bulletin

Newsletter from the EABH

1/2004

European Association
for Banking & Financial
History e.V.

Dear Colleagues,

2004 is an exciting year for the EABH, full of new beginnings and much anticipated change. Following fourteen years of dedication to the Association in his role as Chairman, **Sir Evelyn de Rothschild** has stepped down from this position. Sir Evelyn has made an invaluable contribution to the EABH, in both developing the Association to its current size of nearly 80 members, and continuously improving the quality of our work. While we regret this loss, we are delighted to announce the election of **Dr. Willem F. Duisenberg** as the new chairman of the EABH. Dr. Duisenberg is a figure of considerable achievement in the realms of both academia and business. His leadership of Europe into an integrated economy has earned him both enormous respect and a place in the very fabric of financial history in Europe. It is an honour to welcome him as the new Chairman of the EABH.

This significant event coincided with another important and long awaited change; as from 28 May, the EABH e.V. will be known as the **European Association for Banking and Financial History e.V.** The new title broadens the Association's involvement within such complementary areas of research and demonstrates its commitment to responding to the ever-changing world of modern finance and the ongoing process of economic integration.

Under its new title, the EABH aims to meet the challenges which this very change instigates, while maintaining the high standards and quality of research with which it is associated. To this end, the Financial History Review has also been re-designed, sporting a new fresh cover and thereby reflecting the EABH's own attention to keeping abreast with the new age in which we find ourselves. This year also saw the appointment of a new editorial board for the Financial History Review whose diversity in terms of both professional background and culture is sure to stimulate new ideas and bring the journal to the attention of a wider audience. The EABH would like to thank the former members of the board for their unrelenting support which has ensured the much respected reputation of the journal while welcoming our new colleagues into the EABH.

The EABH and Alpha Bank Athens Conference *"The Human Factor in Banking"* was a most fitting backdrop for these important steps in the history of the EABH, providing an atmosphere contingent with progressive academic discussion, set in a City steeped in history. The Conference was an undisputable success for which we would like to offer our sincere gratitude to our hosts, Alpha Bank, for their generous hospitality and much valued organisational support.

It only remains for me to thank all the participants and speakers of the Athens conference and the workshop, which was the most highly attended workshop in the history of the EABH. Your answers to our survey on Corporate Culture, which can be found in this edition of the Bulletin, contributed to an extremely interactive and thought provoking workshop, which was concluded most thoroughly by Dr. Gurdon Wattles, Head of Group Capital Markets Communications at Deutsche Bank AG, London.

We hope that you share our enthusiasm for the changes which 2004 has brought and that we may count on your active support in meeting the challenges which are anticipated.

Manfred Pohl

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In the last decade of communism, an insuppressible undercurrent of negative tension arising from non-motivated employees of big companies was becoming all too evident, epitomized by such remarks as

"They are pretending to pay us, while we are pretending to work" or in other version "They can not pay us as low, as we can work slow".

However, such unrest within personnel is not always centred upon pay and salary. Quite often, it is a silent protest against one ideological system.

Modern financial institutions are large and prominent companies, whose prosperity is reflected in the monetary rewards of its employees. However, salary is only one of many motivating factors associated with the modern-day workplace; one must also consider how employees view their individual work environment. Do they hold positive perceptions of their employer? Do they feel valued by the institution that they work for? In short, there are numerous interrelated factors that influence an employee's working performance and relationship to the organization for which he or she works. And, when there are 10.000 or 50.000 people working for such an organization, these questions become evermore important.

Most banking and financial historians believe that financial institutions are, both socially and economically, very important institutions that hold a crucial function for the economic development and benefit of the whole society. In addition, the majority of archivists are very proud of their institution as well as their own role within it, not least due to the long-standing, interesting, and typically successful history of such corporations.

One would say that those two opinions should be implemented in the Corporate Culture of every financial institution. However, most of the textbooks covering Corporate Culture do not even mention history. For this reason, this problem will be tackled in the EABH survey:

1. Which departments in your institution deal with the Corporate Culture activities?

2. Which activities have been undertaken in this field?

3. What is the role of the history/historical archives in those activities?

UBS

I The main department responsible for Corporate Culture activities is the Human Resources department. As part of their mandate, Human Resources must "support the development of a strong corporate culture; be the promoter and guardian of the UBS Vision and the Values for Action".

Business Groups are also important in terms of implementing values through, for example, training programmes and events, etc.

II A variety of activities have been undertaken such as the Senior Leadership Programme which includes events, training, and meetings, such as the Annual Strategic Forum, and the Global Leadership Experience.

Activities also include the integral involvement of employees within the discussion and the application of Vision and Values, and the implementation of new staff training programmes.

III I have worked and continue to be involved within the Human Resources department, developing education and training programmes for new staff and for senior management which involve historical elements. For internal communication, I have also written articles on the history and values of antecedent firms of UBS and I am currently working on a brochure on the history of UBS. Historical archives have contributed to exhibitions both temporary and permanent, for example those held within our training centre.

SOCIETE GENERALE GROUP

At Société Générale, many years ago, a real Corporate Culture existed through a sort of Company spirit linked with a certain way of managing staff. In actual fact, this was the topic of an article in the latest internal publication in which Corporate Culture was discussed during the period of Société Générale's nationalisation (1945 - 1987).

What is the situation now?

I There is no specific department dealing with Corporate Culture but to a certain degree, this function is devoted to the Communication Directorate in that: it manages, co-ordinates and promotes various initiatives that contribute to the image and reputation of the Group by using all means and techniques of communication (the press, advertising, public relations, sponsorship, patronage, and on-line and off-line publishing).

In order to fulfil this assignment, the Directorate checks Group communications consistency both internally and with the outside world; applies messages by relying on a common reference value base; distributes information to various communities and to the public via the media and means of communication that are appropriate to the targets involved. These are officially the missions of the Communication Directorate.

II Indeed, Société Générale is involved in sponsorship and patronage mainly in order to improve its image and reputation but in a certain way, it can also be seen as a method of promoting Corporate Culture; employees are proud to take part in a company which is contributing to support young musicians (chamber music), sport (rugby, bridge, golf), modern art, charity (training for underprivileged children, health, help to handicapped people).

Another means of fulfilling this assignment has been to bring employees closer to each other with topics such as "SG Group values". This refers to the 3 values that we are expected to share and furthermore to apply daily in all of our actions and domains while adapting to our business lines and markets, and to the diversity of our cultures. They are professionalism, team spirit and innovation. This latest topic has been developed since October 2003 through an effort called "Innovating at every step" with a specific aim of confirming the Group's creativity and innovation. A prize, such as a bonus or an opportunity to travel, is rewarded to employees who are taking an active part in this effort.

III In all these activities, history and archives are playing a very modest role, apart from perhaps some articles in the internal publication about the Centenary of a branch, Société Générale's business in a specific country, or the history of a recently merged bank and so forth.

In 2004, Société Générale will celebrate its 140th anniversary but in actual fact no special celebration will be organised, except for a film concerning the entire history of the bank which will be directed at and shown to the top management (and maybe to employees?) but there is no indication of marking this historical event otherwise.

Nevertheless, at a more local level, history and the archives offer a more valued contribution to the Corporate Culture. For instance, when a branch celebrates its anniversary, exhibitions of pictures and furniture are organised and the history of the branch is traced back to its roots; the staff are invited to a reception in order to celebrate the event and it is always very successful!

In conclusion, I will say that the Historians and Archivists are interesting employees and are contributing to Corporate Culture even though this is truer at a local level. Unfortunately however, they do not play any role in the Corporate Culture activities of the Group itself, because, for the top management, History and Archives do not hold a very attractive image.

Bank of Cyprus Group

I At the Bank of Cyprus Group, Corporate Culture Activities are defined by all departments. However, the Department that actually deals with and implements Corporate Culture strategies is the Advertising and Communications Department. More specifically, it is the Communications Department which undertakes the internal and external research that pinpoints important issues pertaining to Corporate Culture and, as a result, the activities which will be put into practice. All these activities are discussed and agreed with the Chairman and the Chief Executive of the Bank.

II A series of continuous activities have been undertaken through the years, which define the Group's Corporate Culture, both internally and externally. The main activities are:

· Continuous support of the professional and personal development of employees through workshops and seminars organized by the Bank, and support and rewarding of the acquisition of professional qualifications.

- "Open days" for meetings between senior management and individual members of staff.
- The Scholarship Fund
- The Bank of Cyprus Oncology Center
- The "Chain of Life" (a contribution to the Anticancer Society in Cyprus).
- The "Chain" is a series of annual fundraising events, the vast majority of which are organized by the Bank's employees.
- The Bank of Cyprus Cultural Foundation

- The "OIKADE" Program (a program that aims to promote Communication between primary schoolchildren in Cyprus and Greece with fellow schoolchildren from the expatriate Hellenic communities)
- Museum of the History of Cypriot Coinage

III The Historical Archive preserves the information used or to be used to document the continuity and stability of some elements of corporate culture. Only by establishing this continuity, may the Bank safely implement changes when and where these become necessary.

NATIONAL BANK
OF GREECE

I Alongside its core competences, namely employee training, selection and development, it is the Human Resources Development Division which deals with Corporate Culture activities within the National Bank of Greece.

The activities undertaken by the Human Resources Development Division in this field can be summarized as follows:

During the previous year, the above mentioned Division has organized and implemented, on two different occasions, a one-day Conference on Corporate Culture issues. In his speech, Mr. Theodoros Karatzas, former Governor of the Bank, has highlighted the main points of the existing, as well as the desired corporate culture, which will successfully lead the Bank towards the 21st century. The main Conference theme was covered by a distinguished Professor of the Athens University for Economics and Business, while the Secretary General of the Hellenic Banks Association has addressed cultural change issues within the framework of Basle II requirements. 595 bank executives (Top Management team, Administration Directors and Branch Network Managers) have attended these events.

To communicate such messages to all Bank employees, the Human Resources Development Division has proceeded to the following initiatives:

· The Governor´s speech on Corporate Culture issues appeared in the corporate magazine, distributed to all personnel, as its main article.

· The messages drawn from the Governor´s speech were implemented in various training events (mostly dealing with management and sales issues, as well as the initiation course for new recruits).

· All employees, connecting with the Bank electronic network, can view on their P.C. screen a series of pictures containing mottos based on the former Governor´s messages. Pictures and mottos change on a regular basis.

· An article on Corporate Culture issues, written by the Human Resources Development Division Director, appeared in the Hellenic Banks Association magazine, which is distributed to all bank-members and covers various subjects on the banking sector.

D. Broustas

Manager

Human Resources Development Division

NATIONAL BANK
OF GREECE

Dealing with Corporate Culture issues within National Bank of Greece falls under the responsibility of the Human Resources Development Division. However, the Group Risk Management Division is also related to the issue since Risk Management also deals with Ethics, Deontology, Corporate Social Responsibility, and Environmental Responsibility besides its main issues (Compliance).

The Risk Management Division

- has prepared the "Group's Code of Ethics" (forthcoming) which defines the principles guiding the Bank's operations. These principles are Integrity, Impartiality, Entrepreneurship, Professionalism, Transparency, Honesty, Social and Environmental Responsibility, Respect for the Human Rights, Responsiveness, Teamwork and Compliance. The Code is a crystallization of the Principles, based upon which we operate as a Group, we act as employees, we treat each other, our customers, our shareholders and other stakeholders, as well as our society and our environment. This Code defines the practices and rules of corporate ethics as well as the desired standards of professional behavior within the Group. It is also the basic tool for the implementation of the Bank's and the Group's corporate culture.
- is responsible for the fulfillment of NBG's commitment to fully comply with the laws, regulations and ethical standards prevailing in any country where its Group operates. It is within our competences to constantly and systematically maintain thorough knowledge on the local legal and regulatory framework of the country where our Group is active, as well as to locate, analyze, assess, examine and accordingly submit proposals regarding the risks stemming from the Group's non-compliance.
- systematically follows the development of emerging trends in the local and international financial system for the purpose of the Group's adapting to and implementing of and responding to, the international developments, challenges and standards (e.g. Corporate Social Responsibility, respect for human rights protection, the environment, corporate governance, personal data protection, consumer protection, shareholders and stakeholders' rights) in the light of its international activities, and it duly informs the competent Units of the Bank so that appropriate measures are taken.
- provides for the ongoing training of its staff through seminars on corporate social responsibility, corporate governance and environmental issues, and it participates in the Working Group and the Steering Committee for the development of the Bank's Environmental Policy.

M. Oratis

Manager

Group Risk Management Division

NATIONAL BANK OF GREECE

History and Corporate Culture

The industrial revolution and the birth of large corporations generated conflicting views about the role and position of businesses in society.

On the one hand, it has been generally accepted that businesses improved living standards by creating broadly affordable consumer products and a wide range of services. Banks in particular, as pointed out in a recent promotional campaign by the Hellenic Bank Association, improved people's quality of life by offering valuable services such as:

- A broad range of mortgage loans supported by flexible consumer loans under terms adaptable to anyone's needs and by modern savings products.
- Convenient programmes enabling consumers to acquire their own house and a variety of consumer products, and upgrade their savings as efficiently as possible, through investments in Greece and abroad.
- A full range of alternative transaction networks including ATM, telephone and internet banking, thus minimising time-consuming queuing for bank services.
- Funding agreements with favourable terms, intended to support business growth and competitiveness.
- Generating new jobs by supporting business growth in Greece and promoting enhancement of the banks themselves.

On the other hand, however, people often adopt a suspicious and sometimes hostile stance towards businesses, in their belief that the primary, if not sole objective of businesses, is to maximise profit at any cost. As a result of this suspicious stance, the union movement is able to flourish and the public at large puts pressure on the government to enhance regulation of business operations.

Public opinion of businesses depends heavily on the image businesses project of themselves through their activity and adaptability to social changes. Of course, companies need human presence to operate. A company's staff, from senior management to the most junior employee, determines the company's prospects through their individual or joint decisions. A company's image reflects its corporate culture.

A company's archives are mainly held to serve the needs of the company itself. Such archives have also been used for the purposes of research on a company's structure and management, and its position in a country's economic, political and social life. It has been established, however, that when confined to a mere documentation of the past without any consideration to the present and the future, history has hardly any value. Indeed, an archive programme will only be successful if it focuses on supporting the broader corporate mission. For its part, research on the history and development of corporate culture can indeed assist in identifying the key factors that contribute to a company's growth and progress in the future. It is well-known that the most frequent reason for failure of corporate mergers lies in conflicting beliefs and values. If companies about to merge were familiar with each other's internal corporate culture, they would improve mutual understanding and streamline the merger procedure. The successful merger of National Bank of Greece with National Mortgage Bank is attributable, in our opinion, to the common corporate cultures shared by both banks, as Mortgage Bank had stemmed from National Bank in the context of the banking system reform of 1928.

For a number of years, National Bank's Historical Archive has been concentrating its efforts in four key fields:

1. The study of National Bank's history and its role in the economic, political, social and cultural life of Greece.

2. The study of developments in National Bank's corporate culture. More than 40 monographs have been published under the research programme of National Bank's History Committee, creating a valuable and unrivalled source on National Bank's corporate culture throughout its long and successful history. As Theodoros B. Karatzas recently highlighted in an article in the Bank's staff magazine Emeis Kai I Trapeza, National Bank of Greece had shaped an impressive corporate culture since its earliest days, explicitly documented in these monographs which projected the picture of a bank playing a dominant role in the economy and occupying a central position in Greek social policy and life. This culture did not harm the Bank at a time when there was little or no competition. Now, however, as Theodoros Karatzas pointed out, the Bank needs to adapt its corporate culture in a way that enables it to play a leading role in a competitive environment.

3. The modernisation of National Bank's corporate culture, enabling it to meet the requirements of the globalised economy of the 21st century. The articles published in the staff magazine and a series of interviews stressing the role played by the Bank's units, have been valuable instruments for promoting corporate culture. Awareness seminars were also held to encourage the staff to be more sensitive to the evidence kept in the Bank's Historical Archive. If the staff does not have confidence in a company's methods of operation, the company will hardly be able to thrive.

4. The organisation of sightseeing tours for schools, societies and other associations, to help them discover the other side of National Bank of Greece and become aware of its broader economic and social character.

N. Pantelakis

NBG Historical Archives

ING

Corporate Culture within ING

At ING, Corporate Culture is important for the shareholders, the customers and the employees. The departments which deal with Corporate Culture are mainly Corporate Communications and Human Resources.

Corporate culture is described in the ING Business Principles, which contains the ING values (Integrity, Entrepeneurship, Professionalism, Responsiveness and Teamwork), the Operating Principles and the annual report *ING in Society*, amongst others. Activities are numerous, including Internet- and intranet-sites, brochures, guides for employees and so forth.

Although History is not a standard topic in the communication of the Business Principles, it does play a role in the corporate culture. In the Corporate Brochure of ING, for example, 2 pages describe the company's Dutch roots, accompanied by small images of ING history.

With the re-branding of all ING companies throughout the world (with the exception of the Netherlands) history has been put aside for the time being. You cannot re-brand an old company and simultaneously tell the story of that company; the focus must remain on the ING brand. After the ING is totally re-branded as a 'one world wide ING', there will be more space for its history.

Ingrid Elferink

Historical Department ING

BANCO ESPIRITO SANTO

I Marketing, Human Resources and Communication.

II Activities related with Corporate Social Responsibility, Training and Reception programs for new employees.

III Participation in marketing campaigns, collaboration in the Social Responsibility Report, training sessions for personnel, intranet business history articles, papers presentations in national and international conferences.

Carlos Alberto Damas

Centro de Estudos da História do BES

EUROPEAN CENTRAL BANK

I Within the ECB the issue of corporate culture is not allocated to specific departments. As the ECB is a rather young organisation, the issue of corporate culture has not yet been addressed in depth. For the time being, it is basically the Executive Board which considers corporate culture issues on a case by case basis and requires them to be implemented by specific business areas or the ECB as a whole, as appropriate. When addressing corporate culture issues, it should be noted that the ECB forms part of the Eurosystem and the ESCB. To this end, corporate culture issues are not limited to the ECB itself but have to be considered within a System-wide context.

II Taking into account the above, one of the main activities was the formulation of an ECB mission statement. Furthermore, the Executive Board has recently launched an initiative aimed at preparing the ground for an enhanced awareness by staff of the added value of a common corporate culture. To this end, several workshops and seminars have been organised in order to identify common values, desirable behaviour patterns of staff and management, etc.

III Unlike othe institutions, the ECB does not have a long history. Thus, the ECB's Archive does not currently possess an historical archives section.

Central Bank of Iceland

I The Central Bank of Iceland has only recently begun to deal with Corporate Culture per se. A few years ago the concept was introduced by a new human resources officer employed in the Operations Department. As a matter of course, however, many customs and routines have been seriously considered over the years since the Bank was founded in 1961, even if it was not under the relevant heading. The Operations Department has without doubt led the way in all functions relating to what we have now come to know as Corporate Culture.

II The Bank's approach towards its staff has evolved. Staff meetings, presentations of a diverse nature, regular staff interviews, motivation and encouragement to education have all been found a more appropriate niche. At the same time, new and revised rules and regulations governing daily practices have been put in place. The Bank has issued a new staff employment policy. Furthermore, it should be mentioned that of late a team has been working on a report on the Bank's Corporate Culture and has recently submitted their recommendations.

