

MONEY

SOCIAL INVENTIONS are no less important than advances in technology. Developing new tools or weapons is one road to greater prosperity; another is the construction of new rules, customs and behaviour. 15

One early social invention was barter, a prerequisite for the division of human labour. However, barter is cumbersome because people have to search for others who are able and willing to exchange products directly.

This led to the invention of money, something that could be used to express the value of every other product. For example, a number of South American Indian societies priced their goods in cocoa beans; others adopted amber as money. The use of metal as money gave rise to coins in the form of pieces cut out of a metal sheet. Coins bore the image of a prince or a city as a guarantee of their weight and value.

The first Swedish coins were minted in Sigtuna around the year 995 but the practice lasted little more than thirty years. In 1018, Canute the Great, king of Denmark and England, set up a mint in Lund (Danish at that time, now a part of Sweden). Minting in what was then Sweden was resumed in the middle of the 12th century. The coinage was based on the Viking mark, which started as a unit of weight as well as of value (1 mark = 208–211 grams of silver). As time went by, more and more copper was mixed with the silver; the first mark coin in the reign of Gustav I Vasa, from 1536, contained only 8.23 grams of silver, roughly four percent of the original amount.

In the 16th century, 4 marks were equivalent to 1 daler. By 1609, one



The first Swedish coins were minted in 995 in Sigtuna, one of Sweden's oldest towns; diam. 21.8 mm

Building up systems of money and credit takes thousands of years. Banking spreads from Italy to northern Europe in the Middle Ages. Proposals to establish banks in Sweden begin in the early 17th century.	1200-1300 Banks are established in Italian city states.
995 The first Swedish coins are minted in the town of Sigtuna.	1609 The Amsterdamsche Wisselbank is founded.
MIDDLE AGES Bills of exchange simplify long-distance trade in Europe.	1611-2 Accession of Gustav II Adolf (Gustavus Adolphus); Axel Oxenstierna is appointed chancellor.
	1619 Oxenstierna proposes 'a bank in every town or at least in the foremost'.

- 16 *riksdaler* (the currency used for international transactions) required 6 marks and a century later 12 marks. The depreciation continued until the mark was finally abolished when Gustav III reformed the coinage in 1777.

CREDIT

While an increasingly uniform monetary system benefited international trade, transporting a sufficient amount of coins was a problem. Besides being bulky and heavy, the money attracted robbers and made commercial ventures hazardous.

This dilemma was solved by trading on credit. A buyer of goods promised to pay the seller at a later date, not necessarily in the place where the business was done. The deal could be arranged in one currency and settled in another. In the Early Middle Ages, Italian merchants started to purchase bills of exchange from professional brokers. Such a bill guaranteed that the holder would receive a sum of money in foreign currency on presentation of the bill to a broker in a foreign destination. The rate he paid for the bill – the exchange rate – was determined by the relative value of the currencies involved.

Towards the end of the 13th century, more and more trade between the Mediterranean and the Baltic region went by sea. Individual merchants gave way to powerful trading companies and finance houses, located in Italian cities with branches all over Europe. Trading on credit also helped to cope with the great variety of currencies. Recalculating bills was simpler and less uncertain than working out the relative value of unfamiliar coins. Europe's first truly stable currency, the gold florin, was first minted in Florence in 1252. Coins of the same type, ducats and sequins, were minted in Venice from 1285.

BANKS

Banking was practised long before the invention of money. Two thousand years earlier in Mesopotamia, grain and cattle were deposited in the temples and could be borrowed by people in need. Later, gold and silver were stored in the same way. The temple was the safest place for people's valuables, which the priests could then lend to merchants and others. There are records of loans from the temple in Babylon in 1700 BC; Hammurabi's laws, drawn up at much the same time, included rules for banking.

In Egypt in the last century BC, storehouses for grain were developed



Money-changers around 1550. Bills made it easier to trade across national borders..

18 into a centralised banking system that used grain for payments. In Greece, a major centre for banking grew up at the temple of Apollo on Delos; another was located at Ephesus, with credit facilities and individual accounts.

