

The legacy: the state as investor from 1755 to the present

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The *Zinskommission* of 1755 was an early answer to a question that every prosperous small state eventually confronts: what should a public authority do with capital that exceeds its immediate needs, and how should it help its citizens to invest their own savings? Zurich's answer combined four elements. The state supplied first-loss capital and appointed and supervised the managers. It pooled public and private money in a single vehicle with a distinct name and identity, which it invested abroad in a diversified portfolio of sovereign and secured claims. Each of these elements has had a long afterlife in the institutions of the Swiss financial centre, although none of today's public investors reproduces the whole combination.

The most direct heir, in institutional terms, is the Zürcher Kantonalbank, which the canton created in 1870 when it withdrew from Leu. The Kantonalbank inherited the idea of public endowment capital, but it reversed the risk allocation of 1755. Where the *Zinskommission* operated without a state guarantee, the Kantonalbank enjoys the full guarantee of the canton for its liabilities, excluding subordinated debt, if its own capital should prove insufficient. The canton provides the bank with endowment capital comparable to the share capital of a company, while the bank compensates the canton annually for the guarantee. At the end of 2025 the bank reported equity of about 15.7 billion francs.¹ The annual compensation for the guarantee is the modern, explicit price of a public backing that in 1755 was merely implicit and, as 1798 showed, of uncertain value. The domestic orientation of the Kantonalbank also mirrors the turn that Leu itself made after 1798: the public bank of the nineteenth century lent to the farmers and tradesmen of the canton and left the export of capital to the private and joint-stock banks.

The second heir is the Swiss National Bank, although its purpose differs fundamentally from that of the commission. The National Bank holds

foreign assets as a consequence of monetary policy. Its foreign currency reserves rose from 85 billion francs in 2007 to 1,015 billion francs in 2021 as it intervened against the appreciation of the franc. They were partly reduced again in 2022 and 2023 to counter inflation. The bank invests these reserves according to principles of liquidity and diversification, mainly in foreign government bonds, with an equity portion managed passively against market-weighted indices. In addition it holds some 1,040 tonnes of gold. It excludes, among others, the shares of systemically important banks worldwide and the securities of Swiss companies, and states expressly that its success is measured by the achievement of price stability.² The resemblance to 1755 lies in the technique. Like the commission, the National Bank is a public body placing Swiss capital abroad in a diversified portfolio of sovereign debt, and like the commission it takes care not to compete with domestic private actors, which it achieves by excluding Swiss equities altogether. The difference lies in the mandate, which subordinates return to monetary policy.

The third heir, and in some respects the closest in function, is the public manager of social insurance capital. Since 1 January 2019 the funds of the old-age and survivors' insurance, the disability insurance and the income compensation scheme have been managed by *compenswiss*, a public-law institution of the Confederation created by the Federal Act on the Compensation Funds. The three funds remain separate assets without cross-financing.³ *Compenswiss* pools the reserves of a national savings scheme, invests them in a diversified international portfolio and distributes the result to the beneficiaries through the insurance system. The public pension funds of the cantons and municipalities, such as those of the canton of Zurich, perform a comparable function for the pensions of public employees. Like the *Zinskommission*, these institutions hold other people's money under public direction. Unlike it, they operate under a statutory framework that separates their assets from those of the state, defines the duties of their governing bodies and imposes rules on diversification, valuation and disclosure. The separation of assets that the depositors of 1798 had to improvise in a moment of crisis is written into their founding statutes.

At the international level, the practice of public investors has since 2008 been shaped by the Santiago Principles, the twenty-four Generally Accepted Principles and Practices agreed in October 2008 for sovereign wealth funds. They address governance, investment practices and risk management and are intended to present such funds as professional, independent and financially oriented investors and to encourage appropriate disclosure.⁴ Read against the history of the *Zinskommission*, the

Principles address precisely the weaknesses that the Zurich model of 1755 left open: the lack of a clear legal separation between the fund and the state, the concentration of governance in a small circle, the absence of published investment policies and the opacity of the portfolio. The commission managed these risks through the personal probity of its councillors and the social cohesion of the Zurich patriciate. Modern standards replace that social control with law and disclosure.

It would be anachronistic to call the *Zinskommission* a sovereign wealth fund. It was financed mainly by private deposits and had only small public capital. Its purpose was to serve the savers of Zurich, with no mandate to build an endowment for future generations. Yet it shared with the modern funds one defining feature: it transformed the surplus of a small and prosperous polity into claims on the rest of the world, managed under public authority. In the course of practice in Singapore and Hong Kong the author has encountered the same questions in the structuring of public and quasi-public investment vehicles. They concern how to separate the vehicle legally from the state, how to protect it against political pressure and against the claims of creditors of the state, how to explain to a foreign counterparty who stands behind it, and how to reconcile confidentiality with accountability. The Zurich councillors of 1755 found answers that were adequate to their time, answers which the crisis of 1798 tested severely.

The history of Leu also carries a reputational lesson for the financial centre. For two centuries the bank's own historiography celebrated its founding as a triumph of prudent public finance. Only in the first two decades of the present century, after the city's report of 2007, the transfer of the archive in 2011 and the University of Zurich study of 2020, did the colonial dimension of the portfolio become part of the public record. The episode shows that the reputation of a financial centre depends on the willingness of its institutions to open their archives and to confront their history. It also shows that the legal category of banking secrecy, designed to protect living clients, is ill suited to govern access to the records of a public body of the eighteenth century. The transfer of the Leu records to the Staatsarchiv, where they are available for research, was the right resolution and offers a model for the treatment of the historical archives of other public and semi-public financial institutions.

Finally, the long history of Leu illustrates the durability and the limits of a financial brand. The name of an eighteenth-century treasurer and lexicographer served for more than two and a half centuries as the name of a bank. It survived the transition from public commission to private

partnership, from partnership to joint-stock company, from mortgage bank to universal bank and from independent institution to group subsidiary, and disappeared only when its owner concluded that a single brand served its private banking business better. The lion on the gables of the Leuenhof remains as a reminder that the Zurich financial centre began, in one of its strands, with a decision of the public authorities to invest.

1 Notes

1. Zürcher Kantonalbank, “Was bedeutet die Staatsgarantie?”, <https://www.zkb.ch/de/hilfe/sc/was-bedeutet-die-staatsgarantie-.html>. ↩
2. Swiss National Bank, “Why does the SNB hold billions worth of assets and how does it manage these assets?”, cited above. ↩
3. Simon Luck, “Das Ausgleichsfondsgesetz gelangt in die Umsetzung”, Soziale Sicherheit CHSS, 15 December 2017, <https://sozialesicherheit.ch/de/das-ausgleichsfondsgesetz-gelangt-die-umsetzung/>. ↩
4. International Forum of Sovereign Wealth Funds, “Santiago Principles”, <https://www.ifswf.org/santiago-principles>. ↩

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