

# The importance of borders for swiss banks : some lessons from economic history

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## The Importance of Borders for Swiss Banks. Some Lessons from Economic History

Enrico Berbenni

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The economic consequences of a political frontier are many and not all have been adequately explored. For a long time the political and administrative boundaries have, in fact, been considered one of the main sources of costs related to trade. Instead, the study of banking systems in border regions has probably received less attention so far, maybe due to the fragmented nature of available data, which makes it difficult to assess the border effect on the credit framework of these geographic areas. These few notes are intended to provide some insight into this topic, suggesting the impossibility of formulating a general theory on the banking systems along the frontier, which are, instead, more affected by the several variables that contribute to differentiate the individual border regions from each other. In this perspective, the Swiss case is particularly significant in that it is in conflict with the traditional thesis, which argues that frontier regions are sites of penalisation. By comparing three different border areas – Geneva, Basel and especially Ticino, due to its gravitating towards an external economic pole, the Milanese one – the paper highlights the fragility inherent in the economies along the boundaries, but also the strong potential provided by deeper cross-border integration, as historical experience clearly demonstrates, and as the current framework seems to make more and more necessary.

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### **Theoretical approaches on border regions**

The concept of border does not have a well-defined meaning.<sup>1</sup> A border is not a natural and permanent reality but a construction, even a symbolic one. It separates but at the same time brings people into contact. On a

1 Piero Zanini, *Significati del confine. I limiti naturali, storici o mentali*, Milano 1997. These notes include some thoughts shared during the session «On the Path of Money. Capital, People, Technology and Financial Culture between Switzerland and the Rest of the World (XVI–XX centuries)», at the conference «Global – Local», Third Swiss

national level, boundaries assume multiple functions that affect relationships between two countries. Guichonnet and Raffestin distinguish five different functions: legal (separation of two different legal systems); fiscal (protection of the economies of two neighbouring states, typically through customs barriers); control (managing access of goods and people in a country); military (the role of the frontier in national defence); and ideological (the role of the frontier in building national identity).<sup>2</sup>

However, a political divide may also have considerable effects on a local scale. Our analysis takes into account the historical and economic significance of borders, while neglecting other aspects – political, socio-cultural, anthropological, linguistic – that are also connected to it. In this sense, the literature has traditionally considered it as a barrier to the development of frontier regions, defined as «subnational areas whose social and economic life is directly and significantly affected by proximity to an international frontier».<sup>3</sup>

Location theorists such as Christaller and Lösch point out that the border areas are placed at a disadvantage by the existence of barriers to international trade and the threat of military invasion. National boundaries, they state, tend to artificially separate spatially complementary regions.<sup>4</sup> Similarly, those who rely on the growth pole theory, argue that the main effect of a political border is to block the diffusion process of a development pole, giving rise to situations in which underdeveloped areas on one side of border areas coexist with overdevelopment on the other.<sup>5</sup> In addition, there are also those who consider border areas as marginal even in economic terms, insofar as the factors of production tend to migrate toward the centre of national spaces.<sup>6</sup>

Although these interpretations did not exclude a positive impact on border regions in the case of stable boundary lines (for example through the development of commerce on the border; the gains associated with the collection of duties or cross-border investments to circumvent

Congress of Historical Sciences, 7–9 February 2013, University of Fribourg (Switzerland).

- 2 Paul Guichonnet, Claude Raffestin, *Géographie des frontières*, Paris 1974, pp. 48–53.
- 3 Niles M. Hansen, *Border Regions: A Critique of Spatial Theory and a European Case Study*, in: Idem (ed.), *Human Settlement Systems. International Perspectives on Structure, Change and Public Policy*, Cambridge 1978, p. 247.
- 4 Walter Christaller, *Die zentralen Orte in Süddeutschland*, Jena 1933; August Lösch, *Die räumliche Ordnung der Wirtschaft*, Jena 1940.
- 5 René Gendarme, *Les problèmes économiques des régions frontalières européennes*, in: *Revue économique* 21/6 (1970), pp. 889–917.
- 6 What is referred to is the model of economic union developed in Herbert Giersch, *Economic Union between Nations and the Location of Industries*, in: *Review of Economic Studies* 17/2 (1949–1950), pp. 87–97.

customs duties, as in the case of ‘tariff-factories’), the dominant view was still that of a barrier that tends to hinder their development.

An empirical analysis, however, seems to resize this position.<sup>7</sup> In fact, depending on the region and historical period, the border may be seen not only as a ‘glass wall’ that separates two or more different socio-economic and institutional systems, but also as a filter that interconnects these areas, allowing a selective flow of information and factors of production.<sup>8</sup> In other words, there are always gaps in these ‘prison walls’ and probably cases of impermeable boundaries are rare.

The advantages of this situation often lie on both sides of the border.<sup>9</sup> Not only may there be favourable conditions for the development of border areas, but the existence of political boundaries may, under certain conditions, have positive effects on the economic growth and the levels of per capita income in neighbouring countries as a whole. In this regard, an economic analysis has showed that full political integration between two neighbouring countries, by reducing their openings to trade with the rest of the world, is not necessarily desirable as it may sometimes result in a negative net effect compared to a more limited form of unification based on deeper economic integration.<sup>10</sup> These theoretical approaches thus tend to regard border areas as a connecting tissue between different institutional contexts, where the contact function dominates over that of separation.

Such a concept seems particularly noteworthy now, due to the double dimension of European integration, at once international and regional, as is made clear by the telling definition, ‘Europe of regions’. Even some historical and economic literature on the regional dimension of development, in particular with regard to the process of European industrialization, tends to emphasize that economic and political boundaries do not

7 See, for instance, Hansen, *Border Regions*, pp. 252–258. For examples of cooperation between border cities, see Jan Buursink, *The Binational Reality of Border-Crossing Cities*, in: *GeoJournal* 54/1 (2001), pp. 7–19.

