

Jul 13, 1997

pg. C1

Spoils of Neutrality

For the Swiss, Nazi Money Had No Odor

By Burton Hersh

The Holocaust saga continues to unfold. The latest installment involves the role of the Swiss-based Bank for International Settlements, which agreed under heavy international pressure to open its wartime ledgers to outside investigators last week. After a half-century of obdurate bureaucratic double dealing, red-faced representatives of Switzerland's private banks have conceded that their predecessors absconded with millions of francs in accounts set up late in the 1930s by worried Jews from neighboring coun-

tries. The depositors never reappeared to reclaim their savings. Where had these "heirless assets" gone? Until recently the Swiss had seemed affronted by the question. Money in such accounts, after a specified period, disappears into the system until a depositor with the right credentials appears. That's the way banks work.

With this renewed international attention to the Holocaust accounts came an onslaught of Swiss bashing. It was recalled that the Swiss had manufactured armaments for Hitler. They had hunted down Jews who made it over their borders and turned them back to the Gestapo. They had permitted entire trainloads of Italian Jews to transit Switzerland during the black hours of the night on their way to Auschwitz, deigning only to inform the Jewish commu-

nity leadership in Zurich so sympathizers could wait by the railroad siding with hot soup in case a guard slid open a door a crack in one of the boxcars.

This rush of details has tended to distort what was a more complicated—and in a number of ways more infamous—role that Switzerland played as Nazism was gathering strength. While writing "The Old Boys," an account of the investment bankers and international lawyers who founded the CIA, I stumbled across many documents that illuminated the relationship among Swiss officials, the amoral German industrialists who boosted Hitler into power and New York-based money managers (advised by seasoned Germanophiles like Allen and John Foster Dulles), who built their careers

See SWISS, C5, Col. 1

BY VINCENT X. KIRSCH FOR THE WASHINGTON POST

Still Unfolding

SWISS, From C1

floating bonds in Central Europe and opening doors for German cartel directors. It was the links I was able to demonstrate that made "The Old Boys" so controversial.

Like so much contemporary history, the temptation of Switzerland began with the Treaty of Versailles at the end of the First World War. Germany was forbidden by the treaty from possessing or manufacturing arms above the level necessary to police itself, while an undefined—though confiscatory—level of reparations was imposed on the Germans by the English and French to offset the costs of the war. Largely at the instigation of wily Reichsbank president Hjalmar Schacht, the Bank for International Settlements (BIS) was created in Basel in 1930 as a clearing house for central banks, purportedly to help expedite the reparations payments to the clamoring allies.

When Hitler took power in Germany in 1933, he quickly repudiated reparations. The versatile Schacht stayed on and acquired the portfolio of minister of economy before masterminding an overnight armaments boom built largely on barter and credit. Shoved out of his cabinet post in 1937 by Hermann Goering, Schacht hung on until 1939 as Reichsbank president. By then, Schacht had managed to pack the board of the BIS with senior Nazis or foreign sympathizers—Hermann Schmitz, head of I.G. Farben; Baron Kurt von Schroeder, the Cologne banker who opened the way for Hitler to President Paul von Hindenberg; Walther Funk, Schacht's odious successor at the Reichsbank; and Emil Puhl, Schacht's longtime protege. The BIS was well positioned for its historic role—to receive and launder the continuing shipments of plunder the Nazi expansion was intended to produce.

The exploitation of neutral and neighboring

countries to assure Germany's revival began shortly after World War I, when successive German governments flouted the Versailles injunctions by secretly developing airplanes, submarines and artillery pieces through partners in Spain, Holland and Sweden, while tuning up unauthorized Panzer units during war games in the Soviet Union. Even then German bankers and industrialists were developing Switzerland as a proxy for a Germany in turmoil, an Alpine bank vault in which the celebrated privacy laws—along with a shared inclination toward financial "objectivity"—made corporate business easy to do. Whichever assets the smokestack barons of the Ruhr or the directors of the Deutsche Bank or the Dresdener Bank felt might be safer from the reparations commissioners disappeared into Switzerland. Germans bought into their Swiss industrial counterparts, acquired land, fattened up their numbered accounts. International cartel managers, like the leaders at I.G. Farben, cloaked their overseas profits in huge Swiss paper entities such as I.G. Chemie.

