, 13).

38 Vogel (1974, 499–513).

opportunities and the economic burden of the high taxes. The survey further confirmed that high-income groups had a generally more negative attitude to the tax system and a less negative one to tax evasion.³⁹ At the time, the marginal tax rate on labour income for the top 1% was over 70%.⁴⁰

In 1974, the government also created the Swedish National Council for Crime Prevention (*Brottsförebyggande rådet*), which among other things was tasked to survey economic crimes and propose regulatory reforms in the area.⁴¹ Yet, the government did not initiate a reform of the tax system but rather intensified investigatory and disciplinary actions. In addition to the Riksbank's and the prosecutor's pursuit of currency criminals, in 1975, the national tax agency (*Riksskatteverket*) conducted a nationwide tax raid focusing on share and bond trades in 1973 and 1974. The raid was reported as a success, revealing many cases where shareowners had omitted to declare share dividend payments as well as other share transactions.⁴² Many thousands of self-employed taxpayers (e.g. doctors, accountants, owners of restaurants, transport and construction companies, etc.) were investigated for tax evasion.⁴³

In 1980, a new act gave more discretion to the tax courts to assess what tax avoidance constituted and what “just” tax planning was, in an attempt to reverse the strategy of prohibiting schemes once detected. However, the reform, combined with the overall deregulation of the financial markets in the 1980s, may have led to less interest among prosecutors, the Riksbank and the courts to take tax evasion cases to trial. By the middle of the 1980s, important constraints in financial regulation were removed.⁴⁴ As a result, the “tax reform of the century” in 1990/1991 was in part designed to “combat tax avoidance by removing the incentives for circumventing tax”, as Lindencrona put it.⁴⁵ In contrast to the earlier situation, the reforms would not rely on new tax-avoidance measures or administrative controls over the taxpayer. Instead, the less complex tax system sought to eliminate many of the pre-1990 tax system's loopholes.

14.4.2 Swiss Diplomatic Involvement and Political Debate

The Hentsch case—among other such occurrences—also affected the diplomatic level and contributed to the political debate on banking secrecy in Switzerland. Swiss diplomats and state representatives were heavily involved in the immediate handling of the Hentsch case. The Swiss embassy in

39 Henrekson (2017); Bastani and Waldenström (2019).

40 Roine and Waldenström (2005, figure 7.9, 83).

41 Kring (2016, 17–28).

42 Lundqvist (1975, 12).

43 N. N. (1974).

44 Larsson (1998).

45 Lindencrona, (1993, 157); see also Englund (2019).

Stockholm as well as the financial and economic services of the federal department of foreign affairs in Bern were rapidly and intensively mobilised to provide some support to Jacques Hentsch, as archival evidence reveals. In December 1972, the Swiss ambassador in Stockholm regretted that the Swedish press had been informed about the affair, “causing a great stir”, which was all the more regrettable because Swiss banking secrecy had already from time to time been attacked in the Swedish media.⁴⁶ In early January 1973, the Swiss diplomatic service received the news that Hentsch & Cie had sent a former director to Gothenburg to ask Hentsch to resign, threatening dismissal.⁴⁷ The collaboration of the Swiss diplomatic service with the suspected criminal went as far as making the ambassador in Stockholm wonder if Hentsch should not be allowed to use diplomatic mail to beg his father and uncle (partners of the bank) to delay his forced resignation. The use of diplomatic mail for such a private matter, involving a man subjected to a travel ban, would have been a violation of the Vienna Convention on Diplomatic Relations, and was finally rejected. In spite of the negative media attention to the case, the Swiss diplomats continued to provide services to their incarcerated fellow citizen.

Although the Hentsch case was quite exceptional because it involved a family member of one of the oldest private banks in Switzerland and because it led to his conviction and prison sentence, this was not the only instance of a Swiss financier being threatened by foreign justice for violating currency regulations and exporting undeclared assets to Switzerland. In 1958–1959, Georges Rivara, a representative of the Swiss Bank Corporation, had been arrested and detained by Spanish police for helping top-level Spanish dignitaries to hide their assets in Geneva.⁴⁸ Just as in the Hentsch case, the Swiss embassy in Madrid was very active in defending the interests of the bank involved. A similar pattern occurred in December 1981, when Swiss nationals, representatives from two Swiss banks (Leu Bank and Banca del Gottardo), were arrested by the Guardia di Finanza in Rome for illegal capital export.⁴⁹ In early 1982, the two bankers were given a 14- and a 24-month suspended prison sentence.

