

## CAROLINE YEARS

### REVIVAL

**I**T HAD BEEN generally assumed that Stockholms Banco would continue to exist after credit notes had been stopped. In 1666 Palmstruch was still expected to run the Bank provided the interested parties, in accordance with Bonde's proposal, contributed capital to cover the losses. However, the co-participants rejected Palmstruch's appeal for help and he was powerless on his own.

At the end of October 1666, Jochum Pötter, the merchant who subsequently presented the liquidation accounts, offered to take over the Bank provided he was granted three-quarters of its profit plus the Crown's profit on the cannon trade and the revenue from the salt licence; a further condition was that the Crown would channel all tax and tariff revenue through the Bank. A Council delegation headed by Gustaf Bonde was largely in favour but the full Council rejected the offer – the terms 'were very harsh and altogether insufferable'. When Pötter presented a new offer in March 1667, matters had taken a different turn. Bonde had produced a thorough review of how the Bank should be organised. It copied Palmstruch's



Gustaf Bonde (1620–67), Lord Treasurer, prepared the reconstruction that resulted in the Bank of the Estates of the Realm. Medal engraved by J.G. Breurer and struck in 1666, diam. 50 mm.

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|--------|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 1668   | The Riksdag approves the Bank of the Estates of the Realm – the venture is backed by the Nobility, the Clergy and the Burghers; the Peasants decline. | 1689       | Royal autocracy asserts its power over the Bank.                                                                                    |
| 1672   | Karl XI comes of age.                                                                                                                                 | 1680s–'90s | The Bank of His Majesty's Estates. Cash receipts and approved assignments are introduced.                                           |
| 1675–9 | War against Denmark, financed by the Bank.                                                                                                            | 1697       | Karl XI dies and is succeeded by Karl XII.                                                                                          |
| 1680   | Karl XI's reversion of alienated estates. The Bank moves into premises at Järntorget in Stockholm's Old Town.                                         | 1700       | Great Northern War, financed by the Bank.                                                                                           |
|        |                                                                                                                                                       | 1701       | The Bank introduces transfer notes, forerunner of modern banknotes.                                                                 |
|        |                                                                                                                                                       | 1709       | Sweden loses the battle of Poltava.                                                                                                 |
|        |                                                                                                                                                       | 1711       | Johan Thegner joins the board of directors as the Nobility's representative, chairs the board and leads the Bank for three decades. |
|        |                                                                                                                                                       | 1718       | Karl XII is killed at the siege of Fredrikshald in Norway; succeeded by Ulrika Eleonora.                                            |

48 arrangements in many respects, while in others it sought to remedy defects. In his capacity as superintendent, Bonde was familiar with the Bank and was assisted by one of the commissioners, Lars Eldstierna.

The Council waited until the Riksdag had assembled in June 1668, whereupon the Nobility took the initiative. As Marshal (*Lantmarskalk*) of the four-chamber Riksdag, the First Estate's speaker, Johan Gyllenstierna, called for more information before reaching a decision; 'no one disputes that the Bank is useful' but the nobles needed to know more about the administration and other conditions. The burghers and the clergy agreed, while the peasants (freeholders) did not want to get involved: 'The Peasants submitted to the King in Council and the King's government, as well as to the other higher Estates, that they had no understanding of the matter, the other good gentlemen of the other Estates may do what seems best to them in the case and what for them could be beneficial, but allow the peasant to be free from such things as he does not comprehend, because their Estate would have nothing to do with Banco.' This meant that the Riksdag had shelved the matter but the issue was not *whether* the Bank should survive but *how* this was to be arranged.

Things moved slowly. The Council remained aloof but finally, when the Riksdag's session was coming to an end, a delegation met the Nobility and drafted an initial proposal for the three higher Estates to consider. The Clergy declined: 'They were of such a status that with worldly matters they could not be much engaged, will not want to be involved.' With two Estates abstaining, a stalemate seemed likely.

Still, the Nobility and the Burghers pushed on. It was borrowers among the higher nobility whom the Bank had served best and some burghers also wanted it to survive. What scared the Clergy and the Peasants was a proposal that the Bank would be guaranteed by the Estates. This was included in the draft for a Riksdag decision, posted on 8 September, but it was not clear what the guarantee involved. On 9 September the Clergy declared they were prepared to negotiate but questioned the guarantee. The wording was amended on 17 September: the Estates would 'defend, protect and be in charge of' the Bank; two days later the Clergy sided with the Nobility and the Burghers.

The notion that there was some kind of guarantee lived on. When the Peasants, who were kept at a distance until 1800, were finally admitted into the Bank, the other Estates drew their attention to the guarantee as an ex-

pense that had to be paid for. Until then, the Bank of the Estates of the Realm was actually just the Bank of the three higher Estates. It was the Nobility, the Clergy and the Burghers who appointed the Bank's management and regulated its operations. 49

Placing the Bank under the Riksdag rather than the Crown was a singular arrangement that originated in Bonde's proposal. It was intended to solve the problem of making a new Bank credible after Palmstruch's failure. In a submission to the board of directors in 1699, Eldstierna claimed the idea had been his: 'Then I went to the then Lord Treasurer, Herr Gustaf Bonde, and told His Excellency that I knew of a proposal whereby Bank funds could be abundantly secured, *namely if the Estates took upon themselves to guarantee the Bank funds.*' Once again, Bonde's differences with De la Gardie may have played a part. By taking over the Bank, the Estates could keep the profligate chancellor on a shorter lead.

