Social Aims of Finance

Rediscovering varieties of credit in financial archives

Editors
Anna Cantaluppi, Chloe Colchester, Lilia Costabile,
Carmen Hofmann, Catherine Schenk and Matthias Weber

Fondazione 1563 per l'Arte e la Cultura

eabh
we do history

Social Aims of Finance

Rediscovering varieties of credit in financial archives

Cover photo: Headquarters of Istituto delle Opere Pie di San Paolo, early 20th century. Copyright: Torino, Archivio Storico della Compagnia di San Paolo.

Produced and distributed by *eabh* (The European Association for Banking and Financial History e.V.) in cooperation with Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo.

Editors: Anna Cantaluppi, Chloe Colchester, Lilia Costabile, Carmen Hofmann, Catherine Schenk and Matthias Weber

The papers included in this volume are a selection of those presented at a joint *eabh* and Fondazione 1563 conference in 2018 in Turin, Italy. The title of the conference was 'Social Aims of Finance'. The title of the workshop was 'Good Archives'. The conference and the workshop in Turin were organised with the support of Fondazione Compagnia di San Paolo.

ISBN 978-3-9808050-7-0
ISSN 2303-9450

Other titles in this series

Clement, P., C. Hofmann, J. Kunert (eds.) (2018), 'Inflation, Money, Output' (Frankfurt am Main).

Ikonen, V. and D. Ross (eds.) (2014), 'The Critical Function of History in Banking and Finance', (Frankfurt am Main).

Produced & distributed by:

Working in partnership with:

Acknowledgments

We are grateful to all members of *eabh* whose support makes our work possible.

We would like to thank Fondazione Compagnia di San Paolo and Fondazione 1563 per l'Arte e la Cultura, in particular Anna Cantaluppi, former Director of Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo, for initiating and following through with this project. Thank you to the editors and all authors of the volume.

Further we are much obliged to Gabriella Massaglia *(eabh)* and the editorial team of Fondazione 1563, namely: Elisabetta Ballaira, Virginia Ciccone, Mariastella Circosta.

Table of contents

Foreword

In June 2018, one hundred and fifty people -archivists, historians, economists and finance experts- from Europe, the United States, Canada and Africa attended the congress organized by Fondazione 1563 and *eabh* (The European Association for Banking and Financial History e.V.), supported by the Fondazione Compagnia di San Paolo in Turin. This was a source of great satisfaction and pride for Fondazione 1563, given its commitment to supporting research and higher education in the humanities, as well as the management and development of the Historical Archive of Compagnia di San Paolo itself.

Having been members of *eabh* for several years, we were delighted when they let us host the association's annual congress on a topic of our choosing. The 'Good' Archives' workshop took place alongside an academic conference 'Social Aims of Finance. The speakers examined the connection between banking and charity, between ethics and profit, between social responsibility and longevity of credit in a range of financial institutions.

The conference sought to expand research in this field. Papers ranged from Italian Monte di Pietà in the Middle Ages to the recent advent of contemporary impact financing, from rural moneylenders in Western India to the mutualism of French agricultural credit, from the Swedish savings banks and the British building societies to the German and Dutch Raiffeisen banks, from Rothschild philanthropy to the public economic and social aspects of the Italian banking system, from the Spanish bank archives to those in Canada and South Africa.

Now, we are delighted to publish the majority of the papers presented at the congress, many of which have been developed by further insight over time. We hope that this overview will prompt reflection on sustainable models of finance in the evolving context of the global market economy. I would like to thank the editors, the authors and the editorial staff at *eabh* for the great work they have done.

Piero Gastaldo
Chairman of Fondazione 1563
per l'Arte e la Cultura della Compagnia di San Paolo

Introduction

Joost Jonker[1]

Author's biography

Joost Jonker studied economic and social history at the VU University Amsterdam. After obtaining his PhD from Utrecht University he worked as a consultant-researcher with Stratagem Strategic Research and RAND Europe, mostly on aviation-related matters. Having moved to Utrecht University, he widened his research interests to embrace business and financial history from the 16th century to the present. Since 2012 he occupies the NEHA Chair in Business History at the University of Amsterdam, which he combines with a position as Senior Researcher at the International Institute of Social History in Amsterdam. Jonker wrote or co-wrote books on Dutch international trading companies, a company history of Royal Dutch Shell, and numerous articles on business and financial history.

1 NEHA Professor of Business History, University of Amsterdam, and Senior Research Fellow, International Institute for Social History; Amsterdam. joost.jonker@iisg.nl

Introduction

The social aims of finance are self-evident. Theoretically, that is. Finance facilitates or perhaps even boosts growth by providing key services such as payments and accumulating and allocating capital (Merton and Bodie, 1995). Financial innovation counts as a key factor in this, because it provides new products that attract more investors into the market, thereby increasing its liquidity and, in turn, creating room for further new products (Merton, 1990).

However, throughout history, and increasingly so since the 2008 crisis, finance has been heavily criticized for its lack of usefulness, its high cost, indeed for its alleged damage to society. The charge sheet is a long one: from medieval rack-renters, usury, the artificial creation of money shortages, the hoarding of good coin, to more recent accusations of rent-seeking, abuse of asymmetric information, miss-selling and overselling of products, rigged rate setting, faking client accounts, extreme remuneration, excessive speculation producing bubbles and crises, manipulating markets and duping investors by pumping up valuations, gambling with futures and options, shady deals, insider trading, and money laundering. The financial sector habitually ignores regulations imposed to protect the public interest. Between 2008 and 2019 the world's leading banks paid a total of at least 36 billion dollars in fines for compliance failures.[2] And even then, we have failed to mention a host of other misdemeanours: serially recurring mismanagement, Ponzi-type crooks, and downright fraud like BCCI in the 1980s or Wirecard in 2020. With so many bad apples it's sometimes hard to believe the sector still produces healthy fruit.

Yet it does, or at least it can do, given the right circumstances. What might they be? The 2018 *eabh* conference in Turin discussed that question and the papers in this volume all tackle it from a variety of different angles.
Let me start by distinguishing four points regarding the social aims of a business, and more specifically a financial services business. The first point, and the most obvious one, is the Corporate Social Responsibility (CSR) dimension; second, commercial businesses targeting particular social groups and often also owned by them, such as savings banks, mutual building societies, and co-operative banks; third, businesses providing financial services to particular groups as a charity; fourth, businesses or businessmen devoting part of their time and/or money to social, societal, or cultural purposes.

As to the first point, a corporation should behave as a citizen should: obey the law, respect prevailing social norms, treat all staff and customers the same way, and conduct its business in as environmentally sustainable way as possible. Most modern corporations strive to meet these ideals, or at least

2 https://www.fenergo.com/resources/reports/another-fine-mess-global-research-report-financial-institution-fines.html, consulted on 28 September 2020. A 2017 Reuters story estimated the sum to be nearer 400 billion dollars: https://www.reuters.com/article/us-banks-regulator-fines-idUSKCN1C210B, consulted on 28 September 2020.

pretend they do, by drafting codes of conduct that lay down business principles for managers and staff to follow. The CSR dimension creates an automatic tension with other business aims, such as making money, and the large fines regularly incurred by banks suggest they struggle to resolve that tension—perhaps more so than other sectors. On the other hand, the difficulties of impact investing discussed by Maximilian Martin (Chapter 5) underline just how difficult it is to reconcile social with financial aims. Though attracting more and more attention and rising amounts of money the social impact of responsible or sustainable investment is still considerably less than mainstream, commercially driven, investment. Impact investment projects require greater commitment to overcome hurdles such as high transaction costs, restrictive regulation, and a higher level of liquidity needed if they are to succeed, let alone be adopted on a wide scale.

An aspect missing from most if not all corporate CSR charters is proper care for a corporation's heritage. How one wishes it were included! The survival of archives and material objects documenting such a large part of modern life is now often dependent at worst on chance, at best on business archivists making the most of tiny budgets while defending their department against cost-cutting managers who regard heritage as a dispensable luxury. This is mistake because there's more to archives than heritage: good record keeping ensures the accountability vital to corporations getting and keeping the license to operate in a modern society.

The six chapters issuing from the conference's archives workshop illustrate this point in a variety of ways. Catherine Schenk's opening Chapter 1 sets the tone by asking what makes a 'good', useful and accessible archive collection. She sounds a note of caution about the limits and usefulness of blanket digitization but asks whether new technology does not offer fresh opportunities for financial institutions to make better use of their archives to meet contemporary business challenges. Creating interoperable digital collections that can be interrogated with keyword searches is now all the rage. This poses new challenges since paper-only collections risk sinking out of sight unless they are digitized and linked in the way such systems require, but also maintained to continuously changing IT standards, eroding always precarious budgets.

The big advantages of digitized, searchable collections are highlighted by Mariusz Lukasiewicz in his informative contribution about the Johannesburg stock exchange (Chapter 14). That institution's archive management and access are in a poor state, alas not unusual in South Africa. However, Lukasiewicz argues that researchers need not despair because, with some patience and travel grants, they may cobble together what happened at the stock exchange from sources spread across various countries – something which searchable digitized collections would render considerably easier and cheaper.

Achieving that for 19th and 20th century bank and stock exchange archives looks unlikely. The key collections are private, and corporate and sectoral co-ordination is difficult to secure for the seemingly modest aim of locating and listing bank archives. As María de Inclán Sánchez and Elena Serrano García demonstrate (Chapter 17), it took a team at the Banco di España over a decade of determined effort to map the banks that ever existed in Spain, and second, to locate and list the archival material in their holdings. This Herculean effort resulted in a splendid 2019 guide to Spanish bank archives, a model of its kind, and a sterling example of what can be achieved if a central institution, like the Banco de España, assumes responsibility for the sector's heritage.

The importance of such co-ordination for preservation and access, i.e., for research, cannot be overstated. Financial institutions need to understand that they should lead the reform of the way archives are managed across the sector. This is hard because as often as not central banks have difficulty meeting their own, internal archive management needs, including corporate historical identity, smooth information supply, confidentiality, and external researchers requiring access to their records for a range of research purposes. Jane Boyko highlights how the Bank of Canada negotiated this trajectory successfully in close concert with the country's National Archives so as to reconcile the various, sometimes conflicting, record management demands with each other (Chapter 13). The European Investment Bank chose a much simpler route. As Valerie Mathevon shows (Chapter 18), the EIB agreed, in line with an EU-wide regulation concerning all the Union's public institutions, to donate its records to the European University Institute after 30 years. Then again, the EIB's business, essentially economic and social projects to foster development in the EU and around the world, is less comprehensive and in the public eye than that of central banks. For this reason, it is hard to see the European Central Bank (after all not an EU but a Eurozone institution) doing the same, however welcome that would be. A third option, entrusting the bank archives to a dedicated foundation, was chosen by the Banco di Napoli. In Chapter 12 Concetta Damiani, Claudia Grossi, and Gloria Guida present an enthusiastic survey of the bank's old and very rich collections plus the many and varied projects undertaken by the foundation's staff to optimize access and bring the archive's contents to the attention of a wide public. Without wishing to appear churlish, though, one would have wished their contribution could have detailed the extent to which foundation's funding is secure from the bank's vicissitudes, if only to serve as an example for similar foundations that still have to defend their budgets.

With Pascal Pénot's Chapter 16 we turn to the second point, commercial businesses targeting particular social groups and often owned by the same groups. The original Crédit Agricole formed part of that marvellous 19th century wave of banks set up with the specific social aim of helping particular target groups to help themselves: savings banks, credit co-operatives, and building societies, as often as not modelled on the Schulze-Delitzsch and Raiffeisen co-operative banking initiatives in Germany. The old explanation for the rise of such banks was the absence of financial services in rural areas or for specific urban social groups, but evidence is mounting that peer-to-peer lending, dominant in the early Modern era, remained strong far into the 19th century and probably even way beyond (Ogilvie, et al., 2012), (Dermineur, 2018), (Gelderblom, et al., 2018), (Hoffman, et al., 2019). That throws the foundation of these banks in a different light, from two angles. First, they did not arise in a vacuum, but complemented existing financial service structures grafted on close social relations between people. The banks' services were not necessarily superior to those structures, at least initially, so we need to start thinking about their rise and expansion more in terms of processes of gradual social change than as the penetration of an economic optimum.

Second, the elites which provided the co-ordination and, at least during the banks' early years, management and monitoring services required to set up and run them, did so mostly for free, yet they were often not disinterested, far from it. Christopher Colvin's analysis of two rural credit co-ops in the Dutch countryside (Chapter 8) underlines to good effect that, if we want to understand the fairly rapid spread of rural credit co-ops in the Netherlands, we need to take seriously the role of religion and of competition between Catholic and Protestant elites wanting to mobilize the popular support for their own social and political ends. Colvin raises a key point: we ignore the social power of savings banks, credit cooperatives, and building societies at our peril. Hidden in plain sight, power and patronage are absent from most histories of these institutions even if, as Catherine Schenk notes in Chapter 1, Italian public pawn banks were often criticized for devoting resources to ostentatious buildings radiating social power rather than their core business, lending to the poor.

The banks grouped under the second point share another feature, and a telling one about recent times. During the last quarter of the 20th century the original business form as mutuals or co-operatives came under increasing pressure. Many, if not most of them, chose to become the standard, joint-stock limited liability corporations. Amongst the exceptions, Crédit Agricole kept true to its original business form, though for an outsider it is hard to distinguish it from other big French banks. That is, aside from having a tied foundation dedicated to promoting the co-operative ideals of utility and combating poverty through mutualized financial services. Other banks which formally remained co-ops, like the German Raiffeisen banks or the Dutch Rabobank, drifted further and further away from their members while mimicking commercial joint-stock banking successfully enough to get scandals and hefty fines all of their own. Chapter 7 by Olivier Butzbach details the sad process of de-mutualization for British building societies. Butzbach essentially puts this down to the process of financialization manifesting itself as pressures from both within the sector as well as from outside to become increasingly competitive, tied to the belief that this would be best achieved by conforming to the standard corporate model.

One wonders, though, whether financialization was the only or at least the most important cause of co-ops and mutuals losing their identity, direction, and purpose. Yes, financialization does explain why they had their share of mismanagement and compliance failures, but surely more factors were at play. If co-ops and mutuals no longer make a difference to consumers, we should seek to understand why the institutions themselves no longer managed, or bothered, to sustain their distinction. Co-ops and mutuals essentially transform social capital into financial capital, at the same time reducing cost and reinforcing the community of the co-operants. Contrary to the popular pessimist view about the decline of communities and social commitment, social capital is not only still widely available, but constantly mobilized for a wide range of purposes: (Putnam, 2020). Fearful of being pushed, co-operative banks, building societies, and mutual insurance companies jumped. Whether misguided or not they *chose*, of their own free will, to embrace financialization, to tie managerial remuneration to financial targets, to raise their exposure to public capital markets while cutting their reliance on social capital, and to become indifferent to consumers by commodifying their products. There was an alternative, and Swedish savings banks took it. As Tom Petterson argues in Chapter 9, under similar external pressures to conform to the standard corporate model a small number of banks did turn themselves into limited liability banks, nevertheless the large majority maintained the traditional, Swedish form of banks run by locally known trustees and owned by nobody. At the same time, aware that they needed to compete with the large commercial banks, the savings banks clubbed together and allied themselves with one of the large banks before becoming the single largest shareholder in that bank. In short, understanding both the need for change and for nursing their local communities, they found an imaginative solution that according to Pettersson works very well.

The history of banking in Italy highlights that its institutions also had a choice. In their wide-ranging discussion of Italian banking evolution since the 13th century (Chapter 2) Mauro Carboni and Massimo Fornasari relate how, during the 19th century, the country developed a flourishing sector of mutual and co-operative banks modelled on German examples. Hit heavily by a crisis during the 1920s, the co-ops entered a new phase of vigorous growth following the Second World War, only to encounter the same, familiar push for change during the 1980s and 1990s. Some of them responded in the familiar way, becoming commercial joint-stock banks, and swapping a commitment to social aims for financial performance targets, which led to their disappearance into the mainstream. However, as a consequence of legislative intervention in the early 1990s, many not-for-profit banks split themselves into two, turning the bank into a fully commercial activity while hiving off both the banks' ownership and their original social and community commitment into a dedicated foundation. As a result about ninety banking foundations still own a considerable share of the Italian banking system,

This model, commercial banks run and owned by a foundation, or a charity, was an old one in Italy. Complementing the appetizing discussion of its archives by Damiani, Grossi, and Guidi (Chapter 12), Lilia Costabile uncovers the Banco di Napoli's roots in seven institutions inspired by the values of Christian mercy, each with an office providing financial services, not just to poor people, but as a way to fund their charity work (Chapter 3). Chartered as public banks in the 16th century, those offices grew into a large, innovative, and diversified financial institutions which succeeded in driving out Genoese bankers to establish an oligopoly. Their joint circulation of fiduciary money rivalled or even surpassed better known banks elsewhere, for instance the Amsterdam Wisselbank or the Bank of England. The Bank of Naples, the heir of the banks of the charities, extended its operations as a commercial bank and was a bank of issue until 1926 (Costabile and Neal, 2018). At the same time, it pursued charitable activities, including through its Monte di Pietà. The Bank of Naples maintained this original inspiration after its transformation in the 1930s into a Public Law Credit Institute, a category of banks legally required to pursue socially useful objectives with their profits. Turin followed a similar trajectory to Napels. Anna Cantaluppi shows in Chapter 10 how there, too, a secular fraternity with strong religious motivations, the Compagnia di San Paolo, took the initiative to set up a public pawnshop side-by-side with its other charitable activities. Like Naples, though, the Turin Monte stuck to its brief in the following centuries. As a Public Law Credit Institute since the early 1930s, Istituto Bancario San Paolo di Torino, gradually widened the services it offered until it became a full-service bank whose profits financed social, educational, and cultural projects. As Claudio Bermond and Fausto Piola Caselli argue in Chapter 4, the transformation of the Nineties enabled bank and its foundation not only to marry commercial aims with charitable purposes, but also to keep the banking activities through a series of mergers and take-overs in the forefront of Italian finance while the Fondazione Compagnia di San Paolo remained the largest single shareholder of Intesa Sanpaolo banking group.

For all their exemplarity in sustaining social aims under commercial pressure, Naples and Turin have come to typify the questions posed by Catherine Schenk about the potential tension between charity goals and business performance, or between charity goals, financial services, and elite interests. Do the charitable foundations owning banks pocket the profits, or do they also ensure that their bank's commercial aims remain aligned with their clients' interests and those of society at large?

This brings us to the third point, banks with charitable purposes, as a rule providing loans to poor people. Originating in 15th century Italy, and widely copied across Europe, the Monte di Pietà aimed to drive out private moneylenders while sidestepping the church ban on lending money at interest by running pawnshops as public charities under church or city supervision. Focusing on the Bologna Monte's board minutes, Armando Antonelli shows in Chapter 11 how the institution, like its Neapolitan counterparts, soon widened its original purpose as a pawnshop to become almost a full-service bank, including public debt management and consultancy services to the Bologna city council.

Whether the Monte's original purpose suffered from mission drift remains unclear, as does the way the board balanced charity with loan terms, or charity with elite interests. Such interests were pertinent because the modern microfinance literature shows the pawn banks to have fought a strawman. Howard Jones' contribution (Chapter 15) details that, even today, private pawnbrokers fulfill a socially useful function and are not as usurious or odious as centuries of prejudice would hold them to be. Jones gained access to the archive of a private money lender working in India today, who allowed him to scrutinize his administration and observe the way his business operated in rural communities. Echoing the recent work of Collins et al, Banerjee and Duflo, and Armendáriz de Aghion and Morduch about the financial needs and behaviour of poor people in Africa, India, and Bangladesh, Jones finds that moneylenders fulfil a valuable social and economic function, meeting people's needs better than microfinance (Collins, et al., 2012), (Banerjee, et al., 2012), (Armendariz and Morduch, 2012). Moreover, the level of interest charged, though high, reflect handling costs and default risk and non-usurious level of profit. In retrospect we may therefore wonder whether public pawn banks to drive out private money lenders, in Italy and elsewhere, did not also serve other, elite purposes.

Let me illustrate this point with an example of two ostensibly different banks providing identical services. Following the Dutch Revolt of the 1570s the southern Netherlands adopted Monts de Piété or Bergen van Barmhartigheid, to form a countrywide, centralized pawnshop system supervised by a board composed of noblemen and high clergy (Soetaert, 1986). At the same time the newly founded Dutch Republic cities set up commercial pawnshops overseen by local officials (Maassen, 1994). Though very different in intention and governance, the banks' business remained similar in both north and south, with two telling exceptions. Interest rates charged were the same overall and when, during the 18th century, the number of small pawns rose rapidly, the banks compensated the cost of handling them in the same way, by lowering estimated values of goods offered, pushing up revenues of pawns sold. The telling exceptions were, first, bank premises. Whereas the southern system embarked on an ambitious construction programme of purpose-designed bank buildings radiating the dignity and power of the system's elite board, the northern banks were typically housed in disused warehouses or other city property that happened to be available and more or less suitable for the purpose. Second, board members serving the southern system received handsome attendance fees, but those in the north had to make do with token payments for their oversight. Summing up, in analysing banks operating as charities or as departments of charities we should look not only at what they did and how they did it, but also at their wider social environment and whose interest they served most. Or, to paraphrase Catherine Schenk, who defined what made a beneficial purpose and who decided how scarce resources were allocated?

Let's now turn to the fourth point. Klaus Weber's Chapter 6 covers bankers who devoted time and money to social or cultural projects. Like many businessmen at the time, whether Jewish or Christian, the Rothschild family supported numerous social initiatives in various European countries, for both the Jewish community and society at large. Weber views these activities from the perspective discussed above, that is to say, by analysing the Rothschilds' putative motives for offering support. Their projects were hardly ever a clear-cut expression of altruism, or disinterested philanthropy or charity; they were inspired by a variety of ulterior motives: raising reputation, gaining respectability, sponsoring religious sects, thwarting political opponents, or simply expanding the number of dependent clients. Drawing on recent literature about social entrepreneurship, Weber proposes we should therefore apply that term to such projects rather than philanthropy or charity.

I leave it for the reader to decide whether Weber's relabelling proposal really works. One can easily accept that philanthropical and charitable initiatives were shaped by ulterior motives, but surely social entrepreneurship requires more: not simply casual support but the devotion of an entire business to wider, societal purposes, something the Rothschilds, for all their widespread and wide-ranging charitable activities, certainly did not do. Nor is present-day corporate or private do-gooding, boosted as it is by tax deductibility, comparable to what happened in the past. Yet, in addition to this volume's other chapters, Weber's discussion does help us with the question posed at the beginning of this introduction, about the circumstances under which financial services were, and by extension are, likely to be socially beneficial.

The answer is a simple one, really: when the interests of banks and their stakeholders are aligned. Bankers like the Rothschilds, the people who managed the Italian religious fraternities, the Monte di Pietà, the old co-ops and mutuals, and the Swedish savings banks, all understood the need to keep their business aligned with the interests of their clients, the social group to which they belonged, and to society at large. They tailored their business to those interests and supporting the community of which they formed part. That conviction -- the need for keeping stakeholder interests aligned -- disappeared from world finance during the last quarter of the 20th century. In a radical change of ethos banks, rather than politely serving their clients came to denigrate and seek to exploit them (Goodley, 2012). It is no doubt more remunerative and intellectually satisfying to produce clever, complex and sophisticated, but socially useless products rather than humdrum, low-margin, safe, and socially useful ones, especially if the sophisticated product enables one to offload risk on unwitting investors and taxpayers.

However, society needs safe and socially useful products more than clever, sophisticated, but socially useless ones. So, rather than piling up regulations, we should find ways to re-align sectoral with societal interests. A push for realignment is unlikely to come from the banks themselves, because that would require a fundamental change of business model and managers' remuneration schemes tied to it. Nor can we expect governments or politicians forcing such changes as long as the political economy of banking and finance remains heavily tilted in favour of the banks (Calomiris, Haber, 2012). Therefore, criticism on finance providing socially useless services it likely to continue for a considerable time to come.

Reference list

Armendariz, B., and J. Morduch. (2012). *The economics of microfinance*. New Delhi: PHI Learning Press.

Banerjee, A.V., A. Duflo, and B. Holsopple. (2012). *Poor economics: a radical rethinking of the way to fight global poverty.* Minneapolis: HighBridge.

Calomiris, C.W., and S.H. Haber. (2015). *Fragile by design: the political origins of banking crises and scarce credit*. Princeton: Princeton University Press.

Collins, D., J. Morduch, S. Rutherford, and O. Ruthven. (2012). *Portfolios of the poor: how the world's poor live on $2 a day*. Princeton: Princeton University Press.

Costabile, L., and L. Neal (eds.). (2018). Financial Innovation and Resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808). Cham: Palgrave Macmillan.

Dermineur, E. (2018). Rethinking debt: the evolution of private credit markets in pre-industrial France. *Social Science History*, 42, pp. 317-342.

Gelderblom, O.C., M. Hup and J. Jonker. (2018). Public functions, private Markets: credit registration by aldermen and notaries in the Low Countries, 1500-1800, in: M. Lorenzini, C. Lorandini and D. Coffman, ed., *Financing in Europe - evolution, coexistence and complementarity of lending practices from the Middle Ages to modern times*. Basingstoke: Palgrave Macmillan, pp. 163–194.

Hoffman, P.T., G. Postel-Vinay and J.-L. Rosenthal. (2019). *Dark matter credit: The development of peer-to-peer lending and banking in France*. Princeton: Princeton University Press.

Maassen, H.A.J. (1994). *Tussen commercieel en sociaal krediet, de ontwikkeling van de bank van lening in Nederland van lombard tot gemeentelijke kredietbank 1260-1940*. Hilversum: Verloren.

Merton, R.C. (1990). The financial system and economic performance. *Journal of Financial Services Research* 4, pp. 263-300.

Merton, R.C., and Z. Bodie. (1995). A conceptual framework for analyzing the financial environment', in: D.B. Crane et al., ed., *The global financial system, a functional perspective*. Boston: Harvard Business School Press, pp. 3-32.

Ogilvie,S., M. Küpker, and J. Maegraith. (2012). Household debt in early Modern Germany: evidence from personal inventories. *Journal of Economic History* 72, pp. 134-167.

Putnam, R.D. (2020), *Bowling alone, the collapse and revival of American community*. New York: Simon & Schuster.

Soetaert, P.E.L.J. (1986). *De Bergen van Barmhartigheid in de Spaanse, de Oostenrijkse en de Franse Nederlanden (1618-1795)*. Brussels: Gemeentekrediet van België.

Newspapers

Goodley, S. (2012) 'Goldman Sachs 'muppet' trader says unsophisticated clients targeted', in: *The Guardian* 22 October 2012, https://www.theguardian.com/business/2012/oct/22/goldman-sachs-muppets-greg-smith-clients, consulted on 7 October 2020.

Reuters staff (2017), U.S., EU fines on banks' misconduct to top $400 billion by 2020, https://www.reuters.com/article/us-banks-regulator-fines-idUSKCN1C210B, consulted on 28 September 2020.

Websites

https://www.fenergo.com/resources/reports/another-fine-mess-global-research-report-financial-institution-fines.html, consulted on 28 September 2020.

Uses of the past in banking and financial history
Social aims of finance and history

Catherine R. Schenk[1]

Author's biography

Catherine Schenk is Professor of Economic and Social History at the University of Oxford. After completing her undergraduate and Masters degrees at University of Toronto in Economics, International Relations and Chinese Studies, she went to the London School of Economics to complete her PhD in Economic History. Since then she has held academic positions at Victoria University of Wellington, New Zealand, Royal Holloway, University of London and University of Glasgow. She has been visiting professor at Nankai University, China, and Hong Kong University. Outside academia she has spent time as a visiting researcher at the Bank for International Settlements, the International Monetary Fund and at the Hong Kong Institute for Monetary Research. She is an Associate Fellow in international economics at Chatham House, London.

1 University of Oxford; catherine.schenk@history.ox.ac.uk

Uses of the past in banking and financial history
Social aims of finance and history

Many historians and archivists share a commitment to understanding how the past can be constructed, how it can be used to reflect on the present and how it can be useful to the organisations that preserve their past through archival resources. This endeavour is often symbiotic: historians interpret the past, partly through discovery of original documentary material that has been curated in archives. But the relationship is complicated because these sources are almost always collected and kept for reasons other than academic research: e.g. legal requirements, corporate memory, accident. The academic and theoretical literature on how the past can be 'useful' or serve a social purpose as well as contributing to academic debates has generated a range of views that mainly reject a narrow idea of drawing direct 'lessons' from history, to focusing on what is 'forgotten' or whether the past is, in fact, so different in its institutional, social and cultural contexts as to not be 'useful' at all (see Gorton and Tallman, 2018; Eichengreen, 2015; Green, 2016). Nevertheless, the concept of the past as useful, whether for current institutional memory, as a contribution to answering strictly historical questions, or as a framing for critical understandings, links historians and archivists.

The function of banking and finance inherently has time at its core. Since the origins of civilization, traders have had to overcome distances in time and space. As Goetzman (2016) described, 'financial technology is a time machine we have built ourselves'. Goods produced in one area need to travel across time and space to a customer, while payment for these goods needs to travel back to the producer. Traders can shrink time and space by borrowing the funds they expect to receive in the future or offer credit to their customers. Historians have studied the ways that money and finance provided the tools to overcome these distances through credit systems developed by Maghribi merchants in the 11th century (Greif, 1989) and Medici bankers in the 15th century (de Roover, 1948), through to the spread of international banks during the first era of globalization of the late 19th century (Battilossi, 2006). These studies show that trade involves risks that are mitigated through charging interest, holding collateral, or applying social, legal or political sanctions in case of default. These solutions are, in turn, embedded in specific social, cultural, political and economic contexts.

The definition of what makes a 'good bank' or a socially useful bank is clearly highly subjective and changes over time. Should financial institutions serve a social purpose, or seek to maximise returns for their owners? When focused excessively on the first goal, there are still examples of the exploitation of rents, inefficiency and lack of transparency. Power relations may still prevail: who defines what makes a beneficial purpose and who decides how scarce resources are allocated? The risk of prejudice and enforcing particular views of what is ‘good’ or ‘socially useful’ will always arise. Even the Monti di Pietà came under criticism in the 19th century for not serving the best interests of the poor by diverting their assets into elaborate architecture emblematic of their own social power (Carboni and Fornsari, 2019). If we define access to affordable credit as a right, should it be provided by the state rather than private sector institutions? On the other hand, short-term profit motives encouraged by bonuses associated with the firm’s share price/annual dividend can induce excessively risky behaviour, or even fraud. Even without bonuses, the determinants of financial traders’ social and cultural status may motivate excessive risk-taking (Schenk, 2014). Debates over governance and incentives occupied many academics and commentators in the 1990s, when there was a wave of mergers and acquisitions in the financial sector that created complex and impenetrable organisations that were difficult to manage and to supervise (for a survey see Schleifer and Vishny, 1997). The global financial crisis of 2007-2008 only increased the urgency of these debates.

Ultimately, banks are not like other private sector corporations because of their role as financial intermediator, their links to monetary policy transmission and the persistence of information asymmetry between lenders and borrowers. These qualities mean that there is a role for external supervision and regulation in order to overcome the lack of transparency, and to protect depositors who have little continuous oversight of how their deposits are being deployed. Banks’ role of intermediating between individual savers and investors means that they have historically been deeply embedded in the communities they serve.

Over the past ten years there has been intense public scrutiny and criticism of the operations of the banking industry. This has focused mainly -- but not exclusively -- on the large global investment banks and their well-paid traders and executives who presided over innovations in financial markets that ultimately caused the near collapse of the global financial system (Tooze, 2018). At the same time, institutions that originally had a more social mission for small savers or homeowners were not immune from the temptations of investing in high-yield products that many traditional bankers did not fully understand. Thus, the Landesbank, the state-owned regional banks in Germany, and former mutual building societies in the UK were caught up in the securitisation boom and the ensuing crisis.

There are three key areas of social purpose in the provision of credit. First, lending to the poor, or those on low incomes, who may not have collateral acceptable for commercial or personal lending. Their precarity is demonstrated in their ability to fall quickly into unsustainable debt for the lack of relatively small amounts of funds needed for short periods of time. The Monti di Pietà were among the early institutions set up to meet these needs. A second group of institutions promoted small savings and thrift, especially during the 19th century, in association with religious or moral views on good behaviour, temperance and building self-sufficiency to cope with unexpected shocks (Ross, 2013). Third, we might look at co-operative institutions that pool savings of a community in order to allow the members to afford large capital items such as homes or funerals.

In the case of the third category, the transition from social to private interest is particularly stark. In Britain, the 1986 Building Societies Act released these mutual societies from the limits of their original foundations, and they moved quickly into a wider range of personal and investment banking. Deregulation was meant to encourage greater competition in the retail market, giving customers more choice and offering the building societies a level playing field with established banks to diversify their assets and services. Their social purpose and mutual organisation were deemed a handicap to profitability and efficient distribution of capital and savings. The Halifax Building Society, for example, was founded in 1852 to serve the needs of the local community to save to build and buy homes. After 1986, it grew rapidly through merger and acquisition before its IPO in 1997. A mere eleven years later, after merging with Bank of Scotland, HBOS had to be bailed out by the British Government.[2] Looking further back, the deregulation of US savings and loan industry in the 1980s also served to encourage financial institutions designed for a specific social purpose into more risky business, culminating in the 1986-1988 savings and loans crisis and a bailout that cost the US taxpayer as much as $124 billion (National Commission, 1993; FDIC, 1997). Like British building societies, the first savings and loan institutions were founded in the early 19th century to facilitate the ability of local people in their community to buy homes by pooling savings. Their nickname of 'thrifts' denoted the social and moral norms and purposes for which they were founded. But these institutions also adapted in response to changes in the social, regulatory and economic contexts. Like building societies, they were transformed in the 1980s by deregulation that sought to make them more resilient. The effect was rather the opposite as supervision was inadequate and the ability to offer higher interest rates on deposits in turn created more risky behaviour. The risks were enhanced by the pursuit of short-term profits for company directors as thrifts de-mutualised and new institutions were built through privately issued shares (for a more optimistic comparison of these two cases up to the 1990s, see Barnes and Ward, 1999).

The shift from the social to a private purpose is also discernible at a more systemic level. Hansen (2014) introduced a longer-term perspective to changing narratives and identified two turning points when finance shifted from 'servant' to 'master' of society: 1900-1931 and from the 1980s. For him, financial dominance in the economy is usually followed by both financial and social instability. Certainly, this was the case in the 1930s. Since 2008, political

2 The archives of Halifax plc are held in the Lloyds Banking Group Archives in Edinburgh after HBOS was acquired by Lloyds TSB in 2009.

economists and sociologists have also deployed narratives to explain the shift toward financialization or the dominance of finance capitalism (Roper, 2018) and the changing sources of elite power in finance during the securitisation boom (Hall, 2009). These studies remind us that the social and cultural foundations of finance are crucial to understanding their long-term development, but they also tend to be pessimistic about the social and economic purposes of innovation in the industry itself.

We must remember that disruptive financial technologies can be of benefit as well as increasing risk. For example, the bills of exchange that provided liquidity to international and domestic commerce facilitated the expansion of trade and payments, consumption and migration that underpinned globalization and economic growth in many economies in the 19th century. The securitization innovations of the 1990s and 2000s were motivated by the attraction of higher yield – if higher risk – assets but they also took time to develop and responded to a range of technological innovations (especially IT and communications) and economic circumstances. The economic context of relatively low interest rates in the so-called Great Moderation in the USA in the 1990s and 2000s and the high demand for housing were important underlying factors. Rises in the cost of living were subdued by cheaper consumer goods, IT innovation and relatively full employment, which helped to expand the demand for mortgages. To increase profitability (and the return to banks' shareholders) the securitization of these mortgages began to accelerate in the 1990s. This marked a shift from interest income on traditional loans to generating more income through the fees and commissions associated with investment banking and trading. Securitization seemed to allow banks to shed risk by selling it on, but the fee-generating machine itself became hungry and fed on more and more marginal mortgages. As in all debt crises, there were three culprits: the borrowers, the lenders and the supervisors, and plenty of blame to go around. But the long-term implications of the crash on the world's social and political fabric has yet to be fully understood even today, because of the uneven way the burden of the crisis was distributed across income groups and countries. The enduring sense of grievance over inequality has undermined the optimism about internationalism that followed the end of the Cold War in the late 20th century. When the world entered the global pandemic in the Spring of 2020, the start of a retreat to economic nationalism was already evident.

Using the past to help us to understand how banks originated is clearly important to understanding how they develop, even if there are no direct lessons to be drawn. It also helps to remind us about the many forms of financial institution and different models for the delivery of public services. What turns a bank from a charitable organisation, or a friendly co-operative, to a profit-seeking organization? Do banks perform a public service by making loans and protecting deposits, or should they take on more risk in order to maximise short-term profits for their shareholders? This was a major debate in the 1890s and the 1930s, and it continues today – what are banks *for*? In the 1930s, the inability of many small and medium-sized businesses to get bank credit was a preoccupation of the British government and was dubbed the Macmillan Gap. But was lending to risky borrowers without a credit record or collateral really the role of banks, which aimed to be profitable by managing risk? Ross (1997) suggests that, in fact, banks did meet the medium-term needs of small business by routinely rolling over short-term loans, although Scott and Newton (2007) show how banks were able to squeeze out at least one potential rival that sought to fill the Macmillan Gap. Funding for new and small firms continues to be a contest between social benefits of lending to talented but risky entrepreneurs or generating net interest income and fees from more established customers. In overcoming this tension, the re-emergence of successful micro-finance for poor borrowers without collateral over the past ten to twenty years suggests that models of the past can still be integrated into current financial systems (Mia et al, 2019).

Despite Hansen's warning that 'flying too close to the sources' can obscure the large and important issues that should occupy historians, bank archives obviously have a huge role to play in promoting understanding of the organization and development of financial services and the role they play in the wider economy and society (Hansen, 2014). The documentary evidence from the time provides a foundation for identifying and explaining the nature of financial organisations, their successes and failures. Nevertheless, historians place this evidence explicitly or implicitly into a theoretical or conceptual framework, which can itself be challenged.

What makes a useful archive collection? Accessibility is clearly an issue and digitization has opened up resources to a global public audience. In the digital age, there are higher expectations for accessibility than before. What is selected for digitization depends in part on balancing what might be of interest to researchers or to the public, with how the institution hopes to project itself. But the uses of archives can be difficult to predict: academic researchers seek evidence in daily, nitty gritty correspondence and ephemera as well as in formal minutes or accounts. The ideas that were abandoned are often at least as interesting as the plans that come to fruition and help us understand what led the bank in a particular direction. Evidence of the working lives of those in banks, of the architecture, social and cultural services are as interesting for many researchers as the contribution of the banking system to financial, business or economic history.

This all suggests a limit to the usefulness of digitization since not everything curated from the past can be digitized. Some archives digitize every document a researcher selects as a way to have demand-led digitization. But this is still backward-looking rather than anticipating new research priorities. On the other hand, researchers are normally requested not to share the digital images that they themselves make of archival material. This creates a lot of replication of research effort and digitization of which the archive itself does not take advantage. But this relationship between archives and researchers forms part of the trust that is required between the archivist and the researcher; that the collection is being used for genuine academic research. For the future, the challenge is how to manage digital-from-birth records, and this is a clear and present preoccupation of archivists.

For the researcher, the thrill of entering an archive is the expectation of a brilliant (but often elusive) moment of discovery. But even when that Eureka Moment eludes us, the way that physical artefacts such as paper records bring you closer to the people and ideas of the past, knowing that individuals created, handled, used these records to express and develop their own ideas is exciting in itself. This, of course, is a thrill that the public can also enjoy through careful curation of diaries, appointment books, marginalia of well-known historical characters and by bringing to life the every-day lived experience of the many women and men who worked as clerks and cleaners as well as high-flying financiers. The important historical role of women in the operations of banks and other financial institutions is particularly neglected and archives have an important opportunity to redress this aspect of financial history. The French project to bring together archivists and historians, 'Les femmes qui comptent', and other initiatives, are recovering this forgotten history.[3]

Are there new ways that archives can be used by financial institutions themselves as they face challenges of the present and future? As noted above, banks and bankers came in for a considerable amount of criticism after the global financial crisis, but it is important to remember that previous crises have also led to backlash against those who provide financial services to the public. Bankers can become divorced from the public realm, public interests and concerns through the salaries that they command and the sophistication of the instruments that they use to generate value and profit from the deposits of customers. Bankers may also be seen to exploit the political and social connections that they created in order to generate those profits. Thus, the robber barons of the 19th century gave way to JP Morgan at the turn of the century and then to the fat cats of the 1920s and 1930s and the 'gnomes of Zurich' of the 1960s. But these venal portrayals of banks and bankers reflect only a partial view of financial institutions and are most prevalent in times of crisis.

In the papers in this volume, we have some examples of institutions that remained consistent to their charitable DNA and those that took advantage of changes in regulation to enter newly competitive markets. In the 20th century many institutions in Europe (like building societies or savings banks) were subsumed into larger financial institutions and today the landscape of banking is arguably more homogenous than in the past. On the other hand, we

3 https://madamepapier.com/project/des-femmes-qui-comptent/ @femmesComptent This is not a new preoccupation, see e.g. Gildersleeve (1959).

are seeing a trend to disintermediation and the emergence of new alternatives such as crowdfunding, mobile payment systems and even cryptocurrencies.

The changing structure of banking and finance poses challenges. As banking systems consolidate, their archives coalesce into larger and larger collections that can become difficult to manage for the archivist, but which make the job of the researcher often easier – since the records of failures are at least as interesting as the story of survivors. The responsibilities of central banks for financial stability, as well as price stability mean that their collections are particularly important for understanding macro-economic policy-making and international monetary cooperation as well as the history of economic thought. Because their actions have systemic effects, they have a special burden of transparency compared to a strictly private institution. This mixed model of finance certainly deserves greater understanding, and will benefit from being linked to the historic roles of financial institutions in the ecosystem of economic and financial services and their drive to meet the needs of a range of customers. Whether, and how, different customers should be protected, and how different markets should be integrated is a key challenge for regulators as the transition from Glass-Steagall to Dodd-Frank in the US demonstrates.

What role do archives and historical research play in the interests of the institution itself? What is clear is that the past matters for banking because of the value of reputation in an environment of information asymmetry: who to trust is often related to the origins and reputation of financial institutions, and how they project their purposes and interests. Archives can help us to reflect on the legacy of the social purposes that inspired the foundation of many financial institutions and the role of banks and finance in society. Public works or public services promote – as well as create – a self-image of a bank that can be projected externally to stakeholders, but also internally to foster corporate identity within what are often complex institutions. The role of corporate archives in constructing reputation is clearly important for the firm itself. The archives can remind present-day employees of the origins of their institution and inspire them to think imaginatively about organizational structures and models of ‘good banking’ in different social and political contexts. This reflection is required particularly at the moment as banks rebuild their reputations, reform their structures, and respond to growing social and economic inequality. The papers in this volume bring together a range of case studies that engage with these important themes.

Reference list

Barnes, P. and Ward, M. (1999), ‘The consequences of deregulation: a comparison of the experiences of UK building societies with those of US Savings and Loan Associations’, *Crime, Law & Social Change*, 31: 209-244.

Battilossi, S. (2006), 'The determinants of multinational banking during the first globalisation 1880–1914', *European Review of Economic History*, Vol 10.3 : 361-388.

Carboni, M. and Fornasari,M. (2019), 'The "untimely" demise of a successful institution: the Italian Monti di pieta in the nineteenth century', *Financial History Review,* 26.2: 147-170.

De Roover, R. (1948), *The Medici Bank*, (New York).

Eichengreen, B. (2015), *Hall of Mirrors: The Great Depression, the Great Recession and the Uses – and Misuses – of History*, (Oxford).

Federal Deposit Insurance Corporation (1997), *History of the Eighties, Lessons for the Future,* Vol. 1. Washington, DC: FDIC.

Gildersleeve, G.N. (1959), *Women in Banking: a history of the National Association of Bank Women,* (Washington).

Goetzman, W. N. (2016), *Money Changes Everything: how finance made civilization possible*, (Princeton).

Gorton, G. B. and Tallman, E. W. (2018), *Fighting Financial Crises. Learning from the Past*, (Chicago and London).

Green, A. R. (2016) *History, Policy and Public Purpose: historians and historical thinking in government*, (London).

Greif, A. (1989), 'Reputation and Coalitions in Medieval Trade: Evidence on the Maghribi Traders' *The Journal of Economic History*, 49.4 : 857-882.

Hall, S. (2009), 'Financialised elites and the changing nature of finance capitalism: investment bankers in London's financial district', *Competition and Change*, 13.2: 173–189.

Hansen, P.H. (2014), 'From finance capitalism to financialization: a cultural and narrative perspective on 150 years of financial history', *Enterprise and Society*, 15.4 : 605-642.

Mia, Md Aslam, H-A Lee, VGR Chandran, F. Rasiah and M. Rahman (2019) 'History of microfinance in Bangladesh: a life cycle theory approach', *Business History*, 61.4: 703-730.

National Commission on Financial Institution Reform, Recovery, and Enforcement (1993) *Origins and Causes of the S&L Debacle: A Blueprint for Reform: A Report to the President and Congress of the United States*. Washington, DC: The Commission.

Roper, N. (2018), 'German Finance Capitalism: the paradigm shift underlying financial diversification', *New Political Economy*, 23.3 : 366-390.

Ross, D. (2013), 'Savings bank depositors in a crisis: Glasgow 1847 and 1857', *Financial History Review*, 20.02.2013 : 183-208.

Ross, D. (1997), 'The "Macmillan Gap" and the British Credit Market in the 1930s.' in *Finance in the Age of the Corporate Economy*, (eds.) Cottrell, P.L., Teichova, A., and Yuzawa, T. (Aldershot) : 209–26.

Schenk, C.R. (2014), 'Summer in the City: banking scandals of 1974 and the development of international banking supervision', *English Historical Review*, 129: 1129-1156.

Schleifer, A. and Vishny, R.W. (1997), 'A survey of corporate governance', *Journal of Finance*, 52.2 : 737-783.

Scott, P. and Newton, L. (2007), 'Jealous Monopolists? British Banks and Responses to the Macmillan Gap during the 1930s', *Enterprise and Society*, 8.4 : 881-919.

Tooze, A. (2018), *Crashed: How a decade of financial crises changed the world*, (London).

Between ethics and profit
Shaping a coordinated credit network in pre-modern and modern Italy

Mauro Carboni[1]

Author's biography

Mauro Carboni, Ph.D. is Aggregate Professor in the Department of Economics at the University of Bologna. He teaches Economic History, Global Economic History, and History of Finance. His research interest and publications focus on the evolution of public finance, financial dealings of charitable agencies and business practices promoted by civic pawn banks.

Massimo Fornasari[2]

Author's biography

Massimo Fornasari, Ph.D. is Associate Professor in the Department of Economics at the University of Bologna. He teaches Economic History, History of Finance, and History of Economic Thought. His research topics and publications focus mainly on the history of credit in early modern and modern Italy.

1 Università di Bologna, mauro.carboni@unibo.it
2 Università di Bologna, massimo.fornasari@unibo.it

Abstract

Monetization and credit innovations were closely tied to European economic development from the beginning of the thirteenth century. Italian city-states played a pivotal role in this development. They pioneered highly innovative financial instruments and played a crucial role in the development of new credit facilities, such as public banks and *Monti di pietà* (communal pawn banks). In the early modern period, the main cities of the peninsula were home to an original organization of the credit market, which sought to build up a social ethos by reconciling business imperatives and ethical concerns.
Political and financial upheavals at the turn of the nineteenth century, forced a deep and painful renewal of the system. A new stock of credit institutions took hold. Ethical and social concerns remained high, but the main approach shifted. Access to credit expanded its territorial and social reach dramatically, but its goal was no longer to provide emergency relief in times of distress, but to encourage thrift, self-help, and to promote social and economic progress. This gave birth to a new form of social banking – savings and cooperative banks – which played a crucial role in the development of Italian society until the banking reforms of the 1990s.

Keywords

Public banks, Monti di Pietà, savings banks, cooperative banks, people's banks, rural credit unions

Between ethics and profit
Shaping a coordinated credit network in pre-modern and modern Italy

Economists agree that credit markets are of fundamental importance in economic development, and for many scholars, there is a direct link between the design of a country's financial system and economic performance (MacDonald and Gastmann, 2001). Indeed, monetization and credit innovations were closely tied to European economic development from the beginning of the thirteenth century in which Italian city-states played a pivotal role (Neal, 2015:28-51). The medieval commercial revolution prompted financial innovation: Italian merchants not only contributed to the technical skills associated with credit but pioneered highly innovative financial instruments and institutions. Changes in finance intersected with culture and had pervasive social and intellectual consequences. The leading city-states of the peninsula were home to a remarkably original organization of the credit market, which sought to build up a social ethos by reconciling business imperatives and ethical concerns.

As financial networks expanded, infiltrating nearly every aspect of economic life, Italian civic authorities strove to promote stability and trust by addressing three crucial issues: a) ethical uncertainties that required the increasingly precise definition of licit forms of credit; b) instability, that involved abating the risk of systemic failures through stricter regulations and the creation of public banks; c) social exclusion, that involved setting up community-based agencies to grant access to credit services to the lower classes. At the turn of the nineteenth century political and financial upheavals forced a profound and painful renewal of the system. A new stock of credit institutions took hold. Ethical and social concerns remained important, but the main approach shifted. Access to credit expanded its territorial and social reach dramatically; its goal was no longer to provide credit relief in times of distress, but rather to encourage thrift, self-help, and the promotion of social and economic progress. This gave birth to a new kind of social bank, which played a crucial role in the development of Italian society up to the banking reforms of the1990s.

Early stages and specialization

The development of credit techniques in medieval Italy addressed three main concerns: to ease liquidity needs caused by the inadequate quantity, and poor quality, of hard cash; to provide long-term loans to governments, and to offer a reliable means to monetary transfer.

The monetary economy of medieval and early modern Europe was based on a limited and unstable stock of precious metal (Spufford, 1988). As commerce expanded, the need for adequate means of payment became acute and prompted credit innovations. In commercial centres the shortage of coinage led to the creation of substitute forms of payment, to compensate for the inelasticity and the shortfalls of the circulation of coin. It was in this context – described by John Day as a state of 'permanent monetary hypertension' – that credit practices such as the deposit bank and the bill of exchange came into use (Day, 1999:9).

The pioneering role of Italian medieval cities (Genoa, Venice, Siena, and Florence above all) is well established. Italian cities were financial laboratories of 'cash mobilization' and their success was closely linked to the ability to do business without 'hard money'. The leading economic historian Raymond De Roover could claim that in dealing with Italian merchants, 'one never sees or touches any money; all they need to do business is paper, pen, and ink' (De Roover, 1944:381). It has to be emphasized that credit networks evolved in tandem with the development of urban monetary economies and the shaping of public finance. Businessmen introduced and spread exchange and payment techniques, while cities provided a fertile ground for testing and perfecting credit devices; leading city governments financed their expenditures by a conflation of loans and taxes, and by introducing early forms of public rents.

A crucial development was a new form of long-term funded debt, known as *monte* (literally, 'debt mountain'). It was the precursor of sovereign debt and allowed the mobilization of financial resources based on the tax system. Each *monte* consisted of accumulated redeemable shares issued by a city government yielding a low rate of interest (5 to 8 percent). The system was pioneered in Genoa and Venice in the thirteenth century and it spread to other Italian cities during the fourteenth century. State bonds introduced new financial techniques, provided a surrogate of cash money, and offered new safe investment opportunities (Hunt and Murray, 1999:204-09; Pezzolo, 2005:145-163).

Practical advances preceded both organization and regulation. At first, medieval credit was a mixed bag of activities rather than an organized system, and informal credit practices remained widespread. From the matrix of informal finance, where lending took place on a personal basis, a formal financial system developed, and an ever-increasing share of capital came to be mobilized by professional intermediaries. Drawing sharp lines of distinction remains difficult, but some generalities can be stated. Three main groups of professional money-dealers emerged. At the top of the system, international merchant bankers operated; they conducted a multitude of business transactions throughout Europe and had agencies in the main business centres. In the middle, there were the moneychangers, who dealt in the exchange of coin, traded in bullion, accepted deposits, and played a key role in regulating currency. At the bottom end of the market were the petty moneylenders or pawnbrokers, who offered loans at high interest in return for a pledge – mostly to people in distress; or to those strapped for cash.

A limited number of large banking houses operated over a wide geographical area. The scale and complexity of their activities were considerable. They worked in the international market through local branches, or through correspondent banks abroad. Long-distance and wholesale trade was largely dependent on credit, and it was predominantly an Italian business. In the first half of the fourteenth century, the leading Florentine banking house of the Peruzzi had sixteen foreign branches across Western Europe and the Levant, while the Bardi merchant bank had over twenty agencies. To lend, they relied on their capital (*corpo*) and on funds they borrowed from others (*sopracorpo*) (Hunt, 2007).

The key financial instrument to transfer funds was the bill of exchange, a tool that provided merchants with a reliable mechanism for securing payment. It reduced risk and dispensed with the high transaction costs involved in the physical shipment of bullion. The bill of exchange had a temporal and spatial dynamic: it involved a cashless payment (*permutatio pecuniae absentis cum praesenti*), with the issuer of the bill (the drawer) instructing a third person (the payer) to settle a debt in its place in a different location (*differentia loci*). This enabled the transfer of funds, and it doubled as a credit instrument to finance short-term commercial operations. The bill of exchange enabled traders to guarantee payments in foreign locations at some future date, and facilitated transactions involving two different currencies. Differences in the rate of exchange, although not risk-free, could offer the opportunity of arbitrage. Besides, interest rates could be concealed by being justified as shifts in the rate of exchange, circumventing the religious prohibition on usury (Neal, 2015:28-37).

As Raymond de Roover has maintained, deposit banking arose in Italy out of manual exchange involving currencies (De Roover, 1963). From the twelfth century, money-changers started to assume the role of private bankers and began to accept deposits for safekeeping that would be payable on demand. From being custodians of bullion, money-changers became deposit bankers, fulfilling the crucial function of paying on demand. Acceptance of deposits – a basic function of banks – was the first step towards transferring payments to third parties. Local bankers came to play an important role as cashiers and provided deposit transfers through book-entry money. Clients who maintained current accounts could work with 'bank money' and could transfer payments without the inconvenience of scarce or unreliable coinage. According to the report from Venice of an anonymous fifteenth-century French nobleman, quoted by John Day, the system worked in this way:

> 'bankers keep in their banks a very large sum of money of private persons for their convenience and without profit to themselves. The said persons are merchants for the most part. And when they buy and sell merchandise or enter into any other kind of contract involving the disbursement of money, they effect the said disbursement in the bank, without any cash changing hands but only script, that is to say where the bankers have credits on their books, and the creditors wish to pay or transfer money to someone else, the banker enter in their books a credit in that person's name and the creditor is debited for the sum he paid out' (Day, 1999:37).

Although deposit banks emerged mainly as payment institutions, they achieved a financial intermediary role as well. Bankers readily discovered that deposits offered them a pool of funds they could lend to others, provided they kept an adequately high reserve ratio (usually about one third). In the fifteenth century some deposit banks (e.g., the Garzoni in Venice) even started to grant 'rewards' to account holders in order to attract new depositors. Unfortunately, lending exposed them to problems of solvency. As local banks tended to lend money out on a fractional reserve basis, they displayed a remarkable fragility. They were numerous, but they were vulnerable because they were family-based businesses, their capital was small, and they had few depositors: there were over seventy such banks, for instance, at the end of the fourteenth century in Florence, and around a hundred in fifteenth-century Venice. A typical bank had just a few score depositors. Liquidity problems were common since the withdrawal of a few accounts could leave a bank in a precarious position (Goldthwaite, 1985; Lane and Mueller, 1985; Mueller, 1997).

Pawnshops were key components of urban credit networks. They were ubiquitous and they served all levels of society. Lending on the security of real assets that provided collateral, pawnshops offered a service for the temporary liquidation of non-monetary forms of petty wealth – jewels, linens, clothes, pots, tools – at various rungs of the social ladder. The pawn loan was a popular form of lending, and the use of collateral reduced risk and lowered transaction costs. The pawn loan was, therefore, a source of ready cash for most households, in a context characterized by low and irregular income. Pawn lending fluctuated with the state of the economy and the availability of other forms of credit, but in the main, it performed a counter-cyclical function in times of economic distress.

City governments legitimized and regulated pawnbrokers' activities and charges through *condotte* (licenses). The term of a license was typically from five to twenty years and it cost a substantial annual fee. Pawnbrokers played a crucial role in assuring liquidity at the lower end of the market, but they were resented; even despised. Ethical concerns about interest charges – deemed usurious – induced most Italian pawnbrokers to abandon the trade, which came to be monopolized by Jews. This evolution aroused considerable anti-Jewish sentiment, heightened social tensions and rendered the whole business suspect (Montanari, 1999; Todeschini, 2016).

Ethical uncertainties and structural fragility

From the thirteenth century, urban communities experienced increased monetization, and changes in financial techniques soon informed nearly all aspects of social and economic life. Monetization intersected with medieval Christian culture, and anxieties surrounding the use of money grew to an intolerable level.

The society of late medieval and early modern Italian cities was both mercantile and deeply Christian. Attitudes toward money and its ability to engender profit were profoundly ambivalent. The use of money permeated nearly all aspects of economic life and the preoccupation with profit and loss shaped mercantile decisions. Yet fear for the implications of illicit and pernicious money usage was a major concern to all businessmen.

Religious prohibitions, specifically the Christian sin of usury, shaped behaviour in the sphere of monetary credit and debt. The Church considered any interest collected on a loan to be antithetical to natural and divine law. Usury was first condemned at the Council of Nicaea (325 CE), and prohibitions became common throughout Europe. The position hardened when the second Lateran Council (1139) called usury 'a theft', and the Council of Vienne (1311-12) abolished all secular laws condoning usury. Usury became considered an offence a Christian government was expected to suppress.

The standard definition of usury was any return demanded beyond the principal of a loan. According to the strict theological definition, a *mutuum* (loan) had to be gratuitous. The doctrine of the sin usury was based on biblical texts (Exodus, Leviticus, Deuteronomy), and on the admonition of St. Luke (6:35): 'lend, hoping for nothing in return'. In addition to scriptural and patristic authority, theologians, such as St. Thomas Aquinas could draw on Aristotle's argument that money was barren. Aristotle condemned profit derived from a loan as unnatural and viewed money as a measure of value and a sterile medium of exchange: '*pecunia pecuniam non parit*' ('money does not generate money') (Roncaglia, 2005:35). Money functioned as a store of value when hoarded, but the sterility doctrine meant that few canonists viewed money as a commodity whose value could fluctuate over time. Charging interest according to the duration of the loan meant the 'theft of time', clearly a serious spiritual offense (Noonan, 1957:52-3).

The Church saw no harm in rental income from the loan of physical property. Capital investment (equity) was legitimate. Charging a fee for the service of transferring money was also deemed licit, but no charge could be lawfully made for the use of money. If a money trader profited from charging monetary interest, he was guilty of usury. Although actual enforcement varied, usury was a criminal offence. Christians who practiced it could be excluded from taking the sacraments and might even be denied burial in consecrated ground. Money-dealers could face prosecution by civil authorities as well, even if in leading commercial centres local legislation continued to offer a degree of protection. In practice, implementation varied: Venice was permissive; and in Florence, prior to the 1430s, money-traders who violated Church usury law could redeem their position by simply paying a fine.

For all the agreement on principle, moral imperatives could be circumvented, and there were numerous practical subterfuges for evading the prohibition by disguising loans through the use of more complicated contracts. Using the bill of exchange was the most common and the safest route. Nevertheless, businessmen felt uneasy. The fear of sinning and the possible consequences in the afterlife weighed heavily. The images of usurers' souls suffering torments in hell prompted bankers to ensure their contracts were morally legitimate and to make generous bequests in their wills to expiate their sins.

