Switzerland, Gold and the Banks: Analysis of a Crisis

By Jacques Rossier

U.S.-Swiss relations deteriorated markedly in the period from 1996 to 1998. Analyzing the causes of this crisis and drawing lessons from it should help us all in mending fences. Trying to discuss Holocaust-related issues in an "objective way" is a difficult thing to do. In any such discussion a delicate balance has to be struck among a number of factors: remembering the unspeakable horrors of World War II; admitting in the case of Switzerland the mistakes made during and after the war; apologizing sincerely for them; looking for ways to make amends; at the same time, though, insisting on fair criticism and resisting outrageous claims.

This is no easy task and leaves plenty of room for misunderstandings and misquotes! Let me say one thing right at the beginning. There is ample room for apologies on our side, but I will try to be specific in terms of what we should apologize for and what not. I do not believe, for example, that Switzerland should apologize for having survived the war without having been invaded by Nazi Germany.

The crisis started in 1995, is not quite over yet and has been a very difficult experience for my country. One of the most hurtful aspects of this crisis for the Swiss was the realization that the U.S. Administration and number of state governments chose to pander to a vocal interest group at the expense of a country that had been a staunch ally of the United States for many decades. To make matters worse, the Administration, these state governments, as well as an important segment of the U.S. media knowingly or unknowingly lent credibility to the vilification of Switzerland that had simultaneously been undertaken by a group of private class-action plaintiffs.

A former U.S. Ambassador to Switzerland told us in Geneva in January 1997, and I quote: "Germany paid, Austria paid and now it is the turn of Switzerland!" While one can hold respectable and diverging views as to whether and what Switzerland and its banks should pay and to whom, the Swiss resented deeply being lumped together with the perpetrators of the Holocaust who killed millions of Jews and many other innocent victims.
I would now like to address the following issues:

1. What are the accusations?
2. What are the facts?
3. Why did this crisis arise?
4. What did we Swiss do wrong?
5. How did we react?
6. And to conclude, what did we learn?

The Accusations

Beginning in 1996, Switzerland became the target of an aggressive and well-orchestrated media campaign in the United States. Much of the reporting was biased, contrary to fact, and utterly lacking in historical context. At times, it appeared that the accused had been found guilty before trial and that the jury preferred not to let its mind be clouded by facts.

The Swiss were characterized as "the bankers and money launderers of the Nazis." One book title reads: "Hitler's secret bankers: How Switzerland profited from the Nazi genocide." An article in the International Herald Tribune of July 13, 1998, encouraged the Swiss to apologize and to say "we wish we had not made off with whatever was left in our banks of the property of the murdered Jews." Other editorialists stated that "Switzerland not only profited from the war but even prolonged it" and that "the refugees who reached Switzerland were placed in slave labor camps." These assertions are grotesque distortions of history.

The media campaign's main purpose was to obtain the highest possible settlement from the two big Swiss banks, Credit Suisse and UBS, which were the targets of a class action proceeding pending in New York. To add insult to injury for the Swiss, the U.S. Government permitted itself to become a tool in this campaign through its then Undersecretary of Commerce, Stuart Eizenstat, who signed what was called the "First Eizenstat Report" in May 1997. This official report by the U.S. Government makes a number of serious and ill-founded allegations about Switzerland's actions during World War II. It in effect portrays Switzerland as a willing and greedy collaborator with the Nazis. Needless to say, these allegations were deeply resented by the vast majority of the Swiss population across the entire political spectrum and opened wounds that will take some time to heal.

The Facts

Let me highlight some of the key facts of the controversy that relate to Switzerland, the Swiss National Bank and the Swiss banking system. They tell only part of the story, but they are important facts that the media as well as the U.S. federal and several state governments have either ignored or misrepresented.
1. The Country

Throughout the war, Switzerland had a fully democratic anti-Nazi government, and enjoyed unrestricted freedom of religion, freedom of expression and a free press. With a population of 4 million, Switzerland gave asylum to about 300,000 refugees, 30,000 of whom were Jewish. If the United States were to admit the same percentage of refugees today, it would have to accommodate approximately 21 million men, women and children.

For many years and right up to the beginning of the war, Germany was the primary trading partner of Switzerland. When Switzerland was completely surrounded by the Axis powers in the later stages of the war, trade could only be accomplished through Germany. Switzerland could choose only between suicide through literal and economic starvation or survival through trade with Germany. Switzerland, a constitutional republic, chose survival. I believe this survival served not only Switzerland but the cause of democracy as well – notwithstanding moral failings on Switzerland's part, which I will address.