8 Remigio Ratti, *Regioni di frontiera. Teorie dello sviluppo e saggi politico-economici*, Lugano 1991; Alberto Bramanti, Remigio Ratti (eds.), *Verso un’Europa delle Regioni. La cooperazione economica transfrontaliera come opportunità e sfida*, Milano 1993; Remigio Ratti, Shalom Reichman (eds.), *Theory and Practice of Transborder Cooperation*, Basel/Frankfurt a.M. 1993.

9 Walter Leimgruber, *Boundaries and Transborder Relations, or the Hole in the Prison Wall: On the Necessity of Superfluous Limits and Boundaries*, in: *GeoJournal* 64/3 (2005), pp. 239–248.

10 Enrico Spolaore, Romain Wacziarg, *Borders and Growth*, in: *Journal of Economic Growth* 10/4 (2005), pp. 331–386.

always overlap, although we should not run the risk of considering the regional perspective as an alternative to the national.<sup>11</sup>

In short, this issue is open to a wide field of discussion. The consequences of a political frontier are many and not all have been adequately explored. For instance, a large body of literature documents the impact of borders on trade. For a long time the political and administrative boundaries have, in fact, been considered one of the main sources of costs related to trade.<sup>12</sup> Instead, the study of banking systems in border regions deserves to be further investigated to assess the border effect on the credit framework of these geographic areas, even though serious inconveniences may arise from the fragmented nature of available data. These few notes are intended to provide some insight into this topic, suggesting the impossibility of formulating a general theory on the banking systems along the frontier, which are, instead, more affected by the several variables that contribute to differentiate the individual border regions from each other.

### **Surrounded by borders. The Swiss case**

In this perspective, Switzerland appears as a real laboratory, due to the importance of several border regions scattered around the country. Following Ratti's approach, these areas can be considered to exhibit different characteristics, depending on the nature of the relations across the border (complete or limited to some factors only), the direction of trade flows (symmetric or asymmetric) and, finally, the intensity of trade. Thus there are border areas, particularly those marked by the presence of a natural boundary (as in the case of the Valais or Grisons), which appear to be characterized by extremely limited exchanges. On the contrary, other regions show almost complete exchange relationships, although their intensity is hampered by the boundary line, as in the case of two advanced border areas such as Basel and Geneva. Finally, a third type is

11 Sidney Pollard, *Peaceful Conquest: the Industrialization of Europe 1760–1970*, Oxford 1981; François Crouzet, *Quelques problèmes de l'histoire de l'industrialisation au XIX<sup>e</sup> siècle*, in: *Revue d'histoire économique et sociale* 53/4 (1975), pp. 526–540; Sergio Zaninelli, *La Lombardia verso l'industrializzazione. Dalla crisi agraria al primo conflitto mondiale*, in: *Storia dell'industria italiana*, Milano 1977, pp. 62–101; Angelo Moioli, *L'industrializzazione in Lombardia dall'Ottocento al primo Novecento: un bilancio storiografico*, in: *Annali scientifici del Dipartimento di Economia dell'Università degli studi di Trento* 1988, pp. 49–111.

12 See, for instance, Charles Engel, John H. Rogers, *How Wide is the Border?*, in: *American Economic Review* 86/5 (1996), pp. 1112–1125; John McCallum, *National Borders Matter: Canada–US Regional Trade Patterns*, in: *American Economic Review* 85/3 (1995), pp. 615–623.

defined by situations in which such relations appear largely incomplete and distorted, as in the case of Ticino. These examples are particularly significant in that they conflict with the traditional thesis, which argues that frontier regions are sites of penalisation.<sup>13</sup>

In fact, in typical border regions, the frontier has never been able to completely separate geographical, economic and cultural areas related to each other, even in the historical periods in which protectionist policies largely prevailed. Yet, at the same time, the existence of a political boundary managed to distort many relations that are by nature complementary. The years between the two world wars, for example, which were characterized by increasingly invasive government intervention in commercial and currency transactions, clearly accentuated the effect exerted by the border.

What do borders mean then for Swiss banks? On the whole, Swiss banking has largely drawn on the institutional and economic benefits that this country has particularly enjoyed in the twentieth century. Among its many strengths, the emphasis is mainly on its traditional neutrality and political stability, the low rates of inflation and interest rates, the strength of the Swiss franc and a favourable fiscal environment. These factors have undoubtedly played a decisive role in the success of the Swiss banking system and given rise to its characteristic feature as a 'turntable' of capital.<sup>14</sup>

Of course, we must not lose sight of the fact that Switzerland has for centuries had a special function within the European continent, perhaps as early as the late Middle Ages and the early modern age. The Confederation was a place where goods, people and capital transited, bringing southern and northern Europe in contact with one another. The Alps have never been an unsurmountable wall, but instead have led Switzer-

13 Remigio Ratti, I problemi delle regioni di frontiera: il caso del Ticino, in: Mauro Baranzini, Alvaro Cencini (eds.), *Contributi di analisi economica*, Bellinzona 1987, pp. 135–145; Remigio Ratti, *Éléments de théorie économique des effets frontières et de politique de développement régional. Exemplification d'après le cas des agglomérations de frontière suisses*, in: *Revue suisse d'économie politique et de statistique* 128/3 (1992), pp. 325–338. See also Pietro Cafaro, *Local Banking Systems on Both Sides of the Border: High Lombardy and Ticino between the Nineteenth and Twentieth Century*, in: Giuseppe De Luca, Marcella Lorenzini, Roberto Romano (eds.), *Banche e banchieri in Italia e in Svizzera. Strutture finanziarie, mercati e investimenti (secoli XVI–XXI)*, Bologna (forthcoming).

