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*Transformation of Bank Structures  
in the Industrial Period.  
The Case of Sweden 1820-1913*

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I.

Despite the fact that the literature of Swedish banking history is very extensive (comprising about 500 works), only a very small proportion of it has been published for an international readership. The most recent work is Lars Sandberg's examination of the relationship between the development of the banking system and the growth of industrialisation. For his international comparisons he applies the same quantitative methods of measurement as were developed by Rondo Cameron and Raymond Goldsmith.<sup>1</sup>

The development of the Swedish credit market up to 1913

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<sup>1</sup> A. FLUX, *The Swedish Banking System*. Washington 1910. O. GASSLANDER, *History of Stockholm Enskilda Bank to 1914*, Stockholm 1962. K.-G. HILDEBRAND, *Banking in a Growing Economy. Svenska Handelsbanken since 1871*, Stockholm 1972. An abridged version of 'I omvandlingens tjänst. Svenska Handelsbanken 1871-1955'. L. SANDBERG, *Banking and Economic Growth in Sweden before World War I*. *Journal of Economic*, XXXVIII, 1978, pp. 650-680.

Sandberg's broadly-based analysis, covering the period 1656-1913, ought nevertheless to be supplemented by a consideration of certain other aspects; not least with regard to the ways in which the functioning of the credit market and the structure of the banks were changed.

can be divided chronologically into three periods: an era of building-up prior to 1875, a consolidation phase between 1875 and 1895, and an epoch of expansion thereafter with directly decisive contributions to industrial growth and its financing.

## II.

The process that began in the 1820s and continued until the mid-1870s was vital to the entire development of the Swedish banking structure. This initial phase was characterised in Sweden by a number of very specific factors.

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In the first place, there were national political obstacles which, when Sweden was trying from the 1830s onwards to move along the path of imitation, delayed the adoption of current European banking systems. The dualistic constitution of 1809 contained an in-built contradiction between, on the one hand, a monarchical and bureaucratic government with a monopoly of financial legislation and, on the other, the Diet of Four Estates with unrestricted power over the national budget. Banking policy and banking questions thus became a key item in the power-struggle waged between these two centres of authority over their respective jurisdictions and at the same time was a vital issue between mutually conflicting interest groups in the government and *Riksdag*.

As matters transpired, therefore, it took forty years for the banking regulations of 1824 to be put into effect in 1864, when *inter alia* the right to establish banks was fully recognised while at the same time freedom of interest rates was introduced. The absence of any consistent Swedish bank policy was reflected in numerous distinctive features, although its consequences as far as the financing of industry was concerned were still slight around 1860 in consequence of the pre-eminence of the private loan market.

One of the many manifestations of the political struggle was the state's consistent support for note-issuing private banks during the 1830s and 1840s, which developed as a counter-weight to the *Riksdag's* privilege of administering the *Riksbank*. The latter's share of the note issue of 45 millions also fell gradually to 78% by the year 1850. The breaking-up of the previous note-issuing monopoly meant that resources and incomes were transferred from the state to the private sector — to the detriment of tax-payers but to the advantage of shareholders in private banks.

The reaction of the *Riksdag* was to launch an alternative to the odious private banking system: the branch bank system launched in 1851 meant that banking business was financed by privately-owned country banks lacking note-issuing rights but enjoying an underpinning of generous grants from the *Riksbank*. In the midst of the confrontation of European impulses then going on between the Scottish banking system's preference for increased borrowing and short-term financing on the one hand and, on the other, the Belgian model, under which capital was mobilised for long-term lending by underwriting of share issues, Swedish banking policy thus opted for a banking system inspired by the currency school, with branch banks using only *Riksbank* notes. A ten-year interlude began in 1852 featuring a type of bank that was unprofitable, subsidised by the *Riksdag*, and under the control of the government. The lendings of the 22 branch banks usually amounted to 40% of those of the commercial banks. It was characteristic of the situation that A.O. Wallenberg was compelled to wait nearly five years before he could try out his many banking innovations, introducing them first in the Filialbank in Sundsvall in 1855, then in the Stockholms Enskilda Bank from the end of 1856.

The organisation and shape of the credit market had been an open question in the early 1850s, and that decade was a period of transition between different interest groups. The strivings to apply the bank programme of association liberalism, i.e. the Scot-

tish banking system, to Swedish banking policy therefore first began to be translated into reality between 1856 and 1864.<sup>2</sup>

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In the second place, the institutional credit market was built up alongside a private loan market that had long been well developed and differentiated, so that the initial structural changes in the banking sector took place against a background of both favourable and unfavourable experiences of foreign borrowing arranged by commercial houses and merchant banks, of home borrowing from brokers on promissory notes, and of credit arranged between private individuals. The tradition stemming from the dominant, non-institutional credit market was strong, and one of its effects was to prevent the Scottish banking system (which had long been an ideal of the liberal-economic credit programme) from being adopted, since Scottish banking technology presupposed total dominance of the credit market, with no competition. Neither did the credit institutions become fully established until, during the devastating payments crises of the mid-1850s and 1860s, they had shown themselves to be superior to privately-arranged credit.

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Thirdly, it was characteristic that for a long time the boundaries between the business of the various types of bank were fluid. The most important activity of the *Riksbank* consisted of its direct, subsidised lending to the public and to business firms. This institution, petrified in bureaucracy and outdated forms, did not function as a central bank pursuing a definable monetary policy; instead, it was the two leading Stockholm commercial banks that acted as a "bankers' bank", so creating a commercial bank-

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<sup>2</sup> G. NILSSON, *Banker i brytningstid, A.O. Wallenberg i svensk bankpolitik 1850-1856*, Stockholm 1981, pp. 22-34, 328-368. The most detailed work available on Swedish banking policy during the 1850s.

ing network over the entire country. The mortgage institutions conducted regular banking business. Likewise, *Riksgäldskontoret* (the National Debt Office) made loans to banks and private persons; in both cases it was a matter of finding an investment for bond funds before they were tied up in loans to agriculture or to organs of the state. Even with the savings banks there were considerable elements of mercantile credit, of high-risk advances on export goods, and of loans on the security of shares.

One reason for the shapeless approach to credit on the part of the various types of bank was that all of them were competing with the private loan market and were able to appropriate shares of the market only gradually, as opportunity offered. For it was to the agricultural sector that the credit institutions gave the greatest opportunities of expansion. Loans for other objects were more in the nature of occasional experiments to gain experience. Even the commercial banks' credit profile took shape relatively late. It is true that these banks were founded at an early stage compared with other Nordic countries, and some of them quickly secured an important share of the institutional credit market. However, with few (but all the more illuminating) exceptions, the commercial banks retained their agrarian bias until the 1870s.<sup>3</sup>

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In the fourth place, the Swedish credit system during its formative phase was orientated towards meeting the needs of the agrarian sector for credit as it went over to commercialised and export-orientated farming from the middle of the 1840s onwards. As late as 1860, 140 millions of the total institutional credit volume of 210 millions went to agriculture. The remainder consisted of loans to commerce and the merchants of the towns. Only a trifling share went to the industrial sector. The vital role played by the savings bank system and the mortgage institutions in

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<sup>3</sup> I. NYGREN, *Svensk kreditmarknad 1820-1875. Översikt av det institutionella kreditväsendets utveckling*, Gothenburg 1981, pp. 129-134.

advances to farmers greatly influenced the specific profile assumed early on by the credit market, with the savings and mortgage banks as the leading credit institutions. Their activities were for a long time more extensive than those of the commercial banks.

The savings banks, which provided for the credit needs of small-scale farmers, escaped the hostility that characterised the *Riksdag's* attitude to the commercial banks. On the other hand the mortgage banks, whose links were more with the landed proprietors, the nobility and the private banks, were regarded with distrust by the Estate of the Peasants in the *Riksdag*. But it was both the savings and mortgage bank systems, with their agrarian lending, that chiefly dominated an epoch in which the problems involved in acquiring deposits had not yet been solved. The innovations and technical changes in banking practice effected in this often unregarded sector were therefore important for the building-up process of the entire credit system. Solutions arrived at by the savings banks and mortgage banks indirectly prepared the ground for the later expansion of the commercial banks.