III In our Bank, the Archives and the Numismatic Museum have been run within the same department, which has striven to present historical and related material. An exhibition of numismatic material with special emphasis on monetary history is on permanent display. Occasional exhibitions have also been mounted. The Numismatic Museum publishes a series on numismatic history. Under the direction of the archivists, a Style Manual has been issued and staff are required to follow it to create an accurate and harmonious external "corporate image". However, the short history of advanced central banking and financial institutions in Iceland means that archiving has a more general social, political and historical significance and less of a specific role in enhancing corporate culture.

Ólafur Pálmason

Central Bank of Iceland

Reykjavík

BANCO DE ESPAÑA

I have been trying to find some answers to the questions in the EABH Survey in relation to Corporate Culture in European banks. I have found out that, with the exception of individual achievements, in Spanish businesses and in particular in the Banco de España, there is not much sign of Corporate Culture. There is, however, an institution in Pamplona, Navarra, called "Empresa y Humanismo", which deals with these types of issues, and which tries to have some influence on Spanish entrepreneurs, by organising conferences and seminars.

In reply to the three questions in the Survey, and referring to Banco de España:

I - II In the Banco de España, two departments could be considered to relate to Corporate Culture from a historical point of view. The Research Department is one of the most relevant research centres in the country, and has promoted a policy of disseminating economic and banking history in general, as well as the history and culture of the Bank itself, for the last 50 or 60 years.

The Communication Department of the Bank is currently also trying to disseminate the Bank's general culture to a broader audience, through pamphlets, brochures and via the Bank's Internet page.

III The historical archives, which have been open to outside researchers as well as Bank employees since 1982, have contributed to making both general economic history and the Bank's own history better known. In fact, since it has been open to the general public, a number of books, articles and papers have been published using information and records from the Bank's archives.

Teresa Tortella

BANCO DE PORTUGAL

I The departments responsible for Corporate Culture activities are the Government Cabinet; the International Relations Department and the Historical Archives and Museum

II The Bank of Portugal encourages sponsorship for cultural events, cooperation with cultural projects as well as the development of our own projects.

III Its role is the specific incentive to economic historical research.

Luis Filipe de Adreu Nunes

Bank of Finland

'Corporate Culture' is the topic of countless conversations and discussions around the business world at present. However, this article takes a more focussed approach and concentrates, rather, on the concept of 'Corporate Governance'. Not only is this a more specific aspect of the bigger corporate culture issue, but it has greater relevance and is more specifically the focal point of our energies and thinking.

I Within the Bank of Finland, every department and each employee of the Bank is expected to operate within the bounds of the respective legislation and regulations concerning the actions of civil servants.

In addition to which, the European Union has its own recommendations on correct Corporate Governance, in the form of the European Union Corporate Governance Action Plan, in which a self-regulating market approach was taken. It was based on the five principles of 1) openness 2) participation, 3) clarity of accountability, 4) efficiency and 5) consistency.

In November 2003, the Board of the Bank of Finland ratified its document on the key operative guideline concerning Bank of Finland employees. The document covered the following:

- key mechanisms concerning control and responsibility at the Bank
- the ethical boundaries guiding the Bank's functions
- civil servants' conduct in office and trust
- impartiality
- questions of vested interest
- secondary occupations and outside commitments

- security issues
- secrecy and confidentiality
- insider information issues
- independence, relationship with other authorities and interest groups
- use of Bank funds

When drawing up its own strategic guidelines and making an evaluation of the values within the Bank of Finland in 2003, the principles of stability, sustainability, reliability, openness, competency and cost-efficiency were outlined as being key to all the Bank's operations.

Within the Bank of Finland, attention has been paid to the issue of corporate governance by the following bodies, concerning the following issues:

- Internal Audit - internal audit and recommendations on sound corporate governance in 2003
- Personnel Department - monitoring of personnel
- Administration Department - cost-efficiency, legality and transparent acquisition procedures
- Communications - open and transparent communication
- Document Services (archives) - meeting demands of legislation on the openness of government activities with a new document handling program
- Legal Affairs - insider issues

II The above-mentioned decision by

- the Board of Governors in November 2003
- Senior management strategy paper, 2003
- Recommendations by the Internal Audit unit on sound corporate governance, 2003
- Application of a new electronic document management program to meet the demands of recent legislation on the openness of government activities
- Administration Department guidelines on cost-efficiency and transparent operations
- Insider regulations

III The Bank of Finland's archives division and document services made moves to comply with recent legislation and other regulations concerning archives and archiving functions. These covered, for example, requirements on the period of time for the storage of accounting material, storage methods for material stored on a permanent basis and appropriate cataloguing procedures.

In addition to these activities, The Act on the openness of government activities that came into force in 1999, required government bodies to maintain real-time (in practice, electronic) registers of their non-secret documents and supply copies of them, upon demand, to the public. The Bank of Finland's Document Services Unit was able to comply with the demands of the legislation with the up-dating of its electronic documentation management system at the beginning of 2000. There was also a period of extensive introductory training given to civil servants on the requirements of the new legislation provided at that time and the spirit of openness was underlined, emphasising the principle that documentation is public in nature unless classified otherwise.

Heikki T. Hämäläinen - Vappu Ikonen

The Bank of Finland

Management Secretarial Staff

Society, knowledge, and the behaviour of English investors, 1688 - 1702

The 1690s were witness to remarkable changes in the nature of both public and private investment in England. From 1688 onwards, a host of innovative ventures appeared, offering investors the opportunity to commit their capital to projects ranging from the manufacture of paper to the search for sunken treasure. The state also employed increasingly innovative tactics to attract money, resorting to tontine loans, lottery schemes, and authorising the incorporation of the Bank of England in 1694 and the New East India Company in 1698 on the condition that these companies functioned chiefly as vehicles to provide government funding. The public embraced the new financial markets with enthusiasm, in the process creating one of the world's first stock market booms. Yet, while the boom was typically short-lived, the revolution in public and private finance brought permanent changes in investment habits and the institutions created during this period, the National Debt, the Bank of England and an active stock market, survived, flourished and became the foundation of London's financial system.

Examination of the development of the financial markets has primarily focused upon explaining the technical changes that accompanied the creation of public and private debt instruments. Thus, the development of joint-stock companies, their management and their financial activities has been minutely documented in the work of W. R. Scott (The Constitution and Finance of English, Scottish and Irish Joint Stock Companies to 1720, Cambridge, 1911). Scott's work remains the most complete exposition of joint-stock companies before 1720 and is an invaluable source of information, yet it pays little attention to the nature of the investors who made those companies successful. Similarly, the development of the National Debt has also received attention, particularly from P. G. M. Dickson (The Financial Revolution in England, London, 1967), but again Dickson stops short of a detailed evaluation of the actions of investors.

Where the actions of investors have been examined, for example in the work of D. W. Jones (War and Economy in the Age of William III and Marlborough, Oxford, 1988), several factors have come to dominate explanations for investors' willingness to commit their capital to the new projects that abounded at this time. Firstly, the onset of war in 1689 is acknowledged to have obstructed overseas trade, thus diverting funds to domestic use. Secondly, the high returns offered by a government in need of money in order to facilitate the pursuit of war drew investors away from more traditional investment opportunities and into the public funds. Lastly, the constitutional changes wrought by the Glorious Revolution are acknowledged to have provided a legal and institutional framework in which investors could consider their money to be safe in government hands.

In concentrating on these issues, historians have created a picture in which the movement of capital into the public funds and joint-stock companies in the 1690s was a rational economic choice; one that diverted unproductive capital into safe and lucrative areas of investment. However, the explanation for the successful development of the financial markets is perhaps not quite as straight-forward as this would suggest. Indeed, although the onset of war was a formative element in the development of the financial markets, it should be made clear that the new financial opportunities attracted a wide range of investors, not just discontented merchants; thus, redirected trading capital cannot account for all the monies invested at this time. Similarly, explanations that cite falling rents and the risks of private lending as reasons for switching into the public funds will not always suffice. In fact, where investment portfolios can be identified, they often demonstrate a diverse mix of traditional and new assets.

Furthermore, property rights were perhaps not so firmly established by the Glorious Revolution as some explanations would seek to suggest. The Stop of the Exchequer of 1672 remained prominent in the collective memory and left a legacy of suspicion that made many investors wary of the government's ability to honour their debts. The government, therefore, had to entice borrowers to invest in the public funds through schemes, such as lotteries. This created inaccurate ideas about the uses and potential rewards of investment, and helped to reinforce an association with gambling that has had a profound and long-lasting effect on perceptions of the financial markets.

Most importantly, it must be suggested that early modern investors were very unlikely to have been influenced solely by a rational understanding of potential risks and rewards. Understanding would have been obstructed by the belief systems prevailing in society at that time. Individuals would also have been dependent upon inadequate education and communication networks that would have restricted information flow and obstructed full comprehension of market data. Moreover, it is now becoming increasingly well recognised that decision-making abilities are affected by psychological factors; individuals are short-sighted, limited in their interpretation of data, over-hopeful about the outcomes of their decisions and profoundly influenced by the way that information is presented to them. The central question that my study will ask is, therefore, what actually governed investment behaviour in the late seventeenth century?

In order to answer this question, the study will concentrate on three aspects of investment in the late seventeenth century. Firstly, it will assess the way that the society of the time shaped attitudes towards investment and risk. The concern of seventeenth century society to understand and order the new environment, opportunities and problems that made up the financial markets led to a wide-ranging public debate that inevitably coloured the perceptions of many early modern investors and affected the way they approached the new opportunities that were being presented to them.

The second section of the thesis is concerned with the issue of information. Financial information in the late seventeenth century was necessarily sought in an inefficient manner. Full information, if such a thing could be said to exist at this time, was restricted to certain groups, notably those whose physical presence at the Exchange or in London's coffee houses allowed them to be at the centre of the rumour-mill. Those forced to operate on the periphery of the market, the occasional, provincial or female investor, would have faced tremendous difficulties when searching for information. It must, therefore, be asked how information networks functioned, who could benefit from them and, most importantly, whether information could be trusted?

In the final part, the study will turn its attention to the behaviour of investors in order to assess how the afore-mentioned factors affected decision-making and investment choice. In this section, profiles of the active and passive investor will be presented. In addition, an attempt will be made to identify those elusive individuals who acted as professional brokers in this market, and an assessment will be made of the amount of business they undertook and the level of service they could offer to their clients. Additionally, the issue of market efficiency will be examined. Contemporary commentators, like Daniel Defoe, assumed that stock-jobbers were able to manipulate the markets with ease by combining to force a movement in seemingly solid securities. While a complete set of price data is unavailable for this period, it is anticipated that it will be possible to test this assumption through analysis of the type and level of turnover during periods of high market activity.

Although, reliable price data is difficult to come by, there are abundant sources through which to investigate the behaviour of early modern investors. These include the transfer books and stock ledgers of the major joint-stock companies of the time, ledgers of private bankers, and some collections of personal documents that offer a more detailed account of the actions of certain individuals. These records have facilitated the construction of an extensive database that will allow examination of the type and extent of participation in the early financial markets. It will also enable an examination of the way that participation changed over the period, particularly as new innovations in public finance occurred, such as the introduction of state lotteries and the engraftment of short-term government debt onto private company stock.

As the database covers a variety of joint-stock operations, over a period of time it will facilitate detailed investigation of the behaviour of the early modern investor; however, it will not enable a full understanding of his or her motives or motivations. Reasons for investment choices must be sought by other means; thus, the theories of behavioural finance will be employed to cast light on these aspects of market behaviour.

Behavioural finance offers a practical alternative to the efficient markets hypothesis. It allows acknowledgement of the fact that financial markets, whether historical or modern, are not populated by rational, profit-orientated automatons, they are populated by individuals with their own aims and agendas. Many of those individuals allow emotion to destroy their self-control and suffer cognitive failures that lead to misunderstanding and errors in perception. To gain a complete understanding of the behaviour of investors it is necessary to take these factors into account.

The 1690s were a crucial period for London's financial markets, not just because this was the time in which the private and public sectors began to make use of innovative financial products, but also because this was the period when England's investing community learned to take advantage of the opportunities that were being offered to them. Understanding how investment behaviour was constructed at this time is, therefore, an essential part of our understanding of the evolution of the financial markets and it is anticipated that this study, by combining a detailed set of data together with the application of theories that encourage a wide ranging discussion of investment behaviour, will be able to provide a far fuller picture of these developments than has hitherto been available.

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Anne Murphy spent twelve years working as a derivatives trader in the City before returning to education in 1998. She is currently working on her PhD thesis, under the supervision of Dr. H. V. Bowen, at the University of Leicester. The thesis is due for completion in 2005 and is funded by the Economic and Social Research Council

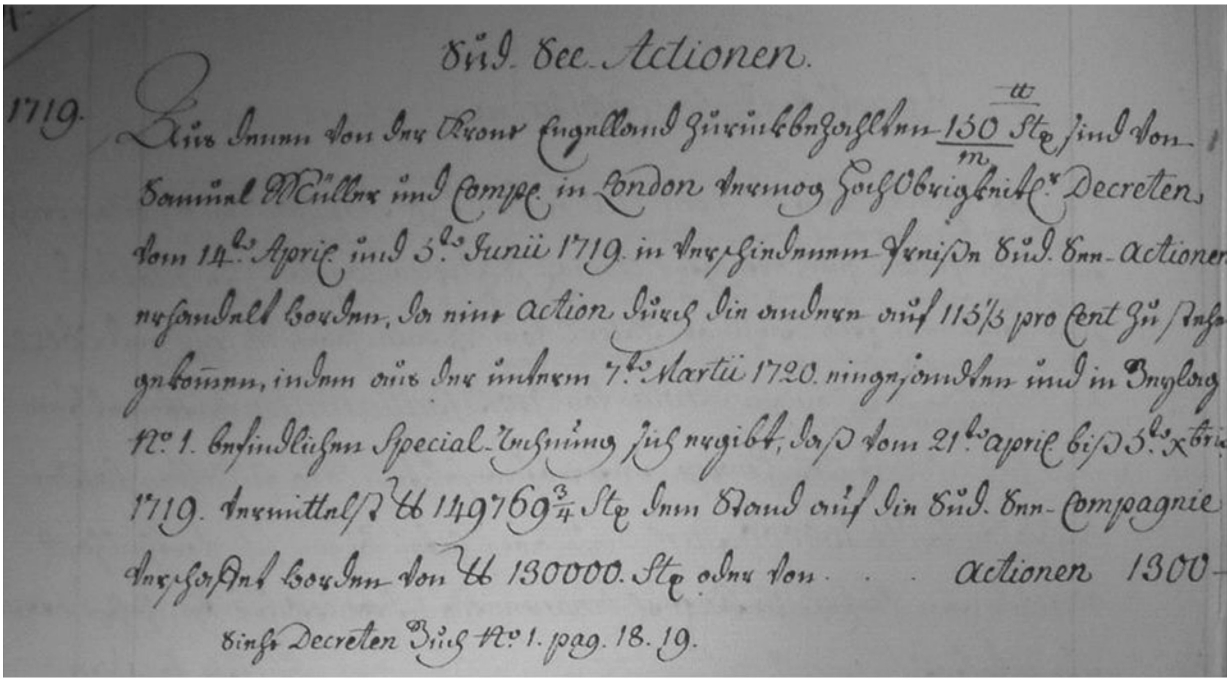
State and Economy in the Canton of Berne in the 18th Century

By April 1714, the Canton of Berne, the biggest state of the Swiss Confederation at the time, had become an important investor in the British South Sea Company, with a purchase of shares worth £ 150,000. Despite the bankruptcy of the two banks that administered its foreign assets, the Canton still made considerable profits during the speculative South Sea Bubble of 1720, in a rather unintended way. Until the French invasion of 1798, Berne held a sizeable portfolio of foreign assets, of which the most significant part was invested in London. The fact that the state invested its financial surplus in foreign capital markets is the most distinctive feature of Berne's public finance in the 18th century. Our understanding of both the reasons and the mechanisms behind these foreign investments has remained limited. The aim of my PhD is to consider these facts in the context of the state- economy nexus towards the end of the early modern period.

In his Inquiry into the Nature and Causes of the Wealth of Nations, Adam Smith noted that the Canton of Berne was probably the only state that invested its budget surplus in foreign capital markets. Even though some details of his account are not entirely accurate, it is true that Berne was in a fortunate financial situation; there were neither direct taxes nor a national debt, and the state had even amassed significant funds, out of which it purchased shares in London, amongst other investments. Following mercantilist advice, Berne had started lending to domestic entrepreneurs from the late 17th century onwards. In an act of 'unfriendly takeover', it had also discharged mortgages from foreigners who had been expelled from the domestic capital market by an edict in 1677. Through this measure, the state had emerged as the most important mortgage provider. However, this soon proved to be an insufficient investment opportunity for the burgeoning budget surpluses of the state. As a result, during the war of the Spanish Succession (1703 - 1713), loans to Britain and Holland were granted for both political and economic reasons. When these were redeemed in 1719 and 1725 respectively, the Bernese government decided to buy shares of chartered companies on the London capital market, where it became one of the biggest individual shareholders of the South Sea Company. With these assets, the Canton made enormous profits during the famous South Sea Bubble of 1720. As can be shown with qualitative evidence from government sources however, its successful bull strategy was the unintended outcome of misinterpretations and communication failures. The windfall of 1720 was lost soon after, through the bankruptcies of the government's agents, the bankers Malacrida & Comp in Berne and Muller & Comp in London. As a reactionary measure, financial intermediaries were henceforth excluded from the administration of the foreign portfolio, with the creation of the London-based office of Commissioner for the English Funds, staffed by a government representative. The more dramatic step of complete withdrawal from foreign capital markets was not taken, probably because Bernese assets after 1720 were still worth more that the original investment.

For the remainder of the 18th century, Berne was a cautious investor, particularly in London, where its assets were low-risk and low-yield securities. On the continent, slightly more risk was taken, but the Canton still qualifies as a widow-and-orphan investor, as it sought regular dividend payments rather than speculative profit. Investment decisions were usually made after a (proto-) country risk assessment. Creditors included princes (the Emperor, King of Denmark, and Duke of Hesse-Cassel, amongst others), cities (Leipzig, Ulm) and institutions (Vienna City Bank, Leipzig Tax Office). For the young patrician Carl Friedrich Steiger, an enthusiastic proponent of foreign investments, Berne even had become the biggest lender of public credit in Europe by 1784. Although this was undoubtedly an exaggeration, it can be argued that the Canton was one of the biggest individual investors in the London capital market. In addition, interest payments accounted for a substantial part of its budget surpluses. My PhD research will provide critical assessment of their importance, relative to both the total state revenue and the size of the Bernese economy. The thesis focuses on how an early modern state raises and spends its money, and the ensuing effect this exacts on the domestic economy. It is supervised by Prof Patrick K. O'Brien and will be completed in 2005.

