# *Transformation of Bank Structures in the Industrial Period: the Case of Norway 1830-1914*

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## I. *Introduction*

Norwegian banking history in the years prior to the First World War presents great problems, primarily connected with the question of sources. Many of the records of the private commercial banks from this period have been destroyed. This is partly because a very great number of the Norwegian banks went bankrupt during the financial crisis of the early 1920s without any of their archive material being preserved for posterity. Furthermore, those banks which did continue in existence have disposed of sizeable portions of their archives. The minutes of board meetings (not all of which have survived either) often give only the briefest information about the banks' activities. At the same time, in the period prior to the First World War there was no public control or oversight of the private banking system capable of furnishing material of value to the historian. Banking statistics were late in being introduced and were poorly developed.

These factors along with a feebly developed scholarly tradition in economic history have helped to produce an uneven and technically unsatisfactory literature in that field compared,

for example, with the situation in the neighbouring countries of Sweden and Denmark. Some of the theories and opinions presented in this article therefore have the character of hypotheses, less thoroughly and comprehensively substantiated than one might wish.

The development of the banking system in the years leading up to the First World War may fittingly be divided into three periods. Prior to about 1850 Norway had no private commercial banks. The next 45 years formed a period when the private banking system was being established. Then after 1895 a period of considerable expansion began for the commercial banks, and this lasted until the end of the First World War.

## II. 1830-1850. *The pre-banking period*

Five feature distinguish this period. (1) The dominant role of Norges Bank as a credit institution. (2) The total absence of private commercial banks. (3) The great importance of private, unorganised credit arrangements. (4) The initial growth of savings banks, which towards the end of the period show signs of liberating themselves from traditional philanthropic ideology and gradually begin functioning as credit institutions. (5) The important role of the state in the country's credit arrangements.

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During the union with Denmark prior to 1814 Norway had neither a bank nor a monetary system of its own. Norges Bank was founded in 1816 and was intended to fulfil two main tasks: to take the nation's currency in hand and to make loans to business and industry. In form the bank was a private joint stock bank, but the stock subscription was enforced by the state, and its board of directors was appointed by the *Storting* (Parliament), which also controlled the business. Norges Bank was given a monopoly

of note issuing, which in those days was tantamount to a banking monopoly.

In the early days Norges Bank conducted a cautious and passive monetary policy aimed primarily at protecting the bank's precious metal reserves and at raising the exchange rate of the country's currency to par. A political opposition among the farmers and some of the burgesses demanded a more expansive monetary policy, but achieved little success.

The primary need in pre-industrial Norway was for long-term mortage loans. This applied naturally enough to the dominant peasant household economy, functioning mainly on the subsistence principle. But the capitalistic business sector, particularly where linked to the country's traditional foreign trade industries, likewise required mainly long-term credit. This applied to working credit as well, since the circulation of capital was exceedingly slow, especially in important industries such as the timber trade and mining. Apart from the long amortisation period, mortgage loans were also attractive because under the current legislation governing interest rates they were the cheapest form of borrowing.

The demand for credit and the interest-rate laws became the factors that determined Norges Bank's lending policy. The great majority of its advances were made at long term against the security of real property.

In 1830, mortgage loans represented almost 90% of the Bank's outstanding claims, and as late as 1850 the proportion

TABLE 1

ADVANCES BY CERTAIN CREDIT INSTITUTIONS 1830-1850 *

| | Norges Bank | Savings Banks | Discount Commissions | Total |
|---|---|---|---|---|
| 1830 | 4.2 | 0.4 | 0.1 | 4.7 |
| 1940 | 5.9 | 1.8 | 0.8 | 8.6 |
| 1850 | 7.0 | 4.5 | 1.5 | 13.0 |

* Advances outstanding at the end of the year. In rix-dollars.

was still as high as almost 80%. Much of the rest of the Bank's lending, which was given against personal surety, was also relatively long-term. Ordinary bill discounting was practically nonexistent around 1830 and gained ground only slowly during the decades that followed. It is clear that this lending policy was bound to render any flexible and active monetary policy impossible.