Early modern credit re-structuring

As credit activities kept expanding their reach, credit services became fundamental to the urban lifeblood. They provided a vital public service necessary to the functioning of urban economies of exchange. Renaissance Italian cities introduced a series of converging provisions and innovations designed to update credit services to render them more morally sound, more resilient, and cheaper.

Ethical issues arising from credit practices stirred a lively debate, spurring the effort to define licit forms of credit, and to distinguish good from bad practice. Also, we sense a shift in attitudes: at the end of the thirteenth century scholars such as Peter John Olivi envisaged a gradual acceptance of monetary profit. A distinction between usury and legitimate interest began to emerge, the former best defined as illicit profit, the latter as licit profit. The heart of the matter lay in the assessment of risk or loss, which would permit lenders to collect a return beyond the principal outlay. For instance, more than the amount of a loan could be paid if the lender and the borrower shared the risk of a business venture. There were three permissible exceptions, or extrinsic titles: the first was a *mora* (penalty), that could be charged for late repayment. It was a form of compensation whenever a loan was not repaid by the date of maturity. The second was the *damnum emergens* (loss resulting): canonists agreed that a loan that involved a later loss (i.e., not having the money to face an unforeseen emergency) entitled the lender to compensation. The third was *lucrum cessans* (profit ending): it was argued that anyone who missed an opportunity to invest in a legitimate business venture by virtue of having extended a loan was entitled to some compensation (Noonan, 1957:100-53).

An ingenious and effective solution to rationalize interest payments was provided by the fifteenth-century Florentine lawyer and canonist Lorenzo Ridolfi. In his treatise – *Tractatus de Usuris* (1404) – Ridolfi turned public rents in *emptio-venditio* (purchase-sale) contracts, in which the buyer did not lend money at interest but purchased the right to collect a fixed income from the issuer for an agreed price. Such a right could be bought and sold at will. Doubts persisted in the conscience of policymakers and investors and were slowly addressed by a series of papal Bulls – *Regimini Universali Ecclesiae*, by Martin V in 1425 and by Nicholas V in 1455 – which confirmed Ridolfi's position and recognized public rents as licit contracts. (Armstrong, 2003:87-99).

Loan contracts were deemed possible under three general conditions: 1) the contract had to be 'real' (i.e., involving the mortgaging of rights or properties); 2) the contract included a buy-back clause (*patto di retrovendendo*), so that the borrower could redeem the loan if he or she so desired; 3) the annual return payment could not exceed ten per cent of the invested sum.

At the lower end of the credit market, things were murkier. The working poor regularly looked for short-term loans to buy necessities, and pawn houses provided cash quickly and discreetly. Pawnshops were licensed and regulated, yet interest charges could be steep, with monthly rates that compounded to annual charges surpassing 20 percent and even 30 percent. If justifications and practical arrangements for interest charges could be found in the field of commercial credit, little could justify charging high levels of interest to poorer borrowers, who were worse hit.

The introduction of civic non-profit pawn banks called *Monti di pietà* in the late fifteenth century proved a powerful institutional innovation, which can be regarded as the origin of social banking and the benchmark of socially responsible consumer credit (van der Wee, 1993; Muzzarelli, 2001). *Monti di pietà* were promoted by a cohort of gifted Franciscan preachers as a way to put money within the reach of the working poor, protecting them from the high interest rates charged by private, mostly Jewish, pawnbrokers. Religious feeling ran high, and anti-usury rhetoric could be vicious. Yet *Monti* marked a truly innovative departure from earlier, negative attitudes: credit began to be seen as an anti-poverty tool, charging a small fee was deemed acceptable, and the legitimacy of charges was recognized by a papal bull – *Inter multiplices* – issued by Pope Leo X in 1515. While the Bull did not condone the payment of interest it condoned the Franciscan argument that it was morally licit for the *Monti* to charge a fee to cover operational costs.

These new facilities organized themselves according to a standardized set of statutes and provided a venue for the temporary liquidation of non-monetary forms of wealth. They extended short-term credit (up to 12 months) to meet the need of those who had no other source, and they did so according to strict ethical rules. Fees on loans were to be kept low (usually around 5 per cent), in order not to burden borrowers, yet sufficient to cover costs and keep agencies in the black. In roughly half a century, beginning in the early 1460s – the first *Monte* opened in Perugia in 1462 – over 130 such institutions sprang up in towns across central and northern Italy. By the mid-eighteenth century, there were over 700 civic pawn operations across the peninsula (table 1) (Meneghin, 1986; Montanari, 1999; Avallone, 2007; Carboni, 2012).

Monti were highly successful institutions. They were created as microcredit agencies, but they became leading financial players in what has been labelled a 'moral economy' (Fontaine, 2008). They attracted large volumes of capital and expanded the range of financial services they offered. Adding profitable mainstream credit activities did not hurt their social role. They were allowed to lower fees, with the result that credit costs dropped well below market rates for the most vulnerable customers (Fornasari, 1993; Silvano, 2005; Ferlito, 2009; Carboni, 2014) The imposing buildings for the administration and the storage of pawns they built in major metropolitan areas, such as Rome and Naples, speak volumes about their business success. At the same time, the prominent position of these facilities changed the Italian cityscape, emphasizing the new positive status credit activities had acquired (Jacobi, 2019:132-49).

Table 1: Main Italian Monti di pietà

Year of opening	City	Year of opening	City
1462	Perugia	1501	Belluno, Rimini
1466	L'Aquila	1507	Ferrara
1468	Urbino	1511	Forlì
1469	Pesaro	1519	Turin
1472	Siena, Viterbo	1520	Lecce
1473	Bologna, Arezzo, Pistoia	1523	Trento
1480	Savona	1537	Como
1483	Genoa	1539	Naples, Rome
1484	Mantova	1541	Palermo
1486	Vicenza	1543	Siracusa
1487	Cesena	1546	Catania
1488	Parma	1547	Rovigo
1489	Brescia, Lucca, Rieti	1562	Massa
1490	Cremona, Piacenza, Verona	1566	Cosenza
1491	Carpi, Ravenna	1574	Asti
1493	Messina, Modena, Pavia	1588	Foggia, Reggio Calabria
1495	Florence, Reggio Emilia	1597	Catanzaro
1495	Pisa	1601	Crotone
1495	Milan, Treviso	1625	Livorno
1496	Udine	1675	Benevento
1497	Ancona	1753	Gorizia

Source: Meneghin 1986, Carboni 2012

As financial disruption brought about by recurrent banking crises became more frequent and acute, public authorities were forced to intervene, bailing banks out to prevent financial meltdowns. After prolonged debate and several false starts in Mediterranean merchant cities, decisive action came in the second half of the sixteenth century. In a matter of a few years, Italian states promoted the establishment of new credit agencies – public banks – licensed and supervised by public authorities either at the central or local level. In 1586 the new *Banco di San Giorgio* started to operate in Genoa, a year later the *Banco di Rialto* opened in Venice and the *Tavola* in Messina; in

1593 Milanese city authorities established the *Banco di S. Ambrogio*; and in 1605 the *Banco di S. Spirito* was founded in Rome. Between 1563 and 1600 seven public banks were established by charitable corporations in Naples: they thrived and were remarkably innovative. Elsewhere this evolution was captured by local *Monti di pietà*, as it was the case in Padua, Verona, Florence, and Bologna. This revision led to the subjection of financial operators to greater scrutiny and the requirement to provide adequate guarantees (Cipolla, 1989; Goldthwaite, 1998; Avallone, 2013; Costabile and Neal, 2018).

The creation of these new credit institutions aimed to regulate the banking sector, which had operated with very few restrictions hitherto. Public banks could receive deposits and make credit transfers but were licensed and guaranteed by public authorities. The early modern disciplining of credit and the financial architecture that it generated proved to be enduring. It was a mixed blessing for the economy of Italian cities though: it put an end to the ethical uncertainties, it reduced financial instability, and it sharply reduced borrowing costs. Finally, it introduced ethically sound forms of consumer credit at the lower end of the market. Promoting greater stability and social cohesion rather than economic growth was its stated goal and was successfully achieved.

Collapse and renewal

The political upheaval caused by the invasion of Napoleon's army in the 1790s brought about severe financial disruption and left the credit system across Italy in tatters (De Simone, 1993). Many institutions were plundered, and the loss of assets was sudden and heavy. Public banks, the backbone of the financial sector, were either seriously weakened or put out of business. *Monti di pietà* – the heart of early modern social banking – fared little better. Most pawn banks survived, and in the years after Italian unification they outnumbered other credit agencies by a ratio of four to one, but their ability to meet the credit needs of local communities was curtailed (Carboni and Fornasari, 2019). Severe financial damage was compounded by unfavourable legislative provisions, which impaired the *Monti's* ability to conduct business. They were stripped of their banking qualifications (1807) and demoted to the status of charitable bodies. Nevertheless, despite suffering substantial losses and having to navigate difficult political waters, Italian *Monti* displayed remarkable resilience. In late nineteenth century Europe, they remained the largest network of pawn houses, serving the consumer needs of poorer urban households (table 2).

In the stormy political climate of the early nineteenth century the traditional credit structure not only suffered damages, but it came to be increasingly perceived by lawmakers as outdated. Social and ethical concerns

Table 2: The Italian banking system (1861-1936)

	Commercial Banks	Savings Banks	People's Banks	Monti di Pietà	Rural Credit Unions
1861	16	126		547	
1870	36	249	48	n.a	
1875	115	196	111	n.a	
1880	107	194	140	n.a	
1885	135	215	423	n.a	n.a
1890	159	218	738	n.a	n.a
1895	145	218	751	n.a	n.a
1900	163	184	789	591	n.a
1905	154	184	808	522	1386
1910	201	184	848	494	1793
1915	197	187	750	480	2594
1920	n.a	187	n.a	432	n.a
1925	475	202	660	411	2545
1930	378	101	625	327	2392
1936	n.a	93	431	307	1981

Source: Felloni, 1997

continued to run high, but the approach to social banking changed. Traditional pawn banks came to be perceived as obsolete establishments, that did not conform to the tenets of saving and providence promoted by nineteenth-century economists (Carboni and Fornasari, 2019). As a result, the credit sector experienced a deep restructuring and a range of new financial non-profit institutions with specific missions to serve the 'unbanked' lower classes appeared; most notably savings banks (from 1822), cooperative banks (from 1864), and rural credit unions (from 1883). These new banking facilities started as a way to help the poor to overcome economic obstacles. They were modelled on German credit institutions, with certain modifications.

Savings banks

Savings banks began to spread rapidly across Western Europe at the turn of the nineteenth century. Though they took a variety of forms, all of them emphasized their usefulness in offering a remedy to poverty by providing credit services to workers and members of the lower classes. In Italy, such banks first appeared in Venice in 1822. During the first half of the nineteenth century, savings banks opened in cities across the northern and central regions of the peninsula: Milan (1823), Turin (1827), Florence (1829), Rome (1836), Bologna (1837), Genoa (1846). By 1860 there were ninety-one savings banks (De Rosa, 2003). After the country's political unification, a second wave pushed the total number of savings banks in 1885 to 215 (table 2). The philosophy of the savings banks was didactic – to teach the poor the value of thrift and civic responsibility. They were built on a philanthropic model: to promote saving, to give the urban poor a place to build capital, and to make them less reliant on charity.

In keeping with the complex political and economic makeup of the peninsula, the establishment of savings banks was uneven, and involved a variety of promotional support. These banks were geographically concentrated in central and northern regions, where urban networks were most dense. Differing types of savings banks proliferated: some were promoted by local municipal authorities, others were set up as partnerships with the participation of wealthy philanthropists, and many were chartered by *Monti di pietà* (Pecorari, 2008). Since this particular model proved successful, old agencies (*Monti*) and new ones (savings banks) found common ground and acted as complementary civic institutions.

Because collecting deposits from the lower classes was the banks' main goal, legislation stressed savings banks' mission to protect people's savings (Brambilla, 2011). The new charity law of 3 August 1862 – although improperly corralling savings banks as charitable agencies – emphasized savings banks' 'benevolent nature' (*natura essenzialmente benefica*) and the fundamental mission 'to collect, look after, and invest the small savings of the lower classes with the goal to gradually build up their capital' (*raccogliere, custodire e investire i risparmi minimi delle classi meno fortunate della popolazione costituendo loro gradatamente dei capitali*) (Flora, 2007:634). In 1888, new legislation acknowledged savings banks' financial credentials and recognized their mission to invite savings deposits.

Although savings banks had no speculative remit and the safeguarding of collected money was imperative, their business model varied from one region to another. Most savings banks operating in the Italian north-west offered modest mortgage lending and extended credit to local administrations. In the north-east they developed a more dynamic model of banking, and discounted bills as well. In central Italy savings banks tended to be more conservative, and restricted investment to treasuries.

In the main, savings banks were highly adaptable and played an important role in supporting the social and economic development of the urban communities they operated in. They were more than a financial institution though: they were paternalistic 'money-boxes', set up primarily with the benevolent ambition to aid in the financial inclusion of working poor. Such an ethical goal was an expression of their social positioning: they were promoted by the élite for the lower class. Indeed, savings banks' governing boards were a meeting ground of traditional landed aristocracy, local gentry, and professionals.

Cooperative banking

In the mid nineteenth century, mutual banks and credit unions started to appear in communities across the country. They tackled the pervasive problem of credit inequality decisively. Based on the principle of cooperative credit, pooling a community's savings and lending it out to the same community, they offered better remuneration to small savers and provided capital to small urban and rural entrepreneurs under favourable conditions.

Cooperative banks took two different forms: mutual or people's banks (which developed in urban areas and worked with craftsmen and professionals), and rural credit unions (which catered to rural communities and worked mainly with farmers).

People's banks

Like savings banks, people's banks (*Banche popolari*) had originated in Germany, where they were developed in urban contexts and operated on a local scale (Polsi, 1993). But unlike savings banks, their main goal was not simply educating the poor to save, but promoting the cooperative values of self-help, equality, and solidarity among peers. The cooperative model was pioneered in the early 1850s by the German economist and politician, Franz Hermann Schulze-Delitzsch. It rapidly caught hold. The movement migrated to northern Italy a few years later (1864). *Banche popolari* provided funding to artisans and small entrepreneurs, helping them to stay in business. The Italian Code of Commerce of 1882 introduced a limited liability clause to protect members and enabled successful banks to grow substantially. After the establishment of the first *Banca popolare* (Lodi, 1864), the increase in people's banks was swift. In 1875, over one hundred banks were in existence and their number grew rapidly. By 1885 they were 423, twice as many as savings banks. The movement reached its peak at the end of the first decade of the twentieth century when there were over 800 active agencies across the country (table 2). Northern regions were home to most agencies and the largest *banche popolari* were associated with prosperous northern cities such as Milan, Bologna, Brescia, Cremona, Novara, and Vicenza (Pecorari, 1999).

Rural credit unions

To reach rural communities, where credit exclusion was highest, a new kind of cooperative bank was developed. In 1864, Friederich Raiffeisen created the first rural credit union in Germany to enable farmers to support themselves. 'Raiffeisen banks' stood apart from other social banks: they were mutually owned and managed by volunteers. In Italy, the first rural credit union (casse rurali) was established in 1883 in Loreggia, a village near Padua. The idea caught hold after the movement received official sanction (Cafaro, 2002). Pope Leo XIII's *Rerum Novarum* encyclical and the support of the Catholic church allowed the credit union movement to thrive for many years. By 1915 almost 3,000 credit unions existed across the country. They were the largest, fastest-growing banking segment, and Catholic agencies dominated the sector (see tab. 2 and tab. 3). Italian casse rurali were a remarkable success story and a model of institutional development. They were the answer to providing low-cost credit to rural areas, where credit was both scarce and very expensive. Traditionally, farmers and rural labourers could only access credit through loan sharks that offered interest rates at up to 100 percent of the value of the loan (Fornasari, 2003). Credit unions brought affordable credit services to communities, where no such services had ever been available before, and they crossed traditional Italian regional divisions from the north-western regions to the deep south. Besides, rural credit unions were versatile financial institutions local people could manage and adjust to their needs. See Table 3.

On the eve of the Great War, social banking was by far the most vibrant and dynamic segment of the modern Italian credit system. It was to remain so for decades. Savings banks and cooperative banks enjoyed several advantages over mainstream banks. They enjoyed a high level of trust and claimed 56 per cent of deposits (tab. 4). Also, they were more numerous and had a wider territorial reach. Commercial banks were outnumbered by a ratio of 16:1. Strong local ties were an additional factor: social banks contributed to strengthening the local economies and cared about the overall wellbeing of the communities they operated in. See Table 4.

The main consequence of the 'slow but steady' spreading of community banks (Confalonieri, 1979:383) was the rising polarization of the Italian banking sector. In other words, a deep gulf separated a handful of large commercial banks from myriad local banks. The former operated at a national level, supplying long-term investment to major corporations, the latter worked at the local level, financing small and medium-sized businesses. This had a significant impact on the use of savings collected locally, which was tailored specifically to meet the needs of the communities' local banks served (La Francesca, 2004).

Table 3: Italian Rural Credit Unions (1905 - 1915)

	1905	1910	1915
Catholic Rural CU	1092	942	2002
Other Rural CU	291	821	592
	1383	1763	2594

Source: Cafaro, 2002

Table 4: Bank-wise distribution of deposits (1896-1936)

	1896	1903	1907	1913	1919	1922	1925	1929	1932	1936
Issuing Banks	6,2	3,5	3,0	1,4	4,0	4,1	2,8	2,4	2,7	2,1
Commercia 1 Banks	13,3	10,7	12,7	14,6	23,0	21,5	22,2	20,7	14,5	14,9
People's Banks	13,3	15,5	15,4	16,6	14,4	14,7	13,3	11,2	7,6	6,3
Savings Banks	48,0	43,9	39,1	36,5	29,8	29,4	31,7	34,9	35,6	29,9
Other agencies	2,2	3,8	3,3	2,8	2,5	2,7	3,4	5,3	6,4	9,9
Postal Savings	17,0	22,6	26,5	28,1	26,3	27,6	26,6	25,5	33,2	36,9

Source: De Mattia (ed), 1967

The resilience of social banking in modern Italy

Italian social banking underwent significant restructuring and downsizing during the interwar period (Bermond, 2008). Caught up in the political and economic transformation of the 1920s, social banks initially displayed considerable resilience in the face of growing competition from mainstream national banks. In 1925, savings banks and cooperative banks held almost half of the country savings. And the buoyant financial market of the time, which witnessed a sharp increase in loans and deposits, encouraged them to venture in new directions, seeking profits and carrying out a wider range of investment activities (Conti, 1999).

State legislation – above all the 1926 and 1936 Bank Acts – introduced minimum capital requirements, together with functional and geographical restrictions, designed to protect the credit system from the danger of over-banking. These regulations forced savings banks and cooperative banks to review their business practices and led to mergers. Smaller agencies found it hardest to comply. The timing of the new legislation was not favourable. In fact, it coincided with the outset of a serious financial crisis, which detrimentally affected the Italian banking sector. At the end of the 1920s, hundreds of Catholic cooperative banks faced illiquidity and had to be bailed out by the Treasury and the Bank of Italy (De Rosa, 1991; Dandolo, 2011).

The outcome was a sizeable reduction of the social banking sector during the 1930s. Cooperative banks declined in number and assets. The number of cooperative banks went from 660 in 1925 to 431 in 1936: a decrease of approximately one third. Rural credit unions dropped from 2,545 to 1,981: a decline of about a quarter (see tab. 2). Equally dramatic was the drop-in deposits. The market share of people's banks more than halved from 13.3 per cent to 6.3 per cent (tab. 4). Losses and hardship affecting small businesses, which represented cooperative banks' main customers, hurt bank performance, which led to a fall in resources available for the development of the local communities banks operated in. Mergers played a significant part in the process of savings banks' consolidation. The number of establishments went from 202 to just 93, but the share of deposits and overall profitability remained remarkably stable (about 30 per cent). Unlike cooperative banks, savings banks continued to be able to support communities' interest by using profits to generate social good at a local level.

The slide continued unabated. Overall, between 1925 and 1945 the number of savings banks fell by a half (from 202 to 82) while cooperative banks – people's banks and rural credit unions – suffered an even sharper contraction (about two-thirds), from 3,205 to 1,115 (Ministero per la Costituente, 1946). In the long run, this streamlining did not prove damaging though, and it may have contributed to greater efficiency in later years. There is no doubt that both savings banks and cooperative banks remained key pillars of the credit system and played a crucial role in the post-war Italian economic performance (Giordano, 2007). The adherence to the so-called regional principle, which restricted operations to a limited geographical area, was an asset that mainstream banks lacked. Co-operative banks were expected to support the local economy and local people, to operate according to common business rules, and thus to be financially sustainable enterprises. Donato Menichella, Governor of the Bank of Italy (1948-60), had no reservation in supporting community banks since 'they were the only ones able to understand and to address local needs suitably' (*i soli in grado di sentire e servire adeguatamente le necessità locali*), adding, 'whoever is familiar with the Italian economy regional diversity and the variety of small and medium-sized firms understands that the multiplicity of credit agencies at the local level has contributed to the even allocation of private savings' (Giordano, 2007:70). See Table 5.

Table 5: Deposits' and loans' market share of Savings Banks and People's Bank (1946-1980)

	Savings Banks		**People's Bank**	
	% of deposits	**% of bank loans**	**% of deposits**	**% of bank loans**
1946	19,2	13,4	11,0	11,5
1950	21,2	18,1	10,3	9,9
1955	21,6	17,8	10,6	10,0
1960	24,4	18,2	11,3	10,9
1965	25,8	18,3	11,4	9,7
1970	26,8	21,3	11,3	10,3
1975	27,5	21,7	12,7	11,9
1980	28,3	23,2	15,1	14,4

Source: Pecorari, 1999

Between 1946 and 1980 Italian social banks rebounded. Responding to the need of the country during the post-war economic boom, local banks were able to expand their market share in a significant fashion once again. Gross deposits at savings banks and people's banks leaped about one third, from about 30 per cent to over 43 per cent. Loans followed a similar upward pattern, jumping from 25 per cent to over 37 per cent.

In a country characterized by a high degree of regional diversity, community banks played a crucial role. Authorities lifted the restrictions, dictated by the Banking Act of 1936, so that cooperative banks and savings banks could operate at the local level as 'universal banks' and were able to provide long-term credit to start-ups and small businesses. This close relationship between local banks' boards, entrepreneurs and community officials brought significant benefits (Conti, 1999).

As industrial development spread to the north-eastern and central regions of the peninsula during the 1960s, community banks were able to provide decisive financial support. Recent studies have confirmed that close bank-firm relations have enhanced the economic prospects of developing regions. Local banks played a pivotal role in the spectacular economic success of the so-called 'third Italy', based on small-scale industrial districts (Conti-Ferri, 1997). Not only were they able to reduce transaction costs, and allocate resources to better and more profitable use, they also worked to enhance and preserve communities' cultural and political identities, by allocating a significant portion of their profits to fund social and welfare programs at the local level (Saraceno, 1970).

Epilogue

The growing depth and diversity in financial instruments, required to operate in an international environment and to achieve greater efficiency and performance, called for a reorganization and a reduction of the fragmentation of the credit system. The legislative banking reforms of the 1990s led to a period of consolidation and the restructuring of activities (Galanti, 2012). For instance, savings banks were initially transformed into joint-stock companies and then privatized through the transfer of the ownership of the majority of the shares to private non-profit foundations. Geographical restrictions were lifted, and different types of banks were allowed to merge. This led to the creation of large national as well as international banks (such as UniCredit and Intesa-San Paolo). The removal of former regulations allowed most savings banks and cooperative banks to drift away from the traditional system of credit that favoured supporting the local economy over performance, mutual control over hierarchy, and the common good above profits. At best, they have become a heterogeneous group of financial institutions (Ayadi, Schmidt and Valverde, 2009:7). Thus, one can say that an unprecedented change – with unforeseen consequences – has been set in motion: after more than 600 years, social and community banks have started to wane and have become an endangered banking species in Italy. The large institutions, which have resulted from the merger and acquisition of formerly savings and cooperative banks, may be successful and efficient units, but they resemble their commercial peers. They have adopted the profit-motivated culture of mainstream banks, and no longer have a social mission to retain the key features of community banks.

Reference list

Armstrong, L. (2003), *Usury and Public Debt in Early Renaissance Florence: Lorenzo Ridolfi on the Monte Comune* (Toronto).

Avallone, P. (1999), *Prestare ai poveri. Il credito su pegno e i Monti di pietà in area Mediterranea (secoli XV-XIX)* (Naples).

Avallone, P. (2013), 'Bankruptcy in the Kingdom of Naples: the case of public banks (17th to 18th centuries)', in Safley, T., M. (ed.), *The History of Bankruptcy. Economic, social and cultural implications in early modern Europe* (Oxford).

Ayadi, R., Schmidt, R. and Valverde S. (eds.) (2009), *Investigating Diversity in the Banking Sector in Europe. The Performance and Role of Savings Banks* (Brussels).

Bermond, C. (2008), 'La banca tra Grande Guerra e grande crisi (1915-1930)', in Bermond, C., Cova, A., Moioli, A. and La Francesca, S. (edd.), *Storia d'Italia, Annali 23, La banca* (Turin).

Brambilla, C. (2011), 'Banche ed economia nazionale (1861-1914)', in Conte, L. (ed.), *Le banche l'Italia. Crescita economica e società civile. 1861-2011* (Rome).

Cafaro, P. (2002), *La solidarietà efficiente. Storia e prospettive del credito cooperativo in Italia (1883-2000)* (Rome-Bari).

Carboni, M. (2012), 'Converting Goods into cash: An Ethical Approach to Pawnbroking in Early Modern Bologna', *Renaissance and Reformation*, 35.3:63-83.

Carboni, M. (2014), Il *credito disciplinato. Il Monte di pietà di Bologna in età barocca* (Bologna).

Carboni, M. and Fornasari, M. (2019), 'The 'untimely' demise of a successful institution: the Italian Monti di pietà in the nineteenth century', *Financial History Review*, 26: 141-170.

Cipolla, C. M. (1989), *Money in Sixteenth Century Florence* (Berkeley and Los Angeles).

Confalonieri, A. (1979), *Banca e Industria in Italia* (1894-1906), vol. I, (Bologna).

Conti, G. and Ferri, G. (1997), 'Banche locali e sviluppo economico decentrato', in Barca, F. (ed.), *Storia del capitalismo italiano dal dopoguerra ad oggi* (Rome).

Conti, G. (1999), 'Le banche e il finanziamento industriale'. In Amatori, F., Bigazzi, D., Giannetti, R. and Segreto, L. (eds.). *Storia d'Italia, Annali, 15, L'industria* (Turin).

Costabile, L., Neal, L. (eds.) (2018), *Financial Innovation and Resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808)* (London).

Dandolo, F. (2011), 'Le banche dall'autocrazia al controllo politico', in Conte, L. (ed.), *Le banche e l'Italia. Crescita economica e società civile. 1861-2011* (Rome).

Day, J. (1999), *Money and Finance in the Age of Merchant Capitalism* (Oxford).

De Mattia, R. (ed.) (1967), *I bilanci degli istituti di emissione italiani 1845-1936* (Rome).

De Roover, R. (1944), 'Early Accounting Problems of Foreign Exchange'. *The Accounting Review*, 19: 381-407.

De Roover, R. (1963), *The Rise and Decline of the Medici Bank,* 1397-1494 (Cambridge MA).

De Rosa, G. (1991), *Una banca cattolica fra cooperazione e capitalismo: la Banca Cattolica del Veneto* (Bari-Rome).

De Rosa, L. (2003), *Storia delle Casse di Risparmio e della loro associazione 1822-1950* (Bari-Rome).

De Simone, E. (1993), *Alle origini del sistema bancario italiano 1815-1840* (Naples).

Felloni, G. (1997), *Moneta, credito e banche in Europa: un millennio di storia* (Genoa).

Ferlito, C. (2009), *Il Monte di pietà di Verona e il contesto economico-sociale della città nel secondo Settecento* (Venice).

Flora, F. (2007), *Casse di Risparmio*. In *Enciclopedia Giuridica Italiana* (Rome).

Fontaine, L. (2008), *L'èconomie morale. Pauvreté, crèdit et confiance dans l'Europe préindustrielle* (Paris).

Fornasari, M. (1993), Il Thesoro *della città. Il Monte di pietà l'economia bolognese nei secoli XV* e *XVI* (Bologna).

Fornasari, M. (2003), 'Credito e agricoltura in Romagna tra Otto e Novecento', in Di Sandro, G. and Monti, A. (eds.), *Competenza e politica. Economisti e tecnici agrari tra Otto e Novecento* (Bologna).

Galanti, E. (2012), 'Le banche', in Galanti, E., D'Ambrosio, R. and Guccione, A.V., *Storia della legislazione bancaria finanziaria e assicurativa dall'unità d'Italia al 2011* (Venice).

Giordano, F. (2007), *Storia del sistema bancario italiano* (Rome).

Goldthwaite, R. (1985), 'Local Banking in Renaissance Florence'. *Journal of European Economic History*, 14: 5-55.

Goldthwaite, R. (1998), 'Banking in Florence at the End of the Sixteenth Century'. *Journal of European Economic History*, 27: 471-525.

Hunt, E. and Murray, J. (1999), *A history of business in Medieval Europe, 1200-1550* (Cambridge).

Hunt, E. (2007), *The Medieval Super-Companies. A Study of the Peruzzi of Florence* (Cambridge).

Jacobi, L. (2019), *The Architecture of Banking in Renaissance Italy. Constructing the Spaces of Money* (Cambridge).

La Francesca, S. (2004), *Storia del sistema bancario italiano* (Bologna).

Lane, F. and Mueller R. (1985), *Money and Banking in Medieval and Renaissance Venice* (Baltimore).

MacDonald, S. B. and Gastmann, A. L. (2001), *A History of Credit and Power in the Western World* (London).

Meneghin, V. (1986), *I Monti di pietà in Italia dal 1462 al 1562* (Vicenza).

Ministero per la Costituente (1946), *Rapporto della Commissione Economica presentato all'Assemblea Costituente*, IV, *Credito e Assicurazione*, I – Relazione (Rome).

Montanari, D. (ed.) (1999), *Monti di pietà e presenza ebraica in Italia (sec. XV- XVIII)* (Rome).

Mueller, R. (1997), *The Venetian Money Market: Banks, Panics and the Public Debt 1200-1500* (Baltimore).

Muzzarelli, M. G. (2001), Il *denaro e la salvezza. L'invenzione del Monte di pietà* (Bologna).

Neal, L. (2015), *A Concise History of International Finance* (Cambridge).

Noonan, J. T. (1957), *The Scholastic Analysis of Usury* (Cambridge MA).

Pecorari, P. (ed.) (1999), *Le Banche popolari nella storia d'Italia* (Venice).

Pecorari, P. (2008), 'Il sistema bancario in Italia dopo l'Unità (1861-1900)', in Bermond, C., Cova, A., Moioli, A. and La Francesca, S. (eds.). *Storia d'Italia, Annali 23, La banca* (Turin).

Pezzolo, L. (2005), 'Bonds and Government Debt in Italian City-States, 1250-1650', in Goetzmann, W., Rouwenhorst, G. (eds.), *The Origins of Value. The Financial Innovations That Created Modern Capital Markets* (Oxford).

Polsi, A. (1993), *Alle origini del capitalismo italiano. Stato, banche e banchieri dopo l'Unità* (Turin).

Roncaglia, A. (2005), *The Wealth of Ideas: a History of Economic Thought* (Cambridge).

Saraceno, P. (1970), 'Sviluppo economico e banca locale. Riflessioni su un settantacinquennio di storia bancaria italiana', *Bancaria*, 9: 1019-1026.

Silvano, G. (2005), *A beneficio dei poveri. Il Monte di pietà di Padova tra pubblico e privato (1491-1600)* (Bologna).

Spufford, P. (1988), *Money and Its Use in Medieval Europe* (Cambridge).

Todeschini, G. (2016), *La banca e il ghetto. Una storia italiana (secoli XIV- XVI)* (Bari-Rome).

Keys to financial success of socially oriented banks
The Neapolitan 'banks of the charities'

Lilia Costabile[1]

Author's biography

Lilia Costabile is Professor of Economics at the University of Naples Federico II, Life Member of Clare Hall, Cambridge, and Fellow of the Royal Historical Society. Her research has been published in academic journals including *The Economic Journal, The Cambridge Journal of Economics, The European Journal of the History of Economic Thought, Structural Change and Economic Dynamics*. She is the author of *Malthus. Sviluppo e ristagno della produzione capitalistica, and* editor of several other books. In 2018 she co-edited with Larry Neal *Financial Innovation and Resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808)*. She has been the principal investigator on research funded by the Italian National Research Council, the Ministry of Education, and the BCE among others. Lilia Costabile earned a first degree in Philosophy at the University of Florence, and a Ph.D. in Economics at the University of Cambridge. In 2016 she received the Prize of the President of the Italian Republic awarded by the Lincei Academy for her contributions to economics and the history of economic thought.

1 University of Naples Federico II and Clare Hall, Cambridge; costabil@unina.it

Abstract

The public banks of Naples owed their success to a business model combining a charitable orientation with financial innovation. Founded in the early modern period as the auxiliary departments of some charitable institutions, they benefited from two fundamental assets: the patrimonial assets of their parent institutions, and the population's unconditional trust. On this basis, they introduced a series of financial innovations, such as the *fede di credito*, a negotiable promissory note that served as a highly liquid means of payment, and an early version of overdrafts in the form of cash credits (*accomodi nell'occorrenze*). These innovations gave rise to the first example of a paper circulation in the western world and stimulated a lively debate on the nature of money and the aims of monetary policy. The interest of these early controversies is both historical and theoretical, as they initiated long-lasting traditions in monetary analysis.

Keywords

Banks, public banks, money, credit, *fede di credito*, innovations, liquidity, finance, trust, charities

Acknowledgements

I thank -without implicating- Olivier Butzbach, Harold James, David Ibbetson, Larry Neal and Catherine Schenk for their comments. I am also grateful to the participants of the Conference 'Social Aims of Finance', organised by *eabh* in cooperation with Fondazione 1563 per l'arte e la cultura della Compagnia di San Paolo (Turin, 15 June 2018).

Keys to financial success of socially oriented banks
The Neapolitan 'banks of the charities'

> 'It is a praiseworthy fruit of virtue that faith alone bestows value; it has transformed into precious money mere sheets of paper which are otherwise worthless' (Galiani 1750 [1751]:324-5).

Introduction

The public banks of Naples were the protagonists in a long history of financial success. The original seven, originating as the auxiliary departments of some charitable institutions (*luoghi pii* in Italian), were formally chartered as public banks in the last quarter of the sixteenth century. But their parent-institutions, the charities, had already engaged in banking activities for decades, and, in the case of the Holy House of the Santissima Annunziata, for more than a century – at least since 1462 (Di Meglio, 2018; Vicinanza, 2006; Demarco and Nappi, 1985; Silvestri, 1953). The seven charities were four hospitals, two charitable pawnbrokers, and one conservatory for young girls 'at risk'. In 1640 an eighth bank, Banco del Salvatore, was founded by the flour-tax farmers, and was the only for-profit institution in the Neapolitan banking system.

From the end of the sixteenth century onwards, the public banks, also called the 'banks of the charities' (*banchi dei luoghi pii*), established themselves as the backbone of the financial system of the Kingdom of Naples, which was part of the Spanish Empire from the beginning of the 16th century until 1707. In 1794, under Bourbon rule, the public banks merged into Banco Nazionale di Napoli, which became Banco delle Due Sicilie during the French occupation (1806-1815), and then continued its activities after the Bourbon restoration. Finally, the bank was denominated Banco di Napoli at the time of Italy's unification in 1861. In the new nation, the Banco di Napoli was one of the three banks of issue until 1926, when the Bank of Italy acquired monopoly on banknote issue. For the rest of the twentieth century, the Banco di Napoli was one of the biggest commercial banks in Italy, with international branches around the world. In the1990s, it was absorbed into Sanpaolo-IMI, which later merged with Banca Intesa as a consequence of consolidation in banking in line with world-wide trends, as well as the European Union's approach to banking and other factors particular to Italy (Giannola, 2002). In 2019, Intesa Sanpaolo abolished the trademark 'Banco di Napoli', thus putting an end to the life of one of the oldest Italian banks.

In addition to longevity, the size of the public banks of Naples also tells a story of financial success. In the seventeenth and eighteenth centuries their joint monetary circulation exceeded those of the famous banks of Venice and Hamburg and, for long stretches of time, surpassed the balances of the Bank of Amsterdam. In the last decades of the 18th century, the public banks were still a third of the size of the Bank of England (Velde, 2018). Thus, three words summarize the history of the public banks of Naples and their descendants: longevity, size, and financial success.

Their story is remarkable in the light of their non-profit orientation. They maximised profits but used large parts of these profits to fund the philanthropic activities of their shareholders - the charities. Moreover, they often carried out charitable tasks on their own account: rescuing citizens from slavery in other Mediterranean countries; providing dowries for women getting married or becoming nuns (*maritaggi and monacaggi*); supporting poor inmates, etc. And of course, lending money to the poor was the statutory mission of the two pawnbrokers, Monte di Pietà and Monte dei Poveri. The Banco di Napoli inherited this philanthropic mission from the banks of the charities, and the Fondazione Banco di Napoli is still active as a charitable institution.

In most other countries, only, a marginal role was played by non-profit and other 'alternative banks' (Butzbach and von Mettenheim, 2014).[2] Thus, the following questions arise: what specific characteristics allowed the public banks of Naples to outcompete powerful private banks, mostly owned by foreign businessmen? What enabled them to survive the stubborn hostility of the Spanish monarchy's powerful creditors – the Genoese? And what explains these banks' resilience in the face of the many shocks that they (and the city of Naples) endured through the centuries, such as earthquakes, eruptions of the Vesuvius, foreign invasions, plague and monetary crises? (Costabile and Neal, 2018). In short: what were the ingredients of their remarkable, long-lasting financial success?

The answer is that the public banks of Naples were able to transform two fundamental assets – the patrimonial assets of their mother institutions, and the population's unconditional trust – into a series of unique financial innovations. These offered a solution to the shortage of metallic money that beset the country from the last decades of the sixteenth century onwards. As providers of means of payment – the *fede di credito*, their negotiable promissory note – and creators of money, the public banks soon became one of the pillars of the Kingdom's economy.

The response to these financial innovations were recorded by contemporary commentators. From 1605 to 1639, the innovations of the charitable banks prompted widespread debate. Although their fiduciary money remained highly controversial in this period, it was slowly adopted in other countries. Indeed, by 1681 there were proposals to reform the Spanish banking system along the lines of the Neapolitan model. By then, the advantages of their fiduciary circulation had been fully appreciated.

The Neapolitan charities

According to a document of the time, in the city of Naples at the end of the sixteenth century in a population of about 200,000 inhabitants there were thirty six hospitals and hostels for the poor, one hundred confraternities, two-hundred churches and chapels, seven conservatories for young women,

2 For other experiences in Italy see, among others, Albini (2002); Carboni and Muzzarelli (2014); Muzzarelli (2001); Piccinni (2012).

and six *monti di pietà* or charitable Lombards (Campanelli, 2002:149). In addition, there were many monasteries, most of which also engaged in charitable activities. In 1580-1585, these monasteries hosted 1995 monks and 1774 nuns (Muto, 1982:253).

The charitable institutions administered the welfare services that the public authorities were either unable or unwilling to offer. At the time, the governing authority in the Kingdom of Naples was the Spanish Viceroy, assisted by the *Consiglio Collaterale*, the highest political, legislative and administrative court. The other leading institution was the fiscal court, called the *Camera della Sommaria*. The city of Naples was administered by a council composed of six Delegates (*Eletti*) of the Seats (*Seggi*). Five of them were the Seats of the Nobility (Capuana, Montagna, Nido, Porta and Portanova), while the sixth one was the Seat of the People, which represented all non-noble citizens.[3]

The public administration provided some limited welfare services. These were the purchase and distribution of wheat at subsidised prices (*annona*); some control on health services; and a variety of measures for tackling the problem of poverty, mainly via the repression of vagrancy (Muto, 1982:237-242; Sodano, 2013:109-130; 117-119). Responsibility for all other services fell to the pious and religious institutions. They provided shelter, accommodation and medical assistance to the poor, the ill, and the disabled; assistance and education for abandoned children; dowries for indigent women; alms in the form of food, clothing, or small money allowances for widows, orphans, and 'honest' inmates; ransoms for captives held by the 'Turks'. One of the charities, the *Incurabili* hospital, even engaged in medical research (Valerio, 2010).

There was a strong relationship between the charities and the Catholic Church. The founders of the *luoghi pii* were inspired by the precepts of Catholicism, sometimes popularised through the predication of religious leaders and saints; and their philanthropic activities were often funded by bequests and gifts offered by private individuals inspired by the ideals of Christian mercy. The Catholic hierarchy, in Naples as elsewhere in Italy, protected the charities and sometimes presented them with large gifts. The Church also proclaimed 'indulgences' for the remission of sins as a means to encourage private donors to support the charities' philanthropic deeds. Crucially, the Popes issued bulls to promote some of them, like monti di pietà, which were founded in several Italian cities in the second half of the fifteenth century. In 1515 the Fifth Lateran Council approved Pope Leone X's bull *Inter multiplices*, stating that monti di pietà, created for 'the elimination of usuries',

3 Montagna was the only Seat with two *Eletti*, who, however, shared one vote in the city council, (called Tribunale di San Lorenzo from the name of the church where it met). Montagna had absorbed the Seat of Forcella. Capuana and Nido were the most respected Seats. According to the Venetian Ambassador Gerolamo Ramusio, reporting from Naples in 1597, they considered themselves to be the only aristocratic Seats, and looked down at Montagna, Porto and Portanova as the Seats of rich parvenus, or 'popolo grasso' (Albèri, (1863) [2012]:315).

were entitled to earn interest at 5 or 6 per cent to cover their operating costs. Later on, two more bulls issued by Pope Pio IV in 1560, and Gregorius XIII in 1584, confirmed the legitimacy of these financial institutions, and approved their deposit-taking activity at 4 per cent interest (in Naples, however, deposits were free of charge). The Popes also issued specific edicts in favour of the Neapolitan charities. For instance, in 1552 Julius III approved the statute of the Neapolitan Monte di Pietà; and in 1586 Sixtus V formally approved one of the two fraternities that set up the Banco dei Poveri (De Rosa, 1958).

In short, the charities – in Naples as elsewhere in Italy – were a clear expression of the Catholic culture. Nevertheless, in Naples their relationship with the ecclesiastical hierarchies was complex, and often tense. One has only to read tome fifteen of Bartolomeo Chioccarello's *Archivio della Regia Giurisdizione del Regno di Napoli* (published in 1721, but written in the 1630's)[4] to get an impression of the frequent disputes between the Church and the 'charities administered by laymen' *(luoghi pii governati da' Laici)*, which included guilds, confraternities, hospitals, *monti di pietà*, hostels, and even some churches—the so-called *estaurite.*[5]

These disputes escalated in number when, in 1562, the Council of Trent issued a decree ruling that charities and churches, even if administered by laymen, were to be visited periodically by the ecclesiastical authorities on the grounds that bishops, as the protectors of the poor, had the right to control these institutions' balance sheets. Only charities enjoying 'the protection of kings' were exempt from these episcopal visitations (Sforza Pallavicino, 1833:691-692). Many charities refused to comply. They refused episcopal visits and sometimes even argued that their laic statutes granted them exemption from paying tithes to the Church. On occasion, even nuns actively opposed the Church's interference.

From time to time the Viceroys and the Kings of Spain supported the charities' resistance; on other occasions, the Spanish rulers acted as mediators between the charities and the Church. Their caution can be understood in the wider context of inter-state diplomacy. Because Naples had been in a relation of feudal dependency with the papacy since the Norman conquest in the twelfth century, the Spanish Court was unwilling to break its diplomatic relationships with the Catholic Church for the charities' sake (at least when Spain was not directly at war with the Popes). Conflicts between the Neapolitan charities and the Church went on for centuries. According to an authoritative historian, over the long run these conflicts proved material to the emergence of a modern, secular concept of the state (Galasso, 1989:172). The relationship of the Neapolitan charities with the ecclesiastical authorities

4 On Chioccarello and his work see Casella (1981).

5 On these conflicts see also Russo, 1984:224 ff.; Campanelli, 2002:149; for similar tensions in the provinces of the Kingdom see Avallone, 2007:79.

is not difficult to understand in the light of their nature and origins. Most of them were secular institutions. The 'masters' or 'governors' who sat in their governing bodies usually came from the ranks of the local bourgeoisie: they were businessmen, merchants, lawyers, judges and other professionals, high state officials, members of the royal bureaucracy, artisans of the crafts guilds. Only rarely did they come from the ranks of the nobility. These administrators tried, as far as possible, to maintain good relationships with the ecclesiastical hierarchy; but they were jealous of their independence, and proud of their managerial skills. Although they were religiously motivated, they nurtured secular ambitions. The charities occupied a position of power at the centre of a welfare system that was also a system of social control (Vitolo and Di Meglio, 2003). They were respected and admired by the population at large – all social classes included – both for their role as the generous providers of much-needed social services, and as creators of jobs and as dispensers of money – to their employees, to the poor, as well as to a number of contractors. The poor benefited, by way of assistance, from the good administration of the charities' patrimonies. The rich presented the charities with their money and precious objects in the form of donations and legacies for charitable purposes. Artisans, merchants, peasants and nurses sold their goods and services to these institutions. Many of the charities' patrimonial assets were accumulated independently of the Church's legacies. No wonder their governors did not easily accept the bishops' assertion of the right to control their accounts.

In short, the public banks of Naples had their roots in a complex framework of intertwined secular and religious motivations. Therefore, they cannot be considered as mere expressions of the will of the ecclesiastical apparatuses. Rather, they brought their religious inspiration to bear with the populations' needs by implementing a secular approach to charity and philanthropy.[6] In this way they created deep bonds of trust with the Neapolitan population.

The public banks of Naples and their financial innovations

Only seven of the numerous Neapolitan charities developed into public banks. Of these seven, one, the conservatory of Spirito Santo, was founded by Dominican friars, while six had secular origins. The oldest among these secular institutions were two hospitals. Their origins went back to the Angevin period (1266-1443): S. Eligio was founded in 1270 at the initiative of a fraternity of French merchants; SS. Annunziata was founded in 1318 at the initiative of members of the noble families of the *Seggio* of Capuana. Both hospitals

6 Nicola Barile makes a similar point with reference to the Italian charitable pawn banks in general. He argues that their activity 'thoroughly blends religious motivations with lay social and economic realities' (Barile, 2012:89).

had privileged ties with the Royal Court. S. Eligio received land from Charles d'Anjou, while the Angevin queens were very munificent towards Annunziata (Di Meglio, 2018:58-9). Because of its French origins, S. Eligio lost much of its wealth and powers when the Aragonese kings took over in the 1440s. Nevertheless, it continued to provide care and shelter for the poor, mostly for poor children (Tortora, 1890:92 ff.). The Annunziata hospital, by contrast, never lost the authorities' favour and continued to prosper. It owned substantial patrimonial assets, deriving from the original bequests made during its foundation. These included: large royal donations of property (lands, houses, shops, gardens etc.) in Naples and the surrounding areas; entire fiefs and villages in continental Mezzogiorno; assignments of rents from tax revenues; private donations by pious individuals attracted by the perspective of good reputation, social promotion, tax abatement, and papal remission of their sins (Vitolo and Di Meglio, 2003; Colesanti and Marino, 2016). Annunziata cared for abandoned babies and, to this end, gave employment to seven thousand wet nurses. The future destiny of the babies was predetermined: boys went to work at the age of seven, girls either became nuns or got married, with a dowry of nine ducats provided by the charity (Calabria, 1991:30). Two more hospitals, Incurabili and S. Giacomo e Vittoria, were founded in the sixteenth century, respectively by Maria Longo in 1522, and by Don John of Austria in 1571 on his return from Lepanto.

As for the two charitable pawnbrokers: the oldest, Monte della Pietà, was founded in 1539 by a confraternity called Monte di Carità, established in 1538 in the monastery of S.Giovanni a Carbonara by a group of gentlemen willing to help people who were 'poor, honest, and ashamed of begging'. The bank of the Monte della Pietà was the only one guaranteeing equal representation to the Noble Seat and the Seat of the People in its Board of Directors, as we learn from a document dated 1622.[7] The second charitable pawnbroker, Monte dei Poveri, was founded in 1563 by a group of lawyers willing to help imprisoned debtors (Tortora, 1890:42 ff.; De Rosa, 1958). In 1555, the Dominicans founded the conservatory of the Spirito Santo to serve as a hospice and to provide education for girls between eight and fourteen years-old, whose morality was considered 'at risk' because they were the daughters of prostitutes.

The seven charities developed their accounting departments in order to deal with their every-day operations—such as paying their employees, officials and contractors. The two pawnbrokers were financial institutions from the very beginning—their statutory mission being to combat usury by offering small loans upon pledge to people in need. Gradually, they all evolved into proper banks, offering safe-keeping, escrow and deposit services and, to an increasing extent, interest-bearing securities to the general public.

7 'Proposals of the Seat of the People concerning the erection of the new Bank of the City, Biblioteca Nazionale di Napoli, Manuscript X-C-10, ff.472v-474v.

On the other hand, they invested their own funds, and those of their donors and depositors, in various asset classes ranging from loans, to investments in private ventures, public debt instruments, silver and gold. They also funded operations in the kingdom's commercial fairs. Furthermore, they became financial intermediaries, buying and selling government bonds, titles to private property and bills of exchange. Between 1584 and 1600 the seven charities received formal charters from the Viceroy as 'public banks', that is, banks providing services to the community. The first was Pietà in 1584. In rapid succession, there followed Annunziata (1587), Popolo (1589), Spirito Santo (1591), Sant'Eligio (1592), S. Giacomo e Vittoria (1597) and finally Poveri (1600). By 1604 the public banks had completely displaced their private competitors. In that year, the remaining private bankers closed down their business and transferred their accounts to the Pietà.

A proportion of the public banks' commercial profits increased the charities' patrimonial assets. In turn, these assets acted as a guarantee against bank failures. This virtuous circle strengthened the reputation of the public banks as financially sound institutions. The public banks' major financial innovations were the product and, one may be tempted to say, the materialization of this capital of trust. Their most important financial innovation was their promissory note, called *fede di credito,* which circulated widely as a banknote. This was the first example of the circulation of paper money in the Western world. Their second innovation were their loans, which, differing from those based on ledger money, gave rise to an expansion of *monetary circulation.* Their third major innovation were cash credits, called *accomodi nell'occorrenze*—the ancestors of modern overdraft facilities. In addition, the public banks' interbank-clearing system was another remarkable innovation adding to the overall viability of the credit system. In what follows, I describe the main characteristics of these innovative instruments and techniques (for more details see Costabile and Nappi, 2018, on which I draw in the remaining part of this section).

Fedi di credito were negotiable instruments, widely accepted as a means of payment.[8] The novelty of this instrument was that they were a liability of the banks, not of their depositors. On receiving a deposit, the banks' Governors acknowledged their debt in writing, on a note stating the amount they owed and their obligation to honour the payment by returning cash to the original depositor, or to the *fede's* bearer. In other words, the banks took full responsibility for the final payment in cash, exonerating the depositor. This is why *fedi di credito* were different from other instruments such as domestic bills of exchange. These bills were issued by one of the trading partners, i.e. a private individual, and only later, possibly, accepted by a bank.

8 They were different from *fedi di deposito*, a deposit certificate used to certify that money was kept in escrow to settle transactions between the bank's customers. *Fedi di deposito* did not serve as means of payment.

Because they were the liability of private individuals, bills of exchange were only accepted by creditors bonded to their debtors by personal knowledge and bilateral trust. By contrast, the public banks were well-known and well-respected institutions that everybody trusted. By substituting generalised for bilateral trust, the banks conferred upon their *fedi di credito* the characteristic of liquidity, or general acceptability. Money is the liquid asset par excellence. *Fedi di credito* were money, in the sense that they were universally accepted as means of payment.

Fedi di credito differed from ledger money, also called book-entry money, which consisted in transferring obligations between customers in a bank's books. Widely used by banks in Barcelona, Venice and Amsterdam, ledger money required the simultaneous presence at the same bank of both the payer and the payee, or their formally appointed agents, in order to have the operation registered in the bank's books. In other words, ledger money 'had not taken the form of paper money that passed from hand to hand' (Lane and Mueller 1985:62; see also Luzzatto 1934:46; Usher 1943; Roberds and Velde, 2016). In short, there was no monetary circulation in ledger-money systems.

Fedi di credito circulated by endorsement (*girata*), with signatures by both the payer (the bank's depositor) and the payee. They contained detailed descriptions of the cause for the payment. The reason for including the statement of the underlying contract is probably that in medieval legal doctrine and its successive evolution, a promise to pay was enforceable in case of litigation only if the cause for such a promise was stated at the time of the contract. Having the cause written on the bank document exempted the person seeking to enforce the payment from the onus of proving the cause. This contributed to make the document itself even more acceptable by the endorsee.[9]

Once *fedi di credito* came back to one of the banks for final liquidation, the bank's officials copied them in their ledgers (*giornali copiapolizze*), so as to keep the information easily available for judicial inspection without recourse to the originals. Thus, information concerning payments has been preserved, even in cases when the original *fedi* are lost. This is why the Historical Archive of the Bank of Naples, owned by the Fondazione Banco di Napoli, is an invaluable source of information for the history of banking and for the economic, social, political and artistic history of the country.[10]

If depositors needed to make smaller payments than the full amount of their *fedi*, they would use *polizze* (or polise in older Italian), i.e. payment orders drawn on the original *fedi di credito*. Thus, the depositor remained in credit with the bank for the excess value. In this case, the *fede* would become a *madrefede*, a deposit-book used to register the customer's deposits and

9 I am grateful to Professor David Ibbetson for calling my attention to this point, and for signalling the article by Astuti (1961) Enciclopedia del Diritto, IX, particularly pp. 776-777 as a source of further information.

10 Many artists got *fedi di credito* in payment for their work. One of the most famous was Michelangelo Merisi da Caravaggio.

withdrawals. *Polizze* did not mention the bank's Governors and, in principle, were a liability of the payer. However, the banks' officials sometimes marked *polizze* as '*notate in fede*' (n.f.), meaning that they had been registered on the payer's *madrefede* and were duly 'covered' by a cash deposit. In this way, the bank in effect took responsibility for *polizze* as well.

This first revolutionary step produced another epochal innovation: the public banks became *creators* –as opposed to mere intermediaries – of money. In other words, they did not merely transfer purchasing power between their depositors' and their borrowers' accounts; rather, they expanded the money supply by writing or accepting *fedi di credito* not 'covered' by cash deposits. Specifically, the public banks' multiple techniques of money creation can be summarised as follows. One technique consisted in crediting the borrowers' accounts with sums of money that they had not deposited. The borrowers would then be given the corresponding *fedi di credito,* which they would use for their payments. Money was thus created 'by a stroke of the pen'. Another technique consisted in accepting ('making good') *polizze* or *fedi di credito* 'uncovered' by sufficient deposits in the payer's account ('although the money is not there', the governors would note from time to time in one of their books). These uncovered *polizze*, or *fedi*, were then paid out in cash to their bearers and entered the monetary circulation. These acceptances were sometimes called *introiti vacui* (empty takings).

One of the public banks' most innovative techniques of money creation consisted in granting overdraft facilities in the form of standing orders, to be used by their customers 'whenever the need may arise' *('nell'occorrenze')*. These facilities were the predecessors of modern cash credits. This technique of money creation has been brought to light in a study of the Pietà's *Libro degli Accomodi,* or *Book of Loans (27 April 1612-29 December 1617)* (Costabile and Nappi, 2018). This book documents that the Pietà normally granted cash credits in 1612, more than a century in advance of the Royal Bank of Scotland, which some modern sources credit with the invention of this innovative instrument. According to Checkland (1975:63), the Royal Bank of Scotland's first documented cash credit was issued in 1728 in favour of a merchant named William Hog.[11] Now, the Pietà granted Stefano Rinaldo, also a merchant, permission to withdraw 'one hundred ducats in our bank whenever the need may arise' on May 10, 1612. He was followed on the 16th of the same month by Signora Donna Polissena Siscara, who obtained permission to withdraw up to ducats 200 whenever the need may arise 'because she is a punctual lady'; and then followed by a long series of other customers. It is probable that future research in the Historical Archives of the Bank of Naples will document previous examples of money creation through the innovative instrument of cash credits.

11 See also The Royal Bank of Scotland's heritage website: http://heritagearchives.rbs.com/rbs-history-in-100-objects/serving-our-customers/overdraft-authorisation-1728.html.

Bank loans and overdrawn accounts were not invented in the seventeenth century: they existed before. In Naples, the first documented loan we know of was made in 1462 by the Annunziata. This was a loan to a peasant, the tenant of one of the Annunziata's farms (Di Meglio, 2018). As for Pietà, *accomodi* are mentioned in its *Libro delle Conclusioni*, August 19, 1577, and March 10, 1584.[12] In the rest of Europe, overdrawn accounts have been found in the books of the banks of Catalonia, Venice and Germany from the fifteenth century onwards (Usher 1943:333; Lane and Muller 1985:62-64; Geva 2016:413). And bank loans certainly existed before. But the novelty introduced by the public banks is that their loans and overdrafts were based on paper circulation. An overdraft granted in systems of ledger-money (by, say, the Taula de Canvis in Barcelona or Banco di Rialto in Venice) settled payments in the bank's books without bringing any circulating note into existence. By contrast, the Neapolitan banks made loans by creating new *fedi di credito,* thereby expanding their monetary circulation. And, according to a well-respected tradition of economic thought, what defines modern banks is exactly their ability to create circulating money.[13]

Finally, the public banks accepted each other's notes and settled their reciprocal debts through their interbank clearing system. This circumstance reinforced people's trust, reduced banking costs, and allowed the banks' customers to choose their bank according to convenience and location. The banks' clearing system thus helped to create a demand for these notes and, consequently, to enhance their liquidity and the viability of the banking system as a whole.

To sum up, a fiduciary circulation was initiated in Naples in the last decades of the sixteenth century, marking a revolutionary step in the history of banking, well in advance of similar developments elsewhere in the Western world. *Fiducia* means trust, or faith. Paper money was accepted because the population trusted the public banks thanks to their shareholders' charitable deeds and their patrimonial assets. Consequently, their customers not only deposited cash in the banks' vaults, but also accepted their innovative instruments, *fedi di credito* and *polizze,* as means of payment. As we saw in the epigraph, the great monetary economist Ferdinando Galiani said it better:

> 'It is a praiseworthy fruit of virtue that faith alone bestows value; it has transformed into precious money mere sheets of paper which are otherwise worthless' (Galiani 1750 [1751]:324-5).[14]

12 Archivio Storico del Banco di Napoli, Patrimoniale, Pietà, Libro delle Conclusioni, 1574-159, matr. 232.

13 Robertson 1926; Keynes 1930, vol.1, chap. 2; Schumpeter 1954, pp.110-117; Graziani 2003, chap. 4; Goodhart 2010; McLeay et al. 2014.

14 On Galiani's monetary theory see Costabile (2016a).

Trust helped the public banks to expand their paper circulation beyond the constraints set by base money and depositors' savings. Their balance sheets reveal that their reserve/circulation ratio never reached 100 per cent and was indeed well below 20 per cent in the first decades of the seventeenth century. Nevertheless, their customers thought of them as prudent and solvent institutions. Thus, generalised trust transformed the public banks of Naples into modern banks, i.e. into creators of money rather than mere intermediaries.