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In the fifth place, one of the features of the era of expansion around the middle of the XIXth century was the fact that certain of the credit institutions had still not solved the problem of financing their advances. A complicating factor was that interest rates on the privately-arranged loan market in reality were free; those of the banking institutions were inflexible, never exceeding 6% before the end of the 1850s, and borrowing rates had to be adapted accordingly.

The difficulties were greatest for the commercial banks. The issuing of banknotes was their principal source of finance up to the 1860s. This involved an obligation to exchange their notes for those of the *Riksbank* on demand: it was highly lucrative, was premised upon steadfast rectitude, and initially afforded the banks considerable scope for expansion. However, note issuing

had unfavourable effects, and it led the banks into a cul-de-sac. For example, the convertibility obligation made it necessary to ration credit whenever trade conditions were depressed. Again, much inconvenience resulted from the fact that the notes were not valid for payments to the exchequer and also were easy to forge. Most of all, the notes of the smallest denominations — the only means of payment for small peasants, artisans and labourers — stayed out in circulation longest, thus furnishing the banks with their biggest income, while at the same time the commercial banks' ever-growing share of the note issue reduced the profit on the issue for the *Riksbank* and the entire nation. This provoked a reaction in the shape of criticisms of the banks justified on social, political and economic grounds. The debate over the consequences of the note issue threatened the very existence of the commercial banking system.<sup>4</sup> Recognition of the commercial banks as suitable providers of credit did not come until the 1860s, when direct borrowing released them from their dependence upon note issuing operations.

As far as the savings banks were concerned, the borrowing of money with a view to lending it out again counted strongly in their favour in the eyes of the public. Their dilemma lay in the interest-rate competition with the brokers. For the borrowing rates of the savings banks only became attractive just at the point where the demand for capital was declining and difficulties in placing loans were appearing. However, during the second half of the 1850s the savings banks managed, by tempting depositors with greater security than was offered by the brokers, to obtain funds despite the fact that the rate of interest on the free market was higher. At the same time a new technique of investment — the purchase of bonds — made it possible to earn interest on deposit funds when demand for credit contracted.

Fixed-term forty-year loans to agriculture by the mortgage

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<sup>4</sup> G. NILSSON, above note 2, *op. cit.*, pp. 13-22.

institutions were financed by bond issues both at home and abroad. Their imports of capital constituted a prerequisite of rapid expansion, but their borrowings in Sweden were extensive as well. The latter consisted of redeemable bonds of relatively small denominations and with short, variable terms of notice, which quickly became desirable objects for purchase by the general public, by banks, by private brokers, and even by *Riksgäldskontoret* as an investment outlet for the government's budget surplus. These redeemable bonds cast the mortgage banks in the role of innovators, since it was they rather than the commercial banks that opened the road for increased institutional deposit business. When liquidity considerations forced the mortgage banks to abandon this type of short-term borrowing around the middle of the 1850s, the commercial banks were able to take over the existing market demand through their deposit borrowings, whose terms were designed and adapted in conformity with the now vanished redeemable bonds. But as well as this the mortgage banks built up a Swedish bond market from the mid-1850s onwards through their new long-term amortisation bonds. On this foundation the commercial banks were able gradually to orientate their activities towards bond investment and bond business. In this way the commercial banks had succeeded during the first half of the 1870s in linking together the short-term money market and the long-term capital market. After a succession of intermediate phases a solution to the deposit problem had been arrived at.

### III.

Let us next scrutinise the structural evolution of the different types of bank down to the middle 1870s. The scope of institutional credit may be seen from the table below, which also gives an indication of its importance in relation to national income and gross national product.<sup>5</sup>

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<sup>5</sup> I. NYGREN, *Kreditformer och kreditinstitut i Sverige 1840-1910*. I: *Utviklingen*

TABLE 1

ADVANCES BY CREDIT INSTITUTIONS 1835-1875  
IN MILLIONS OF KRONOR

|      | Riksbank | Riksgäld-<br>skontoiet | Commercial<br>Banks | Savings<br>Banks | Mortgage<br>Institu-<br>tions | Others | Total<br>Credit<br>Volume |
|------|----------|------------------------|---------------------|------------------|-------------------------------|--------|---------------------------|
| 1835 | 27       | -                      | 2                   | 2                | 2                             | ..     | 33                        |
| 1840 | 32       | 1                      | 10                  | 5                | 13                            | ..     | 61                        |
| 1845 | 35       | 7                      | 10                  | 6                | 18                            | ..     | 76                        |
| 1850 | 35       | 4                      | 16                  | 11               | 33                            | ..     | 99                        |
| 1855 | 33       | 4                      | 24                  | 20               | 70                            | ..     | 111                       |
| 1860 | 40       | 5                      | 54                  | 27               | 85                            | (15)   | 211                       |
| 1865 | 35       | 7                      | 74                  | 35               | 129                           | (20)   | 226                       |
| 1870 | 43       | 8                      | 121                 | 57               | 156                           | (30)   | 415                       |
| 1875 | 49       | 7                      | 264                 | 111              | 213                           | (55)   | 699                       |

## Assets as Percentage of National Income

|      | Riksbank and<br>Commercial<br>Banks | Ditto including<br>Savings<br>Banks | Ditto including<br>Mortgage<br>Institutions | Assets of Credit<br>Institutions<br>as % of GNP |
|------|-------------------------------------|-------------------------------------|---|---|
| 1830 | 13                                  | 15                                  | 15  | ..  |
| 1840 | 17                                  | 19                                  | 23  | ..  |
| 1850 | 18                                  | 22                                  | 34  | ..  |
| 1860 | 30                                  | 35                                  | 50  | 60  |
| 1870 | 35                                  | 43                                  | 64  | 71  |
| 1875 | 45                                  | 56                                  | 77  | 87  |

Thus, in the middle of the 1870s there was a functioning institutional credit system in Sweden. The financing quotient, i.e. the increase of advances in relation to the rise in gross investments, amounted to over 40%. Its quantitative growth had taken place mainly during the years 1848-57 and 1868-74. The *Riksbank*, its lending pattern a survival from the eighteenth century, still dominated the total volume of credit in the 1840s. After that the newly-established credit institutions reigned supreme.

av kreditt og kredittinstitusjoner i de nordiske land ca. 1850-1914, Trondheim 1978, pp. 1-2.

me. It was the appearance of innovations in banking technique that determined the time of their expansion on the credit market.

The early debate over a mortgage loan system in Sweden concerned the question whether a central state-guaranteed mortgage establishment or a system of decentralised associations should be set up. The majority in the *Riksdag*, who had a strong interest in solving the credit difficulties of the agrarian sector, recommended independent associations. The first of these was established in Skåne in 1836, and between 1845 and 1851 five more opened for business. Originally the aim of the mortgage banks was to consolidate the older short-term debts of landowners to brokers and moneylenders; later on the objective became one of mobilising new business capital for the expansion of agricultural exports.

However, the mortgage banks quickly became unpopular in the *Riksdag* because peasants with smaller farms were excluded from receiving credit. Moreover, they were founded by persons with close links with the commercial banks and who were interested in their establishment during a period when the banks were to be abolished. Distrust of the mortgage banks increased during the 1850s as a result of their uncontrolled foreign borrowing and regular banking activities. The former rose from 13 to 40 millions in 1850-53, while the latter amounted to almost 9 millions in 1851 or over half the total advances of the commercial banks at that time.<sup>6</sup> When the banks were hit by a decided deterioration of borrowing terms from 1856 onwards, this caused the mortgage system to be centralised. *Sveriges allmänna hypoteksbank* (the General Mortgage Bank of Sweden) was formed in 1861, and the seven former mutually competing regional mortgage associations were reorganised. They continued to operate independently in making advances, but they became totally dependent upon the bond issues of the state mortgage bank for financing their credits to agriculture.

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<sup>6</sup> G. NILSSON, above note 2, *op. cit.*, pp. 19-22, 348-349.