The Crown was not free to use the Bank as it wished. Loans had to be approved by the board of directors, which could not be taken for granted even during the period of autocracy in the second half of the 17th century. The loans were secured by the Crown pledging revenue. Thus, the Bank leased the Royal Mint up to 1731. Other items pledged in this way were maritime tariffs and revenue from the tax on copper. In the 18th century 'Age of Liberty', interest payments to the Bank were a major item in the government budget.

In the name of Karl XI, then a minor, the government formally transferred the Bank on 17 September 1668. Bonde had proposed that the Estates would appoint commissioners but the king would still appoint a superintendent. The Riksdag replaced the king's superintendent with a board of directors appointed by the Estates. This prevented the government from exerting any direct influence.

When the Riksdag ended on 22 September, there was still some unfinished business. A committee was appointed on 24 September to finalise the Bank regulations, which was done and signed on 28 September, backdated to the 22nd. The Clergy and the Burghers elected their commissioners on 30 September; the Nobility had elected theirs on the 19th. The committee met for the last time on 1 October 1668 to sign all the documents. The new Bank of the Estates of the Realm was ready to conduct business.

Sveriges Riksbank celebrated its 300th anniversary in 1968, whereas in international literature the Bank's foundation is often dated to 1656. The

50 ambiguity is telling. Palmstruch's enterprise had made the initiators aware of the need for a Bank but they were also concerned to distance themselves from his failure. Ever since, those in charge of the Bank have stuck to 1668. Perhaps there was also a political aspect. Palmstruch's Bank had been promoted by the Crown, while the new Bank was founded and overseen by the Estates. The Estates' efforts to assert their hold over the Bank was a recurrent theme in the following centuries.

### A NEW-OLD BANK

The Bank was now managed by a board of directors, consisting of two – at times three – members from each of the three higher Estates. The original plan was for the directors to be appointed by the Estates assembled in a Riksdag. However, as intervals between Riksdags were long, the board renewed itself. In 1698, new regulations prescribed that the senior director from each Estate was to be replaced every fourth year, which gave a period of eight years in office. New directors were to be appointed by the House of Nobility for the nobility, the cathedral chapter in Uppsala for the clergy and the mayor and councillors of Stockholm for the burghers. The same applied when vacancies arose at other times.

Each of the three higher Estates also appointed three commissioners (two permanent and one supernumerary). They were to run the daily operations and jointly administer the Bank. In practice, however, the board of directors soon exceeded its stipulated advisory role and became a decision-making body. The commissioners were increasingly relegated to the presentation of business, though the original intention had been that they and the board would make collective decisions. In 1679 the directors instructed the commissioners not to act independently on behalf of the Bank.

The first commissioners included Erik Appelgren, who had had the same position in Stockholms Banco, Jochum Pötter, by now ennobled Liljenhoff, and Daniel Faxell, mayor of Malmö and later ennobled Cronmark. In time, however, the post of commissioner lost its prestige and it became the custom to appoint Bank officials; there were also instances of the post being reserved for some powerful noble's private secretary or distant cousin.

One explanation is that being a commissioner was expensive and hazardous. Time and again, the commissioners were held personally



The charter for the Bank of the Estates of the Realm, dated 17 September 1668.

52 responsible when things went wrong. In 1680, in an enquiry into complaints about how officials had exercised their duties, four of the six permanent commissioners were dismissed and all of them were fined. Some were penalised for being absent without due cause, one for a minor error in the general cashbook, but mostly for losses the Bank had incurred on doubtful and inadequate security. Elof Terserus was fined almost 141,000 *d sm*, another commissioner almost 50,000 *d sm* and Faxell 36,000 *d sm*. Sometimes several years passed before the matter came up, whereupon the Bank demanded compensation from widows and other heirs.

Right from the start, Stockholms Banco's officials, directors, auditors and members of the bank committee were sworn to secrecy concerning the relationship between the Bank and individual clients. The 1668 Riksdag formalised this aspect; for many years, directors were required to pledge the following in writing:

Aware of my duty until the time of my death to keep secret about and to no one disclose what passes in Banco and its agencies, except to the Committee, which has been empowered by the Estates of the Realm to obtain, ordain and to all the directors present information pertaining to its security.

New premises were found; for the first decade or so the Bank occupied the ground and first floors of Oxenstierna Palace in the Old Town; it rented them from the estate of Erik Oxenstierna, son of the renowned chancellor whom he had succeeded. In 1680 the business was moved to Järntorget at the other end of the Old Town, where a building for the Bank had been designed by the architect Nicodemus Tessin the Elder and erected by the city authorities. After renting these premises for some years, the Bank acquired them in 1693. Some years later it had an extension constructed on the adjacent site and remained in this location until 1906.

#### THE BANK UNDER KARL XI

When the Estates took charge of the Bank, Karl XI was a minor. He came of age in 1672, by which time the balance of power in Sweden was shifting. Urged on by Louis XIV of France, Sweden had been drawn into the European war and suffered defeat. Denmark saw a chance of recovering the



The Estates' Bank first premises (above) were in the palace which had been built for Axel Oxenstierna in Storkyrkobrinken at the northern end of the Old Town.

constructed on the adjacent site, and remained there for more than two centuries. The Riksbank's seal, from 1669, is reproduced top centre.