The debate[15]

In the first three decades of the seventeenth century a paper-money economy was still an absolute novelty. For the first time, faced with this new reality, observers had to decipher the mystery of credit, the reasons why bank money was widely accepted as a means of payment, and the advantages and disadvantages of a fiduciary circulation that, in Galiani's words, substituted 'valueless paper' for the precious metals. The participants in the debate divided themselves between the supporters of the new system (Marc'Antonio De Santis; Giovan Donato Turbolo; Fabritio Biblia), and those who objected to a monetary circulation that dispensed with what they saw as a prerequisite for well-functioning payment systems: namely, a strict anchorage in precious metals (an anonymous Genoese writer; the Genoese Consul Cornelio Spinola). Antonio Serra was ambivalent.

From a historical point of view these controversies stem from the contrasting economic and political interests of the 'nationals' versus the foreign stakeholders in the Kingdom, and especially the 'Genoese nation', that enjoyed many economic privileges due to the protection of the Spanish monarchs.[16] The objective of the Genoese was to strengthen the metallic system and reduce the increasing pervasiveness of paper money as a means of payment (Costabile and Nappi, 2018). By contrast, the members of the 'Neapolitan party' were in favour of the new banking system: they regarded their paper money as a providential remedy for the scarcity of the precious metals, which had been imposing severe liquidity constraints on the Kingdom's economic activity in recent decades. The fight was ferocious, and not limited to theoretical debates: the dramatic crisis that hit the public banks in 1622 was, to some extent, one of the results of this conflict. But later the public banks re-emerged from this crisis with renewed strength. Although the new system remained highly controversial in the first three decades of the century, it gradually became a model for other countries, as the advantages of their fiduciary circulation came to be appreciated and acknowledged. This evolution became apparent in 1681 in the work of the Spanish writer José Luis De Fonseca.

15 For more complete analyses of this debate see Costabile, 2015 and 2016b.

16 On the activities of the Genoese Nation in the Kingdom of Naples see, e.g., Dauverd, 2015.

From a theoretical point of view, these controversies are interesting because they show how policy makers and their advisors initially tried to grasp the reality of modern monetary economies far earlier than in other European countries, where a paper circulation did not yet exist. What these historical debates reveal, albeit in embryonic form, is the beginning of an enduring tension between two alternative approaches to monetary theory and policy: one advocating monetary neutrality as a theoretical principle, and the strict control of the money supply as a policy recommendation; the other insisting on flexibility and the role of money as finance for economic activity and development.

The debate was inaugurated with the publication of Marc'Antonio De Santis's first *Discorso intorno alli effetti che fa il cambio in Regno (Discourse of the effects produced by the exchange rate in the Kingdom)* in March 1605 (De Santis, 1605a).[17] This work must be seen in the context of the general debate regarding the causes of the scarcity of metallic money. De Santis, a well-respected Neapolitan businessman and policy advisor, was well aware that the main cause of the scarcity of metallic money was the huge amount of money remitted abroad to foreign businessmen and rentiers. He also argued that foreign investments in the Kingdom were subject to what we now call 'sudden stops' whenever the profit opportunities were exhausted (De Santis, 1605a, p.136; 1705b:147). Furthermore, he identified a more specific mechanism determining the exchange rate in the market for bills of exchange.
His starting point was the definition of the equilibrium rate of exchange as the rate at which the flow of precious metals into and out of the country would cease (De Santis, 1605:132-4). De Santis defined this level of the exchange rate as 'fair' or 'just' and thought that it was based on metallic parities between the silver currencies of Naples and those issued by the other Italian states (ibid.:138-139) . He argued that the equilibrium exchange rate was 130 *grana* for a *scudo d'oro di marche*. *Grana,* with their multiples, *carlini* and *ducats,* were the Neapolitan silver coins. The metallic circulation in the Kingdom also included small, clipped silver coins *(half carlini* and *tre cinquine),* in addition to gold and copper coins. *Scudo d'oro di marche* was the gold-based international unit of account .[18]

De Santis then referred to the current technology of international payments. Any person wishing to make payments abroad could either send coins or, alternatively, buy an international bill of exchange. For instance, a Neapolitan merchant buying a bill of exchange in Naples would give up a certain amount of local coin in exchange for a given amount in the foreign

17 I refer to Colapietra's edition of the works of De Santis, Biblia and Turbolo (Colapietra, 1973). Translations are mine.

18 The scudo di marchi di Piacenza was in a fixed ratio with the gold coin called scudo d'oro in oro, or scudo d'oro delle cinque stampe (gold scudo of the five mints) (Turbolo, Discorso sulla rinnovazione..., p. 301). The five mints of Genoa, Venice, Florence, Rome, and Naples minted scudi of uniform weight and fineness.

currency (e.g. florins) to be delivered in the foreign country (e.g. Florence) at a predetermined date. In practice, the choice between the two alternatives depended on the exchange rate. If the exchange rate set in the market for bills of exchange was above its 'fair' level, it would be cheaper for Neapolitan importers of foreign goods to send coins abroad 'on the back of mules' rather than buying a bill of exchange (De Santis, 1605a:113-114). For their part, foreign importers of domestic goods would prefer to send bills of exchange to the Kingdom because, by so doing, they would get more Neapolitan coin than by sending cash. Exchange rate speculation *(cambio per arte)* exacerbated the problem because people would send coin abroad and then send back bills of exchange in order to earn profits from arbitrage. Conversely, an exchange rate lower than its equilibrium level would cause an inflow of metallic money. Thus, according to De Santis, the scarcity of money originated in the market for bills of exchange. As a remedy, he proposed that the authorities put a ceiling on the price of bills of exchange, and that the ceiling be set at 125 *grana* per *scudo,* a bit lower than the 'fair' exchange rate in order to encourage silver inflows (ibid.:132).

Given our present focus on the role of the banks, we do not need to go into the details of De Santis' model of exchange rate determination. Suffice it to say that the debate following the publication of his pamphlet (1605a) was the occasion for the first documented attack on the public banks. An anonymous Genoese writer inaugurated the controversy by blaming the malfunctioning of the Neapolitan monetary system on two factors: the bad quality of the local coins and the commercial malpractices of the public banks. We know the arguments of the anonymous Genoese because De Santis reported them meticulously in his second pamphlet (De Santis, 1605b). In his *Response* to De Santis, the anonymous Genoese writer argued that foreign businessmen refrained from investing in the Kingdom for fear of being paid in such bad coins ('*una moneta così trista*'), namely, the clipped and counterfeit small coins that dominated the Neapolitan circulation. The other reason why foreign investments had stopped was because incoming bills of exchange were paid by recording them in the banks' books rather than cash. More generally, the Genoese author denounced the two main innovations of the public banks – their fiduciary money and their lending practices – as scandalous. He complained that 'everything is paid for in bank by a stroke of the pen' ('*Tutto si paga in banco con una scritta*') and argued that these payments made the scarcity of money worse by concealing it (cited by De Santis, 1605b:147). Moreover, debtors had an incentive to go on accumulating debts because they knew they could pay by signing a piece of paper rather than giving up precious coins (ibid.:148). Crucially, the banks' reserves were too low, because of their habit of lending to their customers. The inadequate coverage of their circulation meant that the banks had weak foundations and, consequently, their business practices had decayed (ibid.:147). For instance, in spite of their obligation to convert their notes in cash on demand, they now considered it to be 'the greatest offence when someone asks for two hundred *scudi* in cash, while in the past they considered as an offence to be unable to satisfy immediately all their creditors' demands for specie, of which they had their vaults always full.' (ibid.:147).

The anonymous writer's argument reflects the Genoese nation's interests within the Kingdom of Naples: it would provide the blueprint for their demands in the following years. In a nutshell, these demands were that: 1. The authorities should limit the role of the public banks, both as lenders and as providers of the paper money with which the population went about in their transactions. 2. They should reform the metallic system by increasing the silver content of the Neapolitan money. These policy proposals are not difficult to interpret: the Genoese creditors asked that their rents be paid in *specie* rather than in bank money; moreover, they wanted them to be paid in a strong currency, because this implied a higher purchasing power back home in Genoa, and elsewhere in the Empire.

The Genoese approach to the Neapolitan economy shows remarkable continuity. In 1621, the Genoese consul, Cornelio Spinola, gave his advice to the Spanish Viceroy, cardinal Zapata. Spinola, a member of the Monetary Committee set up by the cardinal, argued that the Kingdom's monetary problems were caused by the banking system and the bad quality of metallic money. In his view, monetary reform to raise the coins' intrinsic value was necessary. He knew that monetary reform carried a cost, and that someone had to bear the burden. He said that the burden should not fall on foreigners, but on the nationals. By contrast, the Neapolitan members of the Monetary Committee, Ascanio Carafa, Geronimo Naccarella and Gian Tommaso Borrello (the *Protettore,* or Governor of the Monte della Pietà) argued that the main burden should fall on foreign rentiers. But, unfortunately, none of the Neapolitans dared to challenge and refuse the reform as a whole, as Gian Donato Turbolo remarked years later.

Further details were added in that same year, 1621, by Fabritio Biblia in his *Discorso sopra l'aggiustamento della moneta e cambii del Regno di Napoli* (Biblia, 1621). It records the opinions of the various foreign stakeholders: the Spaniards, the Genoese, and the Florentines. He documents the opinion of the Genoese that the public banks were: 'the main cause of the commercial disorder of this Kingdom because, 'they pay only by name'; and that the paper circulation had corrupted commerce since merchants 'do not need to bring coins, as they used to do in the past, because they now substitute *polizze* in their place, and for this reason the price of things and the exchange rate have gone up, and commerce has become extremely difficult' (Biblia, 1621:239-40). According to the Genoese opinion, the banks' 'original sin' was that they had not been required to put down a guarantee when they had been established, owing to their revered status as 'the banks of the charities'. It should be remembered in this context that not much time had elapsed since the repeated failures of the private banks, and the Genoese still resented that they had been replaced by the public banks. The Genoese nation had it its way eventually, as the 1622 monetary reform followed many of their prescriptions (Costabile and Nappi, 2018). This precipitated the economy into a long deflationary phase, that placed the public banks in a 'lost decade' of stagnation.

Neapolitan writers had a completely different position on both of the issues touched by the discussion about their monetary system, that is, monetary reform and the role of the public banks. These experts – policy makers, their advisors, economic observers – were the representatives of a bourgeoisie trying to defend its interests, and those of its banks. By advancing alternative interpretations to those proposed by their adversaries, they offered useful insights into the nature of the country's monetary and banking system. Their efforts brought monetary analysis beyond the orthodox metallist approach, towards a better understanding of modern monetary systems. They noted that money was needed to finance the Kingdom's economic transactions, and that bank money was a welcome addition to the supply of metallic money that was so scarce. In effect, they understood liquidity constraints, the role of money as 'finance' (in Keynes's sense), and the advantages of a fiduciary circulation.

De Santis made this point in 1605 in his answer to the anonymous Genoese's critical remarks about payments made 'by a stroke of the pen'. His answer, put in modern language, was that without the banks' supply of paper money, business activity would suffer from severe liquidity constraints (op.cit., 1605b:153). However, while defending the public banks as providers of the means of payments, De Santis did not explicitly defend their role as lenders. There were good reasons for this omission. The charters of most banks prohibited loans, except to the government and, in the case of the two charitable pawnbrokers, to the poor. But, in spite of the prohibitions, the banks made loans to private agents, mainly in the form of overdraft facilities, on a regular basis. Thus, De Santis preferred to deny that they made loans.

Fabritio Biblia went further than De Santis on this issue. Genoese, Florentine and Spanish observers had criticised the public banks' excessive generosity in 'letting their depositors spend greater amounts [of money] than their credits in the banks' (Biblia, 1621:237). Biblia answered that limiting the banks' loans would hinder transactions, reduce the merchants' profits and determine their failures, with serious consequences on the Kingdom's commercial activity (Biblia, 1621:238). With his remarks, Biblia achieved greater clarity than De Santis by noting that the banks' loans were not a substitute for, but an addition to, the supply of metallic money.

Coming to the second issue discussed in the course of this controversy, namely the monetary reform, it took the wit and expertise of a high official of the Royal Mint, Gian Donato Turbolo, to produce an explanation of the scarcity of money that turned the Genoese interpretation on its head.

He rejected the premise on which the Genoese interpretation rested, i.e. that Neapolitan coins were worse than those minted in neighbouring countries. In reality, he argued, the good silver and gold coins minted in the Kingdom were of greater weight and fineness than those minted abroad (Turbolo, 1616:297; 291). The debased, clipped small coins that had invaded the monetary circulation were the exception (ibid.:290). Thus, the fall in the external value of the domestic currency had not been determined by the alleged poor quality of the Neapolitan currency, but by the enormous amount of rents paid in coin by nationals to foreigners. Money outflows to pay for these rents, estimated by Turbolo to be in the region of two million ducats per year, were the real cause of the depreciation of the currency on the international market (Turbolo, 1629:359). In these circumstances, it was folly to keep the metallic content of ducati and carlini higher than the corresponding foreign currencies. He argued that because exports were elastic, they would benefit from a weaker currency. At the same time, with an external debt mostly denominated in the domestic currency, a depreciation would also lessen the burden weighing on the Kingdom's finances (ibid.:302; 313; 404-5). The 'strong currency' policy pursued by the Viceroys for reasons of 'prestige' was a mistake, ripe with negative consequences for the importers of silver, the state finances, and the national economy as a whole (ibid.:307; 316). First, the price of the silver and gold bullion imported for coinage was higher than the face value of the coins minted from it: the Kingdom had bought its money dear and sold it cheap (ibid.:362). This implied a conspicuous loss for the importers of precious metal: 'Thus, I have seen silver bought and coined at a lower price than it had cost […] and because of this abuse more than 400,000 ducats have been lost' (ibid.:311). Second, because of their superior quality, the good coins had disappeared from circulation, being mostly exported abroad (Turbolo, 1616:297; 1629:361). Moreover, by hindering exports, the strong currency policy negatively affected the Court's custom revenues.

In Turbolo's view, the public banks were the victims, rather than the culprits, of the Kingdom's difficult monetary situation, because they had to meet the cost of importing the bullion required to replenish the Kingdom's, and their own reserves. This implied losses between 8 and 10 per cent, because the minted coins carried a facial value that was lower than their cost. Consequently, they were forced to make many loans, 'under erroneous and figurative colours' in order to attract their customers' cash deposits (ibid.:293; see also ibid.:290-297). This did not mean that the banks did not deserve to be disciplined and ordered to pay their creditors punctually.

Consistent with his general diagnosis, Turbolo opposed the monetary reform of 1622, and rebuked the members of the Neapolitan delegation at the Money Committee for their weak opposition. Turbolo's advice was not followed, as he remarked years later. He could only confirm that the 1622 monetary reform had been a mistake (ibid.:303). Policy intervention ought to have followed a better route. His proposed strategy was to debase the currency in order to bring the mint parity into equality with the market exchange rate (as determined on the market for bills of exchange) and reap the benefits in the form of an expansion of exports and output, and a redistribution in favour of the nationals.

Let us now consider Antonio Serra, the best-known among the participants in the monetary controversy. In 1613, Serra published a book, *A short treatise on the causes that can make kingdoms abound in gold and silver even in the absence of mines* (Serra, 1613).[19] He argued that industrial and commercial prowess were vital to redress external imbalances and, at the same time, to put the country on track for economic development. He saw that problems with the balance of payments stemmed from political dependence. In his view, although it was not possible to escape political dependence and abolish foreign rents (ibid.:238-9) their negative impact could be reduced by strengthening the nation's international specialization. This would result in a trade surplus counterbalancing the deficit entries such as taxes paid to the Spanish kings and remittances to foreign rentiers.

Serra thought that the main route to development was the promotion of industry or, as he said, 'a multiplicity of manufacturing activities' (ibid.:119). The country's sectorial composition was defective under this respect, and lead to unfavourable international specialization. Thus, although the Kingdom was a net exporter of agricultural products thanks to the natural fertility of its soil (ibid.:154-5), it had to import manufactured products, with the exception only of silk. Reinforcing manufacturing activities would change the country's product mix and improve the external balance.

Serra's 'industrialism' and his systematic approach put his work on a different, superior level to most of his contemporaries. However, he concentrated on factors operating on the 'real side' of the economy and had little interest in monetary analysis. He believed that only metallic money was 'true' money. Nevertheless, he could not avoid noticing the positive effects of bank money on commerce. Although his words show that he was confused by the 'magic' of credit, they do reveal he was aware of its advantages.

> 'In reality there seems to be more money than there really is, for the same sum appears in different forms in different places and appears to be a completely different sum of money though in fact it is the same; and this enables the banks through the practice of paying with paper, to support commerce' (Serra, 1613: 155, author's translation).

19 This book has been recently published in a bilingual edition, with an introduction by Sophus Reinert (2011). For a recent assesment of Serra's contribution to economics see also the contributions published by Patalano and Reinert., eds. 2016.

To sum up, Neapolitan writers developed a fairly comprehensive analysis of balance of payments accounting, thanks to their direct knowledge of the money flows activated by various items on both the current and the financial accounts (respectively, the merchandise account, factor income receipts, etc. and, on the financial account, foreign investments). By contrast, less dependent and less open economies, such as England for example, were largely only connected to the rest of the world by trade and war. Consequently, they presented their economic observers with fewer opportunities for learning (Costabile, 2016b).

Let us sum up the debate reported thus far: the first decades of the seventeenth century saw the emergence of two alternative lines of thought on monetary issues. The supporters of the first approach considered the banks' fiduciary circulation and their lending activity to be an abuse, because they regarded precious metals to be the true substance of money; thus, they advocated a 'strong currency' policy. By contrast, the alternative approach accepted fiduciary money and banks' loans as providing 'finance' for commerce and production activities. De Santis, Biblia and Turbolo considered bank money as a welcome addition to the supply of metallic coin. Serra followed suit. Turbolo also saw the advantage of devaluation.

Fifty years after the banking controversy, the pivotal role of banking in the Kingdom's economy was recognised and was regarded as an example for the other nations. In 1681 Enriques de Fonseca, a Spanish observer, offered his *Treatise and Dissertation on the Money of the Kingdom of Naples* to the Viceroy. In the course of his analysis, he made two interesting points. First, he described in vivid colours the power of the banks and its foundations in the unconditional support of all ranks of the population:

> '(...) because all [these banks] have celestial and divine names and not without superstition are revered as something profoundly sacred (...); each bank constitutes a potentate, and the more so as it rules over the hearts, the arms, and the religious devotion of the aristocracy and the lower ranks of the population alike' (de Fonseca, 1681:13).

Second, he described the successful transition from a purely metallic monetary system to a system relying on a paper circulation, at a time when nothing similar existed in the rest of Europe:

> '(...) in Naples all payments for bills of exchange, purchases, loans and debts, are always made through the banks and not otherwise, and nobody keeps in cash more than enough for one or two months of normal administration, since even purchases and expenditures for extraordinary payments of very small amounts are made by means of *polizze*. Consequently, neither in the narrow lanes nor in the streets you can see the traffic and the exhibition of silver that you see in Spain.' (ibid.:12)

Conclusions

The route to financial success for the banks of the charities was not easy. They had to outcompete the private bankers – mostly Genoese – and forestall the Spanish Court's projects for alternative financial arrangements. For instance, in 1580, an attempt to establish a twenty-year monopoly of private bankers excluding the charities failed because of their protests, led by the Holy House of the Santissima Annunziata. And again, as late as in 1598, when almost all the charities had obtained formal charters for their banks, the Court launched the project of a General Depository, which in practice would have re-opened the way to foreign control on the banking system. The united reaction of the City of Naples – popular and noble Seats together – and the threat of popular revolts in the streets put an end to this venture (Silvestri, 1952). These episodes confirm the strong support enjoyed by the public banks in all ranks of the population, as illustrated above. Deep bonds of trust also help to explain the revolutionary financial innovations introduced by the public banks of Naples. Trust, as is well-known, is an essential basis of economic activity, and particularly so in the banking and financial sector.

As we saw above, all foreign private banks had closed by 1604. As early as 1605, a long-lasting political campaign was started by the Genoese 'nation' against the banks, blaming them for the malfunctioning of the Kingdom's monetary system. The interest of these debates is both historical and theoretical, as it laid the basis of alternative traditions to monetary theory and policy which still exist today. We have also shown that, once controversial, by 1681 the banks of the charities had become a model for Spain.

This paper has argued that the Neapolitan public banks owed their success to a business model that combined a philanthropic orientation with financial innovation. The question why this model did not acquire central stage in other European countries deserves further inspection. England's schism from Rome in the sixteenth century, and the subsequent dissolution of monasteries, may have played a causal role in the case of England. That inquiry, however, is left for another occasion. ■

Reference list

Albèri, E. (ed.) (1863) [2012], *Relazione degli ambasciatori veneti al Senato. Appendice,* (Cambridge).

Albini, G. (2002), *Carità e governo della povertà (sec.XII-XV),* (Milano).

Astuti, G. (1961), Voce 'Contratto (diritto intermedio)'. In *Enciclopedia del Diritto*, IX, (Milano), 759-784.

Avallone, P. (2007), 'Il credito su pegno nel Regno di Napoli (XVI-XIX secolo)', In Id. (ed.), *Prestare ai poveri. Il credito su pegno e i Monti di Pietà in area Mediterranea (secoli XV-XIX)*, (Napoli).

Barile, N. L. (2012), 'Renaissance Monti di Pietà in Modern Scholarship: Themes, Studies, and Historiographic Trends', *Renaissance and Reformation*, 35.1, 85–114.

Biblia, F. (1621), *Discorso sopra l'aggiustamento della moneta e cambi del Regno di Napoli*, s.l. 29 ottobre. As reprinted in Colapietra (ed.), op.cit., 231-272.

Butzbach, O. and von Mettenheim, K. (ed.) (2014), *Alternative Banking and Financial Crisis*, (London).

Calabria, A. (1991), *The Cost of Empire: The Finances of the Kingdom of Naples in the Time of Spanish Rule*, (Cambridge).

Campanelli, M. (2002), 'Chiesa ed assistenza pubblica a Napoli nel Cinquecento', in L. De Rosa (ed.), *Gli inizi della circolazione della cartamoneta e i banchi pubblici napoletani*, (Napoli), 146–168.

Carboni, M. and Muzzarelli, M. G. (ed.) (2014), *Reti di credito. Circuiti informali, impropri, nascosti (secoli XIII-XIX)* (Bologna).

Casella, A. (1981), 'Chioccarello, Bartolomeo', in *Dizionario Biografico degli Italiani*, vol. 25 http://www.treccani.it/enciclopedia/bartolomeo-chioccarello_(Dizionario-Biografico)/

Checkland, S.G. (1975), *Scottish Banking. A History*, (Glasgow and London).

Chioccarello, B. (1721), *Archivio della reggia giurisdizione del Regno di Napoli ristretto in indice compendioso*, (Venezia).

Colapietra, R. (ed.) (1973), *Problemi monetari negli scrittori napoleani del Seicento*, (Roma).

Colesanti, G. and Marino, S. (2016), 'L'economia dell'assistenza a Napoli nel tardo Medioevo', in *L'ospedale, il denaro e altre ricchezze. Scritture e pratiche economiche dell'assistenza in Italia nel tardo medioevo*, a cura di Marina Gazzini e Antonio Olivieri, *Reti Medievali Rivista*, 17.1: http://rivista.retimedievali.it.

Costabile L. (2015), 'Monetary Analysis, Financial Innovation, and Institutions before the Industrial Revolution: A Paradigm Case', in M. Baranzini, C. Rotondi, R. Scazzieri (edd.), *Resources, Production and Structural Dynamics*, (Cambridge), 213-231.

Costabile, L. (2016a), 'The Value and Security of Money. Metallic and Fiduciary Media in F. Galiani's *Della moneta*', *European Journal of the History of Economic Thought,* 23.3, 400-424.

Costabile, L. (2016b), 'External imbalances and the money supply. Two controversies in the English 'Realme' and in the Kingdom of Naples'. In Patalano and Reinert (ed.), op. cit., 166-190.

Costabile L. and Nappi, E. (2018), 'The public banks of Naples between financial innovation and crisis', in L. Costabile, L. and L. Neal 2018, op. cit., 17-53.

Costabile, L. and Neal, L. (2018), *Financial innovation and resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808)* (London and New York).

Dauverd, C. (2015), *Imperial Ambition in the Early Modern Mediterranean. Genoese Merchants and the Spanish Crown*, (Cambridge).

de Fonseca, L. E. (1681), *Tratado Y Discurso sobre la Moneda De El Reyno de Napoles. Su Estado, el origen de sus danos. El remedio para su consummo*, (Napoles).

Demarco, D. and Nappi, E. (1985), 'Nuovi documenti sulle origini e sui titoli del Banco di Napoli', *Revue internationale d'histoire de la banque*, 30-31, 1-78.

De Rosa, L. (1958), 'Le origini curialesche del Banco dei Poveri' (1563-1608), *Bancaria*, 4, 5-29.

De Rosa, L. (ed.) (1994), *Il Mezzogiorno agli inizi del Seicento*, (Roma-Bari).

De Santis, M. (1605a), *Discorso di Marc'Antonio De Santis intorno alli effetti che fa il cambio in Regno*, (Napoli).

De Santis, M. (1605b), *Secondo discorso di Marcantonio Santis intorno alli effetti che fa il cambio in Regno. Sopra una risposta, che è stata fatta avverso al primo*, (Napoli).

Di Meglio, R. (2018), 'Before the Public Banks. Innovation and Resilience by Charities in Fifteenth Century Naples', in L. Costabile and L. Neal (ed.), op. cit., 55-70.

Fox, D. and Ernst, W. (edd.) (2016), *Money in the Western Legal Tradition. Middle Ages to Bretton-Woods*, (Oxford).

Galasso, G. (1989), 'La parabola del giurisdizionalismo', in Id. *La filosofia in soccorso dei governi. La cultura napoletana del Settecento, (Napoli)*, 171-192.

Galiani, F. (1750) [1751], *Della moneta. Libri Cinque*, (Napoli).

Geva, B. (2016), 'Bank money': the rise, fall, and metamorphosis of the 'transferable deposit' '. In Fox and Ernst (edd.), op.cit., 359-386.

Giannola, A. (2002), *Il credito difficile*, (Napoli).

Goodhart, C. (2010), 'Money, credit and bank behaviour: need for a new approach', '*National Institute Economic Review*', 214 (1), F73-F82.

Graziani, A. (2003), *The monetary theory of production,* (Cambridge)

Keynes, J. M. (1930) [1978], *A Treatise on Money*, vol. 1, *The Pure Theory of Money*, reprinted in *The Collected Works of John Maynard Keynes*, vol. 5, (London).

Lane, F. C. and Mueller, R. C. (1985), *Money and banking in Medieval and Renaissance Venice*, Vol. 1, Coins and moneys of account, (Baltimore).

Luzzatto, G. (1934), 'Les banques publiques de Venise, siècles XVI-XVIII'. In J. G. van Dillen (ed.), *History of the Principal Public Banks*, (The Hague), 39–78.

McLeay, M., Radia, A. and Thomas, R. (2014), 'Money Creation in the Modern Economy', *Bank of England Quartely Bulletin*, 54.1, 14-27.

Muto, G. (1982), 'Forme e contenuti economici dell'assistenza nel Mezzogiorno moderno: il caso di Napoli', in G. Politi, M. Rosa and F. Della Peruta (edd.), *Timore e carità. I poveri nell'Italia moderna* (Cremona), 237-258.

Muzzarelli, M. G. (2001), *Il denaro e la salvezza. L'invenzione del Monte di Pietà*, (Bologna).

Patalano, R. and Reinert, S. (edd.) (2016), *Antonio Serra and the Economics of Good Government*, (Basingstoke and New York).

Piccinni, G. (2012), *Il banco dell'osoedale di Santa Maria della Scala e il mercato del denaro nella Siena del Trecento* (Pisa).

Reinhart, S. (2011), 'Introduction' to A. Serra, *A Short Treatise on the Wealth and Poverty of Nations*, (London, New York, Delhi).

Roberds, W. and Velde, F. R. (2016), 'Early public banks, I: ledger-money banks'; 'Early public banks II: banks of issue', in D. Fox, David and W. Ernst. (edd.), op.cit., 321-355; 465-488.

Robertson, D. H. (1926), *Banking policy and the price level*, (London).

Russo, C. (1984), *Chiesa e comunità nella diocesi di Napoli tra Cinque e Settecento*, (Napoli).

Schumpeter, J. A. (1954), *History of Economic Analysis*, (London).

Serra, A. (1613), *Breve trattato delle cause che possono far abbondare li regni d'oro e d'argento dove non sono miniere*, (Napoli).

Sforza, P., Zaccaria, F. (1833), *Istoria del Concilio di Trento*, (Roma).

Silvestri, A. (1952), 'Sui banchieri pubblici della città di Napoli dalla costituzione del monopolio alla fine dei banchi dei mercanti', *Bollettino dell'archivio storico del Banco di Napoli*, 1, 1-24.

Silvestri, A. (1953), 'Sull'attività bancaria napoletana durante il periodo aragonese', Bollettino dell'archivio storico del Banco di Napoli, 6, 80-120.

Sodano, G. (2013), 'Governing the city', in T. Astarita (ed.), *A Companion to Early Modern Naples*, (Leiden and Boston), 109-130.

Tortora, E. (1890), *Nuovi documenti per la storia del Banco di Napoli*, (Napoli).

Turbolo, G. D. (1616), *Discorso della differenza et inegualità delle monete del Regno di Napoli con l'altre monete di potentati convicini, e della causa della penuria di esse*, (Napoli).

Turbolo, G. D. (1629), Discorso sopra le monete del regno di Napoli per la renovatione della lega di esse monete, ordinata e eseguita nell'anno 1622, (Napoli).

Usher, A. P. (1943), *The Early History of Deposit Banking in Mediterranean Europe*, 1240-1723, (New York).

Valerio, A. (ed.) (2010), *L'ospedale del Reame. Gli Incurabili a Napoli. Storia e arte*, (Napoli).

Velde, F. R., (2018), 'The Neapolitan Banks in the Context of Early Modern Public Banks', In L. Costabile and L. Neal 2018 (ed.), op. cit, 201-241.

Vicinanza, M.(ed.) (2006), *Napoli: Petruccio Pisano 1462-1466*, (Acerra).

Vitolo, G. and Di Meglio, R. (2003), *Napoli angioino-aragonese: confraternite, ospedali, dinamiche politico-sociali*, (Salerno).

The Compagnia di San Paolo in Turin
Charity and credit (16th to 20th centuries)

Claudio Bermond[1]

Author's biography

Claudio Bermond is Professor of Economic History at University of Turin, Department of Economic and Social Sciences, where he convenes the class on History of Finance and History of Business. He is the author of several monographs on these subjects and is editor of twelve edited volumes, including *La Banca*. *Annale 23 della Storia d'Italia* (Einaudi, 2008).

Fausto Piola Caselli[2]

Author's biography

Fausto Piola Caselli is Professor of Economic History at The University of Cassino. His research focuses on the history of national public debt, accounting and finances from the Middle Age to the modern era, with special reference to the yearly balance sheets of the Papal States. He is author of many papers and volumes, including a history of public finances in pre-industrial Europe.

1 University of Turin; claudio.bermond@unito.it
2 University of Cassino; piola@unicas.it

Abstract

The Compagnia di San Paolo was established in 1563 to carry out some charitable activities, with the support of the Jesuit Order. Within a few years, the Company had opened a new pawnshop in Turin, offering a very low rate of interest, and it subsequently stepped up the donation of alms. Women in need could find protection and education in hostels, and marriages were often encouraged with grants and dowries. All undertakings were usually financed by donations and bequests, which increased over time due to the results achieved and to the trust which the Company gained within the wealthiest circles of Turin. At the onset of the eighteenth century an innovative accounting system with new managing techniques was introduced. At this point, liquidity was mainly invested in private and public loans.

In 1805, during the Napoleonic occupation, the Company set up a new pawnshop according the new French model. It lent money on pledge at a market interest rate, and profits were usually capitalized. Later on, with the coming of a new liberal economy in Piedmont, after the Albertine Statute, which was granted during the liberal Revolutions of 1848, the Company was nationalized. As a result, charitable activities became less important, while the banking section assumed a more prominent role. It was at this stage that the pawnshop was converted into a savings bank. In 1932, the bank was turned into a public corporation under the corporate name of Istituto di San Paolo di Torino: it offered credit but continued some charitable activity and support for education. By the mid twentieth century, the San Paolo had become one of the key banks in Italy. In 1991, following both the EU and Italian directives, it was split into in the not-for-profit foundation, Compagnia di San Paolo, and in the for-profit San Paolo bank. In 2006, San Paolo merged with the bank Intesa of Milan, leading to the formation of Intesa Sanpaolo, which has gone on to become the leading banking group in Italy.

Keywords

Compagnia di San Paolo 1563 – 2007, pawnshop of Turin, Istituto Bancario San Paolo di Torino, Intesa Sanpaolo, charity and credit in Italy

The Compagnia di San Paolo in Turin
Charity and credit (16th to 20th centuries)

Prices and loans in early modern Piedmont

After the Peace of Cateau-Cambrésis in 1559, the Italian peninsula was split into several small states, which were often under a foreign power. However, the Duchy of Savoy in Piedmont was able to maintain full autonomy, thanks to its strong army, efficient administrative system and solid middle class. Piedmont was later involved in an endless series of wars, creating an enormous financial burden, which was covered by taxation and other fiscal revenues and soon gave rise to a never-ending spiral in prices.

However, the pressure on the monetary system was also due to a profound crisis of internal markets. Early modern Italy was no longer the productive country it had previously been. Manufactured goods were now bought abroad, and the balance of trade was unfavourable nearly everywhere. Gold was transferred abroad, and the decrease of the money supply led to high pressure on the loans market, with interest peaks close to 40% and even to 50%. Even in well-ruled Piedmont, the money circulation went out of control. It was impossible to establish the real value of official local currencies because of the many different coinages and widespread clipping of gold coins. In the end, the high interest rates became a matter of penal relevance for the civil and ecclesiastical authorities alike. Since the Middle Ages, the Church had tenaciously fought against remuneration for any kind of loan, with a few exceptions permitted only in the 1569 *bolla piana*. In spite of prohibition, small loans for daily needs had, in the end, been monopolized by Jewish lenders, who were not subject to the ecclesiastical rules against usury.

The Catholic authorities found a tentative solution with the pawnshops, established from late 15th century, which soon multiplied throughout Italy. Local pawnshops in town were considered favourably, by both civil and ecclesiastical authorities, as charitable institutions which lent small amounts for a short period at very low interest rates, while at the same time helping to ease the loans market. However, they soon faced difficulties as they were not able to raise enough capital to deal with an increasing demand, and the low interest they charged did not cover their general running costs. In the end, running a pawnshop was a matter which required the full support of the city council, the local bishop, or a group of wealthy and highly resolute private donors.

Foundation and initial development

In 1562, a number of citizens met in Turin to discuss possible charitable action to support the poor. They drew inspiration from the outstanding work carried out by missionaries, mainly Jesuits, in the East Indies. But they were also convinced that the 'Indies' were also here, in Turin itself. A year later, under the guidance of a Dominican father, who probably drew up the first rules, the Compagnia di San Paolo was officially established, and was later recognized by the local religious authorities.

The Confraternity of benefactors, after an initial period, began to increase. Local worthies holding top positions in the state and town bureaucracy joined the Compagnia, together with merchants and bankers, all members of the well-established Turin middle class. From the initial seven founders, the number of confrères increased continuously, soon reaching nearly one hundred. As Emanuele Tesauro later underlined in his *Istoria,* the original aim of the Compagnia was to establish a new Monte di Pietà, in place of the previous one which had failed and closed down in 1536 because of the war and lack of capital. However, it soon became clear that the Compagnia intended to devote itself to charity with more ambitious projects. Indeed, the new Monte di Pietà was created in 1579 with the initial capital raised through donations and loans from the confrères themselves, and soon received approval from Pope Gregory XIII.

Such approval was not strictly indispensable from a formal point of view but granted the newborn Compagnia a particular authority which was quite helpful in the wary and prudent Turin milieu. As always, the main problem was not that of raising initial capital, but of regularly increasing it in order to ensure that the Monte, which in turn soon faced an increasing number of loan applications, could continue its operations. The Compagnia further demonstrated its strong will to expand further in the field of charity by establishing the Pious Office in 1595, which was to manage a programme of alms for the town's poor, including marriage dowries to young girls. As a matter of fact, the Compagnia aimed to devote particular care to women, as was done later with their *Casa del Soccorso*, the shelter home established to educate young girls. After that, the flow of gifts, contributions and legacies grew significantly, and from women, too - with the donation of a building in 1645 by *Madama Reale* (Christine of France) underlining the Court's recognition of the Compagnia as one of the major charitable institutions in town.

Assets increase, accountancy and management

By the end of the seventeenth century, the scale of the activities had been greatly increased. The Compagnia had to improve its accountancy system, by drawing up regular yearly balance sheets to be checked and approved by auditors. This was a significant step forward in terms of making accounts transparent and public: the yearly figures and the final results were no longer reserved for internal meeting reports only but were now finally available for the wider public to evaluate the good management of the Compagnia. Endowments and donations increased to the extent that in 1717 it became necessary to reorganize all the archives, as the growing quantity of ledgers and other documentation required more storage space.

Three years later, the Compagnia's treasurer had to take over the accountancy of the management of new big endowments, which were administered with the greatest care. The total capital increased in 1720 with the assets of the substantial Scarnafigi legacy, which included jewels and a large sum of cash. A few years later, the Cavour endowment was valued as a whole at 300,000 lire of Piedmont. As all legacies generally included private and public loans, which had to be traded on the market with particular competence and care, the Treasurer was finally flanked by a select group of advisors. A new perspective was now opening for the Compagnia, which had to demonstrate its professional financial competence with an ad hoc organization and a skilled staff, while still engaged in firmly maintaining the original spirit of helping poor people, of charity and of assistance to needy young girls. The Compagnia did not carry out a true banking activity, even in the most flourishing periods, although the most important people - confrères, managers from the municipality, or the big donor families - could obtain bank services such as deposits, small loans and payments. However, from an administrative and political point of view, many things were changing, in a period of deep reforms promoted mainly by Vittorio Amedeo II.

In 1730, the Compagnia had been registered as a body of public utility, together with other relevant public institutions, and as such was now subject to full public scrutiny. The Compagnia was later asked to draw up a new income statement and its annual obligations, fully disclosing its capital and all yearly variations. As a consequence, from 1729 on, two new series of annual accounts were created. All assets and their yearly modifications were described with particular care, whereas expenses and revenues were registered in a different series of ledgers, consecrated to yearly cash movements: which also had to record all expenses made in executing donors' wills. There were no reserve funds: at the year's end, any surplus was set aside for charity, mainly to the needy members of the old Turin nobility who had lost their ancient power. Even in times of war, on the eve of the Napoleonic campaign, the Compagnia's total capital did not decrease significantly, whereas the Monte di Pietà faced many difficulties due to lack of capital and was closed down, only to be reopened years later, on the lines of the French model, with interests on loans.

The end of an *ancien régime* institution

In 1798, Napoleon occupied the city of Turin, a prelude to a conquest which would, within a decade, involve the whole of Italy. In 1802, the French abolished the Compagnia di San Paolo and, with it, the free Monte di Pietà, as they considered these bodies a typical expression of the beneficence of the *ancien régime*. From that moment, usury started to spread rapidly in Turin and to counteract it a new Monte was set up in 1805, organised on the model of the *Mont-de-Piété* in Paris. Whereas the previous Monte financed itself by drawing on the resources of the Compagnia, which in turn were based on donations coming mainly from legacies, the new one raised the financial resources required to make pawn-based loans by accepting deposits from certain social categories with available liquidity, such as debt collectors, merchants and domestic servants. The laissez-faire ideology introduced by the French thus modified the Monte's structure, introducing the new concepts of 'deposits collected' and 'creation of operating profits', which characterized the commercial banks of the time, but not the Monti di pietà.

Between 1815 and 1822, after the defeat of Napoleon at Waterloo, the Compagnia di San Paolo, including the free Monte di Pietà, was re-established and all its assets were returned. The interest-charging Monte di Pietà also continued to function, in a setting where the absolute power of the ruling House of Savoy was restored. This continued to be based on the now-declining powers of the aristocracy, but also on those of the emerging bourgeoisie, which was beginning to assert itself. The inflation of the late eighteenth century and the French occupation, with the reduction of feudal property ownership and ecclesiastical mortmain, had greatly reduced the power of the aristocracy.

As the years passed, the social and political role of the bourgeoisie increased more and more, in particular after the revolutions of 1848 and the proclamation of the Albertine Statute, the first modern constitution to enter into permanent force in a state of the Italian peninsula. In the context of a profound reform of the state and society, the new Savoy leadership nationalised the Compagnia di San Paolo, transforming it into the Opere Pie di San Paolo. At its head, they put a management team of twenty-six members, all publicly appointed (by the King, the government and Turin City Council), whose charge was to dedicate themselves mainly to philanthropic activities, including combating usury through the two Monti di Pietà (one free, the other interest-charging) and by curtailing the spiritual practices of the old religious congregation. The banking activities of the kingdom were transferred to a modern credit system, which had begun to form in Piedmont in the 1840s.

From opera pia to savings bank in post-unification Italy

In the first decades after the unification of Italy, the Opere Pie di San Paolo continued to operate for the most part in the field of charity, through specialised bodies such as the Ufficio Pio, dedicated to helping the destitute; the Soccorso and the Deposito, dedicated respectively to assisting and educating young women without families; the Esercizi Spirituali, which carried out the religious activities stipulated in old bequests; and the Monti di Pietà, both the free and the interest-charging, to combat usury. Spurred by Gustavo Ponza di San Martino, its president from 1856 to 1876, the new management soon realised that the San Paolo's growth could no longer remain based on legacies, which had greatly fallen in number, but would have to focus on the income derived from mortgage credit. The banking system in post-unification Italy was very weak and subject to periodic and cyclical crises, leaving room for new entrants. The Opere Pie di San Paolo therefore applied, successfully, for authorisation to practise credit on landed property as laid down by the law of 1866, and so set up a special section to operate in North-west Italy.

The banking crises of 1871-73 and 1891-94 led the management of the Turin institution to orient the interest-charging Monte di Pietà, on one hand, towards a greater collection of bank deposits and, on the other, a more judicious use of these, with investments above all in state and government-backed securities, mortgage bonds and shares in the National Bank of the Kingdom of Italy. Pursuing this strategy, which turned out to be successful in the long term, the Opere Pie di San Paolo began to exhibit a change of nature which led it to favour credit over philanthropy. Between the late nineteenth and early twentieth centuries, a similar transformation was affecting the main savings banks across the country, amongst which stood out the Cassa di Risparmio di Torino. This new aspect of the Opere Pie di San Paolo was sanctioned by the new statute of 1901, in which it was renamed *Istituto delle Opere pie di San Paolo (Beneficenza e credito)* and thus openly bore, for the first time, the term 'credit'.

In the first fifteen years of the 20th century, a further push towards greater banking specialization came from the industrial growth of Turin which continued after the Great War until the financial crisis of 1925. In that quarter of a century, the San Paolo opened up, albeit with great prudence, to a series of operations with the world of industry, discounting commercial bills and paying businesses in advance via current accounts and by receiving on carry-over highly guaranteed private and public securities. During the First World War, it played a significant role in underwriting the war loans issued to support the war effort. From the financial statement of 1925, the reduction of pledge loans (equal to 8% of the Institute's activities) in favour of more markedly commercial activities (amounts carried over equal to 22%, discounted bills and state annuities equal to 17%) appears more and more evident, so that what remained of the Monte was above all the name, while the lending structure had transformed itself into that of a modern savings bank.

Formation and development of a modern bank: the Istituto Bancario San Paolo di Torino

The crisis of 1929 severely affected the Italian economy, which was already deflationary due to Italy joining the gold exchange standard in 1926. One after the other, the mixed banks operating in Italy experienced difficulties. The first was the Banca Agricola Italiana di Torino, owned by the rayon manufacturer Riccardo Gualino, which was saved by the government transferring most of its banking structure to the *Istituto delle Opere Pie di San Paolo*.

From that moment, the Turinese institution took on the dimensions of a large regional bank and was, in 1932, transformed by government decree into an "Institute of credit governed by public law", with the new name *Istituto di San Paolo di Torino. Credito e beneficenza,* meaning that the banking activity had become more important than that of philanthropy. By becoming an Institute of credit governed by public law, it specialised in medium-term loans to industrial businesses, joining other important regional banks which had been put in the same category and were similarly oriented towards commercial credit to industry: Banco di Napoli, Banco di Sicilia, Banca Nazionale del Lavoro, and Monte dei Paschi di Siena; whereas industrial credit became the competence of a newly created public institute, the Istituto Mobiliare Italiano (Imi). In the field of assistance, the San Paolo continued to operate through the Ufficio pio, office of pious works, and the Educatorio Duchessa Isabella, which specialised in vocational training for young women.

The second half of the 1930s and the 1940s saw the institute grow moderately, due to the war in Ethiopia and successive United Nations sanctions against Italy and, later, the Second World War. It was in the 1950s and 1960s that the bank, which had taken the new name *Istituto Bancario San Paolo di Torino,* enjoyed great development as with its financial services it supported the strong growth of the main Turin companies - Fiat, Officine di Savigliano, Indesit and Gruppo Finanziario Tessile of the Rivetti family - and assisted them in their process of internationalisation.

This growth was slowed by the recession of the 1970s before picking up at the end of the decade, leading the San Paolo to take control of some companies in difficulty, such as the Banco Lariano and the Banca Provinciale Lombarda, and to create an operative base on the financial market in London by acquiring a stake in Hambro's Bank. Some years later, in the context of the privatization of public banks in Italy, it took control of Crediop, a body controlled by the Treasury and specialising in financing public works.

The rebirth of the Compagnia di San Paolo and the merging of San Paolo Imi with Banca Intesa

In 1990, in compliance with the 2nd European Union banking directive (December 15th, 1989, no. 646), the Italian government under Giuliano Amato passed a law privatizing a large part of the public Italian banking system. The banks were transformed into bank foundations which, on the one hand maintained their aims of social utility to favour the civil, cultural and economic development of the geographical areas in which they operated and, on the other, ceded their credit functions to banking institutes specifically set up with the legal form of public limited companies as fully owned subsidiaries, the so-called transferee banks *(banche conferitarie).* Also, the Istituto Bancario San Paolo di Torino (a credit institute governed by public law) set up a banking foundation, which took the old name of *Compagnia di San Paolo.* This, in turn, created a new bank, the *Istituto Bancario San Paolo di Torino S.p.a.,* initially fully owned by the Compagnia.

While the Compagnia di San Paolo dedicated itself to pursuing aims of social utility in the sectors of scientific, economic and legal research, education and the arts, the conservation and enhancement of assets of cultural and environmental activities, health, and assistance to the socially disadvantaged both directly or through its instrumental bodies (e.g., the *Fondazione 1563* for art and culture), the Istituto Bancario San Paolo di Torino S.p.a. continued to carry out credit activity in the strict sense of the words, acting as a polyfunctional banking group. To pursue these new objectives, between 1995 and 2000 it absorbed a number of important public institutes (Fideuram, Carifirenze, Banco di Napoli, Cardine) and started a merger process with Imi, changing its name to *Sanpaolo Imi S.p.a.*

Finally, on January 1st. 2007, Sanpaolo Imi merged with Banca Intesa, giving rise to the credit group *Intesa Sanpaolo S.p.a.*, currently the greatest in Italy and one of the most important in Euro zone.

Reference list

Abrate, M. (1963), *L'Istituto Bancario San Paolo di Torino* (Torino).

Allegra, L. (2013), '*Il Monte di Pietà di Torino', in La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Barberis, W. and Cantaluppi, A. (ed.) (2013) *La Compagnia di San Paolo 1563-2013* (Torino).

Berbenni, E. (2013), 'L'Istituto bancario San Paolo di Torino e l'apertura al mercato nazionale (1938-1970)', in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Bermond, C. (2005), *Riccardo Gualino finanziere e imprenditore. Un protagonista dell'economia italiana del Novecento* (Torino).

Bermond, C. (2013), 'Dalle Opere pie all'Istituto di San Paolo nell'ambito della prima industrializzazione torinese (1900-1937)', in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Calapà, N. (2004), 'I Baronis: da mercanti e banchieri a conti di Buttigliera d'Asti. Ascesa economica e sociale di una famiglia nella Torino del Seicento', in *Per una storia della Compagnia di San Paolo (1563-1853)*, W.E. Crivellin and B. Signorelli (eds.) (Torino).

Caligaris, G. (1999), 'Il credito su pegno in Piemonte durante l'Età Moderna', in *Monti di Pietà e presenza ebraica in Italia (secoli XV-XVIII)*, D. Montanari (ed.) (Roma).

Cantaluppi, A. (2003), 'Introduzione', in *Emanuele Tesauro, Istoria della venerabilissima Compagnia della Fede Cattolica, sotto l'invocazione di San Paolo, nell'Augusta città di Torino*, A. Cantaluppi (ed.) (Torino).

Cantaluppi, A., W. E. Crivellin, and B. Signorelli (2011), *Le figlie della Compagnia. Casa del Soccorso, Opera dei Depositi*, *Educatorio Duchessa Isabella fra età moderna e contemporanea* (Torino).

Coda, A. D. (2018), *Un malinconico leggero pessimismo. Diario di politica e di banca (1946-1952)*, G. Nicolosi (ed.) (Firenze).

Farrell-Vinay, G. (1997), *Povertà e politica nell'Ottocento. Le opere pie nello Stato liberale* (Torino).

Fornasari, M. (2013), 'Dalla nascita delle Opere pie di San Paolo alla crisi bancaria di fine secolo (1853-1899)' in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Galea, P. (2013), 'Da banca regionale a gruppo bancario europeo (1971-1991)', in *La Compagnia di San Paolo 1563-2013* (Torino), W. Barberis and A. Cantaluppi (eds.) (Torino).

Gotor, M. (2013), 'Le origini della Compagnia di San Paolo e il governo del bisogno tra santità, eresia e carità (1562-1630)' in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

La Francesca, S. (2004), *Storia del sistema bancario italiano* (Bologna).

Merighi, G. and A. Cantaluppi (1991), 'La Compagnia di San Paolo nel passaggio dall'Antico regime all'Età Repubblicana' in *Dal trono all'albero delle libertà. Trasformazioni e continuità istituzionali nei territori del Regno di Sardegna dall'antico regime all'età rivoluzionaria* (Roma).

Mongiano, E. and Pene Vidari, G.S. (2013), 'Lasciti e doti nell'attività assistenziale e creditizia della Compagnia' in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Muzzioli, G. (1983) *Banche e agricoltura. Il credito all'agricoltura italiana dal 1861 al 1940* (Bologna).

Pautassi, V. (1961), *Gli istituti di credito e assicurativi e la borsa in Piemonte dal 1831 al 1861* (Torino).

Pezzolo, Luciano (2015), 'Pas de dettes sans impôts. Les relations entre la politique fiscale, les institutions et la situation politique en Italie entre 1350 et 1700', in *Ressources publiques et construction étatique en Europe XIII-XVIII siècle*, K. Béguin (ed.) (Paris).

Piola Caselli, F. (2013), 'Le politiche patrimoniali della Compagnia di San Paolo nel Settecento. Investimenti, rendite e vincoli di spesa' in *La Compagnia di San Paolo 1563-2013*, W. Barberis and A. Cantaluppi (eds.) (Torino).

Raiga, E. (1912), *Le Mont-de-Piété de Paris* (Paris).

Raviola, B. A. (2004), 'Reti di credito e composizione sociale della Compagnia di San Paolo. Un'analisi attraverso i lasciti conservati presso l'Archivio Storico della Compagnia' in *Per una storia della Compagnia di San Paolo (1563-1853)*, W. E. Crivellin and B. Signorelli (eds.) (Torino).

Stumpo, E. (1979), *Finanza e Stato moderno nel Piemonte del Seicento* (Roma).

Tesauro, E. (2003), *Istoria della venerabilissima Compagnia della Fede Cattolica, sotto l'invocazione di San Paolo, nell'Augusta città di Torino*, A. Cantaluppi (ed.) (Torino).

The contemporary history of Impact Investing
An interpretive political economy perspective on the ecosystem

Maximilian Martin[1]

Author's biography

Maximilian Martin is the Founder of Impact Economy. In 2003, he created the first university course in Europe on social entrepreneurship at the University of Geneva, and in 2004 the first global philanthropic services and impact investing department for a bank in Europe, UBS. With innovative investment transactions and more than one hundred articles and position papers, his work has helped define the trajectory of market-based solutions and the impact revolution in finance, business, and philanthropy. For the UK Cabinet Office and the G8 policy makers' conference, Martin wrote the Primer on impact investing 'Status of the Social Impact Investing Market' in 2013, which considered this new branch of the financial industry for the first time at G8 level. Published in 2016 by Springer, his book 'Building the Impact Economy: Our Future, Yea or Nay' shows how impact investing can become an integral part of the mainstream economy. In 2017, he led the first humanitarian impact bond transaction for the International Committee of the Red Cross on behalf of the co-sponsor, Lombard Odier. Martin holds an MA in anthropology from Indiana University, an MPA from Harvard University, and a Ph.D. in economic anthropology from the University of Hamburg. He serves or has served as a Visiting Professor and Lecturer in Impact Investment and Entrepreneurship at the Universities of St. Gallen and Geneva, as well as at Ashoka U.

1 Visiting Lecturer, University of St. Gallen; Founder, Impact Economy; maximilian.martin@unisg.ch. The findings of this paper are the author's own and do not necessarily reflect the views of organisations whom he serves in an executive or board of directors' capacity.

Abstract

(Social) impact investing refers to investments made with the intention to generate a measurable social and environmental impact alongside a financial return. The term 'impact investing' was coined in 2007 (World Economic Forum, 2013). By the end of 2019, the size of the impact investing market was estimated at USD 715 billion (GIIN, 2020). This paper explores the contemporary history of impact investing along two dimensions: (1) as an empirically measurable investment style, and (2) as a new approach to interpreting financial investments as having a purpose that goes beyond financial return. This 'purpose' thesis has widespread appeal and explains why impact investing has been gaining so much traction, despite occupying a relatively small part of capital markets to date. After defining the term of impact investing, the paper explores the diverse social, environmental, and economic forces that led to the emergence of impact investing. These forces continue to shape its development and ecosystem, which is comprised of different groups of investors such as philanthropic investors, angel and venture stage investors, private and institutional investors, financial services institutions, and governments.

Keywords

Impact investing, sustainable investing, finance, venture capital, innovation, public sector, interpretive political economy

The contemporary history of Impact Investing
An interpretive political economy perspective on the ecosystem

Introduction

The advent of impact investing is historically very recent.[2] The term was initially coined in 2007. The inception of this idea coincides with the financial crisis of 2007-2008 and the Great Recession of 2008-2012, as well as the European sovereign-debt crisis that began at the end of 2009. The principal aim of impact investing is to pursue both a social and/or environmental

2 This paper uses 'impact investment' as coterminous with 'social impact investment,' unless otherwise specified. It treats impact investing as both a measurable empirical phenomenon and as a new interpretive approach. This is not to say that impact investing has not drawn upon previous ideas and practices such as ethical investing, mission investing or socially responsible investing that aim to encourage investment that caters to societal needs, but that impact investing is a recent innovation.

impact and a financial return, that is, a dual objective or double bottom line. In 2009, a non-profit membership organisation was established to accelerate the development of the impact investment industry, the Global Impact Investing Network (GIIN). Its definition of impact investment as, 'investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return', captures the essence of the proposition (GIIN, 2014). The term 'intention' differentiates these investments from socially responsible investments, which only aim to *avoid* social or environmental harm by focusing on good business practices, while still pursuing a single bottom line of profit.

The financial crisis called into question whether global capital markets had effectively fulfilled their role of pricing risk and allocating capital. The crisis also did away with the concept of safe assets. Moreover, it sparked protest movements, regarding the role of capital markets in the exacerbation of global economic inequality and the reduction in consumer wealth. For example, Occupy Wall Street focused on the New York City financial district as the principal locale for the perceived adverse societal impact of the global financial industry.

A decade on, in September 2018, the unemployment rate in the United States had fallen to a 49-year low (Reuters, 2018). This period of recovery of the global economy helped to increase the momentum of impact investing. Negative interest rates, adopted by the European Central Bank in 2014 as part of an expansionary monetary policy, and by the Bank of Japan in 2016, together with excess liquidity in global financial markets, translated into capital chasing new investment propositions on a broad front. Thus, impact investing can also be seen as one aspect of the mainstreaming of private markets: Since 2002, private equity's net asset value has grown more than sevenfold, and twice as fast as global public equities (McKinsey, 2019:2).

Despite the economic recovery in the aftermath of the Great Recession, a widespread consensus persists that new solutions are still necessary to ensure opportunity for all, and that capital markets need to allocate funds in more sustainable ways to promote this. The onset of the COVID pandemic in 2020 and the resulting economic disruption and expected increase in wealth inequality is likely to add additional weight to such demands.

To better understand the contemporary history of the phenomenon of impact investing and the many factors co-determining its development path, this paper approaches impact investing both as a historically contingent objectively measurable market phenomenon emanating from the investment industry, as well as a new paradigm, or interpretive approach to making investments with the explicit intention to achieve extra-financial social and environmental objectives as part of an investment strategy, or thesis, while securing financial returns.

Rapid dissemination paired with high expectations

The uptake of the idea of impact investing since 2007 has been remarkably swift. One reason for this is the universal applicability of the concept. An impact investment can be made in either developed or emerging countries. It can seek below-market or market-rate returns. This makes it different from a grant, which is simply a donation of funds with no expectation of financial return. Specific variations of impact investments include program-related (PRI) and mission-related investments (MRI), which are types of impact investments made by charitable foundations (Levitt, 2011).

As measured by the portfolios of the members of the GIIN, and the GIIN's global impact investing database, the practice of impact investing had grown into a USD 715 billion market by the end of 2019 in terms of assets under management worldwide; these assets were managed by 1,720 organisations around the world (GIIN, 2020:xiii). The sample of respondents to the 2020 GIIN survey accounted for USD 404 billion assets under management, including three outliers which jointly made up 45 per cent of the sample. 65 per cent of respondents were for-profit or not-for-profit asset managers (GIIN, 2020:xiii). This represents a more than 40 per cent increase in only one year. One year earlier, at the end of 2018, the GIIN had estimated the market at USD 502 billion in terms of assets under management worldwide, managed by 1,340 organisations around the world (GIIN, 2019:4); over 800 asset managers accounted for more than 50 per cent of industry assets, and 31 development finance institutions managed one quarter of industry assets. The new market size estimate falls within the range of USD 400-1000 billion that the emerging impact investment market had been projected to reach by 2020 in 2010 (O'Donohoe, Leijonhufvud et al., 2010).

Based on the market measurement provided in the GIIN's annual market surveys further increasing the expansion of the market would either: (a) require reaching outside the current networks of self-identified impact investors so that impact investments form part of standard asset allocations in investor portfolios; (b) adopting other supporting measures to establish a functioning large-scale impact capital market; and/or (c) significantly redefining what 'impact' means so as to incorporate other parts of the capital market—such as the larger existing market for socially responsible investments (SRI, in public markets). A 40 per cent market size increase in only one year suggests that a combination of these factors is already at work.

By comparison, at the start of 2018 the size of the global SRI market was estimated at USD 30.7 trillion globally of assets being professionally managed under SRI strategies, a 34 percent increase since 2016 (Global

Sustainable Investment Alliance, 2018).[3] Nevertheless, the attributable social impact of such socially responsible or sustainable investments per dollar invested is considerably lower, for the reasons discussed below. Rather than assessing the impact that a companies' products and services have on their consumers, the environment, and society at large, SRI primarily screens companies concerning their observance of responsible business practices and assigns sustainability ratings to these practices (Environmental, Social and Governance ratings, ESG). At the time of writing, the world of sustainable and socially responsible investment does not possess the standards to distinguish what counts as ESG investing and what does not. As a result, some asset managers use the term in an irresponsible manner that ends up not meaning much. For example, when looking at the broader universe of stocks covered by three leading ESG rating services, the Credit Suisse Global Investment Returns Yearbook 2020 finds 'worryingly little agreement over what constitutes a good company on environmental and social grounds; and almost no agreement at all on what constitutes good governance. A good rating from FTSE tells you nothing about what to expect a company's rating to be from Sustainalytics or MSCI, and so on.' (Dimson, Marsh, et al., 2020; Authers, 2020). In their current formulation, many SRI investments must therefore be deemed to be 'impact light.'