Private domestic credits were granted by merchant houses and private discount houses, otherwise being arranged between individuals. It has been customary to assume that the vast bulk of business and industrial life was financed privately. But little is known about this activity. Private lenders appear to a large extent to have refused to grant mortgage loans. They did not want to tie up their money for long periods; moreover, the interest rate laws made mortgage loans an insufficiently lucrative business. Advances made against personal surety left the lender more freedom of action with regard to interest. Thus this sort of credit on the private market also became very expensive. A significant proportion of private credit came from abroad. In particular, foreign credits were of central importance to the capitalistic business sector. Norwegian exporters drew bills on their foreign customers and made good use of the blank (unsecured) credit facilities furnished by banking houses in Hamburg and Altona.

The first savings banks in Norway were established in the 1820s, on a purely philanthropic basis. The country had eight such banks in 1830, 23 in 1840 and 90 in 1850. The philanthropic principle was paramount prior to 1850 but then faded little by little. Satisfying the credit needs of the local community gradually became a prominent feature of the activities of the savings banks, although this tendency did not emerge on a serious scale until the second half of the century.

The role of the state as a credit intermediary in the prebanking era was important. The Norwegian state stood behind the establishment of Norges Bank and kept control of its activities. In

addition the state accorded the savings bank system privileges that made possible the expansion of the savings banks. In addition to Norges Bank there was an array of public and semipublic funds forming important sources of credit during this period. As well as this the state intervened by making advances directly from treasury funds to assist businessmen during crises. State loans for this purpose were raised in 1820, 1828, 1848 and 1857. In 1828, permanent lending institutions, called Discount Commissions, were established to make advances from the state loan fund of the same year; they subsequently lent out considerable sums from the treasury surplus from various other government funds.

The figures in Table 1 showing the lending of the Discount Commissions represent loans against personal surety. In addition, on certain occasions the state lent out considerable sums on the security of real property, partly through the Discount Commissions and partly through special commissions set up for the purpose.

It is difficult to form a definite judgment concerning the aggregate volume of credit in Norway's credit institutions at this time. A contemporary observer in 1835 put it at about 15 million rix-dollars, of which 95% was in the form of mortgage loans. The figure includes advances from diverse government funds. The corresponding figure for 1850 has been estimated tentatively at 22 million rix-dollars.

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A number of inhibiting factors prevented the establishment of private commercial banks in Norway in the decades prior to 1850. The monopoly of note issuing enjoyed by Norges Bank has already been mentioned. The ruling classes, and especially the top-level bureaucrats, feared that abolition of the note-issuing monopoly would lead to an unstable currency. The interest-rate laws too must have had an inhibiting effect on potential bank entrepreneurs, who preferred to operate instead as discounting

agents in the private loan market where interest rates in practice were free. Neither did the character of the prevailing demand for credit encourage the founding of private commercial banks. As we have already noted, it was primarily mortgage loans that were wanted. Proposals were mooted from time to time for the establishment of private mortgage institutions, but this was rendered difficult by a general ban on the issuing of private bearer bonds. Moreover it would hardly have been possible to raise capital for such projects at this time, on the home market at any rate. Finally, the links of the Norwegian commercial world — for better or worse — with foreign bankers, notably in Hamburg and Altona, rendered difficult the establishment and operation of Norwegian banking institutions during this period. Not until the financial crises of 1848 and 1857 weakened Hamburg's position as a financial centre were private commercial banks brought into being in Norway.

## III. 1850-1895. *Innovation and stagnation*

In the latter half of the nineteenth century, up to the mid-1890s, we can distinguish between two phases in the development of the credit system in Norway. First there was a relatively short period during which entirely new types of credit institutions were being introduced into the country. The first private commercial banks and a government mortgage bank were established about 1850. There was then a considerable timegap during which the growth of the credit institutions was relatively slight both quantitatively and qualitatively compared with that in the neighbouring countries.

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Norway's first commercial bank, the *Christiania Kreditkasse*, was founded in 1848. It started off with modest ambitions. The share capital was inconsiderable and its field of activity restricted. An attempt was made a couple of years later, with the aid of

English capital, to establish a bank of a completely different format. Nothing came of this, however, but in 1857 a large bank along such lines was opened in Christiania (Oslo) by Norwegians and with Norwegian capital. A commercial bank had been opened in Bergen two years before.

