

Why the capital came: neutrality, stability and the Cold War

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The tax privileges explain why international companies chose Zug over other Swiss cantons. They do not fully explain why they chose Switzerland. The answer to that question belongs to the history of the post-war world.

Switzerland emerged from the Second World War with its territory intact, its currency stable and its institutions functioning. Its neutrality, which had been controversial during the war, became an asset in the Cold War that followed. For companies that traded with both sides of the Iron Curtain, and with the newly independent states of Africa and Asia, a Swiss base offered a degree of political insulation. A commodity trader in Zug could buy from the Soviet Union and sell to the West, or buy from a state under a Western embargo and sell to a third country, with less exposure to the political pressures of the Western alliances.

The Swiss franc was convertible and stable at a time when many European currencies were subject to exchange controls. Switzerland imposed no capital controls of the kind that restricted the movement of money in Britain, France and other European states until the 1980s. The absence of capital controls, which appears expressly in the testimony of the Tradax representative before the United States Congress in 1976, quoted above, was a decisive advantage for companies whose business consisted of moving money and goods across borders.

Switzerland also offered an experienced and discreet financial system, a network of banks that financed trade and held deposits, and a professional class of lawyers, accountants and fiduciaries accustomed to serving international clients. The concentration of this professional class in Zurich, less than half an hour from Zug, allowed the companies in Zug to draw on its services without having to pay Zurich's taxes.

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Finally, Switzerland was not a member of the European Economic Community. For German, French or Italian groups operating in the common market after 1957, a Swiss holding company offered a base outside the Community, with its own tax rules and its own treaty network, and with a common language for the German groups. The early wave of German companies in Zug, described above, reflects this attraction.

The tax privileges of Zug turned these national advantages into a cantonal one. Of all the Swiss locations that offered neutrality, stability, free capital movement and access to Zurich's services, Zug offered the lowest taxes and the most accommodating administration. The combination made the canton the natural choice for a certain kind of international company. The concentration of such companies in Zug then generated its own advantages: a community of specialists, a supply of experienced staff and a reputation that attracted further companies.

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