Next to the rapid emergence of a market of more than 700 billion dollars in a little over a decade, another defining feature of the emerging impact investment market are its stakeholders' high expectations that this form of investing will eventually become a defining principle of capital allocation in financial markets. An interesting historical parallel is the growth of the venture capital industry. Considered a cottage industry before the 1980s, a change in the Prudent Man Rule allowed pension funds to invest in high-risk assets (such as venture capital) in the US in 1979, opening access to capital resources on a massive scale (Gompers, 1994:10-13). By the end of the 1980s, US pension funds were contributing almost half of new funds invested into venture capital.

To illustrate the magnitude of latent demand for investment capital allocated according to social impact and financial return criteria, consider the Sustainable Development Goals (SDGs), and the United Nations' (UN) 'blueprint to achieve a better and more sustainable future for all' (UN 2015). In its report released in 2017, the Business & Sustainable Development Commission (BSDC) argues that there remains a significant capital gap between achieving

3 SRI industry classifications often include green bonds, or fixed income instruments to raise funds for climate change solutions, as impact investments. Between 2007 and 2020, green bonds in the amount of USD 845 billion had been cumulatively issued (Climate Bonds Initiative, 2020). This chapter follows the more restrictive definition of impact investments offered by the Global Impact Investing Network and does not include green bonds. Impact investments are typically private debt, publicly traded debt, or private equity assets. The majority are invested in sectors such as microfinance and other financial services; food and agriculture; water, sanitation, and hygiene (WASH); energy, healthcare or social housing; always with the stated intention to achieve a social impact next to a financial return.

the Sustainable Development Goals as set out by the United Nations resolutions endorsed by the General Assembly by 2030 and the capital currently allocated to this task (BSDC, 2017). According to the report, reaching the SDG targets requires additional investments of up to USD 2.4 trillion a year, especially in sectors such as infrastructure, which are oriented towards more long-term sustainable outcomes (BSDC, 2017:68). At USD 1.8 billion in 2019, infrastructure investments only formed a small part of reported impact investments (GIIN, 2020:35). Given the size of its market and the scale of capital needed, impact investments cannot reasonably be expected to play a major role in financing the SDGs. In fact, to meet capital demand on the SDG scale, the available investment capital in the mainstream of financial markets would need to be re-oriented in ways that suitably reconcile risk, return and impact that contributes to achieving the SDGs.

But if the impact investment industry is so small, why does it trigger so much interest among investors and within the financial industry more generally? For example, Credit Suisse estimated total global wealth in 2018 at USD 317 trillion, and the impact investment market was estimated at USD 502 billion in the same year (Credit Suisse, 2018; GIIN, 2019). Looking at the numbers alone, 0.16 per cent of global wealth invested for impact does not tally with the high level of interest in impact investing in public policy and finance. However, looking at the contemporary history of impact investing from both an objective empirical and an interpretive perspective reveals why this new approach to investment is garnering so much interest. This should establish whether it is set to become central to the future of finance—as is so often asserted.

Getting impact investment to work requires an understanding of supply and demand and believing in the validity of impact investing as an idea. The necessary conditions for a functioning impact capital market are: a shared understanding of what constitutes an impact investment; a substantial group of interested parties, composed of investors, investees and intermediaries; a competitive social sector; and a supportive national policy agenda. The cheapest and fastest way to build such a capital market is through collaborative, systemic action.

The paper's findings are derived from well over a decade of work in the sector, which involved the author taking part in the original meeting of finance and social sector professionals and foundations instigated by the Rockefeller Foundation in Bellagio, Italy, in 2007, where the term was first coined. Research has involved: screening nearly 200 reports that address impact investment in the major languages of the G8; a dedicated online survey distributed to over 250 market players from around the world; and a media search of 26 terms (translated across the languages of the G8, covering roughly 50 per cent of global GDP) related to 'impact investment' for a report commissioned by the UK Cabinet Office. An earlier version of this paper was circulated to participants of the first-ever G8 conference on social impact investment, held in 2013 during the UK presidency of the G8, as a companion to the in-depth report 'Making Impact Investible' (Martin, 2013a; Martin, 2013b), and this went on to be published in the Routledge Handbook of Social and Sustainable Finance (Martin, 2016a).

The paper begins by defining the term and presenting the analytical framework entailed by an interpretive approach and describes the institutional landscape of impact investing. It then looks at the role that different groups of capital investors play in the market and market-building: ranging from philanthropic investors such as foundations, angel and venture stage capital providers, private and institutional capital providers, financial services institutions and government. A historical review of impact investing serves to identify some of the major barriers that need to be overcome to develop a more effective impact investment marketplace. During a period when the reputation of mainstream finance has been gradually recovering, impact investing has offered the opportunity to demonstrate a new role for finance and financial innovation. The challenge is to calibrate efforts, manage expectations, and avoid mislabelling.

Analytical framework

The fundamental premise of impact investing is that private capital can be invested with the deliberate intention to create positive environmental and social outcomes, while yielding financial returns. It is a powerful new model for financing the economy and society. Since it does not merely offer a new financial model but also a new interpretive approach, it is evident that impact investment has greater potential than is suggested by current market figures: who would not want to do good and profit at the same time?

Increasing economic demand at the poorest levels of society, mounting a response to climate change and a growing global population, addressing common pressures on the welfare state are the diverse factors driving the current demand for impact capital. Precisely because this is a concept that marries financial and extra-financial goals, impact investing has the potential to capture people's imagination and address the myriad challenges facing education, healthcare, unemployment, and the environment. It holds the potential to leverage innovative entrepreneurs, trillions of dollars in public and private capital, and financial innovation to benefit society at large.

To get a sense of latent demand for investment capital, consider one example: the gap in public funding. A 2012 study projected a public services expenditure gap between expected demand for services and the ability to pay up to the year 2025 (Accenture, 2012:4). The estimated expenditure gap ranged from USD 30 billion for Italy to USD 940 billion for the US. Because this exceeds the capacity of public capital provision, private capital will be critical to address this shortfall. Intentionally investing for both social impact and financial returns offers a logical way to engage that capital systematically. A good way to get a sense of established impact investing funds is the 'Impact Assets 50' database, which contains private debt and equity fund managers with a minimum of $25 million of recoverable assets under management that operate in more than one country. To be included in the database, the funds need to demonstrate their commitment to social impact by tracking clear measures of social and/or environmental impact (Impact Assets, 2020a). Take LeapFrog, one of the listed funds, which invests growth capital and expertise in Asia and Africa (Impact Assets, 2020b). The fund reports it serves 155 million low-income emerging consumers, enabling them to access formal insurance, savings, pensions, credit, remittances, or healthcare for the first time. One of LeapFrog's investments, JUMO (a fintech business) partners with mobile network operators and banks to enable the provision of digital financial products to emerging consumers via their mobile phones. It covers sub-Saharan Africa, where insurance is bought by less than one per cent of the adult population, and only five per cent of adults source loans from formal institutions (Impact Assets, 2020b).

In spite of such impressive achievements, making a purely objective empirical analysis of impact investing in terms of capital invested and social or environmental outcomes achieved, does not explain why a phenomenon that is still relatively marginal to the functioning of mainstream financial markets in numerical terms has gained so much attention so quickly. Grasping this requires acknowledging the influence of impact investing as an idea—the interpretive dimension. Interpretive political economy simultaneously assesses objective data alongside symbolic phenomena to see how they contribute to outcomes and institutional arrangements (Martin, 2002a). That concepts and discourses can play an important—and sometimes a decisive role—in constructing social reality is well-established in the social sciences. For example, in Foucauldian discourse theory, discourses are sets of expert statements on some topic— so one can speak of economic and financial discourse, medical discourse, and so on (Dreyfus and Rabinow, 1983). These sets of expert statements influence what is perceived to be real, and determine which forces are seen to be capable of effecting change to such perceived reality. Seeing the evolution of scientific knowledge in periodic 'paradigm shifts' rather than along a linear line of progress, Thomas Kuhn put forward a roughly comparable idea (Kuhn, 1962): Here as well, what counts as scientific truth at any given moment is not simply established by a set of objective criteria. Instead, consensus in a scientific community is based on the subjective worldview of its members; when a paradigmatic shift occurs, this also opens the way to ask new questions and consider new insights that would not have been considered valid science previously—in this case, to not just look at investments in terms of their risk and return, but also their social impact.

What does an interpretive-material perspective mean for impact investing? Discourses play a leading role in shaping shared perceptions of reality over time. An interpretive approach to the political economy seeks to understand the interrelation between empirically verifiable facts such as size of a market, financial returns, and the power of concepts and expert statements to determine resource allocation, action, and institutional arrangements.

The impact investor ecosystem

The diverse players currently involved in impact investing are fashioning its development. Relevant is not only who the different players are, and how they interpret the trade-off between social and financial value, but also the sort of capital they can provide to take risks and meet financial return requirements and liquidity needs.

In 2007-2010 private foundations were the initial catalysts of the impact investment market, alongside high net worth individuals and families (Martin, 2016b). Professional investors, specialised funds, and government then came in as capital providers. Apart from a few champions, large financial institutions including banks and pension funds only began to join the effort much more recently.

Investors' motivations are diverse, ranging from (a) an interest in segments of the market uncorrelated with mainstream global benchmarks, (b) sector-orientation (such as education, healthcare, housing, or water), or (c) achieving social or environmental objectives more efficiently through making investments instead of providing grant funding. Depending on whether a financial or social impact objective is the main priority, investors have been characterised as 'finance-first' or 'impact-first' investors (Monitor Institute, 2009:31). Given that high impact and market-rate returns are not always at odds with each other, this is to some extent a false dichotomy.

Apart from financial return expectations, impact investing actors can be categorised in at least three different ways as per their contribution to market-building. Omidyar Network distinguishes between the (a) 'market innovators,' or entrepreneurs, who believe in a product or service before its profit potential is identified by established investors; (b) 'market scalers', who enhance sector growth by scaling as individual firms; and (c) 'market infrastructure' players, who address the collective needs of industry players, thereby contributing to the extension of a supportive ecosystem for entrepreneurial innovation (Bannick and Goldman, 2012). Next to capital providers and capital recipients, the impact investment market also involves intermediaries, government, and professional service providers (Jackson and Associates Ltd, 2012:9).

On the demand side of impact capital are small and medium-sized businesses, entrepreneurial non-profits which accrue earned income, and co-operatives. These are often referred to as 'social enterprises.' Rather than their legal designation, the common denominator is their stated goal to attain both a financial return and to achieve a social impact. The 2010s have witnessed a mainstreaming of social entrepreneurship and social business. Nevertheless, the slow development of the demand-side of the market continues to constrain its growth: there are not enough quality social enterprises to invest in.

Philanthropic investors

Charitable foundations have pioneered much of the initial work to develop the impact investing market. This includes providing grant funding with an expectation of zero financial returns for the development of impact investment infrastructure (e.g., pilots, studies, technical support, and intermediaries), and engaging in programme-related investing. The Rockefeller Foundation hosted the 2007 conference in Bellagio where the impact investing movement was created. Indeed, many philanthropic capital providers have been able to allocate capital to an investment thesis, or theory of change, without any track record. This has turned some of them into first movers and market builders.

In the US, foundations have typically used programme-related investment to invest in seed- or early-stage social enterprises. However, due to cost and complexity, these are rarely used (Ford Foundation, 2014). For example, in 2009, only 0.05 per cent of US foundation capital deployed went to equity PRIs (Bannick & Goldman, 2012). Yet in a maturing market, foundations can play an important role by disseminating knowledge on best practices and capacity building to support the number of investment opportunities and reduce transaction costs rather than via capital investment (Salamon & Burckart, 2014). Furthermore, in countries where such philanthropic investors are largely absent or not involved in impact investing—such as the transition economies of the former Soviet bloc—this has held back market development. For example, in the 2020 GIIN impact investor survey, there is not a single respondent to the impact investor survey headquartered in a country of the former Soviet bloc (GIIN, 2020:2). Philanthropic subsidies have also played an enabling role in kick-starting investible social businesses and taking them through the proof-of-concept phase to close the so-called 'pioneer gap' via hybrid financing where initial subsidies enable the subsequent creation of a viable social business (Martin, 2011a; Koh, Karamchandani, et al., 2012). There is a whole spectrum of approaches for funders that wish to support social businesses. They range from classical enterprise philanthropy in developing countries, to grant funding that aims to support the development of economic ecosystems, or markets, through nurturing complementary business models. The common denominator is the ability to forego risk-adjusted market-rate financial returns and to take a medium and long-term perspective. Once investees reach capital stage, the investment volumes that philanthropic investors can provide are often insufficient to meet additional capital need.

Between 2007 and the mid-2010s philanthropic investors seeded the impact investing infrastructure and thereby enabled the creation of the market. In addition, philanthropic investors engaged in impact investing also demonstrated to other foundation that this is a viable approach to achieve both social impact and financial returns. For example, tracking the conversion to impact investing of the K.L. Felicitas Foundation portfolio in the US highlights how a 100 per cent impact investment asset strategy can be achieved with a $10 million portfolio (Lai, Morgan, et al., 2013). Its founders, IT entrepreneur turned impact investor, Charly Kleissner and his wife Lisa, believe that their investment approach can serve as a blueprint to invest for total impact. At the end of 2016, the foundation's portfolio, managed by San Francisco-based impact investment management firm Sonen Capital, had $9.5 million in assets. Excluding impact-first investments, the foundation's investments returned 2.75 per cent, net of fees, from 2006-2016, exceeding a portfolio benchmark return of 2.38 per cent, and taking into account a loss in 2008 of 28.43 per cent (Lomax, et al., 2018:59). In terms of impact, nearly 47 per cent of the portfolio investments were deemed to 'contribute to solutions,' defined as addressing specific social and environmental challenges, while 14.5 per cent 'avoided harm' and nearly 39 per cent met an Environmental/Social/Governance (ESG)-consistent goal of benefiting 'people and planet' (Schultz, 2018).

The Kleissners' work illustrates the interrelation of the interpretive and the material dimension of impact investing: they are an example of an influential voice in the impact investing ecosystem in relation to the amount of invested assets. By co-founding Toniic and the 100% Impact network, they also acted as institution builders. 100% Impact is a global peer-to-peer network of asset owners who have committed 100 per cent of their assets to be invested for positive social and/or environmental impact.

Angel and early stage investors

Angel investor networks have been another driver of early stage impact investment market development. In the US and Europe, angel capital providers have generally served as a reliable source of early financing for high-growth companies. Venture capital draws most of the attention from policy makers. Yet angel investment is the primary source of external seed and early-stage equity financing in many countries. Angel investors also tend to be less sensitive to market cycles than venture capitalists (OECD, 2011).

While the investment amounts they place are typically small, angel investors' focus on the seed funding stage is valuable and enables the creation of investable social businesses. In taking a company from seed to growth stage, angel investors do more than providing money by bringing expertise in assessing deals, for example. Several angel networks have emerged to enable early stage investors to access opportunities: for example Investors' Circle (founded in 1992, and not exclusively focused on impact) or Toniic (founded in 2010); as well as regional groups such as Intellecap's Impact Investment Network (founded in 2011), which serves India-based high-net-worth and institutional angel investors.

The rapid progress of information and communication technology and the gradually maturing entrepreneurial ecosystems in North America, parts of Asia, and Western Europe over the past decade has reduced transaction costs and improved the operating efficiency of social businesses. Technology platforms and emergent, impact-focused entrepreneurial ecosystems such as university programmes, incubators or accelerators—often partially or fully subsidised—lower the barrier to entry for entrepreneurs so they can attract talent, raise capital, and build scalable businesses.

It should be noted that super returns on specific investments—compensating for losses on other investments that must be written off—are not part of the business model of impact investing. This raises the question whether angel capital investment can achieve its expected return to be able to engage in future impact investing on a larger scale. Focusing on business models where impact and investment strategies are mutually reinforcing has presented the means to sidestep choices regarding financial return versus social impact. For example, in Norway, Katapult Accelerator, a venture capital firm offering start-up financing, partnered in 2018 with Angel Challenge, an investor community focusing on training and engaging investors and start-ups, to create the first training programme for impact investing in the Nordics. Chairman and co-founder of Katapult Accelerator, Anders H. Lier, focuses on a specific segment of the market, arguing that

> 'There is no trade-off between impact and financial returns. You can make a lot of profit by investing in teams who want to change the world for the better. That way you are contributing to change and vote with your money' (Lier, 2018).

Professional investors

An increasing number of professional investors want to both 'do good' and 'do well' with a part of their portfolio. In a world where the 2008 financial crisis challenged the notion of safe assets, followed by one of the longest bull markets in recent history, when interest rates have remained negative in the Eurozone and in Switzerland for a prolonged period, the unusual risk-return combination offered by impact investments became increasingly attractive to professional investors.

Their ability to absorb risk, invest with a longer time horizon, and defer liquidity with a portion of their portfolio has rendered professional investors an important group in stimulating market development. Some professional investors look for risk-adjusted financial returns in their impact investment capital allocation. Others are willing to trade off financial return for social impact to some extent. Over the past decade, professional investors who engage in philanthropy with a portion of their assets have also started experimenting with impact investing. For billionaire investors, an investment can reach the double-digit million-dollar category.

By facilitating impact investing products with clear risk-return characteristics, product quality and tax transparency, policy makers have sought to stimulate professional investor engagement. For example, the European Unions's EuSEF law provides a designation for funds that allocate at least 70 per cent of their capital towards 'social undertakings' (Arendt and Medernach, 2017). In an industry where new impact themes and managers are still emerging, the challenge is to strike the right balance between assuring investors of quality of impact investment content, while not raising the barriers to entry so much that innovation itself is stifled.

Institutional investors

In the second half of the 2010s institutional investors entered the impact investment market as well. Their clout makes them game changers. A group prone to herding, they trade securities in large quantities, invest on behalf of others such as pension or insurance plans, and have specific investment requirements. The pressure on institutional investors to invest sustainably has been rising, but their potentially large-scale investment nevertheless needs to earn a risk-adjusted financial return and remain relatively liquid or—where a longer-term investment horizon is intentionally chosen—offer a clear divestment strategy. In the first half of the decade, many investment managers felt uneasy about pursuing something other than the highest risk-adjusted financial return and were put off by the lack of track record of impact investments (Wood, 2013). A key limiting factor is the prevailing interpretation of fiduciary duty, or social responsibility. A World Economic Forum study found that for pension funds to engage in impact investing, two key requirements must be met (World Economic Forum, 2013): (a) products must meet the long-term needs of the fund, and (b), they must undergo a reliable evaluation of their long-term effects on fund portfolios. Impact investing was perceived as a rather unconventional field for pension funds, despite the public's growing interest, and impact investment's alignment with the pension fund mandate to store wealth and create value over the long term. This highlights the importance of preconceived ideas for capital investment.

Public pressure on institutional investors to invest for impact has been steadily increasing in recent years. In a 2012 UK survey of 4.5 million pension holders, 47 per cent of respondents expected to have some impact investments as part of their portfolio within the next two years (Social Finance, 2012:4). According to a survey conducted by the Global Impact Investing Network, 18 per cent of pension funds were allocating capital to the impact investment space; another 65 per cent were either developing an impact investment strategy or beginning to consider impact investing (EY, 2017).

Here again, the interpretive dimension has been important to market building: if impact investing practitioners address the theory and practice of fiduciary duty when they are trying to attract pension funds, they are more effective in getting their counterparts to reconsider the conventional interpretations that can lead to herding when making investment decisions (Wood, 2013). Once the concept of fiduciary duty in the institutional investor community is revised to include climate risk, social risk, and impact, significantly higher volumes of investment can be expected. Collaboration with large asset owners to develop systems that evaluate promising new sectors for impact investment will be essential to drive market growth (ibid.). This also necessitates linking long-term performance to social and environmental considerations, and determining what performance measurement systems need to look like so that they do not favour short-term herding (defined as investors following the investment decisions of other investors, rather than basing them on their own analysis). New market regulation and classification, such as the European Union's (EU) legislation on sustainable finance in 2018 and its action plan on financing sustainable growth, including the introduction of an EU classification system for sustainable activities, are bound to provide further impetus for the growth of the impact investing market (European Commission, 2019). In a nutshell, the EU taxonomy sets performance thresholds referred to as 'technical screening criteria' for economic activities along three dimensions: (a) Does the economic activity make a substantive contribution to one or more of the EU's six environmental objectives? (b) Where applicable and relevant, does the economic activity not do no 'significant harm' (DNSH) to the other objectives? And (c) does the economic activity meet minimum safeguards such as the OECD Guidelines on Multinational Enterprises or the UN Guiding Principles on Business and Human Rights? (EU Technical Expert Group on Sustainable Finance, 2020:2). With its focus on the greening of the economy, the taxonomy provides additional specificity for impacts in the environmental context.

Financial services industry

Private banks are important aggregators of client capital. Investment banks have the merger and acquisition expertise needed to build a fully functioning market. Financial institutions have played a pioneering role in market-building since the mid-2000s, when firms such as UBS, J.P. Morgan, and LGT Venture Philanthropy first initiated their activities in the impact investing space. Examples of large banks entering the impact investing space were then the J.P. Morgan Social Finance unit launched in 2007 to service the growing market for impact investments, UBS launching philanthropic services in 2004 and an impact investment offering to meet demand from sophisticated philanthropic clients and family offices, or the Morgan Stanley 'Investing with Impact Platform' launched in April 2012. The latter platform provided investors access to a range of investment products that had been evaluated for financial risk and return potential as well as societal impact (J.P. Morgan Chase and Co, 2014; Morgan Stanley, 2014).

In recent years, a broad range of financial institutions have started to build impact investing into their positioning formula for future banking. They are preparing to cater to Generation Y and Generation Z. Both are increasingly passionate about impact investing. Generation Y, also called 'Millennials', is often defined as the demographic cohort born between the early 1980s and the mid-1990s, and Generation Z as the subsequent demographic cohort born between the mid-1990s and the early 2010s, to be succeeded by Generation Alpha, who will in due course reveal their level of appetite for impact investing.

For example, according to Campden Wealth Research's *Global Family Office Report 2017*, 37.9 per cent of responding family officers reported that impact investing had become part of the range of options to prepare for generational wealth transfer (Kirakosian, 2017). As a result, banks offer more impact investment products. The impact investment market presents an attractive opportunity for profit over the long term and offers a response to consumers looking to align investments with personal values. Initially partially subsidised by central company budgets to engage in effective product and market building, while reaping a reputational return for the respective bank, they have started to gear up to begin offering a profitable line of business to the parent company.

Government

The executive branch of government can provide capital to procure goods and services; the legislative branch defines the rules that govern financial markets. Governments and the executive branch of the political and economic union of member states such as the European Commission in the case of the EU, have played a leading role in devising the strategic framework and stimulating the impact investment market.

There are three primary ways that government can ‘invest in’, or support, the impact investment industry including: (a) stimulating supply, (b) directing capital and (c) regulating demand. Government can use supply development policies to increase the amount of impact investment capital supplied. These policies can take the form of incentives to invest through co-investing or risk-sharing with the government, creating investor requirements for impact investing, or directly providing funding for impact investments, or the intermediaries that invest in them.

Seeding intermediaries has been an important first step to enable a liquid domestic impact investment market to get off the ground. Alternatively, government can direct how capital is used and can improve the leverage of their own investments and expenditures for social impact—for example through its own procurement, privatisation, and investment policies. These policies change the risk and return features of impact investments by adjusting market prices, and improving transaction efficiency and market information, such as harmonising impact measurement standards. Lastly, by stimulating the demand for impact investment and promoting investment readiness, government can promote the growth of the market. Demand development policies increase the demand for impact investment by building the capacity of impact investment recipients to absorb capital (Thornley, Wood, et al., 2011). In the UK for example, probably the most advanced impact investing market in Europe at the time of writing, the UK government has undertaken a number of initiatives over the years to help develop the market for impact investments, including: (a) creating tax incentives such as the Community Investment Tax Relief (CITR) and Social Investment Tax Relief (SITR); (b) creating an independent impact investment intermediary in 2012, Big Society Capital; (c) Incorporating ESG and impact criteria in the UK Shareholder Rights Directive and the Financial Reporting Council’s Stewardship Code (see Implementation Taskforce on Growing a Culture of Social Impact Investing in the UK, 2019).

Government can also create new markets for public good provision. A key initiative here has been linking the achievement of social outcomes to a financial metric to share risk and unlock fresh capital (Wood and Martin, 2006). Such ‘contingent return’ or results-based financing models, also known as ‘Social Impact Bonds’ (SIBs), link ‘outcome funders’ such as governments with impact investors. In this approach, the outcome funder contracts the purchase of a contractually defined social outcome such as, for example, a reduction in the reoffending rate of a cohort of former inmates, or an improvement in the success rate of students taking their high school exam. The impact investor pre-finances the achievement of the social outcome by providing the necessary funding so that, for example, former inmate reintegration services can be stepped up or additional support be provided to students from an underprivileged background. Upon delivery of the contracted outcome, the outcome funder then pays the capital provided up-front by impact investors back in full, with a financial return, or in part—as a function of the extent to which the pre-agreed result was actually achieved (see Martin, 2011b).

To make innovation efficient and keep costs down, government can help to internationalise impact investment markets by collaboratively developing shared standards that facilitate cross-border investment and encourage the overall growth of the impact investment industry internationally. A recent initiative, that has substantially contributed to the development of the impact investing industry, is the EU's sustainable finance strategy referred to above (European Commission, 2019). The EU strategy is focused on Environmental Social Governance (ESG) investing, with a heavy bias on green investments rather than impact investing per se. Nevertheless, we can expect the EU's introduction of a unified EU classification system or 'taxonomy' of sustainable investments, (requiring sustainability-related disclosures, climate benchmarks, and ESG disclosures of public market benchmarks) to boost the supply and demand of financial products with an empirically verifiable endorsement of social and environmental business practices and outcomes, including impact investments. Mobilising finance for sustainable growth is precisely the EU's stated objective (European Commission, 2020).

Many governments around the world have grappled with impact investing in the past decade. From the perspective of a contemporary history of impact investing, the proactive role of the UK Government, including hosting the first-ever G8 Social Impact Investment Forum in June 2013, and the body of work set in motion with the resulting launch of the Social Impact Investment Taskforce by then Prime Minister David Cameron, was the most important government-led initiative. The goal to catalyse the development of a viable impact investment market led to the creation of national advisory boards and working groups as well as the publication of an OECD Report in 2015 (UK Government, 2015; OECD, 2015). The Taskforce was later superseded by the creation of a Global Social Impact Investment Steering Group, building on the work of the taskforce, but with a wider membership of 13 countries plus the EU, including active observers from government and select network organisations. As part of its Mainstreaming Impact Investing Initiative, the World Economic Forum also provided a set of recommendations to governments how to stimulate the impact investing market (World Economic Forum, 2015). Table 1 summarises the sets of instruments governments routinely use to support market development.

Figure 1: Government's role in enabling the impact investing industry
(summarized from Martin, 2013b)

Providing More Capital to the Impact Investment Market	Capital Demand Policies	Capital Supply Policies
• New taxes, charges and tradable permits • Harnessing underutilized capital, such as unclaimed assets • Striking a balance of regulatory restrictions and incentives • Grant-based funding to field studies	• Creation, clarification and combination of legal structures • New market clearing mechanisms such as Social Stock Exchanges • Internationalization of Social Impact Investment Markets	• Seeding new market players • Co-investing • Leverage the private sector (e.g. risk sharing)

Government plays an enabling role: it cannot build a viable impact investment ecosystem alone, but without a constructive government role, other players' efforts are diminished. The state of affairs is more complex than a simple narrative of progress. Running counter to their declared intention of enabling the impact investing market, governments have created new impediments. For example, the EU's Markets in Financial Instruments Directive 2004/39EC (MiFID) and Alternative Investment Fund Managers Directive (AIFMD) requires fund managers who want to sell their products in the European Union to register in all countries, in which they want to sell their financial product, and in some cases to potentially have representatives in the EU country in question (European Commission, 2004 and 2011). The logic of consumer protection is certainly intended to protect the investor: the fund manager needs to be nationally registered and have representatives, thus offering a higher level of transparency and proximity to regulators and investors. But implementation of the EU regulation also adds a further layer of cost to the fund manager's operations and is associated with additional uncertainty about such costs. By raising the cost of compliance, it risks pricing small, innovative first-time funds raising funds abroad out of the game at a time when the market is at an early stage of development.

Conclusion

Impact investing does not yet carry historical traction. However, this new concept has managed to generate significant attention in a short amount of time. It has led to the emergence of a sizable market and an institutional ecosystem in the past decade. Applying the tools of diachronic analysis can help to develop a better sense of its potential trajectory.

Taking the interpretive view, one cannot help but observe that enthusiasm for impact investing is running high in the financial industry and among its stakeholders. Showing how financial innovation is fundamental to making finance work for the long-term viability of the real economy and society is empowering for the different actors in the impact investing ecosystem, because it offers a way to achieve financial returns and a sense to finance professionals that they are doing the right thing by channelling capital to investments that improve the state of the world.

Impact investing's ability to enable transformational impact while offering decent financial returns will also be its litmus test. Global megatrends suggest that latent demand for impact capital is strong and growing. First, pent-up demand at the base of the pyramid of the poor making less than USD 2.50 a day has been estimated a USD 5 trillion global cash economy at purchasing power parity (IFC and WRI, 2007). Second, the rise of health and sustainability lifestyles at the apex of the global income pyramid, which means that possibly up to a quarter of US adults are expressing a preference for products that are produced sustainably by companies that are responsible, indicates that a 'sustainable mainstream' is emerging (Nielsen, 2014). Time will tell whether these consumers will prove willing, and able, to pay a sufficient premium for such products so that they can displace other non-sustainable products over time. Third, while the cost of the general greening of the economy is hard to estimate—it is enormous. Prior to the global coronavirus pandemic, the European Union reckoned that meeting its climate goals for 2050 outlined in the 2015 Paris accord, would require EUR 175-290 billion per year in the intervening decades (European Union, 2019:1). Taking a global perspective, the cost has been estimated by the United Nations Environment Programme (UNEP) in the range of USD 1.05-2.59 trillion per year (UNEP, 2017). Finally, given ageing, migration, and the rise of automation, a fourth megatrend driving demand for capital is rendering the public sector fit for the future. We are in the early stages of forging a new social contract with a greater role for private capital in public good provision.

Persistent low and negative interest rates are an additional driver of demand, calling classical fixed income strategies into question, and favouring the rise of income generating assets and equity.

One of the factors that will help determine market growth is whether a widely shared understanding will emerge that defines what material impact is, and how to measure it. A related question is the extent to which the integration of impact in the investment approach be able to deliver superior financial returns (alpha returns) as well as the targeted social and environmental outcomes.

As discussed earlier, poor data quality need not necessarily hold back market development, as a look at the world of Socially Responsible Investment, the public market cousin of impact investing, suggests. In an in-depth study, Deutsche Asset Management and the University of Hamburg investigated whether integrating ESG into the investment process had a positive effect on corporate financial performance ('CFP', Friede et al., 2015). The study analysed whether the effect was stable over time, how a link between ESG and CFP differed across regions and asset classes, and whether any specific sub-category of E, S or G had a dominant influence on corporate financial performance. The study extracted all provided primary and secondary data of more than 2,000 previous academic review studies. Around 90 per cent of the studies found a non-negative ESG–CFP relation, with most studies reporting positive findings. In a 2015 Harvard University study on corporate sustainability, researchers also concluded that there is a link between sustainability issues and financial performance: 'firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues. In contrast, firms with good ratings on immaterial sustainability issues do not significantly outperform firms with poor ratings on the same issues' (Khan, et al., 2015). To test the future shareholder value implications of firms' sustainability ratings, the researchers first normalized the firms in terms of factors such as company size, market-to-book ratio, leverage, profitability, R&D intensity, advertising intensity or institutional ownership and sector membership. They then tested for the future performance of this portfolio in relation to material sustainability issues (rather than the underlying characteristics of the portfolio firms). Via additional firm-level analysis, they then accounted for several firm characteristics including analyst coverage, investments in R&D, advertising and capital expenditures, and board characteristics. This additional firm-level analysis confirmed the earlier findings.

Today, there is still a meaningful amount of disagreement among the vendors of sustainability data, e.g. regarding the 'best' and 'worst' ESG stocks in terms of overlap in the top and bottom quintile of ESG rankings between data providers (Causeway, 2017). Depending on which two sources of an ESG rating of the same company one compares, overlap in the bottom quintile may be as low as 50 per cent. With an SRI market already exceeding USD 30 trillion, additional progress in data and analytics can be expected to enable studies (such as the one cited above) to go even further in helping us understand which sustainability factors are material, and how they affect value creation. This would enable investors to mitigate risk more effectively, discover how to achieve superior financial returns (alpha), and also ultimately result in higher costs of capital for companies that no longer appear sustainable once such additional extra-financial information is incorporated into the analysis.

The main barriers to developing a more effective marketplace of impact investment are regulation, high transaction cost, knowledge-sharing needed to develop new investment products, blended financing to de-risk some impact investments and crowd in private capital, established notions of fiduciary responsibility, as well as the liquidity of impact investments (Martin, 2016a, 2016b). They persist to varying degrees. Progress in the following areas will determine market development: (a) optimising existing policies and creating new tools (such as bringing the Social Impact Bond concept to liquid markets); (b) clarifying legal structures and fiduciary responsibility, and—where needed—combining legal structures or creating new ones altogether; (c) leveraging the private sector to access more capital and functional knowledge on currency and credit risk, or structuring new products; (d) creating smart, market-enabling regulation; (e) developing a better-suited approach to defining risk-taking to unlock the potential of impact investing, including blended financing, where public investors accept first-loss provisions to de-risk private investment; and (f) creating much greater liquidity for impact investments; finally (g) much of impact investment product innovation would not be viable without technical assistance subsidies from governments, foundations, and banks who can cross-subsidise their impact investing activities based on accruing reputation benefits from engaging in this field (Martin, 2013a:29-31; Martin, 2016a:687). If investment structuring costs could be reduced in relative terms by larger investment sizes, this would remove an important barrier to greater market scale in the future.

Given the rapid progress over the past decade, as well as the challenges ahead, the interpretive dimension is perhaps the most confidence-creating element of impact investing. If we treat impact investing as just another example of the many innovations that have changed life in the period since World War II to estimate the path of transition, we can draw on the insights yielded by the study of innovation. Innovation researcher Everett Rogers identified four main elements that influence why, how fast, how wide, and at what rate new ideas and technology are spread (Rogers, 1983:223-232): first, the nature of the innovation itself—does it have any comparative advantage over existing solutions on the market? Second, the communication channels through which it is disseminated—whom do they reach, and how fast? Third, time. Finally, the degree to which an innovation is compatible with the values of a given social system.

To date, the growth of impact investment has passed through the first stages of innovation diffusion. It is now moving to the core of financial markets. Over the past decade, the factors promoting diffusion such as easy access to information via digital and social media, and an emerging sustainability or impact consciousness have gained in strength.

To address staggering social need and steer clear of a planet seemingly on a path to plus 4.8 degrees centigrade by the end of the century (Climate Action Tracker, 2018), one can only hope that considering extra-financial outcomes and 'impact' will indeed become core to how financial markets allocate capital. This is more easily achieved if the attractiveness of impact investing as an idea continues to serve as an accelerator to market building.

Reference list

Accenture (2012), '*Delivering Public Service for the Future: Navigating the Shifts*'. Retrieved August 31, 2019, from https://www.accenture.com/t20150527t210823__w__/ca-fr/_acnmedia/accenture/conversion-assets/dotcom/documents/local/fr-ca/pdf/accenture-delivering-public-service-for-the-future-112712.pdf.

Arendt & Medernach (2017), '*The Amended EuVECA and EuSEF Regulations*'. Retrieved August 31, 2019, from https://www.arendt.com/jcms/gen_10725/en/the-amended-euveca-and-eusef-regulations.

Authers, J. (2020), 'ESG Investing Is Having a Good Crisis. It's Also Killing Jobs. Companies Deemed to be Virtuous Also Tend to Employ Very Few People.' *Bloomberg Opinion*, May 21, 2020. Retrieved June 15, 2020 from https://www.bloomberg.com/opinion/articles/2020-05-21/esg-investing-s-good-coronavirus-crisis-is-killing-jobs?sref=kFEtTTiL.

Bannick, M. and Goldman, P. (2012), '*Priming the Pump: The Case for a Sector-Based Approach to Impact Investing.*' Omidyar Network. Retrieved August 1, 2020, from https://www.omidyar.com/sites/default/files/file_archive/insights/Priming%20the%20Pump_Omidyar%20Network_Sept_2012.pdf.

Business & Sustainable Development Commission (BSDC) (2017), '*Better Business Better World*'. Retrieved August 31, 2019, from http://report.businesscommission.org/report.

Carmody, L. et al. (2011), '*Impact Investing in Emerging Markets. Responsible Research*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/impact-investing-in-emerging-markets.

Causeway (2017), '*Causeway's Observations on Environmental, Social, Governance Investing and Ratings*'. Retrieved August 31, 2019, from https://www.causewaycap.com/insight/causeways-observations-on-environmental-social-governance-investing-and-ratings/.

Climate Action Tracker (2018), '*2100 Warming Projections*'. Retrieved June 14, 2018, from https://climateactiontracker.org/global/temperatures/.

Climate Bonds Initiative (2019), '*Green Bonds: The State of the Market 2018*'. Retrieved August 31, 2019, from https://www.climatebonds.net/resources/reports/green-bonds-state-market-2018.

Climate Bonds Initiative (2020), 'May at a Glance.' Retrieved June 15, 2020, from

https://www.climatebonds.net/2020/06/markets-monthly-5-10062020-cumulative-gb-issuance-usd845bn-china-cleans-coal-green-catalogue.

Credit Suisse (2018), '*Global Wealth Report 2018*'. Retrieved August 31, 2019, from https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/global-wealth-report-2018-us-and-china-in-the-lead-201810.html.

Dimson, E. et al. (2020), '*Credit Suisse Global Investment Returns Yearbook 2020.*' Retrieved June 15, 2020, from https://www.credit-suisse.com/about-us-news/en/articles/media-releases/credit-suisse-global-investment-returns-yearbook-2020-202002.html.

Dreyfus, H., and P. Rabinow (1983), *Michel Foucault: Beyond Structuralism and Hermeneutics*, 2nd rev. ed. (Chicago).

European Commission (2004), 'Markets in Financial Instruments Directive (MiFID) 2004/39/EC'. *Official Journal of the European Union*, L 145. Retrieved August 31, 2019, from https://ec.europa.eu/info/law/law-topic/eu-banking-and-financial-services-law_en.

European Commission (2010), '*Europe 2020: A European strategy for smart, sustainable, and inclusive growth*'. Retrieved August 31, 2019, from http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf.

European Commission (2011), 'Alternative Investment Fund Managers Directive 2011/61/EU'. *Official Journal of the European Union, L 174/1*. Retrieved August 31, 2019, from https://ec.europa.eu/info/law/alternative-investment-fund-managers-aifm-directive-2011-61-eu_en.

European Commission (2019), '*Commission action plan on financing sustainable growth*'. Retrieved August 31, 2019, from https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en.

European Commission (2020), '*Sustainable Finance.*' Retrieved June 15, 2020, from https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en.

European Union (2019), '*Financing Sustainable Growth.*' Retrieved August 31, 2019, from https://ec.europa.eu/info/sites/info/files/business_economy_euro/accounting_and_taxes/documents/190618-sustainable-finance-factsheet_en.pdf.

EU Technical Expert Group on Sustainable Finance (2020), '*Financing a Sustainable European Economy: Technical Report.*' Retrieved June 15, 2020, from https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf.

EY (2017), '*Profit and Purpose: Impact Investing Goes Mainstream*'. Retrieved August 31, 2019, from https://www.ey.com/gl/en/industries/private-equity/ey-profit-and-purpose-impact-investing-goes-mainstream.

Ford Foundation (2014), '*Program-Related Investment*'. Retrieved June 13, 2018, from http://www.fordfoundation.org/grants/program-related-investment.

Friede, G., Busch T. & Bassen, A. (2015), '*ESG and Financial Performance: Aggregated Evidence from more than 2000 Empirical Studies*'. Retrieved August 31, 2019, from http://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917#abstract.

Global Impact Investing Network (GIIN) (2013), '*Perspectives on Progress: The Impact Investor Survey*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/perspectives-on-progress.

GIIN (2014), '*About Impact Investing*'. Retrieved August 31, 2019, from https://thegiin.org/impact-investing/.

GIIN (2015), '*Eyes on the Horizon: The Impact Investor Survey*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/eyes-on-the-horizon.

GIIN (2016), '*The Annual Impact Investor Survey*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/annualsurvey2016.

GIIN (2017), '*The Annual Impact Investor Survey*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/annualsurvey2017.

GIIN (2018), '*The Annual Impact Investor Survey*'. Retrieved August 31, 2019, from https://thegiin.org/research/publication/annualsurvey2018.

GIIN (2019), '*Sizing the Impact Investing Market*'. Retrieved August 31, 2019, from https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf.

GIIN (2020), '*Annual Impact Investor Survey: Tenth Edition.*' Retrieved June 15, 2020, from https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf.

Global Sustainable Investment Alliance (2018), '*2018 Global Sustainable Investment Review*'. Retrieved August 31, 2019, from http://www.gsi-alliance.org/trends-report-2018/.

Gompers, P. A. (1994), '*The Rise and Fall of Venture Capital. The 1994 Newcomen Prize Essay.*' Chicago Graduate School of Business. Retrieved June 15, 2020, from https://thebhc.org/sites/default/files/beh/BEHprint/v023n2/p0001-p0026.pdf.

IFC & World Resources Institute (2007), '*The Next Four Billion*'. IFC & WRI. Retrieved August 31, 2019, from https://www.wri.org/publication/next-4-billion.

Impact Assets (2020a), '*Impact Assets 50.*' Retrieved June 15, 2020, from https://www.impactassets.org/publications_insights/impact50.

Impact Assets (2020b), '*Investment Example.*' Retrieved June 15, 2020, from https://www.impactassets.org/ia50_new/fund.php?id=a012R00000tVb65QAC.

Implementation Taskforce on Growing a Culture of Social Impact Investing in the UK (2019), '*Growing a Culture of Social Impact Investing in the UK.*' Retrieved June 15, 2020, from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_dat a/file/811914/Final_report_by_the_Implementation_Taskforce_Growing_a_culture_of_social_impact_investing_in_the_UK_2019.pdf.

Jackson, E.T. & Associates Ltd. (2012), '*Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*'. Rockefeller Foundation. Retrieved August 1, 2020, from https://www.rockefellerfoundation.org/wp-content/uploads/Accelerating-Impact-Full-Summary.pdf.

J.P. Morgan Chase & Co. (2014), '*Social Finance*'. Retrieved June 13, 2018, from http://www.jpmorganchase.com/corporate/socialfinance/social-finance.htm.

Khan, M. et al. (2015), '*Corporate Sustainability: First Evidence on Materiality.*' The Accounting Review, 91 (6):1697-1724.

Kirakosian, M. (2017), '*UBS: half of family offices not ready for generational wealth transfer*'. Citywire Switzerland. Retrieved August 31, 2019, from https://citywire.ch/news/ubs-half-of-family-offices-not-ready-for-generational-wealth-transfer/a1048516.

Koh, H., et al. (2012), '*From Blueprint to Scale: The Case for Philanthropy in Impact Investing*'. Monitor Group & Acumen Fund. Retrieved August 31, 2019, from https://acumen.org/wp-content/uploads/2017/09/From-Blueprint-to-Scale-Case-for-Philanthropy-in-Impact-Investing_Full-report.pdf.

Kuhn, Thomas S. (1962). '*The Structure of Scientific Revolutions*' (1st ed.). University of Chicago Press.

Lai, J., et al. (2013), '*Evolution of an Impact Portfolio: From Implementation to Results*'. Sonen Capital. Retrieved August 31, 2019, from http://www.sonencapital.com/thought-leadership-posts/evolution-of-an-impact-portfolio/.

Levitt, D. A. (2011), '*Investing in The Future: Mission-Related and Program-Related Investments for Private Foundations*' in The Practical Tax Lawyer. Retrieved August 31, 2019, from https://missioninvestors.org/sites/default/files/resources/MRIs%20and%20PRIs%20for%20Private%20Foundations.PDF.

Lier, H. A. (2018), '*Angel Challenge Impact*'. Retrieved June 14, 2018, from http://angelchallenge.com/impact/.

Lomax, P., et al. (2018), '*In Pursuit of Deep Impact and Market-Rate Returns: KL Felicitas Foundation's Journey*'. NPC. Retrieved August 31, 2019, from https://www.thinknpc.org/publications/in-pursuit-of-deep-impact/.

Martin, M. (2002a) Globalization, Macroeconomic Stabilization, and the Construction of Social Reality: Outline of Interpretive Political Economy. Market, Culture and Society (Münster & London).

Martin, M. (2002b), '*Leadership in a Globalizing World: Addressing the Challenges.*' Faculty Talk. Cambridge, Mass.: Center for Public Leadership, Harvard University.

Martin, M. (2011a), '*Understanding the True Potential of Hybrid Financing Strategies for Social Entrepreneurs*'. Impact Economy Working Papers, 3. Retrieved August 31, 2019, from http://impacteconomy.com/papers/IE_WP2_EN.pdf.

Martin, M. (2011b), '*Four Revolutions in Global Philanthropy*'. Impact Economy Working Papers, 1. Retrieved August 31, 2019, from http://www.impacteconomy.com/papers/IE_WP1_EN.pdf.

Martin, M. (2013a), '*Making Impact Investible*'. Impact Economy. Retrieved August 31, 2019, from https://www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf.

Martin, M. (2013b), '*Status of the Social Impact Investing Market: A Primer*'. Impact Economy. Retrieved August 31, 2019 from https://www.gov.uk/government/publications/status-of-the-social-impact-investing-market.

Martin, M. (2016a), '*Building the Impact Investing market*' in Routledge Handbook of Social and Sustainable Finance, O.M. Lehner (ed.) 671-692.

Martin, M. (2016b), Building the Impact Economy: Our Future, Yea or Nay (London).

McKinsey (2019), '*Private Markets Come of Age. McKinsey Global Private Markets Review 2019.*' Retrieved June 15, 2020, from https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/Private%20markets%20come%20of%20age/Private-markets-come-of-age-McKinsey-Global-Private-Markets-Review-2019-vF.ashx.

Monitor Institute (2009), '*Investing for Social & Environmental Impact: A Design for Catalyzing an Emerging Industry*'. Retrieved August 1, 2020, from https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-monitor-Investing-for-Social-and-Environmental-Impact-2009.pdf.

Morgan Stanley (2014), '*Sustainability: Investing with Impact*'. Retrieved June 13, 2018, from http://www.morganstanley.com/globalcitizen/investing-impact.html.

Nielsen (2014), '*Global Consumers are willing to put their money where their heart is when it comes to goods and services from companies committed to social responsibility*'. Retrieved August 31, 2019, from http://www.nielsen.com/us/en/press-room/2014/global-consumers-are-willing-to-put-their-money-where-their-heart-is.html.

O'Donohoe, N. et al. (2010), '*Impact Investments: An Emerging Asset Class*'. J.P. Morgan Global Research. Retrieved August 31, 2019, from https://thegiin.org/research/publication/impact-investments-an-emerging-asset-class.

OECD (2011), '*Financing High-Growth Firms: The Role of Angel Investors*'. Retrieved August 31, 2018, from http://www.oecd.org/sti/financinghigh-growthfirmstheroleofangelinvestors.htm.

Rogers, E. M. (1983), Diffusion of Innovations (3rd ed.) (New York).

Reuters (2018), '*U.S. weekly jobless claims drop to near 49-year low*', Business News, September 13, 2018. Retrieved August 31, 2019 from https://www.reuters.com/article/us-usa-economy-unemployment/u-s-weekly-jobless-claims-drop-to-near-49-year-low-idUSKCN1LT23J.

Salamon, L.M. & Burckart, W. (2014) '*Foundations as Philanthropic Banks*', in L.M. Salamon (ed.), New Frontiers of Philanthropy, 165-208 (New York).

Saltuk, Y., et al. (2014), '*Global Social Finance. Spotlight on the Market: The Impact Investor Survey*', J.P. Morgan & the Global Impact Investing Network. Retrieved August 31, 2019, from: https://thegiin.org/research/publication/spotlight-on-the-market-the-impact-investor-survey.

Schultz, A. (2018), '*Accounting for Impact Alongside Market Returns*'. Barrons. Retrieved August 31, 2019, from: https://www.barrons.com/articles/accounting-for-impact-alongside-market-returns-1526416550.

Social Finance (2012), '*Microfinance, Impact Investing, and Pension Fund Investment Policy Survey*'. Retrieved August 31, 2019, from https://www.socialfinance.org.uk/resources/publications/microfinance-impact-investing-and-pension-fund-investment-policy-survey.

Thornley, B., et al. (2011), '*Impact Investing: A Framework for Policy Design and Analysis*'. Insight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University. Retrieved August 31, 2019, from http://www.pacificcommunityventures.org/uploads/reports-and-publications/Impact_Investing_Policy_Full_Report.pdf.

UK Government (2015), '*Social Impact Investment Taskforce*'. Retrieved August 31, 2019, from https://www.gov.uk/government/groups/social-impact-investment-taskforce#oecd-report.

UNEP (2017), '*Green Economy*'. Retrieved June 14, 2018, from https://www.unenvironment.org/explore-topics/green-economy.

UN General Assembly (2015), '*Transforming our world: the 2030 Agenda for Sustainable Development*'. United Nations. Retrieved August 3, 2019, from https://sustainabledevelopment.un.org/post2015/transformingourworld.

Wood, D. (2013), '*The Current Limits and Potential Role of Institutional Investment Culture and Fiduciary Responsibility*', in World Economic Forum Investors Industries. From Ideas to Practice, Pilots to Strategy: Practical Solutions and Actionable Insights on How to Do Impact Investing, 15-17). World Economic Forum. Retrieved August 31, 2019, from http://www3.weforum.org/docs/WEF_II_SolutionsInsights_ImpactInvesting_Report_2013.pdf.

Wood, A. & Martin, M. (2006) '*Market Based Solutions for Financing Philanthropy*', Viewpoints:58-63). Retrieved August 31, 2019, from http://ssrn.com/abstract=980097.

World Economic Forum (2013), '*From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors*'. Retrieved August 31, 2019, from http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf.

Social entrepreneurship
The Rothschilds as bankers and philanthropists (1850-1914)

Klaus Weber[1]

Author's biography

Klaus Weber submitted his PhD thesis on German merchants in 18th-century Atlantic trade at Hamburg University. He was a research fellow at the National University of Ireland in Galway (2002-03) and at Royal Holloway College and The Rothschild Archive in London (2004-09), where he co-directed an international research project on the Rothschilds as protagonists in Jewish *Philanthropy*. Since 2011, he has been Professor of European Economic and Social History at the European University Viadrina in Frankfurt/Oder. His current research interests are labour regimes and welfare regimes in modern Europe and in the early modern Atlantic world, and the transnational connections of Central Europe's early modern proto industries.

1 University Viadrina, Frankfurt Oder; weber@europa-uni.de

Abstract

In the cities where the Rothschild brothers established banking houses such as Frankfurt, London, Vienna, Paris and Naples they and their successors would go on to establish a number of schools, libraries, hospitals, housing associations, and similar institution. In this paper I view these undertakings by members of the Rothschild family as examples of 'social entrepreneurship'. This is to transcend terms such as charity or philanthropy, which put undue emphasis on altruism, at the expense of other social and political motivations. Some of the ventures the Rothschilds started were designed for the benefit of society at large. Others were targeted at Jewish communities, and were designed to address specific instances of hardship, for example among the Ashkenazim in London's East End, German- and Yiddish-speaking Jews from Eastern Europe who had settled there from the 1880s after fleeing poverty and religious persecution.

In each city the Rothschild family's philanthropic undertakings developed different patterns of management and funding. In London the model was liberal and inclusive, embracing a range of donors from the Jewish community; in Paris and Frankfurt a more exclusive model was developed, with provision being funded solely from the pockets of the Rothschilds themselves. An examination of these forms of charitable undertakings and the way they were targeted at a specific range of clientele shows that there was a variety of motivations involved: charities not only served altruist purposes, but it also helped to transform the donor's economic into social capital (reputation, respectability). Charitable undertakings could serve as an instrument in religious sectarianism; they could serve the expression of political rivalry; they could present the opportunity to expand a benefactor's clientele, and thus his social power base, and so on. Nonetheless, many of the Rothschild charitable undertakings would prove to be extraordinarily successful, and some would go on to become classic exemplars in their respected fields: the Paris housing companies served as a model for social housing in 20th century France, the Paris eye clinic became a leading research institution, the Rothschild library and the children's clinic in Frankfurt were later incorporated into the city's university.

Keywords

Philanthropy, social entrepreneurship, moral entrepreneurship, social housing, Rothschild

Social entrepreneurship
The Rothschilds as bankers and philanthropists (1850-1914)

This paper derived from the research project, 'Jewish Philanthropy and Social Development in Europe: The Case of the Rothschilds, ca 1800-1940', which was funded by the Arts and Humanities Research Council (Britain), Rothschild Foundation Hanadiv Europe (Britain) and the Fritz Thyssen Foundation (Germany). I am also grateful for support from The Rothschild Archive (London) and from the Institute for the History of German Jews (Hamburg).

Introduction

The decades of the 1990s and 2000s saw a marked increase in historical research into *charity* and philanthropy, especially in the English- and German-speaking world (Kocka and Frey, 1998: 38-53; Prochaska 1995; McCarthay, 2001; Adam, 2004). New research institutes were set up, such as the Center of Philanthropy at Indiana University that opened in 1987, and launched the book series *Philanthropic and Nonprofit Studies,* now over fifty volumes long. The growth of interest in this area of study followed the withdrawal of the state from a range of fields where it had been active since the late nineteenth century: old age provision, unemployment insurance, health care and the regulation of health insurance, state education (Matter et al., 2015). This was accompanied by tax cuts that benefited corporations and private wealth. The vacuum this created led to a surge in charitable undertakings by corporations, faith groups, non-profit organisations, and private individuals from the late 1980s onwards. The increase in the number of non-profit organisations – 40% between 1990 and 2000 in the United States alone, according to some estimates (e.g., Cannon, 2000) – needs also to be seen against this background. Certain ventures stemmed from the genuine conviction that voluntary commitment and private enterprise would offer improved services in this field; others grew from the pressing need to fill the gaps which had emerged in the wake of a rapidly shrinking welfare state. All the while, a spectacular increase in private wealth, particularly in Europe, North America and Asia was taking place. The Bill & Melinda Gates Foundation (founded 1994) – the biggest charitable endowment worldwide – and the Chan Zuckerberg Initiative (founded 2015) are examples of the new wealth from two tech giants being invested in charitable enterprise on an unprecedented scale. However charitable foundations on this scale pose a challenge to the welfare state, as well as to the established and more democratic institutions of civil society, and the merits of the level of influence they exert has been the subject to debate (Callahan, 2017; Raddon, 2008).

It is a situation which is reminiscent of the new, successful entrepreneurs of the 19th century, who likewise amassed their fortunes in new sectors of the economy: steel in the case of Alfred Krupp and Andrew Carnegie; steamships and railways in the case of Cornelius Vanderbilt; minerals and oil in the case of John D. Rockefeller; or international banking in the case of the Rothschild family. Contemporaries who cherished more diversity on the field of charity and/or a more proactive state even held Rockerfeller's philanthropic trusts to be 'a menace to the welfare of society' (Callahan, 2017:5). All these entrepreneurs were social climbers: public acts of generosity helped them to be accepted and respected by the old-established elite. This is confirmed by quantitative surveys on the 19th and early 20th century, showing that new wealth gave more generously than either the members of well-established families, or wealthy 'old' families, who perceived themselves to be in a state of social or economic decline. This applies even more so when social climbers belonged to a marginalised faith group struggling for emancipation (Lässig, 2004: 198 f., 207). In the case of the Rothschilds, two of these criteria – being nouveaux riche, and being members of a religious minority – would come into play (Adam 2006). But even among the Rothschilds the inclination to charity began to diminish after 1900, in the fourth and fifth generations of descendants – at least among those living in France, according to the records of the Comité de bienfaisance israélite (Leglaive-Perani, 2011:42).

During the 2000s, social and cultural historians such as Simone Lässig and Thomas Adam, quoted above, have already hinted at these mixed motivations. Yet the recent increase in historical research in philanthropy has been accompanied by an increase in research from the perspective of economics. While historians seek to clarify the cultural orientation of certain forms of charity and welfare provision, economists have studied the efficiency of these institutions. During the 1990s, the term *social entrepreneurship* was introduced by Charles Leadbeater, whose career developed from being a Marxist publisher to becoming advisor to Tony Blair (Leadbeater, 1997) and Jerr Boschee, an American publisher and advisor in the non-profit sector (Boschee, 1997).[2] As the economists Peter Boettke and Christopher Coyne state, even if 'we consider social entrepreneurship as entrepreneurship driven by social considerations – peer recognition, appreciation, strengthening social ties and bonds, etc. – rather than economic (profit) or political (power) considerations' (Boettke and Coyne, 2009:171), economic expertise is indispensable in this field too: efficiency is always an essential element for both profit and non-profit institutions.

Social entrepreneur and *social entrepreneurship* are scholarly terms providing a category of analysis, in contrast with the terms philanthropy and charity, which have evolved historically from the field of charitable and

2 I am indebted to Dr Norbert Cyrus (Europa-Universität Viadrina), who called my attention to the term.

philanthropic practice. Adopting these scholarly terms in historical research allows for a more critical and self-reflexive stance towards the historical categories (Brubaker and Cooper, 2000). But for the most part, and with relatively few exceptions (e.g., Thomes, 2013), historical research has typically retained the vocabulary taken from the language of the historical period under scrutiny: *charity* and *philanthropy*. These terms are problematic insofar as they are ideologically loaded. The term *charity* derives from Christian doctrine and refers to an economy of redemption – to almsgiving as a pious work which contributes to the ultimate salvation of the donor. By contrast, *philanthropy* is a neologism of the Enlightenment, coined during the early 18th century to refer to humanist and civic virtues (Leglaive-Perani, 2011:5). The dichotomy of these terms became more pronounced during the 19th century, when the conflicts in the emerging nation states between Catholic, Protestant and non-conformist churches, and provision of a more secular orientation, were played out in areas such as health care, poor relief, and above all in education. Dubbed the 'culture wars', these conflicts revealed bitter divisions within European society (Clark and Kaiser, 2003). This was the period when the Catholic Church started to see the Enlightenment as a primary cause of the evils of modernity – evils that were even catalogued in 1864 by Pope Pius IX in his notorious proclamation, the *Syllabus of Errors* (Syllabus errorum).

The respective entries in *La Grande Encyclopédie* (1887-1902) and in the *Grand Dictionnaire Universel* (1866-79) tell us that in France, *charité*, with its origins in the Christian (or rather Catholic) concept of *caritas*, was the term preferred by conservatives, and *philanthropie* the one preferred by Republicans. Being a conservative in 19th century France was almost synonymous with being Catholic and being a Republican inevitably meant supporting the withdrawal of the Catholic Church from the public sector. It is interesting to note that both the 1902 and 1910/11 editions of the *Encyclopaedia Britannica* do not list the term *philanthropy* as a separate entry but only discuss it within the entry on *charity*, portraying it as a rival, competing term. The implicit notion underlying both the British and the French lexica entries is that the followers of *charity* start with the basic assumption that humanity's nature is evil (along the lines of Christian thought), or at least flawed and incorrigible, while the followers of *philanthropy* start with the assumption that it is good (along the lines of enlightenment ideas), or at least perfectible (Weber, 2009: 21-29). Even if the Jewish minorities tried to avoid being drawn into these debates, e.g., in emphasizing the Hebrew term *tsedakah*, which is mostly translated as charity, but in fact offers a more pragmatic approach (Jacobs, 1995). Nonetheless, the general discourse (which they could not avoid) was deeply impregnated with a loaded terminology.