14 See, for instance, Marc Perrenoud, Rodrigo López, Florian Adank, Jan Baumann, Alain Cortat, Suzanne Peters, *La place financière et les banques suisses à l'époque du national-socialisme. Les relations des grandes banques avec l'Allemagne (1931–1946)*, Zurich 2002; *Unione di Banche Svizzere, L'economia svizzera. Cifre, fatti, analisi. 1946–1986*, Zurigo 1987.

land to play the role of connector.<sup>15</sup> Firstly in terms of contact between peoples: until the mid-nineteenth century, the migration balance was negative and for centuries mercenary activity brought about a considerable outflow of population; then this trend began to reverse and the presence of foreigners in Switzerland increased, revealing a development that gradually transformed the socio-economic reality of the Confederation.

This also happened in the passage of goods. Switzerland's geographical position, and the control that it exercised on the main transalpine routes, explain this transit function, though not always with the same intensity: it was evident until the mid-sixteenth century, as witnessed by the Geneva and Zuzach fairs, thereafter trade in Switzerland took on a mainly regional character. The 19<sup>th</sup> century's rapid industrialization eventually restored a more dynamic role to international trade, which mostly took advantage of the creation of a rail network and the completion of the Gotthard line (1882), the Simplon tunnel (1906) and the Lötschberg (1913).<sup>16</sup>

Traditional Swiss neutrality, from Marignano onwards, and its geographical position at the core of the European continent made it possible and vital for this mosaic of cantons to entertain constant relations with surrounding countries. This was particularly evident in the banking sector: after all, banking in the late 19<sup>th</sup> century was often a cross-border activity and the trend towards the multi-nationalization of the banking system was already evident in several countries.<sup>17</sup> In this regard, the twentieth century has certainly led to a quantitative and qualitative turning point. The First World War in particular seems to have considerably strengthened the attractiveness of Switzerland to foreign capital.<sup>18</sup> On the one hand, monetary disorders and increased taxation in many European countries in the postwar period strongly encouraged the export of capital. In fact, the dramatic depreciation of most of the European currencies turned the Swiss franc into a hard currency and a safe investment

15 Jean-François Bergier, *Histoire économique de la Suisse*, Paris 1984; Jon Mathieu, *Storia delle Alpi 1500–1900*, Bellinzona 2000; Luca Mocarelli (ed.), *Tra identità e integrazione. La Lombardia nella macroregione alpina dello sviluppo economico europeo (secoli XVII–XX)*, Milano 2002; Giovanni Luigi Fontana, Andrea Leonardi, Luigi Trezzi (eds.), *Mobilità imprenditoriale e del lavoro nelle Alpi in età moderna e contemporanea*, Milano 1998.

16 Bergier, *Histoire économique de la Suisse*, pp. 45–62, 285, 290–292; Gilles Forster, *Transit ferroviario à travers la Suisse (1939–1945)*, Zurich 2001.

17 Geoffrey Jones (ed.), *Banks as Multinationals*, London/New York 1990.

18 For example, on the role played by Germany in the development of the Swiss financial centre between the two world wars, see Michel Fior, *Les banques suisses, le franc et l'Allemagne: contribution à une histoire de la place financière suisse (1924–1945)*, Genève 2002.

(fig. 1). At the same time, Swiss fiscal policy, which reserved favourable treatment for foreign capital, together with the practice of banking secrecy, have proved undeniably attractive, so that a significant proportion of those financial resources flowed into the Confederation.<sup>19</sup> In this perspective, what happened in the second half of the century and what continues to occur today, although at a very different level and with far more complex mechanisms, cannot be regarded as a complete novelty.

The general course of events is well known and this is not the place to dwell any further on them. Instead, special attention has to be paid to the different evolution of the individual cantons, especially those located on the border with the major European economies: Germany, France and Italy. In other words, we need to 'break down' the effects of national and international events in their implications for the several territories of the Confederation. We may wonder, for instance, how the banking systems of three border cantons, such as Geneva, Basel and Ticino, behaved when faced with the same scenario. This helps not to lose sight of the double dimension of these processes, which occur not only on a global but also on a local scale, not only on the international financial markets but also on the economic structures of individual territories, from one side to the other of the border.

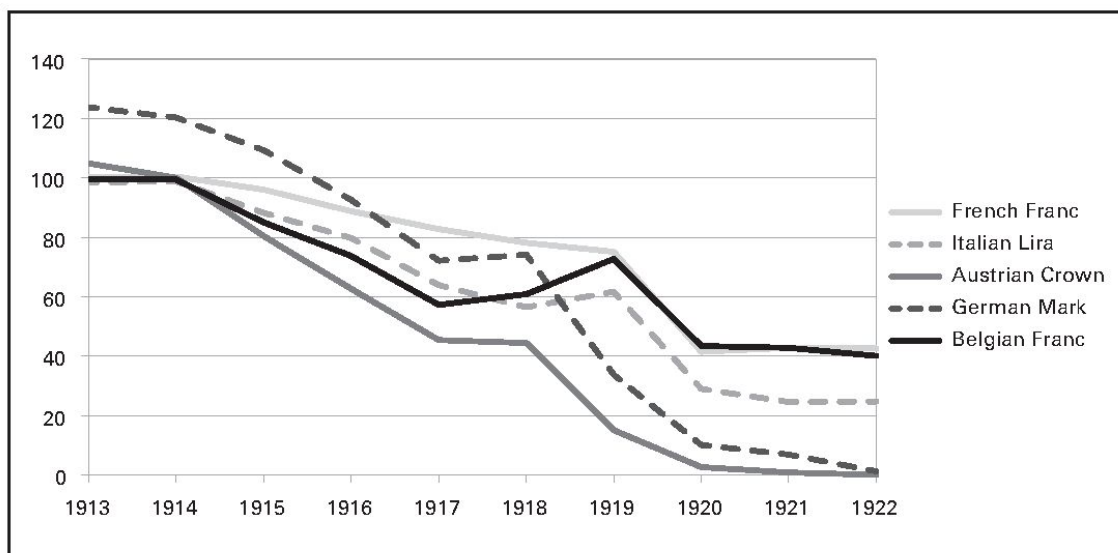
Territories such as those previously mentioned have a different history, as well as expressing a different degree of economic and financial development. However, they have at least one feature in common, that of sharing borders with states of a considerable size, with whom they have continued to share resources even in periods when the border seemed more difficult to cross. Cantons, such as Geneva, Basel or Ticino, provide a clear demonstration of the close interplay that circumscribed territories have been able to establish with neighbouring countries.