In 1680 the Bank moved to a new building (below, centre) in Järntorget at the other end of the Old Town, had an extension

Engravings by Jean Marot and Willem Swidde, respectively, in Erik Dahlberg, *Suecia Antiqua et Hodierna* (1698–1701).

54 province of Skåne, which it had lost in 1658. After the war with Denmark in 1675–9, Sweden managed to retain its possessions but the regency government was held to account for inadequate preparations. This led to a reversion (*reduktion*), whereby the Crown regained much of the property which nobles had been granted or had purchased on favourable terms ever since the reign of Queen Kristina. Moreover, the Riksdag authorised the king to legislate independently. The office of councillor of state was abolished, councillors were referred to in future as royal advisers and the Council as such lost most of its importance.

These changes affected the Bank of the Estates of the Realm, which was renamed the Bank of His Majesty's Estates (*Kungl. Maj:ts Ständers Bank*). Being still accountable to the Estates, it was formally independent of royal power but the move to autocracy raised questions about the Bank's status. This culminated in a dispute about the calculation of interest on the Bank's loans to the Crown. The Bank called for compound interest, while the Crown was only prepared to pay straight interest. The Bank cited the King's affirmation from 1675, in which he had vowed to abide by everything the Estates decided.

This roused the King, who wrote to the board of directors in 1688, explaining that all the Crown's promises to the Bank would be kept but adding a far-reaching reservation: if the present or earlier directors made decisions of which the King disapproved and which, moreover, contravened rules and regulations 'that We have found good', the King could not allow either the Estates or anyone else to make such decisions 'because to Us alone is the power and authority in Our realm assigned and due, and everything that is done without Our gracious will, knowledge and approval is of itself impotent and rated entirely invalid'.

This was of no great consequence in practice. The directors collected all the ordinances which had been issued under the Bank regulations and sent them to the King. When the Riksdag assembled the following year, the bank committee made some additions to the board's instructions and forwarded them to His Majesty with a fulsome address. In a resolution on 30 April 1689, Karl XI broadly accepted everything that had been submitted. Still, the autocratic regime had put the Bank in its place. In future, the Bank submitted every regulation and even requested the King to approve purely administrative matters, for instance setting up branch offices, procuring its building from the Stockholm authorities or adjusting the interest rate.



Karl XI (1655–97), a minor when the Bank was resurrected, made it clear in the late 1680s that his autocratic rule included the Bank's operations. Portrait attributed to David Klöcker Ehrenstrahl.

## BANKNOTES SNEAK BACK

The major change from Stockholms Banco was that credit notes were now forbidden. The ban was observed but controversial. The notes had been a convenient way of obtaining money.

A critical situation arose during the war with Denmark, when on 4 January 1677 the Council requested a loan of 200,000 *d sm* and the board of directors declared that only half that amount was available. The large 'deficiency' in royal revenue was deliberated by the Council on 8 March. Count Gustaf De la Gardie hoped that a remedy could be found and his colleagues said that Count Göran Gyllenstierna 'was believed to know of some proposal'. This turned out to be a note issue to the tune of '8 or 10 barrels of gold' (1 barrel = 100,000 *d sm*). The Bank would undertake to redeem them after 10 years. This would not contravene the rules because the notes would not be called *credit* notes.

The idea appears to have come from Erik Appelgren, one of the commissioners, but he had not consulted either his colleagues or the principals. When the matter was presented to the board, the directors were appalled, pointing out that it was credit notes which had wrecked the old bank. The board allowed Appelgren to explain his idea but Olof Thegner, mayor of Stockholm, found that it called for a decision by the Riksdag.

Dissatisfied with the setback, Lord Treasurer Sten Bielke sent for the chairman of the board, Councillor Klas Fleming, to see if he could change the board's opinion. When this failed, the plan came to nothing, though the board did agree to lend the full amount the Crown had asked for.

Notes were also needed for trade. Merchants did everything they could to simplify payments and do without the cumbersome copper plate money. As Heckscher (1949) points out, 'Strange though it may seem, in reality it was therefore people in general, not the Bank, that gave rise to the original forms of note issues'. The Bank's clients soon found two alternatives to credit notes that could be used to evade the ban on banknotes: cash receipts (*kassasedlar*) and approved assignments (*approberade assignationer*). In both cases the holder suspended the Bank's routine for an indefinite number of months or years.

Withdrawals from the exchange bank were initiated by presenting a write-off note (*avskrivningssedel*) to the Bank's book-keeper. In return the

customer was supposed to receive a payment note (*betalningssedel*) – signed by himself, the book-keeper and a commissioner – which he then handed to the teller. What actually happened was that the book-keeper and the commissioner dispensed with the payment note and simply endorsed the write-off note. This made it an approved assignment, valid for payment, to be cashed the same day. If the holder waited, a deduction would be made that increased over the next three days, after which the note was invalid.

In practice, customers ignored the time limits. Approved assignments circulated outside the Bank. The Bank apparently did not object; in matters of detail, the rules and regulations gave way to market forces. The irregularity was in fact a boon to the Bank on all those occasions when it was short of coins; circulating assignments eased the demand for cash.

