

AGE OF LIBERTY

A CONSERVATIVE RESURGENCE

KARL XII WAS succeeded in 1719 by his youngest sister, Ulrika Eleonora, who abdicated the following year in favour of her husband, Fredrik of Hessen. They outmanoeuvred Karl Fredrik of Holstein, son of Ulrika's deceased elder sister, and had Görtz, the leading man in the Holstein camp, imprisoned; he was executed after a summary trial.

The senior commanders and officers of state were intent on ending Sweden's royal autocracy. Ulrika Eleonora was obliged to accept a new constitution whereby lawmaking and the power to levy taxes and decide expenditure were transferred to the Estates of the Realm. Next year the Estates' supremacy was confirmed when Ulrika was succeeded by her husband as Fredrik I and he accepted further constitutional restrictions on the monarch's power.

The Riksdag and its Secret Committee dominated Swedish policy for

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- AS THE INDISPUTABLE agency of the Riksdag, the Bank regains its independence of the Crown. After the Great Northern War, the Bank's conservative directors benefit from the economic recovery. The Hat party comes to power in the Riksdag of 1738–9 and uses the Bank to finance wars and an expansionary economic policy, which leads to rapid inflation. Economists point to a relationship between the stock of banknotes, inflation and the exchange rate. The Riksdag of 1765–6 adopts a programme for restoring the value of money but this results in a grave deflationary crisis.
- 1719 Autocracy ends. The Bank reverts to being the Bank of the Estates of the Realm. Johan Thegner directs the economic recovery.
- 1720 Ulrika Eleonora abdicates and is succeeded by her husband, Fredrik I.
- 1721 The Treaty of Nystad confirms peace with Russia.
- 1738–9 The Hats force Arvid Horn to resign. The Riksdag insists on greatly increased Bank lending.
- 1741 Thegner is forced to resign and is replaced as board chairman by Fredrik Gyllenborg.
- 1741–3 War against Russia. The Bank finances the Crown's expenditures.
- 1740s Transfer notes come into general use.
- 1745 Notes cease to be convertible. Paper standard.
- 1751 Fredrik I dies and is succeeded by Adolf Fredrik.
- 1757–62 The Pomeranian War (a part of the Seven Years' War). The Bank again finances the Crown.
- 1759 Fredrik Gyllenborg dies.
- 1765–6 The Caps regain power and hold the Hats to account. The Bank's directors are replaced. A programme is prepared to restore the exchange rate.

76 more than fifty years. At that time, not least because so many people were represented by the Fourth Estate (roughly peasants who owned or rented land), Sweden had a government which was more broadly based than in any other country in Europe, including Great Britain. 'Even those historians who consider the British parliament was superior to the Riksdag in the Age of Liberty concede that the Riksdag's composition mirrored the different groups in the population to a much greater degree' (Metcalf, 1992).

For a couple of decades, policy was directed by Arvid Horn, a military commander who had risen to be president of the chancery and leader of the Council under Karl XII. Ulrika Eleonora tried to get rid of him but he found favour again with Fredrik I. Horn dominated policy-making and relied on trusted colleagues to design much of its content. Councillor Swen Lagerberg restored the government finances, while another councillor, Gustaf Cronhielm, led the work on the new legal code which in 1734 replaced the mediæval laws. Horn concentrated on getting matters past the Riksdag and keeping Sweden out of foreign conflicts.

For the Bank, the Age of Liberty was at first fairly calm. The economy, still mainly agricultural, recovered quite soon from the strains of Karl XII's reign. Favourable weather resulted in good harvests and the population increased. Mining and industries also began to grow. Guilds were weakened, Swedish shipping flourished, and prices for iron and copper were higher than ever before. Following the withdrawal of token coins and currency notes, people started to use the money they had hoarded. The currency also benefited from the large sums victorious powers paid for provinces which Sweden relinquished. This enabled the Crown to resume the minting of silver coin.

The board of directors focussed on restoring the Bank's credibility. At her accession, Queen Ulrika Eleonora promised to respect the privileges of the loan and exchange bank and to repay all its loans to the Crown. This removed any doubts about the status of the Bank.

The Bank's dominant personality in the early decades of the Age of Liberty was Johan Thegner. His stalwart opposition to Karl XII on behalf of the Bank put him in a strong position. His father, Olof Thegner, was a lawyer who had done well during the reversion of Crown lands under Karl XI and was ennobled for his services; he, too, was a director of the Bank. A director's term in office was limited to eight years but this rule was waved repeatedly for Johan Thegner; he joined the board of directors in 1711 and served as



Johan Thegner (1658–1744), the leading figure in the Estates' Bank and chairman of the board in the early 18th century; reverse: the 'southern' Bank building in the Old

Town. Medal engraved by Daniel Fehrman after a wax model by Johann Carl Hedlinger and struck shortly before or after Thegner's death; diam. 51 mm.

78 chairman until 1741. It was not a full-time post; Thegner managed to combine it with the vice presidency of the Exchequer Audit (*kammarrevisionen*) and a directorship of the Barnängen clothing factory.

When the Age of Liberty began, the Bank was not open for either deposits, withdrawals or loans. Its assets in the five different types of coin were far smaller than the total amount of deposits. In addition to the four earlier coinages, a silver piece known as *daler karolin* was minted from 1664 onwards and now made up a very large share of the deposits.

Thegner aimed to build up the Bank's funds in order to repay deposits and be in a position to resume lending. However, as income mainly consisted of interest and repayments on earlier loans, achieving this would take decades. Moreover, each currency had to be handled separately, so loan repayments resulted in growing stocks of ducats, *riskdaler* and *karoliner* that did not generate income because they could not be used for new loans. During the war, the Bank had only been able to provide copper coin; it now made a modest beginning by paying interest in the same currency as the amount deposited.

Thegner's approach may seem out-dated; the strict separation of currencies, the moratorium on deposits and lending, and the protracted liquidation of loan bank certificates have little in common with modern banking. After Karl XII, however, the Bank's credibility was at stake. By promoting stability, Thegner maintained the value of the outstanding transfer notes, cash receipts and loan bank certificates. The monetary situation in Sweden became steadier in that Thegner's line harmonised with the cautious foreign and fiscal policy under Arvid Horn and Swen Lagerberg. The period of calm aided Sweden's recovery after the Great Northern War.

With Thegner in charge, the Bank was clearly in the hands of the directors but this did not last. It can be said that during the Age of Liberty, royal autocracy metamorphosed into the Estates of the Realm. Their will was felt in the doings of every government agency.

The most powerful body, the Secret Committee (*sekreta utskottet*), comprised representatives of the Nobility, the Clergy and the Burghers. The Fourth Estate, the Peasants, were occasionally admitted through some special arrangement, but generally had to make do with their influence as one of the Riksdag's four chambers. The Secret Committee did refer some matters to the Estates but decided numerous issues on its own; when members of the Riksdag inquired about the background to the Committee's proposals

and decisions, they were often told that business was too secret.

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Much of the Secret Committee's work was assigned to delegations. An early instance was the bank delegation (*bankodeputation*), which exerted political influence over the Bank during Riksdag sessions; these were held at intervals of two to three years and could last for months, even years. As Marshal of the Riksdag and chairman of the Secret Committee, the First Estate's speaker was the delegation's formal head but was usually present only at the opening and closing meetings.

To start with, the board of directors attended the delegation's meetings. In time, the delegation ruled that its formal approval was required for all important board decisions. The Bank delegation, like many other Riksdag agencies at this time, busied itself with matters of detail, decided individual loans, dismissed officials who displeased it and recommended whom the Bank should employ. At the end of each Riksdag, the delegation summarised its decisions in regulations that applied until the next Riksdag.

In between Riksdag sessions, the Bank was run by its directors. The routine work was done by officials, whose number increased rapidly during the Age of Liberty, particularly after the Hat party came into power at the Riksdag of 1738–9. The number of Bank employees rose from 43 in 1721 to 68 in 1739 and as many as 163 in 1765. They were fairly immune to inflation because they were paid in *riksdaler*, the international currency with a stable content of silver, rather than in one of the Swedish currencies.

The number of permanent and supernumerary commissioners – the senior officials – likewise grew, from 7 in 1721 to 8 in 1739 and 27 in 1765, when the Cap party initiated cuts. The commissioners' duties included the expression of their joint opinion in memoranda and other ways; collective management by 27 people can hardly have been particularly efficient.