The transition to a central bond-issuing institution was one of several examples of the rapid structural readjustment that occurred in the mortgage system over a fifteen-year period. The innovations were so fundamental that the lending pattern became fixed for a hundred years ahead; the course of events from the 1860s onwards was really of only quantitative interest. The application of modern issuing and lending techniques was so distinctive for its day that in 1872 the two biggest mortgage banks in Sweden — those of Småland and Östgäta — were still able to record a larger volume of lending than Skånes Enskilda Bank and Skandinavbanken, the biggest banks in Sweden at that time.

The process was facilitated by five factors. 1. The mortgage institutions made advances almost exclusively to the agrarian sector, whose borrowing needs completely dominated the institutional credit market, and in addition to this they had a monopoly of lending on fixed assets with instalment repayment periods of up to forty years. 2. They preferred to give credits to the large and middling landed proprietors of Sweden and so from the start financed the reorientation of large-scale farming towards commercialised exporting, which in turn involved a requirement for considerable amounts of credit. 3. The absence of small loans with frequent turnover simplified administration and lending routines. 4. The opportunities for rapid adaptation of borrowing and lending were additionally facilitated by the fact that every mortgage association was run from a single office without any unwieldy administrative network. 5. Finally, the board members personally had good qualifications for exploiting the opportunities and contacts offered by the foreign and Swedish capital markets.

With the pent-up demand for credit that existed, the mortgage institutions had no difficulty in increasing their lendings. On the contrary, the queue for loans was long, and the only obstacles were the time-consuming juridical lending formalities and, in certain years, excessively burdensome interest rates. The

crucial factor determining the development of events was the scope for obtaining sufficient capital without the aid of either note issuing or deposits.

It has already been emphasised that the institutional pioneers in the field of short-term deposits from the general public were the mortgage banks. During the 1840s the three mortgage banks — Skånska, Östgåta and Smålands — helped to enlarge the still very insignificant supply of bonds, although on terms quite different from those applying to bonds issued in Hamburg and London. The bonds were really simple promissory notes repayable at short notice, as a rule only six months or even on demand. This pattern was well adapted to the short-term character of the still-dominant market in private promissory notes, and the terms were also appropriate for the sporadic borrowing of *Riksgäldskontoret*. However, these redeemable bonds were unsuitable for the mortgage banks from the liquidity standpoint. Borrowings redeemable at six months' notice were set against advances repayable by instalments over forty years. This primitive issuing technique was possible only as long as the demand for bonds was rising. As has already been noted, the liquidity problem was also behind the much-criticised regular banking business in which a certain proportion of the borrowings had to be lent out at short notice in order to meet demands for repayment from the holders of redeemable bonds. The appearance on the scene of four more mortgage banks saturated the market, however. Foreign borrowing became more and more important; issues amounting altogether to 50 millions were made, compared with 20 millions on the home market. But by the middle 1850s the increasingly abundant supply of money within Sweden provided scope even for less liquid objects of investment. The experience gained in foreign issuing techniques was then applied to the raising of bond loans at home. Instalment loans with long and fixed terms were floated at almost the same effective rate of interest as in Hamburg. A capital market in long-term bonds was built up,

expanding further through mortgage bank and *Riksgäldskontoret* issues amounting to 110 millions between 1860 and 1875 (when their foreign borrowings amounted to 180 millions).

This bond market created the conditions for issuing activities organised through the commercial banks, which subsequently continued with railway and industrial bonds from 1869 onwards. However, the commercial banks reaped a further advantage from the mortgage banks' business. They were able to start up a substantial borrowing business by giving out deposit receipts, as they were termed. This novel deposit account replaced the former short-term redeemable bonds which had filled the need for an investment outlet prior to the middle 1850s.

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Structural change in the mortgage institutions was facilitated by the large scale on which both deposit and lending business soon developed. The tendency in respect of the savings banks was the opposite, and their innovations of credit market banking technique took place against a quite different background situation.

A notable feature of the Swedish savings bank system was the establishment of a fine-meshed network of large and small local banks. The units functioned as independent credit institutions with mutually distinct deposit and loan policies depending upon the regional situation and on whether the area of operations was a county, a small country parish, a large town or a moderate-sized village. This differentiated development was still a characteristic feature as late as the 1960s and had first appeared during the 1820s and 1830s, when the savings banks were almost the only functioning banks in Sweden. Thus, by 1875, 325 independent savings banks had been established, with deposits from 700,000 account-holders distributed among 875 offices. The commercial banks numbered 37 with a total of 230 offices. There was a bank

in almost every neighbourhood, thanks to the savings bank movement.

Another innovation introduced by the savings banks was the development of direct borrowings from the public as a source of finance for their credit operations. This made them pioneers of the deposit business long before the latter attained a corresponding importance in the commercial banks. It was also a source of strength to the savings banks that their establishment was assisted by the government with a view to stimulating savings. It is true that duties of encouraging savings were often ridiculously framed bearing in mind the real saving capacity of the populace, and the expansion of savings bank deposits down to 1869 resulted entirely from the propensity to save of well-to-do individuals before the surplus of money in the early 1870s made saving more generally possible even among the poorer classes of society. But these philanthropic efforts to reduce the cost of poor relief among local authorities by encouraging small savings among persons of slender means did extend a comprehensive network of savings banks over the entire country, gradually accustoming the people at large to the idea of banks.

Independent lending had emerged as a result of the state's refusal to invest its borrowings. The savings banks developed the local institutional credit market through their independent credit operations. Right from the beginning they differentiated their lending styles to conform to the varying needs that existed, granting credits against whatever types of security were most suitable in the respective regions.

Just as with other credit institutions, consideration for agrarian loan requirements was an important factor in the development of the savings banks. As early as the middle 1840s, savings banks on Danish lines were being set up in rural areas, the granting of credit facilities being more explicitly the primary aim than the stimulation of savings. Some of the units concerned did business over an entire county, some were confined to a small

*härad* (hundred, a minor local government district), while a large number of others in the 1860s were parish savings banks. Altogether about 235 agrarian savings banks granted not only loans of working capital on personal security, but also long-term investment credits against mortgages on agricultural holdings. The establishment of these banks was supported by county governors, agricultural societies and farmers' associations, for it meant that the smaller peasants in particular would be released from their dependence upon burdensome high-interest loans from loan brokers. It also helped to shape the Swedish savings bank system into one typified by very varying sizes of bank.

It was the banks in the towns, however, that developed the greatest versatility in their credit operations. Because opportunities of getting an adequate return on the deposits of the well-to-do were greater in the towns than in rural areas, urban growth accelerated the expansion of the entire savings bank system. As early as the 1820s the thirty urban savings banks then established were actually functioning as quasi-commercial banks for the merchants of the towns. It was characteristic, too, that the savings banks were established with a view both to developing savings and to facilitating credit business in a number of residential and coastal towns of south and central Sweden during the 1830s and 1840s, when internal trade was expanding and exports of corn were starting, along the Norrland coast during the 1850s as an accompaniment to timber exports, and in a large number of new communities centred on railways during the 1860s.

As long as the urban savings banks had to compete with the high level of interest on privately-arranged borrowings (especially during crisis years), they had to keep their lendings liquid, with easily-realizable security. Loans against personal surety formed the most common type and functioned against the background of the excellent opportunities afforded by a local credit market for personal knowledge and evaluation of creditworthiness. Loans generally consisted either of small consumer credits of between

50 and 300 *kronor* or of large-scale business credits to merchants and artisans. However, the savings banks also made inroads into other fields of business which had traditionally been the province of merchant houses and loan brokers. The occupations pursued by board members and the close contacts with locally-expanding businesses and industries thus determined the avenue of investment selected and extended the range of different types of credit business conducted by the savings banks.

In the Gothenburg savings bank, for example, loans on goods exported and imported played a considerable role. The bank also financed a third of the share capital when the town's first commercial bank opened nearly thirty years after the establishment of the savings bank. Loans on shares were not unusual in fact. For the solidly-established commercial banks were unable to make loans on their own or each other's shares — only joint stock banks had the right to do that — and the savings banks were therefore often the only source in a neighbourhood from which shareholders in the commercial banks could borrow on their shares. In southern Sweden, loans against the security of local railway shares were common from the 1860s onwards. During the 1870s the Norrland savings banks began to grant extensive credits against the security of shares in timber firms. Another example was furnished by the Stockholm savings bank, which opened 36 years before the city's first commercial bank, with its business in local authority loans, a feature which expanded later with the introduction of new local authority legislation in 1862.