The history of early modern European state formation has mainly been told from the standpoint of large territorial kingdoms. In these straightforward stories of the developmental path taken towards the creation of the nation state, little players either perished or vanished. Nevertheless, there are some intriguing examples of surviving non-nation states, such as the republics of the Swiss Confederation, with Berne being the largest and most powerful amongst them. Analysing developments in these unorthodox states can help to distinguish between fundamental structural changes and simple historical accidents. The most distinctive features of Bernese history are the virtual absence of warfare - usually viewed as a crucial factor in state development - since the late 16th century, an almost uniquely fortunate financial situation, and a taxation per capita that was probably the lowest in Europe. Thus, the Canton avails itself as a counterfactual for examin-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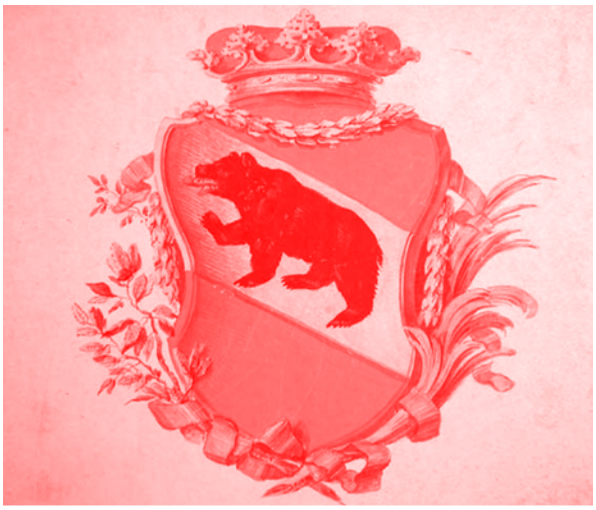
The account book of Bernese foreign investment: the purchase of South Sea stock in April 1719 ing the impact of the 'fiscal state' on the economy. In order to understand the functions and mechanisms of state formation, it is crucial to consider the impact of financial resources, which puts quantitative analysis of state finance throughout the 18th century at the core of my PhD research.

The Canton of Berne, or the Res Publica Bernensis, as it was called in the late 18th century, was a territorial state, which retained some distinctive features of the city-state that it evolved from. The government of the Canton and of the city were effectively identical, in that the same representatives presided in both bodies, and power was wielded by oligarch families. These patricians can best be described as landholding gentry. A sophisticated system of checks and balances prevented the dominance of a single family, and was accompanied by the rivalry and the mutual distrust amongst them. Despite the presence of a government member as bailiff, each of the Canton's 60 districts enjoyed a reasonable level of autonomy and their administration was widely controlled by locals. Berne's financial situation in the 18th century was at a positive equilibrium, with several interdependent and reinforcing elements. In the 16th and 17th centuries, the national debt was repaid through taxation, the secularisation of church



The coat of arms of Berne, the bear, as depicted on the account book for the Vaud (French speaking part of the Canton)

property during the Reformation, and foreign payments for mercenary services ('subsidies'). Like all members of the Swiss Confederation, the Canton did not possess a standing army, but a combination of a militia and mercenary regiments stationed abroad. In this way, defence expenditure was minimised and revenue from taxation was limited, which would have otherwise been obtained through the consent of taxpayers. In order to avert political claims from its subjects, direct taxes were abolished in the 17th century, except the tithe, considered customary and thus unquestionable. This in turn increased the legitimacy of the financial system, and helped to alleviate the expenditure on domestic security. If the state could run budget surpluses for most of the 18th century, it was also because interest payments from domestic and foreign investment supported the virtuous circle of low expenditure and high legitimacy through low taxation. This contrasts significantly with the situation in highly indebted 'fiscal military' Britain or 'abolutist' France with their war-driven public debt.

Data for a detailed analysis of Bernese state finance is derived from government manuscripts, kept in the public record offices of Berne, Aargau, and Vaud. In addition to the central accounts (Standesrechnungen) and contemporary tables about revenue and expenditure compiled for 1764 - 1798, my study will be based on account books of all districts for two sample years (1732 and 1782), allowing for a comparison between the centralised and decentralised financial transactions of the state. The methodology includes a reconstruction of early modern accounting with the aim of making the material available for an analytical approach. For this, I will be leveraging on data from a research project by the University of Berne from 2000 - 2004, which involved the standardised transcription of manuscript accounts and transfer to a database for easier categorisation and computation (Forschungsprojekt BeFin: Berns

Staatsfinanzen in der Frühneuzeit). Transactions in kind, mostly of cereal and wine, were capitalised, and disparate units made directly convertible into metric tons of silver.

The empirical analysis of structures and conjunctures in revenue and expenditure will consist of a reconstruction of resource distribution by the state between economic sectors. Additionally, a functional breakdown will determine the specific duties that the state expended most of its money on. When considering the nature of transactions, a distinction between current spending and investment is essential as the latter has an impact on economic growth. Taxation and the fiscal efficiency of Berne will be compared with other states through the European State Finance Database (ESFDB). In addition, non-financial public goods, such as jurisdiction and property rights, will be taken into account when establishing the state's impact on the economy. The bases employed are legal documents from the Sammlung Bernischer Rechtsquellen (RQBE) and contemporary publications by political and/or economic thinkers as far as they have been edited. Ancien Régime writers often considered the Canton as a model republic and a reincarnation of antique states, though they often lacked well-founded knowledge about the actual situation. This discourse has to be compared against reality and can also be discussed with respect to the ongoing scholarly debate about the impact of constitutional forms on economic development. The involvement of patricians in the local credit market will be examined in a dedicated section. It can be argued that in a 'priceless market', financial decisions did not rely on interest rates that were fixed by the government, but on the information about the credit-worthiness of potential debtors. In such a market, government officials, with their access to administrational information, can be expected to make use of their knowledge to enter local mortgage markets. On the basis of anecdotic evidence from individual account books of patrician families and bailiffs, this hypothesis can be effectively applied to Berne.

Overall, the impact of a state on the national economy depends on the incumbent incentive structure that is buttressed through both financial and non-financial infrastructure. Unfortunately, there has been little research done on Berne's economy in the 18th century that can be used as point of reference, save for some studies on agriculture. While this considerably limits the scope of a quantitative analysis of the impact of the state on its economy, reasonable qualitative hypotheses can be justified on the basis of estimates - and, sometimes, guestimates - about Bernese GDP and its growth rates.

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Further reading:

S. Altorfer, The Canton of Berne as an Investor on the London Capital Market in the 18th Century, LSE Economic History Working Paper (forthcoming, 2004).

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Mergers during the first and second phase of globalization: Success, insider trading, and the role of regulation

Measuring the success of mergers

The merger wave that took place during the first phase of globalization, which lasted from 1895 to 1914, changed the industrial structure in Europe and the U.S. remarkably. Therefore, it is of great importance to assess whether mergers were successful during this period. Noticeably, studies that evaluate the success of mergers during the first phase of globalization are still lacking for Germany. One may argue that this statement is false and could refer to Huerkamp (1979). However, he defined success in terms of a firm which is able to stay among the 100 largest companies. Hence, mergers that destroy shareholder value and yet, being driven by \`empire building´, lead to an increase in the size of the firm, are ultimately seen as successful investments. Consequently, I totally disagree with his view. In contrast, I try to quantify the market response due to mergers and, hence, focus on the change in shareholder value. This concept is in line with studies on the success of mergers within the United States and Great Britain. Generally, for the German case, economic historians concentrated on debates about the interrelation between the expansion of large scale enterprises, external growth, and mergers. Maintaining size and survivorship were seen as major factors of success. But also \`traditional´ cross-country studies showed that the large German enterprise was a main guarantee for superior economic development in the pre-World War I period. After reviewing new statistical material, however, the picture has to be corrected. A recent empirical cross-country study on that issue was written by Kinghorn and Nye (1996). They found evidence that German firms and production facilities were smaller compared to U.S. or French companies. In addition, the concentration process was less developed in Germany. Besides these astonishing results, additional doubts emerge regarding the alleged success of large firms. In several empirical studies, Baten (2001 a, b, c) showed that small firms exhibited greater total factor productivity. Moreover, he provided evidence that contradicted the usual opinion which suggests a steady increase in firm size between 1895 and 1912. In contrast, he found that the median of firm size stayed unchanged over time.

When one turns to studies for the U.S. or Great Britain, the scope regarding mergers is totally different compared to the \`traditional´ research conducted in Germany. For instance, Leeth and Borg (1994, 2000), who investigated the period of 1905 to 1930, measured the economic impact of mergers by applying event-study methods. In their study, successful mergers should yield an upsurge in market value.

Accordingly, my first aim is to assess the success of mergers based on the market response caused by merger announcements; thereby, a higher market value is the recipe for success and not firm size. Encouraged by the results of Baten (2001 a, b, c), I will also collect data on mergers among smaller companies, which so far, has not been done. Of course, my research contributes to closing the data gap for Germany that is a result of the absence of sources like Nelson (1957) and Eis (1971) who systematically collected data on mergers among U.S. companies.

Who gains from mergers?

If I did indeed detect an increase in market values stemming from a merger announcement, another question would arise. Which type of shareholder gains from higher market values? Focusing on two types, namely insiders and outsiders, I aim to answer this question. Thereby, the so called run-ups prior to merger announcements serve as a measure for insider gains. Run-ups are changes in stock prices triggered by an impending merger announcement. Because the merger is not yet public information, significant changes before the public release serve as a hint for insider-trading. If a market participant has only access to public sources, like the official newspaper announcement, this participant belongs to the group of outsiders. In contrast, insiders possess private information; hence, they already know that a firm will announce publicly that they are to engage in merger activities. This superior knowledge leads to trading activities of insiders before the public announcement. Through this insider trading, the private information is conveyed; thus, the market price is significantly influenced. Keown and Pinkerton (1981) used this measure to uncover insider activities around revealed mergers occurring in the years 1975 - 1978. Banerjee and Eckhard (2001) provided evidence for insider-trading in the year 1896 - 1903, known as the first merger wave. Both studies concentrate on the U.S. case.

The lack of regulatory restrictions is responsible for the appearance of two different forms of disclosure in the pre-World War I period in Germany. Some firms announce mergers after these mergers have already been executed, and others declare their desire to merge before the transfer of assets. Thus, one consideration is to assess whether the way of disclosure influences the gains of insiders and therefore losses of outsiders. By comparing the pre-Word-War I period with mergers that took place in the year 2000 in Germany, I will try to shed some light on the impact of regulations on insider activities and the ability of legislative restrictions to protect outsiders from insider trading.

The long-term impact of mergers

Thus far, using event-studies, one concentrates on short-term market reactions caused by mergers. My additional concern is to measure the long-term impact of mergers; thereby, an event-study approach must be replaced by more sophisticated methods. These superior models belong to the group of vector autoregressions (VAR). Besides focusing on mergers and, thus, micro-level shock, I will regard macroeconomic fluctuations as an additional source of uncertainties. My panel VAR is able to identify the dynamics in share prices, dividends, and nominal capital caused by different kinds of shocks. In contrast to my short-term analyses, my long-run study covers the period from 1870 to 1913, for which I collected annual data. Changes in the regulatory environment at the beginning and in the middle of this period - especially the establishment of the new exchange law in 1896 - make the investigation promising from an institutional point of view.

Results

Reading daily newspapers for several months, collecting an average of 6550 daily returns for the sample year 1908, 4941 daily returns of individual stocks and several thousand daily observations of the market index, DAX30, for the year 2000 as well as 4620 observations of share prices, dividends, and nominal capital for the long-term study, one should wonder whether the effort was worth it. Hence, I should present my empirical findings.

Rejecting the merger paradox for the pre-World War I period

Newspaper announcements regarding an impending merger cause severe market responses in the short-run leading to considerable increases in market values of acquiring and target firms. Hence, based on my sample drawn in the year 1908, I can reject the presence of the merger paradox which states that shareholders from acquiring firms actually benefit from mergers. Accordingly, my empirical findings add an additional piece to the puzzle of whether mergers create shareholder value by focusing on the pre-World War I period in Germany. Using daily returns to improve the statistical power of event-studies is a completely new concept for the pre-1914 period. Most importantly, my study underlines the high degree of informationally efficiency of stock exchanges because market reactions due to mergers are centered upon the public release of information. Interestingly, this finding can also be confirmed using alternative approaches like transfer-function models or panel GARCH models. Regardless which model is applied, they all point in the same direction: The market reacts fast.

Insider trading in the year 1908

Going back 100 years in history, one can observe natural firm behavior operating without regulatory restrictions. As a direct result, firms could decide to disclose price-sensitive information voluntarily. Event-studies and cross-sectional models confirm that hiding information is chargeable to outsiders. Ruling out the possibility that the way of disclosure influences the total gain from mergers, one can concentrate on the distributive effect. As a method of protecting the outsider, a state intervention that forces a firm to release information should be considered; in particular, a voluntary self-regulation cannot be supported by logit models. Henceforth, this historical experiment stresses that ad-hoc publication requirements or other retaliations, like a negative public opinion regarding the misbehavior, ensure the protection of outsiders. Most noteworthy, the media in 1908 did not criticize the situation whereby acquirers started buying shares of targets prior to official announcements - but newspapers spread rumors about impending transactions.

Irrational speculation in the year 2000

The adaptation process of share prices in the presence of newly available information differs from the clear run-ups and steady increases in market values observed in the historical sample. Generally, a strong upsurge in share prices shortly before the newspaper announcement is followed by a pronounced fall in market values. Regardless which group of companies is considered, this pattern remains nearly unaffected. Correspondingly, this adaptation pattern could stem from following irrational trading rules like `buy on rumors and sell on facts´. This empirical finding supports the effectiveness of insider regulation during the last 92 years.

Interpreting the high informationally efficiency in 1908

Both event-studies and GARCH models point out that in 1908 the market was highly based on informational efficiency. Besides the remarkable actuality of the `Berliner Börsenzeitung´ as shown by several case studies, insider trading may be mainly responsible for the tremendous speed with which new information is reflected in market prices. Accordingly, the benefit of informational efficiency comes with a loss, namely insider trading. So far, little historical research has been conducted to quantify the number of insiders versus outsiders during the pre-1914 period in Germany. After the new exchange law was established in 1896, the nine leading banks in Berlin gained a larger role in trading. For the

U.S., Warshow (1924) pointed out that smaller shareholders, the typical outsiders, were relatively unimportant.

The long-term impact of mergers

Mergers characterized as micro-level shocks possess a significantly negative impact on share prices; thereby, this direct impact also affects dividend streams with a time lag. After taking into account unexpected macroeconomic shocks, the effect of mergers disappears; hence, macro-level shock predominated in the period 1870 to 1914. Nevertheless, additional insights are gained by extending short-term evidence based on event-studies, for example, macroeconomic surprises severely affect share prices and dividends.

Merger waves and periods of real over- or undervaluation

As far as I know, I have provided the first empirical evidence for a merger wave in Germany centered around 1906. Executed mergers one or two years ago significantly increased the likelihood for subsequent transactions. Furthermore, mergers are more likely in periods exhibiting high inflation rates although past and present share prices and dividends have no partial impact regardless which lag structure is permitted. Based on impulse response functions, an asymmetric response - triggered by shocks in inflation rates - of share prices and dividends can be observed. Hence, an unanticipated upsurge in inflation causes a phase of real undervaluation of equity. More formal models, like hidden cointegration and the decomposition of time series, yield similar outcomes. Consequently, I state that the first merger wave coincided with a period of real undervaluation of companies. A recent study for the period from 1978 to 2000, conducted for the United States by Dong et al. (2003), showed that mergers occur if markets are overvalued. Hence, my empirical finding for the first phase of globalization in Germany contradicts today's empirical evidence.

What makes mergers different: Comparing both phases of globalization

Besides the hard facts justified by empirical models, adding some narrative evidence, as told by case studies, may help to get a clearer picture. During my investigation period, cross-border mergers did not occur, even though they are very common nowadays. Furthermore, acquirers were relatively large compared to their target firms, making an acquisition easer to finance and facilitating the integration of both entities. The velocity with which mergers were legally executed in the pre-1914 period is remarkable. As shown by the presented case studies, the announcement of a merger was followed by the approval of an extraordinary shareholder gathering within one month. Generally, nearly all mergers achieved the necessary majority in shareholder gatherings, and hostile takeovers were very uncommon. Although the leading companies included in my long-term study were very active to initiate mergers, mergers among these 35 largest companies did not occur. It can therefore be assumed that mergers are, to some extent, different in both phases of globalization - but maybe learning from historical evidence could help in making today's merger as successful as those taking place 100 years ago. A possible conclusion could state: acquire only smaller companies in your line of business and be friendly.

The inflation illusion hypothesis and the pre-World War I period

In the \`resiliency´ paper (see Baltzer and Kling, 2003), my empirical result supports the inflation illusion hypothesis for the period 1870 to 1914 in Germany, but how can one interpret this finding? In 1873, Germany joined the gold standard; thus, one can argue that by introducing an effective commitment to avoid inflation, an inflation hedge provided by stocks was not needed. Unfortunately, this explanation has a blemish in that the inflation illusion can also be observed in later periods (see Madsen, 2000).

Inspiring the Hoffmann (1965) series, the cyclical movement in inflation rate characterized by alternating periods of inflation and deflation is apparent. Accordingly, I argue that, during the pre-World War I period, trend inflation cannot be observed, and thus, the average annual inflation rate is lower than 1%. Considering a long-term investor, namely a bank or a strategic investor, the question arises whether market participants should worry about inflation in the long-run. Due to the overwhelming importance of large investors with strategic interest, nominal share prices should not reflect inflation and inflation illusion is likely.

In addition, time series of nominal interest rates show that during the pre-World War I period, the development was almost stable over time, therefore suggesting that inflation rates did not influence nominal interest rates considerably. Putting this argument in other words, it states that by observing nominal interest rates, market participants were not able to improve their forecasts regarding future inflation rates. This finding is supported by my analysis on the predictability of macroeconomic variables. Hence, stable nominal interest rates suggest that inflation is not a major concern.

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List of my working papers and conference contributions

Baltzer, M. and G. Kling, 2003, Resiliency of the pre-World War I German stock exchange: Evidence from a panel vector autoregression, accepted for presentation at the European Social Science History Conference 2004 in Berlin and at the 5th World Congress of Cliometrics 2004 in Venice.

Kling, G., 2003a, Disclosure of mergers without regulatory restrictions: Comparing insider- trading in the year 1908 and 2000 in Germany, presented at the NBER conference `On Developing and Sustaining inancial Market, 1820-2000´, 2003, accepted for presentation at the annual meeting of the Economic History Society 2004 in London.

Kling, G., 2003b, The impact of merger announcements on stock prices: The rejection of the merger paradox for German companies, presented at the Economics and Business Historical Society Conference 2003 in Memphis and at the European Historical Economics Society Conference 2003 in Madrid.

Multiple Means of Payments in Circulation:
Money and Credit in Sweden, 1668–1903

Monetary and credit arrangements affect the everyday life of most individuals. It is therefore easy to understand all attempts to theorise about money from Aristotle to Mundell. Generally, these monetary theories address some basic interrelated issues. They provide a definition of money and explain why money exists. They account for why various means of payments have a value to economic agents and they predict that value. The theories predict what kind of financial assets are used as means of payment. Finally, they explain why certain groups of economic agents and institutions are able to create accepted means of payments.