Given that these terms carry so much historical baggage a different term, like *social entrepreneurship*, presents a way to free the discussion from ideological bias, and it does not restrict the relevant activities to their altruistic dimension, which is put to the fore with a term like *philanthropy*. It serves to highlight other social motivations such as peer recognition, strengthening social ties and bonds, political opportunities, and so forth. These aspects have been analysed in several recent studies, even in those that have not dispensed with the use of conventional terminology. Of course, the terms *charity* and philanthropy will also be used in this paper, but for descriptive rather than analytical purposes.

Rothschild philanthropies in context

Does a paper on the philanthropic activities of the Rothschild family fit within a collection of essays on the *Social Aims of Finance*? Many members of the Rothschilds spent large portions of their private wealth on charitable projects – some roughly a quarter, others a third of it (Weber, 2017:36f.). For these purposes, they did not use the money nominally invested in their banks, which did not have specific funds for supporting such projects. But the Rothschilds were private merchant bankers, not managers of joint-stock banking companies, and there was no clear-cut distinction between their private wealth and the capital in, and profits from, their banking houses, so their charitable commitments were closely linked to their businesses.

Mayer Amschel Rothschild (1744-1812), the founder of the dynasty, ascended to prominence during the 1780s and 1790s, when serving William, Hereditary Prince of Hesse-Kassel as court agent and financier. He had grown up in the Frankfurt ghetto, and he would go on to spend much of his career there, dwelling in a city that had become Germany's financial capital in the course of the 17th century. During the Napoleonic Wars and their aftermath, three of Mayer's five sons opened their own branches in London, Vienna and Paris; one stayed in Frankfurt, and the fifth ran the short-lived Naples branch, in existence from c. 1820 to 1863 (Ferguson, 1998:112 f., 131-136, 148-173). Being present in Britain and on the Continent, the family became leading financiers in Britain's war effort, handling the subsidies paid to its allies and, after 1815, raising the loans France needed to pay reparations. The five brothers ascended to the upper ranks of European banking during the period of industrialisation, rapid urbanisation and the formation of the modern nation state. From the 1830s, they began to diversify their investments: acquiring Belgian coalfields (Ferguson, 1998:434-438, 450, 597 f.); creating French and Austrian railway companies (Schofield, 2002); buying Moravian steel works, shares in Spanish copper and investing in Mexican quicksilver-mining.

Their offspring, who are the focus of this comparative essay, grew up in different nation states. They no longer spoke the German-Jewish language of their fathers and grandfathers and, having studied at universities in Britain, France, and Germany, felt much more attached to their respective home countries than their fathers had. The new generation of Rothschild bankers would assume the role of cosmopolitan entrepreneurs. By 1900, they were involved with oil production in Baku and Indonesia, and with South African goldmining (Ferguson, 1998: 379-384, 879 f.; Jonker and van Zanden, 2007a; Jonker and van Zanden, 2007b: 30, 38, 45). They were active in the same fields as their contemporaries Krupp, or Vanderbilt, or Rockefeller, and were therefore alert to the social problems that accompanied industrialisation and urbanisation. Given their Jewish background (few family members converted to the Christian faith) they were greatly concerned by Jewish migration from Eastern Europe, which increased significantly during the last decades of the 19th century.

The effects of this migration were particularly marked in London. Between 120,000 and 150,000 Ashkenazim fled from Eastern Europe to Britain between 1880 to 1914 (3,500 to 4,400 per year), most of them settling in the East End of London. The growth of the Paris community, from c. 25,000 in 1850 to 50,000 in 1900, was mostly due to migration of German-speaking Jews from rural Alsace and Lorraine (Feldman, 2007:832; Bensimon and Pergola, 1986: 28; Albert, 1977:63 f.). Frankfurt, by contrast, was hardly affected by such immigration.

A common feature of the philanthropic institutions the Rothschilds created is that they addressed the pressing social problems in the cities where they lived: by providing affordable housing, health care, schooling, and support to migrants. However, many of the charitable institutions set up in Frankfurt, London, Vienna and Paris were not exclusively aimed at a Jewish clientele but were also open to others in need. The scale of these charities – some of them funded exclusively with their private wealth, others jointly funded with smaller and larger partners – was such that they resembled public institutions. For example, the social housing companies the offspring created in London (1885) and in Paris (1904) saw to the construction of salubrious tenement blocks with thousands of flats, affordable for working class and lower middle-class families. Although these were to attract a large number of Jewish lodgers, in London in particular, the aim was to form mixed neighbourhoods, in order to avoid the formation of ghettos. The Rothschild-Spital in Vienna, opened in 1873 as a Jewish hospital, comprised 100 beds housed in separate mansions with state-of-the-art equipment (Koblizek and Heindl, 1998). The Fondation de Rothschild, created in Paris in 1851-52 by James de Rothschild as an infirmary and an orphanage, was extended in 1910-14 to become one of the largest and most advanced general hospital in the French capital (Delalande, 2011). It had initially been created as a Jewish hospitals but was soon opened to Parisians from any religious background. The Jews' Free School in East London, originally dating back to the late 18th century, was taken on by the London Rothschilds during the 19th century when Lord Nathaniel Rothschild became its primary benefactor. It became one of the most modern and,

Figure 1: Mocatta House, the eighth building of the Four Percent Co., completed in 1905, photo taken in 1958. By courtesy of The Rothschild Archive (London).

Figure 2: Architect's drawing of the first tenement block of the Fondation Rothschild (created in 1904), built on Rue de Prague. By courtesy of The Rothschild Archive (London).

with 4,250 pupils in 1900, probably the largest school worldwide (Black, 1998; Weber, 2004; Weber, 2017). In Frankfurt, the Rothschilds launched a similar range of charities, albeit on a smaller scale given the smaller size of the city.

During the First World War, governments raised the level of taxation on private wealth and corporate profits. After the War, the welfare state began to expand in many industrialised countries. This led to the decline of private, large-scale philanthropy from 1914 onwards—the Rothschild's included. The heyday of Jewish philanthropic endeavour in London, for example, was from the 1880s to the 1910s, with circa a dozen new institutions created in each of these decades. By contrast only five creations have been identified in the 1850s, and four in the 1930s. The trend was similar in other European countries, and both in the Jewish and in the non-Jewish world.[3]

3 Findings from the research project 'Jewish Philanthropy and Social Development in Europe: The Case of the Rothschilds'. For the period 1850-1940, a total of 99 Jewish institutions in London has been catalogued.

Housing in Paris and London

The Rothschild banks in Germany, Britain, France and Austria were run as separate firms. But for larger transactions, such as raising state loans, they often co-ordinated their activities, or even joined forces. Frequent intermarriage between the more distant cousins of the dynasty and regular flow of correspondence between the branches of the family might suggest they cooperated across national boundaries in the field of philanthropy as well. Yet, surprisingly, a closer look at the way the Rothschild's charitable institutions were organised reveals that this was not the case. In each city, they acted at a local level, with no financial commitments in other cities where Rothschild banks were established. The few exceptions, such as the transfer of a large sum from London to the Clementine children's clinic in Frankfurt when the 1923 hyperinflation had virtually wiped out its funds, only confirm the rule. Other transfers made were rather in the field of managerial and technical skills, e.g., from the London housing company to the one created later in Paris.

It is striking that in Paris all the institutions created by members of this dynasty bore the family name: the Fondation de Rothschild (hospital), the Fondation Rothschild (social housing), Henri de Rothschild's polyclinic on the slopes of Montmartre, Adolphe and Julie de Rothschild's eye clinic, to name but some of the largest. However, in London, where their cousins had created charities of comparable scale a few decades before, not one bore their surname. The housing company was called the Four Percent Industrial Dwellings Company, a children's hospital Evelina Hospital for Sick Children, an approved school for wayward boys Hayes Industrial School, and so on. This suggests fundamental differences in the approach to charity adopted in Paris and London.

The French Rothschilds proceeded in a paternalistic way, providing the full sums necessary to create the institutions. These must be differentiated according to their cost structure: in the case of social housing, the tenants paid enough rent to cover the running costs. This was not the case with hospitals, which had significant staff and zero income. The Fondation Ophtalmologique A. de Rothschild, the Paris eye clinic opened in 1905, did not generate any income because treatment for all patients was free. So, the clinic was endowed with 8 million Francs, which yielded 300,000 Francs p.a. to cover running costs; the money deriving from the bequest of Adolphe Carl de Rothschild (1823-1900). The building itself, including the equipment and the acquisition of the urban terrain, had cost 1.8 million Francs, a comparatively modest sum (Weber, 2004; Weber, 2005). This contrasts with the social housing company, Fondation Rothschild, created in 1904. The brothers Alphonse (1827-1905), Gustave (1829-1911) and Edmond (1845-1934) de Rothschild, joint heads of the Paris bank, provided it with a capital outlay of 10 million Francs. The full sum could be spent on the terrains and the construction of tenement blocks, because the incoming rents would cover running costs.

Both the Paris eye clinic and the Fondation Rothschild were set up in a manner which ensured that their benefactors maintained full control. Julie de Rothschild (1830-1907), Adolphe Carl's widow, even wanted to maintain the Paris eye clinic as a private property, instead of having it registered as a not-for-profit institution. Her advisors had a hard time convincing her that within merely two generations levies of inheritance tax would have reduced the endowment to such an extent that the entire institution would become unsustainable (Weber, 2005).

The English Rothschilds, by contrast, never created charitable institutions solely with Rothschild money alone. Instead, they gave a lump sum as seed funding in order to encourage more Londoners from the Jewish community – as well as others – to make contributions.

Their London housing company and institutions in the health sector provide indicative examples. The Four Percent Industrial Dwellings Company was founded in 1885 upon an initiative of Nathaniel Rothschild (1840-1915), a cousin of the three brothers in Paris. The company fully integrated all the steps and layers necessary for such an endeavour within its own organisation, from the build-up to the routine of running the tenement blocks: locating and purchasing sites for building, architectural planning, overseeing construction, and maintenance of the completed tenement blocks. This structure turned out to be so efficient that the cousins in Paris copied it when they launched their own social housing company, twenty years later.[4] Yet, the approach of the three Paris cousins to raising the capital differed fundamentally from that of Nathan Mayer Rothschild. For the creation of the London company, in July 1885, 1044 shares of the company had been issued, at £25 each. Nathaniel Rothschild acquired 400 shares, followed by Baron de Stern, Emma Montefiore and Maurice and Hyam Beddington,[5] each of them buying just eighty shares. The remaining sixteen buyers held stakes ranging from only two to forty shares. In Paris, in 1904, the entire sum was provided by Gustave, Alphonse and Edmond de Rothschild.

If Paris saw a paternalistic and exclusive approach to funding and management, London witnessed a more liberal and inclusive approach, which encouraged participation of the larger community. Even the smaller shareholders of the Four Percent Company had a say in management. This served to attract members of the Jewish middle classes, men and women who could

4 On this occasion, I need to apologise for an error in my article '100 Years of the Bluff Rothschildien' (2003/2004). I wrote about the Paris institution: 'Their scope was unprecedented, and not only in France. No comparably extensive project had ever been carried out before to provide a model.' (p. 14) I was not aware that by 1905 the 'Four Percent Company' was already a large institution running more than a thousand flats, and in fact had been the model for the Paris company.

5 These were most probably Frankfurt-born Hermann Jakob de Stern (a successful London banker), and Emma Hannah Montefiore née Goldsmid (from a prominent, Reform-oriented Jewish family). The more modest Beddington family was committed to supporting many Jewish charities in London.

not invest large sums, but who were prepared to invest their time and expertise in the planning, creation and upkeep of charitable institutions, and who would sit on the board of governors. The liberal approach was an indication of a certain reluctance to have a few individuals from a socio-economic elite providing huge sums of money for easing the housing problems of the poor and potentially upsetting the balance in the housing market. The Four Percent Company fitted well with the market economy, because investors were attracted not only by its charitable ambition, but also by the modest annual return of four percent (Morris, 2001:526, 535-537; Morris, 2004:144-147; Garside, 2000).

There was little consideration of such macro-economic effects in Paris. The sum of ten million francs – announced in the press – was enormous, and to some extent symbolic. The ambition of the Rothschilds in Paris to make their generosity visible in the public sphere may be seen as an effort to counteract anti-Jewish sentiment which was widespread in France, in particular during the height of the Dreyfus Affair and its aftermath. Modern Britain never witnessed an anti-Jewish campaign on such a massive scale. The sum alluded specifically to the ten million francs which Napoleon III had promised to raise for working class housing in Paris. Little had come of this, aside from the Cité Napoleón, a tenement block of 86 apartments erected around 1850 between the Gare de l'Est and Montmartre, and a small row of terraced houses built in an eastern arrondissement of the capital (Dumont, 1991). It is worth noting that the capital of the Four Percent Company in London went on to increase substantially as well, but it did so slowly, as new tenement blocks were added over the years. By 1905, by which time eight Four Percent blocks had been built bringing the total number of flats to roughly 1,600, it stood at approximately half a million pounds – which corresponded with ca. 12.5 million francs.[6]

Hospitals in Paris and London

No such direct comparison can be made in the health sector, because the core of generous donors from London's socio-economic Jewish elite never gave money for the creation a large clinic. They feared that a 'Jewish' hospital – such as the impressive Fondation de Rothschild in Paris which targeted the poorer members of the faith community – would encourage Jewish immigrants from Eastern Europe not to learn English and not to assimilate in the same way as the families of established Anglo-Jewry had done

6 Industrial Dwellings Society, company archives: Minute Book no 2, p. 90 (24th Annual Report from the Directors, February 1909, on the year 1908), and p. 88 (statistics for the year 1908). The exchange rate has been provided by http://www.historicalstatistics.org/Currencyconverter.html (accessed 04.09.2019).

over generations and could prove germane to fostering a cultural ghetto (Black, 2000). Nevertheless, a Jewish hospital would be opened in London in 1914, as I discuss in further detail below.

Contrasting the pattern of giving to the health sector in London with the two Paris hospitals is telling. Jewish philanthropists in London favoured the integration of Jewish wards into existing hospitals. Having their own wards was crucial because observant Jews had special requirements – for kosher food, for respecting the Sabbath, for avoiding daily Christian prayers (still mandatory in many hospitals), and so forth. The banker Edward Lewis Raphael, who was also one of the early directors of the Four Percent Company, donated £20,000 for establishing such a ward at the non-denominational London Hospital; Henry Raphael gave the same sum to the Jewish Henriette Raphael Ward at the non-denominational Guy's Hospital.[7] Ada Hannah (1844-1906), widow of Samuel Lewis (1838-1901), another Jewish financier and creator of social housing on a larger scale, endowed a full ward at Middlesex Hospital (Black, 1992:340 f.). Nathaniel Rothschild gave thousands of pounds to the King Edward VII Hospital Fund, which in turn supported a whole range of existing institutions (Prochaska, 1992:30 f.). Emma Montefiore made a donation to University College Hospital.[8]

The Evelina Children's Hospital, founded in 1869, was the only hospital in London established by a single Jewish donor. This was Ferdinand James Anselm von Rothschild (1839-1898), from the Austrian side of the family, who had moved to England after marrying his London cousin Evelina. Even so, the hospital was not intended to meet the needs of Jewish clients alone (Priestley, 1969). Ferdinand had given a lump sum towards the building and equipment, but to cover its running costs the non-denominational hospital needed money from subscribers, many of them from the middle and upper middle classes. This meant that the management of the hospital was accountable to these subscribers. At the same time, their annual payments entitled them to issue letters to patients, providing them with a privilege. Even if The Evelina was intended 'for the Children of the Poor only', and even if it received 'no paying patients', the hospital's regulations specified that for children queuing for treatment, 'precedence is given to applicants presenting a 'Letter' from a Governor or Subscriber'.[9] Giving governors and subscribers this degree of influence was a widespread feature of charitable institutions in 19th century Britain, but in many institutions the admission of applicants for treatment had been channelled into more democratic and transparent processes (Kanazawa, 2016). In any case, subscribers acquired a degree of power over patients coming from poorer families, often within their own range of contacts. This was

7 Jewish Museum, London, Finchley Branch, Archival Holdings: 'Men and Women of Mark' (press cuttings album), p. 181, 410.

8 Jewish Chronicle, obituary, 18 Apr 1902.

9 London Metropolitan Archives: H09/EV/A/24, Annual reports from the 1890s.

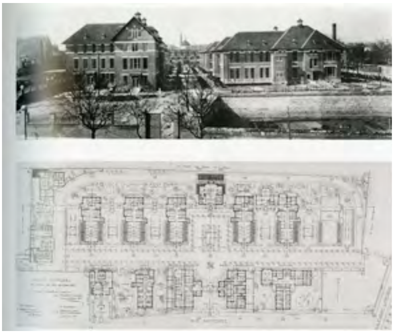


Figure 3: General view and floor plan of the Paris hospital Fondation de Rothschild, Rue de Picpus, completed ca. 1914. By courtesy of The Rothschild Archive (London).

Figure 4: Operations theatre of the hospital Fondation de Rothschild. By courtesy of The Rothschild Archive (London).

markedly true in the case of the benefactors of Jewish wards in other London hospitals (like the Raphaels, and Ada Hannah Lewis), who also had a say in who would be admitted for treatment.

Even if these clientelist structures produced such leverage over the poorest, they limited the power of the very rich donors, and gave some power to donors from the middle (and middling) classes. They offered a way of encouraging many more people from these levels of society to become involved in a shared endeavour to address social inequality. The contrast with the institutions in Paris, like the general hospital (Fondation de Rothschild) or the eye clinic (Fondation Ophtalmologique A. de Rothschild), was marked. These were exclusively financed by members of the family and managed by them, or by experts they employed, such as architects, medics, and lawyers.

Reformers vs. Orthodox in Frankfurt

If London and Paris provide two distinct approaches to charitable funding, then the organisational structure of Rothschild philanthropy in Frankfurt and Vienna sits somewhere between the two, although it leans more towards the French than the British model. Anselm Salomon von Rothschild (1803-1874), for example, gave 400,000 fl in 1869 towards a new building for the Israelitisches Hospital in Vienna, which was subsequently renamed The Rothschild Hospital (Koblizek and Heindl, 1998). Renaming a communal hospital after the donor of an enormous sum would have been unthinkable in London, where all hospitals – Christian, Jewish, or non-denominational – were traditionally financed and managed by larger groups of citizens. In this more inclusive context, it would probably have been an indecent move to offer such a large sum. The characteristic features of Rothschild philanthropy, or social entrepreneurship, in Frankfurt mirrored the tensions inherent in German Jewry at the time. Germany was the only country in Europe to experience the widening divide between the Jewish Reform movement, initiated by protagonists of the Haskalah (the German-Jewish Enlightenment), and other more Orthodox formulations of Jewry; and nowhere was this division as marked as it was in Frankfurt. During the first decades of the 19th century, liberal, Orthodox, and centre-ground Jews in Frankfurt were still jointly maintaining their common institutions, such as a hospital, a cemetery, elementary schools, and so on. For example, the prestigious Jewish grammar school in Frankfurt, created upon the initiative of Mayer Amschel Rothschild as a Reform-oriented school in 1803/04, also attracted pupils from Orthodox families. However, this changed in 1850 when a staunchly liberal director, called Sigismund Stern, and a Reform-oriented rabbi, called Leopold Stein, were appointed and the more Orthodox members of the community decided to secede. In 1851, they created their own school and synagogue. This became the nucleus of the Orthodox Israelitische Religionsgesellschaft, putting a seal on the intra-communal split (Liberles, 1985; Arnsberg, 1983:844-853). Frankfurt's Orthodox community became a model for Orthodox separatists in other German cities, such as Berlin, Cologne, Königsberg and Strasbourg. As polarization became more pronounced, institutions such as synagogues, schools, hospitals, old-age homes, cemeteries began to be duplicated, not only in Frankfurt, but across Germany as whole.

These irreconcilable divisions between Reformists and Orthodoxy even manifested themselves within the Frankfurt branch of the Rothschild family. If Mayer Carl von Rothschild (1820-1886) espoused the family's leanings towards moderation, Wilhelm Carl (1828-1901) and his wife Hannah Mathilde (1832-1924) became pious followers of neo-Orthodox teaching. These two brothers ran the Frankfurt bank. An anecdote narrates that after their fallout, they continued to work at the same enormous desk on the bank's premises, but never talked to each other, and had a partition fixed between their seats so they did not even have to see each other.

Wilhelm Carl and Hannah Mathilde became the most prominent benefactors of Frankfurt's Jewish Orthodox community. In the year 1877 Wilhelm donated 300,000 marks to the Orthodox secondary school alone (Arnsberg, 1983:76-79). The couple jointly created a hospital for poor Orthodox Jews and endowed it with the Georgine Sara von Rothschild'sche Stiftung, to which they had given half a million marks by 1877 (Arnsberg, 1983:125 f.). They sought to give the community more coherence by demarcating it from less observant Jews. For this purpose, such institutions required applicants to supply a certificate written by a Conservative rabbi, to furnish proof of their religious integrity. The influence of these Orthodox charities extended well beyond the immediate confines of the city, indeed, one of the charities created by Wilhelm Carl offered subsidies to poor co-religionists resident at any place within a distance of 100 km maximum from Frankfurt (Kirchheim, 1911: 39). His daughter Minna Caroline (1857-1905) created a similar institution, but made it explicitly non-denominational, and endowed it with one million marks (Arnsberg, 1983:99-97).

Mayer Carl's branch of the family also gave to charities catering to the Jewish community, and mostly to the non-Orthodox elements of that community, but he and his wife and daughters donated even more to society at large. In 1875, his wife Louise (1820-1894) opened the non-denominational Clementine Kinderhospital and endowed it with 800,000 marks. It treated children free of charge, just like the Evelina Childrens' Hospital (Arnsberg, 1983:115-117). In 1890, his daughter Hannah Louise (1850-1892) created the dental clinic Carolinum, which became one of Frankfurt University's clinics in 1914 (Windecker, 1990). Mayer Carl's enormous private library became the nucleus of the Carl von Rothschild'sche Bibliothek, a public library for all the citizens of Frankfurt with a focus on arts and humanities, and on languages. His daughters Adèle Hannah Charlotte (1843-1922) and Emma Louisa (1844-1935), and Wilhelm's daughter Adelheid (1853-1935), provided it with a prestigious building worth half a million marks. The institution was endowed with a generous bequest of one million marks. It would later become incorporated into Frankfurt University (Stollberg, 1988).

It needs to be highlighted that in all these charitable endeavours the Frankfurt Rothschilds were acting in a similar way to their cousins in Paris: their charities bore the family name; they were exclusively funded with their own personal wealth and they were managed by the experts they hired.

Conservatives vs. Liberals in London

In London as well, divisions between rival factions of Jewish culture and faith were permeating the field of charity. In the East End, densely congregated with poor Jewish immigrants from Central and Eastern Europe, Nathaniel, 1st Lord Rothschild competed with Samuel Montagu, 1st Baron Swaythling (1832-1911), another merchant banker from the City. He sat in Parliament from 1865 until 1885. If Lord Rothschild was a Liberal who had turned Tory over the issue of Irish Home Rule, as well as being a supporter of mainstream pragmatics in terms of faith, Montagu was a of more radical Liberal persuasion whilst being more Orthodox in terms of faith. With his religious conservativism and liberal political leanings, Montagu attracted many working-class Jews to the Federation of Synagogues, which he had created in 1890. From 1885 Montagu served as the Liberal Member of Parliament for Whitechapel. Here we need to recall that the British Labour Party was only founded in 1900. Until then, the Liberal constituency included many working-class voters. Whitechapel, in the impoverished East End of London, was a district whose proximity to London's docklands made it popular with immigrants. The Federation competed with the long-established United Synagogue, headed by Nathaniel Rothschild – who in turn supported Samuel Montagu's conservative opponent in Whitechapel, Lionel Louis Cohen. Nathaniel had always promoted the cultural assimilation of immigrants, which explains his commitment to the Jews' Free School, created to anglicise the children of Jewish immigrants. This was another reason to oppose the small synagogues of Montagu's Federation, where many adherents spoke only Yiddish and Russian.

Nathaniel Rothschild also voiced his opposition to a grassroots movement for a Jewish hospital which would have Russian-, Yiddish- and Polish-speaking staff. This had been proposed by a barber who had come from Russia—a man of humble origins. The hospital went on to be established in 1914 against the wishes of the powerful Lord Rothschild. Bernard Baron (1850-1929), a tobacco manufacturer who had arrived in London from Brest-Litovsk, was the most prominent of the small group of wealthier donors (Black, 2000). By contrast, Nathaniel Rothschild preferred to support the development of Jewish wards in existing London hospitals, where Jewish patients would be served kosher food, but would be obliged to communicate in English at the same time. This approach, it should be noted, was favoured by Samuel Montagu as well.

An abortive project for a Jewish cultural institution in the East End, modelled along the lines of the Toynbee Hall (a non-denominational community centre that opened in 1884), was jointly proposed by Nathaniel Rothschild and Samuel Montagu. Intended to be far larger than Toynbee Hall, the project proved to be controversial from the outset. It was feared that this institution would monopolise Jewish life in the East End of London. Criticism grew when Lord Rothschild voiced his plans to make the cultural complex even larger by adding a colossal synagogue with 1,400 seats, and by shifting the building closer to the Whitechapel district, even though a plot of land had already been acquired in 1893, with Rothschild paying 2/3 and Montagu 1/3 of the sum. The project collapsed as the rift widened between the two men and their respective supporters (Weber, 2017). In any case, this episode illustrates the extent to which political and personal ambitions intermingled with charitable agendas.

Centralism in Paris

No such sectarian divides occurred in Paris, where all the synagogues and the rabbinical schools were subordinated to the Consistoire central israélite, that had been set up in accordance with Napoleon's decree of 1808, that required them to report to the newly founded Ministre des cultes. Essentially an imitation of the administrative structure already in place with the French Protestant Church, but not inherent to Jewish tradition, the Consistoire central – with local branches in Paris and places like Metz, Bordeaux and Strasbourg – became 'the single most important and comprehensive French Jewish institution' of the 19th century (Albert, 1977:352).

Given their unique position in French Jewry, the Paris Rothschilds became major figures within the Consistoire. The family members who became most deeply involved were the three brothers who had also created the Paris housing company: Gustave de Rothschild served as president of the Paris Consistoire from 1858 until 1910, to be succeeded by his youngest brother Edmond, who held the office to the year of his death in 1934, while Alphonse sat in the Consistoire central from 1852 until into the 1900s (Graetz, 1982: 139; Albert, 1977:102). Holding office helped the brothers to extend their influence in the Jewish community not only in Paris but in France as a whole. An example illustrates how the brothers worked in favour of Parisian consistorial dominance: the only major rabbinical seminary in France existed in Metz, from 1829. When it ran into financial problems in 1856, the Rothschilds let it be known that they were prepared to supply the 60,000 Francs needed, but only if the institution was transferred to Paris. The Ministre des cultes was favourably inclined: '[T]he old Judaism, with its strongholds in the east of the country, [is] somewhat opposed to the social ideas we seek to promote. The one in Paris [in turn is] more educated, more dedicated ….' (Graetz, 1989:85; Albert, 1977: 61, 249).[10] Thus the cultural assimilation of Yiddish-speaking Jews was not only being promoted by Lord Rothschild, the leader of Anglo-Jewry in London, but was being backed by the state in Paris, and by his French cousins.

A national umbrella organization for Jewish charities in France, the Comité de bienfaisance israélite, had already been established under Napoleon, in 1809. Out of a fusion of seven pre-existing charitable associations, it grew in the course of the century. Alphonse de Rothschild and his short-lived brother Salomon (1835-1864) became members of the Comité in 1850 and 1855 respectively. Edmond became a member of its Conseil d'administration in 1866 and served as its president from 1877 until 1934. The French Rothschilds were also by far the most important financial contributors to these

10 The quote from the ministerial decree (dated 1 July 1859) has been taken from Graetz: '… le vieux Judaïsme qui a son quartier général dans l'Est est quelque peu ennemi des idées sociales que nous cherchons à propager. Quant à celui de Paris, plus éclairé, mieux dévoué …'.

institutions (Leglaive-Perani, 2011; Graetz, 1989: 139 f.; Weber, 2011). Their English cousins were hardly involved with the equivalent British organisation, the Jewish Board of Guardians (Rozin, 1999).

Conclusion
The Rothschilds as social entrepreneurs

Unlike the first two generations of the banking family, the third generation Rothschilds grew up in different national and urban settings, which shaped their respective approaches to social ills. Their charitable endeavours responded to the respective political and cultural circumstances in each country, and this gave their undertakings distinctive features. The members of the third generation of this family donated vast sums to fund the creation of institutions which would go on to become classic examples in their fields. The London and the Paris housing companies served as models for social housing in 20th century France, the Paris eye clinic became a leading research institution in ophthalmology, the Rothschild library and the children's clinic in Frankfurt were later incorporated into the city's university. After the First World War, and even more so after 1945, the cost for staff increased with the contributions for expanding mandatory welfare. The hospitals, with their numerous staff and many treatments offered for free, soon exhausted their endowments and were thus handed over to the Ville de Paris and to the NHS, respectively. The housing companies, which earned their own income from the rents payed by the lodgers and have few employees, are still operative, both in London and Paris. So far, the similarities.

In each of the cities, these institutions addressed problems which were locally specific. In Paris, and even more so in London, Jewish immigration was significant, so they sought to improve the housing conditions for Jewish newcomers. No such initiative had been necessary in Frankfurt, where immigration had been negligible. Schooling became a top priority London, where addressing the cultural dissociation of recently arrived immigrants was a pressing issue but was less so in Paris and Frankfurt. Correspondingly, the London Rothschilds invested huge sums in the Jews' Free School, which contributed to the cultural assimilation of generations of Jewish children. We must recall that in Britain, the state was a marginal player in the field of education, at least before the 1902 Education Act. At that time, the French Republic already had most children educated in state-run institutions and was eager to extend control over denominational schools (Haus, 2009) – an ambition which must be seen against the background of the culture wars mentioned in the Introduction. If philanthropy on a large scale is located somewhere between the smaller private initiatives and state power, then the Jews' Free School offers a good example. In Britain, much more leeway was given for civic and faith commitment in education, with room for social and political manoeuvre (David et al., 2006:11).

It is commonplace to say that Britain has developed an economic liberalist tradition, whereas France has been shaped more by centralised and *dirigiste* institutions. Yet it seems that such distinctions do indeed apply to the activities of the Jewish philanthropists considered here. The charities in London were not monopolised by the single donor who founded them but were financed and managed by groups which included individuals from the Jewish middle classes. There was more open competition between charities and between benefactors, notably Nathaniel Rothschild and Samuel Montagu, and between the synagogues they supported. In Paris and in Frankfurt a paternalist mode prevailed, in which the donors ran their institutions in a very exclusive way, and this extended to the names given to the charities as well. Nonetheless, such paternalism encouraged more members of the very Jewish elite to commit themselves. The Rothschilds 'contributed to the institutionalisation of norms of conduct for an economic elite, of a bourgeoisie on the rise, which copied them, even if it was only in order to obtain an elevated standing in society' (Graetz, 1989:141).

In London, the rivalry between Rothschild and Montagu corresponded with the social and cultural rift between established Anglo-Jewry and the poorer Jewish immigrants, most of the latter from Eastern Europe. In Frankfurt, a far smaller city, where Jewish immigration was not significant and where the gap between rich and poor was less stark, the nature of the conflict among benefactors was more religious, fuelled by the animosity between liberal Reform-oriented and Orthodox Jews. In Paris, no such conflict emerged because the state-imposed uniformity of French Jewry did not allow this to happen. The centralised structure of Jewish organisations, including their charitable organisations, afforded families from the socio-economic elite – most prominently the Rothschilds – the opportunity to dominate these institutions for several generations. This favoured the paternalistic mode of running charitable institutions, in marked contrast to London.

Of course, the more liberal mode of organizing philanthropy in London was not characteristic of the Rothschilds only, but of civil society at large. It even allowed the poor to articulate their needs, and to push their own projects through. This included projects which were initially opposed by the most influential figures in the field, such as Nathanial Rothschild and Samuel Montagu.

Such examples show that charitable institutions not only serve the purposes for which they had been officially created. They may also be used as instruments in religious sectarianism, for the expression of political rivalry, for expanding one's own clientele, and thus one's own social power base, and so on. In the case of the neo-Orthodox charities which had been created in Frankfurt, the examination of the religious integrity of applicants may even be interpreted as an element of 'moral entrepreneurship', a term coined by the sociologist Howard S. Becker. Deviation from the religious rules would result in the denial of benefits. 'Deviance', according to Becker, 'is the product of enterprise in the largest sense; without the enterprise required to get rules made, the deviance which consists of breaking the rule could not exist' (Becker, 1963:162). In Frankfurt, Orthodox philanthropists combined the investment of money with moral precepts, which matched with the objectives pursued by the philanthropist as a social entrepreneur.

All these motives do not sit comfortably in with the simple view of *charity* (or philanthropy) as a form of altruistic endeavour. It is possible that *charity*, understood as purely altruistic behaviour, never took place at all. The building of hospitals and tenement blocks for the poorer citizens, both Jewish and non-Jewish, may have been motivated by a desire to counteract the sentiments against money-grabbing bankers, often intermingled with anti-Jewish sentiments. Rothschild charitable undertakings in Paris, which intensified significantly from 1900, may have been prompted by the wish to quell French anti-semitism, which witnessed a sharp increase in the late 1890s at the height of the Dreyfus Affair. Even if it is legitimate to pursue such political or personal goals with charitable commitments, the established scholarly concepts do not grasp this iridescent quality of charity. The concept of *social entrepreneurship* is obviously broader and more versatile than those of *philanthropy* and *charity*. But whether political motivations, or the intention to influence the clientele, together with a measure of self-interest really did shape the commitments of the social entrepreneurs will only be confirmed with further research.

Reference list

Adam, T. (ed.), (2004), *Philanthropy, Patronage and Civil Society. Experiences from Germany, Great Britain and North America* (Bloomington).

Adam, T. (2006), '*Buying Respectability. Philanthropy and Cultural Dominance in 19th Century Boston*'. Traverse. Zeitschrift für Geschichte 1: 29-45.

Albert, P. C. (1977), *The Modernization of French Jewry: Consistory and Community in the Nineteenth Century*. (Hannover: N. H).

Arnsberg, P. (1983), *Die Geschichte der Frankfurter Juden seit der Französischen Revolution*, 3 vols. (Darmstadt).

Becker, H. S. (1963), *Outsiders. Studies in the Sociology of Deviance* (New York).

Bensimon, D and S. Della Pergola (1986), *La population juive de France: socio-démographie et identité*. (Paris).

Black, G. (1992), *Lender to the Lords, Giver to the Poor* (London).

Black, G. (1998), *JFS: The History of the Jews' Free School, London since 1732* (London).

Black, G. (2000), *Lord Rothschild and the Barber. The Struggle to establish the London Jewish Hospital* (London).

Boettke, P. and C. Coyne (2009), '*Context Matters: Institutions and Entrepreneurship*', Foundations and Trends in Entrepreneurship 5 (3): 135-209.

Boschee, J. (1997), 'What Does It Take to Be a Social Entrepreneur?', *Not-For-Profit CEO Monthly Letter* 4 (6): 1-3.

Brubaker, R. and F. Cooper (2000), 'Beyond Identity', *Theory and Society* 19 (1): 1-47.

Callahan, D. (2017), *The Givers: Wealth, Power, and Philanthropy in a New Gilded Age* (New York).

Clark, C. and Wolfram K. (edd.) (2003), *Culture Wars. Secular-Catholic Conflict in Nineteenth Century Europe* (Cambridge).

Cannon, C. (2000), 'Charity for Profit: How the New Social Entrepreneurs are Creating Good by Sharing Wealth' *National Journal* 16 (June): 1898-1904.

David, N.G. Mazbouri and J. M. Schaufelbuehl, (2006), '*Philanthropie und Macht, 19. und 20. Jahrhundert*' (special issue). *Traverse. Zeitschrift für Geschichte* 1: 7-17.

Delalande. (2011), 'L'entrée en philanthropie des Rothschild: l'hôpital israélite de Paris (1852-1914)', *Archives Juives* 44 (1): 54-69.

Dumont, M.-J. (1991), *Le logement social à Paris 1850-1930. Les habitations à bon marché* (Liège).

Feldman, D. (2007), 'Ost-, ostmittel und südosteuropäische Juden in London seit dem späten 19. Jahrhundert'. In *Enzyklopädie Migration in Europa*, K. J. Bade, P. C. Emmer, L. Lucassen and J. Oltmer (edd.) (Paderborn).

Ferguson, N. (1998), *The World's Banker. A History of the House of Rothschild* (London).

Garside, P. L. (2000), 'The Impact of *Philanthropy*: Housing Provision and the Sutton Model Dwellings Trust, 1900-1939', *Economic History Review* 53 (4): 742-766.

Graetz, M. (1989), *Les Juifs en France au XIXe siècle : de la Révolution française à l'Alliance Israélite universelle* (Paris).

Haus, J. (2009), *Judaism, State, and Education in Nineteenth Century France: Challenges of Equality* (Detroit): Wayne State University Press.

Jacobs, L. (1995), 'Charity', in *The Jewish Religion. A Companion*, L. Jacobs (ed.) (Oxford).

Jonker, J. and J. L. van Zanden (2007a), 'Searching for Oil in Roubaix', *The Rothschild Archive Review of the Year* 2006-2007: 21-25.

Jonker, J. and J. L. van Zanden (2007b), *A History of Royal Dutch Shell*, vol. 1. (Oxford).

Kanazawa, S. (2016), '"To vote or not to vote": Charity Voting and the Other Side of Subscriber Democracy in Victorian England', *English Historical Review* 131 (549): 353-383.

Kirchheim, R. M. (1911) Verzeichnis der Frankfurter jüdischen Vereine, Stiftungen und Wohltätigkeitsanstalten. (Frankfurt a. M.): s.l.

Koblizek, R. and M. Heindl (1998), *125 Jahre Rothschild-Spital* (Vienna): Memo.

Kocka, J. and F. Manuel (ed.) (1998), *Bürgerkultur und Mäzenatentum im 19. Jahrhundert* (Berlin).

Lässig, S. (2004), '"Bürgerlichkeit", Patronage and Communal Liberalism in Germany, 1871-1914', in *Philanthropy, Patronage, and Civil Society. Experiences from Germany, Great Britain, and North America*, T. Adam, (ed.) (Bloomington).

Leadbeater, C. (1997), *The Rise of Social Entrepreneurship* (London).

Leglaive-Perani, C. (2011), 'Accordez un regard attendri au Rocher d'où vous fûtes taillé. Le judaïsme parisien et le Comité de Biefaisance israélite (1830-1930)', *Archives Juives* 44 (1): 37-53.

Leglaive-Perani, C. (2011), 'De la charité à la philanthropie. Introduction', Archives Juives 44 (1): 4-16.

Liberles, R. (1985), *Religious Conflict in Social Context. The Resurgence of Orthodox Judaism in Frankfurt*. Westport CT / London: Greenwood Press.

Matter, M. Ruoss and B. Studer (ed.) (2015), 'Philanthropie und Sozialstaat | *Philanthropy* and Welfare State' (special issue). *Österreichische Zeitschrift für Geschichtswissenschaften | Austrian Journal of Historical Studies* 26.

McCarthy, K. D. (2001), *Women, Philanthropy, and Civil Society* (Bloomington).

Morris, S. (2004), 'Changing Perceptions of Philanthropy in the Voluntary Housing Field in Nineteenth and Early Twentieth Century London', *in Philanthropy, Patronage, and Civil Society. Experiences from Germany, Great Britain, and North America*, T. Adam (ed) (Bloomington).

Morris, S. (2001), 'Market Solutions for Social Problems: Working-Class Housing in 19th-century London'. *Economic History Review* 54 (3): 525-545.

Priestley, H. E. (1969), *The Evelina. The Story of a London Children's Hospital, 1869-1969* (London).

Prochaska, F. (1992), *Philanthropy and the Hospitals of London. The King's Fund, 1897-1990* (Oxford).

Prochaska, F. (1995), *Royal Bounty. The Making of a Welfare Monarchy*, (New Haven).

Raddon, M.-B. (2008), 'Neoliberal Legacies: Planned Giving and the New *Philanthropy*', *Studies in Political Economy* 81 (1): 27-48.

Rozin, M. (1999), *The Rich and the Poor: Jewish Philanthropy and Social Control in Nineteenth-century London* (Brighton).

Schofield, R. (2002), Along Rothschild Lines. The Story of Rothschild & Railways across the World. London: The Rothschild Archive.

Stollberg, J. (1988), *Die Rothschild'sche Bibliothek in Frankfurt am Main* (Frankfurt a. M.).

Thomes, P. (2013), 'Beyond Paternalism? An Innovative German Corporate Social Entrepreneurship Model (1825-1923)', in *Old Paternalism, New Paternalism, Post-Paternalism (19th-21st Centuries)*, e by P. Thomes and H. Bonin (ed.) (Bruxelle).

Weber, K. (2004), 'One Hundred Years of the 'Bluff Rothschildien': Housing the Poor in Paris', *The Rothschild Archive Review of the Year 2003-2004*: 12-17.

Weber, K. (2005), 'Far-Sighted Charity: Adolphe and Julie de Rothschild and Their Eye Clinics in Paris and Geneva', *The Rothschild Archive Review of the Year 2004-2005*: 42-48.

Weber, K. (2011), 'La philanthropie des Rothschild et la communauté juive à Paris au XIXe siècle', *Archives Juives* 44 (1): 17-36.

Weber, K. (2009) '"Wohlfahrt ", "Philanthropie" und "Caritas": Deutschland, Frankreich und Großbritannien im begriffsgeschichtlichen Vergleich', in *Religion und Philanthropie in den europäischen Zivilgesellschaften. Entwicklungen im 19. und 20. Jahrhundert*, R. Liedtke and K. Weber (Paderborn).

Weber, K. (2017), 'Nathaniel Mayer, First Lord Rothschild', in *Great Philanthropists: Wealth and Charity in the Modern World, 1815-1945*, P. Mandler and D. Cesarani (ed.) (London).

Windecker, D. (1990), 100 Jahre Freiherr Carl von Rothschild'sche Stiftung Carolinum (Berlin).

British building societies 1970-2010 The changing conditions for a viable not-for-profit alternative in a financialised economy

Olivier Butzbach[1]

Author's biography

Olivier Butzbach is a Senior Researcher in Economics at the Department of Political Science of the University of Campania 'Luigi Vanvitelli' (Italy). He holds a PhD from the European University Institute. Olivier's main research interests are in the fields of alternative banking, comparative capitalism, comparative financial systems, institutional and organization theory. In particular, Olivier studies the impact of institutional and non-institutional factors on the evolution of not-for-profit banking systems throughout the 19th and 20th centuries, in countries such as France, Italy and the United Kingdom. He is also interested in theoretical discussions about the interrelationships between organizational fields, populations, and institutional logics. He is the author of multiple publications on these themes, notably in journals such as Organization Studies, Business History, Accounting, Economics and Law: A Convivium, Politics and Society, the Brazilian Review of Political Economy and Schmollers Jahrbuch. Together with Kurt von Mettenheim, he has edited a volume on Alternative Banking and Financial Crisis for Routledge in 2014.

1 Department of Political Science, University of Campania 'Luigi Vanvitelli'; olivierkarl.butzbach@unicampania.it

Abstract

Are not-for-profit financial institutions viable in contemporary financial economies? Building societies—mutual financial institutions specialised in mortgage lending—reached a dominant position in British retail finance during the 1970s. But only thirty years later they had been relegated to the margins of the British financial system. This decline has been attributed to the demutualization of the largest building societies in the 1990s, and a 1986 legal reform that authorized conversions to plc status. The fate of British building societies does not, however, merely reflect the difficulties experienced by not-for-profit financial institutions when exposed to full-fledged competition with for-profit banks, as was the case in the UK in the 1980s and 1990s. It also illustrates, more generally, the destiny of organizational diversity in the financial and banking sectors in a context of increased financialization.

This analysis of the decline of British building societies aims to uncover the broader conditions that made the 'alternative path' embodied by building societies less viable between the 1970s and 1990s. To do so, the paper draws on theories of institutional change and analyses archival data that shows the transformation of the regulatory environment during that period.

Keywords

Building societies, not-for-profit financial institutions, organizational change, institutional change, path dependency, isomorphism

British building societies 1970-2010
The changing conditions for a viable not-for-profit alternative in a financialised economy

Introduction

In the 1970s British building societies—mutual financial institutions specialized in mortgage lending—enjoyed a near total monopoly of the mortgage market in the UK. (For example, in 1978 they represented 82% of balances outstanding on mortgage loans in the UK.) Almost two thirds of the British population were building society members, and the shares they held in them accounted for a significant portion of national household savings. (For example, they collected 27.8% of the total financial assets of UK households in 1975.) In 2018 there were still forty-four building societies in operation in the UK. At this stage they were still mutual, not-for-profit financial institutions, in keeping with the original vision developed by the building society movement two hundred and forty years before. This changed as building societies came to be relegated to the margins of the British market for domestic credit. By the early 2000s they held less than 20% of outstanding mortgage loans and only about 20% of British current accounts. What contributed to this decline? And why does it matter?

The answer to the first question seems straightforward: the largest building societies demutualized in the 1990s, thus depriving the industry of three fourths of its total assets (see table 2). Demutualization, or privatization, that is the conversion of mutual building societies into public limited companies (plcs), was authorized by the Building Societies Act in 1986.

One might argue that the decline of the building society industry resulted from a combination of liberalising reforms and strategies formulated by the largest societies in response to mounting competition in the British financial market. However, this fails to explain why dozens of societies chose to remain mutual, and it ignores long-term changes within the building society industry that, starting in the early 1970s, paved the way for its upheaval in the nineties. These longer-term changes are the focus of the present paper. Rather than seeing demutualization as an idiosyncratic phenomenon driven by contingent causes, this case study draws attention to broader, long-term factors such as the sharp decline in organizational diversity in British banking, linked to the growth of financial capitalism in the 1970s.

It is hardly surprising that the issue of banking diversity has been extensively debated in Britain (see, for instance, Michie, 2011; Michie and Oughton, 2013; Casu and Gall, 2016). Organizational diversity may be defined as the coexistence, within a given economic system, of a variety of organizational forms, pursuing a variety of goals and catering to a variety of social and economic needs. In other words, banking diversity consists of the presence within a given banking system of not-for-profit mutual banks, which operate alongside for-profit commercial banks, and compete with them on significant segments of financial markets. Thus, the existence of a sizeable and significant building society industry in twentieth century Britain, served as an index for banking diversity.

It follows that a decline in diversity indicates a decreasing variety of organizational forms. For instance, in the case that concerns us here, declining banking diversity corresponds to the near or complete extinction of organizational forms other than for-profit commercial banking. Banking diversity matters for a variety of reasons: its reduction has far-reaching consequences and has been widely credited with increasing systemic risk in British finance in the run-up to the 2007-08 global financial crisis (Butzbach, 2016).

Why then, did such a decline occur in British banking? An immediate answer would point to the 1986 regulatory reform cited above, and its effects. However, this paper traces the decline in the building societies industry and, ultimately, the decline in banking diversity in the United Kingdom, to the emergence and growth of financialization. Financialization describes the form of macro-institutional change that leads to a revaluation of financial capital throughout the economy (Krippner, 2012; Godechot, 2016; Van der Zan, 2014). Financialization, of course, has not only been experienced in the British economy: it is a global phenomenon, which has manifested itself in advanced economies through the continuous expansion of finance and financial markets during the past forty years (Krippner, 2005 and 2012). An important trend in financialization scholarship stresses the impact of financialization on the norms guiding corporate strategy (Van der Zan, 2014). In this view, financialization is linked to major shifts in the orientation of firms' corporate governance towards the pursuit of shareholder returns (Aglietta, 2000). In particular, there is empirical evidence that financialized firms tend to focus on short-term financial returns instead of long-term sustainability (Lazonick, 2012).

The argument presented here is that financialization increased pressures that made banking and financial firms more and more alike, or isomorphic. These isomorphic pressures led to a decline in mutualism embodied until the 1980s by building societies.

The paper is organized as follows: section two describes the transformation of the building sector industry over a forty-year period (between 1970 and 2010); section three presents the theoretical framework, data and methods used in the present study; section four investigates the rise in isomorphic pressures in British banking and finance between the 1970s and 1980s; section five addresses the collective institutional response of building societies to such pressures and the lack of counterbalancing forces, by analyzing regulation and self-regulation within the building society industry; section six concludes.

Building societies, 1970-2010: From core to periphery of British finance

Shifts in competitive position

In the early 1970s British building societies dominated the mortgage market. Table 1 shows British mortgage lending market shares held by the various categories of lenders active in that period: building societies, banks, and other lenders. The data refers to mortgage balances outstanding and shows that societies held a very substantial market share throughout the decade, reaching a peak of 82% in 1978.

Table 1. Market shares of building societies and competitors in mortgage lending market (balances outstanding)

	Building societies		Banks		Others		Total
	£m	Share	£m	Share	£m	Share	£m
1970	8,810	76.5%	415	3.6%	2,293	19.9%	11,518
1971	10,410	78.0%	505	3.8%	2,429	18.2%	13,344
1972	12,625	78.3%	850	5.3%	2,644	16.4%	16,119
1973	14,624	77.1%	1,160	6.1%	3,182	16.8%	18,966
1974	16,114	75.4%	1,250	5.8%	4,020	18.8%	21,384
1975	18,882	75.0%	1,320	5.2%	4,959	19.7%	25,161
1976	22,500	77.7%	1,400	4.8%	5,060	17.5%	28,960
1977	26,600	80.1%	1,520	4.6%	5,102	15.4%	33,222
1978	31,712	82.0%	1,790	4.6%	5,155	13.3%	38,657
1979	36,981	81.9%	2,380	5.3%	5,805	12.9%	45,166
1980	42,696	81.4%	2,880	5.5%	6,865	13.1%	52,441

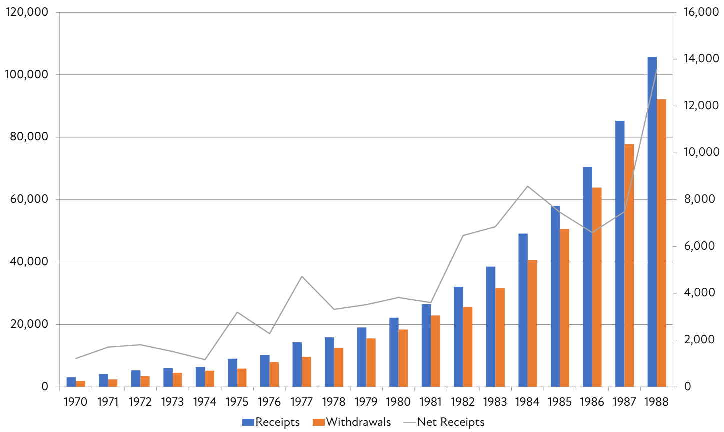
Source: Bank of England; Mortgage Compendium, 1997.

In the seventies and for much of the eighties, building societies held a significant chunk of British household savings. Between 1970 and 1988 building societies experienced a continuous increase in total receipts (new retail funds and interest credited), which, combined with a parallel but lesser increase in withdrawals, led to a continuous rise in net receipts (see fig.1.). The 'Wilson Committee',[2] which was set up in 1976 by the British government to 'review the functioning of the financial institutions' in the United Kingdom, produced a comparative assessment of the competitiveness of British financial institutions in the 1970s. The Committee found that in 1970 building societies had held 28.9% of the domestic sterling deposit market as opposed to 41.4% held by the banking sector, but that by 1978 building societies had increased their market share to 37.8% in contrast to 42.1% held by banks (House of Commons, 1980; Moore, 1981).

However, the strong position of building societies in key segments of retail financial markets underwent significant decline in the late 1980s, and more significantly during the 1990s. In the mortgage lending market, new forays by banks unburdened by the restrictive regulations imposed by monetary authorities in previous decades slowly eroded societies' market shares (fig. 2).

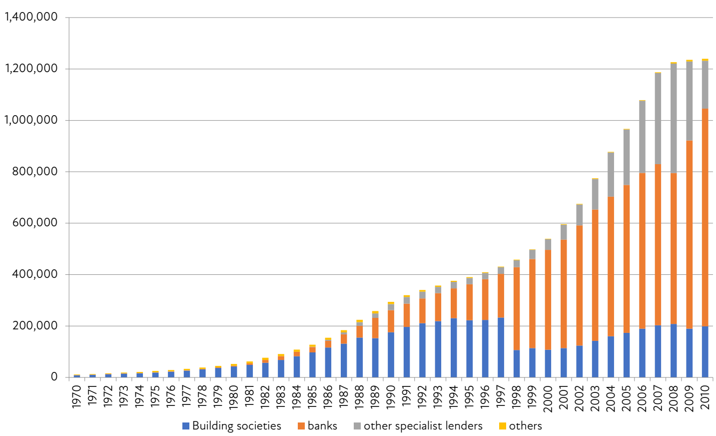
2 The 'Committee to Review the Functioning of Financial Institutions'.

Figure 1. Building societies' retail funding, 1970-1988
(in £m; net receipts measured on right hand axis)



Source: Building Societies Association; Bank of England

Figure 2. Mortgage balance outstanding by lending institutions, in £million

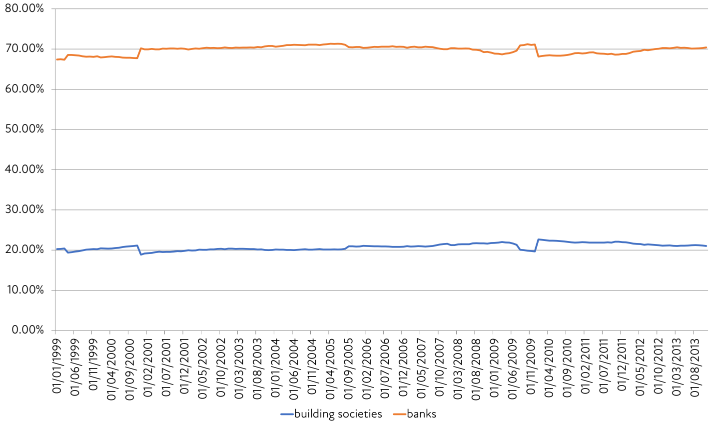


Source: Bank of England

This erosion accelerated in the late 1980s and late 1990s due to the transfer of the mortgage assets of demutualised societies.

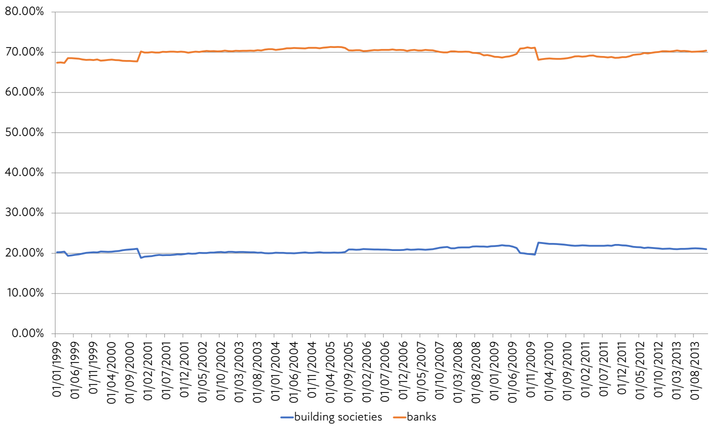
By 2000, the relegation of building societies from the core to the periphery of the British financial system was complete. From this point onwards building societies maintained a small but steady market share of both the retail deposit and mortgage lending markets (fig. 3 and 4). Out of

Figure 3. Retail deposit bilance outstanding market shares, 1999-2013



Source: Bank of England

Figure 4. Gross mortgage lending market shares, 2002-2012



Source: Building Societies Association

the forty-four building societies in operation in the UK in 2019 the five largest societies had come to hold, by that year, 89% of the industry's total assets. Nationwide, the UK's largest active building society, held alone 57% of all building societies' total assets in 2018. Most building societies are much smaller...[3]

3 The concentration of the industry has been a long-lasting feature of building societies since the beginning of the twentieth century. In the thirties, Bellman observed that over 75% of societies had mortgage assets of less than £100,000 while 1% of societies had mortgage assets exceeding £5,000,000 (Bellman, 1933).

Shifts in structure

As mentioned above, a major factor in the marginalisation of building societies during the 1990s and 2000s was the demutualization of the largest societies. The possibility to demutualize, that is to convert to public limited company (plc) status, was opened up to building societies, for the first time in their history, by a legal disposition of the 1986 Building Societies Act. Table 2 lists the building societies that underwent demutualization after the 1986 reform, indicating the weight of converted societies in terms of their share of the sector's total assets in 1988.

Table 2. Conversions of building societies

Building society	Year of con-version	% of 1988 BS assets	Subsequent moves	Recent changes
Abbey	1989	17%	Taken over by Banco Santander in 1994	Rebranded to Santander in 2010
Cheltenham and Gloucester	1995	4%	Taken over by Lloyds Bank in 1995	Transferred to TSB in 2013 split, then sold to Spanish bank Sabadell. Ceased to exist as a trading name.
National and Provincial	1996	4%	Taken over by Abbey national, part of Santander Group, in 1997	Ceased to exist as a trading name.
Halifax	1997	27%	Merger with Leeds Permanent in 1995; merged with Bank of Scotland to form HBOS in 2001	HBOS taken over by Lloyds Banking Group in January 2009
Woolwich	1997	8%	Taken over by Barclays Bank in 2000	Ceased to exist as a trading name.
Alliance & Leicester	1997	6%	Acquired by Santander Group in 2008	Rebranded as Santander in 2010
Northern Rock	1997	2%	Nationalized in 2008	Split and sold to Virgin Money in 2011
Bristol & West	1997	2%	Acquired by Bank of Ireland in 1997	Assets successively transferred to Britannia. Now re-branded to Co-operative bank
Birmingham Midshires	1999	1%	Acquired by Halifax in 1999.	Part of Lloyds. Ceased to exist as trading name.
Bradford and Bingley	2000	4%	Part-nationalized in 2008; sold to Abbey (Santander Group)	Rebranded to Santander in 2010

Source: Building Societies Association; Author.

The 1986 Act changed the approach to regulation that had been followed since the 19th century. First, the Act enabled building societies to diversify the range of banking products and services on offer: they were able to conduct foreign exchange transactions and offer insurance services and real estate advisory services. Second, the Act authorized building societies to rely on wholesale money markets for up to 20% of their total funding (later this ceiling was raised to 40% of total funding). A subsequent review of the Act in 1987, entitled the 'Schedule Review', enabled building societies to buy life assurance companies, own up to 15% of a general insurance company, offer full fund management services and a wider range of banking services. Finally, as mentioned above, the 1986 Act enabled the conversion of building societies into plcs, and thus paved the way for the transformation of (some) building societies into full-fledged banks.

Abbey National was the first building society to convert to bank status, becoming a plc in June 1989. The next societies to demutualize did so a few years later. But in the meantime, the struggle continued, with the senior management of large building societies demanding regulatory changes, in particular the end of specific regulations which put them (they argued) at a disadvantage when competing with banks. While banking regulation gave banks freedom to choose the activities they wished to engage in, provided that they acted in accordance with the Law, building societies' operations were constrained by specific regulations. This imbalance led to the takeover, in April 1994, of the recently demutualized Cheltenham and Gloucester building society (the sixth biggest building society measured by total assets) by Lloyds Bank, despite a series of protective measures attempted by its senior management; the merger between the Halifax and Leeds Permanent building societies (respectively first and fifth largest societies) which became a bank in November 1994; the takeover of National & Provincial Building Society (the ninth largest society) by Abbey National, announced in July 1995; and the conversion to plc status by Woolwich (the third largest society), Alliance & Leicester (the fourth largest society), and Northern Rock (the tenth largest society) in 1996. That same year Bristol & West (the twelfth largest society) was taken over by the Bank of Ireland.