The establishment of the early commercial banks was a response to the growing demand for credit among the business classes in the larger towns, especially in times of economic crisis. During the crisis of 1847/48 the problem of mortgage loans became a matter of immediate and major concern. The proposals canvassed for solving it included schemes for credit associations and for a state bank. It was the latter alternative that was selected. *Kongeriket Norges Hypotekbank* was founded in 1851 as a government bank. Its capital stock was furnished by the treasury and the bank's board of directors was appointed by the government and *Storting*. The bank's funds were procured by issuing bearer bonds. The great bulk of its advances were made on the security of real property in country districts, although some loans were made on urban property from time to time. The relative importance of

TABLE 2

VOLUME OF CREDIT IN NORWEGIAN CREDIT INSTITUTIONS 1850-1895
(mill. kr.)

| | Norges Bank | Commercial Banks | Savings Banks | Mortgage Institutions | Insurance Companies | State * | Total |
|---|---|---|---|---|---|---|---|
| 1850 | 30 | 1 | 18 | — | 3 | 36 | 88 |
| 1855 | 34 | 2 | 36 | 6 | 4 | 40 | 122 |
| 1860 | 32 | 20 | 46 | 18 | 5 | 51 | 172 |
| 1865 | 34 | 34 | 71 | 30 | 7 | 52 | 228 |
| 1870 | 34 | 42 | 85 | 35 | 8 | 56 | 260 |
| 1875 | 38 | 58 | 135 | 39 | 10 | 81 | 361 |
| 1880 | 33 | 72 | 146 | 59 | 12 | 85 | 407 |
| 1885 | 33 | 95 | 177 | 76 | 19 | 94 | 494 |
| 1890 | 34 | 119 | 203 | 96 | 27 | 115 | 594 |
| 1895 | 38 | 138 | 235 | 129 | 36 | 128 | 704 |

* Treasury, government funds and agencies.

the Hypotekbank in the Norwegian credit system remained considerable for many years. As late as 1895, its lendings formed over 15% of the aggregate volume of credit provided by credit institutions.

The establishment of the Hypotekbank helped Norges Bank to reduce its mortgage loan business. Greater significance was assumed by the discounting of bills and other forms of loan on personal surety and with shorter terms. By 1895, Norges Bank's outstanding advances against real property had fallen to 16.3% of the Bank's total lending. The Bank still undertook little in the way of central banking functions but operated largely as a commercial bank in competition with the newly-established private commercial banks. Its advances remained at a more or less constant level throughout the period here under review, so that its quantitative importance as a source of credit became drastically reduced in relative terms.

After the innovatory period around 1850 a lengthy interlude of stagnation opened in the development of the credit institutions, of which no new types came into being between 1857 and 1895 apart from a couple of small mortgage institutions granting loans on urban properties. The savings bank movement became very widely diffused, however, and several new commercial banks were established. The total volume of credit grew, though much less than in the neighbouring countries. In Denmark and Sweden it increased sixfold but in Norway only fourfold. The development of the commercial banking system in particular was of relatively modest dimensions.

The lending ratio (credit volume in relation to gross national product) was thus below 50% in the 1860s and first half of the 1870s. The rise that followed was as much a reflection of stagnation and even decline in the national product as of growth in lending by the credit institutions. The financing ratio (growth of credit volume in relation to gross investments) shows particularly low figures. It never climbed higher than 20% in the

TABLE 3

LENDING RATIO (CV/GNP) AND FINANCING RATIO (ΔCV/GI); 1865-1895

| | ΔCV/GNP % | | Δ CV/GI % |
|---|---|---|---|
| 1865 | 48 | | |
| | | 1865-70 | 10 |
| 1870 | 48 | | |
| | | 1870-75 | 18 |
| 1875 | 47 | | |
| | | 1875-80 | 8 |
| 1880 | 57 | | |
| | | 1880-85 | 16 |
| 1885 | 73 | | |
| | | 1885-90 | 18 |
| 1890 | 76 | | |
| | | 1890-95 | 16 |
| 1895 | 85 | | |

entire period under study — a level for the most part much lower than in the neighbouring countries of Sweden and Denmark. This can be explained in part by the forms of financing employed in shipping, where shipowning partnerships were almost universal until the turn of the century. As a rule the partners' shares in the business were paid up without recourse to credit institutions, often without any cash changing hands at all, since a part-share in the vessel was often the *quid pro quo* for the supplying of goods and labour at the shipbuilding stage. Neither did the credit institutions play any significant role in investments in budding industries.

