

The portfolio: lending to the sovereigns of Europe

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The first investments of 1755 set the pattern for the following four decades. The commission bought French obligations, English annuities and paper of the Vienna *Stadtbank*.¹ Each of these three markets represented a distinct type of sovereign risk. The English annuities were claims on a state whose borrowing was authorised and serviced by Parliament and whose public debt had been consolidated since the 1750s into the long-dated “Consols”. French obligations were claims on the largest and most sophisticated, but also the most fragile, fiscal system of the Continent. The Vienna *Stadtbank*, established by imperial patent of 24 December 1705 and operational from 1706, was a municipal institution in form but served in substance to make the debt of the Habsburg monarchy more liquid. It later became the first note-issuing bank of the monarchy and eventually failed under the strain of the Napoleonic wars.² In buying the paper of the *Stadtbank*, the Zurich commission lent indirectly to the House of Habsburg while holding a claim on an institution that enjoyed some autonomy under the control of the city of Vienna.

England remained the anchor of the portfolio. The later accounts describe British government annuities as a continuous and substantial component, attractive because of the political stability of the country and the parliamentary control of its finances, even though the yield did not exceed three per cent. Since the commission paid its private depositors three and a half per cent, English annuities alone could not have sustained the business. They served as the safe core around which higher-yielding risks were arranged. France attracted repeated commitments, despite losses, because its financial system was the most developed in Europe and its borrowers paid more. Austria accounted for between a fifth and a quarter of the assets, chiefly in the form of obligations of the Vienna *Stadtbank* and state loans secured on specific revenues, among them the copper and mercury offices of the Habsburg crown.³

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The most famous single transaction of the early years was a loan of 30,000 gulden to the Empress Maria Theresa in 1758, secured by a mortgage, which the commission held until the end of the century.⁴ The tradition of the bank connected this loan with the repair of storm damage in the Tyrol.⁵ Whatever its purpose, the transaction became part of the self-image of Bank Leu: a Zurich commission of councillors lending to the sovereign of the largest Catholic monarchy in central Europe in the middle of the Seven Years' War. The name of Maria Theresa appeared in the bank's later publicity and in the popular memory of Zurich's banking houses.⁶ For the historian of the financial centre it illustrates the confessional pragmatism of Reformed Zurich, which had no difficulty in lending to Catholic sovereigns and prince-abbots so long as the security was sound.

Two further markets illustrate the technical learning that the commission acquired. In Saxony it encountered for the first time bearer securities with detachable interest coupons, the form that would dominate the European bond market of the nineteenth century. In Denmark it bought shares in the Bank of Copenhagen, which paid good dividends until 1767, when the bank required rescue by the state.⁷ The Danish business also drew in a network of intermediaries that is discussed in the next section. In the German lands the commission lent increasingly to princes, cities and religious houses against mortgages on land and revenues. The Prince of Fürstenberg alone owed the commission 337,000 gulden by 1782, a concentration of risk in a single borrower that no modern rulebook on large exposures would tolerate.⁸ The loans to south German abbeys and chapters continued a practice of the Zurich treasury itself, which, as noted in section I, had lent to such borrowers since the late seventeenth century.

The growth of the commission's balance sheet can be traced in round figures. The deposits reached 183,000 gulden in 1758 and 482,000 gulden in 1762. The threshold of one million gulden was crossed by 1770, two million were reached by 1780, and by 1797, on the eve of the revolution, the total stood at some 2.7 million gulden.⁹ These are modest sums by the standards of the Amsterdam or London houses and small beside the Bernese state treasure discussed in section VII. In Zurich, however, they represented a substantial part of the liquid wealth of the city's institutions and leading families, enough to make the *Zinskommission* the principal channel through which Zurich savings reached the capital markets of Europe.

The investment policy that emerges from these fragments rests on four principles that remain recognisable in the guidelines of public investors today. The first was diversification across countries and types of borrower,

from the British Parliament to the Habsburg crown and from Danish banks to Swabian abbeys. The second was the preference for security, whether in the form of parliamentary guarantees, specific revenues or mortgages on land. The third was a margin between the rates paid to depositors and those earned on investments, which financed the costs of the commission and built reserves. The fourth, less explicit, was the use of trusted correspondents in the financial centres, who supplied information, executed purchases and collected interest. The weakness of the model lay in the fact that the principal borrowers were belligerent states. Every war of the second half of the eighteenth century, and above all the revolutionary wars from 1792 onwards, threatened the service of the debts on which the commission depended.

1 Notes

1. Saller, “Rathausobligationen: Die Bank Leu, Teil drei”, cited above. ↩
2. Wikipedia, “Wiener Stadtbank”, https://en.wikipedia.org/wiki/Wiener_Stadtbank (consulted for orientation). The article states that the bank was closed in 1811, with a heavy loss for depositors. ↩
3. Saller, Ein kurze Geschichte der Bank Leu, cited above, on the place of England, France and Austria in the portfolio and on the copper and mercury offices; see also Saller, “Rathausobligationen: Die Bank Leu, Teil drei”, cited above, and, on the three per cent yield ceiling for English investments, Saller, “50 Prozent Eigenkapital: Die Bank Leu, Teil zwei”, cited above. ↩
4. Saller, “Rathausobligationen: Die Bank Leu, Teil drei”, cited above. Saller describes the obligation as mortgage-secured and as one of the celebrated investments of the commission. ↩
5. Unsigned article “Das Aus für die Bank Leu nach 256 Jahren”, St. ↩
6. Gebrüder Dürst, “Namen alter und ehemaliger Bankhäuser in der Stadt Zürich”, https://www.gebrueder-duerst.ch/turicum/adressbuch/bank/ehemalige_banken.html. ↩
7. Saller, Ein kurze Geschichte der Bank Leu, cited above. ↩
8. Saller, “Rathausobligationen: Die Bank Leu, Teil drei”, cited above. ↩

9. Saller, “Rathausobligationen: Die Bank Leu, Teil drei”, cited above. ↩

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