GOVERNMENT POLICY – AN EXPLOSIVE ISSUE

Political power in the Age of Liberty was not as centralised as it had been in the period of autocracy, nor as it would be in the modern state. The chancery (*kanslikollegiet*) handled the most important matters but not everything. The 'colleges' or boards which Oxenstierna had instituted a century earlier were formally equal in rank. Arvid Horn dominated not just the chancery (as its president) but also the Council and, for a long time, the Riksdag, but political opponents could pursue their interests elsewhere. Daniel Niclas von

80 Höpken, a political enemy whom Horn managed to oust from the chancery after the Riksdag of 1726–7, was appointed president of the Board of Trade, where several of Horn’s critics gathered and shaped the opposition’s policy. Finance was an important topic that included the Bank.

One of the Riksdag’s major concerns in the 18th century was economic improvement. The aim was to make Sweden independent of external initiatives and capital. In 1720, for instance, Christopher Polhem, ironmaster and inventor, proposed the establishment of an ‘iron company’ to provide debt-burdened ironworks with debenture capital. In a report to the 1723 Riksdag, Emanuel Swedenborg stressed the importance of proper trade statistics; the Board of Trade was instructed to draw up annual records of imports and exports.

The balance of trade started a lively debate about how commerce and industry could be promoted. After some years, the official balance was questioned; a couple of merchants presented the 1731 Riksdag with a ‘counter balance’ which indicated that Sweden was actually generating a surplus of the same magnitude as the deficit reported by the Board of Trade. The estimates of smuggled goods were arbitrary and probably exaggerated. Even so, the official figures and the supposedly large deficit influenced the debate in the coming decades.

The Board of Trade and Höpken’s circle advocated an active policy; Horn and his closest associates were more cautious, but in time, many of Horn’s allies succumbed to the activists’ enthusiasm. The Riksdag finally approved generous support for the ‘manufactories’, above all for the production of textiles, and financed this with import tariffs.

Copper had been the dominant export in the 17th century but was now overtaken by iron. The leading men in the iron industry were important political figures. Several foundry proprietors belonged to the nobility, the big merchants were a strong group among the burghers and many members of the clergy and peasants had an interest in the iron industry’s various processes and ancillary trades.

The ironmasters considered that foreign capital was depriving Sweden of a large share of the industry’s profit. The ironworks lacked an adequate domestic supply of the debenture capital they needed to pay for labour and raw materials. Dutch financiers had done well in the 17th century and British capital became increasingly important in the 18th century, often in collaboration with commercial firms in Stockholm and Göteborg.



Arvid Horn (1664–1742), Chancery president under Karl XII; after the king’s death, Horn was a leading statesman in the early decades of the Age of Liberty. Portrait by Lorentz Pasch the Elder.

The political activists wanted to strengthen Swedish interests at the expense of British. They advocated a resumption of lending by the Bank so that money could be raised by mortgaging ironworks and their products. Under Thegner, the Bank's attitude to economic development was rather passive. Höpken and his colleagues favoured more intervention to promote industry and trade. Economic policy and criticism of the Bank were major issues in the opposition to Horn.

THE LENDING CONTROVERSY

At the 1726–7 Riksdag, a First Estate lawyer named Lilliegren argued that anyone who needed to borrow from the Bank should be allowed to do so if they could present adequate security. The bank delegation's succinct reply was that 'Messrs. Directors will no doubt see to that when the time comes and the Bank's condition so requires'. As far as Thegner was concerned, it was the directors who were to judge when the time was ripe.

The next Riksdag, in 1731, was more strident. The nobility complained of the 'shortage of money in the realm', a phrase that was beginning to refer to a shortage of credit, though at times there was also a lack of coins. The nobles cited the 'closure of the loan bank' as one of the causes and argued that it should now be possible to resume operations – the market value of the loan bank's certificates was so high that few wanted to withdraw their money and it would be a pity to let the capital lie idle. The bank delegation exerted pressure on the directors, who agreed to open again for lending against chattel security in gold and silver, as well as against loan-bank certificates. This was only a slight concession but it encouraged the critics.

At the 1734 Riksdag, the directors countered an initiative by the ironmasters by noting that the loan bank lacked a loan fund and the exchange bank was debarred from lending. This was brushed aside and the directors were forced to advance 8,000 *dsm* to a sailcloth factory at Mindre Barnhusgården in Stockholm. The Riksdag also dismissed the directors' objections to granting loans against collateral in the form of iron at the state weighbridges. The Secret Committee concurred and a royal ordinance on 18 February 1735 proclaimed the Bank's 'opening to make loans against property and iron'. This was an overstatement; it was the loans against iron that mattered; property was a secondary consideration that featured mainly in the preamble. Borrowing was resumed but was not sizeable.



The iron industry dominated Swedish exports in the 18th century and its representatives called for increased lending by the Bank. Pehr Hilleström, *In the Anchor-Forge at Söderfors. The Smiths Hard at Work*.

84 The Riksdag of 1738–9 saw Sweden's first 'parliamentary' change of government. Horn's critics organised a political party known as the Hats (on account of an assertive, military headgear), which secured a majority in the Secret Committee. Horn was forced to resign as chancery president and his closest associates in the Council were 'licensed'.⁵ The struggle over economic policy and the Bank contributed to these developments.

A skirmish occurred when Carl Gustaf Wennerstedt refused to sign the oath that tradition required of newcomers to the bank delegation. His refusal was based on doubts about the directors' picture of the Bank's modest means. Many Hats in particular believed that the Bank was doing so well that it ought to be able to lend considerably more than Thegner and his colleagues allowed.

The problem was that nobody knew – Bank secrecy applied even vis-à-vis the Secret Committee. Wennerstedt wanted to change this. An advocate of secrecy had pointed out earlier that it was intended to protect the Bank's credit; if a hundred members of the Committee learned that things were not going well and it was seen that they were selling loan-bank certificates at a discount, people would not be slow to draw conclusions. As the First Estate's speaker, and thus the Marshal of the Riksdag, Carl Gustav Tessin brokered a compromise and many years passed before bank secrecy was questioned again.

The fundamental issue was lending. Did the Bank possess the resources for a loan fund? The activists wanted to use the exchange bank's funds, which was not allowed (this money was to be available whenever depositors wished to withdraw it); they made light of this rule: who would want to withdraw these 'heavy and bulky' plates? And even if many did so, paying out the entire stock would take eight months; meanwhile, the Bank would manage to call in enough six-month loans, so there was no harm in using the exchange bank's funds for loans. People also seem to have believed that the exchange bank would not need to be involved; the Bank could rely on its credit and issue notes.

Agreement about the rules for lending took longer – conflicting interests had to be reconciled – but this was finally achieved. The Riksdag

⁵ In a study of the concept of 'licencing' (*licentiering*), Linnarsson (1943) considers it was ambiguous. Besides meaning 'grant discharge' in the sense of allowing someone to relinquish a post for a certain period or permanently, it could imply being dismissed or separated from a position of trust.

also began to terminate the *karoliner* deposits, thereby reducing the Bank's interest expenditure. These moves contributed to markedly increased lending. 85

GYLLENBORG SUCCEEDS THEGNER

The Hats were dissatisfied with the board of directors, particularly its chairman Johan Thegner, now almost 80 years old. Claiming that Thegner had talked of infirmities and feebleness, the bank delegation sent two members to flatter him into resigning. To no avail – Thegner pointedly asked whom his intended successor was to be and they had no answer; apparently the Hats were divided on this. The delegation referred the matter to the nobility, where Wennerstedt advocated a replacement, but the majority let Thegner soldier on.

The change came at the next Riksdag, when the clergy thanked their Jöran Nordberg for long service on the delegation and the burghers did the same for Peter Aulævill. Under these circumstances the bell also tolled for Thegner; as a sweetener, his opponents extended his 'salarium' for life, allowed him to go on attending board meetings and arranged for his portrait to be painted and hung in the Bank. On 13 February 1741 the head of the bank delegation announced that Thegner had resigned, whereupon the nobility's delegates met and decided to appoint Count Fredrik Gyllenborg, one of the Hats' most ruthless leaders, but also Thegner's nephew. After a day or so, another delegate reported that Thegner had changed his mind but by then it was too late. The 83-year-old chairman retired after forty years on the board of directors.