Much the same applied to a cash receipt, which a teller and a commissioner signed before handing it to the depositor, who was supposed to present it the same day to a book-keeper to be credited to his account. As with the approved assignments, many people preferred to let the cash receipts circulate instead of handing them in. The Bank issued a series of prohibitions and ruled that interest was due only after a cash receipt had been received. Its exhortations had no effect on people's preference for flexibility.

In the end, the Bank faced up to reality. On 4 February 1701 the Council requested the Exchequer to consider the issue of introducing banknotes. The response was sceptical and negative but the bank delegation<sup>4</sup> was more interested. The mayor of Stockholm, Nils Hansson Törne, declared: 'This I believe would be something that would both benefit the Bank, promote trade and be a useful thing between different parts of the country, that these notes would serve as money'.

The delegation was aware of the risk of abuse but Törne had a solution: 'I like to close the mouths of such people and show that both the practicality and the intention are upright, that one could begin here in the Bank to

<sup>4</sup> As the agency of the Estates, the Bank was subject to the Riksdag's bank committee. When it became clear that under Karl XII the Riksdag would probably meet less frequently, the 1697 bank commission decided, with the Council's consent, to appoint a delegation, comprising three members from each of the first three Estates, that would meet every fourth year. The delegation's first two sessions, in 1702 and 1705, both lasted for about two years, the third for six months; after the fourth session, in 1710, the delegation merged more and more with the bank committee. The last delegation sat for almost two years, 1714–6. While in session, the delegation 'took the entire management of the Bank into its hands' (Brisman, 1918).

58 practice this *inter privatos* [between individuals], so that one could deposit as much as one wants in the Bank and receive an attestation, which note could then be current everywhere as money.' Törne has therefore been seen as the instigator of modern banknotes (Lindgren, 1968).

The delegation decided that such a note was to be endorsed by three commissioners and one book-keeper and that each holder must enter the name of the person to whom the note is transferred. The notes were of little consequence at first. Potential users were put off by the rule that the person to whom they were transferred must be identified. Many people were too illiterate to manage this, others were reluctant to advertise the amount of money that passed through their hands. Approved assignments did not have these drawbacks.

#### THE PROBLEM OF INTEREST

In that the new Bank was debarred from issuing notes, its lending capacity was dependent on deposits and the cash balance.

After a slow start in 1669, business picked up. Sight accounts were less important than they had been for Stockholms Banco. The assignments and cash receipts were bureaucratic instruments that made it time-consuming to use the Bank for cash. The leading merchants preferred other solutions; the new exchange bank was mostly used by smaller merchants and craftsmen.

The Bank's funds came mainly from the Crown and government agencies. When the Bank was founded in 1668, the Council had undertaken to channel revenue as far as possible to the exchange bank. This did not make much difference in the 1670s, when the government could barely make ends meet and sometimes had to secure an advance on future revenue. Karl XI's restrictive fiscal policy then led to a growing surplus, so that towards the end of the 1680s almost half of the stock of deposits belonged to the Crown.

Most of the deposits, including the largest, were in the loan bank. They attracted interest right from the start but on account of its novelty, the procedure was cumbersome. Deposits were treated as loans to the Bank. Each deposit was treated as an indivisible whole and was acknowledged with a single certificate. The 'loan' matured after six months and interest was booked at the end of that period. Six weeks notice of withdrawal was required; otherwise the certificate had to be handed in for renewal, in which case the 1689 statutes prescribed that a new certificate would be issued. In practice,



Transferable notes, the forerunner of modern banknotes, were introduced in 1701 but it took about twenty years for them to come into general use; c. 190×155 mm

60 however, the Bank seems to have made do with noting the renewal on the existing certificate. Without renewal, the capital ceased to attract interest.

Various ways were soon found to circumvent the fixed six-month term. The loan bank's certificates could be pledged in the Bank just like other mortgageable chattels, which meant that the holder could withdraw the money at any time. Selling the certificates was also permitted and they began to circulate as a form of money.

In the 1670s, deposits in the loan bank came mainly from the higher nobility. This changed around 1680. A diminishing number of noble names was accompanied by more merchants, recently ennobled officials, ironmasters and some clergy, as well as growing deposits by the Crown. This reflected government policy. The reversion of land to the Crown was a major financial setback for the higher nobility and gave the nouveaux riches a golden opportunity when bankrupt grandees auctioned off their remaining estates. The new depositors also included some freeholders.

At this time, deposits were comparatively large, averaging 2,500–3,000 *d sm* in the Bank's first decade. Lending money directly could give a better return but the Bank's interest rate was adequate and the creditor did not have to bother about a debtor's solvency. In the late 17th century, deposits in the loan bank became one of the most attractive forms of capital investment.

The facility became so attractive that deposits exceeded what the Bank was able to lend. Right from the start, the largest borrowers came from the higher nobility and senior officials; they continued to predominate in the 1680s and '90s, when they included victims of the reversion as well as its beneficiaries, men close to the King who seized the chance of making a profit. Commoners borrowed smaller amounts but loans to this group became more frequent; from 600–700 in the 1670s, the annual number of loans to small traders, craftsmen and farmers in the Stockholm region rose to more than 2,000 in the 1690s. Even this figure is misleadingly low because the Bank did not register loans against movable property, which mostly went to the less well-to-do.