The bankers of Geneva, a city of fairs and a financial centre in the Middle Ages, established a profound relationship with French finance throughout the early modern period.<sup>20</sup> From the 18<sup>th</sup> century onwards banking activities related to the development of international trade, the Huguenot refugees and the financing of wars under Louis XIV, became a linchpin of Geneva's economy. Long experience in the international

19 Christophe Farquet, *The Rise of the Swiss Tax Haven in the Interwar Period: an International Comparison*, in: *EHES Working Papers in Economic History* 27 (2012); Sébastien Guex, *The Origins of the Swiss Banking Secrecy Law and Its Repercussions for Swiss Federal Policy*, in: *The Business History Review* 74/2 (2000), pp. 237–266.

20 See, for instance, Alfred Dufour, *Histoire de Genève*, Paris 1997; Anne-Marie Piuz, Liliane Mottu-Weber, *L'économie genevoise, de la Réforme à la fin de l'Ancien Régime*, Genève 1990.





**Figure 1.** Exchange rate of the Swiss franc with the major European currencies, 1913–1922 (Swiss francs per 100 units of foreign currency). Source: Hansjörg Siegenthaler (Hg.), *Historische Statistik der Schweiz*, Zürich 1996, p. 837.

arena has created a world of private bankers specialized in asset management that is deeply rooted in this area, while the foundation of large credit institutions, comparable to the experiences of Basel and Zurich, has been largely lacking (the only large commercial bank that Geneva had created, the *Comptoir d'escompte de Genève*, which in 1933 became the *Banque d'escompte Suisse*, eventually went bankrupt in 1934). At the same time, however, its favourable geographical position (bordering the French region of Rhône-Alpes, today considered one of the 'Four Motors for Europe', along with the Baden-Württemberg, Catalonia and Lombardy regions) made it possible for Geneva to attract a large number of banks in foreign hands and direct branches of foreign banks.

Especially for Geneva's banking, and more generally for French-speaking Switzerland, the contribution of French capital exported to the Confederation has proved crucial.<sup>21</sup> Located on the French-Swiss border, from Basel to Geneva, private banks, some of which were founded as early as the late 18<sup>th</sup> century, have been engaged in managing French capital with the utmost discretion. They were often run by families of French

21 Swiss banks, in turn, managed French assets through other financial centres: several companies based in Liechtenstein, for example, had been set up by Swiss banks on behalf of French customers. Marc Perrenoud, Rodrigo López, *Aspects des relations financières franco-suisse (1936–1946)*, Zurich 2002, pp. 18–25. On the role played by Liechtenstein in the Second World War, see Hanspeter Lussy, Rodrigo López, *Finanzbeziehungen Liechtensteins zur Zeit des Nationalsozialismus*, Zürich 2005.

origin: for that matter, since the 16<sup>th</sup> century, Geneva has been accepting foreign refugees for religious reasons. The close relations with French customers have been clearly proved, for instance, by M. Perrenoud and R. López for the years around the Second World War: in 1937, also because of the growing influx of French capital caused by the rise to power in France of the Front Populaire, the assets deposited at the main private banks were held mostly by foreign customers (141 million Swiss francs), against 136 million belonging to Swiss customers (fig. 2).<sup>22</sup>

French capital was also managed by French banks established in Switzerland, especially in Geneva. The Banque de Paris et des Pays-Bas (Paribas) and Crédit Lyonnais have actually had branches in Geneva since the 1870s.<sup>23</sup> The Banque Parisienne de Crédit au Commerce et à l'Industrie was also established there by the 1920s. In close relationship with Geneva's private bankers, these French branches were mostly devoted to asset management. Against this backdrop, foreign capital constituted the majority of the third-party assets managed by foreign banks established in Switzerland (60.9% in 1940).<sup>24</sup>

In contrast to Geneva, where banking develops in a region where the service sector has been the main driver of economic activities since the 18<sup>th</sup> century and without gravitating toward one or two financial institutions of primary importance, the 'tri-national' reality of Basel is more complex, being one of the main trade crossroads in Central Europe. Although in the 19<sup>th</sup> century Basel began to feel the growing economic importance of Zurich, for centuries it has been an industrial, commercial and financial landmark for an economic area that stretched far beyond the narrow political boundaries of the canton, including neighbouring regions in French and German territory.

The permeability of the border seems more striking than ever in the banking sector. The first private bank, Ehinger & Cie, was founded in 1810, performing credit operations in Switzerland, southern Germany and eastern France. Still in the early 19<sup>th</sup> century, the Merian bank was operating mainly in Upper Alsace, although its financial interests ex-

22 However, these data represent only a portion of the whole banking activity, which consisted mainly in operations, not included directly in the balance sheet, related to asset management (management or placement of securities, transactions on gold and foreign exchange) made on behalf of customers.

23 Jean Bouvier, *Le Crédit lyonnais de 1863 à 1882: les années de formation d'une banque de dépôts*, Paris 1961; Eric Bussière, *Paribas 1872–1992*, Antwerp 1992.

