XI. BANKING, FINANCE, AND BUSINESS ORGANIZATION, 1520 - 1750

A. Financial Innovations in England and the Low Countries: Negotiability in Private and Public Finance

revised again: 14-15 March 2012

21. **14 March 2012** **Brady**, ch. 5 (Munro, pp. 172-75); ch. 17 (Tracy); **de Vries**, chs. 8, 6-7; **Musgrave**, chs. 4, 6, 7 **ET 5, 7, 10**	**23**	**BANKING AND FINANCE:** **Introduction of Negotiability of Bills of Exchange & Bills Obligatory:** London, Antwerp, and South German banking: 1506 - 1580; **Endorsement and Discounting of Bills;** **The Revolution in Public Finance:** negotiable *rentes* and annuities; the Antwerp *bourse*; Spanish *juros* and public finances.

Problems of Negotiability - 1

- 1) **Negotiability and the 16th century 'Financial Revolution': to resolve negotiability problem**
- – **to make credit instruments full-fledged money**
- ➔ **constituted a 'Financial Revolution'** that played a major role in the Price Revolution, from the 1520s**:**
- 2) **Medieval financial bills were non-negotiable:**
- **- NOT convertible into cash** or goods on demand

Problems of Negotiability - 2

- 3) **Nature of medieval bills:** bills of exchange, bills obligatory, promissory notes, etc.
- a) **always held to maturity**: to stipulated redemption date ('maturity') before being redeemed, cashed
- - **thus could not be sold,** converted into cash or goods, before maturity, and thus could not be discounted
- b) **monetary function:** increased the income velocity of money, but not the supply of money
- c) **bills of exchange (acceptance bills) and bills obligatory (promissory notes):**
- **- effected payments abroad** using local currency where the bills were redeemed, without having to transport precious metals between cities and countries.

Problem of Negotiability - 3

- 4) **Reasons why medieval bills were not negotiable: before stipulated maturity date**
- a) **Discounting and Usury Problem**
- - **to make a bill negotiable, to be able to sell or cash bill before maturity, meant selling it at discount:** nobody would pay full maturity value before its redemption
- - **discounted pre-maturity value**: the reduced amount reflects the interest owing until actual maturity: see the handout
- - **therefore: discounting was an admission of the implicit interest value → violation of the usury ban**

Problem of Negotiability - 4

- 4) **Why medieval bills were not negotiable:**
- b) **lack of LEGAL protection for third parties who bought a bill before maturity:**
- - because most bills stipulated not just the redemption (maturity) date, but also the payee: the person to whom the payment was owing-
- - **even bills 'payable to bearer' did not give the bearer legal claims**
- - while many merchants, as creditors, did assign their bills to others to whom they owed payment, those transfers had no legal standing.

Problem of Negotiability - 5

- 5) **Requirements for legal negotiability: Law Merchant courts**
- a) **law merchant courts**: commercial courts in many countries that used accepted codes of international commerce to settle disputes
- b) **England: royal gov't pioneered official use of law merchant courts:**
- - i)**1285: Edward I set up law merchant court:** in London composed of foreign merchants to adjudicate their own commercial disputes in England.

Problem of Negotiability - 6

- b) **English Law Merchant Courts: Edward I and Edward III**
- ii)**1303: Edward I's *Carta Mercatoria*** (with Hanseatic League):
- - that all merchants were to receive 'speedy justice' by Law Merchant courts
- - half of whose juries were to be the foreign merchants involved
- - iii)**1353: Edward III's Statute of the Staples** → greater powers

Problem of Negotiability - 7

- c) **Staple courts set up in 15 English towns to use Law Merchant (by Statute of the Staples 1353)**
- - **each court headed by the town's mayor,** with two constables, and a jury with foreign and domestic merchants (either or both- depending on the case)
- - **all disputes to be settled by Law Merchant** (*lei marchant*), not common law
- - **Staple Mayors & constables**: empowered to seize goods of defaulting debtors

Establishment of Negotiability - 1

- 1) **Establishment of Legal Negotiability: England**
- a) **London Mayor's Law-Merchant Court of 1436: 'Burton vs. Davy'**
- \- **The court ruled in favour of a merchant**, who, in presenting a bill of exchange (drawn in Bruges on London): transferred to him with a bearer clause
- had been refused payment by the official acceptor:payer
- b) **court ruled that the bearer had the same full rights as the designated payee**: to sue for payment – ordered the acceptor/payer to make full payment, and cover all court costs, **'according to the Law Merchant'.**

Establishment of Negotiability - 2

- 2) **Establishment of Legal Negotiability: Low Countries**
- a) **Antwerp Law Merchant Court of 1506:**
- - **rendered exactly same decision** (using Burton vs. Davy as precedent?)
- - **dispute involved merchants in English cloth trade at Antwerp**
- b) **Bruges Law Merchant Court: 1527: same ruling**
- c) **Estates-General (Parliament) of Habsburg Netherlands: 1537-41:**
- - **enacted into national law provisions guaranteeing full rights of negotiability to third parties:** who presented commercial bills for redemption, with powers to sue the original debtor (with same rights as designated payee).

Burton v Davy, 1436 and Negotiable 'Bearer' Bills of Exchange

The bill of exchange drawn in Bruges upon a London merchant:

A mon treshonure mestre Elys Davy, mercer, a Loundres, soit doné:

Treshonure sire vous please assavoir que jay resceu yci de John Burton [per manus Thome Hanworth mercatoris, tunc factoris sui] par eschange *xxx l.* [sterling], appaiers a Loundres al avauntdit John ou al portour diceste lettre de paiement le xiiii jours de March' proch[ein] a venir, par cest ma premier et seconde lettre de paiement. Et je vous emprie quil soit bien paie a le jour.

Escript a Bruges le x jour de Decembre [1435], par vostre attourne,

John Audeley, etc.

Principals and Agents:

1. **The Deliverer in Bruges:** Thomas Hanworth, factor of John Burton, merchant of Norwich

2. **The Taker in Bruges:** John Audeley, factor of Elias Davy, London mercer, who receives the equivalent, in Flemish funds (amount not specified), of £30 sterling, and who then [10 December 1435] draws a bill on his master Elias Davy for payment on 14 March 1436.