Lending was not a simple matter. Security in most cases took the form of property, which was difficult for the Bank to assess. Neither was there a register to show the degree to which a property had been mortgaged; moreover, mortgaged estates were sometimes sold without informing the Bank. A further problem was that as a result of the reversion, the Crown claimed estates which the Bank believed were still in the hands of the

former owner. The Bank therefore required an assurance from a warrantor (*kautionist*) that the property was mortgageable. The confusion over mortgages led to more and more cases where the Bank held the warrantor liable, which made people reluctant to act as warrantors. To manage these matters, the Bank set up a separate department with two ombudsmen, a clerk and assistants. The court cases tended to go against the Bank, which added to the cost of loan losses.

Matters were not improved by the Bank's problems with some of its biggest advances. Some large loans for Karl XI's war were disclaimed by the Crown. In 1694, Abel Reenstierna, a gentleman-in-waiting, borrowed 113,000 *d sm* – the Bank's largest personal loan – against the brassworks in Norrköping and Nacka; the business struggled and Reenstierna obtained a debenture loan for a further 267,000 *d sm* to purchase copper for the foundry and cover operating costs. When the enterprise finally failed, the Bank took over the brassworks and administered them for a long time, with frequent disputes with tenants. The Nacka works was so unprofitable that it had to be closed before the Bank finally managed to sell it; the Norrköping works was more sound and the Bank continued to own it for a time.

In Skåne, which had belonged to Denmark before the Treaty of Roskilde in 1658, a Danish noble, Jochum Beck, had established an alum plant at Andrarum. Alum was used in the manufacture of paper as well as for dyeing and tanning; a secondary product is a sulphate that is used to make paint. Faced with a failing business, Jochum's son Lave borrowed 54,000 *d sm* from the Bank, with four alum furnaces as security, and later obtained additional loans to stave off bankruptcy. In the end the Bank had to take Andrarum into administration and managed to find a buyer, Countess Christina Piper, daughter of Olof Hansson Törne, a merchant who had been ennobled Törnflycht and was one of the wealthiest men in Sweden. Christina, who became the outstanding businesswoman of her day, had married Carl Piper, Karl XII's leading adviser until he was taken prisoner at the battle of Poltava. Christina acquired some 50,000 acres of land in Skåne, first in her husband's name and then on her own account as a widow. Her acquisition of Andrarum, which caused her great trouble, began in 1710; five years later she settled some of the Bank's claims on the plant; by 1725, most of the property was in her hands. She turned the alum plant into one of 18th century northern Europe's major industries, with 250 employees and a local community of almost a thousand people.



During the long period of peace under Karl XI, the deposit surplus became increasingly troublesome. Today it would be seen as a problem of interest rates. Initially the Bank charged 8 per cent for loans and paid 6 per cent on deposits. In 1688 the ceiling on the lending rate was lowered to 6 per cent and the Bank had to choose between 4 and 5 per cent for deposits. It opted for 5 per cent and stuck to this for a decade. The differential was too small; loan receipts failed to cover the interest on deposits and the latter rate was too attractive to discourage capital investment.

The different types of coin made matters worse. Copper money predominated but people also wanted to deposit coins of gold and silver. Copper coins were in everyday use, so people were constantly depositing and borrowing them; the 'lighter kinds' remained in the Bank collecting dust and interest. The first time this came up in earnest was at a meeting of the directors and commissioners on 2 November 1683. Commissioner Ertman considered that the Bank should ensure that '(1) things are so managed that there is not too little money in, (2) neither too much'. If the stock of money was insufficient, the Bank could borrow more; if it was too large, the Bank could either refuse to accept more deposits than it could handle or lower the interest rate.

Ertman refrained from making a recommendation and the other commissioners were equally cautious. They submitted a memorandum on the implications of refusing deposits but did not explicitly advocate this. The directors hesitated, too, worried as they were about the large loans to the Crown. Until such time as the Crown paid interest or ran down its loans, the Bank welcomed deposits as a source of much-needed cash. Moreover, the King might misinterpret the moratorium on deposits as an indication that the Bank was so solvent that there was no need to repay the loans.

The Bank closed its doors for the rest of the year, alleging that the annual accounts and other matters left its officials with no time to deal with deposits. Matters did not improve. At the beginning of February 1684 the exchange bank's stock of copper money was almost exhausted. A director suggested a lower interest rate but his colleagues refused as long as the loans to the Crown remained outstanding. Finally it was decided to close for gold and silver but continue to accept copper money, between 200,000 and 300,000 *d km*. The reason for not closing completely was that 'people would then be likely to accustom themselves away from the Bank and seek other resorts for their money, no doubt also moving them abroad, whereupon the



Some widows of noblemen or burghers became successful businesswomen. Christina Piper (1673–1752) took over the Andrarum alum plant from the Bank and

developed it into a prosperous enterprise. Portrait attributed to either David Kock or David von Krafft.