24 Perrenoud, López et al., *La place financière*, pp. 51–58, 122–135, who also highlights the central role played by Swiss banks located near the French-Swiss border (like the Geneva branch of the SBS or the Basel branch of the Credit Suisse) in the massive trade of French banknotes Germany transferred to Switzerland throughout the Second World War, in exchange for Swiss francs, gold and other foreign currencies.



**Figure 2.** Third-party assets of leading private banks (in millions CHF). Source: Marc Perrenoud, Rodrigo López, *Aspects des relations financières franco-suisse (1936–1946)*, Zurich 2002, p. 53.

tended elsewhere in France. In 1840, Basel had only 24,000 inhabitants but as many as sixteen bankers, whose capital went to finance the development of the textile industry in Alsace and Baden. The expansive financial climate following the Franco-Prussian War was also proof of the close ties linking Swiss and German finances. At that time, a group of private bankers in Basel, in conjunction with the Frankfurter Bankverein, the Berliner Bankverein and the Wiener Bankverein, agreed to found the Basler Bankverein, an ancestor of the Schweizerischer Bankverein, in 1871.<sup>25</sup>

Conversely, at other times, the border could act as an obstacle, too. For example, Basel was particularly penalized during the First World War because its geographical position, so advantageous when international exchanges are free, becomes critical when it is artificially separated from its traditional areas of activity. In addition, the collapse of the German monetary system at the end of the war negatively affected the foreign debtors of Basel's banks, resulting in a severe downgrading of the mortgages held in Germany. The *Crédit Foncier* in Basel, for example,

25 On the expansion, in Switzerland and abroad, of the Swiss Bankverein until the First World War and on the person of its managing director and then chairman, Léopold Dubois, see Malik Mazbouri, *L'émergence de la place financière suisse (1890–1913): itinéraire d'un grand banquier*, Lausanne 2005.

whose loans often addressed precisely Germany, lost half of its twelve million marks of mortgages.<sup>26</sup>

What should be stressed here is that these territories seem to have flourished thanks mostly to the frontier position by which their growth was profoundly influenced. At certain times, however, this advantage has turned into a factor of instability, negatively affecting the border area, which is therefore particularly susceptible to changes in the external economic situation. One may then ask how and to what extent their economic structure, and in our case their banking institutions, have been affected by the border from a practical point of view. For that purpose, an analysis over time is needed: as a matter of fact, border effects have not always been the same, as the events occurring in the 19<sup>th</sup> and 20<sup>th</sup> centuries made quite evident, ranging from a substantial permeability of the borders (before the First World War and in recent decades) to a real closure (mostly in the period between the two world wars). Moreover, we may also wonder what economic consequences the existence of these development poles in Swiss territory had just across the border: did they help or hinder the economic development in the border areas? These questions are not trivial and there is no single answer to them, as detailed analyses are required of the different historical evolution of each border region.

From this perspective, the case of Ticino appears particularly significant, due to the strong influence that the border has on the development of this peripheral canton. This is an example that deserves to be examined carefully, also because of the enormous potential that the Milanese region has had for the financial position of Ticino. Its impact is likely to be even greater than that, for example, of the French Alsace and the German Baden on Basel. This could probably be explained by the fact that, in the latter case, the leading economic pole is located in Basel, within the border region: instead, the case of Ticino seems to be very different, as it appears to be squeezed between Milan and Zurich, two major economic centres located outside the border area.

26 Hans Bauer, *Banques et banquiers bâlois*, in: Louis H. Mottet (éd.), *Les grandes heures des banquiers suisses*, Neuchâtel/Paris 1986, pp. 151–172. Another example is provided by the negative effects that the laws issued by Germany in the thirties against capital flight had on Swiss banks along the German-Austrian border. The Swiss National Bank signed a compensation agreement with the Reichsbank, under which banks on the border could make up for their loans blocked in Germany and Austria with savings accounts declared to the Nazi authorities. See Barbara Bonhage, Hanspeter Lussy, Marc Perrenoud, *Nachrichtenlose Vermögen bei Schweizer Banken. Depots, Konten und Safes von Opfern des nationalsozialistischen Regimes und Restitutionsprobleme in der Nachkriegszeit*, Zürich 2001.

## **The Swiss-Italian borderline. The case of Ticino<sup>27</sup>**

Ticino is the only Swiss canton located entirely south of the Alps. From a geographical point of view it belongs to the Italian region of Lombardy and for centuries has shared its fate. Contended by Milan and Como during the Middle Ages, it was annexed to the State of Milan in the 14<sup>th</sup> century, before joining the Swiss Confederation during the 16<sup>th</sup> century. Despite the political discontinuity, the substantial permeability of the border has characterized the relations between Ticino and Lombardy in the long run, resulting in strong socio-economic and cultural interaction.<sup>28</sup> Notwithstanding this, in the second half of the 19<sup>th</sup> century Ticino's economy appeared to be at a lower stage of development compared to Switzerland as a whole and also to the neighbouring Lombardy.<sup>29</sup> Although some new industries were introduced in those years, greater industrialization came with some delay, at the beginning of the new century, even so in traditional sectors mostly based on low labor costs, largely thanks to immigration. This situation was due, partly at least, to the simultaneous presence of the geographical boundary of the Alps in the north, and the political border in the south, which contributed to distorting the relationships that Ticino generally entertained outside its limited business environment.<sup>30</sup>

Yet, the weak economic base of Ticino did not prevent the rise of a local banking system that was encouraged to look for investment opportunities outside the narrow boundaries of the canton since its very beginning. The early stage of this process was characterized by the foundation of several credit institutions of modest dimensions, especially compared with the major Swiss banks: in 1910, the overall balance sheet of all credit

27 I have dealt with the evolution of the banking system in Ticino in *Banking Systems on the Border. Italy and Switzerland under the Latin Monetary Union (late 19<sup>th</sup>–early 20<sup>th</sup> centuries)*, in: *Annali di Storia Moderna e Contemporanea* 1 (2013), pp. 137–150; *Border Effects on Local Banking Systems. The Swiss-Italian Frontier between the two World Wars (1914–1945)*, in: Melanie Aspey et al. (eds.), *Foreign Financial Institutions and National Financial Systems. Studies in Banking and Financial History*, Frankfurt a.M. 2013, pp. 403–447; *Attività bancaria in una regione di frontiera: la Banca della Svizzera Italiana*, in: De Luca, Lorenzini, Romano (eds.), *Banche e banchieri in Italia e in Svizzera*.