3. **The Payer in London:** Elias Davy, London mercer, who has evidently accepted the bill for payment and then 'dishonoured' the bill: i.e. refused to pay the bearer on the redemption date.

4. **The Payee in London:** John Burton, or

5. **The 'bearer of this letter':** [*portour diceste lettre de paiement*] John Walden, who launched the suit in the London Mayor's court, with support from the payee, John Burton

Discounting & Usury Laws - 1

- 1) **Discounting: the final, necessary step for negotiability:**
- - **earliest known example:** also at Antwerp, 1536 – but not yet legal, because usury ban still in force: i.e., discounting → admission of interest
- 2) **Legalization of Interest: to permit discounting**
- a) **Habsburg Netherlands:** Imperial Ordinance of Emperor Charles V (and Estates): 4 October 1540 :
- - **legalized interest payments on commercial loans up to 12%**
- - so that usury now meant any interest in excess of the 12% limit

Discounting & Usury Laws - 2

- 2) **Legalization of Interest: to permit discounting**
- b) **England and Usury Laws: a peculiar case**
- i) **1545: Henry VIII's Parliament** legalized interest payments up to 10%: all rates above that declared to be 'usury'
- ii) **1552: Protestant gov't for Edward VI (successor)** repealed statute
- iii) **1571: Elizabeth I's Parliament reinstated Henry VIII's statute**: again: to make interest legal, but only up to 10%

Discounting & Usury Laws - 3

- c) **England's legal maximum subsequently reduced:**
- - **1624**: to 8%
- - **1651**- to 6% (by Cromwell's Parliament: validated by Restoration Parliament: 1660-61
- - **1713**: to 5%:
- - **1854**: usury laws fully revoked
- d) **Catholic countries:** usury laws remained in force until French Revolution (1789)

Endorsement of Commercial Bills

- 1) **Endorsement:**
- a) **endorsement**: writing one's name on the back of a bill (cheque), to sign away one's claim as a creditor to payment:
- - **in effect assigning payment to the bearer of the bill.**
- b) **acknowledging responsibility for payment in case of default** by the original debtor-issuer
- - obviously mandatory if designate payee's name is specified; but additional guarantee for bearer bills
- - became all the more necessary as volume of commercial-financial transactions grew beyond community of merchants who knew each other: endorsement a substitute for personal recognition

- 2) **Discounting by endorsement: spread in Low Countries** in later **16^{th} century,** and then into **England, during the 17^{th}-century**

Importance of Bills of Exchange – Acceptances - 1

- 1) **Acceptance Bills:** came to be the usual term for bills of exchange, from 17th century
- a) **crucial person in a four-party bill**: **the 'acceptor' on whom the bill is drawn** (by the 'taker' or *prenditore*): also known as the 'drawee' &'payer'.
- b) **his signature is required to validate payment** – his signed obligation to pay or redeem the bill in full on stated date of maturity
- 2) **Acceptance Bills: chief means of financing international trade,** cementing the historic close ties between commerce & banking

Importance of Bills of Exchange – Acceptances - 2

- 3) **Foreign Trade:**
- a) **offered quickest and most elastic means of generating large profits** for investment as capital in trade and industry
- b) **nature of foreign trade: discrete,** separate transactions
- c) **merchants, not wishing to have profits lie idle, invested them** in another merchant's trade, by 'buying' his acceptance bill
- d) **acceptance bills:** both lubricant and fuel for international trade
- 4) **Importance as a mechanism for transferring and effecting payments** between countries,
- - **without having to ship specie & bullion abroad:** dangerous.

Seventeenth-Century Acceptance Bills: Leghorn and Amsterdam, 1684

Livorno [Leghorn, Italy], the 2nd of October 1684.

At usance, pay this our first bill of exchange, our second and third not being paid, pay unto Mr. James Twyford or order the sum of dollars one hundred at 55 ½ d per dollar, for value received here of Captain William Fisher and place it to account as per advice, £23 2s 6d.

Brokinge Parker Holditch

Accepted, John Brokinge.

Source: Joan Thirsk and J. P. Cooper, eds., *Seventeenth-Century Economic Documents* (Oxford, 1972), no. V.42, p. 661.

Negotiable Public Debt: *Rentes* -1

- 1) **Medieval background (November: lecture 9):** *rentes, census, censals, juros*
- a) **Mediterranean agriculture: 13th century:**
- **Italy, France, Aragon (Spain)**
- - a) **merchant supplies peasant farmer (non-communal) with capital:** buys a ***census* contract** for (say) 50 florins, to receive a life-time or perpetual income of 5 florins a year (i.e., 10% return on investment)
- - **also called a *rente***: purchasing some of rental income on the land
- - **investor could never demand repayment** from the seller of *census*

Negotiable Public Debt: *Rentes* -2

- b) **Northern French & Flemish urban finances: also 13th century**
- - ***rente*** **contracts adopted from 1220s**,
- - **during intense anti-usury campaigns**: to permit urban gov'ts to raise funds without having to borrow at interest, and thus violate usury ban: for both lender & borrower
- - **investor: purchased a *rente* contract for a fixed sum** (e.g., £100): to **receive a life-time or perpetual annual income stream**
- - **but the investor could never demand repayment of his capital**, though the issuing seller -- town gov't -- could redeem, at par, the *rentes* whenever it wished to do so (when it proved most advantageous, with lower rates)

Negotiable Public Debt: *Rentes* - 3

- 1) **Medieval background: continued**

  c) **Reaction of the Church: concerning usury**

- -i) **From Pope Innocent IV (c. 1250): that** *rente* contracts were not usurious, because it was not a *mutuum* loan
- ii) **debate not resolved until 15th century**: with Council of Constance (1416-18) +
- **three Papal bulls**: **Martin V (1425), Nicholas II (1452), Calixtus III (1455)**

Negotiable Public Debt: *Rentes* - 4

- c) **Church reaction to *rentes***: cont'd
- iii) **rentes were licit on three conditions**:
- (1) **that investors never demand any repayment**
- (2) **that any redemptions be made at the sole discretion of the seller**: but always at par value (nominal, not real values)
- (3) **that annual payments (annuities):** come from income derived from the fruits of landed property: i.e., to resemble land-rent contracts