During the 1860s competition arose between urban and agrarian lending. The savings banks adapted themselves to the increased level of housing construction, and lending on real property became a very important part of their credit operations from then on. One reason for the transition to a smaller number of larger and more secure mortgage loans could be that deposits

were beginning to be less volatile, emanating from the long-sighted savings of more and more individuals.<sup>7</sup>

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No new commercial banks were founded in Sweden between 1848 and 1856. Prior to that period, seven had been opened since 1831. These were located in important administrative provincial towns; of the commercial and industrial towns, only Gothenburg had its own bank (from 1848). They conducted a primitive type of credit operation for the benefit of the propertied classes, hostile to the borrower, rigid in approach and financed by banknotes that circulated among the less well-to-do. After a certain period of activity the business sagged, so that it was the newly-established banks' brief period of prosperity that was responsible for the total increase of lending recorded. The entire future of the banks was uncertain because of the highly hostile attitude of the Estate of the Peasants in the *Riksdag*.

It is true that the Swedish commercial banking system prior to the middle of the nineteenth century was notable for solidity and profitability, but it did lack liquidity. Its advances were generally on a long-term repayment basis of two and a half years, and when the demand for loans was high rationing was achieved not by raising interest rates but by stopping lending. Deposits were negligible.

However, the 1850s were the first decade to feature banking innovations and structural changes of significance for the future. The most vital development for the functioning of the commercial banks was that it was now possible for the former very narrow and locally-limited type of credit operation to be loosened up under the impact of a more reliable system of information. As a result of improved communications (the postal ser-

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<sup>7</sup> I. NYGREN, *Svensk sparbanksutlåning 1820-1913*, Gothenburg 1967. *Västsvenska sparbankens medelplacering 1820-1913*, Gothenburg 1970, *passim*.

vice, the steamship and later on the railways) and with the aid of bankers' drafts and clearing accounts between the banks at the Stockholms Enskilda Bank (later the Skandinavbank), which functioned as a central bank, a commercial banking network was created and extended gradually over the entire country. This nullified the advantages which the merchant houses had derived from their nationwide personal contacts. Another consequence was that surplus capital could be shunted between regions as the demand for credit shifted. Thus conditions were created for a more systematic type of industrial credit business. So it was that Norrland, previously attractive to the banks only as an outlet for circulating banknotes and (because of the minimal risk of redemption) as a reliable source of finance for lending operations in southern and central Sweden, was able during the 1860s to take advantage of surplus agrarian funds from southern Sweden. The credit system began to be characterised by increased elasticity and market integration, but also by closer cooperation between the commercial banks.

Moreover, a deposit technique was developed that allowed a return to be obtained on short-term ready capital and afforded a safe outlet for liquid funds, although at lower rates of interest than were offered by loan brokers for less liquid loans. The deposit receipts, as they were termed, of the commercial banks became an attractive form of deposit despite their interest ceiling of 5%, and they formed a novel alternative for the deposits now amassed by the savings banks, especially after bonds became fixed on a long-term basis and so no longer had the character of short-term instruments. Few banks took advantage of the situation before 1856, but after that date their deposit business represented a generally-accepted step away from a hazardous dependence upon note issuing.

Finally, the 1850s formed a watershed between the traditional, rationed form of lending and a more liquid type of credit business on banking and market lines. It was thus that the discounting

of bills of exchange emerged into prominence. The letters of credit copied from the Scottish banking system were converted from a note-issuing account to a short-term cheque or current account adapted to meet the demand of the economy for working capital. Discount loans too, which had Swedish fore-runners and became the predominant form of advance in the agrarian sector, were modernised and no longer called in when they were needed most. They became more liquid in character and more rapid instalment payments were required, but on the other hand they were granted much more freely even during years when monetary conditions were tight.

A series of legislative reforms in the year 1864 both confirmed the developments of the 1850s and prepared the way for entirely new departures. By the mid-1870s, therefore, the commercial banks had arrived at an organisation and a business structure which were retained in their essentials until the middle 1890s. Three features were specially noticeable. About a score of new commercial banks came into existence, including large joint stock banks chiefly based in Stockholm but also *Folkbanker* ('people's banks', roughly equivalent to the English 'penny banks'), which were designed to meet the deposit and credit needs of persons of more modest means. Moreover, with a view to increasing the scope for amassing deposits, offices were opened on an ambitious scale, a fairly comprehensive network of banks being established in the form of 140 new branches. In addition to this, management became more continuous. A bank no longer ceased formally to exist after doing business for ten years. Continuity was also assisted by the fact that the basic or share capital had to be paid up in full and invested in the form of bonds.

In the second place, the banks acquired the opportunity of long-term planning. They moved towards a more industrially-orientated but at the same time hazardous form of industrial credit business. This applied particularly to the large commercial banks in Stockholm, whose loans against shares and enlarged

foreign currency dealings emerged as the innovations of the decade. Industrial lending spread throughout Sweden, but some degree of concentration or division of labour occurred, as for instance with the Skandinavbank's bias towards home-market industries, the Stockholms Enskilda Bank's financing of the saw-milling industry and certain ironworking firms, or the more thoroughgoing involvement in Stockholm industry on the part of the Stockholms Handelsbank. Industrial lending preponderated among some of the provincial banks of central Sweden as well, while Skånes Enskilda Bank, the biggest commercial bank in Sweden, continued to concentrate its attention upon the financing of agriculture. In these ways, fields of activity were taken over which had previously been the exclusive preserves of merchant houses and brokers.

In the third place, the boom of 1869-74 involved a much greater degree of growth than had previously marked the commercial banks. Above all, the expansion of deposits allowed a new banking technique to be made available to the market, which at last snatched away the conditions of existence of the market in privately-arranged loans. Their issuing business in bonds and shares enabled the banks to liquidate older long-term investment credits, placing the funds thus released in short-term working credits. That the issues were a success is due to three factors. The savings banks purchased bonds as an investment outlet for their surplus deposits. The commercial banks used their expanded deposits in order to lend money on bonds and shares. They also retained their bonds in the expectation of a forthcoming rise in stock market prices. The local authority, railway and industrial bond loans arranged by the commercial banks amounted to 122 millions in the years 1868-74 compared with 15 during the period 1862-68. After a long period of adjustment the commercial banks had become a link between the short-term money market and the long-term capital market.<sup>8</sup>

<sup>8</sup> I. NYGREN, *Svensk kreditmarknad 1820-1875. Översikt av det institutionella*

## IV.

The period 1875-95 can be designated an era of consolidation of the institutional credit market. The years 1880-95 in particular have been characterised as the banks' calmest period.<sup>9</sup> Business was free from great and revolutionary events, and sensational innovations did not become necessary. However, a survey of

TABLE 2  
ADVANCES BY CREDIT INSTITUTIONS 1875-1895  
IN MILLIONS OF KRONOR

|   | Riksbank | Commercial Banks              | Savings Banks | Mortgage Institutions         | Insurance Companies | Others                                | Total Credit Volume |
|---|----------|-------------------------------|---------------|-------------------------------|---------------------|---------------------------------------|---------------------|
| 1875  | 49       | 264                           | 111           | 213                           | 55                  | 7                                     | 699                 |
| 1880  | 66       | 287                           | 121           | 289                           | 60                  | 4                                     | 827                 |
| 1885  | 74       | 417                           | 190           | 331                           | 85                  | 9                                     | 1,106               |
| 1890  | 89       | 457                           | 241           | 361                           | 95                  | 12                                    | 1,255               |
| 1895  | 78       | 560                           | 293           | 329                           | 115                 | 22                                    | 1,397               |
| Assets as a percentage of the national income |          |                               |               |                               |                     |                                       |                     |
|   |          | Riksbank and Commercial Banks |               | Ditto including Savings Banks |                     | Ditto including Mortgage Institutions |                     |
| 1875  |          | 45                            |               | 56                            |                     | 77                                    |                     |
| 1880  |          | 53                            |               | 64                            |                     | 86                                    |                     |
| 1885  |          | 65                            |               | 76                            |                     | 98                                    |                     |
| 1890  |          | 64                            |               | 78                            |                     | 104                                   |                     |
| 1895  |          | 69                            |               | 88                            |                     | 105                                   |                     |
|   |          | Growth in Volume of Credit    |               | Financing Quotient            |                     | Volume of Credit/GNP                  |                     |
| 1871-75                                       |          | 284                           |               | 41%                           |                     | 0.53                                  |                     |
| 1876-80                                       |          | 128                           |               | 17%                           |                     | 0.61                                  |                     |
| 1881-85                                       |          | 279                           |               | 43%                           |                     | 0.80                                  |                     |
| 1886-90                                       |          | 149                           |               | 22%                           |                     | 0.83                                  |                     |
| 1891-95                                       |          | 142                           |               | 21%                           |                     | 0.88                                  |                     |

Source: NYGREN I., above Note 5, *op. cit.*, Sveriges Riksbank 1688-1924, V, Stockholm 1931, pp. 18-24.

kreditväsendets utveckling. Meddelanden från Ekonomisk-historiska institutionen vid Göteborgs universitet, 47, Gothenburg 1981 with the literature cited therein. The survey of the development of the commercial banks bears the impress of Ernst Söderlund's and Göran B. Nilsson's researches.