28 Raffaello Ceschi (ed.), *Storia del Cantone Ticino*, Bellinzona 1998; Idem (ed.), *Storia della Svizzera italiana. Dal Cinquecento al Settecento*, Bellinzona 2000.

29 Clear evidence of Ticino's backwardness in the mid-nineteenth century is to be found in Pietro Nosetti, Michele Dunghi, *La Cassa Ticinese di Risparmio e i depositi alla fine del 1847*, in: *Bollettino storico della Svizzera Italiana* CXVI/I (2013), pp. 83–138.

30 Sandro Guzzi-Heeb, *Per una storia economica del Canton Ticino*, in: Jean-François Bergier, *Storia economica della Svizzera*, Lugano 1999, p. 330; Basilio Biucchi, *Profilo di storia economia e sociale della Svizzera*, Locarno 1983, pp. 126s.

institutions in Ticino amounted to 145 million francs, while the figure for Switzerland as a whole was 7,887.<sup>31</sup>

In the early 20<sup>th</sup> century eight banks were operating in the canton.<sup>32</sup> Among those credit institutions, the case of the Banca della Svizzera Italiana (BSI) is outstanding and a study of it allows us to evaluate the evolution of Swiss-Italian relations up to the present.<sup>33</sup> In fact, its long-lasting activity is clear proof of the flow of capital from Italy to Switzerland and vice versa. It also allows us to demonstrate the different roles played by the frontier during the 19<sup>th</sup> and 20<sup>th</sup> centuries. In fact, the BSI (as well as other banks in Ticino) operated in an economic region that did not entirely correspond to the political entity represented by the Italian-speaking canton, but that extended across the border to Piedmont and Lombardy.<sup>34</sup> This bank thus worked in two directions, not only supporting Ticino's local economy, but also exploiting business opportunities in Italy. This gave rise to a flow of resources that, most likely, moved in both directions, not only through investments made abroad – in transport infrastructures, for instance, as well as setting up a bank in Milan in 1880 and other subsidiaries in leading manufacturing centres, such as Gallarate, Luino and Domodossola – but also thanks to a clientele of Italian origin.<sup>35</sup>

Overall, since the second half of the 19<sup>th</sup> century Ticino's banking system has been able to thrive thanks to the close links it could exploit beyond the frontier. Indeed, this seems to be one of the most outstand-

31 Hansjörg Siegenthaler (Hg.), *Historische Statistik der Schweiz*, Zürich 1996, pp. 812s.; Carlo Kronauer, *Gli istituti di credito ticinesi dalla loro fondazione fino al 1912*, Zurigo 1918, p. 7; Virginio Mazzolini, *Le banche nel Ticino*, Roveredo 1946; Georges Bonnant, *Les colonies suisses d'Italie à la fin du XIX<sup>e</sup> siècle*, in: *Revue Suisse d'Histoire* 26/1–2 (1976), pp. 134–176.

32 Banca cantonale ticinese (1861), Banca della Svizzera italiana (1873), Banca popolare ticinese (1885), Banca popolare di Lugano (1889), Credito ticinese (1890), Banca Svizzera Americana (1897), Società bancaria ticinese (1904), Banca agricola commerciale (1904).

33 The Banca della Svizzera Italiana (BSI) was founded in 1873 on the initiative of three big credit institutions from outside the canton. Along with Ticino's industrial entrepreneurs and businessmen, a crucial contribution was provided by the Schweizerische Kreditanstalt of Zurich, the Basler Bankverein and by one of the main Italian institutions, the Banca Generale of Rome. Banca della Svizzera Italiana, *Rapporto agli azionisti sull'esercizio 1873*, in: *Archivio storico della Banca d'Italia (Asbi)*, *Raccolte diverse, Relazioni e bilanci, Pratiche*, n. 4, doc. 1.

34 Luigi Lorenzetti, Nelly Valsangiacomo (eds.), *Lo spazio insubrico. Un'identità storica tra percorsi politici e realtà socio-economiche 1500–1900*, Lugano 2005.

35 Mazzolini, *Le banche nel Ticino*, p. 74. *Archivio storico della Camera di commercio di Milano (Accm)*, Ufficio provinciale d'ispezione delle società commerciali e degli istituti di credito, Banca di Milano (già Banca Svizzera Italiana), scat. 44, bob. 58; Ivi, *Registro ditte*, scat. 411, bob. 185; BSI, *Rapporto agli azionisti, 1882–1883*, in: *Asbi, Raccolte diverse, Relazioni e bilanci, Pratiche*, n. 4, doc. 6 e 7.

ing features of a border region whose development was mainly driven by the financial sector, as industry was still unable to effectively provide a boost to the local economy, which remained relatively poor compared to the rest of Switzerland. Quite interestingly, the rise and fall of Ticino's banks correlated closely with the growth of the Italian economy and was strongly affected by the periodic crises of Italian banks. In fact, Ticino's banks were hit – perhaps significantly, although there is not much information on this – by the banking crisis that began in Italy in 1888–89, to be connected in turn to the global crisis which would last from 1890 until 1895–96.<sup>36</sup> The Banca cantonale ticinese was indeed heavily affected by the failures that occurred in the neighbouring kingdom, so much so that it was accused of 'wasting' the savings collected in the canton to support risky industrial projects in Italy.<sup>37</sup>