Negotiable Public Debt: *Rentes* - 5

- iv) **Church agreed that income from excise taxes:** levied on the consumption of foodstuffs, textiles, etc. met this test
- - **excise taxes on wine, beer, grains, meats, clothing,** etc. came to be the principal method by which gov'ts financed *rentes*
- - **most regressive form of taxation** ➔ hurting lower income strata

Negotiable Public Debt: *Rentes* - 6

- 2) **Rentes & Public Finance: in 16th century**
- a) **rentes: almost universal form of public finance:** in Western Europe by 16th century: Low Countries, France, Spain, most German states
- b) **two types of government rentes:**
- i) **life-rents** (*rentes viagères, lijfrenten*):
- ii) **perpetual, inheritable rents** (*rentes héritables, losrenten):* far easier to assign and transfer → became far more negotiable

Negotiable Public Debt: *Rentes* - 7

- c) **Typical rates of return on *rentes***
- i) **life-rents:** always double cost of perpetual rents,with long-term downward trends
- - 14^{th} & 15^{th} centuries: 1/7 = 14.29%
- - 16^{th} century: 1/8 = 12.50%
- ii) **perpetual, inheritable rents**:
- - 14^{th} & 15^{th} centuries: 1/14 = 7.145%
- - 16^{th} century: 1/16 = 6.25%

Negotiable Public Debt: *Rentes* - 8

- d) **Advantages of *rentes* for governments:**
- i) **annuity payments ('interest') always far lower than on voluntary loans**: whose rates were often as high as 25%
- - **France, 1631-57**: mean interest rate of 25.88% on voluntary loans
- - no social opprobrium with *rentes* (as with usurious loans): see Lawrence Stone (next slide)
- - far lower risk of government default
- ii) **No redemption requirements, as with loans**: at sole discretion of government, when deemed best (when interest rates became lower)

The costs of the usury doctrine: high interest rates

- Lawrence Stone, ***The Crisis of the Aristocracy, 1558-1641*** (Oxford, 1965): on Elizabethan & Stuart England
- **Money will never become freely or cheaply available in a society which nourishes a strong moral prejudice** against the taking of any interest at all – as distinct from objections to the taking of extortionate interest.
- **If usury on any terms, however reasonable,** is thought to be a discreditable business, men will tend to shun it, and **the few who practise it will demand a high return for being generally regarded as moral lepers.**
- [**Also**: risks of prosecution or defaulting debtors]

Negotiable Public Debt: *Rentes* - 9

- e) **Interest rates after revision of Usury Laws:**
- (i) **Low Countries: before and after 1540 ordinance (Charles V: on usury)**
- **- Flanders**: fell from 21% in 1511-15 to 11% in 1566-70
- - **Antwerp:** fell from 20% in 1511 to 10% in 1550
- (i) **England: before and after 1571 usury statute**
- - in **1560s**: average interest rate: 30%
- - in **1570s**: average interest rate: 20%
- - in **1600**: average interest rate: 10%

Negotiable Public Debt: *Rentes - 9*

- 3) **Antwerp & Netherlands in 16th century:**
- a) **1531: Antwerp set up its *Bourse* (*Beurs*)**:
- - most important secondary market for *rentes:* ancestor of stock markets
- b) **became Europe's leading financial market**:
- - based on part on international market for *rentes* and related annuity contract
- c) **need for negotiability and secondary markets**: **if investors were unable to demand repayments of their *rentes*, their only option** was to sell their *rente* contracts to a third party (in such markets).

Negotiable Public Debt: *Rentes* 10

- b) **Major role of South German banking houses**: Fuggers, Welsers, Höchstetters, Imhofs, Tuchers, Herwarts
- c) **Role of Habsburg Spain: Charles V's issue of *juros*:** perpetual, inheritable, and negotiable (though redeemable) annuities:
- \- **by 1600: aggregate issues had risen from 5 million to 83 million ducats** (silver based money of account: 375 maravedis per ducat)
- \- **1557: Philip II had reneged on his short-term borrowing** from the South German bankers, converting them all into 5% *juros* ➔ benefited Genoese bankers

Negotiable Public Debt: *Rentes* 11

- 4) **International Importance of *Rentes* - annuities**
- a) **religion & usury:** why did annuities remain so important in Protestant countries?
- i) **continued Protestant hostility to usury**
- ii) **thus importance of their usury laws**: with lowering of legal maximum rates of interest
- iii) ***rentes* or annuities were not affected** by the legal limits on interest rates
- b) **no government obligation to redeem annuities** (as with loans, bonds) ➔ greater freedom for state finances: when to redeem, at what rates
- c) **far lower cost in yields:** vs. interest rates on true loans

Negotiable Public Debt: *Rentes* 12

- d) **financial contract that became universally negotiable:** on Antwerp, Amsterdam, London exchanges (next lectures)
- \- **provided most popular form of collateral** (beyond land)
- e) **major component of Financial Revolution:** in Price Revolution era
- f) **Islamic world:** **with similar usury prohibitions (to present)**, why did Muslim states not adopt similar financial contracts? -- not until the Ottoman Empire finally did so in the 18th century.

Legal limits on English interest rates

- **1545 – 1552**: legal limit of 10%
- **1552 - 1571**: renewed total prohibition of ‘usury’
- **1571 – 1624**: limit of 10%
- **1624 – 1651**: limit of 8%
- **1651 - 1713**: limit of 6%
- **1713 – 1854**: limit of 5%
- **1854:** Parliament abolished the usury laws (17-18 Victoria, c. 90).

Financial Revolution: Historic Importance of Negotiability 1

- 1) **Negotiability: with endorsement & discounting: converted paper credit instruments into a full-fledged medium of exchange** ➔ radically increased the effective money-supply (not just increasing the income velocity of money)
- - **added to inflation** of the Price Revolution (1520 – 1650)
- 2) **Negotiable bills of exchange and bills obligatory**:
- - **vitally necessary for financing and expanding international trade**

Financial Revolution: Historic Importance of Negotiability - 2

- 3) ***Rentes* (annuities): revolution in public finance**
- a) **by providing mechanism for government finance, public borrowing,** that escaped all hindrances imposed by the Catholic usury doctrine and also Protestant usury laws
- b) **by promoting development of international capital markets: because *rentes* were inherently negotiable** – since the investor could never reclaim his capital from the issuer (like modern stocks), this form of public finance required secondary markets in public debt
- c) **by providing an optimal form of collateral for private borrowing**: in full negotiable, secure, government-backed financial assets:

XI: BANKING, FINANCE, BUSINESS ORGANIZATION IN EARLY MODERN EUROPE, 1520 - 1750

B. Dutch Banking and Finance in the 17^{th} & 18^{th} Centuries –

revised 14 March 2012

21. **14 March 2012** **Davis**, ch. 14; chs. 11, 17-18 **Cipolla**, chs. 7, 10 (pp. 249-75); **de Vries**, ch. 6-7; **Musgrave**, chs. 4, 6, 7 **ET 7, 10**	**24**	**BANKING AND FINANCE:** **The Netherlands:** 1580 - 1680: Bills of Exchange; the *Wisselbank;* and international banking**;** Dutch Financial Crises in the 18th century.