Finally, in March 1996 the Major government announced new draft legislation (rushed into a law before the May 1997 elections) that raised the ceiling of building societies' reliance on wholesale funding to 50% and allowed societies to make up to 25% of their loans outside their traditional area of specialization: mortgage lending. In 1997 the conversions announced in 1996 took effect—the fragmentation of the sector was complete.

As mentioned above, the decline of the British building societies appears to have stemmed from straightforward causes: the largest organizations took the opportunity afforded by the 1986 Act to bypass strict regulations governing lending and funding by converting into for-profit banks. However, this fails to explain why only some societies chose to become banks after 1986 while other large societies, such as Nationwide, chose to remain mutual. Demutualization was not inevitable but remained a strategic decision.

There were contingent factors that contributed to demutualization. Many observers have shown how corporate managers succumbed to empire-building temptations (demutualization being seen as the preliminary step to a rapid growth strategy) or were tempted by carpetbaggers interested in potential windfall gains from conversion (see Cook et al., 2002). In fact, Nationwide narrowly escaped demutualization in 1997, when ordinary members outvoted 'carpetbaggers' (speculative investors) in a general assembly meeting, thus fending off the risk of conversion.[4]

However, other more structural causal factors were also at play. Conversion was linked to the long-term transformation of the building society sector and to the growing importance of the market economy within British capitalism from the 1970s onwards, which helped to establish the parameters of organizational change within finance and banking in the UK. Such dynamics may better be understood within the framework provided by theories of institutional change and organizational path dependence, presented in the next section.

Thinking about the group dynamics of organizational change: paths and isomorphism

Path-dependence, the 'building society path', and isomorphic pressures

A now well-established tradition in the social sciences explores the path-dependent nature of organizational change.[5] Path dependence indicates the persistence over time of a particular organizational form (Schreyögg & Sydow, 2011). This means that the longer an organization retains a certain form the greater the likelihood that it will continue to follow this 'path': that is, retain a particular form over time. Such a self-reinforcing mechanism is sustained by 'increasing returns': that is, the perceived cost of switching to an alternative organizational model (Arthur, 1989; Pierson, 2000). Increasing returns cause 'lock-ins', where change is perceived to be difficult and costly. Thus, in path-dependent organizations, change can only originate from external conditions—what Vergne and Durand call exogenous shocks (2010).

4 See https://www.independent.co.uk/news/business/nationwide-carpetbaggers-sent-packing-1252269.html

5 Early path-dependency theory was conceived to explain the processes of adoption and diffusion of technology (see David, 1985; and Arthur, 1989). In his seminal article, David analyzed the path-dependence of the QWERTY keyboard layout. David explained that despite its relative inefficiency, this layout was successfully adopted by all computer producers because it was the first standard that appeared in the market. The more producers adopted the standard, the more it became entrenched, thus generating increasing returns or positive feedback.

One can analyse the decline of the building society movement by focusing on the conditions that determined the persistence of a traditional path during the nineties when many of the largest societies chose to abandon this model. The simple hypothesis is that the demutualization of certain building societies was prompted by decreasing returns to the traditional path.

What is the traditional path we have in mind here? The original mission of building societies was stated clearly in a document accompanying the 1838 Building Society Act, 'Instructions for the establishment of benefit building societies, with rules and forms of mortgages, &c. applicable thereto'. This stated that building societies could be established 'for the purpose of raising by monthly or other subscriptions [by members…] a stock or fund for the purpose of enabling each member thereof to receive out of the funds of such society the amount or value of his or her share or shares therein, to erect or purchase one or more dwelling house or dwelling houses […] to be secured by way of mortgage' (Price, 1958:29). So, building societies were specialized financial institutions dedicated to mortgage lending. However, building societies were also savings institutions and in that respect very similar to other non-profit banks that developed the UK and continental Europe during the 19th century.

This mission translated itself in a number of operational and organizational characteristics: (i) their non-profit objective; (ii) their equal treatment of investors and borrowers; (iii) the high level of trust they elicited among the population; (iv) their governance, typical of cooperative firms. A first characteristic of building societies has been (to this day) their non-profit-maximizing objective. As stated in the 'Instructions' cited above, 'no member shall receive or be entitled to receive from the funds of such society any interest or dividend by way of annual or other periodical profit upon any shares in such society.' Societies would not seek to maximize profit, but they would earn profit, albeit in a sustainable way. The prospectus for a large building society in the late 19th century explained that building societies earned profit by 'the constant return and re-investment of Funds, resulting from the system of monthly repayments, and not by charging an excessive rate to borrowers' (Platt, 1877:3).

The mission of building societies, and the operational consequences of this mission, held true until the 1960s. Two of its three components (specialization in mortgage lending, reliance on share funding) would be repeatedly reaffirmed in building societies legislation, even after the 1986 reform. This is why it is reasonable to speak of a path of organizational development. Yet path dependence theory helps us understand the historical transformation of the building societies industry only if we make three modifications to the theoretical framework summarised above. First, increasing returns cannot be identified with material rewards: rather, organizations may succeed or fail, thrive or decline, depending on their continued or renewed legitimacy, and whether they conform to rules that are consistent with their institutional environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1991; Beckert, 2010). Second, increasing returns may be assumed to be contingent upon the state of shared expectations. In other words, increasing returns to the traditional building society model could be generated as long as most actors within the movement shared an expectation that this model would hold true in the future. Third, lock-in is contingent upon both the tightness of the environment and the degree of fitness of a particular organization with this environment. ‘Tightness of the environment’ is a notion drawn from evolutionary economics and refers to the way that organizations with very different characteristics can co-exist within a specific economic, competitive and regulatory environment. Tighter organizational environments are environments that do not permit organizational diversity. ‘Degrees of fitness’ is a complementary notion that indicates the degree to which an organization’s characteristics corresponds to the selective forces within that environment. The causal relationship between the degree of lock-in and these two variables is uncertain; it depends on the way they are combined. If the environment is very tight and favours organizations of type A, A-type organizations will exhibit strong lock-in effects, while B-type organizations will not, since they will not fit. But if the environment is loose, both types may exhibit strong lock-in effects.

We may draw on the insights of the ‘population ecology of organizations’ model first introduced by Hannan and Freeman in a 1977 article. In that work, Hannan and Freeman showed that previous studies of organizational change had overemphasized individual organizational adaptability, underestimating the limiting effects of structural inertia upon adaptability, and the effect of selection processes at the population level (Hannan and Freeman, 1977 and 1984). By contrast, Hannan and Freeman proposed to draw on Hawley’s isomorphism hypothesis, (i.e. the hypothesis that in a state of ‘equilibrium’ an environment would only contain one organizational form that would be ‘optimally adapted to the demands of [this] environment’, ibid. 1977:939) by stressing that ‘the fact that the principle of isomorphism neither speaks to issues of optimum adaptation to changing environments nor recognizes that populations of organizations often face multiple environments which impose somewhat inconsistent demands’ (ibid. 1977:939).[6] Isomorphic pressures, within this perspective, are directly related to the tightness of the environment faced by organizations.

6 Hannan and Freeman did allow for polymorphism only when the organization’s environment is characterized by ‘coarse-grained’ and uncertain variation – because, they imply, it is rational for organizations to adopt forms of specialisation that fit different states of the environment (1977 and 1984). But it is clear that polymorphism here is conceived at organizational level, not at population level.

A tentative conceptual framework

Building on these various strands of theory, one may propose to explain the decline of building societies within British finance through the following framework.

A. Path boundaries, increasing and decreasing returns

In the framework presented here, organizations operate within paths that constrain their evolution over time. The main mechanism of path dependence is the existence of increasing returns. Such increasing returns are not necessarily monetary. They are also symbolic, and express the legitimation received by organizations who choose to stay within a given path. Such legitimation provides organizations with symbolic resources and protection from outside threats. In the case of British building societies, staying in the building society movement offered regulatory protection, leaner taxation, the absence of price competition (given both the absence of bank competition until the late 1970s, and the existence of a cartel on interest rates), access to the flow of information within the movement, and the strengthening of societies' recognition by members and stakeholders.

But this lock-in did not last. In fact, given the significant institutional determinants of increasing returns, a change in the institutional environment led to changes in such returns – leading to decreasing returns in certain cases. Decreasing returns to the path occur when the benefits (symbolic and economic) associated with the path fall below the costs. These costs may be (and were, in the British case) the tight limitations on building societies growth entailed by specific regulations, which, in a context of growing competition with banks, represented to some building societies actors a competitive disadvantage.

B. Changes in the tightness of environment

The changing degrees of environmental tightness are an important determinant of isomorphic pressures in an organizational field (see DiMaggio and Powell, 1991). These changes, can be analysed in the case of finance and banking as the institutional changes associated with financialization. Financialization entails a radical overhaul of the monetary, regulatory and competitive environment faced by financial institutions. Such an overhaul can be characterized by (i) the de-segmentation of banking and finance through regulatory reform and (ii) the homogenization of norms in governance and strategy of organizations in that field. In other words, the environment building societies faced in the 1970s and 1980s became much tighter, entailing both the weakening of sectoral boundaries and intensifying isomorphic pressures, which contributed to decrease returns to the traditional path followed by building societies hitherto.

C. Weak or absent counterbalancing factors

Until this point, the increasingly tight environment and the stronger isomorphic pressures faced by building societies had been counterbalanced by the existence of sectoral mechanisms that had guaranteed the cohesion of the building societies industry. However, such counterbalancing forces would no longer prove strong enough—soon they became vehicles for isomorphic pressures rather than obstacles to it.

The rise of isomorphic pressures in British banking: The 1970s and 1980s

Shifts in monetary policy and financial regulation: towards a tighter environment

During the 1970s and 1980s a key change in the external environment of building societies was monetary policy. As Krippner has shown in her analysis of the political drivers for financialization, there are marked similarities between the UK and the US here (2012). In the UK, the 1970s brought the end of financial repression (Turner, 2014). The publication of a major consultative document entitled 'Competition and Credit Control' (CCC) by the Bank of England in 1971, signalled a fundamental shift in monetary policy (Collins, 1988).

During the decades after the War, monetary authorities relied on various techniques for credit control—techniques that involved quantitative restrictions on bank lending and borrowing, and the control of bank liquidity. Instead, the CCC advocated 'a shift from discriminatory, quantitative techniques to more generally applicable controls relying heavily on changes in the price of credit, in the rate of interest.' (Collins, 1988:489) The Governor of the Bank of England justified the change in monetary policy by calling for the 'price mechanism to function efficiently in the allocation of credit', declaring that the goal was 'to free the banks from rigidities and restraints which have for far too long inhibited them from efficiently fulfilling their intermediary role in the financial system.' 'At the same time,' the Governor added, 'it is hoped that these changes will favour innovation and competition in the financial system.'[7]

This move was not wholly unanticipated. It drew on lingering dissatisfaction—within the Bank of England as well as the government—with existing monetary policy. First, the Bank's commitment to supply funds to London discount houses meant that the Bank lost control over the supply of liquidity in the economy—hence the resort to direct control over joint-stock banks' supply of liquidity. Second, there was an inconsistency between the Bank's key role on the market for government debt, and the growing need for flexible interest rates linked to the Bank's role in the formation of economic policy (Collins, 1988).

7 Bank of England Quarterly Bulletin, June 1971:198.

CCC was the first step towards making monetary policy more market oriented. Other changes followed: exchange controls were lifted in 1979; in 1980 the Thatcher government eliminated the 'corset'— the Supplementary Special Deposit Scheme introduced to curb bank lending; and, in 1981, the reserve asset requirement (the requirement that banks hold at least 12.5% of their deposits in a specified range of liquid assets) was abolished. These changes constituted a systemic transformation to banking regulation that led to the emergence of a 'modern' regulatory state. As described by Michael Moran, regulation changed from being 'unorganised, uncodified, and unjuridified' to a 'more formally organized, more elaborately codified, and more legally bound and state-controlled' system (Moran, 2003:69).

Changes in building societies regulation: Towards the 1986 Act

Between 1968 and 1986 there were no significant changes to building society legislation. The formation of a Conservative government in 1979 with a strong pro-market economic policy agenda marked a turning point, yet for many building societies this change would not make itself felt for several years. At the 1982 annual conference of the Building Societies Association, the Chancellor of the Exchequer, Sir Geoffrey Howe, told the conferees that

> 'the two fundamental questions of your accountability and whether you can afford to continue in your traditional role as a single product business appear to be pressing ever more insistently for an answer'.[8]

It is interesting to note that he did not refer to the major change represented by the 1986 reform, i.e., the possibility offered to societies to convert to plc status. His comments do epitomize, however, the general attitude of British lawmakers with regard to building societies over the period.

Altogether, the transformation of the regulatory and monetary environment faced by building societies in the 1970s did not merely represent an exogenous shock, following the traditional path-dependent model of organizational change; they created a new playing field—a new meta-organizational field—where banks and building societies both belonged, thus favouring the isomorphic pressures conceptualized by neo-institutional theories. These pressures alone, however, cannot explain the diminishing returns to the building society path, referred to above. The latter can be better understood as the outcome of a new normative environment within the building society industry itself. It is to the latter that the analysis now turns.

8 Chief Registrar's Annual Report 1982:34.

The failure of counterbalancing forces

The new regulatory and monetary environment emerging in the 1970s and early 1980s created isomorphic pressures that prompted managerial reactions within the building society movement: some asked that regulatory restrictions on assets and liabilities be lifted so they might compete with banks with access to capital markets for their funding. This led to a 'contested struggle, in the process of which the movement fragmented' (Marshall et al., 1997:274). An outcome which would only become evident in the late 1990s. In the meantime, the forces that could offset isomorphic pressure weakened.

An accommodating shift in sectoral norms: Changes in regulatory moral suasion

Far from expressing resistance to the isomorphic pressure created at the regulatory and monetary level, sectoral institutions seem to have accommodated normative transformation during the 1970s and 1980s—compounding financial markets desegmentation by legitimizing a shift in strategic priorities. Such transformation can be observed at two levels: (a) at the level of sectoral self-regulation exercised by the Building Societies Association; (b) at the level of sectoral regulation conducted by the dedicated regulatory authority, the Chief Registrar (and its successor, the Commission for Building Societies Regulation). Both levels had shown a gradual opening up to the idea of competition with banks, to alternative funding sources, and to a broader range of investment opportunities.

Until 1986, building societies were supervised by the Chief Registrar of Friendly Societies. He oversaw the Registry, a state agency reporting to the Treasury. The post of Chief Registrar was created in the first half of the 19th century and was typically held by a barrister appointed by the government[9] who certified the constitutive rules of friendly societies and cooperative organizations of which building societies (and trade unions) were part. The title indicated his responsibility for the 'Registry' of friendly societies, which following the Friendly Societies Act of 1875 was brought within the authority of the Treasury. The Chief Registrar's duties and prerogatives towards building societies, friendly societies and trade unions were gradually extended during the 19th century and the first half of the 20th century. With respect to the building societies, the Chief Registrar's powers by the late 1960s included:

i. The examination and approval of building societies' constitutive rules (and amendments to these rules) submitted by societies upon registration;

9 This tradition lasted until the late 1970s when, for the first time, the new Chief Registrar was chosen among the Treasury's top civil servants – and not among barristers.

ii. An inspection power, and a power to diligent inquiries in case of presumed irregularities in the conduit of an individual society;
iii. A prescriptive power relative to the official documents (accounts and financial data) that each society should provide every year;
iv. A power of withdrawal of license to operate (exclusion from the Registry).

In addition, the Chief Registrar had the jurisdictional power of arbitrage in conflicts between societies and their members, and a right to control the correctness of amalgamations and transfers of engagements between societies. Dating back to 1838, the Chief Registrar held the responsibility for issuing 'model rules' for building societies. The 1986 Building Societies Bill transferred all of the Chief Registrar's regulatory and monitoring powers to the newly created Building Societies Commission.

In the 1860s, the Chief Registrar had been required to produce an annual report to be transmitted to Parliament. As of 1875, a separate section of this report covered building societies, including, statistical information about societies and the Chief Registrar's observations about the industry, beyond the summary of his regulatory activities. This is where the Registrar operated a sort of 'moral suasion', de facto shaping the normative environment of societies by making aspects of their behaviour and strategy more or less legitimate.

What is of interest here is changes to the remit of such moral suasion. Throughout the 1970s, the Chief Registrar's annual reports repeatedly confirmed the special identity of building societies, thus legitimizing the 'traditional path' and strengthening sectoral boundaries. In the 1977 report, for instance, the Chief Registrar praised the high investment stability offered by building societies to members thanks to the 'large holdings of liquid funds and investments for "stabilization" purposes'.[10] These policies 'are in part a reflection of the fact that BS are mutual organizations with a continuing sense of social purpose. Those who direct and manage them—in the larger societies as well as in the smaller ones—still remain remarkably conscious of the responsibilities to members which this structure and purpose entail; and it could well be this fact, together with the quality of the service which they give to members, which has added so much to the strength of the movement in recent years.'[11] Nevertheless, the Registrar warned that, with the growth of building societies, it had become 'increasingly difficult to maintain the interest, cohesion and sense of participation of members.'[12] A couple of years later, the Registrar praised building societies for the 'soundness of their form of organization and management'.[13]

10 Chief Registrar's Annual Report 1977:2.
11 *Ibid.*
12 Ibid.:4
13 Chief Registrar's Annual Report 1980:3.

However, it was during this same period that the Registrar began to insist that building societies be more reactive to market conditions. In the 1978 Annual report, for instance, one can read that 'the need to compete with other deposit-taking institutions for investors' funds requires that building societies pay close attention to the movement in interest rates generally.'[14] And, in 1981,

> 'The increased competition and its consequences have direct implications for the direction and management of societies, and so for the Registry's prudential supervision of societies. The form and intensity of competition from outside the movement will undoubtedly vary from time to time: reduction in clearing bank lending for home purchase in the latter part of 1982 is one example. But it seems extremely unlikely that there will be a return to the second half of the 1970s when the movement faced little competition. In particular the ending of direct monetary controls means that the possibility of an increase in competition from the banks will always have to be allowed for by societies when taking decisions – particularly on interest rates and margins.'[15]

Self-regulation by the Building Societies Association: from prescriptive to informative

The Building Societies Association (BSA) was created in 1869 by a dozen building society representatives in the context of increasing legislative activity concerning taxation (Price, 1958). Initially deprived of permanent staff or headquarters, the BSA rose in importance as Parliament passed a series of Bills reforming the monitoring and supervision of societies, especially in 1874 and 1894—Bills that the BSA contributed to through its proactive lobbying of MPs and the government (Price, 1958).

During the interwar period, the BSA underwent a significant evolution, especially regarding the self-regulatory activities examined below. Between 1922 and 1926, the mandate of the Association was broadened: from relations with Parliament to marketing, and more generally any matter pertaining to the functioning of building societies. In addition, the BSA acquired a permanent headquarters, with permanent staff. It was significant that the Association equipped itself with the power to exclude members. Finally, and most importantly, by 1936 the BSA (through its Executive Council) started issuing self-regulatory norms called circular letters to its members.

14 Chief Registrar's Annual Report 1978:32.
15 Chief Registrar's Annual Report 1981:12.

The BSA produced a total number of 3,456 circular letters between 1936 and 1986—the total number reaches 5,597 if we include the next fifteen years, until 2001. Regardless of the fluctuations in the number of circular letters produced each year, the total number illustrates the extent of the self-regulatory power exercised by the BSA. The regulatory/prescriptive character of circular letters was compounded by the self-citations (circular letters citing other circular letters) that were more and more frequent in the decades after 1936 and the explicit constitution of a normative corpus through, from 1950 on, the yearly actualization of the index of the circular letters still in use. It is important to note the shift in the deontic[16] content of circular letters in the 1970s. Between the mid-1950s and the late 1970s, while the annual number of circular letters remains stable, the subject matter covered by circulars gradually expands. In addition to the explicitly prescriptive circular letters mentioned above, a growing number of circular letters present statistical information about societies' activities. This becomes a regular feature after 1960 with the publication of monthly statistics. A general information bulletin on building societies is introduced in 1960.[17] Finally, economic and financial information (for instance, the analysis of changes in Bank of England's rates) is treated with increasing regularity.

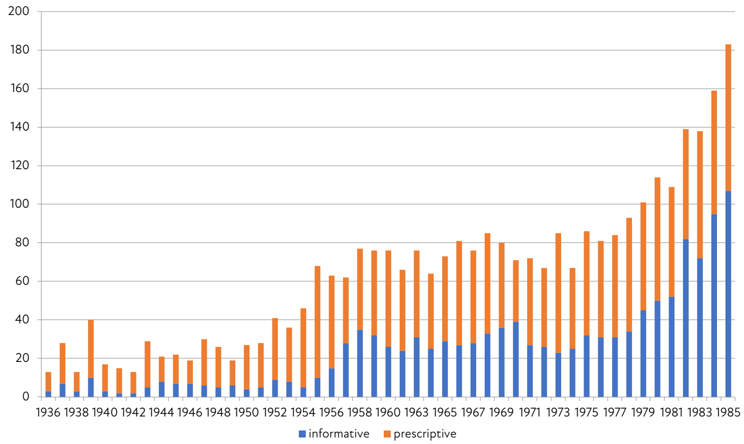
The growth of informative circular letters, in contrast to prescriptive ones, became ever more significant between the late 1970s and the mid-1980s. This was a period when the total number of circular letters produced by the BSA increased sharply. The rising volume was almost entirely due (as figure 5 shows) to the multiplication of circular letters that aimed to provide BSA members with information on building societies' competitive and regulatory environment—an environment under rapid transformation at the time. The key environmental change was the break-up of the interest rate cartel in 1983, and the legislative reform of 1986, which determined (or accelerated) the dismemberment of the building societies movement.[18] The topics covered by BSA circular letters during this period reflect this transformation. One should stress, in particular, the multiplication of circular letters that advise building societies on their lending policies and inform them of new funding opportunities; and the inauguration, from 1983 onwards, of 'Political Briefs' and 'Marketing Briefs' that were issued regularly (roughly a dozen of each kind per year).

16 Deontic content refers to the various types and degrees of prescriptions contained in the circular letters.

17 One should note that during the period under consideration, the BSA has diversified the means of its institutional communication with members: in addition to circular letters, the BSA also sends out information letters starting in the early 1950s, for instance. It is thus significant that it chooses to diffuse statistical information through circular letters – as if to bestow officialdom to flows of information.

18 Through the demutualisation of larger societies, starting with Abbey in 1989.

Figure 5. "Informative" versus "prescriptive" BSA circular letters, 1936-1986



Source: BSA; Author.

Conclusions

The evidence presented above shows that in the years prior to the 1986 reform, which paved the way for the demutualization of large building societies and the peripheralization of the British building society industry, significant changes altered the broad environment in which societies operated and the viability of the traditional path embraced by societies since the 19th century. At the level of the British financial system as a whole, the shifts in British monetary policy epitomized the political bases of financialization examined in the literature (Krippner, 2012), leading to a de-segmented banking system where banks were free to compete with societies (and other financial institutions). This, in turn, generated strong isomorphic pressures. As long as societies were 'protected' (or 'restricted') by their legal status (that is, until 1986), these isomorphic pressures could not lead to a change of path, even for the largest societies, eager to compete with banks on a more equal basis.

However, the purpose of the present study has been to show how there were forces within the building societies movement that undermined the viability of the path by (a) reverberating or magnifying the higher-level isomorphic pressures and (b) legitimizing more competitive behaviour by societies. These two institutional mechanisms ended up weakening the net positive returns associated with staying in the path and paved the way for societies' decision to demutualise years later. This paper has emphasized the role played, in this regard, by the moral suasion exercised by the Chief Registrar; and the self-regulation overseen by the Building Societies Association.

But there were other factors at play. Further studies may, for instance, highlight the (de)legitimizing role played by the Building Societies Gazette, the industry's journal, which fulfilled a key interpretative function at the sectoral level during these years of change; or the growing importance of professionals within senior building society staff, which weakened the mutualist identity the movement had proudly embodied until then. In addition, to assess the viability of a certain path one should analyse the evolution of individual societies' strategies themselves, from the early 1970s to the years when the choice to demutualize came to the fore.

The present analysis has been conceived as a preliminary sketch for more systematic inquiries into the viability of not-for-profit finance in the context of increasingly financialized economies. This, we suggest, may pave the way for more fruitful efforts at cross-country comparisons.

Reference list

Aglietta, M. (2000), 'Shareholder Value and Corporate Governance: Some Tricky Questions', *Economy and Society*, 29: 146–159.

Arthur, B.W. (1989), 'Competing Technologies, Increasing Returns, and Lock-In by Historical Events', *The Economic Journal*, 99(394): 116-131.

Beckert, J. (2010), 'Institutional isomorphism revisited: convergence and divergence in institutional change'. *Sociological Theory* 28: 150-167.

Bellman, H. (1933), 'Building Societies – Some Economic Aspects', *The Economic Journal*, 43. 169 :1-39.

Bottazzi, G., Dosi, G., Jacoby, N., Secchi, A., & Tamagni, F. (2010), 'Corporate performances and market selection: some comparative evidence', *Industrial and Corporate Change*, 19. 6. 1953-1996.

Butzbach, O. (2016), 'Systemic risk, macro-prudential regulation and organizational diversity in banking', *Policy and Society*, 35. 3: 239-251.

Casu, B., & Gall, A. (2016), *Building Societies in the Financial Services Industry*, London.

Collins, M. (1988), *Money and Banking in the UK. A History*, London.

Cook, J., Deakin, S., & Hughes, A. (2002), 'Mutuality and corporate governance: the evolution of UK building societies following deregulation', *Journal of Corporate Law Studies*, 2.1: 110-138.

David, P. (1985), 'Clio and the Economics of QWERTY', *American Economic Review Proceedings*, 75: 332-7.

DiMaggio, P.J., & Powell, W.W. (1991), 'Introduction', in P.J. DiMaggio & W.W. Powell (eds.), *New Institutionalism in Organizational Analysis*,1-38, Chicago.

Godechot, O. (2016), 'Financialization is marketization! A study of the respective impacts of various dimensions of financialization on the increase in global inequality.' *Sociological Science*, 3: 495-519.

Goldstone, J.A. (1998), 'Initial Conditions, General Laws, Path Dependence, and Explanation in Historical Sociology', *American Journal of Sociology*, 104.3: 829-845.

Hannan, M. T., & Freeman, J. (1984), 'Structural inertia and change', *American Sociological Review*, 49.2: 149-164.

Hannan, M. T., & Freeman, J. (1977), 'The population ecology of organizations', *The American Journal of Sociology*, 82.5: 929-964.

House of Commons (1980), *Report of the Committee for the Review of the Functioning of Financial Institutions*, London: HM Stationery Office.

Krippner, G. (2005), 'The Financialization of the American Economy', *Socio-Economic Review*, 3: 173–208.

Krippner, G. (2012), *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Harvard.

Lazonick, W. (2012). 'The financialization of the US corporation: What has been lost, and how it can be regained', *Seattle University Law Review*, 36: 857-876.

Marshall, J.N., R. Richardson, S. Raybould and M. Coombes (1997), 'The Transformation of the British Building Society Movement: Managerial Divisions and Corporate Reorganization, 1986-1997', *Geoforum*, 28.3-4: 271-288.

Meyer, J.W., & Rowan, B. (1977). 'Institutionalized organizations: form and structure as myth and ceremony' *American Journal of Sociology*, 83. 2: 340-363.

Michie, J., & Oughton, C. (2013), 'Measuring Diversity in Financial Services Markets: A Diversity Index', *Centre for Financial and Management Studies Discussion Paper Series, 113*.

Michie, J. (2011), 'Promoting Corporate Diversity in the Financial Services Sector', Policy Studies, 32.4: 309-323.

Moore, P. G. (1981), 'The Wilson Committee for the Review of the Functioning of Financial Institutions--Some Statistical Aspects', *Journal of the Royal Statistical Society. Series A*: 32-65.

Moran, M. (2003), *The British regulatory state: high modernism and hyper-innovation*, Oxford.

Pierson, P. (2000), 'Path dependence, increasing returns, and the study of politics', *American Political Science Review*, 94.2: 251-267.

Platt, S. E. (1877). *Building Societies Not as They Are But as They Should Be. An Argument for Investors and Borrowers Based on Equity & Mutuality,* London.

Price, S.J. (1958). *Building Societies. Their Origin and History*, London.

Schreyögg, G., & Sydow, J. (2011), 'Organizational Path Dependence: A Process View', *Organization Studies*, 32: 321-335.

Turner, J. D. (2014), *Banking in crisis: the rise and fall of British banking stability, 1800 to the present*, Cambridge.

Van der Zan, N. (2014), 'Making sense of financialization', *Socio-economic review*, 12.1: 99-129.

Vergne, J-P., & Durand, R. (2010), 'The Missing Link Between the Theory and Empirics of Path Dependence: Conceptual Clarification, Testability Issue, and Methodological Implications', *Journal of Management Studies*, 47. 4: 736-759.

Whose self-interest? Social elites, religious competition, and the rise of Raiffeisen banks in the Netherlands

Christopher L. Colvin[1]

Author's biography

Chris Colvin works at Queen's University of Belfast, where he is a Senior Lecturer in Economics at Queen's Management School and a Research Associate at the university's Centre for Economic History. He co-edited (with Matthias Blum) An Economist's Guide to Economic History (Palgrave Macmillan, 2018), an economic history textbook. He conducts research in the fields of economic, financial and business history. He is an expert on topics including banking and health crises, patents and innovation, as well as government policymaking and pedagogical reform.

1 Queen's University Belfast; chris.colvin@qub.ac.uk

Abstract

The reasons proposed in the extant literature for the emergence of *boerenleenbanken* (Dutch Raiffeisen cooperative banks) at the turn of the twentieth century fall into three categories: (1) to meet untapped market demand; (2) as an organizational response to economic and technical change; and (3) as an extension of socio-religious confessional politics. I use business history case studies of *boerenleenbanken* established in the neighbouring villages of Loosduinen and Rijswijk to weigh the relative importance of these accounts. While all three play a part in explaining the market entry of this new type of banking business, I conclude that the third reason was probably critical; *boerenleenbanken* should be viewed as a component of the wider movement towards the economic confessionalization of the Netherlands.

Keywords

Co-operative banking, rural credit, historical microfinance, religious business, the Netherlands

Acknowledgements

The author especially thanks Nancy Berlage, Eoin McLaughlin, Joost Jonker and the late András Vári for comments on earlier versions of this essay.

Whose self-interest?
Social elites, religious competition, and the rise of Raiffeisen banks in the Netherlands

The first bank established in the Kingdom of the Netherlands along co-operative lines was probably the Coöperative Voorschot-Vereeniging en Spaarbank in the town of Goes in the coastal province of Zeeland. Described by Goeman Borgesius (1872), its membership consisted of self-employed craftsmen who elected the bank's management and shared in its profits. Only members could apply for loans and all members stood liable for business losses. Goes was, however, very much an outlier; no further co-operative banks were established in the Netherlands until the very end of the nineteenth century.

Among the first credit co-operatives established especially for agriculturalists was that of the village of Lonneker, near Enschede and the German border in the eastern province of Overijssel, in 1896. Its opening marked the start of a new wave of rural co-operative financial institutions that sprang up all over the country in the first decades of the twentieth century. This bank, and others like it, represent the direct antecedents of Rabobank, today one of the Netherlands' three systemically important banks.

As was the case in Belgium, Denmark, Italy and Ireland, the type of co-operative institution introduced to the Dutch countryside was inspired by rural German co-operative banks. This 'Raiffeisen model' was first initiated some thirty years earlier in Rhenish Prussia by the municipal politician and social reformer Friedrich Wilhelm Raiffeisen. Co-operative banks were part of a wider agricultural co-operative movement in the Netherlands, which included dairying, vegetable auctioning, sugar beet refining, fruit processing and flower auctioning.[2] *Boerenleenbanken* (farmers' lending banks), the name given to this genus of co-operative bank, were one of the last – and arguably in terms of longevity the most successful – addition to the Dutch co-operative pack.

There are three explanations put forward in the literature for the emergence of *boerenleenbanken* and the rapid expansion of rural financial markets in the early twentieth century: (1) to meet untapped market demand for financial services from the unbanked and underbanked (e.g., Sluyterman et al, 1998); (2) as an organizational response to agricultural depression and technological change (e.g., Bieleman, 2008); and (3) as a means of extending and consolidating the influence of confessional socio-political organizations across Dutch society (e.g., Jonker, 1988a,b). Most extant works tend to emphasize just one category and thus a comparison between these three explanations is difficult.[3] Moreover, these works tend to shy away from exploring the theoretical implications of these arguments for the overall functioning of the Netherlands' rural financial institutions.

This essay is my attempt to test these three hypotheses in a single analysis. It should be read alongside a quantitative economic history companion article I co-authored with Stuart Henderson and John D. Turner (Colvin et al., 2020),[4] and an earlier comparative economic history article I co-authored with Eoin McLaughlin (Colvin and McLaughlin, 2014). This present essay adopts a social science history framework by which the three hypotheses on the origins of co-operatives can be explored empirically

2 The location and date of the first rural co-operatives in the Netherlands were: Aardenburg, Friesland, 1886 (dairying); Broek op Langedijk, Noord-Holland, 1887 (vegetable auctioning); Sas van Gent, Zeeland, 1899 (sugar beet refining); Tiel, Gelderland, 1904 (fruit processing); and Aalsmeer, Noord-Holland, 1912 (flower auctioning). See: Bieleman (2008).

3 Aside from my own work, the exceptions to consider at least some set of alternative explanations are: Brusse (2009), and Rommes (2014).

4 This article explores the same three hypotheses for the origins of *boerenleenbanken*, but instead using quantitative financial accounting data and econometric methods.

with qualitative evidence gleaned from the archives of case study banks. My essay, then, is an attempt to test hypotheses with case studies, an approach to case study writing set out in Abe de Jong and Hugo van Driel's recent contribution to *An Economist's Guide to Economic History* (De Jong and van Driel, 2018). Their idea is that a small set of carefully selected cases can be used to test hypotheses explicitly. These cases must be chosen precisely because they can provide sufficient evidence with which to refute a hypothesis; to achieve this the researcher must select cases where the necessary conditions for rejection are present.

My empirical testing involves a comparison of co-operative banks established in the near-neighbouring villages of Loosduinen and Rijswijk. These banks were selected precisely because they enable the direct comparison of all three explanations: (1) they were located in close proximity to the city of The Hague, whose banks may have provided inadequate substitute sources of financial services for agriculture; (2) their geographic market was dominated by new capital-intensive horticultural farming, which might have called for this new type of business organization; and (3) the inhabitants of these villages had varying religious affiliations, which may have given rise to economic and social divisions.

I find the third explanation to be the most salient; the critical factor in the emergence of rural credit co-operatives in the Netherlands was the simultaneous emergence of confessionalism across Dutch society. But I find that confessionalism was not a sufficient condition; it is highly probable that the other two explanations combine to some degree to explain the origins and early success of these institutions. The implication of my finding is that banking historians should abandon their traditional mono-causal 'creation myths' and think instead about using multifaceted explanations. Methodologically, the contribution here is to use qualitative information from banking archives in a social scientific framework.

One of the popular slogans of the Dutch co-operative movement was *welbegrepen eigenbelang* (enlightened self-interest). Indeed, what was probably the country's first co-operative organization – established in 1877 as an agricultural purchasing society in Aardenburg, near the Belgian border in Zeeland – used that slogan as part of its statutory name (Smits, 2005). The philosophy behind the slogan is that co-operative members could better achieve their own interests by pooling resources and conducting economic activities collectively. The idea is set against *geïsoleerd eigenbelang* (individualism or egoism), where the economic needs of others are not considered. My analysis suggests that while cooperatives were framed and sold to society as being *welbegrepen*, they were really established to further the *geïsoleerde* agendas of the country's social and religious elites.

My essay continues as follows. Section I briefly introduces the macro-structure of the Dutch co-operative banking sector in the early twentieth century. Section II is a narrative history of the origins and early history of the case study banks gleaned from original archival research. Sections III, IV and V review the three arguments listed above for the sector's origins – including their theoretical underpinning – in the light of the case study descriptions. Finally, section VI offers a conclusion.

I

In principle, the type of co-operative financial institution introduced to the Dutch countryside from the late 1890s was inspired by the German Raiffeisen model first established in Rhenish Prussia.[5] In practice, however, there were some differences between these co-operative cousins. Most importantly, the Dutch implementation was influenced by: (1) the choice of organizational form available to co-operators; and (2) the socio-religious fragmentation of Dutch society. Each is introduced below.

(1) Two different Acts of Parliament could be used by Dutch farmers to set up their co-operatives. The main differences between these two acts were: (a) the cost of establishing a co-operative; and (b) the implications for corporate governance. The first of these acts was the *wet van 1855* (law of 1855);[6] the second was the *wet van 1876* (law of 1876).[7] The former was a general law governing associations of any type and was widely adopted by early co-operators in agriculture and other sectors, especially in the south of the country. The latter, which was specifically designed to govern organizations under co-operative ownership, was costlier to implement and more stringent in terms of corporate reporting and transparency. It was a more popular choice among rural co-operators in the north of the country but was also used elsewhere. The liability of the members was arranged independently of the organizational form for these institutions and was chosen to be unlimited in all cases.

(2) The Netherlands had a very mixed religious make-up. The south of the country was largely homogeneously Catholic while the north was split, but predominantly Protestant.[8] The effect of this religious heterogeneity on Dutch society was profound: followers of each religion strongly identified themselves as part of a group, and most social and economic interactions were carried out within this group. Political parties, trade unions and

5 For discussion of the German case, see esp. Guinnane (2001).

6 '*Wet van den* 22sten April 1855, tot regeling en beperking der uitoefening van het regt van vereeniging en vergadering' (Staatsblad 1855, No. 32).

7 Wet van den 17den November 1876, tot regeling der coöperatieve vereenigingen (Staatsblad 1876, No. 227).

8 The distribution of income and socio-economic status among these religious groups was roughly comparable; it was not true, for instance, that Protestants belonged mainly to the middle classes and Catholics to the working classes. See Lijphart (1975, pp. 89-90).

newspapers to both the left and right of the spectrum were split along religious lines. In parts of the countryside that were religiously split, members of each group would have their own separate social and economic institutions. This confessionalization[9] process – dividing enterprise and society along religious lines and known in Dutch as the *verzuiling* (pillarization) – also affected Raiffeisen co-operatives: villages where both Catholics and Protestants lived side-by-side would host two banks, one for each denomination.

Dutch Raiffeisen co-operatives soon found themselves organized into three different networks, the central banks of which functioned as combined clearing-houses and audit authorities. The differences between the central banks reflected the country's legal and religious 'split': (1) the Coöperatieve Centrale Boerenleenbank (CCB-Eindhoven), with its headquarters in Eindhoven and operating nationally, was Catholic in its membership and enabled its members to adopt either *wet*; (2) the Coöperatieve Christelijke Centrale Boerenleenbank (CCCB-Alkmaar), with its headquarters in Alkmaar and operating in the west of the country, was also Catholic and prescribed the *wet van 1876* for its members; and (3) the Coöperatieve Centrale Raifeissen-Bank (CCRB-Utrecht), with its headquarters in Utrecht and operating nationally, was officially neutral, but *de facto* Protestant and prescribed the *wet van 1876*. While CCB-Eindhoven and CCRB-Utrecht were long-lived institutions that eventually merged in the 1972 to form Rabobank, CCCB-Alkmaar disappeared during a financial crisis in the 1920s (Colvin, 2017).

In 1900, the *boerenleenbanken* held just 0.1 percent of all bank-held assets in the Netherlands; by 1923, they held 5.6 percent (van Zanden, 1997), some 3,600 million guilders, or 24,260 million euros in today's money. The 1,200-odd banks operating throughout the country by 1923 were unit-independent, in that they operated as autonomous banks with limited day-to-day involvement from their central banks and had no cross-liability for other banks in their networks. However, the central banks had some influence over their members: they set the rules of the game with respect to the type of business which local banks could and could not engage in, they were the sole source of outside funding, and they could force through changes in the process of conducting an audit. Table 1 outlines the method of doing business at local co-operatives compared to commercial banks in nine categories, according to an internal report compiled by the CCB-Eindhoven central bank. In summary, co-operatives were meant to be more circumspect than commercial banks, offering most of their services to members only, all of whom signed up for unlimited liability, regardless of their organizational form.

9 Adherence to a formulated theological system

II

This section describes the early history of *boerenleenbanken* as they operated in the two selected case study villages, Loosduinen and Rijswijk, focusing in particular on their foundation, early institutional development, day-to-day management and the shape and size of loan contracts. Before proceeding with this narrative account, I first briefly introduce the economic geography of the case study markets, in order to establish that these villages were sufficiently similar in agricultural specialization and socio-religious composition to make a comparison valid; good case studies selection necessitates a comparison being made between 'differing systems that are similar in many aspects but that differ with respect to the factors whose influence one wishes to study' (Diamond and Robinson, 2010:2).

The area around the metropolitan centre of The Hague (Den Haag), the Netherlands' seat of government and residence of its Royal Family (but not the country's capital), remained predominantly rural until after the Second World War. The villages of Loosduinen, Wateringen, Rijswijk, Voorburg, Voorschoten and Wassenaar are today merely suburbs of the city, but in the period under investigation were separated by large tracts of agricultural land. The two villages of special interest, for which significant records concerning rural co-operative banks have been preserved, are Loosduinen and Rijswijk. Both were religiously mixed: Loosduinen (population 8,500 in 1920) was 35 percent 'liberal' Protestant (Hervormd), 15 percent orthodox Calvinist (*Gereformeerd*) and 35 percent Roman Catholic, while Rijswijk (population 9,000 in 1920) was 37 percent liberal Protestant, 9 percent orthodox Calvinist and 36 percent Catholic.[10]

A contemporary agricultural survey classified these two villages, located to the south-west and south of The Hague respectively, as being part of two separate but similar agricultural regions: (1) Westland for Loosduinen; and (2) Delf- en Schieland (named for two waterways) for Rijswijk (Directie van den Landbouw, 1923). A short description of each region follows.

(1) By far the most important type of agriculture carried out in the Westland region was horticultural farming (fruit and vegetable production), which took up about one-third of all available land. Individual landholdings for horticulture were small; approximately 25 percent of all land in this region was worked by agricultural businesses of one to five hectares. According to the survey, between 20 and 40 thousand guilders was required to work just one hectare of horticultural land.[11] Greenhouses covered much of the area, and cucumbers and grapes were the main crops. Other important produce

10 Data from the Volkstelling (census) conducted in the Netherlands in December 1920, published by the Centraal Bureau voor de Statistiek in The Hague in 1924, available at http://www.volkstellingen.nl/

11 This is approximately 100 to 200 thousand euros in today's money.

included cabbages, carrots, new potatoes and strawberries. Dairy herds were the major users of non-horticultural land; their milk was either sold fresh to customers in nearby The Hague or used in butter production, the waste products were used by horticulturists as fertiliser. Cereal production was unimportant. Less than 30 percent of land was owner-occupied.

(2) At the time of the survey, horticulture was gaining increasing importance in the Delf- and Schieland area, which was a mixture of reclaimed polders and clay river soil. Cucumber production was especially important. Milk production was the main business in non-horticultural areas, and cereal production was relatively unimportant. The region was characterised by landholdings of small- and medium-sized businesses. Approximately 35 percent of land was owner-occupied.

A boerenleenbank was founded in Loosduinen at a meeting held on 22 February 1909 in a café in the centre of the village.[12] Most of those involved were members of the Loosduinen *warmoezenierspatroonsvereeniging* (association of horticultural business owners). They opted for the CCCB-Alkmaar network, despite the reservations of the meeting's chairman that this network was smaller than the other two and that its overt Christianity – or, more specifically, Catholicism – might make members of other socio-religious groups feel isolated. Participants also decided that their bank should take the *wet van 1876* corporate form and that its use should be restricted to members of the *warmoezenierspatroonsvereeniging*. From records of a meeting held the following April, it is apparent that a significant number of farmers who initially expressed an interest in joining the project did not do so, either because they did not qualify for membership of the association, or because they refused to join it because of the restrictions.[13]

Only members of Raiffeisen co-operatives were liable for their bank's losses. Customers did not have to join and become members unless they sought to borrow money. Records concerning the first two decades of the Loosduinen bank's existence suggest that customers became members only in order to become eligible to borrow money, and not before. Consequently, the bank had many depositors on its books who were not liable in the case of failure.

In addition to being liable for the entire co-operative organization through membership, most loan agreements also enjoyed the security offered by either one or two named personal guarantors. Named guarantors were much preferred to mortgage contracts, because the value of property was argued to be too difficult for the bank to estimate accurately.[14] Most loans were small and did not require the directors' approval – they were instead arranged directly

12 For archival material on this bank's origins, see *Notulen Algemene Vergaderingen Loosduinen* I (Archief Rabobank Haaglanden ARH)

13 See *Bestuursnotulen* Loosduinen I (ARH). All inferences on this boerenleenbank in this section originate from a close reading of this archival source.

14 Instances were not infrequent where mortgages were refused and instead rearranged as loans with personal guarantees from family members residing in the properties that would have been mortgaged.

by the cashier. Larger loan applications were considered by the directors after applicants had provided sufficient sureties. A typical requirement of a loan was that borrowing members could not deposit anything in their savings account until it was paid off. For many applicants, the proof of past business activities was all that was needed to secure a loan; loans to the tune of one quarter of a horticulturist's recorded takings from the sale of his goods at the previous year's *groente veilingen* (vegetable auctions) appear to have been granted frequently, without needing any additional sureties.

Soon after the bank was established, the chairman of the local chapter of the Catholic *volksbond* (workmen's league) – who was co-opted to attend management meetings – mentioned that a group of Loosduinen Catholics was privately planning to set up a separate co-operative, exclusively for Catholics. One of the bank's directors worried that Catholics would misuse their religion to justify a lax credit (risk) policy for their bank. In June 1909, a local Catholic priest – who sat in on management meetings in his capacity as the bank's *geestelijke adviseur* (spiritual advisor) – informed directors that he had persuaded this 'splinter group' that the creation of another bank was unnecessary, since the current construction was 'sufficiently Christian' in its values. To further appease its Catholic constituency, the bank apparently followed an advertising policy of only using the region's Catholic press to attract new customers.

The 'religion question' simmered in the background throughout the bank's early years, eventually coming to a head during the First World War; in October 1916, a letter from the CCCB-Alkmaar central bank informed directors that the Loosduinen chapter of the newly-established Catholic *land- en tuinbouwbond* (horticultural farmers' association) had applied to set up its own bank, with CCCB-Alkmaar also acting as its clearinghouse. The new bank had been established by December and was named Loosduinen II for the purposes of CCCB-Alkmaar's bookkeeping. The creation of this new bank coincided with the mass defection of members of the *warmoezenierspatroonsvereeniging* to the *land- en tuinbouwbond* and the creation of separate Catholic-only *groente veiling* in the town (Vijverberg, 2009).

The position of the CCCB-Alkmaar central bank became more fragile as it became over-leveraged. Then, following a 1919 circular which urged local banks to wind down their loans business because the central bank could no longer afford to extend credit to banks in need, the original Loosduinen (I) co-operative shed the function of *geestelijke adviseur* and left the CCCB-Alkmaar group in the financial year 1921-1922, under much protest from this organization. After switching to this different central bank network, the boerenleenbank became much less leveraged, moving from levels above 100 percent to levels under 50 percent by the mid-1920s – where leverage is defined as the percentage of all deposits taken that is loaned out to members.[15] The opening of an explicitly Catholic rival prob-

15 Financial data taken from analysis of Colvin (2017).

ably reduced the need for the bank's leaders to appease its Catholic customers, permitting them to join the financially more secure neutral (*de facto* Protestant) CCRB-Utrecht group instead. Loosduinen II, meanwhile, remained a member of the CCCB-Alkmaar network until its central bank failed in 1924 due to a combination of lack of scale and serious mismanagement (Borst, 2004). Loosduinen II then joined the Catholic-leaning CCB-Eindhoven, but it had to shoulder part of the costs of winding up CCCB-Alkmaar, costs which Loosduinen's original bank was largely able to avoid.

Finally, to the Rijswijk case, the history of the *boerenleenbanken* in this nearby village shows how a co-operative for Protestants emerged as a direct reaction to the setting up of one for Catholics.[16] Two banks were established in Rijswijk in 1910. The first was set up in September and served the Catholic community and belonged to the Catholic-leaning CCB-Eindhoven group. The second was set up only two months later in November, served the Protestant community and belonged to the CCRB-Utrecht group.

The Catholic agricultural bank – the Boerenleenbank te Rijswijk – derived its legal personality from the *wet van 1855* at the primary instigation of members of the council of Rijswijk's Catholic Sunday school, the St Bonifatius Patronaat, and members of the local Catholic farming union, the *land- en tuinbouwbond*. These farmers also made up the bank's management and oversight boards. The bank's director was a church chaplain. The bank opened on Thursday evenings between 6 and 8 in the afternoon in a rented room in the school, which initially cost the bank 30 guilders per year. It charged new members 10 cents to open a savings account. By 1913 the bank had 100 fully-liable members. Loan agreements mostly enjoyed personal guarantors, who according to the inspection reports were usually successfully pursued by curators when loans went sour. Loans sometimes involved financial securities (usually corporate bonds) as loan sureties. This bank functioned as a credit house; it was leveraged at a level above 100 percent throughout the period under analysis, relying on its central bank for outside finance.

It is likely that the Protestant agricultural bank the Coöperatieve Boerenleenbank Rijswijk was established in response to the Catholic one. It was instigated by the Rijswijk branch of the *Hollandsche Maatschappij van Landbouw*, a *landbouwmaatschappij* (farming association) that was officially neutral, but which predominantly catered for Protestant farmers since the Catholics had by the 1910s left it to form their own institutions. Again, the management of the bank overlapped with that of this *maatschappij*, although members of the bank were not required to join the *maatschappij*.

16 The main sources of this brief discussion of the Rijswijk banks are the work of a local historian (Janse, 1990), in addition to various annual inspection reports of the two banks conducted by their central banks (Inspectierapporten, *Boerenleenbanken* te Rijswijk ZH, Historische Archief Rabobank Nederland, EI472 and UI559).

This bank derived its legal personality from the *wet van 1876*. The Protestant co-operative was smaller than its Catholic neighbour in terms of membership. It did not extend large quantities of credit to its members, functioning predominantly as a savings house – apart from 1923, a year halfway through a severe financial crisis, it was usually leveraged at a level of only approximately 20 percent. Inspection reports reveal that the bank did not grant any mortgages, nor did it grant credit to members purely on reputation without guarantors. All loans were explicitly to be used for (agricultural) business finance and were monitored annually to ensure that this was indeed the case.

There was an interesting early confrontation between the Protestant co-operatives in Rijswijk and neighbouring Voorburg, which was established slightly earlier. The former requested the CCRB-Utrecht central bank to prohibit individuals from joining both co-operative banks. The central bank conceded; the cost of enacting such a ban (the sudden transfer of funds from Voorburg to Rijswijk) was deemed lower than the cost associated with doing nothing (the possibility that the bank would leave the CCRB-Utrecht network altogether). The Catholic co-operative appears to have had similar confrontations with the bank in Wateringen, to the west of Rijswijk. In the late 1920s, at the end of the period under consideration, Rijswijk's Protestant bank was forced to merge for scale reasons with its Voorburg neighbour.

III

The traditional argument advanced in the literature is that *boerenleenbanken* were created in response to an unfulfilled demand for credit from the unbanked and under-banked. This view was put forward in 2008 by agricultural historian Jan Bieleman and chimes with the argument made in anniversary business histories of the rural co-operative movement published by the banks themselves.[17]

This view probably stems from the government agricultural inquiries conducted in the late nineteenth century, but, most importantly, with the propaganda emanating from co-operative banks themselves. Van der Marck's (1924) laudatory pamphlet is a good example of the latter. This pamphlet was written by the *geestelijke adviseur* to CCB-Eindhoven, the central bank of the main Catholic boerenleenbank network, and appears to form part of a 'media strategy' for the external justification of this network's existence. It attributes any growth in the rural economy to the co-operative movement itself and states that *boerenleenbanken* 'have set farmers free' from their previous financiers – caricatured as Shylocks who charged usurious interest rates – thus, permitting farmers to 'help themselves by helping each other'.

17 See, for example, Campen et al. (1948); Weststrate (1948); and Sluyterman et al. (1998).

The pamphlet's main argument is that farmers no longer had problems finding external financing after the market entry of co-operative banks. This could be interpreted as either 'credit rationing' or 'red-lining' behaviour on the part of incumbent financial intermediaries.[18] Credit rationing occurs when borrowers' demands for credit are turned down, even if these borrowers are willing and able to pay both the interest rate and meet the collateral requirements of prevailing loan contracts. Red-lining occurs when complete categories of borrowers are totally excluded from the credit market because they are unwilling and/or unable to pay the interest rate and/or meet the collateral requirement of prevailing loan contracts.[19]

The institutional innovation that most of the modern literature on microfinance institutions argues is necessary for co-operatives to reduce the price of loan contracts, is joint liability or group lending.[20] This literature posits that co-operative finance enables small-scale business to borrow with little or no collateral by making co-operators liable for one another's financial losses. The argument is summarized as follows. Adverse selection, a problem where risky customers are most likely to select themselves into the bank, because the bank cannot discriminate between them, is reduced as group members are screened. They often have to fulfil certain requirements before they can join, such as a minimum deposit, or, as in the present context, the belief in a particular version of Christianity. Providing the group is small and geographically concentrated, members will be able to monitor one another's effort and can therefore reduce free-riding and moral hazard, a problem where customers take undue risks because the extra costs are not borne by them alone. As co-operators are all in similar lines of business, they should easily be able to verify one another's business outcomes. As members engage in long-term repeated interaction, and as it is difficult and costly to renounce membership, a co-operative outcome which benefits all members at least a little is likely to be sustainable, and from which it is not in the interest of any one member to deviate.

Micro-business histories of *boerenleenbanken* in the majority-Catholic south of the Netherlands by Jonker (1988a, b) and Brusse (2008) provide evidence that the market for agricultural credit was already satiated by the time the co-operatives entered it, and that additional credit-granting institutions were not in demand. This argument implies that no new market for banking services was created with the arrival of co-operatives, but that additional competitors were added to an already crowded market; the sector's origins

18 For a discussion of this point in the context of the Dutch financial crisis of the 1920s, the first great test of the organizational architecture of *boerenleenbanken*, see: Colvin (2017).

19 The term red-lining stems from the historical practice in the US for mortgage providers to systematic exclude whole categories of borrower residing in areas, also on grounds of race.

20 See Guinnane (2001) for a discussion of this point in the context of nineteenth-century German Raiffeisen banks, and: Armendáriz de Aghion and Morduch (2005), for a wider review of contemporary microfinance institutions.

could not have been demand-led. Although the language of modern banking economics is not used in either work, the Jonker (1988a, b) and Brusse (2008) studies imply that incumbents were engaging in credit rationing. Ample credit was available and the only way to attract more custom would have been to offer services to risk-loving individuals willing to take on higher interest rates. Rommes (2014) comes to similar conclusions in his book on the origins of rural co-operatives in the Netherlands. He argues that the reason why Raiffeisen banks reached the Netherlands significantly later than in some neighbouring countries was that the credit situation in much of the Dutch countryside was not as dire; good substitute sources of funds were available. He tracks various failed initiatives to establish co-operatives in the nineteenth century, and analyses survey data from the 1880s which reveal mixed feelings about the demand for new rural banks. He finds *kassiers* – small private cashier firms – to have been the principal incumbent in the market for rural credit. These were especially active in the north of the country, where *boerenleenbanken* arrived on the scene much later.

What does the case study evidence presented in this essay say about the strength of the market demand argument? As discussed, these banks operated in two markets, savings and loans. The history of the case study banks suggests that they tended to specialize in one or the other. The original bank in Loosduinen was on the whole highly leveraged in the early years of its existence, meaning that all deposits were lent out to members and that the bank had to borrow money from external sources (its central bank) to satisfy the demand for loans. This situation changed when the second Loosduinen bank was established; Loosduinen I disaffiliated from CCCB-Alkmaar to join CCRB-Utrecht, deleveraged, and became a savings house, while the new Loosduinen II leveraged up.

The CCB-Eindhoven-affiliated Rijswijk bank functioned as a credit house and relied on loans from the clearing house for its source of outside finance. Meanwhile, the CCRB-Utrecht-affiliated Rijswijk bank acted as a savings house. Although local interest rates on loans are not available, the rates paid by local banks to their central bank on external borrowing suggest that the market focus of these banks was a function of the interest rates set by their central bank; borrowing money from CCB-Eindhoven was cheaper (see Figure 1), and so this bank could charge its customers less. Moreover, in the 1920s, saving at CCRB-Utrecht-affiliated banks yielded slightly higher returns, explains Loosduinen I's switch in focus. The evidence therefore suggests that banks were located in areas with multiple *boerenleenbanken* could specialize in the market in which they had a competitive advantage.

The cases highlight differences in the ways in which the Loosduinen and Rijswijk boerenleenbanken dealt with loan requests; the banks studied used different 'lending technologies' (types of loan contract) to otherwise very similar customers. The CCRB-Utrecht-affiliated Rijswijk bank had much stricter requirements on collateral than the CCCB-Alkmaar-affiliated Loosduinen one, requiring named sureties and not permitting loans based on past business performance. All banks appear to have granted loans with named guarantors, on top of the unlimited liability these banks already enjoyed from their entire membership base. Perhaps these guarantors acted as insider (or peer) monitors, providing the necessary incentives for the loan-holder to use his loan conservatively and repay it on time. It is here that these banks may have held an advantage over competitors who did not specialize in agricultural finance: lower overheads, free management and informal loan monitoring meant fewer fixed and variable costs. It is interesting to note that customers did not become liable until they absolutely had to, in order to secure a loan, suggesting that these farmers actively sought finance from co-operatives rather than going to, or after having depleted, alternative sources.

And so, it must be concluded here that incumbents in some parts of the Netherlands were engaging in red-lining rather than credit rationing behaviour. Co-operative Raiffeisen banks helped to end this practice by deepening parts of the country's rural financial markets, extending them to customers who could not afford existing loan contracts, or at least could not borrow as much as they wanted at prevailing prices. They did so by becoming very active and successful in the market for rural savings. Although the financial rewards in this new, extended market were lower than in existing ones, so were the costs of doing business here for co-operatively-owned banks as compared to other financial institutions. The way that they were able to achieve the lower cost base required to deepen this market is addressed in the next section.

IV

In this section, I assess whether it was the organizational form of co-operative banks that permitted farmers to compete away a share of the existing financial market from incumbents, and/or deepen the market to capture customers previously excluded from it. The argument explored is that co-operation in rural finance was an organizational innovation which placed the incentives of the owners and users of capital in better alignment, permitting an improved functioning of the savings and loans market and resulting in the relative demise of substitute incumbent institutions. I investigate whether the timing of the banks' proliferation across the Netherlands could have been a response to the (perceived) late industrialization of Dutch agriculture and to the deflationary *grote landbouwcrisis* (great agricultural crisis) of the late nineteenth century. Finally, I apply these arguments to the case study evidence introduced in Section II.