Gyllenborg led the Bank for almost two decades. Thomas Plomgren, a merchant who, together with Gustaf Kierman (appointed director from 1752), had persuaded the burghers to side with the Hats, had represented the burghers on the board since 1739. With such colleagues, and the backing of a majority of the Secret Committee, Gyllenborg's position was as strong as Thegner's had been in the early decades of the Age of Liberty.

Gyllenborg is seen by some as the first party secretary in Swedish politics. It was largely thanks to him that his brother Carl succeeded Arvid Horn as chancery president. He also used the Bank, its loans and note issues, to further Hat policy. Appointments and rewards went to the 'well disposed' and their relatives. Above all, the Bank arranged much of the financing of wars under the Hats, besides extending credit to manufacturers, ironmasters

86 and merchants who sided with the party in power. There are parallels with how the Fourth Estate tried to get the Riksbank to benefit agriculture in the 19th century and with the promotion of residential construction via the policy of regulation in the 1950s and '60s.

INFLATION UNDER THE HATS

Whereas Arvid Horn had carefully evaded threats of war in the 1720s and '30s, the Hats took over as warmongers. They were hard pressed at times, for instance when their own councillors went over to the opposition and became their acutest critics, but remained in power for almost thirty years. When the party achieved its majority, the Secret Committee compiled a sealed appendix to the Riksdag's report that was to be opened only if Sweden was attacked; in that event, the Council would be entitled to requisition loans from the Bank which the directors would have to approve, though they would not be accountable.

As chancery president, Carl Gyllenborg sought a suitable opportunity of recovering the provinces Karl XII had lost to Russia. The 1741 Riksdag decided to exploit the confusion in Russia after the death of the Empress Anna Ivanovna. The Secret Committee drew up the terms which would be imposed on a defeated Russia and dispatched the First Estate's president, Charles Emil Lewenhaupt, to command the troops in Finland. What happened, however, was that Elisabeth Petrovna seized power as Empress of Russia and duped the Swedes, who lost the whole of Finland. Moreover, as a condition for returning Finland (minus certain territories along its border) the Empress demanded that Sweden choose the Prince-Bishop of Lübeck, Adolf Fredrik of Holstein, as heir to the throne. Lewenhaupt and his second-in-command, Henrik von Buddenbrock, were executed on their return.

The Bank had to finance the war; it provided a total of over 80 barrels of gold, ten of them as a compulsory gift at the beginning of hostilities and most of the remainder as loans to the Crown. The war exhausted the greater part of the Bank's bullion; additional resources were generated by printing money without backing.

Regular lending also increased at this time. The 1741 regulations stipulated that the Bank was to regard its loans, not as a capital investment as before but as an obligation; the bank delegation found 'it was rather dubious to exclude a subject from the right that he no less than others by



Fredrik Gyllenborg (1698–1759), succeeded Thegner as chairman of the Bank board when the Hat Party managed to get the latter to resign. Besides using the Bank to

promote Hat policy, he speculated in property and became the Bank's largest debtor. Commemorative medal engraved by C.J. Wikman; diam. 52 mm.

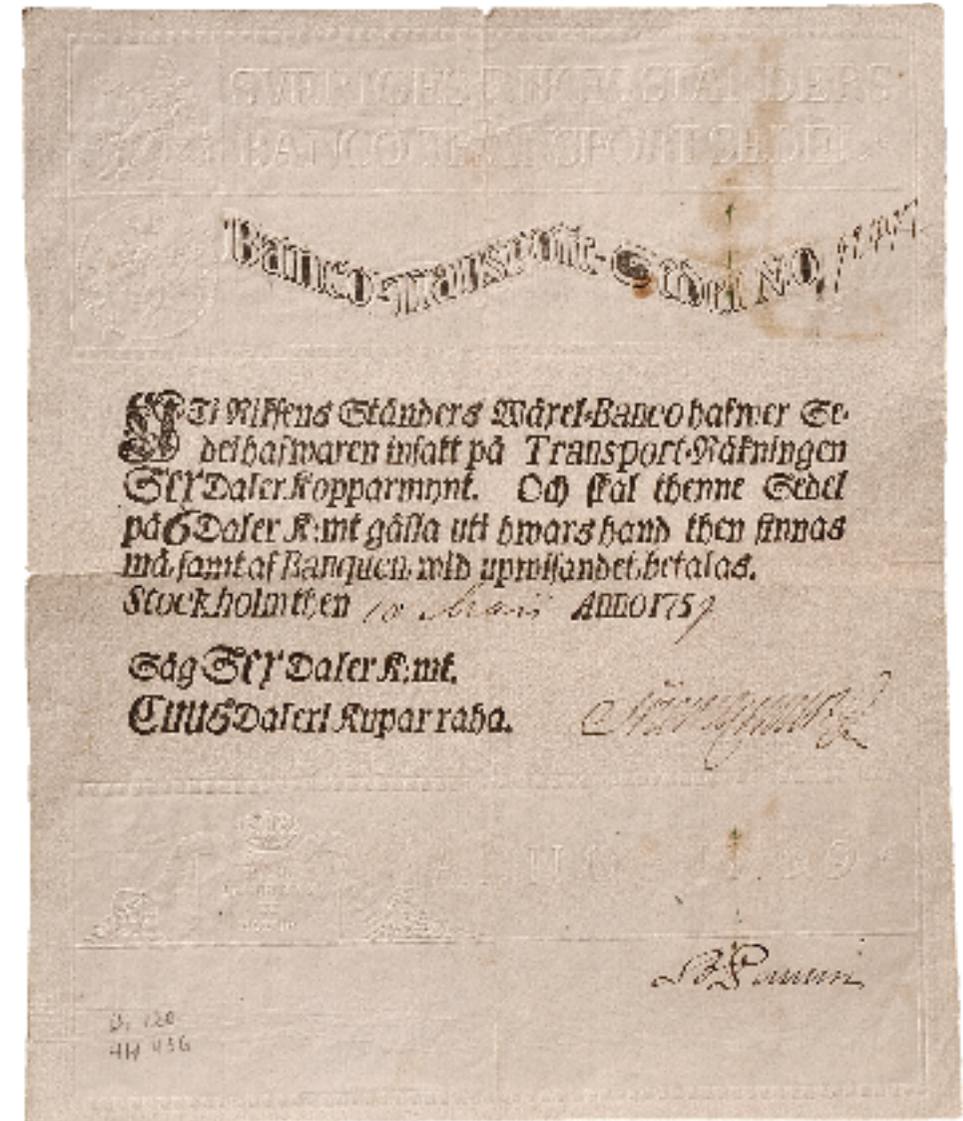
88 the instructions has been entitled'. Anyone who could present the security the Bank required would have the right to borrow. That became the Bank's guideline in the coming decades. The money supply grew and grew. The Bank was obliged to finance a share of the subsidies for manufacturing; the King's friend, Erland Broman, obtained huge loans with which to buy property.

In 1745, as the Bank's situation became more and more critical, the board of directors and the Council disagreed about which of them was responsible. The board asked the Council to limit withdrawals of coin from the Bank but the Council declined – the Bank was accountable to the Estates, so such decisions were a matter for the board. While the question was referred back and forth during the spring and summer, the outflow of plate money continued. In October the commissioners considered that withdrawals would have to be prohibited. Matters were complicated, however, by a dispute between Fredrik Gyllenberg on the board of directors and councillor Samuel Åkerhielm, who had helped to overthrow Horn but had become increasingly critical of the Hats. It was not until 23 October 1745 that a royal proclamation stopped the Bank from providing customers with plate money. The right of redemption had been abolished. The Bank was closed for withdrawals for the next two decades.

BREAKTHROUGH FOR BANKNOTES

The Bank had not issued many transfer notes in its early years. Various decisions led to these notes becoming more common. The minting of plate money was resumed in 1710 and this increased the demand for forms of money that were easier to handle. The 1723 bank committee introduced measures to counter the practice of transferring approved assignments long after they had matured. In 1726, transfer notes became legal tender in the collection of revenue, which meant that people could use them to pay taxes and other public dues. Four years earlier the bank committee and the board of directors had jointly decided to lower the minimum amount for a transfer note to 50 *d km*, a sixth of the minimum of 100 *d sm* that had been set in 1701.