<sup>9</sup> E. SÖDERLUND, Skandinaviska banken i det svenska bankväsendets historia 1864-1914, Stockholm 1964, p. 178.

the quantitative evolution of the credit market between 1875 and 1895 suggests that quite exciting developments did take place even though the crisis years 1877-79 and 1885-88 produced a considerably inhibiting effect upon growth.

The low financing quotient during three of the four five-year periods is notable, though it was not caused solely by the two severe crises. It was equally a result, firstly, of extensive self-financing, especially in urban building construction, and secondly, of the role of bond-financing during the first half of the 1890s.

One reason why the period appears uneventful and uninteresting to the eye of the banking historian is that the bank sources are beginning to be scanty and uninformative. The minutes of board meetings become more and more lacking in details of the banks' situation and credit policy. Their emptiness is symbolised by stereotyped enumerations of transactions that have already taken place. Another and perhaps more important reason is that this complex period with all its difficulties of interpretation has hitherto been viewed in very crude terms by scholars. The trade cycle movement from 1877 onwards was long regarded as a continuous depression marked by pronounced difficulties for agriculture, the iron industry and the building trade.

However, the crisis years should not be allowed to conceal the considerable increase of industrial production, the capital-intensive technological advances, the balanced but often self-financing propensity to invest, and above all the fact that the 30% price fall of the period had favourable consequences for wage-earners in the form of rising real wages and increased scope for saving. The credit system expanded too. However, the expansion took place within the framework of the structure as it had developed by the middle 1870s.

## V.

Even during this phase of consolidation certain significant changes which opened the way for an even more advanced bank-

ing technique to be harnessed to the service of industrialisation after 1895. Among these were the transformation of the *Riksbank*, the establishment of the Bank Inspection Board, the consolidation of the number of bank offices, concentration by the banks on their own deposits, and the move towards lending on real property.

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Not until the middle 1870s did the Swedish *Riksbank* begin gradually to function as a central bank. Its discounting policy became flexible and was adjusted in conformity to capital movements and currency rates of exchange. By the middle of the decade the *Riksbank's* credit operations had already been modernised; state-subsidised lending on formalistic loan terms was abandoned. Instead, the *Riksbank* developed a liquid bill-discounting business on banking lines, while lending moved even further in the direction of advances on real property, shares and bonds. The aggregate volume amounted to about 15% of such lending by the commercial banks.

At the same time the banking policy of the *Riksbank* became more objective and less dramatic than it had been previously. The problem of the note issue was resolved in 1886, when the principle of a *Riksbank* monopoly was adopted. In return, the other banks received borrowing and rediscounting facilities at the *Riksbank*. Already in the crisis of 1878-79 the *Riksbank* moved to alleviate the liquidity difficulties of the banks by granting advances against bonds, and the tendencies towards cooperation were intensified. Thus, by the mid-1890s the *Riksbank* was functioning in fact as a bankers' central bank even though the actual expansion of *Riksbank* credits did not take place until after 1900.<sup>10</sup>

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The establishment of a modern national bank was a reflection

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<sup>10</sup> S. BRISMAN, *Den stora reformperioden 1860-1904. Sveriges Riksbank 1668-1924*, IV, Stockholm 1931, pp. 9-12, 48-68.

of a more progressive government banking policy during the period. Another such manifestation was the fund established in 1879 for granting advances against Swedish railway bonds, which rescued the banks from the liquidity crisis of 1878-79. This fund of 23 millions made loans to the commercial banks on the security of the railway bonds which they had acquired at high prices in an excess of optimism during the boom of the early 1870s and which, now being unsaleable, represented heavy capital losses.

In parallel with this process, however, comprehensive government regulation and control of the activities of credit institutions were developing. An internationally unique feature was bank inspection, which was introduced in 1877 for the purpose of scrutinising all the activities of the commercial banks. Its original objective was to keep watch over the convertibility of banknotes; during the 1880s the main aim was to guarantee the funds of depositors. Implementation of this intention involved examining the banks' advances and other placements of capital. From the middle 1890s onwards another important duty of the bank inspectorate was to oversee the relationship between the banks and industry. Thanks to the bank inspectorate, too, a very extensive body of source material has come down to us covering the operations of the Swedish commercial banks since the 1880s, and this more than compensates for the gaps in the banks' own archives, including as it does detailed monthly statistics and records of almost all major loans.<sup>11</sup>

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A feature very characteristic of the years 1875-95 was the consolidation that took place of the number of both commercial and savings banks and bank branches. The changes were few,

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<sup>11</sup> G. DYVERFELDT, *Något om bankinspektionen och dess material. I: Ur ekonomisk-historisk synvinkel*, Stockholm 1971, p. 13. *Benckerts testamente. Konfidentiella anteckningar angående bankinspektionens verksamhet*. Published under the auspices of E. Söderlund, Stockholm 1976, *passim*.

and the number of commercial banks newly established was similar to the number wound up. The stagnant trend was even more in evidence where numbers of branches were concerned: these fell by 10%.<sup>12</sup>

Thus, the establishment of banks during the preceding period turned out to be more than sufficient to contain the rising total of assets and to meet the current demand for banking services.

This applied to the savings bank system especially, which no longer had any need to increase its deposits, these amounting in 1890 to 340 millions, or only 20% less than those of the commercial banks. The rural savings banks particularly encountered difficulties in placing their funds because of the reduced demand for agrarian credits.

But even the commercial banking system had become more rigid both structurally and functionally than it had been during the 1860s and 1870s. One reason for this was that the earlier build-up of branches turned out to have been far too optimistically conceived. The need of the economy for the credit services of local offices grew more slowly than had been estimated.

But above all, the future for the note-issuing banks (which dominated the commercial banking system outside the large towns) still appeared to be uncertain. The withdrawal in 1879 of the right to issue five-kronor notes (the lowest denomination) reduced the profitability of branch offices, whose ready cash had largely consisted of such interest-free notes, and in the 1880s the threat of a ban upon ten-kronor notes as well did nothing to improve the situation. The conditions required for a profitable branch network were thereby diminished considerably.

A new tendency therefore began to emerge. True banking business became concentrated in the head offices, whose activities began to be confined to such of the surrounding areas as were

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<sup>12</sup> E. SÖDERLUND, *Skandinaviska banken i det svenska bankväsendets historia 1914-1939*, Stockholm 1978, pp. 53-54.

judged from the communications and economic standpoints to form a natural hinterland.

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In addition to this, the inclination to maintain branch offices with a view to working up deposit business diminished because of the general trend of the decade whereby deposits rose considerably faster than advances. By 1880 deposits already amounted to 80% of advances, and ten years later the commercial banks were able to finance their credit operations entirely out of deposits. The placing of deposits in bond investments was regarded as unsuitable. It was fear of again sustaining losses like those of the 1870s that constituted the banks' biggest problem in finding outlets for their money. They therefore had no reason to maintain branch offices, which only increased deposits further.