Dutch Financial Hegemony during 17th & 18th Centuries - 1

- 1) **Historical objectives of this study: to see:**
- a) **How the Dutch gained financial supremacy** after having gained European commercial supremacy
- b) **How commercial & financial supremacy again involved a symbiotic relationship:** in European economic history, all those gaining commercial supremacy later gained financial supremacy: the Italians, South Germans, Dutch, English

Dutch Financial Hegemony during 17^{th} & 18^{th} Centuries - 2

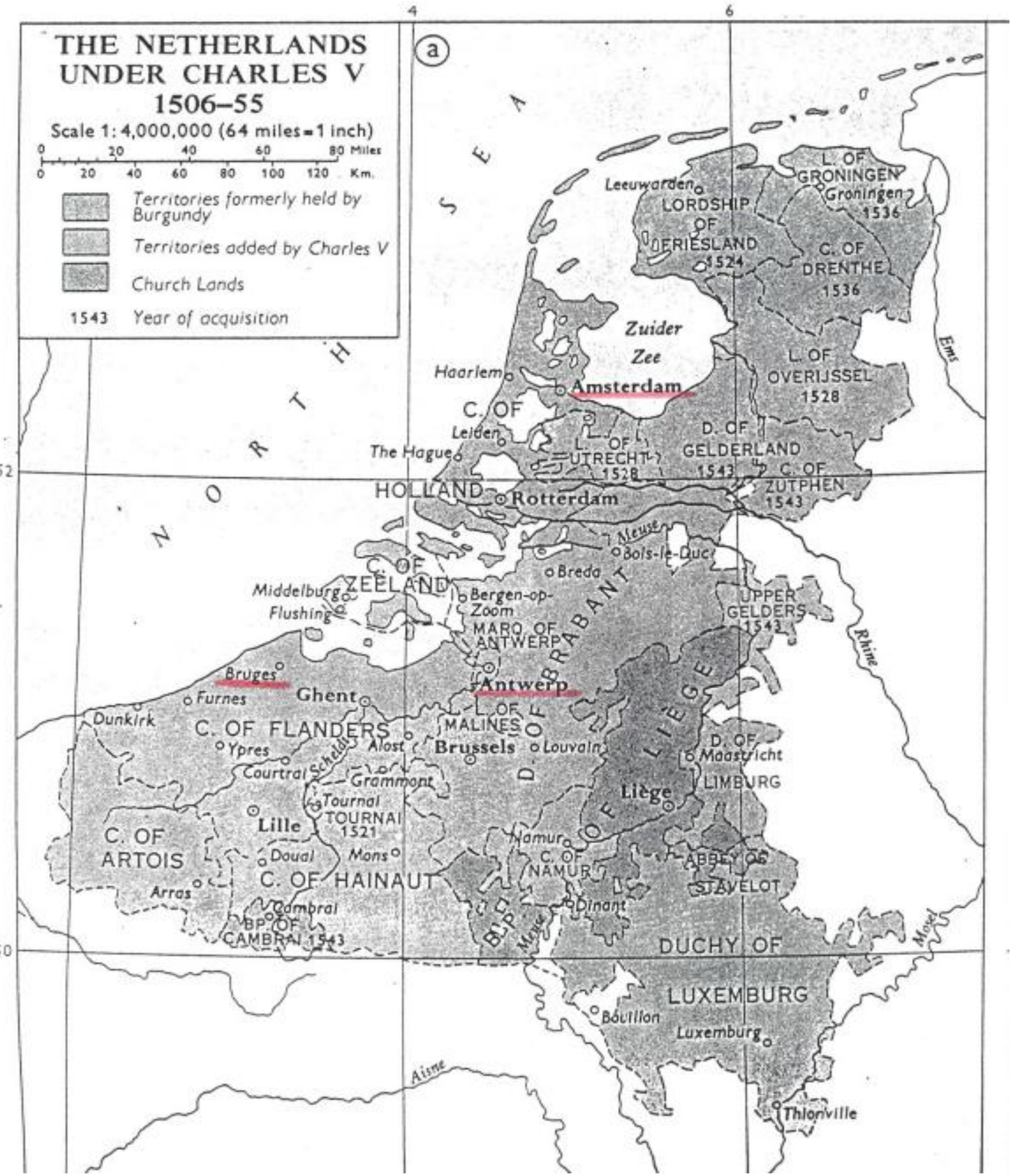
- c) **How the Dutch, after losing supremacy in the carrying trades, found that a shift into finance** was easier to achieve than into manufacturing industries (as with English)
- d) **How inherent weaknesses in Dutch financial institutions:** finally led to a shift of banking & financial power from Amsterdam to London, by later 18^{th} century:
- **to demonstrate that service-financial economies are far weaker and less stable** than industrial economies

Dutch Financial Hegemony during 17th & 18th Centuries - 3

- 2. **The Dutch Acquire Financial Supremacy from Antwerp:**
- a) **Revolt of the Netherlands: 1568 – 1609 – 1648**
- i) **severely disrupted economy of southern Low Countries** (reconquered by Spain) → merchants fled Antwerp for safety of Amsterdam, protected by Zuider Zee and Dutch ships
- ii) **1576: Spanish Fury**: sack of Antwerp by unpaid Spanish troops
- iii) **1579-81: Union of Utrecht** → formation of the Republic of the United Provinces (Dutch Republic)