Still, it seems that the propositions generated by these monetary theories do not support the findings of empirical studies of money and credit to the extent that might be expected. This discrepancy between what is actually used as money and credit and what is generally considered as the theoretical view on money and credit is both acknowledged in contemporary economic debates and apparent in recent historical research. For instance, in the nineteenth century Swedish public debate, there was a concurrence in that the classical monetary theory was right in principle despite the fact that the economy was forced to rely on informal and inferior paper money and credit for practical reasons.[1] This research project emanates from this observed discrepancy and our ambition is to make sense of what is actually used as money in a coherent way.

We suggest that the most fruitful way to improve our theoretical understanding of money is to theorise about empirical studies of the practical use of money and credit in economies with multiple arrangements for making payments. We have identified six cases in the Swedish monetary history prior to the twentieth century, which provide empirical evidence of various arrangements of transactions with multiple paper money, issued by public, private (both formal and informal) organisations and private individuals.[2] We are interested especially in processes whereby new means of payments are introduced into circulation or in which previously accepted means of payments disappear from circulation.

Monetary theories

Neoclassical monetary theory remains the main theory on money. In the last decades, this strand of monetary theory has been technically advanced and most important monetary policy statements are derived from its propositions. Still, we argue that this dominant theory fails to provide economic historians with predictions in their empirical research. Even worse, we find it difficult to even generate tenable historical hypotheses based on the analytical concepts provided by neoclassical monetary theory. For instance, the essential possibility to hoard money does not exist in neo-classical monetary theory.[3]

We cannot find any convincing evidence, historical or theoretical, that money is an invention that was exogenously injected as a lubricant to reduce transaction costs in a barter economy. Therefore, we cannot accept the a priori proposition of the ‘double coincident of wants’ as it is generally presented. In contrast to this theoretical credit free barter economy, historical research into the functioning of economic relationships in societies lacking a formal monetary system (i.e. as is associated with barter systems) reveals the existence of credit transactions among individuals. In this respect, the post-Keynesian endogenous approach to money lies closer to what empirically can be observed regarding money and credit.

The post-Keynesian theoretical framework is more prone to accept contextuality than neo-classical theory; money and credit are viewed as inseparable, the idea of intrinsic value, which in neo-classical theory is regarded as commodity money, is denied and money enters the economy endogenously through the capitalistic process of production. Furthermore, both the Chartalist and post-Keynesian perspectives add a utility function for money. That means that the demand for money has to be acknowledged as an important factor determining how the monetary system works as a non-neutral, integrated part of the economy. The question is what makes the public rely on a certain token of indebtedness as a means of payments.

Although the demand for money is an integrated part of the endogenous approach, there is still a strong supply-side bias within the theory. None of the endogenous perspectives develop the argument so far as to understand and analyse the demand for money. The approach seems to neglect the function and conditions for the circulation of tokens of indebtedness as means of payments between the time that they are issued and until they are redeemed.

Money is demanded and accepted due to the utility it offers to the customers. The value of money is related to whether it fulfils this utility, especially in relation to other possible 'things', which might be used, or accepted, as money. We are interested in the relative value of different means of payments. For instance, it might be assumed that the larger the number of people prepared to accept the IOU as payment, the greater its value. Although there is always the possibility that any token accepted as money declines in value, the more widely it is accepted in circulation, the less likely this is to happen. This is one reason why payments in debts are easily acceptable.

Consequently, we argue that no convincing evidence exists, either historical or theoretical, which demonstrates that there is a difference between what is labelled as commodity money and so called fiat money. The very existence of fiat money is based on the assumption that a 'good' lacking in utility circulates as the medium of exchange. Fiat money is thus distinguished from commodity money, which has alternative uses that yield positive utility. We suggest that bank notes are accepted because individuals know that they will have the ability to transfer these notes in the future with little risk of loss, or at least with a loss lower than the cost of refraining from the transaction. The same argument holds whether the payment consists of a shell or a piece of gold. The logical outcome of this argument is that the choice to use certain commodities as money increased their value, not the other way around. The distinction between fiat and commodity money, existing but with different implications in both the neo-classical and endogenous approach to money, arguably can be dismissed.

There are some other unsolved problems within the endogenous approach to money, especially the assumption of a fixed hierarchy of money with state issued money at the top. The open question is why market organisations should not be able to fulfil the task of a strong issuer of acceptable means of payment. In a transitional economy, such as Sweden until the late nineteenth century, a large part of the money stock was in the form of informal and semi-formal money issued by private persons.[4] It seems that the Swedish credit system paved the way for the creation of means of payments without a strong state.

As for international currencies, there seems to have been differences in the quality of these credit notes in the sense that their acceptability as money varied. We believe that different kinds of money, issued in different ways, might also have fulfilled the function of being a means of payment in different ways and furthermore to the benefit of different agents. For instance, rather than being unable to dispose of their surplus production at all, sellers were willing to accept some form of future payment, perhaps in the form of a written promise of future payment (an IOU). The transaction would occur as long as the difference in utility between keeping the product and selling it for a future payment exceeded the likely loss on that payment (including the risk of it being reneged on). This promise of future payment (IOU) might also be transferable to other agents who recognise its credibility.

Six cases of changes in the composition of means of payments in circulation

Based on the assumption that what constitutes money and credit depends on social and institutional factors, both the empirical and theoretical understanding must be increased from studies in specific historical contexts. To improve the understanding of money, we address the historical process of monetary changes in Sweden in order to generate theoretical concepts and relations between these concepts. We have identified six specific periods in Sweden between 1668 and 1903 when the composition of means of payments in circulation was altered in a manner that is possible to examine. We are looking for four different forms of empirical statements.

- What makes an agent accept a new form of means of payments? And what makes an agent cancel acceptance of a previously accepted means of payment?
- To what extent (quantitatively) were different kinds of credit certificates and means of payments created and brought into circulation? How long would different kinds of credit certificates/means of payments circulate before being redeemed?
- How do financial agents value different kinds of means of payments (or IOUs) in relative terms? And how is this related to perceived risk in terms of none repayment, illiquid secondary markets?
- What incentives made issuers of credit and/or means of payments reorganize their business? Which approaches were adopted in order to directly increase the quality/demand for credit and means of payments? How important were formalizing, for instance by standardized contracts, rules or laws?

Basically the empirical research is divided into two main parts: first, to qualitatively study which features made certain kinds of means of payments consisting of debt instruments accepted as means payments over larger areas. This made it possible for actors on the financial market to create credit by the issuance of such debt instruments. Thus, this is a study of the relationship between creating generally accepted means of payments and the increasing volume of credit in society - of vital importance for the development of a liquid financial sector. The second objective of this research is to quantitatively measure the relationship between different kinds of traditional means of payments, debt instruments and the volume of credit. This would establish the link between the creation of means of payments and the development of the financial sector.

The use of credit certificates issued by the Riksbank between 1668 and 1722

Due to the previous discouraging experience of the Stockholm Banco, the Riksbank was prohibited from issuing any kinds of notes. Despite this explicit ban, certificates of deposits instantly started to circulate as means of payments among the public: this was an acceptance beyond the control of the Riksbank. In 1707, as a response to this development, the Riksbank started to issue so called transportation notes (*transportsedlar*). The public acceptance of this kind of note was delayed. It was not until the 1720s that these notes were circulated to a greater extent than the informal credit certificates issued by the Riksbank.[5] The questions are which features did the informal credit certificates and the transportation notes have, and what kind of changes made the transportation notes acceptable to the public as means of payments.

The disappearance of the domestic bills of exchange in the late 1730s

It is known that, at least after the peace in 1721, payments were made between people living in different towns by sending domestic bills of exchange. Without formal support in the law, these were treated according to the law regulating the use of foreign bills of exchange. However, when the Swedish laws were revised it was made clear that this act was only applicable to foreign bills of exchange. Subsequently, the issue of enacting a separate act for domestic bills of exchange was raised in the Swedish parliament in 1738. Despite favourable comments, no decision was made before the end of the parliament. Surprisingly, the issue of a new act was not brought forward for discussion in the next parliament in 1742. It seems that the domestic bills of exchange had disappeared from circulation in the period between the two parliaments.[6] It might be that a lack of legal support for the use of domestic bills of exchange ultimately undermined the confidence in these domestic bills of exchange. We will study how payments between individuals in different towns in Sweden were made in the 1730s and 1740s using business correspondence in order to supplement Gustaf Utterström's unpublished analysis of the parliamentary debate. The main issues are who had used domestic bills of exchange and what was then used instead.

The parallel issuance of notes by the two state authorities, the Riksbank and the National Debt Office, 1789 – 1818

During the first six months, the notes issued by the National Debt Office were interest bearing bonds. Unlike the notes issued by the Riksbank, these notes were not backed by any specie reserves. While the National Debt Office flooded the market with notes, the circulation of Riksbank notes decreased. Subsequently, there was a change in the relative value in favour of Riksbank notes in the market although formally these notes were valued at par. At the same time, the notes of the National Debt Office became the unit of account.[7] This process is a good opportunity to study the introduction of a new kind of means of payments on the market. It is an empirical example, shedding light on theoretical issues regarding endowing money with value, how it becomes accepted by the public, and how the unit of account is determined.[8]

The establishment of private, note-issuing banks in the 1830s

Strong local businessmen initiated the first wave of Enskilda bank establishment. It seems reasonable to assume that these persons could circulate their own private credit notes, *assignationer*, as means of payments. The question is how the new Enskilda bank notes compare to private credit notes. What costs were entailed in issuing bank notes compared to private credit notes? Was there any difference in quality that might have affected the acceptance of the notes? There are archives covering the early period of both the Wermlands Enskilda bank (founded in 1832) and Skånska privatbanken (founded in 1831). The former of these two was created by regional iron-masters after their failure to create an industrial bank for the iron industry while the demand for credit in Skåne was connected to the emerging export of oaths.[9] In the case of Skånska privatbanken, which was established before the Swedish currency was once again based on silver, it seems likely that access to the British financial market through export credit in sterling might have facilitated the establishment of a good reputation with regards to the bank's notes.

The disappearance of private credit notes (*assignationer*), about 1850

The fact that these were widely used in the 1840s is apparent from business correspondence. It is also apparent that assignationer and the notes of the Riksbanken were given the same value when payments were made between merchants. We have, however, found in this type of source that, when the trade cycle went down in 1846, the willingness to accept the *assignationer* issued by private persons disappeared. It is clear that many different types of means of payments were in circulation at the same time and these were accepted at par value as long as they were still accepted. However, when the demand for credit or for means of payment fell, there was a hierarchy for which credit was accepted as means of payment.

The working of the notes issued by the private commercial Enskilda banks between 1834 and 1903

These notes were circulated to a larger extent than legal tender Riksbank notes and were valued at par with these. Also the State eventually had to accept these notes as the Riksbank decided to accept Enskilda bank notes in 1869. The Enskilda banks backed their note issuance with Riksbank notes. In order to ensure that Enskilda bank notes were the closest possible substitute for Riksbank notes among the public, the Enskilda banks had to accept most of the discount costs for these notes. The Enskilda banks paid their exchange agents in relation to the amount of the banks' notes which the agent redeemed, including making legal tender available for the public in times of tax payments.[10] Subsequently, the creator(s) of credit and means of payments seem to have carried the cost of making the IOU accepted as (more or less) a general means of payment. Since a receiver would then know with a greater degree of confidence that the note (IOU) could be redeemed against a bank note when needed, this reduced the risk of this happening.

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[1] Agardh 1865, Nordström 1853, Wennberg 1829, Ögren 2003.

[2] For most parts of Swedish history the circulation of specie coins was stable at a negligible level.

[3] Kiyotaki & Wright 1992.

[4] Even in late nineteenth century, a large part of the Swedish money supply held by the public was in the form of private IOUs. Lindgren 2002.

[5] Lindgren 1968, Nygren 1985, Sveriges Riksbank 1931.

[6] Utterström n.d.

[7] Ahlström 1974, Ahlström 1989, Hallendorf 1931, Heckscher 1949.

[8] Ögren 2003.

[9] Boëthius & Kromnow 1968, Kock 1931.

[10] Ögren 2003

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Banking and Economic Development

Banks from Istanbul to Beirut 1800 - 1917

Most assumptions about economic growth have been strongly related to the importance of the manufacturing sector. This paper is very suggestive for further research that highlights historically the role of banking in connection to economic development. The banking sector is not "neutral" in connection to economic development. Where it exists, it does so because there is a demand for its services, and such a demand is usually evidence of a growing, developing economy.

The banking sector in Lebanon is considered to be a leading sector of the economy. Despite the multiple crises and obstacles that have faced Lebanon throughout its modern history, the banking sector first began to establish itself during the nineteenth century and developed during this period under a system of free exchange, free competition, private initiative, and complete freedom of capital flows.

The banking sector has forged an investment climate favourable to its own development and growth, enabling Lebanon to occupy a respectable position in the regional financial market, especially in the period after World War II. Lebanon traditionally played an important role as a regional financial service centre in the Middle East. This esteemed position was possible due to Lebanon's strategic location, its traditionally open and liberal market based economic system, and a long-standing bank secrecy law.

This paper analyses the origins of the banking sector and its connection to the economic development during the period 1800 - 1917. During this period, Lebanon witnessed a financial and economic boom. This boom was expressed by a rapid rate of economic growth in various activities. A particular fundamental motivation behind this paper is to attempt to study the relationship between the banking industry and economic development.

Economic Conditions and Banking during the Ottoman period

The European demand for silk enhanced trade between Europe and Lebanon from the seventeenth century onwards, a time when Lebanon began exporting silk to France and Italy. Due to these trade relations, during the nineteenth century and continuing into the twentieth century, Lebanon increased production for, and trading with, the international market. Capitalist relations developed in the Mount Lebanon and Beirut region; a class of Lebanese merchants, bankers, financiers and intermediaries emerged, as they accumulated capital, skills and influence with the seeking of new export markets amongst European industrial powers. Political changes in the Middle East lead to an economic environment which favoured European trade and local markets for European manufactured exports were opened in the region through a variety of political and economic instruments. In this environment, in 1861 the Ottoman Empire established a self-ruling system for the Mount Lebanon. During the period between 1861 and 1913, Beirut became an important commercial and financial centre as an Ottoman vilayet (district), due to the European consuls and concessionary offices, and the influential educational and cultural centres in which French, American, British and other foreign institutions were established. Furthermore, rich and influential bourgeois families migrated to Beirut in order to take advantage of what the growing region had to offer (Salibi, 1977:142); Beirut thus became the most prosperous city in the region (Fawaz, 1983:73). Under these conditions, Lebanon assumed three basic economic roles as it integrated into the international economy: it became a market for European manufactures and investments, an export producer of primary and semi-finished commodities, and an intermediary for international goods and services in the region (Gates, 1998).

During the first half of the nineteenth century, the Ottoman Empire suffered from a series of terrible economic and monetary crises, mainly due to the conflict with Russia. As the crisis escalated, the Empire resorted to the European banks in order to finance its public debts and to facilitate its internal and external trade. The Empire, burdened by its undeveloped monetary system, became acquainted for the first time with the banking system and readily opened its doors to the institutions of this new system. At that time, Lebanon as an Ottoman district had no independent monetary system and it was completely affiliated with the Ottoman monetary system; it was therefore affected by the latter monetary consequences. As banks entered into the Empire on a large scale, so did they enter into Lebanon; European banks in particular rushed to open branches in Beirut and other Lebanese cities. Beirut became a vital centre of trade between Greater Syria and Europe. During this period, however, there was practically no real local banking sector in Lebanon. Most of the loans, discounts and credit activities available at this time were supplied by a number of local, mainly family owned, financial institutions which provided a most efficient substitute for a real banking sector. They advanced loans to the productive sectors, especially to silk-culture and trade, which enjoyed a strong relationship with the rise of banking sector in Lebanon (Himadeh, 1935:28).

The Ottoman Empire's economic crisis first became evident around the middle of the 19th century and severely affected the general economic situation and living standards throughout the Lebanese areas. Whereas the socio-economic situation deteriorated as a result of the monetary crisis, the banking activities were, in the contrary, quite positively affected. Indeed, because of the severe crisis of government's treasury, the Empire opened itself up to the international market, allowing the European banks to exercise their activities and open branches in major Ottoman cities, the most important of which was Beirut in Greater Syria. Furthermore, at that time, Europe was going through an industrial revolution prompting a great development of its capital, while the Ottoman economy was still structured along the lines of a traditional agricultural economy. Moreover, maritime transports developed considerably, greatly facilitating and increasing imports of European industrial goods, at a speedy and intense pace. Beirut's port became a major seaport of European imports into the Ottoman Empire. As a result, Beirut became a vital nerve of foreign trade between the Ottoman Empire and Europe, and consequently became more dependent on the European Economy (Ashi and Ayache, 2002:15-19). Between 1825 and 1841, European imports increased in Beirut from 5.6 million piasters to 19.5 million, while exports only increased from 4 million to 7 million piasters (Chevallier, 1994).

The effect of World War I upon the banking sector was, however, considerable. Foreign banks of enemy countries and many local banks, fearing confiscation of their assets, transferred a great part of their resources abroad. Banking activities were reduced to a minimum as the war and its effects interfered with all aspects of business. Foreign trade slackened greatly because of the almost complete stoppage of sea transportation and exchange restrictions. Internal trade also suffered because of the difficulties of land transportation. The banks were extremely concerned with the liquidation of their debts and credits and, consequently, credit extension was considerably limited. This was the direct result of the uncertainties which emerged during the war period (Himadeh, 1935:41-42).

Banks: from Istanbul to Beirut

During the second half of the nineteenth century, Lebanon witnessed the establishment of new local and foreign banks. Local banks increased in number and foreign banks in Istanbul began opening branches in the major Ottoman cities. Local banks were private and small in size compared to foreign banks. They operated in the Lebanese cities and towns, especially Beirut, and executed a considerable amount of lending and discounting to domestic trade, received deposits, and carried out some minor exchange business.

Because of its commercial importance, branches of foreign banks extended to Beirut. This led to an increase in banking operations with a corresponding increase in foreign and domestic trade. Lebanese economic historians ascribe Beirut's rapid growth to the development of its trade with Europe during the nineteenth century, and the vital role played by Beirut in facilitating trade with Greater Syria (Himadeh, 1935:30-31).

Beirut, whose population did not exceed a few thousand at the turn of the century, welcomed the multitude of immigrants who were in search of profits and work, and its port became one of the most active and developed ports of the region. In 1856, Beirut witnessed the opening of branches of the Imperial Ottoman Bank, followed by many European banks, which hoped to take advantage of the city's vitality and its prominence as one of the most important seaports in the Middle East (Ashi and Ayache, 2002:26).

Unfortunately, there are no available statistics for the volume of banking operations. Foreign banks in this period were predominant and had the advantage over local banks of broader overseas contacts. Because of this advantage, foreign banks were able to take over the larger share of banking operations in Lebanon. The six most important foreign banks operating in Lebanon during the period 1800 - 1917 were: The Imperial Ottoman Bank, The Banque de Salonique, The Anglo-Palestine Company, The Deutsche Palestine Bank, The Deutsche Orient Bank, The Crédit Lyonnais Francais (Himadeh, 1935:29-30).