The surplus of deposits was caused by a level of interest rates that was far too high, but at the same time it did mean that the Swedish commercial banks had very strong resources with which to meet the demands for industrial finance from 1895 onwards. The concentration of the banking system in major centres along with its regional centralisation also caused sundry commercial banks with roots in smaller local neighbourhoods to be founded. The growth of deposits also forced the country banks one by one to open offices in Stockholm in order to channel their surpluses into credit business outside their own actual regions of operation. Finally, the increasing volume of deposits meant that new loan markets began to be cultivated.

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One of these was the mortgage loan market. As the table below reveals, lending on the security of real property was for a long time a concern of the private loan market.

However, during the 1880s mortgage loans emerged as a feature of institutional credit. Firstly, loans against real property

TABLE 3

## PERCENTAGE SHARE OF CREDIT INSTITUTIONS IN MORTGAGED REAL PROPERTY 1880-1910

|      | Rural<br>Mortgage<br>Banks | Urban<br>Mortgage<br>Banks | Mortgage<br>Compan-<br>ies | Commer-<br>cial<br>Banks | Savings<br>Banks | Insurance<br>Companies | Total<br>% |
|------|----------------------------|----------------------------|----------------------------|--------------------------|------------------|------------------------|------------|
| 1880 | 20                         | 1                          | 2                          | 1                        | 6                | ...                    | 30         |
| 1890 | 18                         | 1                          | 6                          | 4                        | 10               | 5                      | 44         |
| 1900 | 13                         | 1                          | 6                          | 8                        | 11               | 6                      | 45         |
| 1910 | 8                          | 2                          | 6                          | 14                       | 13               | 6                      | 49         |

Source: C.-R. CRAMÉR - K.-A. FREDRICSSON, *Svensk fastighetskredit*. Stockholm 1942, pp. 44, 56, 76, 97, 120.

as surety accounted for the great bulk of the aggregate increase of lending by commercial and savings banks (see Tables 5 and 6). Secondly, that decade saw the establishment of new credit institutions (urban mortgage banks and companies) orientated entirely towards the advancing of loans on new urban building.

The lending profile and loan structure of the commercial banks was changing. In 1875 mortgage loans had formed 31% of outstanding loans. By 1890 the figure had risen to 59%, and the increase was at the expense of loans against personal guarantee. The credits went to two sectors. Firstly, there was extensive lending to industry on the security of mortgaged industrial real property including a growing element of more and more valuable holdings of woodland.<sup>13</sup> Secondly, lending for the building activity that played a very important part in the growth of the 1880s figured prominently, especially in the business of the country banks.

This process had begun among the savings banks as early as the 1860s, and loans on real property amounted to 54% in 1878. Between then and 1895 these figures were trebled to form 64%

<sup>13</sup> E. SÖDERLUND, *above note 9, op. cit.*, p. 198.

of the credit business of the savings banks. Their advances went to finance the building of new population centres.<sup>14</sup>

Another manifestation of the growing importance of advances on urban real property during the 1880s was the establishment of thirteen urban mortgage banks in the medium-sized towns of Sweden and five mortgage companies in the four biggest towns. These financed their activities mainly by borrowing on bonds. Several of them were already recording impressive volumes of lending by the early 1890s, but it was after 1900 the real quantitative breakthrough occurred on the mortgage loan market.

Thus, when the need for industrial credits was growing after 1895, Swedish industrial financing was facilitated to a high degree by the fact that the extending of credit for building construction was an activity that had already been enlarged. Loans on real property were firmly rooted in the credit structure among both the commercial and the savings banks. There was the further feature among the commercial banks that mortgage loans to industry along with the discounting of bills of exchange often formed the starting point of more expansive collaboration after the turn of the century. This process of development emerged during the 1880s in consequence of the fact that the expansion of deposits and the much-reduced agrarian credit requirement during that decade enforced a further reorganisation of credit operations.

## VI.

By the middle of the 1890s, the institutional credit market had successively served the capital requirements of commerce, agriculture, the communications system, housing construction and industry. The agrarian sector's demand for loans had accelerated the development of this savings bank and mortgage system, which

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<sup>14</sup> I. NYGREN, *Svensk sparbanksutlåning 1820-1913. En analys av de större sparbankernas kreditgivning*, Gothenburg 1967, pp. 56-80.

was internationally unique and whose banking innovations had been crucial to the growth of the volume of credit. Building activity in the towns had also given birth to special mortgage institutions and companies dealing in long-term financing. The growth of insurance companies too was dependent upon the scope available to them for investing their premium incomes in large-scale mortgage lending. These credit institutions developed a banking and credit-rating technique capable in part of being applied by the commercial banks.

Above all, however, these institutions opened channels by which long-term savings could reach borrowers in need of long-term loans. This was important, for in the long run a functioning commercial banking system presupposed the emergence of a division of labour between the long-term capital market and the short-term capital market; likewise the banks had to operate as a link between the two markets. In the Swedish case, political recognition of their right to existence was also necessary. Both of these premises were complied with during the 1870s.

It was thanks to favourable conditions during the decades after 1850 that the problems of long-term financing were resolved. One of the vital prerequisites was the importing of long-term capital, firstly for railway building and then from 1895 onwards for urban development and local authority construction projects. This enabled the costs of laying down an infrastructure to be off-loaded on to the foreign market, so that only 5% of industry's bond borrowings of 580 millions between 1870 and 1910 had to be issued abroad.<sup>15</sup>

Apart from the establishment of special credit institutions, which financed their lending with long-term savings, the fact that the bond market in Sweden began to be developed as early as the 1850s was exceedingly opportune. This market, whose first

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<sup>15</sup> T. GÅRDLUND, *Svensk industrifinansiering 1830-1913*, Stockholm 1947, pp. 140, 163.

task was to satisfy the credit needs of the agrarian sector, furnished a new financing technique for private railway companies and industries from the 1870s onwards. The cooperation of the commercial banks in creating an active bond market, characterised not only by issues but also by trading in bonds, played a prominent role even though participation lessened temporarily after their stock exchange losses during the crisis of 1878-79.<sup>16</sup>

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By the middle 1890s the commercial banks had developed a banking technique which solved many of the problems of the short-term credit market. Their liberation from the note issuing business gave the banks as a group a stronger position as creators of credit inasmuch as only then did their increased lending flow back to them through the deposit accounts of the banking system. The lending capacity of the system was expanded very substantially. It became more secure also, as a result of more reliable property credit rating. Banking technique was further adapted to conform to such requirements as were successively and gradually unfolded to view.

Their taking over of currency dealings and foreign transactions from the merchants houses enabled the commercial banks to establish good connections abroad. This meant that during temporary liquidity difficulties there were opportunities of obtaining short-term imports of capital from the foreign banking network but also of exporting considerable amounts of capital when lending was in the doldrums. It was likewise thanks to close personal contacts with French and German bankers that it was possible to conduct a substantial issuing business in Swedish government and mortgage bonds abroad.

The strains on the liquidity of the commercial banks, formerly

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<sup>16</sup> E. DAHMÉN, *Innovationer i kreditväsendet under den svenska industrialiseringen*. I: Money, Growth, and Methodology in Honor of Johan Akerman, Lund 1961, pp. 445-447.

so noticeable, were relieved by the close links between the country banks on the one hand and the Stockholm banks on the other. The expansion of deposits during the 1880s coincided with the start of considerable transfers of capital via the Stockholm banking world. This signalled the emergence of a national banking structure despite the tendency of the banks during the same decade to confine their business regionally to the bigger offices.

However, one feature persisted, and indeed characterised the Swedish credit market right through to the 1970s. The mode of development of the various kinds of credit institution differed widely as between one unit and another within the same sector. Any general description is therefore rendered difficult by the lack of uniformity. Thus, the orientation of investment and level of development within each credit sector present a fragmented and regionally deviant picture in relation to the average.

With regard to the pace at which the banks grew, the divergencies between them became clearly discernible from 1885 onwards, when certain banks — often narrowly focused upon bill-discounting or some other form of lending — completely ceased to progress or even fell back. Other banks continued to be dependent upon the agrarian sector or else concentrated their attention on a limited number of borrowers, often with very unreliable security for the loans.