Rather than being overly concerned with the fate of the prosecuted bankers, Swiss banking officials and diplomatic representatives were anxious about the negative impact that such affairs could have on the reputation of the Swiss banking system, or the country itself. According to a worldwide survey conducted by Swiss officials in 1973, Swedish people had a worse image of Switzerland than people from other countries and the most cited negative

46 SFA, CH-BAR#E2001E-01#1987/78#5042*, Letter from Faessler to Thalmann, 07.12.1972.

47 SFA, CH-BAR#E2001E-01#1987/78#5042*, Memo by Ramseyer, 17.01.1973.

48 Steiner (2010, 59–68).

49 Luksic (1981).

criterion was “the country of banking secrecy and business”.⁵⁰ It remains hard to tell if the Hentsch case had any influence on the opinions expressed in the survey. Still, it is striking that the bad public image of Switzerland mainly relied on the reputation of its financial centre, which was perceived to be successful at the expense of others.

From the Swiss perspective, the Hentsch case should be understood as part of the larger trends of international and domestic pressure on banking secrecy and the tax evasion transactions thus enabled. As mentioned, the Swiss tax haven was faced with a resurgence of international criticism both from multi-lateral arenas (OECD, Council of Europe, European Commission) and bilateral negotiations.⁵¹

On the Swiss domestic scene, criticism of banking secrecy and tax evading practices remained low until the emergence of a “new left” during the 1970s, more aware of international and Third-World issues.⁵² Following the success of the Social Democratic Party in the 1975 federal election, in 1976, Jean Ziegler, a member of the Swiss Parliament, professor of sociology and a critical voice of capitalism, published a widely discussed essay which controversially uncovered some of the tax evasion and money laundering operations facilitated by Swiss banks.⁵³ Ziegler also tabled several parliamentary motions on related matters: one of them explicitly mentioned the arrest of Hentsch in Sweden.⁵⁴ Ziegler requested more active cooperation from the Swiss authorities against currency trafficking, but his motion was dismissed by the government. The Federal Council replied that, while regretting that Swiss citizens broke foreign laws, no measures should be taken to punish foreign currency regulation violations, which were not considered as crimes by Swiss law.

Yet the domestic criticism of banking secrecy started to spread beyond the ranks of the political left.⁵⁵ During the mid-1970s, both budget deficits due to the economic crisis and the rise of the Swiss franc on the exchange market led federal authorities and central bankers to marginally reconsider their fundamental support of banking secrecy. The most notable expression of the growing domestic criticism of banking secrecy was an initiative introduced by the Social Democrats in 1978, calling for a lifting of banking secrecy and an extension of cooperation with other countries. It had been launched in the immediate aftermath of one of the largest scandals in Swiss banking, the

50 SFA, CH-BAR#E2001E-01#1987/78#437*, Survey about the image of Switzerland abroad, 25.10.1973, p. 13.

51 Farquet (2018a, 258–270).

52 Farquet (2017, 126–148).

53 Ziegler (1978).

54 *Amtliches Bulletin der Bundesversammlung*, 1973, Petite question Jean Ziegler du 11 décembre 1972, modifiée en petite question du 14 mars 1973. Jean Ziegler also later mentioned the case in his 1978 book, 51.

55 Farquet (2017).

Chiasso scandal in spring 1977.⁵⁶ This affair involved a branch of the *Credit Suisse* bank, which had specialised in hoarding Italian assets but suffered significant losses, causing the whole tax evasion scheme to collapse. However, the initiative was widely rejected (73% of the electorate) in a referendum in 1984. On the international and multilateral scene (OECD, Council of Europe), the discussions of the 1980s did not bring significant progress in the fight against tax havens either.⁵⁷ The window of opportunity for a more effective grasp of tax evasion, opened by the scandals and crises of the mid-1970s, was closed by the late 1980s. Switzerland's outstanding position in offshore markets—and its strict banking confidentiality—was maintained.