Confidence in transfer notes increased and so did their use. By 1728 the notes were reputed to have reached as far afield as St. Petersburg. Their popularity also grew as people simplified matters by transferring them in



The use of paper money became increasingly common when a lack of petty cash induced the Bank to issue pre-printed notes for small amounts. The text states: 'In the Estates' Bank the noteholder has deposited in a

transport account six daler copper coin. And this note for 6 daler copper coin shall be valid in whosoever's hand it is held and by the Bank on presentation be paid. Stockholm, 10 March 1759; c. 190×155 mm.

90 blank (a relief in particular for those who could not write) and by detaching the coupon that was intended for transfers, which made it cheaper to send the notes by post.

During the Age of Liberty, transfer notes became the dominant type of banknote. The first forms for them were inscribed 'Bank of His Royal Majesty's Estates' (*Kongl. May:tz Ständers Bank*). It was presumably in 1719 that this was altered to 'Bank of the Estates of the Realm' (*Ricksens Ständers Banco*) in accordance with the new constitution. The forms were supplied initially by one of Stockholm's commercial printers. In 1737 a note printing office was set up on the Bank's premises; it, too, was run for some years by a private printer. The Bank took it over on 3 July 1747 with Peter Momma as the first manager.

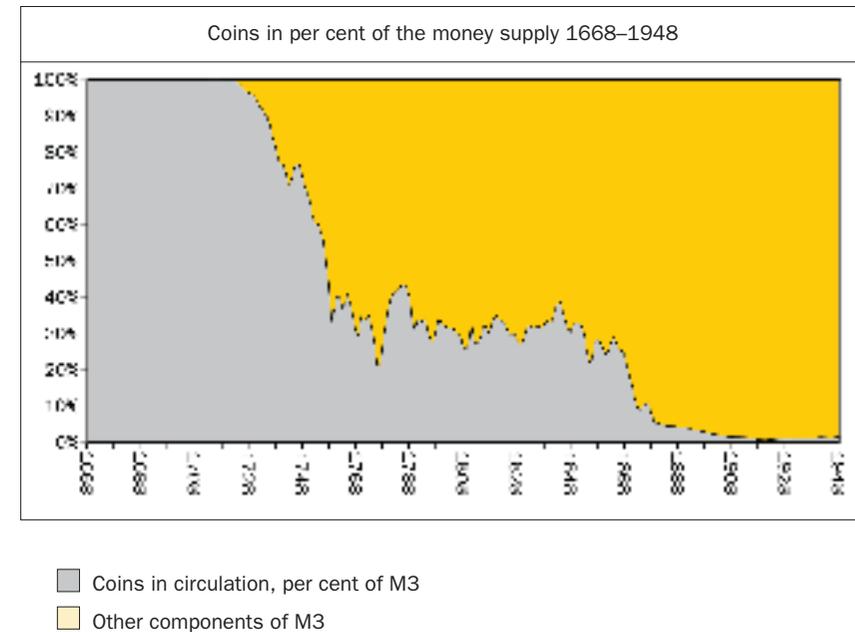
In the aftermath of the war of 1741–3 and the growth of lending, people in Sweden began to use banknotes in earnest. The minimum amount continued to be 50 *d km* up to 1743, when denominations of 24 and 36 *d km* were added. When notes ceased to be convertible, the shortage of petty cash made it necessary to print notes for 6, 9 and 12 *d km*, whereupon they became even more ubiquitous. Notes pre-printed with fixed amounts were introduced in 1743, notes that did not require endorsement in 1745 and the following year it was decided to print denominations in both Swedish and Finnish; the latter type came into use in 1748.

PROPERTY SPECULATION

The Russian war was followed by an economic boom. When speculation in property led to lending above the limit, the board of directors disregarded the restrictions and the money supply rose rapidly. The government failed to balance the budget and resorted to continuous borrowing. At the turbulent Riksdag of 1746–7, the heir to the throne, Adolf Fredrik, sided with the Hats, who responded by lending liberally to him from the Bank.

At the next Riksdag, in 1751–2, the bank delegation expressed concern that lending exceeded the total which the previous Riksdag had set. Much of the excess consisted of loans for property speculation and the delegation warned that 'in time the greater part of the realm's foremost landed estates will be collateral held by the Bank'. The Riksdag called for repayment of earlier loans against property and a more binding limit on new lending.

The limit was observed in 1752; the annual quota was filled by Sep-



The growing popularity of banknotes in the Age of Liberty is evident from the Riksbank's research on historical statistics.

Coins dropped from 90 to 37 cent of M3 in twentyfive years (1735–60). A century later their share shrank from 27 to 5 per cent in fifteen years (1868–80).

92 tember and lending was discontinued. Next year, the pent-up demand was so great that the annual total had already been reached by 15 January, which strengthened the case for granting additional loans. Thomas Plomgren was becoming increasingly cautious and held that the directives were absolutely binding; checking property speculation was important because it tended to push prices up so much that the return did not suffice to pay the Bank's interest. Fredrik Gyllenborg and Gustaf Kierman, on the other hand, considered that the directives were no more binding than they had been in 1747: 'Curtailing credit for property would occasion a reduction of operating capital, economic stagnation and give cause for adverse assessments of the Bank.'

On 9 February the board of directors granted most of the borrowing requests but decided to refuse further applications during the year. Commissioner Alstrin warned against undue property mortgaging: the more properties the Bank received as pledges, the more certain were falling prices and, in time, the Bank's losses. Even so, the decision was revoked that autumn; after further disputes between Plomgren and Gyllenborg, additional loans against property were granted.

THE POMERANIAN WAR

The Hats' good relationship with the heir to the throne did not last. Following the death of Fredrik I on 25 March 1751, Adolf Fredrik was crowned in November and proceeded to assert the monarch's supremacy over the Council. At the Riksdag of 1755-6, however, the court was completely outmanoeuvred. Queen Lovisa Ulrika's attempt to inspire a revolution in summer 1756 made matters worse. Eight of the conspirators, including Count Erik Brahe, were executed and the Riksdag requested the archbishop and a bishop to give the Queen a severe reprimand.

The Council added to her humiliation. Prussia, the Queen's native land, was fighting Russia and France in the Seven Years War and its only ally was Great Britain. The Secret Committee had given the Council a vaguely worded exhortation to promote 'the country's reputation, improvement and – if possible – growth', whereupon the Council approached Prussia's enemies. After diplomatic representations, troops were sent to Swedish Pomerania and on 13 September 1757, Sweden declared war on Prussia. This is known in Sweden as the Pomeranian war.

The Riksdag of 1755-6 marked the height of Hat power. In order to

93 moderate the budget deficit, the Secret Committee lowered the Bank's lending rate to the Crown from 5-6 per cent to 3 per cent. The government had been wanting to do this ever since 1719 but it was only now that the Riksdag agreed. The Riksdag freed Gyllenborg and Kierman from responsibility for what they had done and rewarded the board for its arbitrary lending in 1753 and 1754. The directors were remunerated, the lending ceiling was removed, and interest rates and repayment requirements were lowered to make borrowing more attractive.

As to the war, the Council was at fault. Fredrik II, Lovisa Ulrika's brother, was more than a match for the coalition. Sweden fared little better than it had against Russia fifteen years earlier. Moreover, the Council got into trouble over the 1720 constitution, which prohibited the government from declaring war without the consent of the Estates. Neither was it allowed to levy taxes and tariffs to finance a war; the solution was to borrow from the Bank, which was not directly unconstitutional. When Fredrik Gyllenborg died in 1759, he was succeeded by Carl Fredrik von Höpken, brother of chancery president Anders Johan von Höpken. Neither of the brothers was a strong enough politician to alter the course of the government and the Bank.

The Riksdag assembled again in October 1760 and was not dissolved until June 1762. The session was marked by the misjudgements connected with the war and the financial disarray in the realm and the Bank. Power was divided; the Hats won the election of the First Estate's speaker and dominated the Secret Committee, but their opponents, whom they derisively dubbed the (Night-)Caps, often assembled a majority in the individual estates. When the Secret Committee's bank delegation drew up a plan for calling in some of the notes in circulation, the Caps in the Estates rejected the proposals.

The Riksdag followed an unsteady course but, as pointed out by Åmark (1961), it did establish an important principle concerning the government's relationship with the Bank. The Secret Committee noted that the directors had provided the Crown with loans on no other grounds than representations from the Council. The Committee did not question the board's intentions but called on the government to refrain from such representations in the future. They were permissible only if the country was in such immediate danger that there was no time to assemble the Estates for a decision. Under normal circumstance the Council had no right to draw on the Bank.