To assure its survival, Switzerland pursued two strategies:

(1) It maintained a large and well-trained army of more than half a million men throughout the war, which proved to be a significant deterrent to Nazi aggression. There were several German plans to invade Switzerland, and we now know that they were never realized, partially because of the high military costs an invasion would have entailed.

(2) Switzerland exported manufactured goods to Germany in order to obtain coal and food for her people (having no raw materials of her own). It is fair to assume that many of these exports were used by the Germans in one way or another to support their war effort. However, as much as we would have liked to sell the Nazis our chocolates, Heidi books and watches, these were definitely not the items they were interested in.

Today, with the great benefit of hindsight, some claim that the Swiss might well have saved all the refugees, survived, heated their homes and fed themselves, run their economy without unemployment and inflation, and avoided a German invasion at the same time – all without having to compromise in any way with the Nazi powers. Could the Swiss indeed have traded less with the Nazis? I do not believe that anyone today can seriously pretend to know how much was enough and how much was too much! But the facts show that, no matter what the moral judgment is, the quantities of material delivered by Switzerland for the German war machine were negligible – amounting to only about 0.1% of the total German war effort.

The U.S. Government's assertion that Swiss trade with Germany prolonged the war does not withstand the test of historical fact. Also, contrary to what Secretary Eizenstat claimed in his report, Switzerland finished the war period poorer than it had entered it. Between 1939 and 1945, GNP per capita declined by 9% in Switzerland while increasing by 59% in the United States. In addition, after the end of the war, Switzerland
contributed in a major way to the reconstruction of Europe, spending 1.3\% of its annual GNP to help neighboring war-ravaged countries rebuild their economies.

2. The Swiss National Bank

It has been a well-known fact since the end of the war, and is certainly not a recent discovery, that during the war the Swiss National Bank purchased large amounts of gold from the German Reichsbank. This gold was not stolen by the Swiss National Bank, but bought from the German Reichsbank using Swiss francs, which at the time were the only freely convertible currency accepted worldwide. Between 1939 and 1945, the Swiss National Bank acquired approximately 32\% of all the gold sold by the Reichsbank for approximately 1.2 billion Swiss francs. It is important to note, however, that during the same period the Swiss National Bank spent nearly twice as much (2.2 billion Swiss francs) for gold purchased from the United States.

Contrary to certain assertions, the so-called Nazi gold was not deposited by Nazi leaders in Swiss banks but rather gold purchased by one central bank from another central bank. It is important to note that most of the German gold was looted from central banks in Belgium, Holland, etc., with only 9\% coming from private sources. The latter included all Germans and all citizens of occupied territories who had to turn in their gold to the German government – in some cases against payment and in others, such as in the case of Jews and other persecuted minorities, without compensation. An independent commission estimated that about 0.04\% of all German gold purchased by the Swiss National Bank was Holocaust gold, which is indeed a horrible thought. However, as Secretary Eizenstat admitted, no evidence was found that the Swiss National Bank knowingly acquired such Holocaust gold.

It is fair to ask the questions why the Swiss National Bank purchased German gold in the first place, and why it had to purchase such vast amounts. Opinions on these issues differ both inside and outside of Switzerland. Some people believe that there simply is no justification for knowingly purchasing gold that is essentially looted from other central banks. Others suggest that social and economic stability and the implicit duty to shield the country from the brutality of a Nazi invasion were higher moral priorities than any unqualified insistence on turning down all gold transactions with the German central bank.

It is clear that the Swiss franc had to remain a strong currency throughout the war if Switzerland wanted to obtain coal as well as the food required to feed its people, and to keep its population sufficiently employed to avoid social unrest. In this context, it is important to remember that Hitler was brought to power in Germany by social upheaval created as a result of unemployment on the order of 30\% combined with very high inflation.

In 1939, when the Swiss transferred two-thirds of their gold reserves to the United States for safekeeping, the Swiss franc was linked to the gold standard. In June of 1941, the U.S. Government froze the Swiss gold reserves located in the United States. As a result, the Swiss franc was no longer backed by sufficient amounts of gold, which forced the Swiss National Bank to purchase large amounts of gold to maintain the stability and convertibility of the Swiss franc.
Nobody will ever be able to say exactly how much gold the Swiss National Bank had to purchase in order to maintain the stability of the nation's currency and to placate the Nazis. There is a saying that "even God cannot change history, only historians can do it." We will in the end have to be the sole moral judges as to what we should or could have done differently with respect to gold during World War II.