The Imperial Ottoman Bank was the biggest financial institution. Founded in 1856 by a group of British capitalists, it was established under a royal decree. The Empire encouraged the creation of this new bank, which would boast foreign capital and accepted the involvement of the British group in the establishment of the Ottoman Bank. Soon, however, a group of French capitalists also joined the bank's investors. The French group gradually gained control of the bank's capital and became very much involved in the bank's management. A sultanate's decree, issued in 1863, transformed the Ottoman Bank into a new institution under the name 'Imperial Ottoman Bank' (Chevallier, 1994). The Imperial Ottoman Bank was in fact a private institution based in Istanbul. It played an important role in the various attempts aimed at reforming the Empire's monetary system. It enjoyed the right to issue paper currency convertible to gold and participated in managing the Empire's public debt, both foreign and local. Its loans to the private sector remained, however, modest as the Empire absorbed most of the credits. This bank opened several branches in Lebanese cities, which proceeded to play an important role in facilitating foreign and domestic trade.

As mentioned previously, despite the initial role played by British investors in setting up the former Ottoman Bank, the French investors gradually increased their control within the institution until they owned 80,000 shares against the 50,000 shares owned by the British group (Thobie, 1977).

In fact, the Imperial Ottoman Bank was not the only bank to represent French interests in the Empire. In 1868, the French institution, "Société Générale", established a bank called Le Credit General Ottoman, owning 60% of its capital which amounted to 50 million French francs distributed over 100,000 shares. Crédit Lyonnais also opened several branches throughout the Empire, and participated in financing the public debt through the issuance of various loans (Ducruet, 1964).

In 1875, the Crédit Lyonnais Francais opened branches in Beirut and Jerusalem. The Beirut branch played a very important role in financing the silk trade between the Syria province and Europe, in particular the French city of Lyon. After the bank Salonique was established in 1888, and after it moved its properties to the Société Générale, the Rothschild group went on to set up another bank, the Anglo Palestine Co. Ltd., which expanded throughout the Empire, including a branch in Beirut. It was within this general climate of European competition in the Empire that the Deutsche-Palestina Bank was established in 1889, with branches in Beirut, Tripoli and Damascus. German investors also created the Deutsche Orient Bank in 1906 (Ashi and Ayache, 2002:26-27).

The Contribution of the Banking Sector to Silk Industry

Family-run enterprises had an important role in planting the seeds of the Lebanese banking system. They began in the second half of the nineteenth century to infuse loans into the domestic economy, particularly financing trade and agriculture. At the turn of the twentieth century, Beirut witnessed a period of prosperity and development. A certain part of the Lebanese society emerged as traders, financiers and bankers. Beirut benefited mainly from the facilities offered to European banks and companies by the Ottoman authorities. Beirut's link with these regions, for example with Syria, was supported by transportation projects, most importantly the Beirut-Damascus road executed by a French company.

Lebanon's position in the nineteenth century international market economy was shaped by the development of the silk industry. Lebanon begun to specialise in raw silk production at a time when silk exports to France were expanding rapidly and which continued to do so up until World War I. Although data are difficult to obtain, the nature and the pace of the growth in silk production and trade can be put into context by several indicators. Rapid growth of output and export of Lebanese silk began in the mid-nineteenth century, as suggested by the increase of silk exports from Beirut between 1841 and 1851 (Smilianskaya, 1966: 229-230).

This trend peaked between 1873 and 1920, when the production of raw silk in Lebanon increased by over 350 percent as a direct result of rising foreign demand especially from France (Labaki, 1983:28). Moreover, the total weight of silk products in terms of exports from Beirut's port doubled from about 25 percent at the middle of the century to 50 percent during the 1890s (Chevallier, 1971:28). Silk and cocoon output in Lebanon grew most rapidly from 1873 to 1915, to reach a point where exports were almost completely dependent on France; in 1873, 40 percent of total silk exports were sent to France, yet by 1914, this figure had risen to 99 percent. Just prior to World War I, silk production comprised 36 percent of GNP in Mount Lebanon (Labaki, 1984:28,155-56). From these figures, it becomes evident to what extent the increase of silk production increased Lebanese independence on French industry, commerce and finance.

Most Economic historians in Lebanon ascribe the birth of banking activities during the second half of the nineteenth and the beginning of the twentieth centuries to the rise of silk production as a fundamental driving factor of the Lebanese economy. The highly profitable silk trade was very important in terms of shaping Lebanon's banking sector. The trade and banking services which were developed in Beirut and Mount Lebanon during this period focused on offering finance and loans to the silk industry as well as to the various component activities necessary to its production. Beirut considerably benefited from its commercial role as mediator between the producers of cocoons and silk threads in Greater Syria, and between the major export centres, such as the French city of Lyon. Consequently, this production thrived in Mount Lebanon to such an extent that a number of French entrepreneurs actually moved into the region in order to establish silkworm nurseries in Beirut and its surroundings. The production of silk threads increased from 117,000 kg in 1876 to 525,000 kg in 1911 (Labanki, 1984:156)

In this prevailing climate, Lebanese banks started seeing the light of day, increasing in number as a result of these economic conditions and as a response to an urgent need for financing. Silk-culture required a specific kind of banking operations, both to provide loans to producers and to facilitate exports. As a result, a number of family institutions were established by rising commercial bourgeoisie located mainly in Beirut, Sidon, and Tripoli. These institutions started offering banking services, using their savings to finance individuals and certain projects. Furthermore, foreign trade, especially silk exports to France, created a need to install representatives of French and European Banks within Beirut. At the turn of the twentieth century, the Lebanese banks had become correspondents to various Ottoman, Arab and European banks. Banking activities were closely linked to the rest of the trade activity as bankers were also active in trade, namely in exporting cocoons and silk threads to France, as well as importing seeds to grow silkworms. One could even say that banking was the working link with the silk trade, especially in Beirut. This is explicit through available information about the trade of silk in Lebanon.

Gaston Ducoussou, the attaché at the French general consulate in Beirut, wrote that between 1904 and 1910, there were 73 silk exporters in the city, exporting around 90 percent of their silk. Despite this figure, only seven traders out of 73 dominated the sector and they absorbed 72 percent of the Lebanese silk exports (Labaki, 1984).

When looking more closely into these groups' activities, it becomes clear that they were all involved in a variety of activities, therefore increasing their annual profit year by year. This expansion of activities was in fact due to the direct link between the silk trade and the banking industry. A notable example is Morgue d'Algue; the company also owned a silk factory and represented two insurance companies, in addition to importing seeds for silkworms and soap from France. It also enjoyed privileged relations with commercial companies in Marseilles. In short, the considerable importance of silk trade cannot be overlooked when examining the origin of development of the Lebanese banking sector.

This connection between banking activities and local industries was not limited to Lebanon as such a connection between the financial sector and industrial production was an established fact in most developed countries. The economic transformation and massive manufacturing process taking place in Western Europe were only possible because of transformations that occurred in the capital markets, making it possible to obtain funds from impersonal sources and to pool investment capital. The banking sector plays very vital and dynamic role in any functioning economy, and that stimulates growth in other sectors (Riddle, 1986:41-42).

In France, where silk production was very prosperous during the second half of the nineteenth century, a silk trader had to secure an important capital for his commerce. According to Clerge (1925), there was a strong relationship in existence which had brought together banks and silk producers for centuries in France. Banks secured financing through the very facilities that they supplied and, in turn, facilitated the silk trade with documentary credits. For these reasons, Clerge added, the silk trader was very often a banker too. Clerge's description is an accurate depiction that is in accordance with the then prevailing situation in Lebanon. The financing required by the production and trade of silk led to the creation of this link between the two activities, whereby each sector contributed in developing the other.

Although it is difficult to specify the precise nature and volume of financing for silk industry in this period, it is clear that the initial capital for a number of firms came from mercantile profits, loans from banks, and family enterprises. The gradual expansion of the silk industry in Lebanon during the nineteenth century and the beginning of the twentieth century leads one to believe that re-investment of returns from trade also played a part in financing the silk industry. Due to this mutual interdependence, as mentioned before, the relationship between trade, banking, and silk industry paved the way for the emergence of a new banking sector during this period. In addition, a number of family enterprises moved into the sector banking from industry; for example, Casimir Eynard, a Frenchman, was an exporter and a producer in the silkculture, a representative of several foreign insurance companies, an importer of French soap and seeds for silkworms, as well as France's advisor on foreign trade. Eynard enjoyed both commercial and family ties with Lebanese people. Indeed, he was a relative of Emile Edde, who was to become the president of the Republic during the French mandate. Eynard established, along with Edde and Robert Sabbagh, an industrial and commercial textile company. Sabbagh became active in banking and finally founded the Sabbagh bank, which financed and bought several factories (Ashi and Ayach, 2002:33).

Another example is the Bassoul Company, which as well as being Beirut's leading silk exporter, also controlled a number of banks in France. Veuve Guerin & Fils, which owned a major silk factory in Lebanon, also represented a bank in Lyon-France that imported silk from this region. As for Habib Sabbagh & Sons, the company started as a national banking institution and was later to become a partner in the Indochine Bank. The same went for Trade & Partners, which later became a partner of Crédit Lyonnais. The Imperial Ottoman Bank also had a share in an export company from Beirut. Economic experts estimate the share of silk exporters who were also bankers to be at around 45 percent of the total exporters working out of Beirut (Ashi and Ayache, 2002:35).

This link between the banking sector and silk production shows one of the important characteristics of the Lebanese economic history before World War I. The Lebanese banking sector occupied a predominant role in financing and facilitating silk production and trade, which was the main pillar of growth for the Lebanese economy during this period of Lebanon history. An indicator of this importance is the fact that 40 percent of the land in Mount Lebanon was planted with mulberry, silkworms' main nourishment (Labaki, 1984).

Although it is difficult to determine the nature, cost, and amount of capital injected into the silk industry, one can assume that banks were a main source of the capital used to promote the silk industry in nineteenth century Lebanon. Funds also came from agriculture by means of a direct transfer of any surplus by landlords, and profits gained from mulberry cultivation and silk production. Bankers, financiers, commercial bourgeoisie, and landlords as well, controlled most of the economy.

Conclusion

As a conclusion, one can suggest that the fiscal weakness of the Ottoman Empire, combined with its undeveloped banking system, was the main incentive which led to the introduction of European banks into the Empire, as well as to the establishment of branches within the region that would, in 1920, become the republic of Lebanon. As an overall assessment of the economic process between 1800 and 1917, the banking system in Lebanon, which was established under these circumstances, played a vital role in contributing to the overall performance of the domestic economy and notably in financing silk industry, whereas activities of foreign banks were mainly focused on granting loans to the Ottoman Empire and financing European trade. During this period, enterprises were attracted by activities that promised high and quick returns and rewards of trade and service investment. Therefore, extensive ties between banks and trade appeared alongside an increasing interest in silk production.

This growth in the silk industry was in fact supported the least by foreign investments in Lebanon. In short, the most striking features of the years between 1800 and 1914 were the expansion of silk production, due to the growing demand from European countries for silk goods, and the prosperity of banking activities. Beirut's exports expanded rapidly and, as European efforts were focused on finding new export markets, this region was greatly favoured due to the increase in total imports.

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Bank Regulation and Banking History

In the 1980s, the free banking school remerged, arguing that central banks are not essential to the well-being of the monetary system and that banks should be free from all government restrictions and regulations. Although the policies of this group of neo-Austrian economists have not been implemented, they have had a large influence on policy makers. Indeed, even Hayek, the Nobel Prize winner who provided Margaret Thatcher with some of her philosophical underpinnings, advocated a free-market monetary system in his Denationalisation of Money.

The main proponents of free banking typically use (some might say abuse) banking history to argue their case. For example, Larry White in his book Free Banking in Britain argued that nineteenth century Scotland is a prima facie case, which demonstrates the efficacy of free banking. Other historical free banking episodes are said to have occurred in Australia, Canada, France, Ireland and the United States. Interestingly, those on the opposite side of this debate, such as Charles Goodhart, have also used banking and monetary history to argue their case.

The central theme of my research has been to examine the feasibility, stability and efficacy of unregulated banking systems. My main contribution is to highlight the important connection between unlimited shareholder liability and banking stability in such systems. In the nineteenth century, countries with unregulated banking systems fell into two categories - those which restricted the majority of banks to the unlimited liability joint-stock form of ownership and those which didn't. Interestingly, in a forthcoming article, my co-author and I suggest that banking instability was closely correlated with unregulated banking systems which permitted banks to have limited liability.[1] We also found a close positive relationship between regulation and stability in several nineteenth century economies.

In the nineteenth century, unlimited liability played an important role in assuring depositors and note-holders of English, Irish and Scottish banks that their bank wouldn't opportunistically increase its risk-taking. If a bank did take too much risk, and subsequently failed, the burden of the failure fell on shareholders as they were liable to their last 'acre and sixpence'. On the other hand, when shareholders have limited liability, the cost of bank failures is shared by depositors and note-holders. Consequently, limited shareholder liability creates incentives for banks to increase their risk profile.

Notably, the Scottish free banking system had both limited and unlimited banks. However, the limited liability banks were publicly-chartered banks (Bank of Scotland, Royal Bank of Scotland and British Linen Company), and are usually viewed as quasi-state banks. Apart from these exceptions, all other Scottish banks were restricted to having unlimited liability. Although unlimited liability banks did fail in Scotland, shareholders bore most of the cost. For example, the infamous City of Glasgow Bank failure in 1878 resulted in no losses to depositors, but after the bank's liquidation, only 254 of its 1,819 shareholders were solvent.

One of the most problematic episodes of unregulated banking for the free banking school is that of Australia, which suffered a devastating banking crisis in 1893. Unlike Scotland, all Australian banks were permitted to have limited shareholder liability. My co-author and I argue that the Australian banking crisis can be mainly attributed to the existence of limited liability banks along with the absence of legal constraints upon bank risk-taking.[2]

It appears, therefore, that unlimited liability is closely connected with banking stability. However, if unlimited liability joint-stock banks have freely transferable shares, there is the potential that shares could be transferred to widows, orphans and other impecunious individuals. This problem is exacerbated whenever a bank is about to fail. For example, it was claimed that several shareholders of the Agricultural and Commercial Bank of Ireland gave away their shares in 1836 to beggars on the streets of Dublin when it became apparent that the bank was about to fail.

Walter Bagehot, the renowned polymath and author of Lombard Street, was critical of unlimited liability joint-stock banks. Writing in the 1850s, it was his contention that if bank shares were not already in the hands of the poor, they soon would be. In two recent articles, we have questioned this Bagehot hypothesis. Firstly, using the Capital Asset Pricing Model, we examined the risk of English bank shares in the 1870s and 1880s. We found that after the conversion to limited liability in the early 1880s, the risk of bank shares fell, indicating that shares weren't owned by impecunious individuals.[3] Secondly, we examined the characteristics of individuals who bought shares in an Irish unlimited liability bank in the period 1868-1879.[4] We found that shares were not transferred to impecunious individuals, and it was remarkable to find that those who bought shares after the failure of the City of Glasgow Bank were wealthier than previous investors!

When a bank has unlimited liability, it is in the interests of the wealthiest owners to participate in the bank's governance as they have the most to lose from poor management. Subsequently, these individuals can control entry into the ownership of the bank. Notably, the deeds of settlement of British banks granted directors the power to vet all share transfers and refuse entry to anyone they deemed unsuitable. However, as a bank approaches failure, directors and other wealthy owners will want to dump their shares so as to escape calls upon their wealth. Nevertheless, the legislation which governed the establishment of this unlimited liability contained a post-sale-extended liability clause. This clause made bank owners liable for their bank's debts for three years after they had sold their shares, giving wealthy owners every incentive to hold unto their shares during a period of financial distress.

One possible rationalisation as to why Bagehot believed what he did is that there were several banks, such as the Agricultural and Commercial Bank of Ireland, which did have a large number of poor shareholders. However, this bank did not move from a position of having a wealthy shareholding constituency towards one with poor shareholders; it commenced business with a low-wealth constituency as its mission was to open bank ownership to the lower classes.[5] Consequently, this bank may have been de facto limited, resulting in it being able to undertake greater risk than its rivals. Unsurprisingly, this bank failed in 1836.

Unlimited liability in British banking came to an ignominious end with the failure of the City of Glasgow Bank in 1878. Subsequently, by the mid-1880s, most banks in Britain had adopted the limited liability form of ownership. However, depositors would have required some alternative form of assurance that banks wouldn't increase risk-taking at their expense. The main question that I was trying to answer during my tenure at the Bank of England as a Houblon-Norman Fellow was what the alternative form of assurance was that made this move to limited liability possible. The overall project which I investigated was the evolution of bank regulation in Britain. I am currently writing up the results of this study, and hope to disseminate these in the near future.

With Basel II looming on the horizon and continual pressure being exerted on developing economies to liberalise their banking systems, the issue of bank regulation is topical. It is my contention that banking history has something to teach modern-day policymakers. Firstly, one of the main historical lessons is that shareholder capital has played an important stability-enhancing role. Secondly, historical episodes of unregulated banking need to be placed in their institutional context.

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John Turner has a PhD from Queen's University of Belfast. His dissertation examined the evolution of bank regulation from both a theoretical and historical perspective. From 1997 to 1999, he was a Lecturer in Economics at the University of Ulster. Since 2000, he has been a Lecturer at the School of Management and Economics, Queen's University of Belfast. John mainly teaches financial economics, but he finds that his students really enjoy studying financial history. Indeed, several MSc Finance students have undertaken financial history dissertations under his supervision.

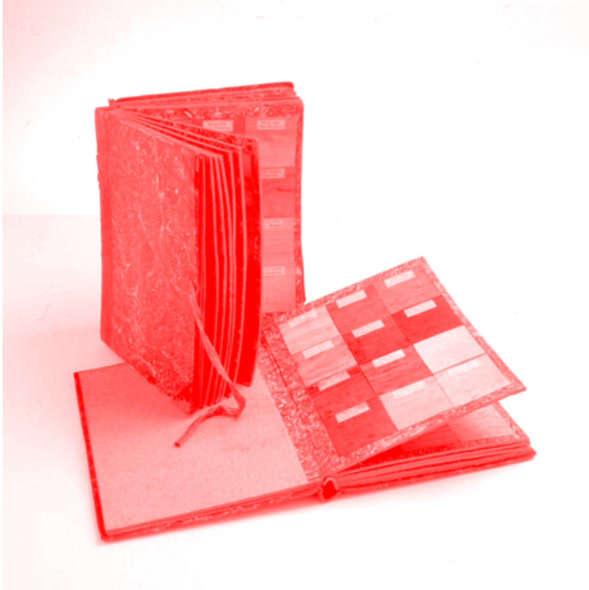
In 2003, he was a Houblon-Norman Research Fellow at the Bank of England. At the Bank, he was investigating the evolution of bank regulation in Britain. British banking did not have a formal framework of regulation and supervision until 1979. Nevertheless, in stark contrast to many countries that did have such a framework, the British banking system from the late nineteenth century was stable. John, during his time at the Bank, was attempting to resolve this paradox. In order to do so, he spent long hours in the Bank's archives.