By 1762, money was worth so little that even small amounts were

94 exported – the price of copper on the Hamburg metal market exceeded the coins' nominal value in Sweden. Coins that parishioners had placed in collections were hoarded by the clergy in the hope that they would recover their value. To make up for the shortage of coin and keep trade going, people produced their own notes in small denominations.

In 1763 it was rumoured that Fredrik of Prussia had accumulated a large sum in Swedish banknotes and bonds; if Sweden could not redeem them, he would take Swedish Pomerania as security. Fearing the worst, in September the Bank acquired silver and loan-bank certificates for around 2 million *d km* to meet unforeseen demands.

The Riksdag of 1760–2 was followed by years of indecision. The Caps had failed to overcome the Hats but a couple of their excluded councillors from Horn's day made a comeback. Sweden also suffered economically from the crisis in 1763 when Amsterdam and Hamburg trading houses speculated unwisely in the fortunes of war; their default disrupted Sweden's foreign trade, which passed through and was largely financed in these two cities.

DEPRECIATION

The Age of Liberty was the era of political pamphlets. Many people took up their quills to debate current affairs, particularly just before and during a Riksdag. One of the controversial issues was the exchange rate.

For currencies based on the same metal, determining their relative value was not a problem. The amount of silver in Swedish coins set the rate against *Hamburger banco*, the internationally tradeable currency that was used for most of Sweden's foreign trade. Valuing the Swedish copper standard was less straightforward; the rate against Hamburg depended on the metallic value of copper relative to silver.

Financial markets in Europe were becoming more integrated. Bills, introduced long ago in foreign trade, were an increasingly common instrument for domestic payments. A trading house in Amsterdam wrote a bill for the amount for which it bought goods from a Swedish seller. The seller could then obtain money by selling the bill to someone who wanted to buy goods, in Amsterdam or elsewhere, and use the bill to pay for them. Importers and exporters both bought bills, in order to pay and in order to obtain money. Bills that were not cashed immediately earned interest. A bill that was transferred before it matured was sold at a discount. The interest due from the

transfer date up to maturity was deducted from the bill's nominal value. The higher the rate of interest, the larger the discount. 95

By the mid-18th century bills were acquiring an independent existence. Banks were established in Hamburg and Amsterdam to specialise in buying and selling bills. The value of bills fluctuated with interest rates, which depended in turn on the economic situation. The Lisbon earthquake on 1 November 1755 had major repercussions on international commerce; the discount rate in Hamburg rose sharply and even reputable firms had difficulty in obtaining credit. The Hamburg senate found it necessary to suspend the bank's payments and this led to severe exchange rate disturbances.

Swedish bills were quoted on the exchanges in Amsterdam and Hamburg. The rates reached Stockholm by post. When trade in bills became more intense, couriers travelled from Stockholm to Göteborg to keep merchants there as up-to-date as possible.

The termination of note redemption in 1745 brought matters to a head. A paper standard meant that the value of banknotes was based on public confidence. This applied abroad as well as in Sweden. In Hamburg, for instance, the Swedish currency was worth what it was expected to fetch in Stockholm.

During the Age of Liberty, Swedish currency depreciated by about fifty per cent against *Hamburger banco*. This was generally attributed to Sweden's trade deficit. When Sweden imported more than it exported, the deficit generated a currency outflow; as the amount of Swedish currency in foreign hands grew, demand for it weakened and the price fell. The trade deficit was seen as a reason for the government to pursue an expansionary economic policy. Supporting export industries and imposing tariffs and other charges on imports would lead to smaller deficits and thereby to a stronger exchange rate.

Another explanation for the weak exchange rate was speculation and poor coordination of bill transactions. Swedish importers bought bills in the autumn to pay for shipments of grain and other supplies before the ports became ice-bound; the ironworks, on the other hand, did not receive payment in the form of bills until their products could be shipped in the spring. When many importers were buying bills, the price rose, just as it fell when many exporters were selling bills.

Councillor Samuel Åkerhielm had proposed a bill monopoly in 1744; by the time of the Riksdag of 1746–7, the idea seemed attractive. The Crown would use its financial power to counteract the seasonal fluctuations.

96 The government intended to assign the trade in bills to the State Office (*statskontoret*; its principal task was drafting the national budget); the Secret Committee preferred a consortium of private merchants. Tenders were called for and the State Office was not prepared to make the required undertakings, so the private consortium's quotation was accepted on 12 December 1747. A series of exchange control offices (*växelkontor*) followed, all of them committed to smoothing the fluctuations and pressing down the rate on the Hamburg exchange; they were accused of charging a lot for their services and suspected of earning even more on the transactions.

In the early years the consortia had difficulty in bringing the rate down and wanted to terminate the contract. The Crown persuaded them to continue and during the boom from 1750 onwards the business was profitable; in these years the operation helped to keep the rate against *Hamburger banco* lower than before. From 1756, however, inflation made the task increasingly hopeless. Having cost the Crown many barrels of gold, the business was wound up by the Riksdag in 1761.

The connection between the falling value of money on the one hand and the Bank's loans and the growth of the money supply on the other – the quantity theory – went unremarked for a long time. Hallendorff (1919) observes that no one seems to have drawn any conclusions from the activities of John Law, a Scottish Banker, in France in the 1720s⁶ or from the South Sea Bubble⁷ in England.

The notion of the trade deficit as the sole cause began to be questioned in the mid-1750s. The Board of Trade pointed out that in the period 1749–53 the trade deficit was larger than it had been in 1745–8 even though (today economists would say because) the exchange rate was stronger. A submission to the Council proposed strengthening the balance of trade by

⁶ John Law is considered by Heckscher to be 'note mercantilism's foremost theoretician and practitioner'. The proper circulation of money was important for mercantilism but Law argued that this could be achieved with paper money just as well as with gold and silver. With a view to eliminating France's national debt after Louis XIV's wars, in 1716 he obtained a permit for a Bank that lent money and issued notes against collateral in the Mississippi Company. When the company's profit failed, the small shareholders panicked and the system collapsed.

⁷ Britain's national debt grew rapidly during the war of the Spanish succession, 1701–14.

To improve borrowing terms, the debt in government bonds was converted into shares in the South Sea Company. Investment in the company became popular and the price of the shares rose many times over. The increase was not matched by the underlying value, however, and when the bubble burst in the autumn of 1720, thousands of savers were ruined.

curtailing the distillation and sale of aquavit and prescribing a more frugal way of life for the well-to-do. Höpken and Tessin questioned the calculations, and the Council could not agree on proposals to the Estates. 97

The Bank commissioners were bold enough to draw the same Riksdag's attention to the growth of lending, with the attendant increase in the stock of notes, as a cause of inflation. This amounted to criticism of the commissioners' superiors, the Bank's directors, who had ignored the earlier Riksdag's lending limit. The board firmly rejected the idea as being as presumptuous as it was unfounded. Support was forthcoming from '*An Honest Swede*', Sweden's earliest political journal, first published in 1755; it championed the Hats' view of printing money: 'As to the sufficient Money stock, a Nation ought never to lack money in proportion to its people and land. It is and always will be a fault in the Finance department as soon as a Nation suffers a shortage of money.'

ENTER ECONOMISTS

The exchange rate controversy gave economists their first opportunity of joining the public debate. The quantity theory of money can be traced back to 16th century Italy; John Locke promulgated it towards the end of the 17th century, and David Hume developed it before it came to Sweden with the 1732 translation of Thomas Mun's *England's Treasure by Forraign Trade* (Ohlin, 1920).

Anders Berch, who held the chair of economic law and political economy at the Faculty of Law at Uppsala University from 1741, professed a quantity theory for the relationship between the money supply and inflation but limited the concept of money to coin. He considered that the value of banknotes was a function of a bank's public credibility. This did not conflict with the Hats' belief that the trade deficit was to blame for the weaker exchange rate.

