

Basel capital abroad

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In the eighteenth century, the merchants and patricians of Basel accumulated more capital than they could invest profitably in the city and its region. The local economy was small, the land market limited and the opportunities for new industries constrained by the guild system. The surplus capital looked for investment abroad and found it above all in the public debt of European states and in the shares of the great trading companies.¹

France was the principal destination. The French crown borrowed heavily throughout the eighteenth century, through perpetual and life annuities, loans from the municipality of Paris, the Estates of Languedoc and Brittany, and other channels. Swiss investors, among them Genevans and Basel patricians, bought large amounts of French debt. The Genevan bankers, as the companion volume describes, specialised in the life annuities of the French crown and developed ingenious structures, such as the pooling of annuities on the lives of selected young Genevan girls, the famous "thirty maidens of Geneva", to exploit the mispricing of the royal annuities. Basel investors participated in these operations, although on a smaller scale.

The Netherlands, England and Austria were other destinations. The Dutch Republic, whose financial market was the most developed in Europe in the seventeenth and early eighteenth centuries, offered bonds of the provinces and cities and shares of the Dutch East India Company. England, after the financial revolution of the late seventeenth century and the foundation of the Bank of England in 1694, offered government stocks, the funds, and shares of the Bank of England, the East India Company and the South Sea Company. Austria borrowed through the Viennese city bank and through loans placed in Amsterdam and Genoa.

These investments exposed Basel capital to the risks of foreign sovereigns. The collapse of John Law's System in France in 1720 and the bursting of the South Sea Bubble in England in the same year caused losses to Swiss

investors. The French Revolution was far more costly: the French state repudiated two thirds of its debt in 1797, in the so-called bankruptcy of the two thirds. The assignats, the paper money of the Revolution, lost almost all their value. Swiss investors who held French annuities and bonds lost a large part of their capital.²

The experience of these losses shaped the attitude of the Basel elite to foreign investment. It taught them that the public debt of great powers was not safe, that political upheavals could destroy fortunes, and that diversification and prudence were essential. It also gave them expertise in the evaluation of foreign securities and in the management of international portfolios, which they would later offer to clients as a service. The private banks of Basel in the nineteenth century combined the prudence learned from these losses with the international knowledge that the investments had required.

1 Notes

1. On the foreign investments of Swiss capital in the eighteenth century (public debt of France, the Netherlands, England, Austria; shares of trading companies), see the literature on Swiss capital exports in the eighteenth century, e.g. the works of Herbert Lüthy on the Banque protestante. To be verified. ↩
2. On the losses of Swiss investors in the collapse of Law's System (1720), the South Sea Bubble (1720) and the French state bankruptcy of 1797 (banqueroute des deux tiers), see the literature on eighteenth-century finance and Swiss investors. To be verified. ↩

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