Dutch Financial Hegemony during 17th & 18th Centuries - 4

- a) **Revolt of the Netherlands: 1568 – 1609 – 1648**
- iv) **1583-85: siege & conquest of Antwerp** (by Alessandro Farnese, Duke of Parma)
- → remaining merchants left Antwerp for Amsterdam
- vi) **Truce of 1609:** Spain recognized Dutch independence (United Provinces)
- vii) **1618: Outbreak of the Thirty Years' War**
- viii) **1621: truce suspended**, and 80 Years War continued
- ix) **1648: Peace of Westphalia** (ending 80 and 30 Years' Wars)


THE NETHERLANDS UNDER CHARLES V 1506–55
Scale 1: 4,000,000 (64 miles = 1 inch)
0 20 40 60 80 Miles
0 20 40 60 80 100 120 Km.
Territories formerly held by Burgundy
Territories added by Charles V
Church Lands
1543 Year of acquisition
a
NORTH SEA
Leeuwarden
LORDSHIP OF FRIESLAND 1524
L. OF GRONINGEN
Groningen
1536
C. OF DRENTHE 1536
Zuider Zee
L. OF OVERIJSSEL 1528
Ems
Haarlem
Amsterdam
C. OF HOLLAND
Leiden
The Hague
L. OF UTRECHT 1528
D. OF GELDERLAND 1543
C. OF ZUTPHEN 1543
Rotterdam
Meuse
Bois-le-Duc
Breda
C. OF ZEELAND
Middelburg
Flushing
Bergen-op-Zoom
MARQ. OF ANTWERP
D. OF BRABANT
UPPER GELDERS 1543
Rhine
Bruges
Ghent
Antwerp
Furnes
Dunkirk
C. OF FLANDERS
L. OF MALINES
Ypres
Alost
Brussels
Louvain
BP. OF LIEGE
D. OF LIMBURG
Maastricht
Courtrai
Scheldt
Grammont
Liège
Tournai
TOURNAI 1521
Lille
C. OF ARTOIS
Douai
Mons
Namur
C. OF NAMUR
ABBEY OF STAVELOT
Arras
C. OF HAINAUT
Dinant
Cambrai
BP. OF CAMBRAI 1543
Meuse
DUCHY OF LUXEMBURG
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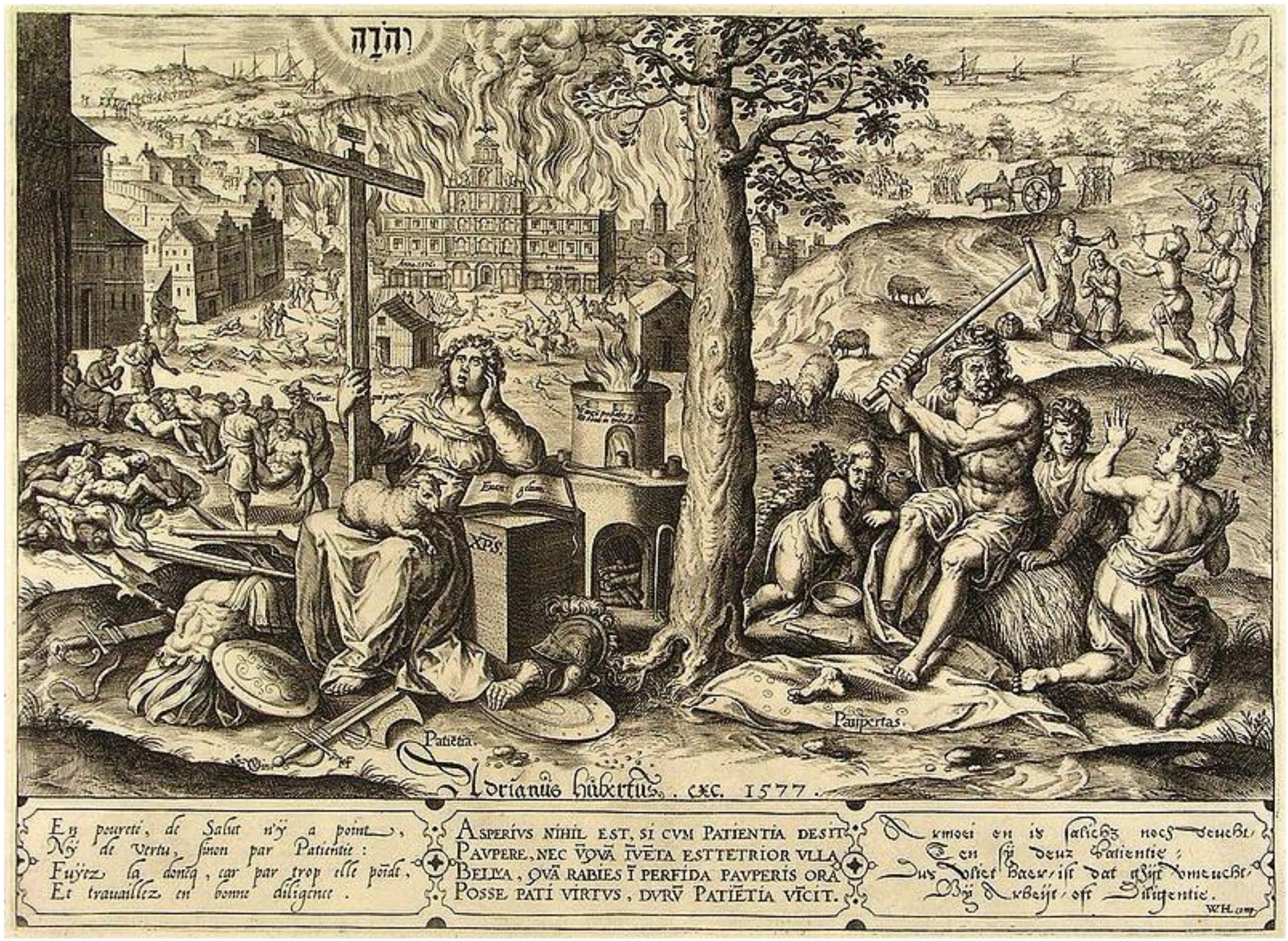
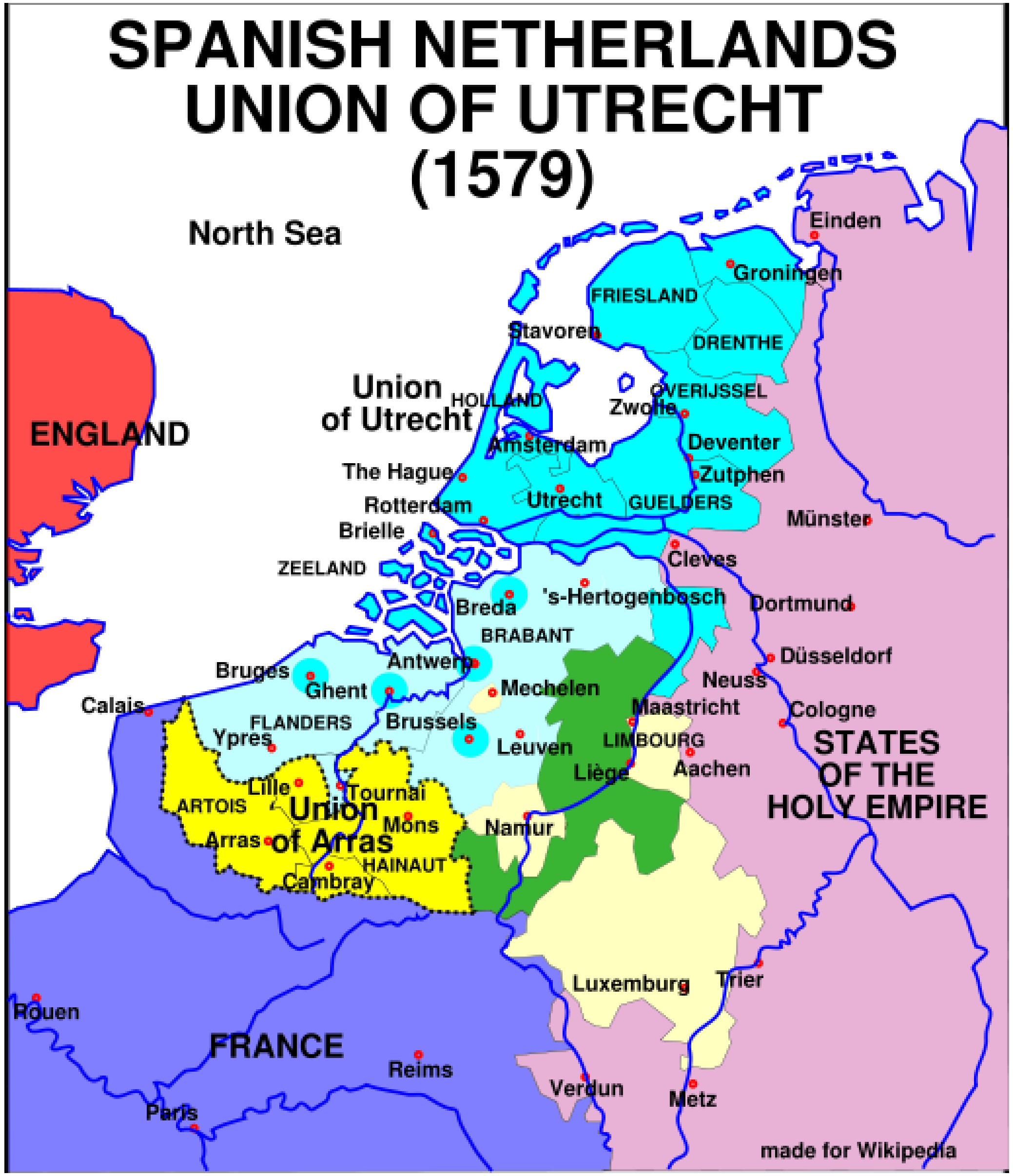
Sack of Antwerp: ‘Spanish Fury’ 1576