In time, economists were drawn to the problem of lending and the stock of notes. One of the most politically influential voices in the debate was Anders Bachmansson, who attended his first Riksdag in 1726–7 as a burgher from Sundsvall, and then spent more than a decade as Swedish consul in Lisbon. In the late 1730s he married a merchant's daughter and acquired the Skebo and Ortala ironworks in Roslagen, about one hundred kilometres north of the capital. This led to confrontations with iron

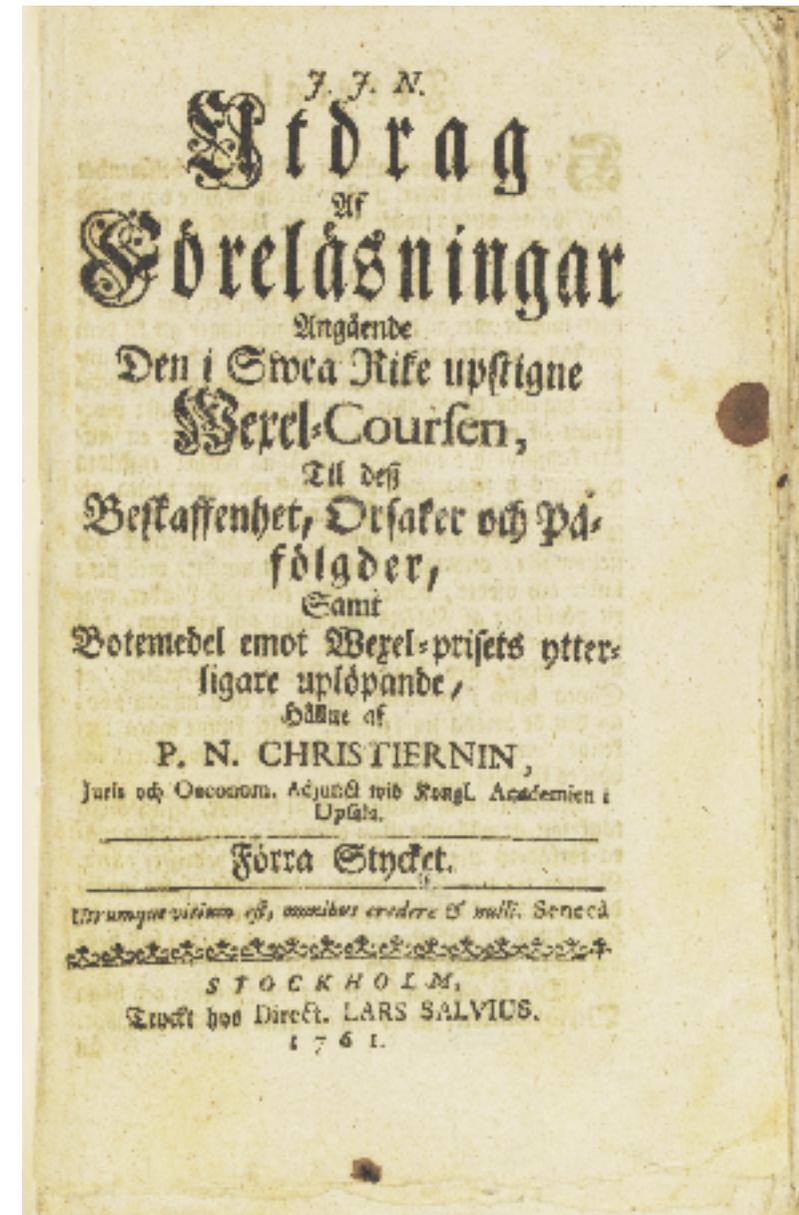
98 merchants in Stockholm. The house of Jennings & Finlay acquired the iron-works in 1756 but payment was deferred until 1763, by which time the purchase price had been eroded by inflation.

Bachmansson had been promoted to the lower nobility as Norden-crantz in 1743 and could participate in the First Estate's deliberations. His magnum opus on economic administration and public finance was submitted to the Council at the Riksdag of 1755-6, later to the Secret Committee and the chancery president, and again in 1760 to the Council when the exchange rate weakened once more. It dismissed the theories about currency depreciation being caused by the deficit and questioned the estimates of foreign trade. The argument was coloured by the author's disputes with Stockholm merchants, whose speculation he singled out for much of the blame. In a memorandum to the 1760 Riksdag he attributed Sweden's financial debility to the Bank loans.

At about this time, Pehr Niclas Christiernin began his academic career at Uppsala. Professor Berch took him on as an assistant in 1759 and two years later Christiernin published '*Lectures concerning the uprisen exchange rate in the Kingdom of Sweden*'. He started from the quantity theory of money but extended Hume's analysis to include an economy with flexible exchange rates. He also examined mechanisms and problems connected with deflation. Persson & Siven (1988) found that 'Christiernin's analysis of problems with stabilisation policy in the 1760s was highly independent and acute'.

Christiernin explained that a declining value of money was due to a surplus of notes – the weaker exchange rate was simply a consequence of this: a larger volume of notes led to higher prices not only for domestic goods but also for foreign currency. He stressed that a strong or a weak exchange rate was of no consequence by itself. Foreign trade adjusted to the exchange rate: a weaker exchange rate favoured exports and lowered imports. It was exchange rate fluctuations that resulted in losses and gains.

Unlike his contemporaries, Christiernin saw advantages as well as drawbacks to what was happening. With a weaker exchange rate, income from exports rose faster than costs for goods and labour; this stimulated industry and commerce. Export growth had been strongest in years when the exchange rate was weakest. Conversely, there had been a persistent import surplus during the period in the 1750s when the exchange control office had been most 'successful' (Heckscher, 1949).



Title-page of Pehr Niclas Christiernin (1725-99), '*Lectures concerning the increased exchange rate in Svea Realm ...*', published

in 1761. The book contains a clear analysis of the mechanisms and problems connected with deflation.

Christiernin considered that, in order to avoid 'domestic disorder', the exchange rate should be stabilised so that notes could once more be redeemed for silver, though not at the earlier rate of 36 marks per Reichsthaler Hamburger Banco when the Hats took over from Horn. Such a large appreciation would endanger the economic upswing. Instead, the currency reform should be implemented at the current rate, 72 marks.

Christiernin was aware of the danger. A planned withdrawal of notes would encourage hoarding and leave an even smaller quantity in circulation, so that prices would fall more quickly than the Estates had allowed for. Falling prices would lead to expectations of a further fall and thus to a continued weakening of demand. The outcome could be a severe crisis.

This was unwelcome to everybody. Caps as well as Hats turned on Christiernin in the Riksdag. The bank delegation discussed whether he should be prosecuted. Nordencrantz attacked him in an anonymous pamphlet. Even Anders Chydenius, a clergyman from Österbotten who was the leading Hat economist, was at first against a reform at twice the earlier rate, which amounted to halving the value of money. In time he came to see that Christiernin was right; others did not.

BRIBES, 'BUDDIES' AND BELLMAN

The Bank had been in the habit of presenting tokens of respect to the Marshal of each Riksdag. Members of the bank delegation had also been rewarded. This came to an end with the Riksdag of 1734. County governor Ehrencrona found it 'unjust that this delegation, in which there is least work, shall be in receipt of payments and the others, in which the work is most difficult, get nothing'. The Riksdag agreed.

Fredrik Gyllenborg went even further and demanded that previous delegations repay the '*honorarium*' they had awarded themselves from the Bank's funds. He changed his mind on becoming chairman of the board of directors. Gyllenborg had started life without capital and had used his wife's money for business enterprises in Västmanland. He bought and sold ironworks, speculated in rising prices and became the Bank's largest private debtor. Things went wrong, and in 1756 his debts totalled almost 1.4 million *d km* and the unpaid interest more than 182,000 *d km*. However, for services rendered – he had disregarded the lending limit – his friends on the Secret Committee were prepared to give him 200,000 *d km*; after a long discussion,

the bank delegation reduced this to 180,000 *d km*. The other directors received 108,000 *d km* between them, enclosed in sealed envelopes, accompanied by an admonition to ensure that the rules for interest payments were observed. Gyllenborg, however, was a lost cause; in 1765 his estate was found to have debts to the Bank of 1.2 million *d km*.

The directors were not alone in using the Bank for private interests. Bank staff also did unofficial business. One of the most active, possibly on behalf of others, was a teller who purchased silver and silver coin abroad, used it as security for loans from the Bank and gambled that inflation would raise the value of the silver while the nominal amount he had borrowed was unchanged. His daughter married a nephew of Carl and Fredrik Gyllenborg in 1764.

Appointments in the Bank were often connected with kinship and friendship. During the Riksdag of 1755–6, a number of provincial posts were set up for Bank officials. This was quite reasonable – assessing and monitoring collateral was by no means straightforward – but 'in reality the commission seems to have been mainly a new way of rewarding party loyalty. ... It was a rather costly institution of little practical value' (Hallendorff, 1919).