## VII.

Two main trends can be discerned during the period 1895–1910, viz. the ever-increasing importance of the credit market and the crucial role of the commercial banks in industrial growth. There were ten years during which the increase in lending by the credit institutions in relation to the growth of gross investments was 56%, and in other years the financing quotient was never below the highest level recorded in earlier boom years.

Moreover, the growth in the volume of credit was entirely

ADVANCES BY CREDIT INSTITUTIONS 1895-1910  
IN MILLIONS OF KRONOR

|      | Riksbank | Comm-<br>ercial<br>Banks | Savings<br>Banks | Mortgage<br>Insti-<br>tutions | Folk-<br>banker | Post Office<br>Savings<br>Bank | Insurance<br>Compan-<br>ies | Total<br>Volume<br>of Credit |
|------|----------|--------------------------|------------------|-------------------------------|-----------------|--------------------------------|-----------------------------|------------------------------|
| 1895 | 78       | 560                      | 293              | 329                           | 16              | 6                              | 115                         | 1,397                        |
| 1900 | 130      | 1,046                    | 382              | 353                           | 18              | 17                             | 158                         | 2,104                        |
| 1905 | 189      | 1,457                    | 534              | 367                           | 22              | 15                             | 210                         | 2,784                        |
| 1910 | 191      | 2,063                    | 728              | 507                           | 11              | 13                             | 295                         | 3,808                        |

## Assets as a Percentage of the National Income:

|      | Riksbank and<br>Commercial Banks | Ditto including<br>Savings Banks | Ditto including<br>Mortgage Institutions |
|------|----------------------------------|----------------------------------|--|
| 1895 | 69                               | 88                               | 105                                      |
| 1900 | 75                               | 98                               | 113                                      |
| 1905 | 80                               | 104                              | 115                                      |
| 1910 | 85                               | 110                              | 120                                      |

|           | Growth in Volume<br>of Credit | Financing<br>Quotient | Volume of Credit/<br>GNP |
|-----------|-------------------------------|-----------------------|--------------------------|
| 1891-1895 | 142                           | 21%                   | 0.88                     |
| 1896-1900 | 707                           | 56%                   | 0.93                     |
| 1901-1905 | 680                           | 43%                   | 1.09                     |
| 1906-1910 | 1,024                         | 56%                   | 1.13                     |

Source: See Table 2.

a consequence of the expansion and credit orientation of the commercial banks. The share of the mortgage institutions in aggregate advances fell from 25% to 13% between 1895 and 1905; the decline would have been even more catastrophic had not urban mortgage banks and companies been expanding — see Table 7. The savings banks and insurance companies, it is true, recorded a notable rise in absolute terms, of the order of 150%, but this only sufficed to retain the shares (19% and 8% respectively) that they had held in 1895. The expansion of the commercial banks, on the other hand, brought an increase in the volume of credit of 1,500 millions, or 375%, and a rise from 40% to 54%

in their share of the total. It was during this period, too, that structural changes in the Swedish credit system became identical with innovations and development among the commercial banks.

### VIII.

The industrial revolution embraced both traditional and newly-established exporting industries as well as home-market industries comprising both large and small firms. Totally new branches of industry came into existence which had considerable needs for high-risk investment.

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It became the task of the commercial banks to furnish a volume of credit that in fact exceeded their assets, to create credits over and above the current collateral value of the real capital pledged as surety, and to satisfy the demand for high-risk and often long-term provision of credit to industry. In solving this problem either entirely new initiatives were launched or else previously-tested banking techniques were further developed.<sup>17</sup>

Entirely new methods were invoked chiefly to expand the banks' field of action. One of these consisted of the establishment of cooperation between banks and other financial institutions. Most notable was the founding of new issuing institutions and holding companies controlled by the commercial banks. Since credit operations were no longer confined to loans checked out against firm current bank surety, the banks were compelled more and more to involve themselves in industrial enterprise with a view to protecting their insecure assets. Business executives might find themselves dismissed and replaced by individuals regarded by the banks as more loyal and active.

Furthermore the banks financed entire blocks of development

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<sup>17</sup> *Ibidem*, pp. 448-450.

with appurtenant sub-contractors and firms, which caused market outlets for the products to expand. In order to solve the problems involved in financing the engineering industry based on the new Swedish inventions — the separator, the turbine, the internal combustion engine, the gas accumulator and the ball bearing — the banks were forced to grant credits also to companies which accounted for a considerable increase in the demand for such products.<sup>18</sup>

A functioning share market was also created with the aid of bank credits. The Stockholm stock exchange was reorganised, special stocks and bonds departments were established and the banks' experience of bond dealings was applied to the new dealings in shares.

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Even before the 1890s the lending operations of the commercial banks had been adapted to suit the market and made more attractive by means of various reforms. Table 5 shows the continuity that subsequently characterised loan accounts during the period after 1895. The importance of loans on personal surety and bonds diminished, although both types of loan were temporarily carried along with the quantitative expansion between 1900 and 1904.

Mortgage credits continued to account for over half the outstanding loans. They still included a large proportion of advances against industrial real property — in many of the banks at higher collateral values than actual market values. Lending against residential property was expanded to include advances secured by second mortgages on property on which loans had already been made by mortgage banks and savings banks. Such second advances were based on the actual sale values of the property. They were necessitated by the growing demand for credit for housing

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<sup>18</sup> O. GASSLANDER, *Bank och industriellt genombrott. Stockholms Enskilda Bank kring sekelskiftet 1900*. II, Stockholm 1959, pp. 172-217, 329-396.

construction after 1905, but at the same time this kind of lending was symptomatic of the more hazardous credit operations that the banks were now generally going in for.

However, the expansion of commercial bank credit to industry also took place in new forms, such as advances on shares, accommodation bills, bank credits and overdrafts.<sup>19</sup>

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The background to advances on shares consisted of the rapid formation of and conversion to joint stock companies from the middle of the 1890s onwards, and to a lesser degree the speculation in shares that developed after 1905. The biggest absolute and relative increase of lending on shares took place prior to the development of the speculative tendency to lend highly on privately-owned shares in the hope of a future rise on the exchanges. For as a rule, lending on shares was confined to a limited number of firms with which the bank had previously had long-standing credit connections and took the form of further accommodation to supplement loans already in existence.

However, two kinds of higher-risk lending on shares did occur. First there were the advances made to inventors and designers without real creditworthy property but possessed of ideas and personal merits that might yield considerable future profit. Advances on shares were a prerequisite of such major projects until such time as the shares could be sold on the market. The capacity of the commercial banks to cope with this serious scale of lending on shares constituted one of their most important contributions to the financing of Swedish industry.

Secondly, there was a very narrowly-based type of high-risk lending, especially among the Norrland banks, on shares in the timber industry. Along with other loans, involvements in a few firms with heavily indebted proprietors might represent more

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<sup>19</sup> T. GÅRDLUND, above Note 15, *op. cit.*, p. 153.

than half of such a bank's business. When these banks, in desperation and despite having insufficient assets, plunged on into dangerously speculative transactions with firms which were avoided by the great banks that financed industry in Stockholm, bank crashes were precipitated after 1900.<sup>20</sup>

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The question whether the discounting of bills really constituted any very important contribution to the financing of industry by the banks is open to discussion. Viewed from the statistical standpoint the significance of bill holdings was diminishing. The decline was in part deceptive, however, since neither the rediscounting of bills by the banks at the *Riksbank* nor the selling of bills abroad is included in the holdings recorded. It is evident also that banks faced with a strong demand for credit and a considerable need for other means of improving their liquidity will have exploited this discounting opportunity. From 1895 onwards, commercial banks, which financed the timber and iron industries of Norrland, were advancing large sums on bills of exchange against the signatures of company boards, and the average amount per bill at the *Stockholms Enskilda Bank* amounted to 2,000 *kronor*.

Equally, however, it was characteristic that from the 1880s onwards the discounting of bills became more and more significant among the country banks with their emphasis upon agrarian credit, and this tendency continued after 1900 as well. Even among the smaller banks, credit business was concentrated upon discounting, with an average amount of less than 300 *kronor* per bill.<sup>21</sup>

The proportion represented by bank overdrafts and running

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<sup>20</sup> I. NYGREN, *Aspekter på norrländsk kapitalmarknad 1870-1905*. I: *Ekonomisk-historiska studier tillägnade Artur Artman*, Gothenburg 1977, pp. 164-180.