The relatively feeble development of the credit institutions in Norway is accounted for in part by the weakness of economic development generally. Economic growth was lower and the changes in the economic structure slower and less far-reaching than in the neighbouring countries during this period. This is especially true of the years 1875-1895, when the gross national

product per capita stagnated and at times actually fell. 'The Great Depression' hit Norway particularly hard, a fact for which peculiarities of geography and economic structure are generally held responsible. Despite an embryonic industrialisation going on during this period, the capitalistic sector was relatively poorly developed and traditional in structure, with its main emphasis on the time-honoured foreign trades associated with timber, fishing and shipping. The depression was deepened by a crisis in shipping, which had been the leading growth sector of the Norwegian economy between 1850 and 1875. Norway was left lagging behind in the transition from sail to steam, a failure attended by near-catastrophic consequences for whole regions of the country.

The decentralised and disintegrated economy was reflected in the credit market and the bank structure. The credit market was not integrated. The level of interest rates varied from one part of the country to another: even the branches of Norges Bank maintained different discount rates. Capital transfers between Christiania and Hamburg or London were simpler than between Christiania and Bergen. Transfers of capital from one part of the country to another hardly occurred at all, even when there was surfeit in one place and shortage in another. In fact a real national money or capital market did not exist. And this situation persisted for many years in Norway. Thus, as late as about 1890 the market for mortgage deeds differed widely as between the various parts of the country. And it is typical that it was not until 1893 that Norges Bank began to fix uniform discount rates for all its branches. The unorganised credit market and traditional investment forms (such as shipowning partnerships) were quite adequate to meet the modest requirements of the backward Norwegian economy.

One result of this was that the banks, including the savings banks, were small and locally based. It is characteristic that the commercial banks never managed to establish a network of branches in

this period. Some attempts were made in this direction but achieved no success. The decentralised and disintegrated economy did not furnish the right conditions for a system of branches, and Norwegian banking remained in essentials a branchless bank system until well into the twentieth century.

The backwardness of the economy had an important effect on the bank structure in another way too. It supplies an explanation of why the savings bank movement evolved relatively vigorously while the development of the commercial bank system was modest compared with the neighbouring countries. The number of savings banks increased from 90 in 1850 to 373 in 1895. Advances increased during the same period from 18 to 235 million *kroner*. This growth was caused by structural changes in economic life — the changeover to a cash economy in rural areas being particularly important. It was no longer philanthropy but the need for credit that provided the occasion for the establishment and operation of savings banks. One of the clear signs of this is the way in which the establishment of new savings banks conforms to the cyclical rhythm of business conditions. The number of newly-founded savings banks rose when the money market was tight and fell when money was plentiful and credit was easy to obtain. On the other hand it was in periods when the money market was slack that the savings banks' total deposits went up sharply.

The lending business of the savings banks was conducted for the most part by granting credit to business people and private individuals on personal surety. Mortgage loans played a modest role. Towards the end of the century it became customary for savings banks to have holdings of easily negotiable securities, a practice which indeed was prescribed by law. Cash credit hardly occurred at all at that time.

Little by little the savings banks began to undertake tasks carried out in other countries mainly by commercial banks. Ordinary bill discounting soon became a common practice and the

conversion of foreign currency gradually became a normal field of activity for many of the savings banks, at any rate in the towns.

The development of the commercial banks stands in stark contrast to the growth of the savings bank system. At the beginning of the 1870s there were no more than eight private commercial banks doing business. The number rose slowly in the eighties and early nineties. Neither was the growth of the commercial banks' lending impressive. As late as 1895, lending by the commercial banks formed no more than one fifth of the aggregate volume of credit granted by the credit institutions. The savings banks, by comparison, accounted for a third.

The activities of the commercial banks were somewhat similar to those of the savings banks. Because of the note-issuing monopoly enjoyed by Norges Bank, the private banks had to base their operations on their own funds and deposits. The deposits formed a relatively large proportion of the management capital compared with similar banks in other countries. The forms of lending were also fairly similar to those of the savings banks. Thus, cash credit was not widespread among the commercial banks either. It was only from the mid-1880s onwards that this form of credit began to win some degree of acceptance.

Thus the situation was that economic development in Norway was too frail to provide the basis of an elaborate system of commercial banks. The credit-supplying functions required at this stage of development were well within the capacity of the institutions already in existence, including the savings banks. But the latter did adapt their activities as new needs revealed themselves. Such seems to have been the background against which the Norwegian savings banks began to undertake functions which in other countries mostly fell within the commercial banks' field of operations. Thus the Norwegian savings banks came to act in considerable measure as substitutes for private commercial banks.