As the Riksdag of 1760–2 drew to a close, a frustrated official, Gustaf Reuterholm, submitted a memorandum to the First Estate's speaker that criticised the Bank's lavish provision of appointments, not least the provincial representatives. The memorandum was private but Reuterholm threatened to read it to the House of Nobility and thereby make it public. The speaker, Axel von Fersen, and the chairman of the bank delegation, county governor Boije, agreed that it would be most unfortunate if the Bank, already hard pressed, were to get into even worse trouble. The matter was solved by offering Reuterholm an appointment as commissioner, whereupon he declared that he had nothing against the Bank and was 'for his part pleased and satisfied'. The bank delegation instructed the directors to arrange the appointment and simultaneously give Reuterholm leave of absence, so that the rest of the staff would not have to meet the person who had criticised them so harshly. Reuterholm would be accountable for the inspection of pledges in his home county, the position he had attacked in the memorandum.

Personal connections and recommendations lay behind many administrative appointments in the 18th century. In 1757 the poet Carl Michael Bellman, then a youth of 17, was employed at the Bank on trial. He registered at Uppsala University the following year but in spring 1759 he sat

102 the Bank examination for regular employment. Although he was weak in book-keeping and mathematics (he had trouble distinguishing between numerator and denominator), on 7 June that year he was accepted as a supernumerary member of the staff.

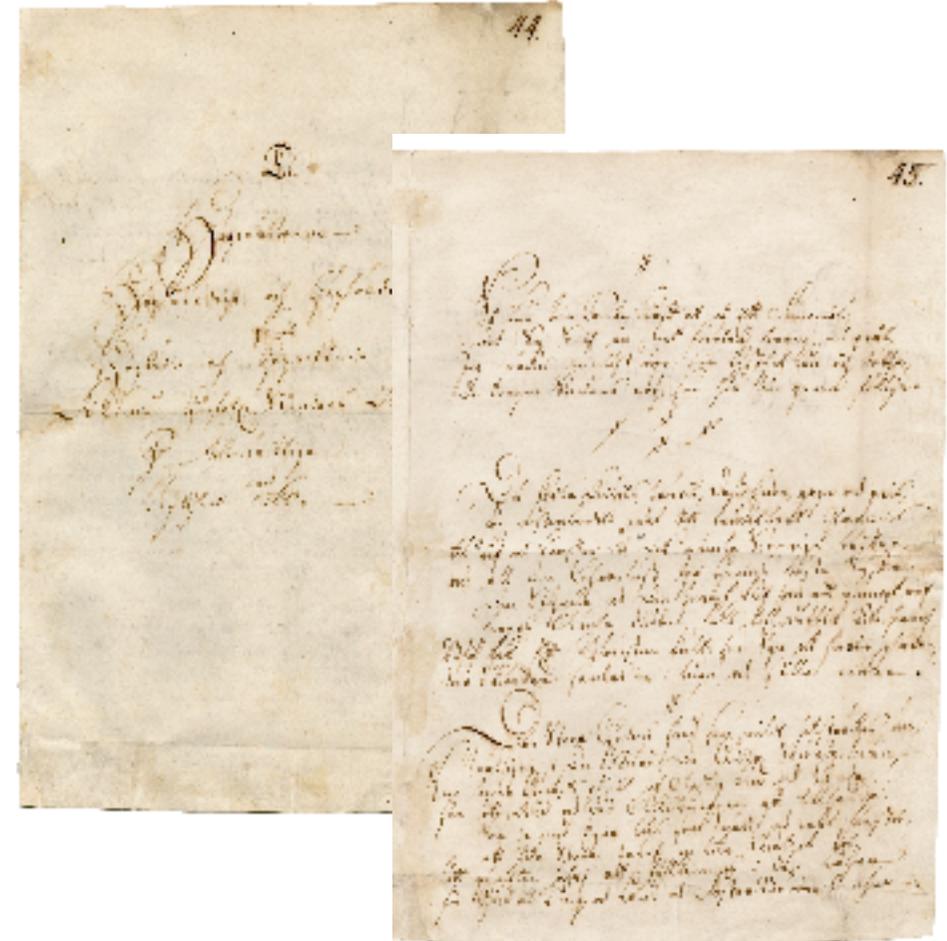
Bellman was already enjoying life in Stockholm's taverns but found time to please his superiors with an ode to the Bank. After that his career faltered; by 1763 he was deeply in debt (20 times his annual salary from the Bank according to one calculation) and fled to Norway to avoid arrest. His brother-in-law helped to clear up some of the debts and the bard returned; at his father's request, however, he was relieved of the post in the Bank on 4 April 1764. Later, he was employed in the Board of Manufacture (*manufakturkontor*), the Board of Customs (*generaltulldirektion*) and, finally, in Gustav III's national lottery.

THE BANK, CRIME AND TUMBA

The greatest scandal in the early history of the Bank occurred in 1694, when some sixty sealed boxes that had been pledged as gold and precious stones turned out to contain nothing but ordinary stones, pieces of glass and resin. In those days, pledges were regularly despatched for valuation by the court jeweller; two of the cronies who performed this service had exchanged the valuables on their way back to the Bank. One of them died before the trial finished; the other, Maria Eriksdotter, was convicted and beheaded at Hötorget.

Forgery was another problem early on. The Stockholm City Court sentenced a person to death in 1662 on the grounds that he had manipulated a note 'that can be counted as nothing else than the Crown's coin'. The Svea Court of Appeal commuted the sentence to standing for three days at a stake with the forged note in his hand, followed by a public whipping.

In 1728, Georg Henrik Semler travelled from Lüneburg to visit his grand-uncle, a master printer, in Stockholm. While there, Semler stole a set of 96 forms for the Bank's cash notes and set out on his adventures. He turned himself into Baron von Semler, said he belonged to the circle of Fredrik I of Hesse-Kassel and toured the Swedish provinces. False notes flowed in from Jönköping, Söderköping and Norrköping, some for a few hundred *daler*, others for thousands of *daler*, depending on how affluent Semler thought the recipient was. A Göteborg merchant, Erik Nissen, was



During his brief career as a clerk, the poet Carl Michael Bellman (1740–95) presented his superiors with an ode to the Bank to mark New Year's Day, 1760. An unrhymed translation of two of the verses goes something like this:

Oh noble nation's Work, its honour, gain and praise,
Beloved country's well, a fruitful paradise,
To life and vig'rous might You ancient Sweden raise
And all your honour-lust is meant to serve her best.

Your power and your strength a bounteous legacy bestow,
With a return that twofold grows o'er twofold time.
Be like a flowering meadow, pleasing to eye and heart,
Whose harvest can be reaped in calm and peaceful weather.

104 sufficiently suspicious to compare the names on Semler's form with the same names on a genuine note; it was a close shave and the youth left Sweden.

The trick also worked abroad. In the winter of 1728 Semler called himself Baron Bilou in Frankfurt and Count Stenbock in Giessen; false notes arrived in Stockholm from both. That summer the 22-year-old returned to Sweden as Count Degenfeldt; major-generals, merchants and burghers were charmed by the supposed friend of the king; in Västerås the county governor asked him to tell Fredrik what a good reception he had had.

When he had the nerve to spread his notes in Stockholm, the bank commissioners held a meeting and dispatched the Bank prosecutor (Bellman, a cousin of the poet's father) to apprehend him but Semler-Degenfeldt slipped away to Falun. There, however, a warning issued to every county governor caught up with him; he was arrested, taken back to Stockholm and condemned to death. The King reprieved him and the sentence was commuted to being pilloried, whipped outside the Bank and doing hard labour for life at the Marstrand fortress. In 1745 his neck-iron was removed on the King's order but in 1751 Semler was still on the list of prisoners in Kalmar.

In the mid-1740s an Uppsala undergraduate was jailed together with an experienced forger who had been extradited from Hamburg on behalf of the Bank. The two prisoners got down to work; some notes were spread by the guards, others by a silk-weaver's wife with whom the undergraduate was wont to spend the night.