<sup>21</sup> E. SÖDERLUND, above Note 9, *op. cit.*, pp. 196-197, 303-304.

cheque accounts increased from 15% to 22%, but the growth of this form of lending was characteristic of only a few banks such as the larger Norrland banks and the *Stockholms Handelsbank*.<sup>22</sup> Towards 1910, however, advances on current account became more generally the prerogative of large industrial customers; they were adapted to suit the needs of borrowers and were frequently left devoid of security although fraught with considerable risk if excessive overdrawing was allowed.

The financing of Swedish industry was accomplished in admirable fashion by a banking system in transformation, proceeding towards further modernisation and structural adaptation to conform to the new conditions.

However, this process could not be consummated within the framework furnished by the number of banks existing in the middle 1890s. These increased from 45 in 1893 to 84 in 1908, the highest number ever. The branch network expanded at the same time, the number of branch offices in 1910 being 545.

The expansion was caused primarily by competition for deposits. From 1896 onwards borrowings were no longer adequate, and the excess of advances amounted to over half a million during the boom of 1904-07. The shortfall of deposits was covered partly by borrowings from foreign banks at the cost of becoming dependent on international business conditions, partly by expanding the banks' own share capital, which increased costs in the form of dividends on shares, and partly by rediscounting operations and loans from the *Riksbank* upon bond surety, which decimated profits on credit business.

Efforts were made to simplify the procedure for obtaining deposits from the public. On the capital account, as it was called, interest on capital accrued every half-year, and the savings account, which was intended to intensify competition with the

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<sup>22</sup> I. NYGREN, above note 20, *op. cit.*, pp. 167, 178, Hildebrand, K.-G., *I omvandlingens tjänst. Svenska Handelsbanken 1871-1955*, Stockholm 1971, pp. 28-34.

savings banks, became in practice a sight deposit account on favourable interest terms. However, the banks sought to expand their deposits chiefly by establishing a comprehensive network of offices and by opening branches outside their own original areas of business. The former regional division was deranged, and the previous division of labour between the banks disintegrated under the impact of open competition over interest rates.<sup>23</sup>

A handful of banks, either newly-established or ushered into existence by the enforced reconstruction of provincial banks, adopted a highly aggressive approach in the competition for lending business. By establishing new branch offices and merging former regional and local banks, they had secured control of 40% of all the rural bank offices in Sweden by 1910.<sup>24</sup> The very high-risk and speculative advances made by these banks exceeded their deposits considerably too. The network of branches did not in itself suffice to eliminate borrowings from abroad. Collaborative agreements were therefore concluded with the relatively large number of agrarian-inclined banks that were still recording deposit surpluses, and close contacts were established with the deposit market in Stockholm.

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The role of the banks as purveyors of credit to industry was very important during the initial era of the industrial revolution. However, the price was paid in very fierce competition, occasioning both unsuccessful bank launchings and mergers with speculative elements. The Swedish banking world of the early XXth century was far from idyllic.<sup>25</sup> Nevertheless the chequered pattern must not blind us to the stability that characterised an array

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<sup>23</sup> E. SÖDERLUND, above Note 12, *op. cit.*, pp. 58-80.

<sup>24</sup> Skånska Handelsbanken, Sydsvenska Kreditaktiebolaget, Göteborgs Handelsbank, Stockholm-Öfvre Norrland, Södra Sverige, Norra Sverige.

<sup>25</sup> K.-G. HILDEBRAND, above Note 22, *op. cit.*, p. 26.

of commercial banks: Stockholms Enskilda Bank, Skandinaviska Banken and Stockholms Handelsbank, along with another dozen or so country banks all of which likewise survived the decade 1910-1920. But with these banks, liquidity and solvency were always the guidelines in implementing the structural changes detailed above. Moreover the exertions of the bank inspectorate in eliminating bad habits promptly from Swedish banking practice form one of the unique features of Swedish banking history from the international point of view.

TABLE 5

ADVANCES BY COMMERCIAL BANKS 1875-1910  
IN MILLIONS OF KRONOR

|      | Dis-<br>counted<br>Bills | Current<br>Account | Out-<br>standing<br>Loans | Of which against security of: |        |                    |       |
|------|--------------------------|--------------------|---------------------------|-------------------------------|--------|--------------------|-------|
|      |                          |                    |                           | Mortgage                      | Shares | Personal<br>Surety | Bonds |
| 1875 | 97                       | 73                 | 94                        | 29                            | 22     | 36                 | 7     |
| 1878 | 92                       | 85                 | 111                       | 43                            | 16     | 42                 | 10    |
| 1880 | 119                      | 59                 | 109                       | 47                            | 14     | 36                 | 12    |
| 1884 | 175                      | 76                 | 156                       | 83                            | 20     | 43                 | 10    |
| 1885 | 174                      | 80                 | 163                       | 88                            | 22     | 41                 | 12    |
| 1888 | 164                      | 60                 | 190                       | 109                           | 24     | 38                 | 19    |
| 1890 | 186                      | 68                 | 203                       | 119                           | 30     | 33                 | 21    |
| 1893 | 200                      | 86                 | 236                       | 134                           | 43     | 38                 | 21    |
| 1895 | 206                      | 87                 | 267                       | 142                           | 51     | 43                 | 31    |
| 1899 | 335                      | 190                | 436                       | 214                           | 132    | 60                 | 30    |
| 1900 | 363                      | 221                | 462                       | 237                           | 125    | 64                 | 36    |
| 1904 | 397                      | 262                | 674                       | 349                           | 173    | 94                 | 58    |
| 1905 | 440                      | 287                | 730                       | 374                           | 201    | 96                 | 59    |
| 1907 | 583                      | 439                | 883                       | 447                           | 282    | 96                 | 58    |
| 1910 | 573                      | 461                | 1,029                     | 547                           | 310    | 112                | 60    |

TABLE 6

|      | Local Authority<br>Loans | Loans against<br>Shares | Loans against<br>Personal Surety | Mortgage Loans |
|------|--------------------------|-------------------------|----------------------------------|----------------|
| 1878 | ..                       | 5                       | 48                               | 62             |
| 1880 | ..                       | 5                       | 49                               | 67             |
| 1884 | ..                       | 5                       | 74                               | 96             |
| 1885 | ..                       | 7                       | 80                               | 103            |
| 1888 | ..                       | 8                       | 75                               | 131            |
| 1890 | ..                       | 12                      | 74                               | 155            |
| 1893 | 14                       | 14                      | 71                               | 176            |
| 1895 | 14                       | 16                      | 75                               | 188            |
| 1899 | 19                       | 28                      | 83                               | 224            |
| 1900 | 20                       | 30                      | 86                               | 246            |
| 1904 | 24                       | 39                      | 108                              | 330            |
| 1905 | 26                       | 40                      | 115                              | 355            |
| 1907 | 34                       | 53                      | 126                              | 405            |
| 1910 | 35                       | 55                      | 143                              | 493            |

TABLE 7

CREDIT BUSINESS OF MORTGAGE INSTITUTIONS 1870-1910  
IN MILLIONS OF KRONOR

|      | Rural Mortgage<br>Banks | Urban Mortgage<br>Banks | Mortgage Companies<br>Mortgage<br>Associations | Stockholm<br>Mortgage Bank |
|------|-------------------------|-------------------------|--|----------------------------|
| 1870 | 154                     | —                       | 2  | 2                          |
| 1875 | 204                     | 3                       | 6  | 8                          |
| 1880 | 274                     | 6                       | 9  | 17                         |
| 1885 | 304                     | 13                      | 14   | 48                         |
| 1890 | 317                     | 15                      | 29   | 64                         |
| 1895 | 281                     | 15                      | 33   | 66                         |
| 1900 | 287                     | 16                      | 50   | 77                         |
| 1905 | 294                     | 19                      | 55   | 94                         |
| 1910 | 330                     | 80                      | 97   | 144                        |

Source: I. NYGREN, above note 5, *op. cit.*, pp. 16, 22, 26.