On the other hand the distinctive structure of the Norwegian credit mechanism must have had consequences for economic

development. The savings banks could not replace the functioning of private commercial banks fully and completely. They did not operate with an eye to commercial profit, and they were seldom managed by professional bankers. It was not to be expected that the savings banks would pursue bold and hazardous investment policies. The safety of depositors' funds was necessarily a matter of high priority.

The dialectical interaction between a backward economy and an ill-developed credit system was self-reinforcing. The traditional economic system lacked the prerequisites that would have enabled a capitalistic banking system to evolve; the absence of commercial banks in turn inhibited economic growth; and economic backwardness again inhibited the growth of the banking system. The breaking of this vicious circle came so late in Norway that it is tempting to regard it as being in part a consequence of the role of the savings banks as substitutes for the commercial banks. It is illuminating in this regard that there soon emerged a competitive relationship between savings banks and private commercial banks. This must have had an inhibiting effect on the founding of private joint stock banks. At the same time this competition must have had a strenghtening effect on the tendency of the savings banks to conduct commercial banking activities.

Not least, the commercial banks had difficulty in competing with the savings banks for deposits. Thus, during the boom period of abundant money at the beginning of the 1870s, much the biggest share of the net increase of deposits in savings banks and commercial banks combined went to the savings banks. The consequence was that the commercial banks did not manage to exploit the boom period for purposes of expansion to the same extent as the savings banks. The growth of the commercial banks' credt volume between 1870 and 1875 was 38%, while the corresponding growth in the savings banks was 59%. The total deposits of Norwegian commercial banks were much lower than the deposits in the savings banks. Not until 1915 did the ag-

gregate deposits of the commercial banks exceed those of the savings banks. Even if we confine ourselves to comparison with the savings banks of the towns, we find that the deposits of the commercial banks were smaller right up to 1887. The number of urban savings banks was also bigger that of the commercial banks throughout the period we are studying.

The inability of the commercial banks to compete with the savings banks for deposits was partly connected with the fact that the number of commercial banks was small and that on the whole they attracted deposits from the districts most closely adjacent to them, which in turn was bound up with geographical and topographical conditions and the decentralised and disintegrated economy. But another factor was that the commercial banks did not offer their customers better terms than did the savings banks. They were unable to attract depositors by means of higher interest rates. This was because they competed with the savings banks on lending as well; therefore they could not raise the interest rate on advances without narrowing the interest differential too much. Neither did the commercial banks compete by offering other advantages. Not until cash credit and the uses of cheques became more widespread did the commercial banks emerge as a more attractive alternative — at any rate in the eyes of the business classes. But this development had barely begun in the period prior to 1895. The savings banks in addition had certain privileges not enjoyed by the commercial banks. Finally, they were regarded as safer. This aspect was reinforced after the Savings Banks Act of 1887 imposed requirements designed to improve solvency and liquidity. Government inspection of savings banks was introduced as time went on. However, legislation and control institutions for the commercial banks did not come into being until the inter-war years.

The commercial banks also had to face competition from Norges Bank, which little by little established a chain of branches in the smaller towns. The Bank's lending policy gradually be-

came better adapted to meet the need of the business and industrial classes for credit on bills of exchange. The commercial banks felt the impact of the competition all the more severely as Norges Bank had the note-issuing monopoly. For a time the government's Discount Commissions too represented an element competing with the commercial banks and other credit institutions. Most of the commissions were abolished in the course of the 1860s, but a few were kept in existence for a good number of years after that. Thus, part of the explanation of the modest role played by the commercial banks in the nation's credit system was that they were confronted with competition from other credit institutions, which impaired their opportunities of expanding and inhibited the establishment of new banks.

The role of the state in Norway's credit system was still a prominent one in the period 1850-1895. (Cf. Table 2.) The relative proportion of the credit institutions' lending naturally fell during the credit institutions' innovatory period in the 1850s and continued to do so during the first half of the 1860s, partly in consequence of the abolition of most of the state Discount Commissions. But from 1865 onwards the state's share of the total volume of credit was astonishingly stable. During the course of the next thirty years it was only reduced from 22.8% to 18.2%. In the first half of the 1870s the proportion actually rose, a development connected with the large foreign loans raised by the government in order to finance railway-building in Norway. A series of foreign loans was raised by the government in the 1880s and 1890s as well.