64 Bank would lose its nourishment and could thus become destitute’.

The Bank was not closed for long. The holding of cash was so small that withdrawals were in jeopardy. As so often before, the problem was perceived to be the export of copper coin, so efforts were made to restrict this. The possibility of calling in loans was rejected and the same applied to interest and instalments. Instead, the Bank restricted its loans, even though one of the commissioners feared that people would then go to ‘Johan Lode and Van Zanten, who keep something like small banks at home in their houses, which altogether in time is likely to cause the Bank distress’.

The situation improved when the Crown began to make large repayments in 1687 but a year or two later it deteriorated again. Deposits, which had been stable for some time, grew rapidly in 1690. In September the Bank closed for deposits in *riksdaler* and ducats, and then for the other coins at the beginning of 1691. The loan bank did not open again until the outbreak of the Great Northern War in 1700. The closure led to increased deposits in the exchange bank, even though sight accounts did not attract interest – an indication that people valued the safety of the Bank’s vaults. Another consequence was that certificates of earlier deposits in the loan bank could be transferred at a handsome profit, while those to whom they were transferred obtained a convenient form of money that still attracted interest twice a year.

The Bank was uncertain how to get the loan bank going again. The 1693 Riksdag’s bank committee considered cutting interest rates, as well as terminating deposits, but failed to reach a decision. In an attempt to attract more money, the Bank opened new branches, in Falun and Göteborg in 1693, in Örebro the following year. An annual loss in every year from 1694 to 1697 eroded the Bank’s capital. When the 1698 bank delegation finally took over from the directors, the interest rate was lowered, to 4½ per cent. If that was not enough, there would be a further cut to 4 per cent; as a last resort, some deposits would be terminated.

#### THE GREAT NORTHERN WAR

A change was already on the way. War was threatening and people began to take precautions. More and more money was withdrawn from both the exchange bank and the loan bank; some of it was invested abroad – Carl Piper was said to be one of those who did this.

At the beginning of January 1700 the directors found the outflow

so alarming that for the first time in almost a decade the Bank was opened 65 for deposits. This had no effect. On 9 March the directors informed the paymaster general that ‘no one is found who will present money to deposit, even though all appropriate cause for this has been provided’. It was about then that Stockholm received the news that Polish troops had invaded Swedish Livonia. People rushed to the Bank, which was unable to pay more than half of what its depositors wished to withdraw, later even less. The directors raised the deposit rate to 5 per cent but the outflow still continued.

This troubled Karl XII because the Bank was a convenient means of mobilising money which the Crown could borrow for the war. He dismissed the Bank’s request to be absolved from paying out deposits – the Bank’s credibility mattered more. On 31 March 1700 a royal ‘proclamation and assurance concerning the Bank’ exhorted every right-minded subject to consider the benefits the Bank had conferred on the country. It was therefore the duty of everyone to support the Bank, instead of ‘due to some thoughtless and untimely lack of confidence so suddenly and unjustifiably withdrawing the capital they have in the Bank’. The King promised and assured that all the rights of depositors would be upheld.

The fate of the Bank hung on the fortunes of war. After the Swedish victory at Narva in November, business improved and recovered completely the following year. Deposits grew again and the Crown borrowed more and more. A new bank delegation disapproved of the directors’ deposit rate increase and lowered the rate to 4 per cent for those who wanted compound interest and to 4½ per cent for straight interest. Money still flowed in and there was a dearth of borrowers. The commissioners proposed that the Bank should open or close according to the circumstances. The new arrangement was introduced in the 1707 regulations. It did not prevent the stock of deposits from doubling between 1701 and 1709.

With plenty of deposits and few private borrowers, the Bank was able to meet the Crown’s requirements. In the 1670s, war had caused the Crown to borrow 1.3 million *d km*, an enormous sum in those days. Between 1700 and 1709, however, the Bank advanced almost 6 million *d km*, nearly all of it to pay for the war. The Bank’s ability to attract capital from the king’s subjects became a vital condition for the Swedish war effort. In the following centuries the Crown’s war loans shook the Bank time and again but that was probably less harmful than a corresponding tax levy would have been.

During 1709 both the fortunes of war and the credit market dete-

66 riorated. The Crown requested a loan for 600,000 *d km*. This was granted and the Bank opened for deposits on 1 March; by mid-May, however, it had managed to advance the Crown only 200,000 *d km*. Uncertainty about the size and whereabouts of the armies made people cautious, just as they had been before the outbreak of war in 1700. On 21 May the paymaster general sent a desperate appeal to the board of directors: there was no money left, troops in the field and garrisons in the fortified towns were dying of starvation. The reply was that money was not coming in; more and more capital was being withdrawn; only 100,000 *daler* was available.

Worse was to come. When news of the disastrous defeat at Poltava reached Stockholm around 20 August, people rushed to the Bank. On 26 August the commissioners reported that people ‘come in crowds and want to borrow against their loan-bank notes’ – a much quicker way of withdrawing money than waiting until the six-month deposits became available.

The Bank refused to pay and turned to the King for support – these were the days of autocracy – but no one knew where he was. Instead, the directors had to rely on the Council. However, when they requested a strict order prohibiting withdrawals, the Council was unwilling to make a move and left it to the directors to do what they thought best. On 7 September the Bank decided that recalled deposits would not be paid out. Although many depositors were in dire straits, all complaints were simply dismissed. The directors in turn appealed to the Council for repayments on the Crown’s loans but in vain.