14.5 Conclusion

The international trend of financial and economic liberalisation and deregulation that marked the last decades of the twentieth century affected most countries, but not all in the same way, and not all policy areas alike. In this chapter, we have looked at how tax evasion from Sweden to Switzerland developed in the early 1970s and how it affected the tax and banking systems, respectively. In the country from which taxable wealth and income are transferred, it is the national tax system that risks losing credibility in terms of fulfilling its purposes and being applicable to all tax entities. However, in the country to which the wealth is transferred for tax evasion reasons, it is the banking system and its reputation that are put on the line under international pressure. The fact that countries in a tax evasion transaction are affected differently may be an impediment to international cooperation and coordination. Of course, the cases of Sweden and Switzerland, being opposite extremes with, at one end of the spectrum, high and progressive tax rates and, at the other end, a secretive banking system, may not be representative enough to make generalisations. More importantly, our research also highlights how the respective efforts of the Swedish authorities, on one hand, and the Swiss bank and state representatives, on the other hand, led to contrasting outcomes. The Swedish government largely failed to restore the credibility of the tax and currency regime system and ultimately adapted its regime in the 1990s and 2000s, in part due to a perceived failure to discourage tax evasion. The Swiss banks and diplomats, however, successfully pushed back international and domestic criticism on banking secrecy and maintained a non-cooperative approach until the 2008 global financial crisis, which generated a significant influx of capital.

While we could not determine the scale and scope of actual tax evasion from Sweden to Switzerland during the 1970s, we found that public and political concern with the issue increased substantially during the period. It

56 Jung (2000, 245–257).

57 Farquet (2017).

seems that the Riksbank and other actors pursued court convictions, of currency crime and tax evasion, to a higher degree from the 1970s until the mid-1980s. The policy actions taken in Sweden during the 1970s were intended to maintain the tax system's character of high tax rates and strong focus on progressiveness, by intensifying the pursuit and punishment of individual tax evaders and so discouraging tax evasion and currency crime. In Switzerland, these very same cases did not put pressure on the tax or exchange rate system, but on the banking system. By the 1970s, the international exposure of the Swiss banking system as potentially facilitating tax evasion, money laundering, white-collar crime, etc., with its secretive legal design put pressure on Swiss politicians to reform the system. However, with Swiss banks as the destination of the capital transfers, the cases were seen rather as unfortunate manifestations of quite lucrative business practices that benefited the banking system. Swiss authorities, while dissatisfied with the negative publicity of the jail sentencing, worked hand-in-hand with bank representatives to limit the consequences of the case and stick to business-as-usual.

Taking a broader perspective, the Hentsch case is also symptomatic of the rise of offshore financial centres during the 1970s. The offshore world and tax havens in particular saw significant growth between 1945 and 1970, when the "avoidance industry", including the legal architecture of offshoring practices, grew into a profession.⁵⁸ This period was followed by a boom of tax havens in the 1970s, with the end of the Bretton Woods system of fixed exchange rates and removal of capital controls, the decline of industry in the North and the related rise of services and finance. Switzerland rose into a major safe haven for capital in the post-war era. An estimate assessed that the share of European household wealth kept in Swiss banks grew from 2% in 1950 to 4.5% in 1970.⁵⁹ Those developments of offshore practices were in large part tolerated and even encouraged by governments in the Western world.⁶⁰

The last few years seem to have witnessed a reversal of some of the historical trends we examined in this chapter. In the wake of the tax reforms of the 2000s, featuring the repeal of inheritance (2005) and wealth tax (2007), Sweden now has one of the highest rates of billionaires per capita (one for every 250,000 people).⁶¹ In Switzerland, on the other hand, increasing international pressure following the 2008 global financial crisis has led to significant changes. Over a period spanning from 2008 to 2017, the Swiss authorities gradually accepted the principle of an automatic exchange of information with tax authorities in the account holders' country of residence, thus ending banking secrecy for foreign clients.⁶² Ironically, Ingvar Kamprad, as an

58 Ogle (2017).

59 Zucman (2015, 24).

60 Ogle (2017).

61 N. N. (2019).

62 Straumann (2018, 106–125).

individual taxpayer, decided to leave his Swiss tax shelter in 2013 to spend his final years in southern Sweden, while his IKEA Empire is still organised in a deliberately complex nest of entities, with home jurisdictions in tax havens such as Luxembourg and Liechtenstein.

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