## IV. 1895-1914. *Expansion*

The period from the middle 1890s to the outbreak of the First World War was an era when industrial development triumphed in Norway. The growth sectors of the Norwegian economy, especially industry and shipping, progressed rapidly. It was du-

ring this period that the expansion of Norwegian water-power resources gathered momentum and the first industries associated with that source of energy became established, most notably the electrochemical industry. In the shipping sector a comprehensive programme of conversion from sail to steam was carried through.

This period likewise witnessed a vigorous expansion of the Norwegian credit system, primarily in the quantitative sense but also to some extent in terms of the type of institutions and of the field of activity. The aggregate volume of credit was trebled during the eighteen years that elapsed between 1895 and 1913. (Table 4). This was growth of an order comparable to that in the neighbouring countries. However, the starting level in Norway was a lower one.

TABLE 4

VOLUME OF CREDIT IN NORWEGIAN CREDIT INSTITUTIONS
1895-1913 (mill. kr)

| | Norges Banks | Commercial Banks | Savings Banks | Mortgage Institutions | Insurance Companies | State * | Total |
|---|---|---|---|---|---|---|---|
| 1895 | 38 | 138 | 235 | 129 | 36 | 128 | 704 |
| 1900 | 51 | 324 | 317 | 172 | 51 | 168 | 1083 |
| 1905 | 40 | 346 | 381 | 202 | 65 | 196 | 1230 |
| 1910 | 50 | 508 | 506 | 257 | 84 | 261 | 1666 |
| 1913 | 77 | 720 | 629 | 278 | 110 | 279 | 2093 |

* Treasury, government funds and agencies.

All categories of credit institutions showed substantial growth during this period. The savings bank system continued its expansion. The number of savings banks increased from 373 to 519. Advances rose by almost 170 %. But the period was characterised first and foremost by the expansion of the commercial banks. These grew in number from about 40 to over 120 and increased their lending more than fivefold, which meant an annual growth

rate of 9.6%. By comparison, the growth rate of the savings banks' advances in the same period was 5.6% It was during this period that the loans of the commercial banks overtook those of the savings banks.

The first great phase of commercial bank establishments was during the boom that occurred in the late 1890s. This was an era of hectic speculation. Bank shares took their place alongside real property as the most important objects of speculation. The number of banks doubled, from about 40 to about 80, in the course of the three years 1898 to 1900.

The early bank establishments around the middle of the century were primarily a reflection of a growing need for credit and are to be regarded as a consequence of the economic growth of the ten preceding years. The profit motive was present, obviously, but it appears to have been subordinate to the desire to create the right circumstances for expansion in other sectors of the economy. The bank fever at the close of the 1890s, on the other hand, was a product of the desire for gain and maximum profit from banking activities themselves: the banks had now become independent objects of investment in a quite different sense.

The mass establishment of commercial banks at this time was thus partly a speculative phenomenon. When the boom collapsed, this led to a series of bank failures, so that the growth in the number of banks was halted for a time. But it was resumed in the period after 1905.

Table 5 shows that up to 1910 the lending ratio rose somewhat. Thus the credit institutions were expanding more than the economy in general. However, a saturation point was reached towards the end of the period. The drastic fall in the financing ratio in the early years of the present century was bound up with the fact that the economic depression going on at the time was hitting the credit institutions hard, especially those commercial banks which had overexpanded during the boom years at the end of the 1890s. Despite this, gross investments were broadly

TABLE 5

LENDING RATIO (CV/GNP) AND FINANCING RATIO (ΔCV/GI), 1895-1913

| | CV/GNP % | | ΔCV/GI % |
|---|---|---|---|
| 1895 | 85 | | |
| | | 1895-1900 | 41 |
| 1900 | 97 | | |
| | | 1900-05 | 16 |
| 1905 | 111 | | |
| | | 1905-10 | 37 |
| 1910 | 116 | | |
| | | 1910-13 | 40 |
| 1913 | 113 | | |

maintained at the same level as in the previous five years, a fact largely explained by a considerable injection of foreign capital into Norway.

The latter half of the 1890s was a period of innovation in more than one sense. To some extent it was an era of breakthrough for cash credit, bringing the introduction of a form of credit better suited to modern capitalistic business. But cash credit as a form of lending also brought better conditions for further diffusion of the use of cheques. The same applied to the adoption of the Cheques Act of 1897 and the establishment of a clearing office in Christiania the following year. This meant that the banks gradually evolved a means of creating credit themselves, which again meant an enlargement of the banking system's opportunities for expansion and for influencing economic development. But it took time for the use of cheques to become widespread. For a long time the Christiania clearing office had little to do, and the banks themselves did little to encourage the use of cheques.