At the beginning of 1711 the Bank received a message that had been sent six months earlier from Karl XII’s headquarters at Bender in Bessarabia. The monarch deplored the Bank’s closure and proposed raising the lending rate to 10 per cent so that depositors could be offered 8 per cent. The Council was to negotiate a direct borrowing rate of 10 per cent, ‘though We would prefer, to assist the Bank, that people deposited their money in the Bank so that from this one can provide loans for Our needs’. However, that year’s bank delegation was against an interest rate increase, the Crown insisted on further advances and the Bank’s position became increasingly precarious.

During this period the directors and commissioners seem to have had two objectives (Brisman, 1918): to maintain the value of the loan bank’s certificates, even though these were irredeemable, and to enable the exchange bank to pay out deposits. On the first count, efforts were made to pay interest on time and borrowers were allowed to use the face value of the Bank’s



Karl XII (1682–1718) ruled even more autocratically than his father but in order to secure finance for the Great Nordic War

(1700–21), for many years he respected the Bank’s independence of the Crown. Portrait by Lorentz Pasch the Elder.

68 certificates for repayment of loans and the related interest. This ensured a secondary market for the certificates. When she purchased Andrarum, Lady Piper used loan-bank notes that she presumably had acquired during the hard times after Poltava; if so, that was an early instance of arbitrage. She probably bought the certificates for less than the value the Bank accepted when she paid for the plant.

The rules debarred the exchange bank from using its funds for an alternative purpose but that was precisely what had been done; for want of other cash, the interest on loan bank certificates had been paid with the exchange bank's resources. The Crown's requests for advances on tariffs and tax revenue had been met in a similar manner.

The reintroduction of the cumbersome copper plate money in 1710 led to increased deposits; in August 1714, however, news arrived that the Russians had landed on the island of Åland between Sweden and Finland. The Bank had its funds, moveable securities and records placed in crates in order to move them to a safer place, while people with deposits in the exchange bank were equally scared. The store of plate money was emptied in a matter of days; on 7 October payment was promised as soon as a supply arrived from Västerås, but this took time. The price of loan bank certificates, cash receipts and approved assignments fell on the secondary market.

#### AUTOCRACY'S DESPERATION

The King and his advisers, aware that they were best served by leaving the Bank alone, had refrained from intervening. As the fortunes of war deteriorated, however, other considerations came to the fore.

The first action was taken in 1711, when from his chancery in Bender the King commanded the Council to consider whether credit notes might not help. The councillors referred the matter to the bank delegation and the board of directors on 13 April, accompanied by two anonymous proposals. One was to declare the loan bank's certificates irredeemable and transform them into proper banknotes; the Crown would be relieved of paying interest on its loans and be able to borrow more from the loan bank. The other proposal was to issue notes for a total value of 12 barrels of gold (1.2 million *dsm*), to run for two years at 1½ per cent and be used for the Crown's wage payments.

The delegates and directors had left Stockholm to escape the plague

but responded to the commissioners' summons. On 8 June the possibility of credit notes was firmly rejected. The reasons included reminders of the crisis in England in 1696, when notes which replaced coins had dropped to 22–24 per cent of their face value, and the French credit notes in connection with the war of the Spanish succession, which at that time carried a 75 per cent discount. The Council was of the same opinion and the King agreed – he had not meant that the Bank would issue notes. His Majesty still drew a line between the Estates' bank and the Crown's agencies. As a last resort, the notes could be backed by the paymaster general and the Exchequer.

The next controversy arose in June 1712 when Karl XII decreed a change in the tax system whereby everyone was to pay a specified percentage of their wealth in tax. Payments were to be based on personal tax returns. The wealth tax took autocracy a step further because it was a completely new tax and had not been debated by the Estates.

In 1713 the Crown exacted two per cent of each person's wealth in tax but this did not yield as much as the King had expected. The Council examined the system for loopholes and its eye fell on the Bank's deposit accounts. On 4 March the Bank was ordered to execute a tax of one per cent, design a system for collecting the revenue, and calculate how much this would be. Ten days later, those in charge of the Bank replied that they refused to carry out the order and referred to earlier undertakings. On a number of occasions both Karl XI and Karl XII had promised that the savings accounts would be totally exempt from tax and state encroachment. The Estates had likewise assured that the funds would be protected from every kind of confiscation. In view of this response, the Council shelved the issue and waited for the King's reaction.

This came indirectly. Councillor Jakob Reenstierna, who was handling the wealth tax, stated that in a letter to his wife, a high official at the field chancery had mentioned that Karl XII was not willing to exempt the savings accounts from tax. The Bank's arguments were waved away; according to Reenstierna, 'It seems that the Swedish realm is there for the Bank but not the Bank for the realm, so that the State is subordinated to the Bank's credit-worthiness'. On 1 July the Council ordered the Bank immediately to deduct two per cent of the balance on all accounts that did not belong to the Church, the schools, infirmaries, the Vadstena old soldiers' home or other charities. The account-holders were not pleased. Academy librarian Benzelius noted on 14 August that 'Those who have something in the Bank are rather bitter

70 about the two per cent that is now deducted from their interest and it does indeed seem harsh'. The King ended the matter with an announcement that all savings accounts were subject to tax. Exempting private assets of any kind would enable many people to conceal large parts of their wealth in the Bank.