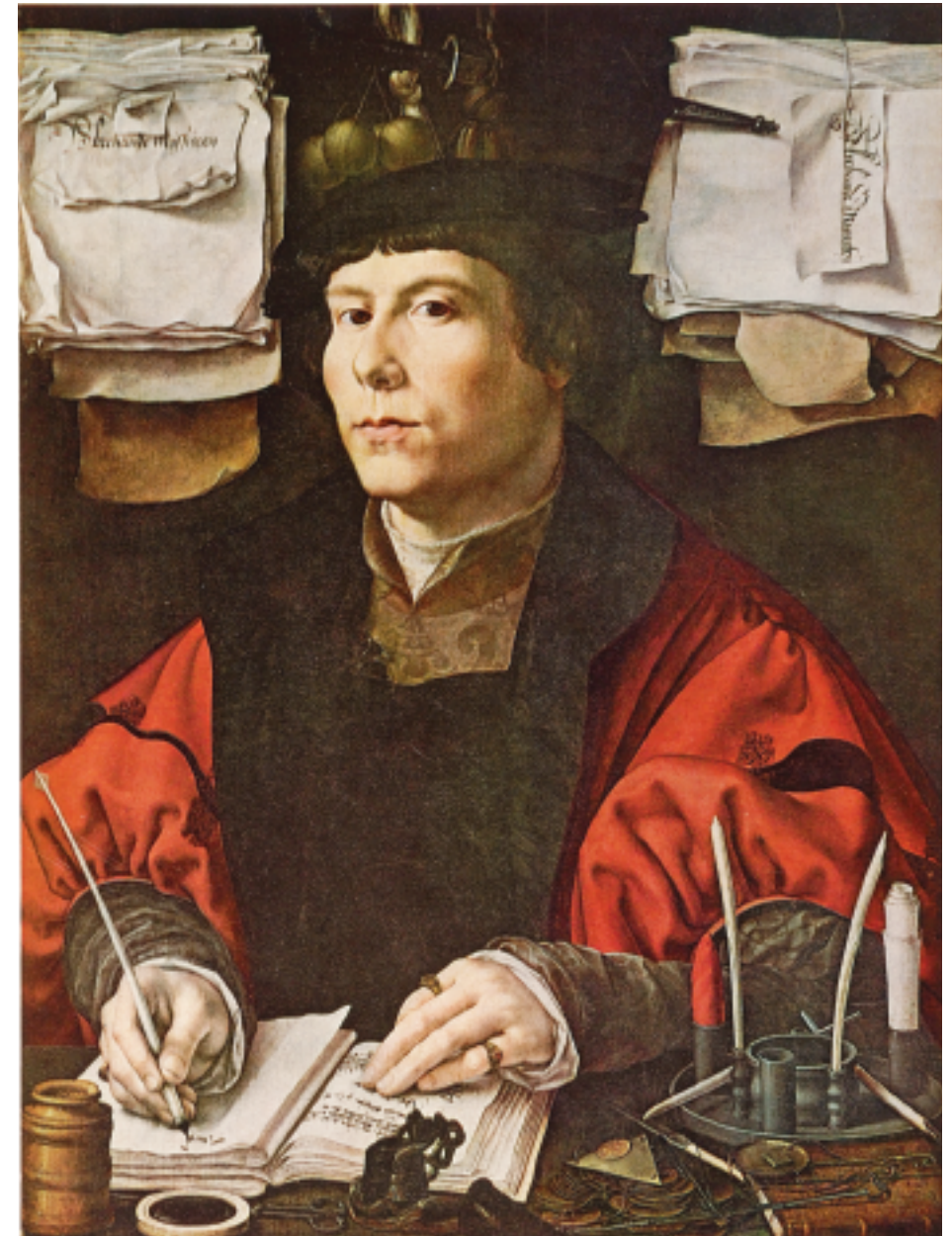
In the Early Middle Ages, transactions were mostly arranged by agents and trading houses. The part played by banks grew in connection with the crusades, when large sums had to be transferred from Europe to the armies further east. The Italian city states led the way; primitive deposit banks had been established in Venice and Genoa in the 12th century. They were started as a safe haven for money but soon began to transfer funds between accounts. Lending deposited funds was illegal but the banks allowed trusted depositors to overdraw their accounts, which created additional funds.