3. The Banks

In the early and mid-1930s, many Europeans, including undoubtedly many Jewish individuals, brought money to Switzerland. Banking secrecy laws were adopted by Switzerland in 1934 partially at least to protect German customers from inquiries by their government, which in that year had made it a capital crime to transfer substantial funds out of Germany.

By 1939, however, it had become clear to most observers that Switzerland was highly vulnerable to Nazi expansion. As a result, the Swiss National Bank took the highly unusual step in 1939 of transferring two-thirds of its gold reserves to the United States. Similarly, many individuals with funds in Swiss bank accounts transferred their holdings to financial institutions in safer havens, including England and the United States. Consequently, there may have been significantly smaller amounts of Jewish deposits left in Swiss banks at the beginning of the war than were later claimed by Jewish organizations.

Forensic audits of all Swiss banks are being conducted by four international auditing firms under the supervision of the so-called Volcker commission that is chaired by Paul Volcker and includes representatives of the major Jewish organizations. So far, these extensive audits have revealed relatively little in terms of dormant accounts belonging to victims of the Holocaust. In fact, in the summer and fall of 1997, the Swiss Bankers Association published a list of approximately 5,600 dormant accounts from all over the world, which contained a total of about $45 million in deposits.

All claims regarding these dormant accounts were submitted to a court of arbitration established specifically for these claims. The court is made up of a number of international judges, many of whom are Jewish, including a number of Israeli citizens. At this stage, the court has concluded that accounts containing approximately $8 million, or 15% of the total amount, are likely to be connected to Holocaust victims. Of course, these are preliminary findings, but it is important to note that these figures are in a different order of magnitude from the amounts claimed in the class action lawsuits that were pending in the Eastern District of New York – which totaled a staggering $20 billion.

There are a number of explanations for this discrepancy. First, for the reasons mentioned above, probably much less remained deposited in Switzerland during the war than has generally been alleged in U.S. news accounts. Second, there were numerous survivors and heirs of victims who came to Swiss banks after the war and claimed, and received, their funds. Third, many Swiss bankers made considerable effort to locate the heirs of account holders known to have died during the war. There are, of course, no statistics on this since no bank in the world will maintain statistics about its customers broken down by ethnic group, religion or by name.
Approximately 90% of the currently published dormant accounts, Jewish and non-Jewish, are held by the two largest Swiss banks, Credit Suisse and UBS, which have important banking operations in the United States. These two banks are therefore obvious targets for class action lawsuits. It is important to note, however, that the entire Swiss banking community submitted itself to the extremely time consuming, arduous and expensive process of detailed auditing by the Volcker commission, the publication of dormant account names and the submission to the court of arbitration. The auditing and arbitration process is likely to cost about $700 million when all is said and done.

I do not believe that any other banking system in the world would have accepted such extensive audits by foreign auditors reporting to a foreign board with foreign judges assessing claims, as the entire Swiss banking community did as a gestures of good faith and good will to resolve these issues.

In conclusion, Swiss banking secrecy protected many Jewish customers who retrieved their money after the war. Many others had transferred their assets to safer havens at the beginning of the war. Many others died. As a result of the newly established procedures, their money can finally – and admittedly very late – be claimed by their heirs. Again, it is important to note that, while the process may have been lengthy and arduous, the funds in these dormant accounts are still there. The same could not be said for funds in dormant accounts in practically any other country in the world, where such funds would have become state property and would have been almost impossible to reclaim. Switzerland does not have escheat laws, and unclaimed deposits do not become the property of the state in Switzerland as they do in the United States after as little as 5 to 7 years.

Four Key Questions

1. Why did this crisis arise in 1995?
2. What did we Swiss do wrong?
3. How did we react?
4. What did we learn?

1. Why did this crisis arise in 1995?

It happened because the Swiss Bankers Association, dominated by the two largest banks, failed to adequately address the issue of World War II dormant accounts for decades. The banks had legal, political and administrative reasons for doing so, but they failed to appreciate sufficiently the moral aspects of this issue. Moreover, they did not see the political and diplomatic crisis looming in 1995. Faced with the insistent demands of U.S. Jewish and Israeli organizations, they persisted for too long in their legalistic defensive posture, brushing aside moral concerns.