SPANISH NETHERLANDS
UNION OF UTRECHT
(1579)
North Sea
ENGLAND
Union of Utrecht
HOLLAND
FRIESLAND
DRENTHE
OVERIJSSEL
GUELDERS
ZEELAND
BRABANT
FLANDERS
ARTOIS
HAINAUT
LIMBOURG
Union of Arras
Einden
Groningen
Stavoren
Zwolle
Amsterdam
Deventer
Zutphen
The Hague
Utrecht
Rotterdam
Brielle
Münster
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Breda
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Bruges
Antwerp
Ghent
Mechelen
Neuss
Calais
Maastricht
Cologne
Brussels
Ypres
Leuven
Aachen
Liège
STATES OF THE HOLY EMPIRE
Lille
Tournai
Mons
Namur
Arras
Cambray
Luxemburg
Trier
Rouen
FRANCE
Reims
Verdun
Metz
Paris
made for Wikipedia

The Republic of the Seven United Provinces

Dutch Financial Hegemony during 17th & 18th Centuries - 5

- b) **Main Features of the Dutch Financial Economy in the 17th century**
- i) **the Beurs (Bourse)**: founded in 1608 (modelled on Antwerp Beurs) as commodity and financial exchange market ➔ stock market for government debt (*rentes*)
- ii) **Wisselbank: Exchange Bank of Amsterdam**, founded in 1609: separate topic
- iii) **Bank van Leening**: Lending Bank or Lombard Bank: 1614: for short-term commercial loans
- iv) **Merchant and Acceptance Banking**: separate topic
- c) **Did the Dutch introduce financial innovations?** NO-
- - **but vastly improved the monetary structure** & monetary economy of the Dutch republic

Wisselbank van Amsterdam - 1

- 1) **Formation of Wisselbank (Exchange Bank of Amsterdam)**
- a) **1609: founded by city of Amsterdam –** modelled on Rialto Bank of Venice (1587)
- - **the first, the greatest, and most powerful public bank** in northern Europe
- b) **in turn: model for other northern civic banks:**
- - **within the northern Netherlands**: Middelburg (1616), Delft (1621), Rotterdam (1635)
- - **elsewhere in northern Europe**: Hamburg (1619), Stockholm (1656)

Wisselbank van Amsterdam - 2

- 2) **Functions as a Giro or Exchange Bank:**
- a) **to regulate money-changing and money supply**
- i) **1609: given a state monopoly on money-changing**, with a ban on private deposit banking
- ii) **1621: monopoly was modified**: to permit restoration of private banking
- b) **objective: to eliminate problem of foreign coin circulation and curse of debasements**
- - **with continual influx of foreign counterfeits**, debased, clipped coins that undermined confidence in coinage, money supply, and commerce
- - **private money changers and deposit banks had often cheated merchants** by supplying inferior coinage