By the outbreak of World War II, the relationship between the Swiss and German power elites was close to umbilical. It really wasn't that the functionaries in Switzerland were particular-

ly sympathetic to the Germans—sympathy was not a luxury the Swiss permitted themselves—so much as that the opportunities both ways were catnip for businessmen. The Swiss continued to require German iron and coal; the Nazis needed deep—and secret—Swiss pockets. Even among the neutrals, only the Swiss regularly agreed to accept looted Nazi bullion and convert it into their own currency to pay the Third Reich's bills. A U.S. State Department estimate in May of 1945 set German holdings in Switzerland at 290 million Swiss francs, approaching \$80 million in 1945 dollars. The numbers were much larger, according to calculations by the U.S. Treasury Department at the time. Swiss investments in Germany ran up to \$2 billion—about \$20 billion at today's prices.

As gold and treasure flooded in, the Swiss attempted to reinsure themselves against the (unlikely) possibility of a German invasion by transferring an estimated \$2 billion worth of assets to the United States. By 1945, that looked like a mistake. Not long before the war, the U.S. Treasury Department had established a working group called Foreign Funds Control to "focus on the extent and implications of German economic aggression around the world." Led by Orville Schmidt, its analysts were able

throughout the war to track a great deal of Nazi wealth as it moved in and out of the BIS and, often enough, through the Swiss National Bank itself, as well as favored depositories such as Credit Suisse, the Union Bank of Switzerland and the Basler Handelsbank. From those banks, the money went out to defray the cost of strategic materials or disappeared via wire transfers into accounts in countries where top Nazis had already arranged their post-Goetterdaemmerung receptions, notably Spain, Argentina and the Middle East. With Germany collapsing, Foreign Funds Control was in a position to immobilize these German accounts in Switzerland. The threat of blocking all Swiss accounts in the United States provided a powerful lever.

In February 1945, Schmidt was part of a delegation to Bern led by a senior Treasury Department official, Lauchlin Currie. The Americans negotiated an arrangement with the Swiss requiring a freeze of all German holdings in the country and the surrender of an inventory of assets stolen by German invaders throughout Europe. It was a stunning accomplishment, which lasted no longer than it took for word to leak.

Puhl showed up in Bern in mid-March, and, after lobbying Swiss bankers, he obtained an agreement which, he assured Reichsbank president Funk, "wipes out the payment blockade against Germany which the Americans and British have made such strenuous effort to achieve."

The Swiss vigorously denied Funk's interpretation, preferring for the moment to define the freeze as applying only to monies generated since the start of 1945. Meanwhile, in May, Berlin fell to the Red Army. Apprehension over Soviet intentions arose and added to the pressure that U.S. State and War department officials were beginning to feel from their friends and colleagues in "the fraternity" in New York and London. Many in the business fraternity had long profited—and expected postwar pay-offs—ministering to the German cartels.

Finally, in May 1946, a new agreement, the Washington Accord, was worked out during negotiations at the State Department. It incorporated a Swiss offer to turn over to Allied authorities for refugee relief 250 million Swiss

francs, along with half the value of the looted Belgian gold reserve—then appraised at \$123 million—"the remainder to stay in Swiss possession." This was an exorbitant fee even for an "honest broker," as Switzerland traditionally presented itself. Yet in the years to come, what payments the Swiss actually surrendered had to be extorted piecemeal, at first by threats of import restrictions—the Swiss remained desperately short of wheat and coal—and later by sporadic publicity offensives from Washington.

While brushing off the Americans, the Swiss had remained attentive to their defeated German clients. The Swiss had notified the U.S. Legation at Bern that "assets of I.G. Chemie will be freed on Jan. 31, 1946, unless proof of German control is found or presented by the Allies." Throughout the rearmament and the war, while its mother corporation I.G. Farben was profiting from its slave labor camp at Auschwitz (one of its products was Zyklon B, the poison gas used in the death chambers), receipts from the enterprise flowed through to holding company I.G. Chemie. But Switzerland would acknowledge no link.

Against a pattern of larceny on such a scale, the claims of individual Jewish depositors seemed hardly worth acknowledging. Where would one start? By 1945 the assets taken from Europe's Jews over the previous decade, from gold teeth to great collections of Impressionist painting, had changed hands several times as Germany's central bankers scrambled to pay for Hitler's war. Much of the gold had been melted into ingots, with phony numbers predating the Nazi tyranny. Transformed into Swiss francs, a lot had gone to discharge Swiss debts. The Swiss had advanced Hitler's government approximately \$1 billion—\$10 billion in current prices—to pay for Swiss munitions. Who could lay claim to what, in the last analysis?

Faster than anybody expected, Europe returned to business as usual. Most of its Jews were gone, so naturally their money had disappeared. Germany itself recovered—more than recovered: Prosperity in the Bundesrepublik was astonishing. Everybody seemed to forget. But history has a way of winding upon itself, and so it should not surprise even the Swiss if, finally, the remembering has begun in earnest

BY JIM BORGMAN FOR THE CINCINNATI ENQUIRER