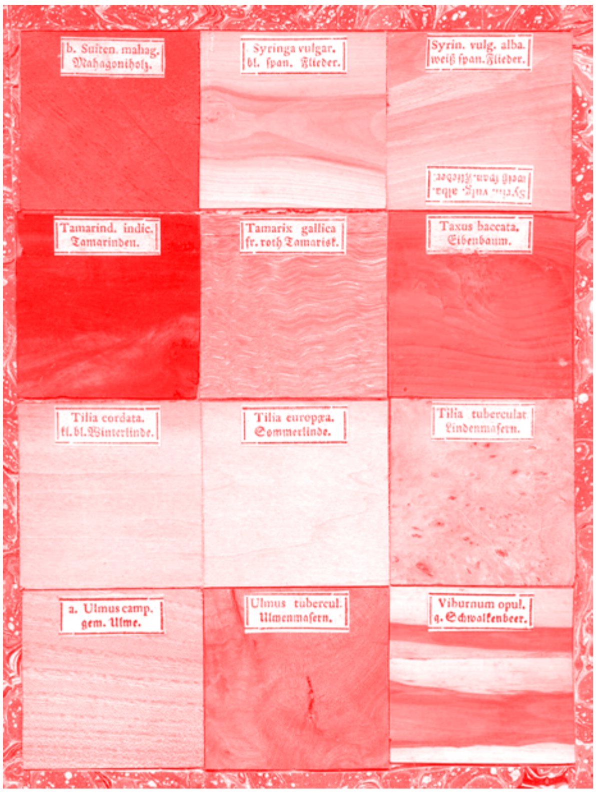
John is also working on several other projects at the minute. Firstly, along with Charles Hickson, he is analysing the evolution of the corporation, limited liability and corporate governance. Presently, they are working on a paper examining the impact of introducing limited liability on the market for bank shares. Secondly, he is undertaking a British Academy sponsored project to investigate the market for English and Scottish bank shares in the nineteenth century. This project requires extensive data collection from the archives of the major banks. Finally, he is investigating the performance of the Irish stock market in the period 1865 to 1914. Fourthly, along with Graeme Acheson, he is examining the impact of limited liability on ownership and control. In order to do this, they have examined the shareholder records of the Ulster Bank up until 1914.

Xylotheque compiled by Johan Hildt

From the 16th and 17th century onwards and continuing well into the 19th century, a period known as the heyday of the great collections of curiosities, ensued whereby, people would collect a huge diversity of all kinds of objects. This included archaeological, ethnographic, botanical, art-historical, bibliophile, medical objects and many others besides. Usually any kind of method or selection criteria was lacking and people collected just about anything. By today's standards, the scientific merits of such collections are highly questionable. Nonetheless, they do provide us with a clear picture of a budding scientific awareness.

Around this time, collections of different kinds of wood, known as xylotheques, derived from the Greek xulon (wood) and théke (case) were also fashionable. These collections consisted of dried leaves, seeds, pollen grains, twigs and woody plants stored according to wood type. They were usually kept in small boxes shaped





to resemble a set of books. The most well known xylotheque in the Netherlands can be found at the 't Coopmanshus museum in Franeker, in the northern Dutch province of Frisia. A less known fact is that ABN AMRO also owns a xylotheque. The two-volume 'book' is one of the oldest known xylotheques. It was made in 1798 by one Johan Adolf Hildt in Gotha. What makes this xylotheque particularly special is the fact that it was actually kept in the form of a book, with wood samples from different types of trees countersunk into the cardboard pages. The complete German title is "Sammlung In- und Ausländischer Holzarten zur technologischen Kenntniss, Charackterisstik und Warenkunde aller Kunst-, Farb und Apothekerhölzer" translated as A Collection of National and Foreign Types of Wood for the purpose of Technological Knowledge, Characterization and Classification of all Artificial, Coloured and Pharmaceutical woods. The title itself reveals why these books were kept at the time and why a copy was found in the former library of the Netherlands Trading Society, ABN AMRO's oldest predecessor and one-time banker, as well as owner of several plantations in the Dutch East Indies. The xylotheque undoubtedly proved very useful for employees sent to work at the Company's overseas plantations.

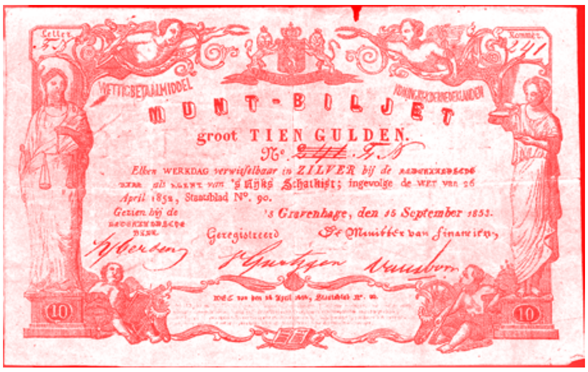
"Check please!"

The Rise and Fall of Means of Payment in the Netherlands 1814-2004

Buying, selling and paying are an age old phenomena. At present one can pay cash or cashless - by giro or by electronic transfer - and there is a wide variety to choose from: coins, banknotes, switch cards, debit cards, credit cards and chip cards. Ongoing product innovation in the internet age increases the number of possibilities even further. Generally speaking, innovations have been applied to the realms of commercial payments first and, from there, have spread to private payments. During the past century the boost in new means of payment paralleled a process of crowding out of some of the older means of exchange. Historically speaking, we are in a unique situation whereby one can choose from a multitude of payment instruments. The reverse of this rather unique situation is that consumers have become more technology dependent when they pay.

Cash

Coins are the oldest medium of payment still in existence. Over two millennia, coins dominated both domestic and international trade, and private payments. With the spatial extension of trade in goods, there was a demand for a more user-friendly medium of exchange. For commercial transactions, the bill of exchange was invented and the transport of considerable quantities of coins had become obsolete. Private persons, however, still carried coins made of precious metals such as gold, silver and copper. In the course of time, the coinage system was re-evaluated and the original weights and grades of finesse were altered or replaced by coins of non-precious medals. At times of shortages, coins were sometimes temporarily replaced by paper money. Around 1850, paper coins of 10, 50 and 100 guilders were introduced in the Netherlands as a coin substitute during the reminting of legal tender. Although originally a way of avoiding a shortage of silver, this paper money stayed in circulation until 1904. Only at this time did Dutch households begin to use banknotes as a medium of exchange.



Dutch a coin note of 10 guilders (1853)

Banknotes were the first product innovation in what is nowadays referred to as retail payments. Although paper money had already been in use for a long time in China, they were first introduced in Europe in the late 17th century. Sweden was the first European country to use banknotes where, in 1661, Stockholm's Banco was the first issue bank. By the end of the 17th century, banknotes had been introduced in England, Scotland and Norway. Gradually, banks in various countries were granted the privilege to issue banknotes. In the Netherlands, banknotes were introduced just after the establishment of De Nederlandsche Bank, in April 1814. This remained the only issue bank. For almost a century, however, its banknotes were mainly used as commercial paper rather than for daily purchases. The first Bank Charter in 1814 had specified the issue of nine denomination bank notes, varying from 25 to 1,000 guilders. At that time, these were unprecedentedly high denominations, which, if converted into today's currency, would equal around 450 to 18,500 Euros. As long as the wages remained below the smallest denomination of 25 guilders, the common Dutch consumer of the 19th century did not handle a single banknote during his lifetime. The breakthrough of banknotes as a general medium of payment came in the early 20th century with the introduction of a ten guilder banknote. The rising public demand for banknotes more or less coincided with the introduction of non-cash payments transfers by giro. This new mode of remote payment appropriate for both businesses and households marked the end of cash supremacy, although this crowding out process would take more than a half a century.

Non-cash transfers

By the end of the nineteenth century, a new way of paying emerged in various European countries as governments looked at ways to facilitate retail payments. Although in the Netherlands the discussion regarding the introduction of the giro started early in the 20th century, it was only in 1916 that the national giro was granted its legal funding. At that time, other European countries had already implemented a giro system, such as Austria (1882), Germany (1899), Switzerland (1906) and Belgium (1913). Furthermore, it would take another two years before the Dutch Post Office Giro ['Postcheque - en Girodienst'] finally opened its doors. The original non-cash transfers were simple paper payment orders. By its nature, such an order was a remote payment. Soon banks offered their account holders a service of non-cash transfers too. It should be noted that non-cash transfers require a far more complex technique as well as infrastructure than conventional cash payments. In the Netherlands, each bank including the Post Office Giro, had its own particular unstandardised system and it took some negotiation before all financial institutions involved agreed on a national payment system. This therefore allowed the creation of an infrastructure needed for the efficient processing of payment orders.

The increase of giro payments gradually meant a decrease of cash payments by the public. Hence, an important development in this process was the computerization of salary records of some major Dutch companies and the introduction of current accounts by Dutch banks in the mid-1960s. Workers, who used to have their wages paid in cash, were now paid via non-cash transfer direct to their bank or giro account. It marked the beginning of retail banking in the Netherlands. At first, the new, inexperienced account holders showed a strong preference for cash and went immediately to their bank or post office to withdraw in cash the total sum of earned money. Meanwhile, Dutch banks tried to find ways of holding this money for a longer period of time and also to facilitate non-cash payment transactions. So, in the 1970s, a range of new forms of non-cash payment were introduced such as recurring transfer instructions, inpayment transfers and direct debits. These products were launched accompanied with ex-

The modern way of buying a parking ticket tensive information campaigns. Besides these visible innovations, there have also been various invisible improvements in processing payment orders. A major shift in non-cash transfers was caused by a massive switch-over by the public to authorization for collection. Furthermore, there have been some major advances in the field of data processing of the original hand-written paper orders, such as optical character recognition and optically readable bar codes.

In 1967, the arrival of the guaranteed cheque paved the way for non-cash retail payments. Within a few years, this cheque became a very popular means of payment among the Dutch. Compared to other countries, the credit card had never become very popular in the Netherlands. In the 1980s, the then popular guaranteed cheques met severe competition from the pin card (a debit card), which had evolved from the plastic identity card which originally accompanied the guaranteed cheque. At first, the cheque card could only be used in Automatic Teller Machines as an alternative for cash withdrawals from the bank counter. Due to technological developments, these plastic cards were provided with a magnetic strip, making the cards suitable for use both in a cash dispenser and in point-of-sale terminals in shops and restaurants etc. Within a few years, these pin cards had become very popular mainly at the expense of paying by guaranteed cheques. At the end of December 2001, on the eve of the change-over to the euro, the banks decided that the time had come to abolish the once so popular guaranteed cheques. And so the exchange of money had evolved from exchanging cash money, via signing a paper bank order, to giving a number into a machine.

A recent study examining two centuries of means of payments in the Netherlands shows that, since the 1960s, the path of product innovation in the field of payments increases. For example, within two decades after the launch of the pin card, Dutch banks introduced an electronic purse. Prior to the market introduction, a test was conducted using point of sale terminals based on shop technology in the years 1989-1991. After some modifications, in 1995 the banks gave birth to the electronic purse, a card which could be loaded with a certain value, directly from a bank account. This 'chipknip' was meant to be a substitute for small coin payments up to 15 euro. In contrast, with the rapidly gaining popularity of the pin cards, paying by electronic purse did not become very popular until recently. Another type of electronic transfers in its infancy is electronic banking. So far, traditional remote payments are still used on a considerable scale. But direct debits are the most popular method among Dutch households. Dutch banks thereby encourage their customers to pay efficiently and have created new products, like e-banking. As a result, a growing number of payment orders are submitted via the Internet or mobile telephone.

During the past decades, banks have introduced various new ways of making non-cash transfers. Prior to any introduction of a new product into the market, market research is undertaken and the introduction of the payment instrument takes place alongside an extensive information campaign to the public. Even so, these marketing techniques are not always the instant key for success as the slow adoption of the electronic purse shows. By definition, product innovation goes hand in hand with crowding out. The afore-mentioned shows that this also applies for the banking industry. Much research is therefore needed into the history of product innovation in terms of payment means in order to explain national differences and preferences in the way we pay.

Joke Mooij

Source: Joke Mooij and Ton Dongelmans,

“Mogen wij even afrekenen? Twee eeuwen betalen in Nederland”, Boom, Amsterdam 2004

Banking Historiography: Past and Present

Corfu, 3th and 4th October 2003

General State Archives of Corfu, Paleon Frourion (Old Fortress)

Organised by Professor Kostas Kostis, this two day workshop in Corfu was the second joint collaboration between Alpha Bank and the European Association of Banking History. The first 'Corfu' workshop, held in 2001, focused on the theme 'The Creators and the Creation of Banking Enterprises in Europe from the 18th to the 20th Century', the proceedings of which have since been published (Kostis Kostis (ed), Alpha Bank Historical Archives, Athens, 2002). In the more recent workshop in October 2003 the theme once again was chosen for its importance and pertinence for banking historians and the wider academic community of economic historians.

In total, thirteen papers were presented by fourteen scholars from nine European countries. The bulk of the sessions were devoted to analysing material from a variety of perspectives; the past, present and future prospects of the national banking historiographies of Austria (Charlotte Natmessnig and Peter Eigner), Britain (Philip L. Cottrell), France (Michel Lescure; Olivier Feiertag), Germany (Richard Tilly), Greece (Ioanna Pepelasis Minoglou), Portugal (Jaime Reis), Spain (José Luis Garcia Ruiz), Switzerland (Sebastien Guex) and Turkey (Edhem Eldem). The national surveys covered a wide array of issues such as the intellectual evolution of banking historiography (as, for example, Olivier Feiertag's discussion) and new trends in the field (for example, as mentioned by Michel Lescure).

A special session devoted to international experiences covered the literature of banking archives (Edwin Green) and the writing of the histories of European Economic Cooperation (Juan Carlos Martinez Oliva) and of the Bank for International Settlements (Piet Clement). The Concluding Remarks were made by Philip L. Cottrell.

Up until now the evolution of European banking historiography had been largely approached in an apospasmatic manner. The contribution of this workshop to European banking Historiography lies in the fact that, for the first timer ever, the topic of European banking historiography was addressed from a comprehensive, critical, and comparative perspective. Indeed, European banking historiography emerges as characterised by certain common features. Countries otherwise diverse among themselves, as for example Switzerland, Portugal, Greece and Turkey, all seem to share some common traits regarding the past evolution and present situation of banking historiography.

The overall picture which emerges is mixed. Regarding the negative side, banking historiography appears problematic even in those countries such as France, Spain, and Austria which experienced in the 1980s or 1990s a golden age in the writing of banking history. European banking historiography has been and is problematic for often similar technical and even political factors, (the difficulties related to the access to archival and primary material were noted by many of the participants of the workshop). In most European nations, what is persistently lacking is an institutional framework which can guarantee and provide for the lively production of scholarly work on banking history. Piet Clement more specifically expressed the fear that the climate for scholarly and critical banking historiography may become worse as a result of the recent boom in the litigation industry and banks' managing boards inclination to devote fewer and fewer resources to the scholarly development of banking historiography. From another perspective, Edwin Green discussed the difficulties facing the wider development of banking historiography. He highlighted the negative repercussions of the fact that few bank archives have found their way into print and the unfortunate limited impact on historians of the literature on banking archives.

Although in the past a large part of the banking history literature has been plagued with practical problems and has also lacked deep reflection and analytical tools, some encouraging prospects are becoming apparent regarding the writing of banking history at the opening of the 21st century. What specific positive observations emerged for the future from the concluding remarks of Philip L. Cottrell?

First, banking historiography is increasingly becoming a rich, versatile and exciting area of research. It comprises not simply the history of bankers and banking institutions but also the history of finance and currency, the history of the interrelationship between banks and economic development. Moreover, banking history and political history are becoming more and more intertwined as the political and ideological aspects of 'banks, money and finance' are increasingly explored. In addition, as also underlined by Richard Tilly, the writing of banking history is becoming increasingly internationalised.

Second, banking history has the potential of being at the forefront of developments in the social sciences, as banking per se is based on 'trust', which, as both a function and concept, has become a central feature in economic theory, sociology, psychology, and management studies over the last few years.

Third, banking historiography has become more critical, scholarly and, in some cases, more theoretical in approach and more embedded in socio-economic history since the 1990s, although the volume of production may not always be rising.

Of course, the debate on the theme of banking historiography is still open and hopefully some of the questions posed and ideas expressed at the workshop might provoke new insights and research in the field.

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What's New in 2003 - 2004?

The French Banking Sector: Recent Publications and Articles

French historians have been less productive in the recent times than they were in 2000 - 2002 because key academics have had to tackle huge tasks including the publishing of the proceedings of important conferences. But the achievement of such projects has led to marvellous outcomes: quality and performance have prevailed over quantity.

The bicentennial of Banque de France, commemorated in 2000, provided the opportunity for a comprehensive book which includes collected texts written by about 50 colleagues from numerous different countries - several of which have been participants at EABH conferences. The " Mission Historique de la Banque de France ", which had been set up a few years ago to gather teams of researchers on the role played by Banque de France in monetary and banking matters, therefore succeeded in meeting its targets through the delivery of such a book. Scientifically, it will help academics in comparing Banque de France to its foreign counterparts (about which books had already been published), all the more so because the publication has deliberately chosen a comparative path.

Olivier FEIERTAG & Michel MARGAIRAZ (eds.), Politiques et pratiques des banques d'émission en Europe (XVIIe-XXe siecles). Le bicentenaire de la Banque de France dans la perspective de l'identité monétaire européenne, Paris, Albin Michel, 2003, 830 pages ; ISBN 2-226-13769-6.

Since the beginning of the 19th century (1816), Caisse des Dépôts has been a cornerstone of the Paris finance market, managing the cash collected by savings banks and also that collected by pension funds constituted through collective or individual processes. It had first developed its operations as a key financier of the State's day to day needs, then as a decisive institutional investor. In addition, since the 1950s, it had become the main banker of local development (for housing and city equipment). After the publication of a number of books published by its internal historical department in the 1980s, Caisse des Dépôts trusted academics to reconstitute and complement a large chunk of its history from the 1930s to the 1950s. In fact, this history came within a more precise program, dedicated to gauging the role assumed by Caisse des Dépôts during World War II. Yet historians actually chose to study how its strategy and its management had evolved before the war to allow for a better understanding of what changed during this period in its history under the pressure of the subsequent events, such as Nazi occupation and the Vichyst State. Furthermore, the book extended its scope, detailing events up to 1950 in order to scrutinize the effects of the war on this public institution.

Alya AGLAN, Michel MARGAIRAZ & Philippe VERHEYDE (eds.), La Caisse des dépôts et consignations, la Seconde Guerre mondiale et le XXe siecle, Paris, Albin Michel, 2003, 670 pages ; ISBN 2-226-13894-3.