Both the Swiss Government and the Swiss Bankers Association failed to see that the world had changed considerably since the fall of the Berlin Wall in 1989 and that the United States had begun to assume a different role vis-à-vis its cold war friends, such as Switzerland. There was a new government in Washington that was not averse to flexing
its military muscle abroad. Moreover, Switzerland was politically isolated, not being a member of the United Nations, NATO or the European Union.

Switzerland was divided politically, governed by a centrist coalition with a vocal leftist media that saw an opportunity to discredit the Swiss establishment, banking and industry. And of course, Switzerland and its banks were wealthy! Throughout history, bankers have rarely, if ever, been sympathetic figures!

So when the banks and the government realized that active crisis management was needed, it was already very late in the game. Neither the banks, nor industry, nor the government were able at that stage to rely on a long-neglected network of U.S. friendships, which for the most part were based on business connections without the requisite political, literary and academic underpinnings.

In summary, we deserved what happened first and foremost because we had treated the entire issue of Holocaust-related assets too lightly, and that is unforgivable. Second, after being openly accused and criticized, we mishandled the response, failed to apologize where needed and failed to develop a communications strategy in the controversy. From the Swiss perspective, the entire crisis was a disaster in response, management, public relations and communications. We were simply unprepared for the kinds of tactics employed against us by interest groups adept at using the press, as well as U.S. politicians and government officials, for their purposes.

2. What did we Swiss do wrong?

The major mistakes made by Switzerland were:

(a) During the war, Switzerland should not have turned away at the border about 30,000 Jewish refugees. The saying at the time was that "the boat is full." The Swiss Government feared that an influx of refugees over and above the 300,000 already admitted would overwhelm the social structure of the country, already highly stressed by continuing full-scale army mobilization. The foregoing is meant as an explanation, not an excuse, for a policy that most Swiss now believe was just plain wrong.

(b) After the war, the Swiss Bankers Association and the large banks did not search systematically for heirs of Holocaust victims. Moreover, in some cases bank officials lacked sufficient sensitivity and empathy, for example, routinely requiring Jewish claimants to produce official death certificates (where obviously none could exist) for loved ones who had been consigned to, but never emerged from, extermination camps.

(c) In 1995, we again failed to be sensitive to the moral aspects of this crisis. Rather, we were persuaded that we had done everything in our power according to even contemporary banking practices, which do not impose a duty to undertake extensive searches for heirs of owners of dormant accounts. In hindsight and reflecting on the tragedy of the Holocaust after its horrendous details came to be revealed, we are now
realizing that we should have undertaken searches. We did not do so and were late in apologizing for our failure.

3. How did we react?

There is a saying that the "Swiss get up early but wake up late." Switzerland reacted late, but after it did wake up, it went all the way and much further than any other nation in confronting its World War II record.

The two largest banks agreed to a global settlement of $1.2 billion in August 1998 with the plaintiffs in New York class action proceedings. This is an extraordinary amount in view of preliminary findings that only about $8 million of the funds in dormant accounts from the period belonged to Holocaust survivors – a sum that does not include any interest accrued, it should be noted.

The Swiss government appointed an international commission of eminent historians to prepare reports analyzing the country’s behavior during and after World War II. The banks opened their doors and archives to a massive audit of wartime accounts. In 1997, the banks published worldwide a list of all World War II dormant accounts they had been able to identify.

And, finally, a special fund for Holocaust victims of almost $200 million was established jointly by the Swiss banks, the Swiss National Bank and Swiss industry. Funds are being distributed to Holocaust survivors in Eastern Europe, Israel and the United States. Unfortunately, all the foregoing happened in 1997 and 1998. All the warnings from Washington and New York were ignored in 1995. Our government had other priorities and was divided on the issue. Swiss industry thought that dormant bank accounts were none of its business. I believe that one of Murphy’s laws applies in this case: "There is never time to do it right, but there is always time to do it over!"

When the time came to act, we were not prepared for the combination of publicity and legal, political and economic pressure that interest groups in the United States are able to bring to bear to achieve their objectives. We adhered to old-fashioned diplomatic protocol and were either unwilling or unable to counter a smear campaign in the United States that was as professionally orchestrated as it was unjustified. In the end, Switzerland and the banks had ignored to their great detriment another of Murphy’s laws: "Friends come and go but enemies accumulate!"

