

From manufacturing to finance: Genevan accumulation

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In the course of the eighteenth century, part of the fortunes born of trade and manufacturing turned towards finance. Several reasons explain this movement. Genevan territory was tiny and offered few opportunities for investment in land. The industries of the Fabrique and of the indiennes were exposed to commercial and regulatory risks. The loans of the European states, and of France in particular, offered attractive returns. And the family and religious networks of the Genevans gave them access to foreign financial centres.

Genevan capitalists therefore placed a growing share of their funds in annuities and foreign loans: annuities on the Hôtel de Ville de Paris, royal loans, English public funds, Dutch loans.¹ These investments, managed by bankers and commission agents, provided regular income to an elite that lived on its annuities, while financing the expenditure of the great powers.

This transformation made Geneva a capital centre. The city exported savings to foreign states and markets. It developed expertise in the assessment of public loans, portfolio management, foreign-exchange operations and international transfers. It trained bankers who would establish themselves in Paris, Lyon, London and Amsterdam. The following chapters describe this Protestant banking and its most prominent figures.

The continuity between this eighteenth-century capital centre and the contemporary wealth-management centre deserves emphasis. In both cases, Geneva manages assets invested to a large extent abroad, relying on international networks, expertise in the analysis of borrowers and a reputation for prudence. The difference lies in the origin of the capital: in the eighteenth century it belonged mainly to Genevans; today it belongs for the most part to a foreign clientele.

The concentration of Genevan investments in French debt nevertheless constituted a weakness that events would reveal. Part A showed, with the Medici bank, the dangers of lending to sovereigns. The Genevan capitalists of the eighteenth century would experience them in turn, when the over-indebted French monarchy collapsed. Chapter IV will analyse the investments in life annuities, which concentrated a significant share of this exposure.

Worked example. A Genevan capitalist has 100,000 livres at his disposal. If he invests them entirely in French annuities yielding 5 per cent, he receives 5,000 livres a year. If he divides his capital in thirds between French annuities, English funds at 3.5 per cent and Dutch loans at 3 per cent, his income falls to around 3,833 livres. The first choice yields more, but a reduction or suspension of French payments would cut his income in a far greater proportion than the second. The figures are fictitious; the calculation illustrates the trade-off between yield and diversification that Genevan rentiers faced.

1 Notes

1. Ville de Genève, page “Genève, place financière” (geneve.ch): the fairs are attested from 1187 and the city held fairs a year in the fourteenth century; Bishop Adhémar Fabri authorised lending at interest in 1387; in the seventeenth century Geneva became “one of the largest European centres for the accumulation of wealth” and financed in particular the Dutch East India Company and the Bank of England; in the eighteenth century the profits of watchmaking and goldsmithing fed a banking activity that made the city “one of the leading financial centres on the continent”. Encyclopédie de Genève, “La banque et la finance” (Jean-François Bergier, Armand Brulhart, Robert Iselin, Marian Stepczynski, Jean-Daniel Vermeil; encycloge.org): Genevan private bankers invested capital in the principal European financial centres, the Rilliet, Lullin and Pictet families being present in Paris and London, others in Genoa, Amsterdam and Lyon; they subscribed to life annuities and tontines, in which the annuities of deceased members increased those of the survivors. ↩

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