On 20 September 1714, five years after the disaster at Poltava, Karl XII left Turkey. With an escort of two men, he moved ahead of the rest of his entourage and entered Swedish territory at Stralsund on the southern Baltic coast on 11 November. There he led the defence of the town for as long as possible but had to flee to Sweden on 10 December 1715. In Stralsund, a Holstein statesman, Georg Heinrich von Görtz, was close to Karl XII. While the King planned new campaigns, Görtz reorganised the administration to strengthen the finances. Economic policy was placed in the hands of a delegation headed by Görtz. This accentuated and multiplied the conflicts between the autocratic monarch and the Bank.

On 28 February 1716 the King issued an order to the Lord Treasurer that the delegation was to receive the income from maritime tariffs and the tax on copper even though the terms for the Bank's loans from 1713 stated that they would be serviced from these sources. The Bank protested and the King finally allowed it to keep the copper levy. Meanwhile, Görtz had demanded to know the size of the Bank's cash balance in order to exact further loans. The Bank prevaricated and appealed to the King but he simply told the Bank to name the sum it was able to advance. The board of directors then entreated the King to protect the Bank 'so that no one with harmful proposals may be able in any way to offend the freedoms it has obtained'.

In 1715 the King had initiated the minting of token coins (*mynttecken*) that were popularly known as 'Görtz' gods' (though they were probably not the Holsteiner's own idea). These looked like ordinary copper coins but were struck with a face value of 1 *d sm*, which was far more than their metallic value. They corresponded in practice to credit notes: the Crown issued a form of money without backing – its value depended on public confidence. Over 34 million of these coins were minted all told and almost 25 million of them were still circulating when Karl XII met his death in November 1718.

In 1716 the Crown started to use Estates bonds (*ståndernas obligationer*, in denominations of 10,000, 5,000, 1,000 and 100 *d sm*) as well as currency notes (*myntsedlar*, in denominations of 25, 10 and 5 *d sm*). The latter were issued by the agency the King had set up in 1712 to collect the new wealth tax; they were issued for a total of almost 18 million *d sm*, of which over



Georg Heinrich von Görtz (1668–1719) was Karl XII's closest adviser in the king's final years. Contemporary caricature.

72 5 million was in circulation at the beginning of 1719. In addition, many officers and officials were paid in *löningssedlar*, a kind of interest-bearing promissory note, issued for a total of over 1 million *d sm*. Lindegren (2005) notes that Görtz had met the innovative Scottish financier John Law in Paris and argues that he hit on a ‘genial solution’ to the financial difficulties shortly before the King died: taxation would induce society’s elite to invest surplus funds in bonds.

Instead, people trusted neither the Roman gods on the coins nor the notes and bonds. Lagerbring (1778) states that they accepted a fairly modest discount of 4–5 per cent to begin with but ‘as soon as there were rumours of compulsory loans against government bonds and these would thus be increased, their credit fell immediately and people began to spurn both the token coins and the currency notes, so that when someone wanted to buy an *aln* (≈45 inches) of fine cloth that could be obtained for 4 *Daler S:mt* good coin, they were asked for 50 *Daler* if payment was to be in token coins’. The Crown instituted heavy fines on sellers as well as buyers who made a distinction between the token coins and ordinary coins, but it was not enough.

Early in 1716 it was rumoured that everyone would be obliged to accept token coins at their full value for deposits. Depositors in the exchange bank hurried to withdraw their plate money and the King had to assure them that the Bank would neither accept nor hand out token coins. Next year there was another run on the Bank when Karl XII had the English envoy in Stockholm apprehended after the Swedish ambassador in London had been imprisoned in connection with a conspiracy in support of the exiled Stuarts. Some months later, however, the reverse occurred when the King called in all plate money to be re-stamped at two-thirds of its current value; plate money in the Bank’s vaults was exempt, so people hastened to deposit what they had.

On 4 August 1718 the board of directors was ordered to issue a proclamation making the loan certificates irredeemable; in future, nothing but interest would be paid. Instead of paying full interest on and repaying its loans from the Bank, the Crown would pay only as much as was needed to cover the interest on the outstanding loan certificates. The Estates and the board of directors were brushed aside as the King treated the Bank like an ordinary agency of the Crown. These measures would infringe the Bank’s rights in relation to the Crown, as well as depositors’ rights vis-à-vis the



‘Görtz’ gods’, emergency coins minted under Karl XII, were soon worth much less than the regular currency, diam. 24 mm.

74 Bank. The directors protested to the Exchequer but the King simply ordered this institution to carry out the order without delay. On 30 November, however, Karl XII met his end while besieging the Norwegian fortress of Fredrikshald. The Bank of His Majesty's Estates reverted to being the Bank of the Estates of the Realm.

The Great Northern War placed severe strains on the Bank's independence from the government, on public confidence in the Bank, and on the Bank's ability to manage the huge war loans. At the same time, the need to maintain his subjects' confidence modified the King's autocracy and strengthened the board of directors in its confrontations with Görtz. The fact that the Bank weathered the crisis affected its future. By standing up to Karl XII, it confirmed its position as the agency of the Estates. Its notes and certificates continued to circulate – albeit often at a discount – as a form of money and investment, which meant that it still had some credibility on which to build.