A traumatic event occurred on the Paris bank market in 2003: Crédit Lyonnais, which had been founded as early as 1863 (as studied by historian Jean Bouvier), was purchased by Crédit Agricole, a cooperative institution which had been established through several stages between 1894-1899 and 1920-1926. The institution of "peasants", so long despised as a mere "amateur" company managed by volunteer directors, emerged as a big bank in the 1960s-1970s and since then has asserted itself as a conquering firm, swallowing the investment bank Indosuez and several others in the 1990s (such as, Sofinco). The peasants' bank (or "banque verte") surpassed "classical" or "capitalist" competitors - mainly BNP Paribas - to buy Crédit Lyonnais. The merger of wholesale banking departments effectively creates economies of scale, whilst the networks of retail banking remain independent. This revolutionary event was accompanied by the retirement of the manager, Jean Peyrelevade, who had led the rebound of Crédit Lyonnais after its dire crisis of the first half of the 1990s. Thankfully, Mr. Peyrelevade succeeded, before his retirement came into effect, to ensure a new, more comprehensive publication of the bank, ordered with Crédit Lyonnais' well known archivist, Roger Nougaret. A second more definitive history of Crédit lyonnais became thus available, expanding on Jean Bouvier's contribution - republished in 1999 by the Éditions de l'École des hautes études en sciences sociales (three volumes; ISBN 2-7132-1378-2) - which covered only the years 1863 - 1882. This new and extensive book is a collective one, covering numerous topics on the evolution of the organisation itself, the network, competition, and international business.

Bernard DESJARDINS, Michel LESCURE, Roger NOUGARET, Alain PLESSIS & André STRAUS, Le Crédit lyonnais, 1863-1986. Etudes historiques, Geneve, Droz, 2002, 1020 pages ; ISBN 2-600-00807-1.

Paradoxically, banking history has also progressed, thanks to a dissertation about the finance department of the State; the history of the French Treasury paved the way to an assessment of its attitude towards the Paris banking market, as the nationalised sector had been so very much developed since 1945 and because the credits distributed, or supervised, by the State were so much more important.

Laure QUENNOUËLLE-CORRE, La direction du Trésor, 1947-1967. L'État-banquier et la croissance, Paris, Comité pour l'histoire économique et financiere de la France (CHEFF), 2000, 694 pages ; ISBN 2-11-091054-2.

On a far more modest scale, the history of Crédit du Nord, a subsidiary of Société Générale group, has been republished and complemented. The book allows one to follow the history of several banks, merged in the 1960s-1980s to form a group dedicated to retail banking on a regional level, and to commercial banking and patrimonial management on a national scope.

Hubert Bonin, Histoire de banques. Crédit du Nord (1848-2003), Paris, Éditions Hervas, 2004, 216 pages ; ISBN 2-84334-008-X.

The history of French savings banks was favoured with one new book godfathered by the dynamic Association française pour l'histoire des Caisses d'épargne, which seized the opportunity of a permanent exhibition within the refurbished headquarters of one entity of the Caisses d'épargne group [Caisse nationale des Caisses d'épargne, 27-29 rue de la Tombe-Issoire, 75014 Paris]. The intent of this well illustrated book is to emphasise the collective values which accompanied the development of local and Paris savings banks institutions. The whole network of sister savings banks was thus mobilised to collect its patrimonial pictures, which were then published in the book along with relevant analysis and comments.

Caisse nationale des Caisses d'épargne, La Caisse d'épargne a tous les âges, Paris, Les Éditions de l'épargne [12 villa de Lourcine, 75014 Paris], 2002, 104 pages, ISBN 2-85015-294-3.

The series published by the Association Nationale pour l'Histoire des Caisses d'Épargne (Association for the History of the Savings Banks) has gathered momentum; regularly published by the Association, the " Cahiers " and booklets, collecting all the material constituted by junior researchers in their dissertation, make for very interesting reading.

Vincent Tournié, Épargne et crises dans la France des années trente. L'exemple des Caisses d'épargne, Les Cahiers pour l'histoire de l'épargne. La collection, Paris, Association nationale pour l'histoire des Caisses d'épargne, 2002, 128 pages, ISBN 2-85015-291-9.

Sociologists and social historians are treating French bankers as fresh material. A special issue of Pierre Bourdieu's famous journal scrutinised the evolution of some key professions: analysts, auditors, assets managers, accountants, stock brokers to name but a few. This journal invites an historian to sum up her thesis (presented in 2000 at Paris-Nanterre) about French bankers as a social group representative of the bourgeoisie of the Belle Époque (the beginning of the 20th century).

Chantal Ronzon-Bélot, " Banquiers de la Belle Époque. Les dirigeants des grands établissements de crédit ", In special issue "Espaces de la finance", journal Actes de la recherche en sciences sociales, n°146-147, March 2003, Paris, Seuil Publishings, pages 8-20 (ISBN 2.02.057344-X).

It has long been a habit that the history of French banks is partially taken over and sustained by our Swiss colleagues. The debate on Swiss attitudes during World War II raised the issue of the relationship between the Paris and the Swiss markets both before and during the war. Both colleagues scrutinized therefore the business links, to determine how much the French outlets were important to Swiss banks and which differences occurred during the war itself. One key question was the role that heaven played for French capital and savings during the political troubles of the 1930s; but the book also studies the issuing of bonds on the Swiss markets in order to finance deficits in public services. During the war, of course, the investment of cash and gold in Switzerland was confiscated and sold due to their status as assets, and this is discussed within the publication. This well-prepared book, rich with precise data, is thus a useful contribution.

Marc Perrenoud & Rodrigo Lopez, Aspects des relations financieres franco-suisses (1936-1946), Publications de la Commission indépendante d'experts Suisse-Seconde Guerre mondiale, volume 25, Lausanne, éditions Payot, 2002, pages ; ISBN 3-0340-0525-X or 2-601-03290-I. It can be complemented for some issues by parts of : Michel Fior, Les banques suisses, le franc et l'Allemagne. Contribution a une histoire de la place financiere suisse (1924-1945), Geneve, Librairie Droz, 2002, 335 pages ; ISBN 2-600-00645-1.

Jean-François Eck's dissertation traces back how the industrial relationship between French and German firms retook shape after World War II. Although banking history is not the core topic of this dissertation, the publication does provide historians with a few sections dedicated to the role played by banks in supporting the spreading of activities of French companies beyond the Rhine (pages 169-190, for instance).

Jean-François Eck, Les entreprises françaises face a l'Allemagne de 1945 a la fin des années 1960, Paris, Comité pour l'histoire économique et financiere de la France (CHEFF), 2003, 656 pages ; ISBN 2-11-093698-3.

The history of insurance companies is still an emerging subject among French historians. Pending some publications in the years ahead, let us draw our attention to the memoirs of an important stockbroker, which tell the story of the evolution of the Paris market in the 1960s - 1970s and then of the revolution of the 1980s - 1990s.

Xavier Dupont, Salut la companie! Mémoires d'un agent de change, Paris, Albin Michel, 232 pages ; ISBN 2-226-13281-3.

The strong flow of French history of utilities and engineering can open some doors to financial and banking history, through chapters of collective books or parts of big business history books.

Éric Bussiere, " Paribas et le financement des affaires d'électricité dans les années 1920 : entre stratégie bancaire et stratégie de groupe industriel", in Dominique Barjot, Henri Morsel & Sophie Coeuré (eds.), Stratégies, gestion, management. Les compagnies électriques et leurs patrons, 1895-1945, Paris, Association pour l'histoire de l'électricité en France (Électra) & Publications de la Fondation Électricité de France, 2001, pages 153-162 ; ISBN 2-909484-11-4.

The history of media and the press has opened doors to insights into the links between various newspapers and companies. Banks appear as having played an important role in the financing of the press, columnists and business analysis.

Patrick Éveno, L'argent de la presse française de 1820 a nos jours, Paris, Éditions du CHTS, 2003.

Lastly, I shall assume the role as self-promoter of my own texts in journals or collective books as pieces of the ever growing puzzle of French banking history:

H. Bonin, " Les banquiers grenoblois des années 1890-1940 : un modele spécifique ? ", in Hervé Joly (et alii) (eds.), Des barrages, des usines et des hommes. L'industrialisation des Alpes du Nord entre ressources locales et apports extérieurs. Études offertes au professeur Henri Morsel, Grenoble, Presses universitaires de Grenoble, 2002, pages 185-209.

H. Bonin, " Le Crédit lyonnais, la Société générale et les autres : essai d'appréciation des rapports de force (1864-1966) ", in B. Desjardins (et alii) (eds.), Le Crédit lyonnais, 1863-1986, Geneve, Droz, 2003, pages 725-749.

H. Bonin, " Les banquiers français en Chine (1860-1950) : Shanghai et Hong Kong, relais d'un impérialisme bancaire ou plates-formes d'outre-mers multiformes ? ", in Laurent Cesari & Denis Varaschin (eds.), Les relations franco-chinoises au vingtieme siecle et leurs antécédents, Arras, Artois Presses Université, 2003, pages 157-172.

H. Bonin, " Un outre-mer bancaire en Orient méditerranéen : des banques françaises marraines de la Banque de Salonique (de 1907 a la Seconde Guerre mondiale) ", in Revue historique, CCCV/3, novembre 2003, pages 268-302.

" Aux origines de l'assurance-crédit en France (1927-1939). La création et l'essor de la SFAC et le repli de ses concurrentes ", Histoire, économie et société, 3e trimestre 2002, n°3, pages 341-356.

H. Bonin, " L'argent des banquiers et la culture : entre mécénat et identité ", in Jacques Marseille & Patrick Éveno (eds.), Histoire des industries culturelles en France, XIXe-XXe siecles, Paris, Publications de l'Association pour le développement de l'histoire économique, 2002, pages 259-282.

Hubert Bonin

Institut d'Etudes Politiques de Bordeaux

Spiru Haret

The Promoter of Credit Co-operatives in Romania

The origins of modern credit co-operatives in Romania trace back to the latter half of the 19th century. The establishment of the Romanian national state in 1859, in the wake of the unification of Wallachia and Moldavia, and its independence gained in 1877 led to a stepped-up development of capitalist relationships across the Romanian economy. The transition to a new economic system caused large sections of the population in both rural and urban areas to face economic hardships. In order to adjust to the new environment, both craftsmen and small farmers were badly in need of credit, but this was scarce. There were no banks in rural areas, whereas the banks operating in towns were not inclined or simply could not, in compliance with their by-laws, grant loans matching the needs of small entrepreneurs. As a result,

Spiru Haret 1851 - 1912

access to loans of the social groups most hit by the adverse effects of economic modernization was almost exclusively ensured by moneylenders who charged interest rates close to 500 percent.

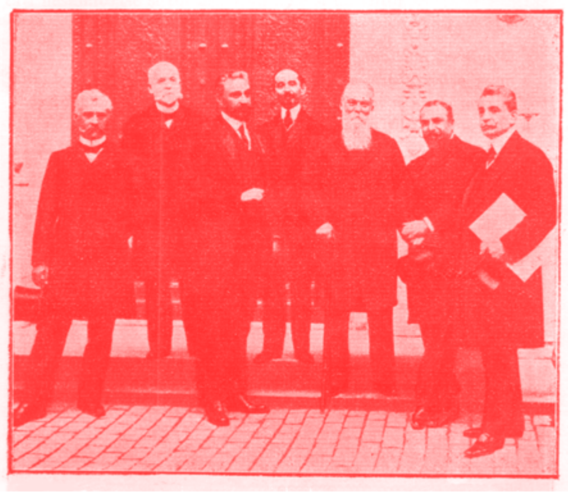
Agriculture, the key sector of the Romanian economy in the period under review, painted the bleakest picture. The agrarian law of 1864 abolished all sorts of feudal dues, removed the restrictions on the peasants' individual freedom, and provided them with land. Unfortunately, the said law and the subsequent regulations governing agriculture did not result in the emergence of a thriving category of small farmers because of inadequate distribution of land between large and small owners. Moreover, the legal framework did little to prevent atomisation of peasants' landholdings induced by population growth. In this vein, data for 1905 show that small farmers (whose plots were up to 10 ha), making up 95.43 percent of total rural landowners, held only 40.79 percent of total farmland. By contrast, big landowners (whose estates covered more than 500 ha each), albeit accounting for a meagre 0.23 percent of total rural landowners, held 38.26 percent of total farmland. Hence, the self-determination capability which small farmers gained in the wake of the 1864 reform was stifled by the low yields of their plots and their inability to pay the instalments for the land they either bought or took on lease. Holders of small plots were therefore bound to work with their own farm equipment to the benefit of big landowners in hard labour conditions. The Romanian economist Constantin Dobrogeanu-Gherea even coined the term "new serfdom" to define such dependency relationships.

In 1881, at the initiative of the liberal party, farm credit houses were established in every county, in order to deal with the absence of markets for small loans. In 1892, the county houses were replaced by “Creditul Agricol”, a state-owned bank with branches in all counties. The establishment of these new institutions had little impact because of their scant financial resources and not particularly favourable lending conditions for peasants. In 1907 ”Creditul Agricol” was subject to winding-up proceedings, its portfolio being liquidated through the popular banks. Consequently, the first farm credit institutions set up by the government could only fulfil, to a small extent, the borrowing requirements of small farmers, who were still reliant on moneylenders. Against this background, the establishment of credit co-operatives was regarded as a salutary solution meant to do away with the adverse effects of economic modernization.

Rural credit co-operatives, known as popular banks, emerged spontaneously and in the absence of adequate laws. In the beginning, such institutions were incorporated in compliance with the principles of civil code. Later on, they were regulated by the provisions of the commercial code passed in 1887, according to which variable capital companies were viewed as co-operatives. As a result, apart from genuine co-operatives, operated pseudo-co-operatives animated by capitalist spirit were established. The first popular bank was established in January 1891 and four other similar institutions were set up two years later. In 1902, there were already 700 popular banks in operation, with net worth to the tune of Lei 4.2 million and about 60,000 members.

The fast development of popular banks, which became the key sector of Romania's co-operative landscape, owes much to Spiru Haret, renowned professor and scientist, as well as an outstanding figure of the liberal party. Spiru Haret was born on 15 February 1851 in Jassy, the then-capital city of Moldavia. He graduated from the University in Bucharest. In 1878, Spiru Haret was the first Romanian ever to get a doctor's degree in mathematics at Sorbona University in Paris. His doctoral thesis, "Sur l'invariabilité des grands axes des orbites planétaires" (On the Invariability of Great Axes of Planetary Orbits), hailed by many experts, was published in 1885 in the Yearbook of the Astronomic Observatory in Paris. In 1976, 125 years since the birth of the Romanian scientist, as a tribute to his work, a crater on the surface of the moon was called by his name. After returning to his home country in 1878, Spiru Haret left his mark not only on the organisation of modern education in Romania but also on the development of credit co-operatives.

During 1897 - 1899 and 1901 - 1904, during which periods he held the position of Minister of Public Instruction, Spiru Haret supported the association of peasants into credit co-operatives. He became the co-ordinator and organiser of this movement, which is why later on he has been referred to as the father of Romania's credit co-operative movement. Thanks to his initiatives, the authorities brought to a halt the harassment of the schoolteachers supporting the establishment of co-operatives, who were thought to be disseminating socialist ideas. The Romanian government started showing a keener interest in this sort of institutions



Haret (first from left to the right) and E. Costinescu , the Minister of Finance that presented the Law on popular banks to the Parliament in 1903 (the fifth from left to right) during a meeting of the Romanian liberal government in March 1909.

and even fostered their development. Hence, popular banks were set up at an increasingly fast pace. Even the conservatives, during their stay in power, carried forward Spiru Haret's initiatives.

Spiru Haret's opinion on dealing with the issue of farm credit and the key role to be played by schoolteachers in the movement to set up credit co-operatives in rural areas was very clearly expressed in a column published in "Didactic Conversations" magazine in September 1900: "The peasants' genuine credit institution will be the savings and mutual help society, established right in their village, with their own money, managed by themselves, exempted from costly and tiresome formalities, which should not be ashamed of lending even one Leu to the person who would be in need of it… Schoolteachers should become the leaders of the movement to establish such institutions in every village and would enjoy the acknowledgement of their countrymen".

Plate offered to Haret by his colleagues and admirers at the moment of his retirement

Spiru Haret was perfectly aware that many popular banks operating at the debut of the 20th century were profit-oriented so he decided to encourage them to behave in accordance with the co-operative spirit and to get them closer to Raiffeisen banks' model. Haret strove to map out a law to govern popular banks, which would lead such institutions to adopt the co-operative principles and allow them to obtain government support provided they fulfil the said principles. Together with another prominent figure of the liberal party, Constantin Stere, Spiru Haret prepared a draft law to which the finance minister, Emil Costinescu, put the finishing touches. As a result, on 28 March 1903, the "Law on rural popular banks and their central body" was passed.

Pursuant to the said law, which was to be amended several times until 1928 when the Co-operative Code was adopted, a central body was established. Its prerogatives were to grant soft loans to the popular banks, which were bound by their articles of association to comply with the co-operative principles and ensure control and guidance of the entire movement. Even though the law provided for additional benefits to Raiffeisen-type co-operatives, the years that followed saw a mushrooming of credit co-operatives laid down in Article 31 of the law, i.e. societies based on a combination of Raiffeisen and Schultze-Delitsch principles. In 1924, Romania enjoyed the presence of 3,747 popular banks, of which 95 per cent were "mixed-type credit co-operatives", a solution that appeared to be appropriate to the Romanian environment. Until the introduction of the centrally planned economy in Romania, the credit co-operative system continued to develop strongly, stimulated by favourable changes in the relevant legislation.

Cristian Bichi

National Bank of Romania

New Office for the EABH

On 1st April 2004, the EABH moved into its new premises in Central Frankfurt located at Guiollettstrasse 25, D-60325 Frankfurt. The new, larger premises have enabled the EABH and its sister associations to establish a more representative office. Although our address has changed, please note that all other contact details have remained the same.

New Members

After the introduction of a new individual membership in May 2003, the EABH has been delighted to welcome seven new members. Alongside Professor Margarita Dritsas and Dr. Carlos Alberto Damas, already introduced in the last newsletter, it is with pleasure that the EABH welcomes the following new members.

Professor Albert Broder

Albert Broder is Professor Emeritus of Economic History and International Economic Relations at the University of Paris XII Val-de-Marne. He also holds the title of Director (Hon.) of the Institut Jean Baptiste Say 1619 Réseau de centre de recherches en Histoire des Relations Economiques Internationales and the Honorary titles of Vicens Vives Prise for Social Sciences (1983) Spain and Officier des Palmes académiques. As well as serving on a number of editorial boards for journals which include Economies et Sociétés (Institute of Applied Mathematics and Economic Sciences: ISMEA), História Econômica & História de Empresa, Sao Paulo (associaçao brasileira de pesquisadores en história económica), Ciclos (Universidad de Buenos Aires), and Revista de Historia Industrial (Barcelona), he also co-edits the series Histoire Economique Quantitative. In addition to many articles and papers, he has published numerous books, the latest of which include Histoire Economique de la France au 20e Siecle (Editions Ophrys, 1998) and Histoire Economique de l'Espagne contemporaine (Editions Economica, 1998). His next publication Histoire Economique du Monde 1870-1950 (Editions Cujas, Paris) is currently in press to be proceeded by the book La Banca Francesa en America Látina 1880-1950 (a collective work, A. Broder and C. Marichal edit.) to be published early in 2005. Also in preparation is a book entitled A comparative Economic History of France and Germany 1880-1930; Trade, Finance and technological competition in southern Western Europe and Latin America.