While the period 1895-1900 represented first and foremost a quantitative growth in numbers of and lending by the credit institutions, the years following the turn of the century witnes-

sed the establishment of new types of institutions as well. A new state bank along the lines of the Hypotekbank was founded in 1903. Its name was *Den norske arbeiderbruk—og boligbank.* It was to supply credit to small farmers and other groups from the lower classes and is to be regarded as mainly a socio-political venture. Some years later a private ship-mortgage bank was founded, and in 1909 credit associations were established for loans on the security of urban property. Both the number and the significance of the newly-established credit institutions were modest in the period prior to the First World War.

During the 1890s, Norges Bank began little by little to develop central banking functions. The Bank's own mortgage loan business was entirely abandoned in the latter half of the 1890s. Moreover the Bank's head office strengthened its influence over the business of the branches, for example by fixing the branches' discount rates. In order to facilitate enhancing its already leading role on the money market, the Bank's management demanded that the commercial banks should supply monthly reports on their activities, an idea which the commercial banks opposed, however. From about the turn of the century especially, Norges Bank began to conduct a more active discounting policy. The Bank also did more rediscounting for the commercial banks and acted to some extent as a lender of last resort during financial crises. But at the same time the Bank continued and even extended its ordinary commercial banking activities in competition with the private commercial banks. This led to sharp conflicts with several of the leading commercial banks, which additionally were content neither with the extent of Norges Bank's rediscounting business nor with its function as a sheet-anchor in times of crisis.

This struggle formed the prelude to the creation of a private 'central bank'. A number of banks outside the capital city combined with a couple of Christiania private bankers and some leading foreign banks to establish *Centralbanken for Norge*, as it

was called. This bank, which soon became the biggest in the country, was meant to undertake the tasks which it was felt that Norges Bank had failed to accomplish. The battle between Norges Bank and the commercial banks led by the Centralbanken culminated in a renewed attempt by Norges Bank in 1907 to demand monthly reports on the operations of the commercial banks. However, these conflicts abated during the succeeding years as a result of Norges Bank's dropping its own commercial bank activities and assuming the functions of a central bank.

Despite the vigorous quantitative growth of the commercial banks during this period, both in numbers and in volume of lending, their role in the process of industrialisation then going on was a modest one. We have remarked that the state, notably from the 1870s onwards, had raised a series of foreign loans which had been used for basic investment projects consisting primarily of railway building. Loans continued to be floated by the government, by local authorities and by stateowned banks during the period after the turn of the century. The great majority of such bonds were still placed abroad, and the role of Norwegian banks in arranging these loans was negligible. Even on one rare occasion when a government bond issue was launched on the Norwegian market, it was bought up by a consortium of foreign banks. The high level of interest rates in Norway made it impossible for Norwegian banks to compete with major banks in the more advanced west European countries. Actually the Norwegian banking system would have been unable in any event to assemble the amount of capital obtained by government and public institutions from abroad during this period.

If we examine the role played by the banking system in investment in the private sector of the economy, we find that there too the contribution is a modest one. True enough, the banks did now begin to become more heavily involved in industry and shipping, especially during the boom years prior to 1914. But the commercial banks showed little initiative and failed to

play any leading role in the process of industrial growth. One of the reasons for this was that the banks were relatively small. Even the banks which were large by Norwegian standards disposed of only moderate amounts of management capital compared with the biggest banks in the neighbouring countries. Their net capital too was exiguous — again being smaller than that of many of the large banks in Sweden and Denmark. Moreover the share capital was somewhat nominal, since only a proportion of it was paid up.

Activities had to be tailored to fit these facts. The banks had to be cautious in tying up large sums. On the whole their position with regard to lending operations was less free than it would have been with greater resources, since they had to be continually on guard against granting excessive advances. This caused a lack of flexibility in the credit system. The meagreness of the banks' own resources and their dependence upon deposit business were to reveal themselves as crippling weaknesses when the post-war depression set in at the beginning of the 1920s. A good deal of the explanation of the fact that so large a part of the private banking system in Norway collapsed during the crisis undoubtedly rests upon this circumstance.