If we consider the historical evolution of Ticino's banking system, it appears quite clear that this canton has largely benefited from the presence of a boundary between two very different states as to density of population, economy, fiscal policy and income. Especially considering the banking centre of Lugano and the international commercial centre of Chiasso, the Swiss economic and institutional framework has offered this canton some advantages that have allowed it in the long run to grow far beyond the possibilities of its real economy. In this sense, the mere fact that Ticino was a point connecting northern Italy and the rest of Switzerland has proved highly attractive. The very origin of the BSI is in fact to be connected to the projects of the Gotthard railway line (the tunnel was opened in 1882), which aroused the interest of Swiss and Italian finance by promising to improve communications between northern and southern Europe.<sup>38</sup>

The reasons for doing business in Ticino also originated from a consideration of the fiscal aspect. After all, in 1909 the Banca commerciale italiana (Comit) gained control of BSI in order to allow its own customers to bypass the Italian duty on foreign securities held by residents: in fact, this was not applied when these same securities were formally deposited in a foreign bank.<sup>39</sup> The Comit's strategy in Ticino was then clear proof of the rising importance of this canton as a vital centre for Italian interests abroad. At that time the Ticino's banking system

36 Ennio De Simone, *Storia della banca dalle origini ai nostri giorni*, Naples 1987, p. 288.

37 Kronauer, *Gli istituti di credito ticinesi*, pp. 31 e 59.

38 Anna Maria Galli, *Sviluppo e crisi della Banca Generale*, in: Enrico Decleva (ed.), *Antonio Allievi: dalle «scienze civili» alla pratica del credito*, Milano/Roma/Bari 1997, p. 585.

39 Archivio storico Intesa Sanpaolo – Fondo Banca commerciale italiana (Asi-Bci), *Relazioni di bilancio, Esercizio 1910*.

gradually shifted from an 'active' to a 'passive' role with regard to the Italian market, becoming more and more a pole of attraction for Italian banks and capital.

If the years preceding the First World War were defined by considerable permeability on the borders, the outbreak of the conflict was marked by a range of provisions that were designed to prevent the flow of currency and capital between Italy and Switzerland as far as possible. Even more restrictive rules were introduced in Italy in 1934 to try and limit the adverse effects of the global crisis on the national balance of payments.<sup>40</sup> Yet, far from blocking cross-border relations, major legislative constraints opened up new business opportunities in an attempt to evade government controls on capital mobility. This was essentially a by-product of a 'push and pull' process, because the worsening of the Italian institutional framework went hand in hand with the strengthening of Switzerland's economic attraction. So, between the two world wars, the creation of several financial companies in Lugano, thanks to the initiative of some Italian banks, was a distinct sign of the interest that this place was able to attract, foreshadowing its future success as a financial centre.

Ticino was thus a hub for international activities related to large Italian banks. The latter, while disinterested in the local economy, were lured there by the possibility of managing banking, commercial and industrial assets through the legal screen guaranteed by a Swiss company, which allowed them to circumvent the more restrictive Italian legislation, especially on currency matters.<sup>41</sup> The Credito Italiano, already established in Lugano with its own banking subsidiary (the Banca Unione di Credito), set up a holding company in 1929, the SA Gestione valori (AGEVA), which was to control part of its shareholdings that were, in this case, especially in Italian companies. However, Comit was the most active in this direction. Indeed, in 1921, it established in Lugano the Società Internazionale di Credito Mobiliare e Immobiliare (SICMI), which later became the holding company of most of the Milanese bank's foreign investments. In the following years other financial companies were created, which together formed a vertical structure headed by Comit's Italian headquarters.<sup>42</sup>

40 For an in-depth analysis on this topic, see Ufficio italiano dei cambi, *Cinquant'anni di storia*, Roma/Bari 1995, pp. 18–24.

41 Roberto Romano, *Il Canton Ticino tra '800 e '900. La mancata industrializzazione di una regione di frontiera*, Milano 2002, p. 102.

42 Roberto Di Quirico, *Le banche italiane all'estero*, Fucecchio 2000, p. 117; Asi-Bci, UF, cart. 10, fasc. 3–4.



	<b>Headquarters</b>	<b>Branches</b>
Basel (Stadt and Land)	43	22
Geneva	54	11
Zurich	89	27
Ticino	9	14

**Table 1.** Number of bank headquarters and branches in Basel, Geneva, Zurich and Ticino (1944). Source: Swiss National Bank, *Das Schweizerische Bankwesen im Jahre 1944*, Zürich 1945.

Lugano certainly did not have the same financial strength as other Swiss regions, whether near a border or not. It could not compare, for instance, to geographic areas such as Basel, Zurich or Geneva, which had a banking system that was much more highly developed in terms of both number of institutions and invested capital. This difference was less pronounced, however, if the number of branches is taken into account. As a matter of fact, in 1944 Ticino was the only canton where there were fewer bank headquarters than branches, probably showing Ticino's marked dependence on decision-making centres from outside the canton (table 1).