Mrs. Yolanda Hatzi

Yolanda Hatzi graduated from the University of Athens, Faculty of Philosophy, where she studied Greek and French Literature and History and later carried out Archive and Library Sciences, post graduate studies, at the University of Rome "La Sapienza", Faculty of Arts. Having formally worked for the Historical Archives of the National Bank of Greece, Yolanda now provides archival support within the Research Program of the National Bank of Greece.

Yolanda Hatzi has been associated with the EABH since 1991 and has attended all the conferences and most of the workshops. She has collaborated presenting papers and writing articles for the Bulletin. Since December 2003, she has been involved in the Business Heritage Management and the Historical Archives of a subsidiary of the National Bank of Greece.

In addition to her work at the National Bank of Greece, Yolanda has written and published more than 15 educational books for children.

Aaro Jalas MA

Aaro Jalas MA is a researcher at Spiritus Historiae Ltd, Helsinki, a company specialized in history consulting. In this role, he has studied economic history in fields ranging from agriculture to high technology. Jalas has written several books about companies and economic history. During the last two years he has been specializing in the history of Finnish Cooperative Banks.

His latest publications include Our First Century. Instrumentarium 1900-2000, Jyväskylä 2000; From the Famine to the Bureaucracy of EU. History of the Finnish Agriculture (Published in the Maatilan Pirkka 1/2003); 50 Years of Finnish Colour Trade. The Wholesale Cooperative of Finnish Colour Traders and Väritukku Ltd 1953-2003, Jyväskylä 2003. Two works are also awaiting publication: With Sense. Lapua Cooperative Bank 1904-2004), From the Village Banks to Region Bank. Parikkala Region Cooperative Bank 1905-2005, while The Cooperative Bank of Southern Savo 1904-2004 is still in progress.

Dr. Raphael Markellos

Raphael Markellos is assistant Professor of Quantitative Finance at the Department of Management Science and Technology, Athens University of Economics and Business. He obtained his PhD in Finance and Econometrics from the Dept. of Economics, Loughborough University, UK under a Junior Fellowship from the Royal Economic Society. He completed his first degree in Economics and Business Administration at the Department of Economics, Aristotle University, Thessaloniki, Greece. He has taught at undergraduate and postgraduate level at Athens University of Economics and Business, Loughborough University, Aristotle University and University of Macedonia/ Thessaloniki. He has over 30 publications in international journals and books and is a regular speaker at international conferences. In 1998 he was awarded with Terence C. Mills the Distinguished Essay on Computational Intelligence in Finance Award by the Journal of Computational Intelligence in Finance. His research interests and publications are mostly concerned with finance, time series econometrics, financial engineering and history of finance. ?e has consulted in the financial industry on quantitative financial analysis and econometrics for a number of years.

Dr. John Turner

Dr. John Turner is a lecturer in the School of Management and Economics at Queen's University Belfast. In 2003, he was a Houblon-Norman Fellow at the Bank of England, where he was researching the evolution of bank regulation in the UK. His main research is in financial and banking history. He is particularly interested in the interactions of law, finance and business organisation from an historical perspective. In addition, he has had articles on banking history either published or forthcoming in the following journals: Journal of Economic History, European Review of Economic History, Financial History Review, Business History and Cambridge Journal of Economics.

Prize Competition for Research on History of Banking and Finance 2002

In December 2003, the Ottoman Bank Archives and Research Centre hosted the prize award ceremony for the Prize Competition for Research on History of Banking and Finance 2002, held in collaboration with the EABH and the Economic and Social History Foundation of Turkey. Prizes were awarded in four categories: scientific article, master's thesis, doctoral dissertation and monograph. The jury awarded seven works in all categories:

- *Book Category:*

  Ali Akyildiz, Para Pul Oldu: Osmanli'da Kagit Para, Maliye ve Toplum (Paper Money, Finance and Society in the Ottoman Empire), Iletisim Yayinevi, Istanbul, 2003.

  Zafer Toprak, Ittihad-Terakki ve Cihan Harbi, Savas Ekonomisi ve Turkiye'de Devletçilik (Union and Progress Committee and World War I, War Economy and Etatism in Turkey), Homer Kitabevi, Istanbul, 2003.

- *Doctoral Dissertation Category:*

  Yavuz Selim Karakisla, Women and Work in the Ottoman Empire: Society for Employment of Ottoman Muslim Women (1916-1923).

- *Master's Thesis Category*

  Ö. Faruk Bölukbasi, Sultan II. Abdulhamid Döneminde Maliye Komisyonlari ve Faaliyetleri (1879-1909) (Financial Commissions and Their Activities during the reign of Abdulhamid II (1879-1909).

- *Scientific Article Category*

  Ioanna Pepelasis Minoglou, Ethnic Minority Groups in International Banking: Greek Diaspora Bankers of Constantinople and Ottoman State Finances, c. 1840-81, Financial History Review, 9, October 2002, pp. 125-146.

  Muzaffer Dogan, "Osmanli Imparatorlugu'nda Makam Vergisi: Caize" (The Tax of Post in the Ottoman State", Turk Kulturu Incelemeleri Dergisi 7, Istanbul 2002, s. 35-74.

- *Honorary Mention in the Article Category*

  Aliye F. Mataraci, Trade Letters as Instances of Economy, Ideology and Subjectivity.

A third competition will be launched in May; for more details please visit www.obarchive.com

EABH & Bank Austria Creditanstalt Vienna Conference, 20th - 21st May 2005

Response to Call for Papers

The 2005 Annual conference "Finance and Modernisation" will take place in Vienna and will be kindly hosted by Bank Austria Creditanstalt on its 150th anniversary. This year was the first time that the EABH has announced a Call for Papers for its annual conference and the response has been extremely positive. We have received a number of diverse and highly interesting proposals and would like to take this opportunity to thank all those who both responded to this Call for Papers and also who supported the EABH in promoting this announcement. Following the decision of the Vienna Conference 2005 content committee, the draft programme will be completed and made available on the EABH website. More details of the 2005 Conference will also be published in the next edition of the Bulletin in December.

The EABH e.V.

Presents

Biennial Prize for Young Scholars 2005

The Young Scholars Prize was founded by the EABH in 1995, in order to encourage research into banking history. The award is a valuable way of emphasising the importance of banking history and bringing new ideas into the academic forum.

A prize of 2,500 EUR will awarded in Vienna 2005 to an individual scholar, or a team of maximum three scholars, working on either an institutional, economic or social aspect of the history of European banking or on a biography of a European banker or banker's dynasty. The studies should meet academic requirements, be unpublished and consist of 80,000 to 120,000 words. The applicants should not be over 35 when submitting their manuscripts. The text will be accepted in any European language but will have to be accompanied by an abstract of 3,000 words/10 pages in English.

Publication of the final manuscript is supported by the EABH, allowing young scholars the opportunity to present their work alongside other leading academics of Banking History literature.

The final submission date for the 2005 Prize is 30th November 2004. For further details please contact the EABH at info@bankinghistory.de or telephone on +49 69 972 03 307.

Associazione Nazionale Archivistica Italiana

presents

Archives in the Public and Private sectors: Transformation, Privatisation and Mergers

(Gli archivi dello Stato, degli Enti Pubblici e delle Imprese: tra trasformazioni, privatizzazioni e fusioni)

17th & 18th June 2004

In conjunction with the EABH, the ANAI (Associazione Nazionale Archivistica Italiana) will host a workshop on 17th - 18th June 2004 at the Library for Culture and Art in Santa Teresa dei Maschi. Entitled "Archives in the Public and Private sectors: Transformation, Privatisation and Mergers", the two day workshop will begin with two sessions discussing the economic and legal situation of archives, followed by the management and use of these archives. The workshop will proceed with a number of sessions focusing on state archives, public archives, business archives, and bank and insurance Archives, ending with an-open discussion of the ideas raised during the workshop. Please be aware that this workshop will be conducted in Italian. For further information, please contact the ANAI Secretary at sages@libero.it.

The Financial History Review, Volume 11, Part 1

The April 2004 issue of the Financial History Review is now available. This issue contains a broad range of articles within the realm of banking history, stretching from the Ottoman Empire to English commercial banking up to the 1970s, while the archives of the Stockholm's Enskilda Bank are the focus of a discursive survey.

- Sevket Pamuk, 'The evolution of financial institutions in the Ottoman Empire, 1600-1914'
- Piet Clement, '"The touchstone of German credit": Nazi Germany and the service of the Dawes and Young Loans'.
- Bruno S. Frey and Daniel Waldenström, 'Markets work in war: World War II reflected in the Zurich and Stockholm bond markets'.
- Forrest Capie and Mark Billings, 'Evidence on competition in English commercial banking, 1920 - 1970'.
- Anders Perlinge, 'The Foundation for Economic History Research within Banking and Enterprise and the records of Stockholm's Enskilda Bank, 1856 - 1971'.

We hope that you enjoy reading this issue.

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New Financial History Review Editorial Board

2004 marks the beginning of a new Editorial Board for the Financial History Review. The new Board consists of academics from many different nationalities, including the US, as well as a range of academic and professional backgrounds. This highly representative board will ensure the continuation of the high standards and diversity of themes already associated with the FHR. A most significant development this year has been the appointment of Professor David Weiman, chair of the Economics Department at Barnard College, Columbia University, who will take on the role of Associate Editor for North America and to whom we wish to extend a very warm welcome. The Athens Conference will be the first time that the FHR board members will meet in their new capacity and the EABH looks forward to welcoming these new members personally at this most successful event. We would also like to take this opportunity to thank Professor Youssef Cassis, Professor Phillip L. Cottrell and Dr. Duncan Ross , for their unfailing commitment to the Financial History Review, and particularly for their valuable help towards the selection of the new board.

Archive Year 2003 Workshop Series: Publication of Proceedings

At the end of May 2004, the proceedings of the EABH Archive Year 2003 Series of workshops were published. The publication consists of three volumes, each of which centres on a specific workshop within the series.

- *Central Corporate Archives During and After Mergers*, Stockholm, 29th May 2002:

  Editors: Hubert Bonin & Francesca Pino
- *Archives and IT Solutions*, Istanbul, 24th & 25th October 2002

  Editors: Maria Guercio, Lorans Tanatar Baruh & Clotilde Wang
- *Appraising Banking Archives*, Milan, 13th & 14th March 2003

  Editors: Roger Nougaret & Maria Teresa Tortella

The Archive Year 2003 Series is part of a long-running project designed specifically to support and promote archives. In order to maximise the practical implications of the workshops, the editors of each volume have also included a set of guidelines for best archive practices from the perspective of the theme in question.

As an in-house publication, the proceedings are only available to EABH members.

For EABH Members Only

The EABH has a number of backdated copies of publications which it would like to offer free to our members. The EABH cannot unfortunately cover the cost of postage but an estimated cost per copy is provided below as guidance. The following publications are available:

International Banking in an Age of Transition
Crisis Banking in the East
How to write the History of a Bank
A Century of Banking Consolidation
European Banking Overseas
Regulating Spanish Banking
The Paradise Bank
The Evolution of Financial Institution
Modern Banking in the Balcans
Postage per book - 6-8 Euro (international)

European Colloquium on Bank Archives Volumes 1-6
Financial History Review Volume 2-10, parts 1 & 2 (excluding Volume 4 Part 1)
EABH Bulletin 2/200, 1/2002
Postage per issue - 4-6 Euro (international)

Please note that these books are subject to availability and that the cost of postage is only a guide. Contact the Frankfurt office at info@bankinghistory.de for more information.

Forthcoming Non-EABH Events

The **15th International Congress on Archives**, "Archives, Memory and Knowledge", will take place in Vienna, 23rd-29th August 2004. The congress will offer an interactive forum for the discussion of new techniques in Archiving and leading research for global archives. The website www.wien2004.ica.org offers further information for those interested in attending.

There is also still time to register for the **Society of Archivists**' Annual Conference and Conservation Training Conference "Accountability, Citizenship and Ethics: the role of archives and records management in nurturing citizen", will take place in Glasgow between 31st August and 3rd September 2004. The conference focuses on ensuring that high standards of accountability are achieved through record keeping practices. More information is available at www.archives.org.uk

The **Economic History Association**'s 2004 Conference will be held in San Jose California from 10th-12th September 2004. The overriding theme of the meeting will be "Technological Change and Economic Growth in History." The program committee are currently requesting submissions that provide an historical or interdisciplinary perspective on key issues in technological change, social and economic innovation, productivity, and economic growth. In addition, the dissertation session will honour the top six dissertations in economic history completed during the 2004-05 academic year, with two prizes of $1,000 each for the most outstanding dissertations. Please visit the Economic History Association website at www.eh.net/EHA.

The XI Annual Meeting of the **International Committee of Money and Banking Museums** (ICOMON) will take place in conjunction with the general ICOM Conference in Seoul in October of this year. The theme will be "Money: Identity and Essence", and speakers are encouraged on every aspect of this broad title. In addition, preparations for elections onto the ICOMON Board will take place at this time and anyone interested should contact Richard G. Doty, ICOMON's president. Registration forms for the Conference will be sent out in due course, but those interested in receiving them early are advised to send requests by email to icom2004seoul@hotmail.com.

The **European Association for Evolutionary Political Economy** will hold its Economics History and Development conference from 28th-31st October 2004 in Crete. As the title suggests the conference will focus on the relationship between historical evolution and economic progress but from the viewpoint of economics imperialism'. It will also discuss the rediscovery of the social, the historical, the spatial, the institutional and the developmental, and the lack of parallel major innovations in methodology or theory within mainstream economics. More details can be found at www.institutionaleconomics.org/

The **International Institute of Social History** has released a Call for Papers for its forthcoming conference History of the Low Countries before 1850 to be held in Amsterdam from 18th–19th November 2004. The main area of discussion is the different aspects of the economy and society of the Low Countries in the pre-industrial period as a case study in international debates in this theme. Please see the website at www.iisg.nl for details.

The 2005 annual conference of the **Economic History Society** will be hosted by the University of Leicester from 8th – 10th April. The conference opens, on the afternoon of Friday 8th April, with papers presented by new researchers. This offers those completing doctorates the opportunity to present their work before professional colleagues and to benefit from informed comment. Those wishing to be considered for inclusion in the programme must submit a synopsis of no more than 500 words by Monday, 6 September 2004. A prize of £250 will be awarded for the best paper presented at the Conference by a new researcher and limited financial support is also available to enable new researchers to attend the Conference when this is not available from their institution. The Conference Programme Committee also invites proposals for entire sessions as well as for individual papers and welcomes proposals in all aspects of economic and social history covering a wide range of periods and countries, and particularly welcomes papers of an interdisciplinary nature.

Synopses and any enquiries should be directed to Maureen Galbraith at ehsocsec@arts.gla.ac.uk, although please be aware, conditions apply to all proposals, full details of which are available at www.ehs.org.uk/
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Good customers

When the farmer arrived at the bank to deliver his annual report on his financial condition, he announced that he had both good news and bad news.

"Well," said the banker, "let's hear the bad news first."

"You know the crop loan I've taken out from you every year for the last ten years?" the farmer replied.

"Yes", said the banker,

The farmer continued, "Well, this year I can't pay it back. And you know the mortgage I have on my land?"

The banker nodded.

"I can't pay it back either," the farmer said. "And the couple of hundred thousand I still have outstanding on my tractor and equipment?"

"Yes", said the banker,

"Well, it's yours" said the farmer.

There was a moment of silence.

Then the banker asked, "What's the good news?"

The farmer replied, "I just want you to know that I'm going to keep banking with you."

Around the turn of the century a speculator by the name of Charles Flint got into financial difficulties. He had a slight acquaintance with J.P. Morgan, Sr., and decided to touch him for a loan. Morgan asked him to come for a stroll around the Battery in lower Manhattan. The two men discussed the weather in some detail and other pressing matters, when finally, after about an hour or so, the exasperated Flint burst out,

"But Mr. Morgan, how about the million dollars I need to borrow?"

Morgan held out his hand and said goodbye, "Oh, I don't think you'll have any trouble getting it now that we have been seen together."

Charles Fox, one of Richard Brinsley Sheridan's contemporaries, piled up huge debts for gambling and other extravagant habits. His aristocratic father reproached him more than once,

"I do not know, sir, how you can sleep and enjoy the comforts of life, thinking about the vast sums you owe everyone in town."

"I do not know, sir," replied the young man, "how my creditors sleep."

A banker visited another easy living borrower to discuss outstanding debts, when his customer offered him a glass of champagne.

"How can you afford champagne," asked the banker "when you cannot even pay the interest on your debts."

"My dear man, let me assure you," said the bon vivan with champagne in hand, "I haven't paid for this either."

Inflation and love for Socialism

For decades, a light brown banknote featuring a picture of a worker was the smallest of the serial of banknotes in use. 10 dinars banknote was issued in 1978, yet by 1987, banknotes of 20.000 dinars were being issued. People used to make jokes, saying that the central bank had to put workers on banknotes because somebody had to work hard in order to print all those inflationist banknotes.

Most of the people who have lived in Socialist Yugoslavia hold a positive opinion about this period of their life. There is no doubt that the experience of war and the difficulties of transition years make their memories selective, but somehow, Yugoslav communists managed to run the country and continually raise the standard of living. Also contributing to the creation of this positive spirit towards life under Socialism is a particular monetary phenomenon - inflation.

From the early sixties, building credit became available through different forms of building credit associations in Socialist Yugoslavia. It was usually long-term credit with very low interest rate. During the late sixties, seventies and beginning of the eighties, cheap and easily available building and consumption credit was available to most of the working population provided by the companies where they worked, building credit associations or banks.

A significant share of the population in Socialist Yugoslavia used these credits to build houses. Taking into account ideological and consequently practical limits in developing private enterprises, investment in housing was the strongest and most common investment trend. Most rather more ambitious people built 200-400 metre square houses, as well as owning cottages on the Adriatic coast or in the mountains. Having limited investment opportunities, this generation of people active in the 1960s-80s, resolved not only their housing problems, but also the housing problems of their children and often even grand-children.

Inflation was one of the constancies of monetary life in Socialist Yugoslavia; sometimes higher, sometimes lower, and occasionally jumping to levels of hyperinflation. Such monetary circumstances, lead to the development of a specific business and living culture based on "do not keep cash" instinct. There is no doubt that inflationary monetary conditions additionally stimulated investment in housing.

Credits offered to the broad population, as a rule, had a low but more importantly fixed interest rate. In inflationary conditions, it meant that during the years of repayment debt lost its value. Typical long term building credit would lose its value in the first five to ten years. I recall my father going to the bank to pay off his last five years of mortgage with a banknote which would only cover the price of a box of cigarettes. I recall his comment: "Why did I not take a bigger credit?" And also his long lasting sympathy for Socialism.

Just how banks operated in such circumstances is not clear. Banking under socialism remains a topic which still awaits interested historians.

Damir Jelic

Tito, the controversial long-lasting president of Socialist Yugoslavia, was too smart to show his power by appearing in banknotes; this happened only after his death. And then he appeared on one of the hyper-inflationist banknotes, with which most mortgage credits were paid. Even in death, Tito seemed to care enough about his people - to pay off the mortgage.