Forging notes was rather easy, so the Bank felt obliged to redeem those that customers had accepted in good faith; otherwise all notes would lose their credibility. At the request of the directors, on 17 May 1740 the Council issued an ordinance 'concerning notes of the Estates of the Realm's Exchange Bank and the penalties for those who perform deceit and fraud'. Anyone who forged or altered a note would stand with a neck-iron for two hours at a stake outside the Bank and then take forty pairs of strokes with a lash or else spend a month on bread and water and then labour for three or more years or for life at the Crown's fortress or smithy. The punishment was increased in 1747 so that those who forged, altered or imitated a banknote would 'lose honour and life and be hanged'. Some years later a reward of 40,000 *d km* was promised to anyone who disclosed a forger of banknotes.

A good many forgers were executed. Lagerqvist (1956) mentions Måns Månsson Westberg, a goldsmith from Sala, who was hanged in front of the Bank in 1755, Gustav Hyphoff, an academy engraver, and his accomplice



A counterfeited die, used to imitate genuine Bank notes; 200 × 160 mm.

106 Christian Carl Pettersson, a reamer, in 1759, and a lieutenant who was hanged in July 1818. The death penalty for forging notes was abolished in 1858 but until 1873 banknotes continued to carry a grim warning: 'A person who imitates or forges this Note shall be hanged; but a person who detects the Imitator, Forger or Conveyor receives a reward'.

Printing processes were gradually developed to make imitating banknotes more difficult. This was the chief reason for establishing the Tumba mill: the notes would be printed on paper that was virtually impossible to imitate. The Bank purchased the Tumbo estate in 1755 for 36,000 *d km* from Edvard Carleson, a director of the Bank. The property included a waterfall that could power the paper mill.

The first worker was taken on in 1756. Success depended on attracting a Netherlander who knew the secret of making 'completely good Dutch paper'. Master Jan Mülder was contracted but was apprehended in Holland for crimes involving industrial espionage and died in prison. The offer went instead his brother Erasmus, originally employed as a rag sorter but proficient in sizing and other details of paper manufacturing. He had worked for thirty-six years at one of the foremost Dutch mills, in recent years as a master. So instead of sorting rags, Erasmus Mülder became the master at Tumba, took over his brother's salary and was promised a pension in return for teaching the Swedish workers all they needed to know.

There were other problems besides counterfeiting and forgery. The Bank stored copper money in four vaults and the building was normally guarded. In 1736, however, some thieves managed to break in; they did not take much and were soon caught.

It was not uncommon for customers to write out cheques (*assignmenten*) for far more than the balance on their account in the exchange bank. They sometimes managed to replenish their account before the cheques were cashed but a good many gentlemen-in-waiting, budding civil servants and minor merchants were caught out. One of the miscreants was Fredrik I's favourite Erland Broman.

In some cases the amount involved was considerable. The most tangled affair, instigated by a treasury official, Lorens Jacob Adlerstedt, was unravelled in 1751. He had speculated in property and written cheques for far more than he had in the Bank. He had bribed chief accountant Gerdes in the exchange bank to 'cook the books'; other Bank officials were also involved and a commissioner, Eldh, knew what was going on. The matter was covered



Den som kenne Sedel efterapar skal warda hängd;
Men den, som bewisligen upstöder efteraparen,
skal undsä fyratio Tusende Daler Kopparsmynts
Præmium, enligt Kongl. Maj:ts Nådige Kungörelse
af den 20 Decembri 1754.

Master plan of the Tumba paper mill, drawn up in 1804 by two military engineers, J.P. Törner and A.P. Boman.

Tumba's first banknote paper, from 1758, included watermarks and embossments; notes could now display the Bank's motto:

Hinc Robur et Securitas.

Notes were printed with a warning: 'Those who imitate this note shall be hanged; but those who demonstrably detect the imitator shall be rewarded with one thousand daler copper coin ...'.

108 up and officials were dismissed, though one of them was re-employed later; Eldh and Gerdes both received severance pay and the right to a pension.

This was not the only instance of staff defrauding the Bank. When a teller in the exchange bank, Thure Malmborg, died in 1738 it was found that the funds he had managed were three times what the rules allowed and he had used them for a covert lending operation. In 1723 an office clerk was arrested for forgery but was merely discharged – his profligate wife was considered to be an extenuating circumstance. The clergy's representative on the board of directors, Dean Lars Molin, criticised this decision – showing that erring Bank servants were properly punished would be likely to strengthen the Bank's credibility – but no one listened to him.

Another crime in those years was defamation of the Bank's money. In August 1762 Stockholm's public prosecutor was instructed to track down people who rejected or disparaged the Bank's notes. A merchant from Kristinestad was convicted of calling the banknotes promissory notes and saying it was a disgrace not to honour one's commitments. Discontent was brewing over inflation and inconvertibility.

Besides crime, the directors were worried about the risk of fire. The Bank had large water-barrels installed in the attic and established its own fire brigade. The brigade was on 24-hour duty and its fire practice in the square outside the Bank became a public entertainment.

THE CAPS SETTLE ACCOUNTS

When the Caps regained power at the Riksdag of 1765–6, they called the Hats to account for all the misdeeds in the twenty-five years since the fall of Horn. The volume of notes in circulation had increased from just over 7 million *d sm* in 1745 to 38.5 million *d sm* two decades later. The criticism of how the Bank had been run was a major item in the settlement with the Hats. It focused in particular on 'the harmful principle [...] of uniting the Crown and the Bank in a common monetary operation and of binding together both their Credits'. The Caps stressed the importance of the Bank being independent of the government and in a position to look after its own and its depositors' interests.

Individual directors and members of the bank delegation also came under scrutiny. It was pointed out that some of them had been the Bank's largest debtors and therefore 'throughout this period they had proposed such

ordinances on loans and the calculation of interest as suited their purposes'. 109 Fredrik Gyllenberg was named and so were Plomgren and Kierman.

By this time Gyllenberg and Plomgren had died but Kierman was harshly treated, above all as a member of the exchange consortia. The bishop of Strängnäs, Jacob Serenius, turned on those who advocated leniency; it would be 'abusing the law to protect them with legal subtleties; instead the same justice should be applied here as is every honest man's due when he finds a thief in his own home; he catches him and takes back his property from his hand'.

Kierman was summoned to appear before the Secret Committee and was confined to his home under guard. The case was referred to a specially appointed Riksdag committee that sentenced Kierman and his associates to pay 6 million *d sm* in compensation. Jägerskiöld (SBL) sees this as 'a typical example of party persecution by political adjudication entirely separate from regular law courts'. In addition, Kierman was sentenced to one month in jail on bread and water, followed by imprisonment for life in the Marstrand fortress, where he died on 15 November 1766.

The Caps summarised their complaints about the Bank's management in a number of points. These included the failure to separate the Bank's business from the Crown's, the end of convertibility in 1745, the paper standard (which contravened the prohibition on credit notes), and the expansion of lending and banknotes. As a result, the Riksdag dismissed all the Bank's directors and appointed a new board.

The national debt grew rapidly in the final decade of the Age of Liberty. There is nothing intrinsically wrong about borrowing by a country, a government or a central bank; it is often a way of accelerating developments. Governments can use loans to speed up additions to a country's infrastructure, a central bank can borrow abroad to mitigate domestic credit crises and enterprises can obtain foreign capital to expand their operations. Borrowing to pay for war and short-term consumption is more questionable, though it can spread the tax burden over a longer period than would otherwise be the case. In Horn's day there was virtually no borrowing, whereas the Hats' wars and economic policy were to a large extent financed with loans. At the end of 1772, government debt totalled almost 50 million *d sm*, nearly two and a half times annual government revenue at that time (Åmark, 1961).

On 12 April 1766, the Secret Committee announced that it considered the Crown should accept the offer of a loan from Genoa. This was the first

110 long-term loan Sweden raised abroad. The money was used to repay a number of short-term loans that the State Office had obtained with the Bank's guarantee. In the following decades, Sweden obtained a number of similar loans from contemporary financial centres such as Genoa, Antwerp and Amsterdam.

Assessments of the Bank in the Age of Liberty have tended to take a rather narrow view. They have concentrated on the Bank's role in the Hats' party politics, on the internal anomalies, on inflation and on the failure to free the mining industry from foreign capital. That is not the whole story. More and more people in Sweden grew accustomed to using notes, investment made industry and trade more flexible, a money economy became more widespread and more capital came into circulation. Notwithstanding its shortcomings and faults, the Bank contributed to the Age of Liberty's economic development and the incipient renewal of financial institutions.