A co-operative is an organization which is owned and run by the same set of economic actors with whom it conducts its business. While the gains from Smithian specialization (increasing productivity, technological advance) and trade between conventionally owned businesses are shared between buyers and sellers, at co-operatives, the buyers and sellers are the same actors, and so all welfare gains remain with the co-operators. As a result of this different structure, they have very different business objectives; co-operatives are not profit maximizing firms in the traditional sense. Indeed, they are arguably not even independent business ventures, but instead simply extensions of each individual co-operator's private interests. Where a 'conventional company' seeks to maximize returns for its owners and managers, a co-operative's owners and managers may instead maximise their own returns by *minimizing* those of the co-operative organization that they co-use, co-own and co-manage.[21]

Boerenleenbanken may have been able to attract savers in rural parts of the Netherlands and displace incumbents precisely because of their co-operative ownership; capturing all the gains from trade meant that the interest rates offered on savings could be consistently above those offered by the Rijkspostspaarbank, an institution which, unlike the Raiffeisen co-operatives, enjoyed a full state guarantee. Co-operation in Dutch rural finance occurred simultaneously with co-operation in other types of rural business. Co-operative banks could be viewed as an extension of these other co-operatives, an attempt to further internalize any gains from trade. By self-financing agricultural improvement, farmers were creating vertically integrated business organizations which take in all stages in the production process, from the farm all the way to the dinner table. Not only does this result in the elimination of margins through the supply chain and costs associated with information asymmetries, but it arguably also reduces incentive problems as the owners and users of capital were now the same economic actors.[22]

The business economist Sytse Douma uses transaction cost economics to explain why co-operative businesses have proved more successful in some markets than others (Douma, 2001). He posits that different forms of business organization are appropriate in specific circumstances. Using the case of Dutch dairy farming in the late nineteenth century, argues that co-operative dairies were more successful in markets where milk was coagulated into cheese than where milk was sold to customers directly. The idea behind Douma's evolutionary argument is that organizational forms compete with one another, and that, in the long run, one form of organization is triumphant. Perhaps the rapid rise of *boerenleenbanken* can be seen in this context; their organizational form allowed them to displace incumbents, to varying degrees of success in different

21 This is in line with the model of co-operative behaviour proposed for the Italian case in Galassi (2001). More generally it falls in the 'cooperatives as an extension of the farm' approach to co-operative theory discussed in Cook et al. (2004). It is also the model I used in Colvin (2017).

22 Rommes (2014) finds many cases of overlapping membership and management of different types of rural cooperatives, further evidence of this integration.

parts of the country, in both the markets for loans (versus the *kassiers*) and savings (versus the Rijkspostspaarbank). Their organizational form was perhaps most appropriate where the costs of doing business were too high for other types of bank to turn a profit.

The question then remains, what brought about this sudden organizational change; what was so different at the turn of the twentieth century to make co-operatives suddenly so widespread? One possibility is the *grote landbouwcrisis*, an external shock to Dutch agriculture which Bieleman (2008) dates as running from 1878 to 1895. This crisis manifested itself as a sustained fall in the prices of, and demand for, agricultural output across most sectors. The tillage of cereals was particularly affected, with prices falling by up to 50 percent. Although this crisis was global in nature (O'Rourke, 1997), two factors caused Dutch agriculture to suffer particularly badly: (1) increased competition from abroad in markets where it had formerly been the market leader, especially with the United States for cereals and with Denmark for dairying; and (2) technological changes which made many agricultural products obsolete, such as madder, used for dyeing clothes, and rapeseed, used as fuel (Knibbe, 1993).

Traditional accounts of Dutch agriculture argue that it lagged behind its competitors and only industrialized after, and because of, the agricultural crisis (Brugmans, 1961). Van Zanden (1985), Smits et al. (1999), and Bieleman (2008) in particular, however, argue that the mechanization of Dutch agriculture started long before the crisis, and that the crisis actually slowed this process down. Bieleman lists a long series of innovations which came on stream before and during the crisis period, such as the US-designed Eagle plough, which by 1880 had replaced the entire stock of ploughs across the country. But the significant time lag between agricultural industrialization and the advent of agricultural co-operative organizations in general, and the formation of co-operative banks for agriculture in particular, suggests that the sector's origins lie elsewhere. While the advantages of co-operative ownership discussed above stand, whether or not they are at the root of the origins of co-operative banks, it may be more difficult to argue that the nineteenth-century agricultural crisis was a sufficient condition for co-operation.

Knibbe (1993) advances a different argument for the advent of agricultural co-operation: a response to the weakening of farmers' market power that started from the 1880s. Farmers experienced problems with respect to their prices and the quality of their yield, even when agricultural markets had fully recovered. Knibbe argues that they were suffering from the increase in concentration and cartelization of the suppliers of their inputs and the purchasers of their output – in the sugar, potato starch and straw markets in particular, and possibly also in the dairy market. Aside from this, they suffered pressure from the increased cost of labour as a consequence of rural-urban migration. Co-operation provided a solution, a form of cartelization that improved the market power of agriculturalists versus the upstream (suppliers) and downstream (consumers) parts of the market.

Knibbe argues that co-operation significantly improved the position of farmers, contrasting the situation in 1890, when purchasers had the upper hand, and 1910, when farmers themselves could dictate prices. What helped was increasing demand for agricultural output, providing room for expansion. Knibbe's argument can be easily extended to include co-operative finance, which, as discussed, was tightly interwoven with the rest of the agricultural co-operative movement through interlocking membership and management. The creation of new co-operatively owned financial institutions may not have been as 'needed' as much as new co-operatively-owned dairies, for example. But the market entry of financial institutions could be seen as a path-dependent extension of these other agricultural co-operatives, where the origins of the dairies rather than the banks was the result of the Douma-style evolutionary process of organizational competition discussed above.

What does the case study evidence presented in this essay say about the strength of the organizational response argument? There is little to suggest that the timing of these banks' foundation was the consequence of some external economic or technological shock; the new capital-intensive farming of the Westland region was already established by the time of these banks' inception. All the co-operatives studied shared significant managerial and membership overlap with the various farming associations present there, suggesting that the founders of these banks set them up explicitly to capture any profits for themselves. It is difficult to judge whether the co-operative business form was more appropriate than any other in the financing of horticulture, but all *boerenleenbanken* survived the period under analysis, while other types of bank suffered severely in a deflationary crisis which hit the banking sector in the early 1920s (van Zanden, 1997; Colvin, 2017). In sum, although their unique organizational form may not provide a sufficient condition for their initial emergence, it may be considered a necessary condition for their early success.

V

The third argument for the origins of *boerenleenbanken* concerns well-documented growing role of confessionalism around the time of the movement's inception.[23] By the late nineteenth century, most Dutch citizens identified themselves strongly with a particular religious denomination, primarily Roman Catholicism, and the liberal *hervormde* (Dutch Reformed) and orthodox *gereformeerde* (literally 're-reformed') forms of Calvinism. Dutch enterprise and society became

23 This is also the main focus of Colvin (2017), but then in the context of the Dutch financial crisis of the early 1920s.

highly segregated along religious lines, with the different Christian denominations developing sophisticated parallel social, economic and political institutions. This phenomenon, known as the *verzuiling* (pillarization), reached its zenith in the inter-war period. Its origins have been analyzed, among others, by Kruijt (1974), Lijphart (1975), Stuurman (1983), De Rooy (1995) and Luykx (1996).

The argument put forward or implied in the work of Jonker (1988a, b), van Zanden and van Riel (2000) and in the work of Rommes (2014), is that sociopolitical interest groups – the Roman Catholic clergy above all – were crucial in the creation of the first co-operative banks and that these groups viewed co-operatives as a way of consolidating or extending their political influence. This is much in line with the ideas of Stuurman and Luykx in their wider analysis of the *verzuiling*, both of whom argue that the phenomenon was Catholic-led. But while the former sees it as part of a wider political struggle for minority rights, the latter argues that the *verzuiling* was a form of social control by Catholic elites over the working classes, rather than a reaction to discrimination.

The *verzuiling* affected *boerenleenbanken* through institutionalized confessional politics, described below.[24] All eleven provinces of the Netherlands gained provincial *landbouwmaatschappijen*, or agricultural companies, between 1837 and 1855. These organizations aimed to stimulate the improvement of agricultural technology by organizing trade fairs and subsidising agricultural consultants. Partly on the initiative of the *Hollandish landbouwmaatschappijen*, a national Nederlandsch Landbouw-Comité (NLC) was established in 1884 to deal with such agricultural issues as disease, which affected all regions of the country. This new institution was not universally loved, however. Catholic groups argued that: (1) agricultural fairs and other efforts by the local *landbouwmaatschappijen* were not easing the plight of all farmers; and (2) it was wrong that social questions were of less importance to the new organization than economic ones. Against this backdrop there were calls for the creation of business co-operatives from the Catholic priesthood in response to *Rerum Novarum*, a Papal Encyclical in support of anti-socialist confessional trade unionism (Pecci, 1891).

A new organization for Dutch agriculturalists was established in 1895, the Nederlandsche Boerenbond (NBB), or Dutch Farmers' Union (Smits, 1996). The creation of new regional unions soon followed and most, in turn, joined the national NBB on a quasi-federal basis. The Noordbrabantse Christelijke Boerenbond (NCB) was one of the largest and most influential regional unions, operating in the large southern province of Noord-Brabant. It was instigated and initially led by a Catholic priest. In theory, the difference between the farmers' unions and the *landbouwmaatschappij*en was that the first were created from the ground up by farmers while the second were centrally imposed on farmers by an elite. However, the actual difference appears

24 My narrative relies on Smits (1996).

to have been that, unlike the *landbouwmaatschappijen*, the unions' stated aims were religiously motivated, such as the NCB's aim of 'furthering the interests of God, the family and property'. The unions were predominantly Catholic affairs; farmers in the Catholic provinces (Noord-Brabant and Limburg) made up 73 percent of the NBB's membership in 1904, and even unions north of the Rhine river delta, the half of the country that was predominantly populated by Protestants, were almost completely dominated by Catholics. Meanwhile, the *landbouwmaatschappijen* became *de facto* Protestant when Catholic farmers left them to join their new unions.

Jonker (1988a, b) argues that it was the regional farmers' unions that were the primary instigators of the *boerenleenbanken* in Noord-Brabant. Catholic priests and others working on behalf of the unions would visit villages to spread the idea of co-operation. These propagandists would help villagers write their new organizations' statutes and provide them with a small amount of initial financing. Local priests would be recruited to provide these co-operatives with day-to-day 'spiritual guidance'. In Protestant parts of the country, it was the *landbouwmaatschappijen* that performed this same function, but without offering spiritual guidance, and sometimes only as a 'response' to nearby exclusionary Catholic-only co-operative efforts.

There were soon serious conflicts between regional and national unions. This led, in 1898, to the creation of not one but two central banks (combined clearing-houses and audit authorities) for the *boerenleenbanken*, one sponsored by the NBB and based in Utrecht, CCRB-Utrecht, and the other by the NCB and established in Eindhoven, CCB-Eindhoven.[25] Further division in the boerenleenbank family came in 1901 when the members of the Utrecht network decided to drop the religious language from their founding statutes and disaffiliate themselves from the NBB. The NBB responded by calling on its members to leave this network and form their own provincial central banks, which would continue to espouse religious values. However, this attempt at 'blackmailing' Utrecht was not successful; only one new provincial central bank was created, in 1904, for the provinces of Holland: CCCB-Alkmaar. This lack of response is perhaps unsurprising, given that the NBB's god was decidedly Catholic and therefore not popular in much of the predominantly Protestant north.

The net result of such co-operative in-fighting was that confessionalism became rigidly institutionalized in the rural banking sector; the south and the north-west had their Catholic networks, supported by regional farmers' unions, while everyone else had the officially neutral but *de facto* Protestant network of the Utrecht central bank. Interesting unexplained differences between the co-operatives of the 'two Christianities' persisted throughout

25 Officially, this split was due to a legal question about the appropriate act of parliament to use in the founding of co-operative organizations, but legal-historical analysis in Colvin (2017, 2018), suggests that these legal differences could have had little impact in practice on the day-to-day functioning of co-operative banks.

their early existence. For example, Catholic interest rates paid by local banks on loans from their central bank were consistently lower than Protestant ones (see Figure 1). This is perhaps evidence of segregation trumping economic concerns; the *verzuiling* meant that the two denominations had to worry less about competing with one another for the same customers, whose default position was to bank within their own socioreligious pillar.

What does the case study evidence presented in this essay say about the strength of the socio-political control argument? Priests and other religious leaders appear to have established all these banks, and also (unsuccessfully) attempted to mediate in disagreements between members in the Loosduinen case. Comparing the Loosduinen with the Rijswijk co-operatives suggests that religious groups, both Catholic and Protestant, were particularly militant in securing a separate and separated religious identity for their own bank. The Loosduinen II cooperative was established by Catholic customers who thought that Loosduinen I was too irreligious. The second Rijswijk bank was established within months of the Catholic-affiliated one, as if in reaction to the first. Perhaps the costs relating to lack of scale and scope, which resulted from this segregation, were compensated for by the information and enforcement benefits of a religiously homogeneous banking institution. Strict membership requirements at the banks for Catholic minorities suggest that they intended to use these as an exclusion device, a method of ensuring homogeneity between their customers. In summary, it is clear that religion had a great effect on these banks; the reason why there were (eventually) two banks in many villages instead of one was entirely religiously motivated.

However, while religion played a large part in these banks' foundation, it may have had less impact on the subsequent choice of bank for many of the parishioners of each of the churches. Banks appear to have specialized in the business lines in which they could grant members higher returns. Given the differences in the way that the Catholic and Protestant banks were used, and the size of the Catholic bank's balance sheet relative to that of its Protestant neighbour; and comparing these differences with the proportion of Catholics living in the Rijswijk area, it remains a possibility that Protestants banked with the Catholic co-operative, with the Protestant co-operative in a neighbouring village, or alternatively with non-co-operative financial institutions.

VI

The existing literature on the origins of rural credit co-operatives in the Netherlands posits three reasons for their emergence and rapid proliferation at the start of the twentieth century: (1) to meet untapped market demand; (2) as an organizational response to economic and technical change; and (3) as an extension of socio-religious confessional politics. My essay has attempted to systematically analyze how these possible explanations work in theory and practice, and then judged their likely relative importance. I did so by analysing the results of qualitative archival research on local *boerenleenbanken* in two rural villages bordering with the city of The Hague. I chose these case studies precisely because their economic and social geography means that the relative importance of the three hypotheses can be compared.

Regarding the first hypothesis, that *boerenleenbanken* were founded to meet untapped market demand for financial services from the unbanked or underbanked, I find that incumbent providers of financial services to agricultural customers were likely extending financial markets to new customers. There were some sources of finance before the advent of co-operatives, and farmers who could afford these were adequately supplied. Instead, I argue that the co-operative model probably lowered the price of loan contracts and therefore deepened the market for credit, permitting customers previously priced out of this market to enjoy financial services. By implication, non-co-operative incumbents must have been excluding whole categories of borrowers because the returns were not sufficient.

Regarding the second hypothesis, that these banks were founded as an organizational response to agricultural depression and technical change, I find that the timing of the emergence of *boerenleenbanken* does not necessarily provide much support. This does not detract from the competitive advantage which *profit-minimizing* co-operatives had over profit-maximizing incumbents; co-operatives' members were able to capture more of the gains from specialization and trade, at the expense of these banks' profits, because they were simultaneously their owners and customers. The co-operative business model gave these banks an edge over conventionally-owned competitors, permitting the former to eat into the latter's market. The overlap between the management and membership of these banks with other agricultural organizations is evidence that these banks formed one component of larger vertically integrated agricultural business 'conglomerates'.

Finally, regarding the third hypothesis, that the banks were founded as a means of extending and consolidating the influence of confessional socio-political organization across Dutch society, I find that economic confessionalism was probably the most critical ingredient that led to their foundation, at least in areas with a strong religious divide. Some banks in the case study villages were established for the sole reason that other new *boerenleenbanken* had the wrong socio-religious bent. Priests and religiously motivated organizations were actively involved in their foundation and day-to-day management. Their choice of central bank network was made for political rather than economic reasons. While perhaps not a sufficient condition for their foundation, the economic segregation of Dutch society in the early twentieth century was probably a necessary one for their rapid and successful proliferation. ■

Reference list

Armendáriz de Aghion, B. and Morduch, J. (2005), *The economics of microfinance* (Cambridge MA).

Bieleman, J. (2008), *Boeren in Nederland: geschiedenis van de landbouw 1500-2000* (Amsterdam).

Borst, C. J. A. (2004), De Coöperatieve Centrale Christelijke Boerenleenbank gevestigd te Alkmaaar 1904-1924 (Unpub. Masters thesis, Hogeschool InHolland, Haarlem).

Brugmans, I. J. (1961), *Paardenkracht en mensenmacht: sociaal-economische geschiedenis van Nederland 1795-1940* (The Hague).

Brusse, P. G. (2009), 'Raiffeisen in the Netherlands: the rise of Dutch credit cooperatives. Regional rural economy and financial infrastructure, 1878-1950', Zeitschrift fur *Agrargeschichte under Agrarsoziologie*, 57, pp. 83-96.

Brusse, P. (2008), *De dynamische regio. Economie, overheid en ondernemerschap in West-Brabant vanaf 1850* (Utrecht).

Campen, P. C. M., Hollenberg, P. and Kriellaars, F. (1948), *Landbouw en landbouwcrediet 1898-1948: vijftig jaar geschiedenis van de Coöperatieve Centrale Boerenleenbank Eindhoven* (Roermond).

Colvin, C. L. (2017), 'Banking on a religious divide: accounting for the success of the Netherlands' Raiffeisen cooperatives in the crisis of the 1920s', *The Journal of Economic History*, 77, pp. 866–918.

Colvin, C. L. (201), 'Organizational determinants of bank resilience: explaining the performance of SME banks in the Dutch financial crisis of the 1920s', *Business History Review*, 92, pp. 661--690.

Colvin, C. L., and McLaughlin, E. (2014), 'Raiffeisenism abroad: why did German cooperative banking fail in Ireland but prosper in the Netherlands?', *The Economic History Review*, 67, pp. 492-516.

Colvin, C. L., Henderson, S., and Turner, J. D. (2020), 'The origins of the (cooperative) species: Raiffeisen banking in the Netherlands, 1898-1909', *European Review of Economic History*.

Cook, M. L., Iliopoulos, C., and Chaddad, F. R. (2004), 'Advances in co-operative theory since 1990: a review of agricultural economics literature', in Hendrikse, G. W. J. (ed.), *Restructuring agricultural cooperatives* (Rotterdam).

de Jong, A., and H. van Driel, (2018) 'Case studies', in Colvin, C. L., and Blum, M. (eds.), *An economist's guide to economic history* (Cham), pp. 365-370.

de Rooy, P. (1995), 'Zes studies over verzuiling', *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden*, 100, pp. 380–392.

Diamond, J., and Robinson, J. A. (2010), 'Prologue', in, *Natural experiments of history*, idem. (eds.) (Cambridge, MA).

Directie van den Landbouw, (1923), 'Het grondgebruik in Nederland in 1921', *Verslagen en Mededeelingen van de Directie van den Landbouw in Nederland*, 2.

Douma, S. (2001), Waarom bestaan coöperaties?, *Maandblad voor Accountancy en Bedrijfseconomie*, 6, pp. 248–255.

Galassi, F. L. (2001), 'Measuring social capital: culture as an explanation of Italy's economic dualism', *European Review of Economic History*, 5, pp. 29–59.

Goeman Borgesius, H. (1872), *Schulze Delitzsch en zijne crediet-vereeniging* (Arnhem).

Guinnane, T. W. (2001), 'Cooperatives as information machines: German rural credit cooperatives, 1883-1914', *The Journal of Economic History*, 61, pp. 366–389.

Janse, J. C. (1990), '80 Jaar Rabobank Rijswijk', Rijswijk Historisch Informatiecentrum (Rijswijk).

Jonker, J. (1988a), 'Welbegrepen eigenbelang; ontstaan en werkwijze van boerenleenbanken in Noord-Brabant, 1900-1920', *Jaarboek voor de Geschiedenis van Bedrijf en Techniek*, 5, pp. 188-207.

Jonker, J. (1988b), 'Boerenvreugde of boerenverdriet? De NCB en de emancipatie van de Brabantse platteland, 1896-1920', *Tijdschrift voor Sociale Geschiedenis*, 14.

Knibbe, M. (1993), *Agriculture in the Netherlands 1851-1950: production and institutional change* (Amsterdam).

Kruijt, P. (1974), 'The Netherlands: the influence of denominationalism on social life and organizational patterns', in *Consociational democracy: Political accommodation in segmented societies* (Toronto).

Lijphart, A. (1975), *The politics of accommodation: pluralism and democracy in the Netherlands* (2nd Edition, Berkeley).

Luykx, P. (1996), 'The Netherlands', in T. Buchanan, and M. Conway (eds.), *Political Catholicism in Europe, 1918-1965* (Oxford), pp. 219–248.

O'Rourke, K. (1997), 'The European Grain Invasion, 1870-1913', *The Journal of Economic History*, 57, pp. 775–801.

Pecci, V. G. R. L. [Pope Leo XIII] (1891), 'Rerum novarum: the rights and duties of capital and labour'.

Rommes, R. (2014), *Voor en door boeren? De opkomst van het coöperatiewezen in de Nederlandse landbouw vóór de Tweede Wereldoorlog* (Hilversum).

Sluyterman, K. E., Dankers, J. J., van der Linden, A. A. M., and van Zanden, J. L. (1998), *Het coöperatieve alternatief: honderd jaar Rabobank 1898-1998* (The Hague).

Smits, J.-P., de Jong, H. J., and van Ark, B. (1999), 'Three phases of Dutch economic growth and technical change,1815-1997', Research Memorandum GD-42, Groningen Growth and Development Centre (Groningen).

Smits, M. (1996), *Boeren met beleid: honderd jaar Katholieke Nederlandse Boeren- en Tuindersbond 1896-1996* (Nijmegen).

Smits, M. (2005), Welbegrepen eigenbeland of beginsel? Katholieke boerenbonden en hun coöperaties, *Cahier over de geschiedenis van de christelijk-sociale beweging*, 6, pp. 53-67.

Stuurman, S., *Verzuiling, kapitalisme en patriarchaat: aspecten van de ontwikkeling van de moderne staat in Nederland* (Nijmegen, 1983).

van der Marck, Th. H. A. M. (1924), *Boerenleenbanken volgens het systeem-Raiffeisen* (Wassenaar).

van Zanden, J. L., 'Old rules, new conditions, 1914-1940', in 't Hart, M., Jonker, J. and van Zanden, J. L. (eds.) (1997), *A financial history of the Netherlands* (Cambridge), pp. 124–151.

van Zanden, J. L., and van Riel, A. (2000), *Nederland 1780-1914: staat, instituties en economische ontwikkeling* (Amsterdam).

van Zanden, J. L. (1985), *De economische ontwikkeling van de Nederlandse landbouw in de negentiende eeuw*, 1800-1914 (Wageningen).

Vijverberg, A. (2009), 'Het Loosduinse veilingdrama', *Jaarboek Geschiedkundige Vereniging Die Haghe*, pp. 162–183.

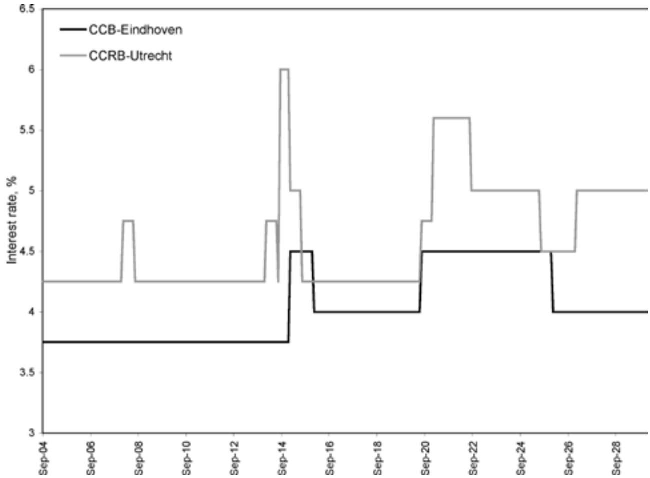
Weststrate, T. J. (1948), *Gedenkboek uitgegeven ter gelegenheid van het vijftigjarig bestaan der Coöperatieve Centrale Raiffeisen-Bank te Utrecht 1898-1948* (Utrecht).

Table 1: Self-identified differences between the Netherlands' commercial and Raiffeisen banks.

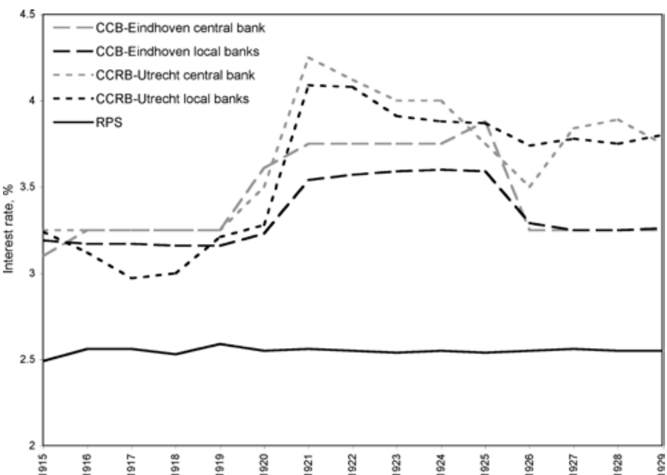
	Commercial banks	Raiffeisen banks
A	Accepts deposits from anyone against general conditions, which can be negotiable in certain circumstances	Takes deposits from everyone against general conditions, which are uniform for all members. If there are certain conditions for non-members, then these are uniform for all non-members
B	Grants loans to anyone against general conditions, which can be negotiable in certain circumstances	Grants loans to members only, against conditions that are uniform for all members
C	Opens current (overdraft) accounts for anyone against general conditions, which can be negotiable in certain circumstances	Opens current (overdraft) accounts for members only, against conditions that are uniform for all members
D	Collects, buys and discounts domestic and foreign bills of exchange and promissory notes	Can engage in limited collection business, and is not permitted to discount bills of exchange or promissory notes, even to members
E	Sells cheques and bills of exchange from well-known institutions, both domestic and foreign	Can sell cheques to members only, but only through the central bank
F	Buys and sells foreign currency in coin and paper money	Can buy and sell foreign currency to members only, but only through the central bank
G	Engages in the security business, including underwriting new securities	Can also engage in the security business, but only through the central bank
H	Buys and collects coupons and other bonds	Cannot trust such business to local banks. And doing such business through the central bank is too costly

Source: CCB-Eindhoven, 'Rapport over "Bankconcentratie"', written for the directie (management) meeting of 12 November 1917 (RaboNed: E105)

Figure 1: Rural interest rates on borrowing and lending, nominal terms.
(a) Average interest rate percentage paid to depositors by central bank and local banks compared to the Rijkspostspaarbank (RPS), 1915-1929.



(b) Interest rate percentage paid by local banks on loans from their central clearinghouse, 1904-1929.



Source: Campen et al. (1948).

Adapting to a changing world
Swedish savings banks in the 21st century

Tom Petersson[1]

Author's biography

Tom Petersson is Associate Professor in Economic History at Uppsala University. His research focuses on the development of the Swedish banking system since the early nineteenth century. Amongst his publications (in English) are 'Sweden – Tradition and Renewal' in, *Business Groups in the West: Origins, Evolution, and Resilience*, Oxford University Press, 2018, and 'Cooperation, interbank markets and bank-industry networks. The growth and characteristics of Swedish bank lending, c.1860–1910' in *The Swedish Financial Revolution*, Palgrave MacMillan, New York, 2010.

1 Uppsala Centre for Business History, Uppsala University; tom.petersson@uadm.uu.se

Abstract

Swedish savings banks have successfully adapted to the changing conditions of financial markets in recent decades. Of the fifty Swedish savings banks about a dozen have been restructured into limited companies that are for the most part owned by local savings banks today; they still interact and co-operate with trustee savings banks. In recent years, savings banks have also strengthened their strategic alliance with Swedbank - one of Sweden's four largest commercial banks. A diverse group of savings banks and savings bank foundations have been consolidated to form the Savings Banks Group which, since 2017, has become the single largest shareholder of Swedbank. Hence, by contrast to most European countries, Swedish savings banks have not only been able to survive, but have actually strengthened their position in a number of local financial markets.

Keywords

Sweden, 21st century, trustee savings banks, limited savings banks, Swedbank, foundations

Adapting to a changing world
Swedish savings banks in the 21st century

Introduction

Since 1820, savings banks have been an essential part of the Swedish banking and financial system. They have contributed to the development of the deposit and loan markets and, of course, to local, regional and national economic development. Until the mid-twentieth century, the vast majority of the Swedish savings banks remained strictly local or regional financial organizations, in keeping their traditional remit. The savings bank movement targeted the lower socio-economic strata of the population, in keeping with its philanthropic and ideological mission. Investing capital in small- and medium-sized local businesses in agriculture, trade and industry was prioritized. From the late nineteenth century onwards, savings banking began to engage in financing municipal infrastructure and housing, especially housing for the growing working class.

From the early 1960s to the late 1980s, fundamental changes occurred on the Swedish banking market. The savings banks lost their market share in the deposit and the loan markets as commercial banks successfully adapted their business strategies. Savings banks responded by merging into larger units. Ultimately, in the early 1990s, eleven of the newly created regional savings banks reorganized and merged into a single joint stock bank. It was listed on the Stockholm stock exchange in 1995 and was renamed Swedbank in 2006.

Since the 1990s, the Swedbank has been one of the three primary components of what generally is referred to as 'the Swedish savings banks sector'.[2] The second component is a dozen freestanding savings banks that, like Swedbank, changed their legal status to limited companies in the mid-1990s. The third component consists of roughly fifty trustee savings banks. These trustee savings banks have the same basic organizational structure as the first savings banks established in Sweden in the 1820s: they have no formal owners and they are governed by a board of trustees, with representatives from the local communities that the trustee savings banks are active in. However, the trustee savings banks are *not* by definition mutual organizations, since the clients (the customers) do not have the right to receive a portion of the savings banks' profits, although they do have the right to elect trustees.

This chapter describes how Swedish savings banks, while remaining partly based on philanthropic principles, have been able to survive and develop their businesses well into the twenty-first century. The three categories of banks within the savings banks sector - Swedbank, the limited savings banks and the trustee savings bank - are mutually dependent on each other in several ways. They co-operate through formal business agreements, but they are also connected to each other through ownership and their shared history. This study will highlight some of the similarities and differences in the strategies that the different banks within the savings banks sector have pursued in recent decades.[3]

A short history of Swedish savings banking, 1820-2000[4]

Viewed from a long-term historical perspective, it is fair to say that savings banks played a substantial role in the development of the banking and financial system, as well as the Swedish economy, from the early nineteenth century onwards. The first Swedish savings banks were mostly established in the larger cities. They had a strong philanthropic and moralistic mission, as many of their European counterparts did. Members of the local elite, including businessmen in trade, large estate owners, and local and regional government officials, controlled the governance of the savings banks. Nevertheless, from the very beginning the Swedish savings

2 See for instance ESBG (2014).

3 The results and conclusions presented in this chapter stem from a research project focusing on the long-term relationship between Swedbank and the independent savings banks. More than 40 interviews with senior managers in Swedbank and in a dozen of savings banks and savings banks foundations were conducted. The project 'Banking markets in transition' was funded jointly by the Savings Bank Group, Swedbank and the Färs & Frosta Savings Bank Foundation. The results were published in the monograph *Bankmarknad och ägarroll i förändring. Sparbankerna, Swedbank och sparbanksstiftelserna på 2000-talet,* Dialogos förlag, Stockholm, 2020.

4 This section mainly builds on Petersson (2008) and Larsson, Lilja & Petersson (forthcoming).

banking movement sought to promote lower class awareness of the need to save and to act as morally responsible citizens. A broader aim, promoted both by the founding fathers and the managers, was to develop the local and regional loan markets so as to contribute to general economic growth.

After 1850 the number of savings banks increased rapidly, especially in the countryside and in smaller cities and villages. The period from the 1870-1910 is generally characterized as the financial revolution in Swedish economic history, which accompanied the industrial revolution.[5] Hence, the savings banks developed network of local banks open to the public. Whilst the commercial banks focused their business upon the upper socio-economic levels of the local communities, the savings banks were open to everyone (see table 1).

Table 1. The number of savings banks and commercial banks, 1820-2000.

Year	Savings banks	Savings banks offices	Commercial banks	Commercial banks offices
1820	1	.	0	.
1830	25	n.a.	0	.
1840	60	n.a.	6	14
1850	85	n.a.	8	24
1860	153	299	30	55
1870	251	485	36	136
1880	347	921	44	205
1890	380	909	43	190
1900	388	748	67	269
1910	441	854	80	625
1920	489	885	41	1410
1930	482	1128	30	1045
1940	472	1036	28	1030
1950	451	1019	22	1019
1960	434	1217	16	1217
1970	273	1679	16	1679
1980	164	1493	14	1493
1990	104	1228	21	1366
2000	79	269	47	1790

Source: Banking statistics, Statistics Sweden.

5 Ögren (2010).

The role of the savings banking movement in the establishment of the deposit and the loan markets should not be underestimated. Savings banks were the first institutionalized banks to be established in cities and urban centers of various sorts, as well as in the countryside, and their control of the deposit and loan markets at the beginning of the modern banking system in Sweden was substantial. From 1860-1990 savings banks held between 28 and 45 per cent of the institutional savings market in Sweden. In the institutional loan market, the savings banks' market share varied between 19 and 41 per cent. How this market is defined has changed considerably in recent decades, as new financial instruments have been introduced, meaning that increasing numbers of loans and credits have been handled by financial intermediaries other than bankers. Thus, from a quantitative perspective, the heyday of the Swedish savings banks occurred in the interwar years (see table 2)

Table 2. The savings banks' market share of the institutional deposit and loan markets, 1820-2000, per cent.

Year	Deposit market	Credit market	Year	Deposit market	Credit market
1860	60	23	1935	45	41
1865	52	25	1940	42	40
1870	44	26	1945	40	40
1875	40	26	1950	37	39
1880	37	26	1955	36	40
1885	40	28	1960	36	41
1890	43	31	1965	35	37
1895	41	31	1970	33	37
1900	40	25	1975	32	32
1905	37	24	1980	31	28
1910	34	24	1985	29	23
1915	31	22	1990	26	21
1920	28	19	1995	6	5
1925	40	28	2000	8	3
1930	43	32			

Source: Banking statistics, Statistics Sweden.

Until the late nineteenth century, Swedish savings banks were almost entirely free from government regulation. In the beginning, that is to say from the 1820s, most savings banks were governed by relatively standardized statutes drawn up by government officials, and as a result they adopted a standard organizational form. In order to render them exempt from tax, savings banks were defined as philanthropic organizations in the nineteenth century. However, if one considers the financial operations they were engaged in, the philanthropic remit of Swedish savings banks should remain open to question. To a considerable degree the upper socio-economic classes were important depositors, and many savings banks were heavily involved in the financing of local industry and commerce.[6]

In the early 1890s, there was a paradigmatic shift when the Savings Banking Act of 1892 was implemented, with the purpose of creating what was actually called 'a natural order' in the Swedish banking market. According to the new regulations savings banks were required to provide safe investment for small-scale savers and were therefore proscribed from engaging in speculative investment.[7] The government's position on the specific role of savings banks in the financial system would remain unaltered until the late 1960s. In 1969 new bank legislation abolished the division between savings banks and commercial banks by imposing the same rules on all banks, whether savings banks, commercial banks or co-operative banks. So, we can pinpoint the moment when a profound change in the institutional set-up of the banking market occurred, which made it possible, at least theoretically, for the savings banks to compete with the commercial banks on equal terms.[8]

How Swedish savings banking related to commercial banking had always been important. Until the late nineteenth century, and in some cases even during the first decades of the twentieth century, savings banks and commercial banks worked co-operatively in local and regional financial markets. It was often the same individuals who established and/or managed both the savings bank and the commercial bank in a region or a city. Local banking and industrial networks (based on trust and personal relationships) through which capital and information could flow relatively freely, were developed across the country.[9]

However, these networks began to break down at the beginning of the twentieth century. One reason was that a growing number of savings banks, due to the democratization of Swedish society, were either established by – or governed by – political interests on the left wing, especially the Social Democrats and their affiliates within the labour movement. Such savings banks were less than eager to be a part of a network that was governed by people of a right-wing political persuasion. This was a period when the

6 Lilja (2004), Petersson (2000) and Hellgren (2004).
7 Sjölander (2003).
8 Forsell (2003), s. 209.
9 Petersson (2001).

savings bank movement was becoming more professionalized, and therefore more self-assured. The growing number of professional employees established a critical mass who sought to make the savings banks independent and economically profitable. Together with the establishment of the Savings Banks Association, the savings banks movement began to define itself in opposition to other financial organizations, especially the commercial banks, and co-operation gave way to competition.

One of the most important structural changes in the Swedish banking market was the consolidation of a number of very large, regional savings banks into a single joint-stock commercial bank in the early 1990s. This transformation was propelled by managers' aspiration to create larger – and they believed more competitive – financial organizations, particularly vis-à-vis commercial banks. The severe financial crisis that affected the Swedish financial system from late 1990-1992 was instrumental here as well.

The consolidation of savings banking and the large number of mergers after the 1960s resulted in a small number of large savings banks, organized in regional groups, which came to dominate the savings bank sector. For example, in the late 1980s, the five largest savings banks held 60 per cent of the balance sheet total of all Swedish savings banks. In early 1990, after years of preparation and internal discussion within the savings banks movement, the eleven largest regional savings banks groups merged to form a joint limited company, the Savings Bank Group, in which the participants retained a degree of autonomy. The aim was to increase the competitive power of savings banks, to present a unified front to the public and competing commercial banks, and last but not least, to ensure that the historical traditions and essential characteristics of savings banks were preserved.[10]

However, in September 1990, financial crisis hit Sweden. The deregulation of the financial market had prompted higher risk-taking in order to obtain larger market shares and higher returns. The savings banks reported substantial credit losses. In 1991 and 1992 these credit losses amounted to nearly 30 billion SEK. This should be related to the total volume of loans, which was approximately 400 billion SEK.[11]

In response to the crisis, and in order to find new sources of additional capital equity necessary to survive at all, the Savings Bank Group was consolidated in 1992 to form the even more centralized Sparbanken Sverige AB (the Savings Bank of Sweden Inc.). The participating savings banks initially sold their operations to the Savings Bank of Sweden Inc., receiving shares in the new bank as payment. Sparbanken Sverige was listed on the Stockholm Stock Exchange in 1995.[12]

10 Körberg (1999), p. 237–261 and Forsell (2003), chapter 7.
11 Engwall (1997), p. 185.
12 Forsell (1989), Forsell (2003) and Bergendahl & Lindblom (2006), p. 1665.

In depth analysis of the mergers and the organizational changes concerning the Swedish savings banks has demonstrated that the key protagonists were the managers of the largest savings banks. They held that it was necessary to be better equipped in order to confront tougher competition, especially from the existing Swedish commercial banks. The need for increased resources that would enable the savings banks to develop their product ranges and improve their cost efficiency, was deemed make the mergers necessary. It was countered that things were quite well as they were, not least since the profitability of small savings banks compared favourably to the large savings banks. However, no one wanted to appear reactionary and backward-looking, and when the advocates of mergers and the reorientation of savings banks described future threats, they won the day. For several decades the anticipation of tougher competition provided the prime rationale for mergers. In the 1960s and 1970s, the focus was mainly on regional and national competition, while in the 1980s and 1990s it was on competition on a European and an international scale.[13]

The Swedish savings banks sector in the 21st century

As stated in the introduction, the Swedish savings banks sector consists of three categories of banks: Swedbank, the limited liability savings banks, and the trustee savings banks. All three categories of banks - Swedbank as a 'pure' commercial bank, the limited savings banks and the trustee savings banks – have been governed by the same set of institutional regulations since the late sixties. Now referred to as the Banking and Finance Business Act, this has enabled them to perform the same kind of banking and financial activities. There is also a specific Savings Banks Act, which regulates the procedures regarding the establishment and organization of trustee savings banks. Since 1991 all three types of bank categories have been governed by the same financial supervisory authority, Finansinspektionen.[14]

After the drastic developments on the Swedish banking and financial markets in the late 1980s and early 1990s, the Swedbank developed into one of Sweden's four largest commercial banks. Collectively 'the big four' - Swedbank, SEB, Nordea and Handelsbanken - hold about 75-80 per cent market share on both the deposit and the lending markets.

Following the creation of the joint-stock company Swedbank in the early 1990s, a number of trustee savings banks followed suit and changed their legal status, becoming limited liability savings banks.

13 Forsell (1989) and Forsell (2003).

14 Finansinspektionen is Sweden's financial supervisory authority and was established in 1991 with the aim of creating a single integrated regulator covering banking, securities and insurance. The name of Finansinspektionen is the same in Swedish and English.

In 2000, there were nine limited savings banks, with a total business volume of 26 billion SEK. In 2018, there were 13 limited savings banks with a total business volume of close to 200 billion SEK. The argument in favour of changing the legal status were more or less the same as when Swedbank was established: being a limited company made it easier getting access to the capital markets and gave the banks more freedom to engage in new lines of business and financial activities. The ownership of the limited savings banks is, however, subject to stringent restrictions. Locally based foundations - so-called savings banks foundations - own all of the limited savings banks. Swedbank is the minority co-owner of a handful of the limited savings banks. The only role of the foundations is to own the limited savings bank. A number of trustees govern the savings banking foundations, as in a traditional trustee savings bank. In other words, you could define the limited savings banks as a form of hybrid of the traditional trustee savings banks and the purely commercial Swedbank. On the one hand, the limited savings banks have the means and the organization to enable them to compete with the commercial banks and to maximize profit. But on the other hand, the savings bank foundations that own the limited savings banks are obliged by their statutes to prioritize the promotion of the local economy and social development, and to guarantee that any profit made through banking stays within the local community.

The third component in the Swedish savings banks sector are the traditional trustee savings banks. The total number of trustee savings banks has continued to decrease in the 21st century, mostly due to mergers between trustee savings banks, but also because a handful of trustee savings banks has converted into limited savings banks. In 2000, there were 78 trustee savings banks and 9 limited savings banks in Sweden. In 2018, the numbers were 47 trustee savings banks and 13 limited savings banks.

There has been an ongoing tendency for the largest savings banks to increase their dominance. In 2018, the ten largest savings banks represented about half of the total business volume, deposits and equity in the market (see table 3). The large savings banks gained the financial means and other essential resources such as human capital to be able to compete on their local and regional markets. The small savings banks faced several problems, threatening their existence as independent savings banks. The most obvious is their lack of human resources and the competence needed to handle the increasing burden of regulations and compliance.

Table 3. The 10 largest savings banks in Sweden, 2018.

Savings Bank	Business volume, billion SEK	Deposits, billion SEK	Equity, billion SEK	No. of offices	No. of employees
Sparbanken Skåne Ltd.*	74,7	51,3	6,2	27	485
Sparbanken Sjuhärad Ltd*	23,4	17,2	2,4	8	159
Sparbanken Nord	22,3	18,8	3,1	11	173
Varbergs Sparbank Ltd	16,4	11,9	3,5	4	123
Sörmlands Sparbank	15,8	12,5	2,9	8	178
Sparbanken Alingsås Ltd	14,4	9,9	3,2	5	109
Sparbanken Rekarne Ltd*	13,9	10,9	0,9	3	91
Sparbanken Skaraborg Ltd	12,5	8,7	3,3	4	99
Sparbanken i Karlshamn	11,1	9,4	1,2	6	90
Orusts Sparbank	10,8	8,2	2,4	4	48
∑ 10 largest savings banks	215,6	158,8	29,0	80	1555
∑ All 60 savings bank in Sweden	423,7	329,1	62,6	218	3427

Source: Swedish Bankers. Note: * partially owned by Swedbank.

The majority of people interviewed during the course of research expected a drastic reduction in the number of small savings in the next ten to twenty years. Some informants predicted that the total number of savings banks in Sweden would reduce to 25-30 savings banks, whilst others predicted an even more drastic reduction to no more than 15-20 large savings banks. Considering the legal status of the future savings banks, there was also a high degree of consensus amongst the informants: many trustee savings banks will be converted to limited savings banks in the years to come. Some will be pressured to reorganize in order to be able to refinance themselves on the capital markets. Indeed, in the first decade of the twenty-first century both Swedbank and the financial authorities encouraged, and in some case called upon, the trustee savings bank to reorganize into limited savings banks.[15]

The fact that the trustee savings banks do not have a distinct owner, in the same way that 'regular' companies and banks do, can lead to problems and ambiguities in certain situations. It is not clear who will step in to save a trustee savings bank in severe economic distress or in desperate need of more capital since the trustees and the foundations connected to the trustee

15 See interviews in Petersson (2020), for example with former CEOs of Swedbank; Reinhold Geijer 14 May 2018, Birgitta Johansson-Hedberg 7 March 2018, Jan Lidén 27 April 2018, Michael Wolf 10 December 2018, Birgitte Bonnesen 22 October 2019 and former Chairmen's of the Board in Swedbank; Göran Collert 16 March 2018, Carl-Eric Stålberg 4 July 2018, Anders Sundström 4 September 2018 and Lars Idermark 5 February 2019.

savings banks do not generally have the financial means to do so. In practice (particularly in the 1990s, and intermittently up to 2008-2009) Swedbank has stepped in to rescue a number of trustee savings banks. However, in the last decade the message from Swedbank has changed. Now, if a savings bank gets into financial distress, it will be up to the savings banks themselves and the savings banks community to arrange the necessary rescue operations.

The Master Agreement and the importance of ownership control

The formal contractual basis for the co-operation between Swedbank and the freestanding savings banks is called the Master Agreement. Through the Master Agreement, the limited savings banks and the trustee savings banks get access to an extensive range of financial services and products offered by Swedbank and its subsidiaries. The products of Robur (Sweden's largest fund management company) and of Swedbank Mortgage (Sweden's largest mortgage provider) are important here. Swedbank also provides the freestanding savings banks with IT-services. In return, Swedbank can make use of the free-standing savings banks national network of branches (this is in keeping with the Swedbank's strategic plan to reduce the number of its local branches). According to figures obtained from the Swedbank, the free-standing savings banks accounted for about 30 per cent of Swedbank´s product sales in the Swedish markets for deposits and loans to the public.[16]

Negotiating the terms in the Master Agreement (which normally has a duration of five years) is a complicated, lengthy process that often spurs controversy regarding the price-setting of different kinds of services and products included in the agreement. The National Association of Swedish Savings Banks[17] has gradually assumed the role of mediator between Swedbank and the freestanding savings banks to negotiate the terms of the Master Agreement.

Another aspect of the close relationship between Swedbank and the freestanding savings banks has to do with ownership. When Swedbank was established as a limited company in the early 1990s, eleven regional savings banking foundations controlled a majority of the shares. During the 1990s, the eleven foundations gradually decreased their portion of shares and by the year 2000, they held approximately 20 per cent of the shares in Swedbank. However, in 2008 and 2009 Swedbank made massive credit

16 See Annual reports of Swedbank 2000-2018.

17 The National Association of Swedish Savings Banks was created in the mid-1980s by small and medium sized trustee savings banks that did not want to be a part of the merger wave, see Eriksson (2005). Both limited savings banks and trustee savings banks, and savings banks foundations, are allowed to be members of the association.

losses in the Baltic States and in Ukraine and Swedbank had to make a substantial issue of new shares. The eleven original savings banks foundations decided to participate in the issuing process but, owing to their lack of liquidity, they had to borrow money to do so.

Folksam Insurance Inc., one of Sweden's largest insurance companies, had co-operated with the savings banks since the 1950s and their CEO, Anders Sundström, had previously been CEO and chairman of one of the largest trustee savings banks, Sparbanken Nord. Folksam declared that it was willing to lend the savings banking foundations more than 1 billion SEK. As collateral, the foundations pledged their shares in Swedbank. As the Swedbank stock continued to fall on the market, Folksam eventually requested that the collateral be redeemed. Consequently, in March 2009, the original eleven savings banking foundations lost almost all of their shares in Swedbank, and Folksam Insurance Inc. stepped up as the largest shareholder in Swedbank.

The free-standing savings banks had been the second largest category of shareholders in Swedbank since the 1990s. However, they had not been very well organized, and they had failed to formulate a common ownership strategy. The Savings Banks Group was established in August 2009, with the ambition to unite the free-standing savings banks in matters concerning ownership of Swedbank. Today, the Savings Banks Group consists of all but one of the sixty savings banks in Sweden, thirteen savings banks foundations,[18] and three other members.

The stated aim of the Savings Banks Group was to attain a corner position in Swedbank, i.e., to hold more than 10 per cent of the shares in Swedbank. This goal was achieved in late 2017. Since then, the Savings Banks Group has become the largest shareholder in Swedbank (table 4). Being the largest shareholder obviously gives the savings banks a better bargaining position in the negotiations with Swedbank concerning the Master Agreement. The Savings Banks Group also appoints the chairman of the Nomination Committee in Swedbank.

18 The eleven savings banks foundations that originally were the majority shareholder of Swedbank, has so far chosen to not join the Savings Banks Group. They want to keep their independent position.

Table 4. Major shareholders of Swedbank, 2000-2018.

	Savings banks foundations, %	Savings banks group| %	Folksam Insurance Inc. %	Swedish Public %	Swedish Institutions %	Foreign Institutions %
2000	19,8	6,6	n.a.	11,3	29,2	33,1
2001	20,8	6,3	n.a.	10,8	33,8	28,3
2002	21,0	7,2	n.a.	11,1	40,1	20,6
2003	21,1	7,6	n.a.	11,0	40,8	19,5
2004	20,9	8,1	n.a.	11,4	42,4	17,2
2005	21,1	8,2	n.a.	11,2	34,1	25,4
2006	21,3	8,5	n.a.	10,8	28,9	30,5
2007	21,6	8,4	n.a.	11,3	31,6	27,1
2008	19,3	9,5	8,6	13,1	36,0	13,5
2009	2,8	7,8	8,6	14,2	44,0	22,5
2010	2,3	7,4	9,3	10,2	36,6	34,2
2011	2,7	7,4	9,5	9,3	37,8	33,3
2012	2,9	7,6	9,2	8,5	32,1	39,7
2013	3,0	8,5	9,2	8,7	31,9	38,7
2014	3,1	8,6	9,3	8,5	30,9	39,6
2015	3,9	9,0	9,2	8,2	27,6	42,1
2016	4,0	9,4	9,3	8,1	29,0	40,2
2017	3,3	10,3	7,0	8,6	30,3	40,5
2018	3,4	10,5	7,0	8,7	29,8	40,6

Source: Annual reports of Swedbank.

Markets and organizations

At the turn of the millennium Swedbank initiated a new growth strategy, including the expansion of its internal markets and its pledge to do business with large, internationally-oriented business companies. This strategy ceased abruptly with the onset of the global financial crisis in 2008. Since then, Swedbank has turned back to what it, and the savings banks, like to refer to as their 'traditional market segments', i.e., the small and medium-sized companies and the wider public. Swedbank has defined its home market as Sweden and the Baltic countries, and has no official ambition to enter new international markets in the years to come.

Swedbank and the free-standing savings banks have followed somewhat different strategies when it comes to their physical organization. During recent decades Swedbank has cut the number of branch offices. In 2000 Swedbank had nearly 600 branch offices, in 2018 this had been to less than 200. The free-standing savings banks also closed down many of their branch offices, but they still consider it important to have physical branch offices open to the public. In 2000, the free-standing savings banks had 351 branch offices, and in 2018, they had 218 branch offices (table 5). Furthermore, Swedbank has been much more ambitious than the free-standing savings banks in turning their branches into offices that don't handle transactions in cash, i.e., cashless offices.

Table 5. Number of branches, 2000-2018.

Year	Trustee savings banks	Limited savings banks	Swedbank
2000	271	80	591
2001	253	85	553
2002	251	83	537
2003	233	87	515
2004	209	83	492
2005	205	78	476
2006	217	77	477
2007	217	76	451
2008	210	87	419
2009	212	89	381
2010	182	117	340
2011	180	114	318
2012	174	111	310
2013	167	100	305
2014	145	99	326
2015	145	84	275
2016	144	81	248
2017	137	81	218
2018	136	82	186

Source: Bank and finance statistics, Swedish Bankers' Association.

There is an obvious geographical aspect to the Swedish savings banks sector. Swedbank, together with many of the limited savings banks, have concentrated their branches and their business to the large, urban growth areas of Sweden. Consequently, the trustee savings banks are located in the rural, demographically and economically stagnating areas of Sweden to a much higher degree. Obviously, this geographical division will eventually have a negative effect on the ability of trustee savings banks to compete and to grow.

In Sweden, as in many other countries, there has been considerable growth in the financial markets during in last decades. Both the deposit and the lending market has grown about three times since the year 2000. The two categories of savings banks combined – the trustee savings banks and the limited savings banks – have continuously held about 10 per cent of the deposit market and 4-5 per cent of the lending market. If you add the market shares of Swedbank, it is obvious that the Swedish savings banks sector has been able to compete with the other banks on the Swedish market (table 6 and 7).

Table 6. Deposits from Swedish households and non-financial companies, market shares in per cent and total deposits in billions of SEK 2000-2018.

Year	Trustee savings banks, %	Limited savings banks, %	Swedbank, %	Total deposits, all banks, billions of SEK
2000	8	2	21	799
2001	7	3	19	875
2002	8	4	19	919
2003	8	4	20	928
2004	7	4	20	949
2005	7	4	20	1060
2006	8	4	20	1206
2007	8	4	21	1373
2008	8	4	19	1532
2009	8	4	19	1594
2010	7	5	20	1690
2011	7	5	19	1823
2012	7	5	19	1959
2013	7	5	19	2053
2014	6	5	19	2162
2015	6	5	19	2356
2016	6	5	19	2579
2017	6	5	19	2771
2018	7	5	20	2962

Source: Bank and finance statistics, Swedish Bankers' Association.

Table 7. Lending to Swedish households and non-financial companies, market share in per cent and total lending in billions of SEK, 2000-2018.

Year	Trustee savings banks, %	Limited savings banks, %	Swedbank, %	Total deposits, all banks, billions of SEK
2000	3	1	24	2002
2001	3	1	23	2175
2002	3	1	23	2265
2003	3	1	24	2350
2004	3	1	23	2510
2005	3	1	23	2813
2006	3	1	23	3101
2007	3	1	23	3543
2008	3	1	23	3892
2009	3	1	23	3996
2010	3	2	22	4210
2011	3	2	22	4460
2012	3	2	22	4606
2013	3	2	22	4757
2014	2	2	22	4999
2015	3	2	22	5283
2016	3	2	22	5592
2017	3	2	21	5965
2018	3	2	21	6304

Source: Bank and finance statistics, Swedish Bankers' Association.

Conclusions

Two hundred years after the first savings bank was established, Swedish savings banks remain an important component of the Swedish banking and financial system. To a certain extent the savings banks movement has remained true to its traditional mission: to facilitate the long-term development of local deposit and loan markets; to serve the public, and to support small- and medium-sized businesses. In order to stay relevant, savings banking has taken some major steps in order to renew and redefine their businesses and organizations during the last twenty or thirty years.

An increasing number of traditional trustee savings banks have chosen to reorganize into limited companies, in most cases fully owned by a local savings banking foundation. Being a limited company gives savings banks easy access to capital markets, which is especially important for the large savings banks. Among the senior management of the limited savings banks, it is believed that being a limited company drives the professionalization of administrative routines and makes the entire organization more focused on being efficient compared to its competitors. Yet the savings banks that have reorganized into limited companies remain convinced that they can continue to act in accordance with the historical mission of the savings banking movement.

Over the past decade Swedish savings banking has strengthened the strategic alliance with Swedbank, thus assuring access to the necessary financial infrastructure and the service and products it supplies. A group of savings banks and savings banks foundations has formed the Savings Banks Group which has become the single largest shareholder of Swedbank since 2017. Savings banking has developed, not least through the Savings Banks Group, the means to exercise considerable influence on the future strategies of Swedbank. To sum up, Swedish savings banking has been both pragmatic and proactive in its quest to develop their business model over recent decades and has enjoyed a measure of success. ■

Reference list

Bergendahl, G. and Lindblom, T. (2006), 'Evaluating the performance of Swedish savings banks according to service efficiency', *European Journal of Operational Research*, 185:1663–1673.

Engwall, L. (1997), 'The Swedish Banking Crisis: The Invisible Hand Shaking the Visible Hand', in G. Morgan & D Knights eds., *Regulation and Deregulation in European Financial Services*, London.

Eriksson, B. (2005), *Boken om FSR. 20 års verksamhet och händelser inom Fristående Sparbankers Riksförbund*, FSR, Stockholm.

ESBG (2014), *The legal structure of savings and retail banks in Europe*, European Savings and Retail Banking Group, Brussels.

Forsell, A. (1989), 'How to Become Modern and Business-like: An Attempt to Understand the Modernization of Swedish Savings Banks', *International Studies of management and Organization*, 19 (3): 34-48.

Forsell, A. (2003), 'Competition, change and conformity', *Working Paper 2003:1*, SCORE, Stockholm Centre for Organizational Research, Stockholm University.

Hellgren, H. (2004), *Fasta förbindelser: en studie av låntagare hos sparbanken och informella kreditgivare i Sala 1860-1910*, Uppsala Studies in Economic History no. 66, Uppsala University.

Körberg, I. (1999), *Ekluten. Förändringsprocessen inom sparbanksrörelsen 1980–1995*, Stockholm.

Larsson, M., Lilja, K. & Petersson, T. (forthcoming), *Risk Management in Early Banking. The Swedish Savings Banks 1820-1920*. London.

Lilja, K. (2004), *Marknad och hushåll. Sparande och krediter i Falun 1820-1910 utifrån ett livscykelperspektiv*, Uppsala Studies in Economic History no. 71, Uppsala University.

Nygren, I. (1983), 'Transformation of Bank Structures in the Industrial Period: The Case of Sweden 1820–1913', *Journal of European Economic History*, 12: 29–68.

Ögren, A. (ed.) (2010), *The Swedish Financial Revolution*, London.

Petersson, T. (2000), 'Playing it safe? Lending policies of the savings bank in Nyköping 1832-1875' in L. Fälting et al, *Both a borrower and a lender be. Savings banks in the economic development of Sweden 1820-1939*, Uppsala Papers in Financial History, No.12, Department of Economic History, Uppsala University.

Petersson, T. (2001), *Framväxten av ett lokalt banksystem: Oppunda sparbank, Södermanlands enskilda bank och stationssamhället Katrineholm 1850-1916*, Uppsala Studies in Economic History no. 56, Uppsala University.

Petersson, T. (2008), '*Philanthropy* by Name, Banking by Business, The Savings Banks in Sweden, 1820-2008', paper presented at Congreso Internacional de Historia de las Cajas de Ahorros (International Congress of Savings Banks History), Murcia University, 16–18 September 2008.

Petersson, T. (2020), *Bankmarknad och ägarroll i förändring. Sparbankerna, Swedbank och sparbanksstiftelserna på 2000-talet*, Dialogos förlag, Stockholm.

Sjölander, A. (2003), *Den naturliga ordningen. Makt och intressen i de svenska sparbankerna 1882-1968*, Uppsala Studies in Economic History no. 63, Uppsala University.

Swedbank, Annual reports 2000-2018.

Swedish Bankers' Association, *Bank- and finance statistics*, 2000-2018.

Swedish Banking Statistics, SCB (Statistics Sweden).

Tracing the connections between charity and banking in the Archives of Compagnia di San Paolo

Anna Cantaluppi[1]

Author's biography

Anna Cantaluppi is an archivist and historian. She organized and arranged the creation of the San Paolo Historical Archives between 1986 and 1988; she was Head of the Historical Archives of Istituto Bancario San Paolo di Torino and Compagnia di San Paolo (1989-2018) and Director of Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo (2015-2019). Since 1997 she has coordinated the editorial series of Historical Archives. She is a frequent author of publications in two main fields: banking archives and history; modern history and literature (in particular concerning the social history of Piedmont between the 16th and 17th centuries). Her work has included curating the modern edition of the 17th century *Istoria della venerabilissima Compagnia della fede catolica sotto l'invocazione di San Paolo* by Emanuele Tesauro (2003) and co-editing *La Compagnia di San Paolo (1563-2013)*, published by Einaudi (2013). She has been member of the Academic Council of *eabh* since 2017.