The commitments of the commercial banks had to be small, partly because of the facts stated here; in addition they were orientated towards traditional businesses and industries. The banking system aimed to meet the requirements of the commercial community, while the bulk of the financing of major industrial or other ventures was implemented without any direct involvment on the part of the banks. This applied particularly to new concerns. Nevertheless a certain amount of credit was extended in connection with the enlargements or reorganisations of enterprises already in existence. When this sort of financing took place it was primarily in the form of working credits and only to a minor extent as assistance with investments in fixed capital, although the latter was not totally unknown.

Not even indirectly did the banks play any large role in the financing of major enterprises, since the issuing of shares was generally accomplished either outside the banks or else with them acting purely as passive intermediaries and furnishing no guarantee of the amount of the issue. More or less the same thing applied to bearer bond loans. The ban on the issue of bearer bonds was rescinded in 1897, and this created the external conditions for an active participation by the banks in the resultant issuing activity. But these opportunities were little exploited. It is true that the banks increased their portfolios of securities, but this was done with safety and liquidity in mind and only to a minor degree as a manifestation of an active policy of financing major undertakings in the industrial, shipping and public sectors. The biggest banks did take some part in such financing during the last ten years prior to the outbreak of the World War, but usually as members of a consortium with other banks in which foreign banks were generally the largest contributors.

It was therefore foreign banks and foreign capital that were responsible for a large proportion of the most capital-intensive industrial establishments during this era. In 1909, almost 40 % (115 out of 295 million *kroner*) of the equity capital of industrial enterprises was organised as joint stock companies in foreign hands. It is true that this sum was equivalent to no more than about 22 % of the total advances of the private commercial banks. It might therefore appear that it was relatively feasible for the Norwegian banking system to raise capital of this order of magnitude for purposes of establishing industrial undertakings. But this was not done — a failure which indeed was heavily criticised by those involved in industry.

Accordingly the banking system played little of a leading role during this important phase of the development of capitalism in Norway; this is bound up with its backwardness during the preceding period. We have seen how special geographical, topographical and structural economic conditions inhibited eco-

nomic advance and helped to maintain a primitive credit market. The institutional development proceeded in a manner that produced a self-reinforcing effect on the backwardness of the credit system. When new opportunities presented themselves in the shape of capital-intensive expansion of hydro-electric power resources and industrial activities associated therewith, the Norwegian banking system was inadequately developed to take advantage of them. This was not primarily because of any lack of banks or shortage of capital in the aggregate. But the banks were too small (and notably lacking in net capital) and their operations were not suitably organised for any large-scale bank involvement in these new capital-intensive industries. The modest size and poor capital resources of the banks along with the meagre use made of cheques also impaired the banks' scope for creating their own credit. If foreign capital was relatively important to Norwegian industry, this was not primarily on account of its volume but because the structure of the domestic credit system offered no satisfactory means of meeting this kind of financing requirement. The foreign contribution was quantitatively not very impressive. What was more important was that foreign bank capital was able to play a leading role and to accept the large-scale commitments which the Norwegian banking system, generally speaking, could not or would not undertake.

Lack of tradition, experience and connections played their part as well. Before Norwegian bank capital had yet passed the starting post, foreign credit institutions had established themselves on the Norwegian market and developed links with both public authorities and private entrepreneurs. This applied particularly to the Wallenbergs' *Stockholms Enskilda Bank*. The Wallenbergs also had the international connections that were necessary in order to raise substantial sums of capital for major single projects.

The result was that one of the features of economic development in the most advanced and progressive capitalist countries did not exist in Norway. What I have in mind is the growth of

what Hilferding and Lenin called 'finance capital' — an intimate association or fusion of bank and industrial capital in which the former represented the leading factor. This is an indication of an overall backwardness in the development of capitalism in Norway at this time.

Another sign of this overall backwardness is the prominent role played by the state in the credit system. It is true that in the period 1895–1913 this role was gradually reduced from about 18 to about 13% of the aggregate lending by credit institutions. This was admittedly still a large proportion compared with the other Scandinavian countries, for example.

Taking the period 1830–1913 as a whole, the role of the state in the credit system was unusually large. Events in Norway in this respect reveal in some measure a parallel with the developments in backward Russia analysed by Gerschenkron. To what extent the relatively heavy involvement of the state in the credit system promoted growth or not is certainly not an easy question. The state filled gaps in the existing credit system. On the other hand there were elements of legislation that acted as a hindrance to capital formation and growth of the volume of credit. At the same time the state acted in part as a competitor of the existing private credit institutions and in that way may have helped to inhibit the development of a more adequate and effective system of credit in the era of early industrialisation.