Wisselbank van Amsterdam - 3

- c) **The Wisselbank florin: bank money**
- - i) **All merchants were required to surrender foreign coins to the Wisselbank,** which recorded their bullion or precious metal contents in terms of bank florins (1 florin = 20 stuivers): deposited to their accounts
- - ii) **bank florin:** represented a virtually fixed amount of fine silver

The Coinages of the United Provinces (the northern Netherlands), of the Spanish (southern) Netherlands, Spain, and England in the 17th Century

Coin	Years issued	Weight in grams	Fineness out of 1.000	Fine Silver Contents in grams	Value in 1606 in stuivers*	Value in 1659 in stuivers*	Value in 1681 in stuivers*
United Provinces:							
Stuiver (a)	1619-1681	1.310	0.333	0.4367	1	1	--
Stuiver (b)	1681-1791	0.810	0.583	0.4725	--	--	1
Rijksdaalder	1606-1700	28.873	0.875	25.2639	47	52	52
Leeuwendaalder	1606-1713	27.535	0.743	20.4585	38	42	42
Silver Rijder	1659-1798	32.397	0.938	30.3884	--	63	63
Silver Dukaat	1659-1798	27.927	0.868	24.2406	--	50	50
Silver Gulden (florin)	1681-1806	10.491	0.911	9.5573	--	--	20
Spanish Netherlands							
Patagon	1645	28.108	0.872	24.5102		50	50
Dukatoon	1645	32.458	0.939	30.4781		63	63
Spain							
Reals of Eight (a)	1643-1686	27.923	0.931	25.9963		53	53
Reals of Eight (b)	1686-1707	27.840	0.931	25.9190		53	53
England							
Teston (Shilling)	1601-1816	6.010	0.925	5.559		12	12
Penny	1601-1816	0.502	0.925	0.464		1	1

Wisselbank van Amsterdam - 4

- d) **Mercantile Payments via Wisselbank:**
- i) **all merchants, domestic & foreign, were required to maintain bank accounts** with the Wisselbank
- ii) **merchants normally made payment by bank-account transfers** in bank florins
- iii) **for foreign trade, withdrawals permitted in large denomination silver & gold coins:** to conduct trade in the Baltic, Levant, Asia
- iv) **Payments in bank florins usually enjoyed a premium** or *agio* over actual silver coins

Wisselbank van Amsterdam - 5

- e) **Bills of Exchange (Acceptance Bills) & Wisselbank**
- - **all bills of exchange transactions over 600 florins** had to be transacted through the Wisselbank
- - to regulate bills of exchange transactions to prevent fraud
- - but also to force merchants to maintain Wisselbank accounts

Wisselbank van Amsterdam - 6

- f) **the Wisselbank as Bullion dealer:**
- - **Wisselbank also had a monopoly on all bullion transactions**: to deliver all bullion to the Dutch mints for coinage
- - **merchants not allowed to buy, sell, or export bullion**
- [England: 1663: repealed ban on bullion exports, but retained ban on coin exports]
- - **Wisselbank became world's leading dealer in bullion:** Amsterdam world's key bullion market

Wisselbank van Amsterdam - 7

- g) **A Credit Role for the Wisselbank??**
- i) **a Giro bank by law cannot be a credit bank**: no loans, discounts
- ii) **increased public confidence** by not engaging in lending
- iii) **BUT – from 1683, Wisselbank did extend credit on the collateral of bullion deposits that it held:** with interest rate of 0.5%
- iv) **Also direct loans to City of Amsterdam, Estates of Holland, and East India Company**: in the form of overdrafts on their bank accounts @ 3.5%

Wisselbank van Amsterdam - 8

- 3) **Economic Importance of the Wisselbank:**
- a) **ensured stability of coinage & money supply**: to expand public & mercantile confidence
- - **by preventing coinage debasements** (at mints) and circulation of defective coinage
- - **by regulating bills of exchange transactions**: in having all bills transacted at Wisselbank
- - **by providing sound, stable, bank money** in form of Wisselbank florins

Wisselbank van Amsterdam - 9

- b) **reserved scarce silver for most important needs of Dutch overseas commerce:**
- \- **Baltic, Levant, Asia**
- \- and at very time that European silver supplies were becoming scarcer (from 1660s: as seen before)
- c) **made Amsterdam the commercial, financial, and money-market capital** of the European economy
- d) **but its inability to serve as a credit bank (lender of last resort):** source of its downfall

WESTERN TRADE WITH THE LEVANT, 1686-87, BY NATIONS

IN MERCHANDISE AND BULLION

Exports of Merchandise and Bullion to the Ottoman Levant :

Constantinople, Smyrna, Sidon, Candia (Crete), Athens, Satala (Sadak)

Values in Piastres

Nation	Merchandise	Bullion	Total Value	percent merchandise	percent bullion	percent share of total merchandise	percent share of bullion	percent share of total trade
France	660,636	605,900	1,266,536	52.16%	47.84%	17.14%	32.21%	22.08%
England	1,415,138	337,075	1,752,213	80.76%	19.24%	36.72%	17.92%	30.55%
Holland	926,780	547,000	1,473,780	62.88%	37.12%	24.05%	29.08%	25.70%
Venice	569,200	152,000	721,200	78.92%	21.08%	14.77%	8.08%	12.58%
Livorno	167,100	204,000	371,100	45.03%	54.97%	4.34%	10.85%	6.47%
Genoa	115,250	0	115,250	100.00%	0.00%	2.99%	0.00%	2.01%
Ragusa	0	8,000	8,000	0.00%	100.00%	0.00%	0.43%	0.14%
Messina (Sicily)	0	20,000	20,000	0.00%	100.00%	0.00%	1.06%	0.35%
Malta	0	7,000	7,000	0.00%	100.00%	0.00%	0.37%	0.12%
Total	**3,854,104**	**1,880,975**	**5,735,079**	**67.20%**	**32.80%**	**100.00%**	**100.00%**	**100.00%**

Exports of Silver to Asia by the Dutch East India Company

[Vereenigde Oostindische Compagnie], decennial means: in Dutch Gulden (guilders or florins) and Kilograms of Fine Silver, 1602 - 1795