Princes found they could borrow from the bankers. Maintaining a court was expensive and so were the frequent wars. Banking dynasties such as Medici and Fugger were there to finance rulers and their armies. Debtors could be troublesome, however, postponing payments or simply defaulting. The bankers responded by charging high rates of interest and by demanding privileges and other benefits. They took over the collection of taxes, leased mines and acted as import agents.

Ever since the Roman Empire, people had debased coins, for instance by shaving off slivers that could be sold for the price of the metal. Alternatively, a coin's silver content could be reduced so that additional coins could be minted from a given amount of silver; it took time for people to realise that in order to get as much silver as before, they should demand more coins. In Sweden in the late 16th century, Johan III, under pressure to pay for the reconstruction of the castle in Stockholm, practiced debasement on a large scale.

In the 15th and 16th centuries, many princes refused to honour debts and some expelled bankers from their territory. Italy was ravaged by wars and the attendant plagues. Europe's financial centre shifted northwards to Germany, the Lowlands and England. Amsterdam became a focus for trade, a meeting place for merchants from east and west.

Amsterdamsche Wisselbank was founded as an exchange bank in Amsterdam in 1609. It accepted coins of every kind, opened a separate account for each client and issued a receipt that showed what the deposit was worth in Dutch guilders. The bank's currency was just a unit of account but it was stable and safeguarded the value of the merchant's assets. With such an account, a merchant could write payment orders and have money transferred to the accounts of his business associates. Deposit receipts could be passed



Bankers in the 16th century combined commerce and money transactions with business deals with princes and other

magnates. Painting by Jan Gossaert, called Mabuse (c. 1478-1533/36).

20 from hand to hand until someone in need of cash exchanged them in the bank. This service was so attractive that the exchange bank could charge a fee for accepting deposits. Lending was prohibited by the bank's statutes, which stipulated that the bank was to function solely as an exchange bank in the interests of commerce. The bank was required to hold a stock of coins and metal that matched the deposit receipts.

The discount bank in Amsterdam was emulated elsewhere. Hamburg soon became a major financial centre. In London, goldsmiths accepted gold and silver in return for a receipt and these receipts began to circulate in the same way as the deposit receipts in Amsterdam. In time, news of these innovations travelled further north.

OVERTURES IN SWEDEN

When the regency in Sweden ended at the turn of 1611, Gustav II Adolf (Gustavus Adolphus) appointed Axel Oxenstierna chancellor of the realm. War was their main concern but they also launched a thorough reorganisation of the country's institutions, industry and commerce. During his 42 years in office, Oxenstierna laid the foundations of Sweden's modern state.

Sweden was governed by the Monarch, the Council of the Realm, and the Estates of the Realm assembled in the Riksdag (the Diet or parliament). There were four estates: the Nobility, the Clergy, the Burghers and the Peasants. Sweden and Switzerland were the only countries where the peasant class, consisting of persons who cultivated their own or someone else's land, had a regular say in government. The monarch's power was subject to the law and the coronation oath. He ruled in consultation with the council, which consisted of some twenty nobles appointed by the monarch. Major decisions, not least concerning taxes and conscription, required the approval of the estates. The balance of power between the monarch, the council and the states shifted from time to time but the general structure of government remained the same until the constitutional reform of 1809. The Estates of the Realm, assembled in the four-chamber Riksdag, continued to function as Sweden's parliament until 1866.

In the early 17th century, the population of Sweden, which included Finland until 1809, numbered little more than a million, of whom the great majority were engaged in a form of agriculture that had hardly changed for hundreds of years. The towns were small – Stockholm had fewer than 10,000

inhabitants – and most of the burghers divided their time between commerce and farming. 21

The country's leaders wanted more. Gustav II and Oxenstierna had inherited a kingdom that faced war on every side; as Oxenstierna wrote in a memorandum in spring 1612: 'All our neighbours are our enemies'. Thirty-six years later, six years before the Chancellor's death in August 1654, the Treaties of Westphalia made Sweden and France the guardians of European security.