4. What did we learn?

First and foremost, hopefully, we learned that humanitarian issues need to be addressed promptly, constructively and with empathy and sensitivity. There is simply no excuse for legalistic formalism on issues of the magnitude of the Holocaust and the resulting dormant accounts.

We certainly did learn that, in the United States, a dispute with a powerful lobby unfolds to a large extent in the court of public opinion, which, in turn, influences positions being taken by lawmakers and government officials at both the state and the federal levels. In order to be heard in this U.S. court of public opinion, one needs strong allies among
interest groups as well as opinion makers and opinion disseminators. These alliances need to be built over time and nurtured carefully in order to be of help in times of crisis. Switzerland did not have enough of these alliances. To make matters worse, we also did not have strong allies in other parts of the world, at the United Nations or in the European Council. Interest groups aligned against Switzerland in this crisis would never have been able to muster nearly so much political and economic pressure against a nation with strong allies in the United States and the rest of the world.

Our two largest banks learned this lesson the hard way when ultimately they agreed to a settlement of the class action proceedings in New York for payments that will total $1.2 billion. As we all know by now, this amount bears no relation to the actual amounts found in Holocaust related dormant accounts. Rather, in light of the unprecedented political and economic pressure brought to bear on Switzerland and its banks by the U.S. federal and several state governments as well as by legislators at both levels, this amount must be regarded as the payment of a special levy by the Swiss banks to facilitate their continuing to do business in the United States.

**Conclusions**

My personal conclusions regarding the 1995-1998 crisis relating to Switzerland, gold and the banks may be summarized as follows:

1. I am deeply grateful to my parents and their generation for having kept my country out of the war.

2. I am proud that our democracy survived. We maintained a free press. Our own Jewish population of 20,000 survived unharmed. In addition, we were able to save about 300,000 refugees, of whom 30,000 were Jewish refugees.

3. I am proud of the substantial amounts my then relatively poor country paid for the reconstruction of Europe.

4. It was a tragic mistake for Switzerland not to take under its protection many more Jewish refugees.

5. The Swiss Bankers Association demonstrated poor judgment and a lack of empathy and sensitivity by failing to look actively and systematically for heirs of Holocaust victims immediately after the war.

6. I am happy that, in the end, substantial funds have been made available for distribution to Holocaust victims and their heirs. I hope that these funds will reach the victims as quickly as possible and that comparatively little will be diverted to legal and administrative expenses.

7. Finally, it is my sincere hope that the wounds in U.S.-Swiss relations will heal soon and that the "two sister republics," as the United States and Switzerland were known in the last century, can enter the 21st century with these divisive issues decisively behind them.
A crisis of this magnitude is always a debt crisis. Very soon we will see debt around the world come under enormous pressure as borrowers start defaulting. This will lead to bonds crashing and rates surging. Central banks will then lose control of interest rates as long rates first go up and soon also pulling the shorter rates up. Rates can easily go to 15-20%. Many bonds will go to zero and rates to infinity. It was lent to them by LBMA banks which are custodians for the biggest gold ETF GLD. These banks also hold central bank gold and all they need to do is to lend the same gold yet one more time to the ETFs. So if you hold a gold ETF, which you mustn’t, you know that it is unlikely to be backed by gold for more than a small portion of the fund total. Banking crises can be caused by inadequate governmental oversight, bank runs, positive feedback loops in the market and contagion. Learning Objectives. Describe some common causes of a banking crisis, Explain a bank run. Leverage: The use of borrowed funds with a contractually determined return to increase the ability of a business to invest and earn an expected higher return, but usually at high risk. In light of recent market and banking failures, the economic analysis of banking crises both historically and presently is a constant source of interest and speculation. Banking crises are when there are widespread bank runs: an abnormal number depositors try to withdraw their deposits because they don’t trust that the bank will have the deposits for withdrawal in the future. Deutsche Bank AG/London. 14 November 2014 Special Report: Peg worth its weight in gold: a detailed analysis of the Swiss gold referendum. There would be two advantages to such an approach. First, by borrowing gold to meet reserve holdings disclosure requirements for one day of the month, the SNB would be free to invest in other, higher yielding assets during the rest of it. Gold swaps are politically more straightforward than the introduction of a SWF. There is a long history of monetary institutions using gold swaps dating back to the early 20th century. Indeed, in era of pre-Bretton Woods convertibility, gold swaps were frequently used to make up the gold ratio requirements of central banks.