Decade	Value in Gulden (guilders)	Kilograms Fine Silver	Index: 1600-49 = 100
1600-09	647,375.0	6,959.7	71.9
1610-19	965,800.0	10,382.9	107.3
1620-29	1,247,900.0	12,610.8	130.3
1630-39	890,000.0	8,994.0	92.9
1640-49	880,000.0	8,892.9	91.9
1650-59	840,000.0	8,488.7	87.7
1660-69	1,190,000.0	11,563.1	119.5
1670-79	1,220,000.0	11,854.6	122.5
1680-89	1,972,000.0	18,847.0	194.8
1690-99	2,900,500.0	27,720.9	286.5
1700-09	3,912,500.0	37,392.9	386.4
1710-19	3,882,700.0	37,108.1	383.5
1720-29	6,602,700.0	63,104.0	652.1
1730-39	4,254,000.0	40,656.8	420.1
1740-49	3,994,000.0	38,171.9	394.5
1750-59	5,502,000.0	52,584.3	543.4
1760-69	5,458,800.0	52,171.4	539.1
1770-79	4,772,600.0	45,613.2	471.4
1780-89	4,804,200.0	45,915.2	474.5
1790-99	3,233,600.0	30,904.5	319.4

Dutch Acceptance Banking - 1

- 1) **Shift to Bills of Exchange or Acceptance Banking in 18th century:** **known in Dutch Republic as 'accept-krediet' banking**
- a) **Amsterdam, as the major commodity exchange market in Europe:**
- i) **had developed large groups of brokerage and commission merchants:** bringing foreign buyers & sellers together for transactions

Dutch Acceptance Banking - 2

- ii) **such brokers customarily arranged finances and insurance to conduct commercial transactions** & seaborne trade: advance credit to foreign merchants.
- iii) **with decline of active carrying trade, they focused on financing international trade,** in this manner, even when the actual seaborne trade did not come via Amsterdam

Dutch Acceptance Banking - 3

- b) **acceptance banking:** more modern form of bill of exchange:
- -i) **also involve two principals in one city and two agents abroad**
- -ii) **principal merchant commands his agent-banker** to make payment on his behalf in Amsterdam for purchase of goods elsewhere (Danzig)
- -iii) **but the bill involves a loan not of money but of merchandise**: buying grain on credit, via agents abroad for both trade and finance
- -iv) **acceptor-payer: agrees to make payment of the bill**, on behalf of his principal to **payee** merchant

Dutch Acceptance Banking - 4

- c) **acceptance banking and other forms of finance: marked culmination of Dutch economic power in 18th century**
- d) **inherent dangers in acceptance banking:**
- -i) **extending credit at high risk to merchants** who might default or die
- ii) **high risks that ships & cargo be destroyed**: with wars, piracies, shipwrecks from ocean storms
- iii) **dangers of excessive speculation and fraud,** with unsecured credit
- iv) **dangers from financing growth of commercial rivals** -- e.g., England

An Acceptance Bill drawn on an Amsterdam Bank in 1785

DANZIG (Prussia)

(2) Danzig merchant X, acting as the agent for the Bordeaux merchant, buys grain from Danzig merchant Y, arranges for its delivery, and gives Merchant Y (the seller) the Bordeaux merchant's bill for 500 florins drawn on the Amsterdam acceptance-bank A. Danzig Merchant Y then sends this bill to his agent Merchant Z in Amsterdam (or to Amsterdam Bank B) for collection on the specified date.

AMSTERDAM (Holland)

(3) Merchant Z (or Bank B) receives the bill from Danzig and presents it to Amsterdam Bank A, which 'accepts' the bill, promising to make payment on the stipulated date. On that date Merchant Z collects the bill from Bank A and deposits the proceeds of 500 florins in the Danzig account in Bank B. Bank A debits the account of the Bordeaux merchant for the bill and the collection charges, including interest.

BORDEAUX (France)

(1) The Bordeaux merchant instructs his agent in Danzig, Merchant X, to ship 1000 bushels of rye to Bordeaux. To pay for the grain he 'draws' a bill on Amsterdam acceptance bank A for 500 florins, made payable in three months to merchant Z, with an account at Amsterdam bank B, acting as the agent for Danzig merchant Y. He sends the bill to his agent Merchant X in Danzig with a copy of his shipping instructions.

18th Century Financial Crises - 1

- 1) **The Four Financial Crises:**
- a) **Crisis of 1763: following Seven Years War between England & France**
- - Dutch had financed both sides, but only one side won (England)
- - **Dutch had issued flood of unsecured bills** ➔ French defaulted on debts
- - when financial bubble burst ➔ severe panic ➔ credit contraction ➔ bankruptcies
- b) **Crisis of 1773: Speculation on the Amsterdam Bourse:** East India Co shares ➔ severe credit crisis ➔ more bankruptcies

18^{th} Century Financial Crises - 2

- c) **Crisis of 1783:** **warfare: anti-British European coalition** of France, Spain, Netherlands, following British defeat in American Revolution
- - **Dutch foolishly surrendered their traditional neutrality** and suffered defeat when the British vanquished the European coalition
- d) **Crisis of 1795:** **when French Revolutionary armies occupied Dutch Republic → set up puppet Republic of Batavia** (1795-1806):
- - shut down the Wisselbank (but formally dissolved only in 1822)

18th Century Financial Crises - 3

- 2) **Consequences of the Financial Crises:**
- a) **revealed impotence of Wisselbank**, which could not function as a credit bank to rescue its clients: could not discount bills
- b) **England: the Bank of England** (established 1694): proved to be the opposite: and became a true ‘Lender of Last Resort’
- i) **established as the government’s credit and discount bank**
- ii) **in each of the crises, Bank of England intervened with credit to rescue its Dutch clients,** while other Dutch financial firms collapsed

18th Century Financial Crises - 4

- iii) **That demonstrated the financial superiority of London over Amsterdam ➔** promoted rapid shift of banking & finance to London (as will be seen in next lecture)
- iv) **But London's financial supremacy from 1770s** also a function of its growing commercial superiority
- v) **1795: French occupation** ended Dutch financial role
- c) **Demonstrates inherent instability of service-financial economies** over industrial economies