This remarkable metamorphosis placed a heavy burden on the sparsely populated country. The Crown needed tax revenue and soldiers. However, the traditional taxes on land were already onerous for the smallest farms – increasing them would be liable to ruin the landowners and erode the tax base. Oxenstierna saw a potential in tariffs on trade, including the growing export of copper, iron and tar. On their journeys abroad, moreover, the Chancellor and other members of the First Estate had seen how markets and enterprising merchants were causing German and Baltic towns to flourish. The promotion of towns, commerce and crafts was a major theme in Oxenstierna's reforms.

In 1619 the King summoned burghers from some of the largest towns to discuss the development of industry and commerce. The main business was a new town charter but Oxenstierna also had something else in mind. In his opinion, the main difficulty for merchants was the shortage of coins: 'Among other things, which hamper the towns' improvement, is the great want of money here in the kingdom, in that all trade up to now is done on goods and their exchange.'

An alternative to barter existed, though the idea was so new that the Swedish language had no word for it. Oxenstierna talked of setting up a *bänk*, a literal translation of the original Italian *banca*, and later he mentioned a *länebank*, i.e. a loan bank.

Getting money to circulate more quickly with the aid of banks would benefit trade. What the government wanted to know was not *whether* banks should be introduced – that was 'indisputably essential' – but *how* this was to be arranged. The proposal was that each town should either provide sufficient capital or use depositors' money in return for interest. The idea that the towns should take the initiative suggests that Oxenstierna was thinking of the exchange bank in Amsterdam, which the city founded and guaranteed a decade earlier. If so, this was one of numerous instances where

22 the Chancellor planned to adapt Dutch commercial institutions to conditions in Sweden (Thomson, 2005).

The burghers were not convinced. They observed that the banks abroad had been established for the convenience of travelling merchants, enabling them to dispense with cash and finance transactions with bills. In their opinion, the towns could not possibly provide sufficient capital.

Oxenstierna drafted a reply to the objections and argued that the proposal went beyond providing bills for foreign merchants. It would also make it possible to deposit and borrow funds. Access to a bank would be much safer than entrusting money to private agents. Moreover, the deposits would enable the bank to lend so that ‘those who need money and assure the bank of an adequate pledge may always command money’.

Oxenstierna referred to the shortage of money in two senses, an ambiguity that frequently recurred. One concerned money in the physical sense – coins for making transactions – which banks would hopefully ameliorate by stimulating their circulation. The other was the scarcity of credit, which banks could remedy by providing capital. The time was not ripe, however. The Crown did not have the wherewithal to guarantee banks and the burghers could not be persuaded to do this, so nothing came of it.

The idea was revived time and again. In 1627, Louis De Geer, a Dutch financier and industrial magnate who owned Sweden’s leading cannon foundry and became the country’s wealthiest man, consulted Johan Skytte, a state councillor, about setting up exchange banks in Norrköping and Arboga. At the 1642 Riksdag, Oxenstierna emphasised the benefit of a bank ‘both for those who have a surplus of money and for those who need to borrow, in that if they can provide a lesser amount of interest, they do not need to pay anything to the agent’.

The project became more concrete but people’s doubts were not dispelled. Some foreign merchants were awarded the privilege of setting up a loan bank in one or several places in Sweden in 1646 but that, too, came to nothing. In 1652 the idea was taken up both by the ‘Exchequer’ (*Kammarkollegium*) and by Johan Palmstruch, a burgher of Riga. In its reply to the Exchequer, the Government agreed that a bank could be a good and useful thing but ‘as there undoubtedly are several great difficulties to effectuate and nothing speedily can be engaged and established,’ the government would consider the matter and return to the estates with a resolution. That never happened.



Axel Oxenstierna (1583–1654) portrayed as the Swedish Crown’s legate in Germany on a coin minted in Würzburg – the only

Swedish coin that portrays someone who is not royalty; diam. 41 mm.