Partly at least, this fact can be explained by the specific economic situation in Ticino. In fact, the historical evolution of the canton is of particular interest if we compare it with other border regions, especially with a developed area as that of Basel. Geographically, these two areas are specular: just as Basel is the gateway to northern Switzerland, so is Ticino to the south. But the structural conditions of their economies are very different, since the Ticinese economic system – except for the financial sector – seems particularly frail. In fact, although in the second half of the century Ticino, too, had experienced its 'economic miracle' and benefited greatly from the lively growth of the global economy, its production system preserved a structural weakness and continued to be based primarily on cheap labor favoured by rising flows of frontier workers.<sup>43</sup>

Precisely for this reason, the development of this canton in the last century was strongly influenced by the presence of the Italian border and its position on the trade routes between southern and northern Europe. Its geographical proximity to Italy, especially to the wealthy Milanese area – which also displays a deep ethno-linguistic affinity to Ticino –, made this canton an ideal financial centre for Italian capital seeking

43 Silvano Toppi, *La crescita economica (1945–1975): la scommessa industriale*, in: Ceschi (ed.), *Storia del Cantone Ticino*, pp. 603 e 609; Angelo Rossi, *Dal paradiso al purgatorio. Lo sviluppo secolare dell'economia ticinese*, Locarno 2005.

‘insurance’ in Switzerland against the often adverse political, monetary and fiscal conditions of the home country, probably more than a yield spread.<sup>44</sup>

Until the 1970s the border acted as a filter for Swiss-Italian relations: it was more open than in the past, then, but still without any practical desire for cross-border development. The growth of the canton has been strongly marked, especially since the 1960s, by the massive influx of capital from Italy, able to give a strong boost to the local economy and reaffirm its strong dependence on external conditions that appeared to be well beyond any possibility of its effective control. How much of such Italian capital was collected by banks in Ticino is hard to say, but the fast upward trend of their funds (+242% from 1956 to 1966 – from 796 to 2,722 million francs – compared to +168% of Swiss banks as a whole) and the remarkable growth of banks in Lugano were a telling indicator of the contribution provided by the Peninsula to the ‘banking boom’ in Ticino.<sup>45</sup>

This radical change was the final result of initiatives that originated primarily from outside the canton, through the establishment of subsidiaries not only by Swiss financial companies (the branches of major confederate banks in Ticino increased from 16 in 1946 to 25 in 1959 and 70 in 1988) but also from abroad, with a decisive role played by the Italian capital. This merely confirmed a peculiar feature of Ticino economy, that of acting as a bridge between Italy and the rest of Switzerland.<sup>46</sup>

It may also help to explain why, historically, the industrial development of the Lombard area seems to have stopped at the border (this is not so true nowadays, however<sup>47</sup>), according to the growth pole theory, leaving Ticino devoid of a production system of important dimensions as occurred, instead, just across the border in the Italian provinces of Como, Varese and Lecco (whose banking systems were in turn influenced by the proximity of Switzerland, for example taking part in the foreign exchange transactions that have always enlivened cross-border relations).

On the other hand, Ticino could more than offset this negative effect by being part of a country, Switzerland, with a more stable framework

44 Giorgio Arfaras, *Perché portano i soldi in Svizzera?*, in: Peter Maurer et al., *L'importanza di essere Svizzera*, Roma 2011, pp. 121–123; Martin Kuder, *Italia e Svizzera dal 1945 al 1970. Commercio, emigrazione, finanza e trasporti*, Milano 2012.

45 Paolo Cornaro, *Le banche ticinesi. Premesse, vicende, realtà*, Bellinzona 1969, pp. 118–120; Luciano Segreto, *Le relazioni finanziarie tra l'Italia e la Svizzera (1945–1971)*, in: *Rivista di storia economica* 17/2 (2001), pp. 219–225; Silvano Toppi, *La crescita economica (1945–1975): la ricerca di aperture e l'avvento del terziario*, in: Ceschi (ed.), *Storia del Cantone Ticino*, pp. 633–636.

46 Guzzi-Heeb, *Per una storia economica del Canton Ticino*, pp. 352s.

47 See, for instance, the current tendency of various Italian companies to relocate in Ticino, in search of a leaner bureaucracy and much less oppressive taxation.

than Italy. In this way, the border turns from a ‘barrier’ into an opportunity, which was able to make Lugano the third financial centre of the country in the long run, just behind Zurich and Geneva. As a matter of fact, especially in times of national protectionism, the border acts as a sort of dam that regulates the institutional and economic difference between different state realities: the higher the imbalance, the greater the opportunities for the area that is institutionally and economically ‘strong’ to take advantage of its position.

However, this has a cost. Indeed, the economy of a border region seems fragile, as it is likely to depend in an unstable way – in the absence of a structurally strong local economy – on the persistence of those same advantageous conditions that, inevitably, are beyond their control. Only deeper cross-border cooperation and more widespread integration can probably help reduce such external dependency. After all, some recent studies have also repeatedly emphasized the need to encourage Ticino’s banks to become more involved in the economy of northern Italy, especially in the border area.<sup>48</sup> Pressures to bridge the gap between the two sides of the border are already in place; the border today is much more open and there appears to be room for more cross-border integration. But in this case, the very concept of frontier will have to be revised, turning from a line of separation into a real point of contact.<sup>49</sup>

48 René Chopard, Gioacchino Garofoli, *La banca ticinese e l’impresa del Nord Italia. Opportunità d’integrazione transfrontaliera*, Milano 2014.

49 Remigio Ratti, *L’effetto economico-spaziale della frontiera nelle relazioni fra Svizzera e Italia dal 1848 a oggi*, in: Lorenzetti, Valsangiacomo (eds.), *Lo spazio insubrico*, pp. 259–283; Remigio Ratti, *Dimensione globale e ambiti locali*, in: Roger Friedrich et al. (eds.), *La sfida dell’Insubria*, Lugano 2005, pp. 23–26; Oscar Mazzoleni, Remigio Ratti (eds.), *Vivere e capire le frontiere in Svizzera*, Locarno 2014. The role of cross-border cooperation within the European integration process and today’s European Union is dealt with by the Association of European Border Regions (ed.), *Cooperation between European Border Regions: Review and Perspectives*, Baden-Baden 2008; Barbara Hooper, Olivier Kramsch (eds.), *Cross-Border Governance in the European Union*, London/New York 2004.