1 Archivist and historian; annav.cantaluppi@libero.it

Abstract

The paper investigates, through the documents of the Historical Archives, the evolution of charity and credit, and how these concepts were expressed during various stages in the history of Compagnia di San Paolo, during the alternation between autonomy and state control, private and public ownership. The Historical Archives of Compagnia di San Paolo, managed by Fondazione 1563 per l'Arte e la Cultura, preserves and promotes access to the fonds of the ancient Compagnia di San Paolo (1563-1852), an important charitable, educational and financial institution in charge of the Turin pawn shop; of Opere Pie di San Paolo, the Society appointed by municipal and government authorities that took over the Compagnia's activities during the Risorgimento and started its banking activities; of Istituto Bancario San Paolo di Torino (1932-1991), an institute of credit governed by public law that became one of the first European banking groups, today Intesa Sanpaolo. In the future, the Archives will house the fonds of the current Compagnia di San Paolo, that was established following the separation between foundation and bank in 1992.

The connection between banking and charitable activities features prominently in Italian economic history. Compagnia di San Paolo offers an interesting case study, because during the span of 450 years it went through all the phases that characterize the history of many Italian banks. Indeed, many existing Italian banks started out as secular or religious institutions pursuing charitable goals in the Middle Ages and the Early Modern Age. In the 19th century, mutual banks and savings banks were created to provide accessible banking services. In the first half of the 20th century, most of the Italian banking sector became public: even after privatization in 1991, banking remained active in non-profit activities through foundations and local mutual banks.

Keywords

Charity and credit, public and private, banks and public usefulness, Monte di pietà di Torino Compagnia di San Paolo, Istituto Bancario San Paolo di Torino, Historical Archives of Compagnia di San Paolo

Tracing the connections between charity and banking in the Archives of Compagnia di San Paolo

A case history

The close connection between the banking sector and charitable activities features prominently in Italian economic history. Indeed, many existing Italian banks (including some of the largest ones) were originally founded in the Middle Ages and the Early Modern Age as secular or religious institutions with a charitable mission; these were 'banks for the poor', Monti di Pietà (lit. 'mounts of piety' or pawnbrokers), hospitals, educational and charitable institutions. Later, the role of charitable institutions decreased in importance and changed, as the State began to assume a more significant role in welfare, health and education in the 19th and 20th centuries. Many Monti di Pietà became progressively banks during the 19th century, but generally preserved their social vocation. In the same period, mutual banks and savings banks were set up with the social mission of providing affordable banking services. In the first half of the 20th century, most Italian banks were placed under close control by the government which assigned the members of their boards. Nevertheless, they continued to carry out good works according to the economic and social function recognized by the State; after the banks were privatized in the 1990s foundations were set up to continue this strand of activity. In this way, Italian banks have preserved their non-profit role through the work of foundations and local mutual banks.

Compagnia di San Paolo presents an interesting case: in the course of 450 years it went through all these various phases while maintaining a prominent role in the field. This virtually uninterrupted tradition is witnessed by the documentation kept in its historical archives (Cantaluppi, 2008b). The Compagnia originally started operating as a brotherhood that, by the seventeenth century, had evolved into a well-established private, charitable, educational and financial organization. Nationalization followed in the mid-nineteenth century, leading to the creation of Opere Pie di San Paolo and its subsequent transformation into an institute of credit governed by public law, Istituto Bancario San Paolo di Torino. After an initial regional expansion in 1931, San Paolo became a major international banking group from 1975 onwards. The principles guiding San Paolo's philanthropic action evolved in parallel: large grants were awarded for health, education, social and welfare; later the focus shifted towards safeguarding artistic and environmental heritage; and eventually this led to the establishment of the current foundation (see table.1).

In this short paper, I trace the history of charity, and credit in the documents held in the Compagnia's historical archives, during phases of autonomy and state control, private and public ownership, also in light of its public/private dimension. My contribution is intended to complement the paper by Professors Bermond and Piola Caselli, who addressed the same topic from a historical, economic and financial perspective at the conference in Turin. But before addressing this, however, I will provide an overview of the contents and the organization of the historical archives of Compagnia di San Paolo, managed by Fondazione 1563.

The Historical Archives of Compagnia di San Paolo

The historical archives were opened to the public more than thirty years ago by Istituto Bancario San Paolo di Torino. Following the separation between foundation and bank in 1992, the archives, located on the Turin hillside at the Vigna di Madama Reale estate, remained the property of Compagnia di San Paolo. In 2012, the management and dissemination of the archives was entrusted to Fondazione 1563, whose headquarters moved in 2015 to the newly renovated Palazzo dell' Educatorio Duchessa Isabella in Piazza Bernini in Turin. The move to this facility, equipped with state-of-the-art conservation systems, brought all the archival fonds and the consultation room under one roof (see Fig. 1).

Next to the oldest fonds, that were arranged in 1963 (Locorotondo, 1963), new transfers were gradually added, starting in the late 1980s, thanks to the appraisal of fonds of historical interest located in the bank's storage and offices. Today the archives comprise about two linear kilometres of shelving. The temporal span of the archives is extensive as well, covering the period from the foundation of the ancient Compagnia in 1563 to the start of the privatization of Istituto Bancario San Paolo di Torino in 1992. Although some archival documents date back earlier, to 1362, these concern bequests received by the Compagnia from external donors. In the future, the archives will also house the fonds produced by the current Compagnia di San Paolo and its operating bodies.

In order to make the archival collections freely accessible – both as the basis for reconstructing the Compagnia's history and identity, and as an important resource of wide-ranging research material on the history of Turin, Piedmont and Italy – Fondazione 1563 continually promotes the arrangement of the fonds, improves research tools and increase the number of documents available online. (http://archiviostorico.fondazione1563.it/). Currently nearly 500,000 pages have been made available online.

Fonds I. 'Compagnia di San Paolo (1563-1852)' has been fully digitized and frequently consulted series together with some photographic collections (about buildings, education and art series) have been digitized as well. Of these, the minutes of the deliberative bodies' meetings that were reproduced and indexed are particularly noteworthy and allow users to access an almost uninterrupted series of proceedings from 1579 to 1991.

Table 1. “San Paolo”: names used between 1563 and 2020.

Periods	Dates	Denominations	Description
1. 1563-1852	1563 - 1852	Compagnia di San Paolo	Private charity
2. 1853- 1931	1853- 1900	Opere pie di San Paolo di Torino	Public charity and bank with a mortgage department
	1901-1926	Istituto delle Opere Pie di San Paolo (Beneficenza e Credito) in Torino	
	1927-1931	Istituto di San Paolo in Torino. Beneficenza e Credito	
3. 1932 - 1991	1932-1949	Istituto di San Paolo di Torino. Credito e Beneficenza. Istituto di credito di diritto pubblico	Institute of credit governed by public law, pursuing goals of public usefulness and social interest. Commercial bank with medium and long term loans sections
	1950-1991	Istituto Bancario San Paolo di Torino. Istituto di credito di diritto pubblico	
4. 1992 -	1992-2019	Compagnia di San Paolo	Foundation (private since 2000)
	2020-	Fondazione Compagnia di San Paolo	
	1992-1997	Istituto Bancario San Paolo di Torino S.p.A	Joint stock company
	1998-2006	Sanpaolo IMI S.p.A	
	2007 -	Intesa Sanpaolo S.p.A	

Source: Cantaluppi, 2008a:24.

Six more fonds, dating from the mid-nineteenth to the late twentieth century, have been inventoried and made available online for consultation:

II. Istituto di San Paolo di Torino
III. Gestioni Egeli (Management) concerning San Paolo’s management of assets seized from members of the Jewish population and enemy nationals in Piedmont and Liguria during the Second World War
IV. Segreteria generale (General Secretariat)
V. Banche Corrispondenti (Corresponding Banks) about relations with foreign banks and international organisations
VI. Monografie artistiche (Artistic Monographs), photographic archives of the art series
VII. Personale (Personnel) with more than 4200 personal files.

Fig 1. Study room of the Historical Archives, open daily to the public.

Subsequent transfers, which can be consulted through detailed transfer lists, include fonds about Accounts Office, Technical Office, Legal Office, and Studies Office. On the website four libraries are available. Three of them – the libraries of Legal Office, Agricultural Loans Section, and Personnel Training Office – were transferred to historical archives alongside the archival fonds. The other is the study room library collection. Research tools, designed over the years in the course of research projects conducted at the archives have been made available to all, including the biographical details of thousands of brothers, administrators, benefactors and benefactresses, schoolgirls, artists together with the owners of forfeited property, seized during the Second World War. Since 1997, the series *Quaderni dell'Archivio Storico* has promoted studies in social, economic, cultural and art history derived mainly from research in the primary sources in its keeping. In 2013, to mark the occasion of the 450th anniversary of the Compagnia's foundation, *La Compagnia di San Paolo 1563-2013* collated contributions from fifty researchers from different disciplinary and historical fields who used material from the archives in their research (Barberis-Cantaluppi, 2013).

For practical purposes, I have divided the history of the Compagnia into four phases, during which the relationship between solidarity and credit assumed different forms.

1563-1852 Compagnia di San Paolo: a charity and a Mount of Piety

The year 1563 was important for two reasons. After the Treaty of Cateau-Cambrésis the Duchy of Savoy, which had been occupied during the wars between France and Spain, regained its independence and Turin became its capital. The same year, the end of the Council of Trent marked the beginning of the Counter-Reformation.

In a climate of religious tension and spiritual revivalism the Brotherhood of the Catholic Faith in Turin, soon to be dedicated to St Paul (see Fig. 2), was established by seven inhabitants of the city of Turin and a Dominican friar on January 25th 1563 with the aim of defending the Catholic faith and of helping the poor (Longo, 2007; Gotor, 2013). A few years later, the Brotherhood's spiritual guidance was entrusted to the Society of Jesus, to which it would remain connected for four centuries, and its activity began to be implemented through Opere: operating bodies devoted to specific purposes. In 1579 the first objective was to re-establish the Monte di Pietà in order to provide interest-free loans to the poor with the aim of preventing them from falling prey to usurers. This was followed by the opening of Casa del Soccorso delle Vergini in 1589 (a shelter for destitute young women), and the Ufficio Pio, or 'Pious Office' in 1595 (that provided dowries to poor young women and assisted the so-called 'ashamed poor' by visiting them discreetly, in the privacy of their homes). A century later, in 1683, the Compagnia established another operating body, the Casa del Deposito, a shelter devoted to women who had already fallen into 'dishonesty' (Maritano, 2011). These activities were typical of the charitable institutions at a time when single women were regarded as being particularly at risk, and worthy of help. The poor and the young women who took shelter at Casa del Soccorso belonged to the 'civil condition', what we would term the middle class today, from which the members of Compagnia di San Paolo were drawn. By 1595 there were over a hundred such members, primarily consisting of merchants and artisans, merchant-bankers and lawyers, state officials and town councillors. They represented the rising social ranks which Duke Emanuele Filiberto of Savoy, and his successors, relied upon for financial and political support during the long historical process that led to the creation of the modern state; and indeed several members achieved ennoblement, either by granting loans to the sovereign or by purchasing State appointments (Cantaluppi, 1999; Cantaluppi, 2013; Maritano, 2013; Bianchi-Merlotti, 2013).

Statutes and regulations reveal the aims, the organization and the functioning of the Compagnia and the Opere, while the *ordinati* (the minutes of deliberations) of the Compagnia, the Monte, the Ufficio Pio, the Casa del Soccorso and the Casa del Deposito constitute the primary source to reconstruct the history of these institutions, and their evolving internal organization and posts; as well as their relations with the city and with professional guilds, with the Church and religious orders, and with the Sovereign. They also shed light on the society and the economy of the time, revealing, for example, the detailed information about the girls who received dowries, the distribution of alms in the city districts, and the motivations of the benefactors. In the minutes, we find accounts of the deliberations concerning the reception and management of bequests. In fact, activities were funded by offerings made by the Brothers; through the collection of external donations (such donations had provided the initial capital of the Monte di Pietà, Allegra, 2013); and above all through bequests, inheritances and donations from benefactors and benefactresses. The eighteenth century witnessed the peak of this activity when the Compagnia received large bequests from prominent Piedmontese families (Colombo, 2013; Mongiano-Pene Vidari, 2013; Piola Caselli, 2013). The archives contain about four hundred documented bequests; nearly three hundred of these are complete files containing wills and donations, beneficiaries' receipts, litigation deeds, family trees, sales and rental contracts, reports and correspondence.

The Compagnia scrupulously carried out the detailed instructions left by its many benefactors, and administered the assets received – sums of money, securities, houses, farmhouses – with great care. In his *Istoria della Compagnia di San Paolo,* printed in 1657, the historian and intellectual Emanuele Tesauro outlines the Compagnia's evolution of this small religious brotherhood to a leading institution in welfare and education. Emphasizing its financial role, Tesauro shows how the Compagnia's growing reputation for administration led the Duke of Savoy, Carlo Emanuele II, to entrust the Monte di Pietà with the management of a public loan in 1653, aptly named the *Monte della Fede* 'Mount of Faith'. In return, the Monte di Pietà received an interest of a half percent to be devoted to the poor (minus the administrative costs) until the expiration of the loan in 1729 (Tesauro, [1657] 2003:295-298). In the wake of eighteenth-century absolutism, the Compagnia di San Paolo was placed under the control of the State, but the measure was merely a formality. In fact, the need for reporting led to further developments in its accounting procedures.

The ability to manage assets can be regarded as one of the elements that favoured the subsequent evolution of banking activities. The accounting records include annual accounts of each operating body and of each great inheritance received. The treasurers' annual accounts held in the archives begin in 1701 and can be considered to be final balance sheets, while *stati* (statements with annual incomes and obligations, similar to preliminary budgets), and capital and income registers (similar to modern-day inventories) date from 1729 (Piola Caselli, 2013).

The presence of ninety files concerning *censi* provide evidence of one of the Compagnia's favourite forms of investment, whereby a private individual or a municipality could be loaned a sum of money in exchange for

Fig 2. Federico Zuccari, *St. Paul*, 1607, chapel of the Compagnia di San Paolo in the church of Santi Martiri in Turin.
Copyright: Compagnia di San Paolo, Foto Piero Ottaviano, Torino.

income from a property (Giordano, 1997). Sanctioned by canon law, *censi de facto* allowed lending at interest, which was otherwise prohibited by the Church, and it came into widespread use in the sixteenth, seventeenth and eighteenth centuries (Landi, 2013; Soffietti-Montanari, 2013).

But it is from the Monte di Pietà itself that credit activities derive most directly. As early as 1584, a pilgrim on his way to Santiago de Compostela deposited a sum of money in the safe of the Monte: this was the first deposit; it went to be followed by many others during the seventeenth and eighteenth centuries, almost invariably without accruing interest (Abrate, 1963:50). As noted above, between 1653 and 1729 the Monte managed a public loan for the Duchy of Savoy. However, the modern bank actually developed from the Monte di Pietà that was re-established in Turin in 1805 under French rule (Bermond 2013:242; Bermond, 2020). Under the provisional Republican government after the annexation of Piedmont to France, Compagnia di San Paolo lost its autonomy: all its charitable activities were entrusted to new committees that espoused the ideals of the Revolution, and its assets were confiscated. The Monte di Pietà was closed down by the French in 1802 and, when it opened again three years later, it adopted the Parisian model of business, offering loans at interest. A series of ledgers starting in 1807 and continuing until the second half of the 19th century document interest-bearing pledge loans and interest-bearing deposits. At the time of the Restoration, when the Compagnia was once again put in charge of the Monte's activity, the Sovereign made the requirement that it should continue to provide loans at interest in addition to interest-free loans.

During the ‘French period’ *caritas* (private Christian charity, inspired by love for God and neighbours) was replaced with *bienfaisance* (public and secular charity), at least in theory. In practice, many Brothers joined the new committees, thus guaranteeing their continuity and regular income, as can be gathered from documents from the period preserved in the Compagnia’s archives (Merighi and Cantaluppi, 1991). After the Restoration, Compagnia di San Paolo was fully reinstated and entrusted with the task of managing health services for the poor of Turin (Lupano, 1999). During the Risorgimento, however, Cavour’s Government deemed it unsuitable for a private institute to be managing assets on such a substantial scale, because they saw the Compagnia as an expression of the *ancien régime*. After the expulsion of Jesuits from the Kingdom of Sardinia in 1848, and the enactment of laws for the abolition of ecclesiastical privileges, the management of the Compagnia’s activities and assets was entrusted to a council publicly appointed by municipal and governmental authorities.

1853-1932 Opere Pie di San Paolo: charity and credit

The archives of Opere Pie di San Paolo are subdivided into individual sections for each operating body: two charitable institutions, the Ufficio Pio and the Educatorio Duchessa Isabella; two banking institutions, the Monte di Pietà and the Credito fondiario, or ‘Mortgage Loans Section’. In order to face the growing indebtedness of landed property-owners, the State enacted a law in 1866 for the provision of ‘land credit’ to be granted by a number of institutions of significant size that had a public mission in their respective regions. This included the Opere Pie di San Paolo which operated in Piedmont and Liguria (Fornasari, 2013:217). The granting of mortgage loans against the issue of certificates characterised the activity of San Paolo for a long time, as can be gathered from the large accounting and administrative fonds held in this section. By 1879, the Monte di Pietà was operating as a lending institution similar to a savings bank, and in 1923 it obtained legal recognition for its prevalent banking activity (see Fig. 3). The terms ‘Beneficence and Credit’ in the institution’s denomination, adopted in 1901 and 1927, then inverted in 1932 ‘Credit and Beneficence’, confirms the dual nature of its activities, which came under two distinct state regulations (Table 1).

The evolution of the Monte di Pietà is evident from the balance sheets and inventory registers: in 1932 the Monte became Azienda risparmio e credito, the ‘Savings and Credit Section’ that in 1950 was called Azienda bancaria, the ‘Banking Section’. The considerable documentation on accounting held at the archives testifies to the Monte’s banking activity: its deposits, operations in securities, loans to municipalities guaranteed by tax revenues, and credit lines.

While the activity of Ufficio Pio continued and evolved, the Educatorio Duchessa Isabella resulted in 1883 from the merger between the Casa del Soccorso and the Casa del Deposito, which had both been transformed into educational institutions a long time before. The Educatorio provided young women's education from elementary to graduate level, including commercial courses, at its headquarters in Piazza Bernini. The archives contain school programmes and registers, three hundred teaching personnel files, lists and photographs of pupils, and technical documentation on the construction of the building (see Fig. 4).

Meanwhile, an important change had occurred in terms of the source of funding for charitable activities—these no longer came from bequests, whose value had been substantially diminished in the second half of nineteenth century, but from the profits of banking, as attested by the minutes and balance sheets. In line with ideas of social progress, the concept of charitable aid changed: San Paolo now supported professional and technical schools, universities and polytechnical schools, social housing, the construction of hospitals, as well as infrastructure development that accompanied the growing industrial strength of Turin (Cantaluppi, 2008a:31-34). As State control of charitable institutions increased, Ufficio Pio risked being absorbed by municipal institutions; initially at the end of the nineteenth century and then again under Fascism, when public assistance fell within the State's purview. However, San Paolo managed to maintain the autonomy of its operating bodies, due to the fact that their activity was guaranteed by funding from the bank.

1932-1991 Istituto Bancario San Paolo di Torino, a banking institution under public law

The great financial crisis of 1929, which also caused the collapse of some industrial groups and the banks that had financed them in Italy, marked the point when San Paolo grew from being a city bank to a regional bank. Building on its prudent policy and administrative efficiency, San Paolo was able to take over the deposits of Banca Agricola Italiana in Piedmont and Liguria in 1931, that had previously been owned by the industrialist Riccardo Gualino, and this led to an expansion from ten to one hundred twenty branch offices. In the context of the provisions adopted to face the crisis, the Italian government supported Istituti di Credito di Diritto Pubblico ('public-law credit institutions') to replace mixed banks in short and medium-term credit activities. In 1932, the State acknowledged the relevance of San Paolo for the national economy and its mission to support the public interest by granting it status as a 'public-law credit institution'.

It assumed the new name, Istituto di San Paolo di Torino. Credito e Beneficienza ('Institute of St Paul of Turin. Credit and Beneficence'). Note that

Fig 3. Headquarters of Istituto delle Opere Pie di San Paolo in Turin in via Monte di Pietà. Ground floor hall, home to lending and treasury activities, Turin, early 20th century.

the term 'beneficence' continues to feature, but that it takes second place after 'credit'. During the period in which it performed the function of public-law credit institution 1932-1991, San Paolo gradually grew but expanded rapidly after the Second World War becoming a large international banking group. Since it was not a public limited company, profits were not distributed, and the institution kept growing. In fact, as set out in the statutes, profits were to be allocated to the reserve fund, with the exception of two tenths share (that increased at certain times to four tenths) destined for charitable work and donations for work in the public interest. Among the major works supported in this period was the construction of the Molinette Hospital complex, the largest hospital centre in Turin, that was built in 1935. In the 1930s, new services authorised by the Bank of Italy and the State were launched, such as foreign currency trading and agricultural credit; these were accompanied the bank's territorial expansion and the opening of main branches in Genoa, Rome and Milan, and the incorporation of two mounts of piety in Piedmont (Berbenni, 2013).

The opening of new branches, the acquisition of other banks and the provision of new services had been authorised by the Bank of Italy and the State, which looked favourably on San Paolo, then chaired by Demetrio Asinari

Fig 4. Pupils at Educatorio Duchessa Isabella, Turin 1911.

di Bernezzo, a well-known figure in the economic-financial world and politically appreciated by the Fascist regime (Balbo–Rugafiori, 2013:76). But the serious implications of being a public bank with a land credit section should not be overlooked. Following the enactment of the racial laws in 1938, the institute's land credit, along with eighteen other land credits from other areas of Italy, was entrusted with the management of property seized from Jews in Piedmont and Liguria, to which were added those of enemies of war (Levi, 1998). The documentation of the seizures and restitutions has been kept in its entirety in the Gestioni Egeli fonds, which were opened for consultation at the end of the 1980s and are now the subject of digital and educational projects.

In the post-war period, led by the liberal President Anton Dante Coda, the institute played a decisive role in the reconstruction and development of Turin through mortgage loans, in the construction of the motorways system as well as support small and medium enterprises (Nicolosi, 2017; Berbenni, 2013). The new name, Istituto Bancario San Paolo di Torino, adopted in 1950, reflects the transformation from a savings bank to a fully-fledged commercial bank, with activities not only in the short term, but also in the medium and long term, as evidenced, for example, by the archives of the Public Works Section opened in 1959.

The minutes of board meetings and the financial statements have been studied to understand the great expansion that took place in the seventies under the chairmanship of Luciano Jona and continued during the chairmanship of Luigi Coccioli and Gianni Zandano. This process took place both nationally, through internal growth or the acquisition of a number of small and medium sized banks (Banco Lariano, Banca Fabbrocini, Banca Provinciale Lombarda, Banca Popolare dell'Agricoltura di Canicattì, Banca Nazionale delle Comunicazioni), and internationally. In particular, San Paolo played an important international role in the promotion of operations in ECU, presenting itself as the bank of the European Community institutions (Galea, 2013). The documentation concerning holdings and relations with other banks, the files about the opening of Italian and foreign branches, mortgage files, personnel files, and the documentation of accounting and management offer the chance to engage in specific and transversal studies on the territory, the economy, and society as a whole.

Between 1950 and 1990 San Paolo made donations to thousands of schools, hospitals, research centres, cultural and sports associations, voluntary social associations, parishes and religious orders, theatres, museums, newspapers and university institutes. The structure of the archives reveals a clear territorial connection: donations were subdivided by branch because, with the exception of larger projects, it was the local branches that supported the institutions in their area. Traditional charitable activities were now entwined with marketing policies and contributed to nurturing the key element of trust, that Luigi Einaudi emphasised as an essential feature of San Paolo (Einaudi, 1935). Renewed attention to cultural promotion and patronage also emerged and was expressed through a series of art publications (see Fig. 5) running from 1951 through to 2006 (Di Macco, 2013); the cultural magazines *Le Stagioni* and *I mesi*; the collection published by Il Mulino about great economists; and the Luciano Iona scholarships for young graduates in economics.

This process culminated with the establishment in 1985 of Fondazione dell'Istituto Bancario San Paolo di Torino per la cultura, la scienza e l'arte, which sponsored restoration projects, including one for the Egyptian Museum of Turin, and promoted a series of conferences on environmental issues. After several institutional evolutions, the institution was renamed the Fondazione 1563 per l'Arte e la Cultura of the Compagnia di San Paolo in 2012.

Privatisation and separation between foundation and bank

1992 witnessed the beginning of a privatization process that involved almost a hundred banks including savings banks, mount of piety banks and public law credit institutions. While banking activities were entrusted to new joint-stock companies, philanthropic endeavours became the core mission of the banks' historical entities, which either returned to their original nature as foundations or were turned into such.

In the case of San Paolo, the foundation revived its historical name while its banking activities were entrusted to Istituto Bancario San Paolo S.p.A, a joint stock company. At this historical moment, social activities became separated from banking and were carried out by private institutions.

Compagnia di San Paolo is currently one of the largest foundations in Europe. It promotes cultural, civil and economic development by means of the income generated through the management of its endowment. Its core business is strategic philanthropy in a wide array of fields, such as scientific research and education, the arts, cultural heritage and cultural activities, health, and social policy. The Compagnia operates mainly in the north-western part of Italy, according to a *glocal* (=global and local) approach (Cantaluppi-Watkiss, 2008; Crepax–Demarie, 2013). Recently, its activity was reorganized to reflect the United Nations Sustainable Development Goals.

The Compagnia also operates through its instrumental bodies, two of which are of ancient origin: the Ufficio Pio, which supports socially or financially vulnerable individuals and households, and the Fondazione per la Scuola, formerly Educatorio Duchessa Isabella, which promotes school innovation and educational inclusion.

After privatisation, Istituto Bancario San Paolo di Torino merged in 1998 with Istituto Mobiliare Italiano, thereby combining the Turin bank's expertise in commercial banking and its widespread distribution network, with the Rome-based bank's specialization in medium and long-term credit and financial services for business. The merger with Cardine Banca and Banco di Napoli in 2002 allowed Sanpaolo IMI to strengthen its presence in the North East and the South of Italy, becoming a leading European bank. Today, Intesa Sanpaolo, born from the merger of Banca Intesa and Sanpaolo IMI in 2007, is a leading banking group in Italy and one of the top commercial banking groups in the Eurozone. As far as the archives are concerned, as noted, the archives of Istituto Bancario San Paolo di Torino –institute of credit governed by public law – remained in charge of the foundation in Turin; the archives resulting from the mergers leading to Banca Intesa (Banca Commerciale Italiana, Cassa di Risparmio delle Provincie Lombarde, Banco Ambrosiano Veneto, and others) and IMI's archives are preserved and managed by the Intesa Sanpaolo Historical Archives in Milan.

In spite of the clear separation between philanthropy and banking activities, elements of continuity and connections remain in place. On the one hand, Fondazione Compagnia di San Paolo is an important institutional investor and the largest single shareholder of Intesa Sanpaolo banking group. On the other, like other large companies, Intesa Sanpaolo implements a rigorous corporate social responsibility programme, in the framework of which it contributes to safeguarding Italy's historical and cultural heritage and supports social initiatives.

Fig 5. Marziano Bernardi, *Ventiquattro capolavori della Galleria di Palazzo Bianco*, Torino, 1956, cover.

In addition to providing grants for the territory, the foundations have another very important function for the society, as emerged during the financial crisis. The foundations, that have played a central role in the recapitalization of Italian banks, are strategic investors, with the function of ensuring the stability of the Italian banking system. Even the assumption of this responsibility towards the community has its roots in a long-term history (Crepax- Demarie 2013, 707-708).

Reference list

Abrate, M. (1963), *L'Istituto Bancario San Paolo di Torino*, (Torino: Istituto Bancario San Paolo di Torino).

Allegra, L. (2013), 'Il Monte di pietà di Torino', [pp. 137-165] in *La Compagnia di San Paolo (1563-2013)* vol 1. W. Barberis and A. Cantaluppi (edd.) (Torino).

Balbo, I. and Rugafiori, P. (2013), 'Al comando. I vertici dell'Istituto San Paolo', [pp. 43-97] in *La Compagnia di San Paolo (1563-2013)* vol II. W. Barberis and A. Cantaluppi (edd.) (Torino).

Barberis, W. and Cantaluppi, A. (edd. (2013), *La Compagnia di San Paolo 1563-2013*, (Torino).

Berbenni, E. (2013), 'L'Istituto bancario San Paolo di Torino e l'apertura al mercato nazionale (1938-1970)', [pp. 310-335] in *La Compagnia di San Paolo (1563-2013)* vol II. W. Barberis and A. Cantaluppi, (Torino).

Bermond, C. (2013), 'Dalle Opere pie all'Istituto di San Paolo nell'ambito della prima industrializzazione torinese (1900-1937)', [pp. 239-280] in *La Compagnia di San Paolo (1563-2013)* vol. II. W. Barberis and A. Cantaluppi,(edd.) (Torino).

Bermond, C. 2020. 'Dalla Compagnia all'istituto di credito di diritto pubblico in epoca contemporanea' in Bermond C., F. Piola Caselli, con la collaborazione di A. Cantaluppi, *Filantropia e credito. Atlante dei documenti contabili, dalla Compagnia all'Istituto bancario San Paolo di Torino (secoli XVI-XX)*. Firenze: Olschki. Fondazione 1563 per l'Arte e la Cultura, Quaderni dell'Archivio Storico della Compagnia di San Paolo.

Bianchi, P. and Merlotti, A. (2013), 'Uno spazio politico d'Antico regime. La Compagnia di San Paolo fra corte, Stato e Consiglio di città', [pp. 252-315] in *La Compagnia di San Paolo (1563-2013)* W. Barberis and A. Cantaluppi, (edd.) (Torino).

Cantaluppi, A. (1999), 'La Compagnia di San Paolo: mercanti e funzionari nell'èlite torinese tra Cinque e Seicento'[pp. 81-93] in *Politica e cultura nell'età di Carlo Emanuele I. Torino, Parigi, Madrid* (International congress proceedings. Torino, 21-24 February 1995), M. Masoero, S.Mamino, C. Rosso (edd.) (Firenze).

Cantaluppi, A. (2008a), 'The history of the Compagnia di San Paolo over the centuries', [pp. 23-39] in *The Historical Archives of the Compagnia di San Paolo*, A. Cantaluppi (ed.) (Torino).

Cantaluppi, A. (2008b), 'The fonds of the Historical Archives', [pp. 41-77] in *The Historical Archives of the Compagnia di San Paolo*, A. Cantaluppi (ed.) (Torino).

Cantaluppi, A. (2013), 'Il profilo sociale della Compagnia di San Paolo nel primo secolo di attività (1563-1650)'[pp.180-207], in *La Compagnia di San Paolo (1563-2013)*, vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Cantaluppi, A. and W., David (2008), 'Compagnia di San Paolo. Philantropy and banking – four and half centuries of service', [pp. 53-67] in *Philantropy in Europe. A rich past, a promising future*, N. Macdonald and L. Tayart de Borms (edd.) (London).

Colombo, E. (2013), 'La Compagnia di San Paolo e le dinamiche del credito fra età moderna e prima metà dell'Ottocento', [pp.577-612] in *La Compagnia di San Paolo (1563-2013)* vol I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Crepax, N. and Demarie, M. (2013), 'Vent'anni dopo (1992-2012). La nuova Compagnia di San Paolo nelle parole dei Segretari generali', [pp. 683-717], in *La Compagnia di San Paolo (1563-2013)* vol. II. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Di Macco, M. (2013), 'Storia dell'arte e tutela del patrimonio artistico italiano. Il contributo della "biblioteca d'arte" dell'Istituto bancario San Paolo di Torino', [pp. 599-651] in *La Compagnia di San Paolo (1563-2013)* vol II. W. Barberis with A. Cantaluppi, (edd.) (Torino).

Einaudi, L. (1935), 'Giacenze e risparmi', *La Riforma Sociale* 42-46 (2): 129-47.

Fornasari, M. (2013), 'Dalla nascita delle Opere pie di San Paolo alla crisi bancaria di fine secolo (1853-1899)', [pp. 203-238] in *La Compagnia di San Paolo (1563-2013)* vol. II. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Galea, P. (2013), 'Da banca regionale a gruppo bancario europeo (1971-1991)' , [pp. 336-365] in La Compagnia di San Paolo (1563-2013) vol. II. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Giordano, P. (1997), *'I "censi" presso la Compagnia di San Paolo nei secoli XVIII e XIX'*, Torino: Compagnia di San Paolo, Quaderni dell'Archivio Storico.

Gotor, M. (2013), ‘Le origini della Compagnia di San Paolo e il governo del bisogno tra santità, eresia e carità (1562-1630)’ [pp.40-72] in *La Compagnia di San Paolo (1563-2013)* vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Landi, Andrea. 2013. ‘Tra censi e usure. Aspetti del pensiero giuridico europeo d’età moderna’ [pp. 83-100] in La Compagnia di San Paolo (1563-2013) vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Levi, Fabio (ed.) (1998), *Le case e le cose. La persecuzione degli ebrei torinesi nelle carte dell’Egeli, 1938-1945*, Torino: Compagnia di San Paolo, Quaderni dell’Archivio Storico.

Locorotondo, G. (1963), Archivio *Storico dell’Istituto Bancario San Paolo di Torino, Torino*: Istituto bancario San Paolo di Torino.

Longo, P. G. (2007), ‘«Eran nel mondo e fuor del mondo…»: alle origini della Compagnia di San Paolo’, [pp. 73-162] in *Per una storia della Compagnia di San Paolo (1563-1853)*, vol. III. W. E. Crivellin and B. Signorelli, (edd.) Torino: Compagnia di San Paolo, Quaderni dell’Archivio Storico.

Lupano, F. (1999), *La Compagnia di San Paolo e il servizio sanitario per i poveri nella Città di Torino 1814-1851,* Torino: Compagnia di San Paolo, Quaderni dell’Archivio Storico.

Maritano, M. (2011), ‘Le Case del soccorso, del deposito e delle forzate dalla fondazione alla rivoluzione francese’, [pp. 49-161] in *Le figlie della Compagnia. Casa del soccorso, Opera del deposito, Educatorio duchessa Isabella fra età moderna e contemporanea*, vol. I., A. Cantaluppi, W. E. Crivellin, B. Signorelli, (edd.) Torino: Compagnia di San Paolo, Quaderni dell’Archivio Storico.

Maritano, M. (2013), ‘Confratelli e benefattori. Profilo sociale e reti di relazione da metà Seicento al 1852’ [pp. 208-251] in *La Compagnia di San Paolo (1563-2013)*, vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Merighi, G. and Cantaluppi, A. (1991), ‘La Compagnia di San Paolo nel passaggio dall’Antico Regime all’Età Repubblicana,’ [pp. 303-313] in *Dal Trono all’albero della libertà. Trasformazioni e continuità istituzionali nei territori del Regna di Sardegna dall’antico regime all’età rivoluzionaria*, (Proceedings of the congress Torino 11-13 September 1989), I. Roma: Ministero per i beni culturali e ambientali.

Mongiano, E. and Pene Vidari, G. S. (2013), ‘Lasciti e doti nell’attività assistenziale e creditizia della Compagnia’ [pp. 475-508] in *La Compagnia di San Paolo (1563-2013)*, vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Nicolosi, G. (2017), ‘Banche e politica nell’Italia della Ricostruzione. La figura di Anton Dante Coda’. Introduction to Anton Dante Coda, *Un malinconico leggero pessimismo. Diario di politica e di banca (1946-1952)*, edited by Gerardo Nicolosi. Firenze: Olschki. Fondazione 1563 per l’Arte e la Cultura, Quaderni dell’Archivio Storico della Compagnia di San Paolo.

Piola Caselli, F. (2013), ‘Le politiche patrimoniali della Compagnia di San Paolo nel Settecento. Investimenti, rendite e vincoli di spesa’ [pp. 541-576] in *La Compagnia di San Paolo (1563-2013)*, vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Soffietti, I. and Montanari, C. (2013), ‘I censi, le rendite e l’usura nella legislazione e nella dottrina (secoli XV-XIX)’ [pp. 101-134] in *La Compagnia di San Paolo (1563-2013)*, vol. I. W. Barberis and A. Cantaluppi, (edd.) (Torino).

Tesauro, E. (2003 [1657]), *Istoria della venerabilissima Compagnia della fede catolica, sotto l’invocazione di San Paolo, nell’Augusta città di Torino*, A. Cantaluppi (ed.), Torino: Compagnia di San Paolo, Quaderni dell’Archivio Storico.

The administration of political decisions on credit
The minute books of the Monte di Pietà of Bologna in the sixteenth and seventeenth centuries

Armando Antonelli[1]

Author's biography

Armando Antonelli, currently archivist at the Fondazione del Monte di Bologna e Ravenna, graduated in Medieval History from the Università degli Studi di Bologna and obtained a PhD in Romance philology at the Università degli Studi di Siena. He has taught at the University of Ferrara and has attained the habilitation to teach Italian Philology and Linguistics in Italian universities. He has published over ten monographs and editions of medieval and early modern texts, and over fifty articles on history and philology.

1 Fondazione del Monte di Bologna e Ravenna; a.antonelli@fondazionedelmonte.it

The administration of political decisions on credit
The minute books of the Monte di Pietà of Bologna in the sixteenth and seventeenth centuries

This essay investigates a topic that has received little attention in historical research on the Monti di Pietà in the early modern age: that is, the dialogue existing between power and archives. It examines the modalities in which minutes were registered by administrators of the Monti di Pietà, through the analysis of the recordings of decisions made during conciliar assemblies.

To do this, the essay is structured in four parts, followed by a documentary appendix, which offers primary sources, such as some minutes from the most ancient accounting book preserved in the archive of the Monte di Pietà of Bologna. Prior to analysing the systems that the administrators used to manage power inside the Monte di Pietà of Bologna, the first part of the essay gives an account of extant research on the institution. It consists of a rapid, comprehensive evaluation of the studies that have been conducted with different scientific viewpoints, determined by the heterogeneous interests of the scholars that have produced them, with a special focus on the history, the organization and the role played by the Monte di Pietà within the city of Bologna between the fifteenth and the nineteenth century. This is followed by an accurate description of the institution, which serves as an introduction to the study of the archival sources that follows. The critical interpretation of the sources consists in a section dedicated to the study of the records' creator, that is, according to archival terminology, the governing body of the Monte di Pietà, characterized by the peculiar specificities that identify the Bolognese case. This part precedes the more innovative part of the essay, dedicated to the study and formation of an archival series: that of the minutes of the administration board of the Monte di Pietà of Bologna. This source is crucial for the understanding of the procedure with which political, administrative, managerial, economic and organizational decisions were taken by the institute's governing body. The last part focuses on the procedures of minutes recording, and it investigates the development of an internal bureaucracy of the Bolognese institute, which was able to allow the formation of the archive and its sedimentation, handling and preservation, through the provision of an inside officer—the Secretary of the Monte di Pietà of Bologna. This clerk-notary, whose juridical formation and notary competences granted the correct undertaking of the documentary and archival activities of the institution, served the governing body of the Monte di Pietà.

Review of recent research

There has been a considerable increase over the last decades in the studies dedicated to the history of the Monte di Pietà of Bologna, especially regarding the period between its foundation in 1473 and Napoleon's entry of Bologna in 1796 (Sacco, 1775; Maragi, 1974; *Alle origini,* 1984). Such studies share the interests and the themes engaged in the more general context of recent historiography. In particular, they fit in the research trends concerning the birth and development of the Monti di Pietà in Italy, the relationship between centre and periphery, the process of bureaucratization and the creation of a professional class and its education, career and organization inside the offices of the Monte di Pietà (Mita, 1990; Carboni, 2014). Such perceptive scholarly efforts on the Monte di Pietà of Bologna fully acknowledge the input coming from national and international research. They engage a series of issues and questions, especially concerning the evolution of medieval and early modern cities, the rise of regional states, with particular attention to the transition from the city-state to vaster and more complex entities, the territorial unification and the attempts made by the Papal State to centralize political power. Moreover, such scholarly efforts do not fail to consider the new instances of historical analysis, related to the precocious formation of an administrative systems and the centralization of governing functions in the Legation of Bologna between the end of Giovanni II Bentivoglio's leadership (1506) and the arrival in the city of the French army in 1796.

Broader investigations deal with the wide scope of issues mentioned above, but there also are more specific elaborations, centered on particular details; for example, the studies that thoroughly consider in an innovative way the political, financial and economic role played by the Monte di Pietà inside the city of Bologna. A city that, in the early modern age, was surely the most important city of the Papal State, after Rome, and that was able to maintain – a unique case in the territories of the Holy See – an independent Senate and an accredited ambassador in Rome. Its administration, from an institutional and political point of view, depended on the constitutional relationship between the city's government and the Papal Legate (Fornasari, 1993; Carboni, 1995). The aforementioned studies attempt to unravel the complex relations that connected the Monte di Pietà, the Roman Church and the Bolognese society from multiple points of view, such as politics, economy, finance, and welfare. In addition, the internal dynamics of the Monte di Pietà and its administration are examined in detail, highlighting their progressive closure with respect to the wider society. This closure was linked to broader dynamics, concerning the city's patrician families and the local context, where 'obedience to Rome on the one hand and the defense of the communal freedom on the other constituted the keystone of the political predominance of the patrician families' selected oligarchy' (Carboni, 1995:38).

Recent research on Bologna's Monte di Pietà engages with other essential issues, such as the institution's role in the evolution towards more stable and rational forms of government (Carboni, 1995). Finally, it considers the extension of the economic and political role played by the institution within the city, in relation to the citizens (*cives*) and the Senate at a time when the Monte di Pietà represented the city's 'treasure' (*thesoro*), providing one of its main financial resources and engines, and offering multiple additional functions alongside its main pawn broking activity (Fornasari, 1993; Carboni, 1995; Carboni, 2014).

Together with these fundamental and broad studies, some timely investigations have been dedicated to issues of diverse nature, concerning old and new historiographical trends. Among these are the relationship between the Monte di Pietà and Jewish banking activity, the 'disciplination' of society, the distribution of power and richness in the early modern age, the organization and management of archival documents, the coexistence of the ethical-political, moral-religious and managerial dimensions inside the institution. In particular, these latter dimensions permeated the economic activity of the Monte di Pietà, determining, in the baroque age, the economical orientation of the local governing class, which instituted the Monte di Pietà as a social safety net and an active means for public assistance. An example, among others, would be the welfare policy that created dowries for young needy women. All this was possible because the institution had no profit-making purposes. Nevertheless, the Monte di Pietà adopted the most up-to-date and rational techniques of management, even if 'the economic agency was not finalized to the attainment of the largest possible profit, but rather of the greatest possible social stability and usefulness' (Carboni, 2014:19).

Finally, a number of other studies have addressed very relevant issues such as: the relationship between public local banks, money, usury, the *denarino* (interest rate), frauds, the *Monti frumentarj* (cooperative grain banks), informal loans, the policy of dowries, the spoliation of the Monte di Pietà, the urban and architectural developments, the history of its archive, the iconography of the 'Man of Sorrows', the *Imago pietatis* and the aesthetics, logic and ideology of archival documentation (*Collectio actorum,* 1994; Muzzarelli, 1994; Varni, 1996; Antonelli, 1997; Chabot and Fornasari, 1997; Delbianco, 1999; Muzzarelli, 2000; Muzzarelli, 2001; Antonelli, 2003; Carboni, Muzzarelli and Zamagni, 2005; Antonelli, 2011; Carboni and Muzzarelli, 2014; Checcoli, 2015; Righi, 2017). Many of these studies have the merit of opening the local perspective to a broader comparative vision, acknowledging studies concerning other regional and national centres.

The Monte di Pietà

In Bologna, a Monte di Pietà was erected in 1473, but for several political and economic reasons had ceased operating a year later, in 1474. It was eventually re-established in 1504, becoming the strongest economic entity in the city as early as the sixteenth century. The institution's goal was to meet the widespread need for small loans from the poorer members of the population, and to prevent Christians from having to resort to Jewish usury. As in other parts of Italy, as the institute's financial stability grew, so did its means of intervention, which extended from credit to assistance, giving it increasing political clout. During the sixteenth century, the Monte di Pietà set up branches in the four quarters that compose Bologna and in the surrounding territory (Budrio and San Giovanni in Persiceto, respectively in 1531 and 1572). Having become *de facto*, during the seventeenth century, a public bank, it performed the functions of a treasury for public debts, offering deposit services and banking accounts, granting loans—though pawnbroking remained its primary activity. The Monte di Pietà carried out all this activity in a close and fruitful relationship with the ecclesiastic and lay authorities. The ecclesiastical influence, in particular, is visible in the 1576 statutes, which introduced a number of novelties to the preceding 1514 statutes, acknowledging the dispositions of the Council of Trent, and converging in this sense with the reforming activity of Archbishop Gabriele Paleotti. Besides, the institution operated in correspondence with the aspirations of the city's magistrates, in particular with the Senate and the Assunteria di Abbondanza (an extraordinary agency specifically created for the provision of grain in periods of shortage), assisting a government that had expressed its interest in maintaining civic control over the Monte di Pietà. In this way, the co-operation between ecclesiastic and civic authorities and the Presidents of the Monte di Pietà was established in Bologna; a co-operation which some scholars have seen as distinctive, compared to other places. There were around one-hundred Monti di Pietà in Italy in the second decade of the sixteenth century, a number that grew to around seven hundred by the beginning of the eighteenth century. During this time, the institutions acquired a number of credit functions. Especially in the case of Bologna, its sacredness and its moral goals were connected with the city's historical legacy, with the collegial management of the institution, with the management's rationalization, and with the support of senatorial policy, especially in times where there was a crisis of provision and a shortage of money.

The congregation of Presidents of the Monte di Pietà

The management of charity in Bologna expressed itself in the collegial government of the main *Opere Pie*; this was in keeping with the city's republican tradition, based on citizenship. Drawing on republican precedents the oligarchic formation of the city's government had been consolidated in the hands of the Senate and the main members of the patrician families. Thus, the city's autonomy from papal control was asserted, and a stable relationship with the Legate sent by the Pope was maintained, but the oligarchic control of the centres of power was entrenched. However, the management of the Monte di Pietà of Bologna distinguished itself from this due to the breadth of its representation, since its statutes ensured that a sizeable number of citizens participated in the council—the Congregation of twelve presidents that made up the main governing organ of the Monte di Pietà. The statutes secured effective management of the Monte di Pietà through the exclusion of members of the Bolognese nobility from the administration, which was entirely entrusted to the competence of professionals with proven experience (Fornasari, 1993; Carboni, 1995; Carboni, 2014). As Carboni notes,

> 'The division between political government *pro tempore* and permanent management constituted the corner stone on which the administration of the Monte di Pietà rested. This separation of roles had the merit of nipping in the bud the abuses that were perpetrated elsewhere' (Carboni, 2014:49).

The first statutes of 1514 delineated a large administrative body, in which all the different social components of the city had their representatives. The management of the Monte di Pietà created a social network in which laymen and clerics, patricians and labourers worked in concert to achieve the institution's charitable and economic goals. The Monte di Pietà's management was therefore entrusted to twelve presidents, four of whom represented urban institutions: a canon from the cathedral chapter for the secular clergy, the Friar Guardian of the Convent of the Annunziata for the regular clergy, a college doctor for the university, and a senator. Four presidents nominated among nobles and four among citizens completed Congregation. After almost half a century, there was an attempt to substitute this collegial system with a different one, imposed after the council's deliberations in 1564, according to which three presidents out of the twelve elected would remain in charge for life, instead of alternating annually as before. However, the 1576 statutes restored balance by abolishing the principle of a position's perpetuity. They sanctioned a different system, later consolidated in 1599, when a deliberation of the Congregation of Presidents weighed the principle of turnover relative to the needs for experience and institutional stability (Antonelli, 2014). On that occasion, the Congregation decided that three presidents (the canon, the university doctor and the senator) would remain in charge for three years, with the substitution of each on a different year, while the Friar Guardian would remain in charge for the whole duration of his religious office. The remaining eight presidents (both nobles and citizens) were in charge for four years, drawn from a list of sixteen names and approved by the Senate. Thus, this system cleverly combined different methods for selecting and designating the presidents. The evolution of these procedures regarding the composition of the Monte's administration reveals that the succession of office, characterized by a frequent turnover, stemmed from the monopolization of the university and of the city's labourers by members of the patrician families. Most of the presidents came from patrician families involved in politics and government, underlining the deep bond that connected the senatorial patricians and the office of President of the Monte di Pietà. The Congregation met at least once a week and was presided by the Prior, a charge that each President served in turn for one month, so as to achieve collegial management. Such collegiality was strengthened by rules that required a substantial majority for the approval of most of its deliberations (Fornasari, 1993; Carboni, 2014).

The modality of discussion on a range of issues inside the conciliar assemblies reflects all these elements. In the minutes of the deliberations taken by the Congregation of Presidents of the Monte di Pietà debate is almost never recorded, in keeping with the conventions of minute-taking adopted by many Italian city councils, at least from the fourteenth century onwards—albeit with some significant exceptions, such as the *consulte* in Florence (Sbarbaro, 2005; Tanzini, 2014). It is possible to note such conventions in the transcription presented in the appendix to this essay, taken from the initial folios of the first register of minutes of the Monte di Pietà. Here, for instance, references to the discussion and the verbalization of the debate are completely absent, and so are the formal indications that usually guarantee the formation of a proposal and the debate of an issue, which are entirely taken for granted. I believe this can be seen by studying the minutes from the months of May and June 1561 (appendix 1). The writing process shows that, whether the decisions were taken (or not) in a narrow and extra-conciliar milieu, no need was felt to register the discussions and formal procedures undertaken during the assembly, which legitimated the deliberative process. I believe this indicates that the assembly was not the place for debate, but rather the place where the validation of pre-determined decisions took place through the voting procedure (appendix 1). Other documentary sources, preserved in the archive of the Monte di Pietà of Bologna, give us a less dry and synthetic picture of the formal assembly procedures (such as the *Ordinazioni fatte dall'illustrissima congregazione del Sacro monte di pietà per norma et istruzione degl'illustrissimi signori priori pro tempore d'esso Sacro monte*):[2]

2 Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie II, Guide Priorali (secc. XVII XVIII), Registro 5, "Ordinazioni fatte dall'Illustrissima Congregazione del Sacro Monte di Pietà per norma et istruzione degli Illustrissimi Signori pro tempore di esso Sacro Monte".

> 'I, the Secretary, have personally read the statutes as they are above to the congregates and they have well heard and understood them, as it has appeared. Both these and the aforementioned statutes, prepared in the year 1653, with the addition made to them in the year 1664, have been secretly voted, confirmed and approved by the same congregates, after long and in-depth debates, with seven favourable votes and one negative vote'[3].

The transcripts rarely depart from this model. One account seems to stand out particularly, read by one of the presidents of the Monte in 1601, and recorded – given the importance of its contents – in the minute book. Here, Pompeo Vizzani questions the distinction that the Monte di Pietà of Bologna made – in his view unduly – between the poor and the nobility, favouring the former with a lesser percentage of *denarino* (interest) than the aristocrats (Fornasari, 1993: 267-273; Carboni, 2014: 44-46). His argument, irreproachable from a logical and juridical point of view, seeks to obtain economic benefits for the noble class at a moment when the city is experiencing a profound crisis. It is in the name of an egalitarian fairness, Vizzani claims, that all deserve to be granted an equal treatment, in concordance with the statutes of Bologna's Monte di Pietà[4].

It would be interesting to fully understand the system of interests applied by the Monte di Pietà of Bologna during the early modern age; a system that was only partially studied in Mauro Carboni's essays. In certain periods, this system saw the application of a variable rate of interest, depending on the type of pledge brought to the Monte di Pietà, which reflected, by implication, the person's rank or status. Less well-off people pawned less precious objects, on which consequently a less onerous level of interest was charged, in contrast to the interest levied on jewels or goods of higher value, which were evidently owned by people of higher rank.

The Secretary

The *Segretario notario* was responsible for the writing of the council's minutes, for their preservation in the institution's archive (*depositaria*), for granting access to them and for maintaining their correspondence with

3 Quali capitoli sono stati da me segretario d'ordine come sopra letti a' signori congregati e da essi (come è parso) ben intesi et uditi e dalli stessi, doppo essersi sopra quelli avuti longhi e maturi discorsi, sono stati con un segreto partito proposto, raccolto et ottenuto con voti affirmativi numero sette et un negativo confirmati et approvati tanto essi quant'anche li sopranominati capitoli fatti dell'anno 1653 e loro aggiunta fatta dell'anno 1664.

4 Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie XII, Verbali, Registro 3, "Decretorum et partitorum" (1598-1603).

other archival series (*Instrumenti*, *Bolle*, *Statuti*, *Regolamenti*). This office was created on 13 May 1561, following the expansion of the activities of the Monte di Pietà, and the growing complexity of its offices and its bureaucratic and administrative apparatus. The creation of the office of Secretary fits within the process, fostered by the administrators of the Monte di Pietà, towards the development of a professional managerial administration of the institution. There was a progressive and rationalizing refinement of the organization, of its forms and techniques of administration and of the control of its offices. The 1576 statutes, which remained valid for over two centuries, fixed the primary roles and assets of the operative structure both centrally, and peripherally (namely, the different 'branches' in the city) which were then clarified by successive regulations. The Secretary's duties, such as those of other officers and operators of the Monte di Pietà, were set out and defined culminating in the compilation, in 1629, of the first complete set of regulations for all the officials that had a role and that performed accounting and administrative tasks inside the institution. By then the Monte di Pietà was operating on two levels. The first consisted of its different urban 'branches', where pawns were deposited and loans provided, the second was the centralized level, constituted by the office of the *depositeria*. At the apex of the administrative apparatus were the Bursar and the Secretary, who played key roles, mediating between the Congregation of Presidents and the rest of the bureaucratic structure.

The Secretary had to be a Bolognese citizen, an experienced notary and member of the order, coming from a notable family and of proven good morals. He took part in the congregations, prepared the minutes, wrote all the letters, decrees and reports, preserved the documents and defended the Monte's secrets. Such a delicate position made this a key role for maintaining the consistency of the archive. By the end of the sixteenth century, the Secretary was paired with another notary, called the *istrumentario*, who had the tasks of preparing the *instrumenti*; that is the contracts stipulated on behalf of the Monte di Pietà, and of keeping a record (Carboni, 2014:154-160). The importance of the tasks entrusted to the Secretary is visible from the manuscript *Instruzioni per gl'illustrissimi e reverendissimi signori presidenti*.[5]

It has appeared to me necessary to recur to a long quotation from a primary source here because, in this specific case, it seemed of particular interest for the reader to dispose of the original text. Moreover, I believe this long passage helps to show the respect that a particular official inside the bureaucratic and administrative apparatus of the Monte di Pietà of Bologna held for the Monte's highest administrators. These administrators entrusted the Secretary with a series of offices of various kinds, including

5 Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie II, Guide Priorali

the fundamental one of the formation and management of the official documentation produced by the Bolognese institute and its governing body, as was the case with the Statutes and the conciliar minutes.

Once completed this reading, having the Bursar been dismissed, the Secretary will be ordered to read the minutes of the last congregation, following which he will read a chapter from the Statute.

In the same first ordinary congregation, the Secretary will read the booklet entitled *Memories for the Congregation,* which was introduced for the reason that the affairs of the Monte should not be delayed.

During each meeting, all the pleadings, the memorials, the instances and affairs of any sort that concern the Monte and the illustrious and revered Congregation must be shown to the congregates, orderly exposing each one of the above said, starting from the one judged as the most urgent. On each issue, the congregates' votes will be collected, beginning from the most noble and moving on according to the rank to the last congregate. Nor will another issue be engaged until the formerly proposed matter will have been completed. This procedure will be maintained, following the described order and rather postponing to another meeting those issues that do not need a rapid decision when these could compromise the comfortable carrying out of the meeting and the described method. A method that was introduced for many reasons, but especially for this one, that is, so that all the acts of the meeting could be faithfully, orderly and correctly noted by the Secretary, for him to register them subsequently in the minute book, a thing that could hardly be achieved during unruly sessions.

On the same day, once the new presidents are for the first time gathered in meeting, the Secretary will be ordered to read Pope Julius II's bull and the statutes for the distribution of the Torfanini dowries and the obligation for each one of the Presidents not to reveal the secrets of the Monte. Following this, the Presidents, both the new ones and the old, will vow full observance to the contents of the bull and the statutes[6].

As for the manner, the Prior has to know that the Secretary and the Notary have to divide in six turns the Presidents' visits to the spinsters concurring; and this to maintain good order and comfort. The Presidents will visit the aforementioned spinsters in pairs for each turn, accompanied and served by an experienced minister, in the manners and with the rules described in the regulations printed for this reason. During this last congregation, having the Prior unlocked the archive and educed and opened the box of the aforementioned extractions (*imborsazioni*), two names will be extracted among the nobles and two among the citizens. These names, being acknowledged as able to act as

6 On the endowments managed by the Monte di Pietà of Bologna to help young women create a dowry for marriage or for entering a monastery, financed by a substantial legate donated to the Bolognese institution by the Torfanini family, see Chabot, (Fornasari 1997).

President, will be written down by the Secretary in a sealed letter, which the Prior will give to the Senator in the occasion of the nomination of the new *Gonfaloniere*[7], for it to be presented to the Senate for the usual confirmation. Should the Senator be impeded, or should he refuse, the Prior will send the letter to the Senate through the Secretary of the Congregation, who in no case can refuse[8].

Towards the beginning of the eighteenth century the concern that the Monte's documents were muddled, together with the desire to safeguard its patrimonial rights, encouraged the Congregation of Presidents to plan new regulations pertaining to the archival preservation of documents. On 28 January 1706, they employed the figure who we may consider to be the Monte di Pietà's first archivist (Mita, 1990:255).

7 The term indicates an official of the city, originating from the medieval republican government, which enjoyed great prestige within Bolognese public institutions.

8 Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie II, Guide Priorali (secc. XVII XVIII), Registro 3, "Ordinazioni fatte dalla Illustrissima Congregazione del S. Monte di Pietà per norma et istruzione degli Illustrissimi Signori Priori pro tempore d'esso Sacro Monte": ' [...] Terminata questa lettura e licenziato l'economo ordinarà al segretario la lettura della passata congregazione dopo la quale farà leggere al medesimo un capitolo dello Statuto'.

'[...] Farà pure nella stessa prima congregazione ordinaria leggere dal segretario il vacchettino intitolato Memorie per la congregazione, introdotto a fine che gli affari del Sacro monte non restino arretrati.

Deve in ogni congregazione esibire alli signori congregati tutte le suppliche, memoriali, instanze ed affari di qualunque sorte concernenti il Sacro monte ed illustrissima e reverendissima congregazione, esponendo per ordine una dopo l'altra tutte le cose suddette, incominciando sempre da quella che stimerà di maggior premura, raccogliendo sopra di ciascheduna li voti de' signori congregati, incominciando sempre dal degniore, e così proseguendo per grado sino all'ultimo, né passerà a proporre altra cosa, se non dopo che sarà stato dato sfogo alla cosa proposta e così dovrà sempre fare servando sino all'ultima l'ordine suddetto, portando piuttosto ad altra congregazione quegli affari che non abbisognano di così sollecito provvedimento, quando questi potessero pregiudicare alla comoda spedizione ed al metodo introdotto per molte ragioni ma particolarmente per questa, cioè, perché tutti gli atti della congregazione possino fedelmente e con il dovuto ordine ed esatezza notarsi dal segretario per poscia registrarli nel solito libro conforme l'obbligo suo, cosa che difficilmente potrebbe ottenersi nelle sessioni tumultuarie.'

'[...] In detto giorno introdotti per la prima volta li nuovi signori presidenti in congregazione ordinerà al segretario la lettura della bolla di papa Giulio Secondo e li capitoli per la distribuzione delle doti Torfanini ed obbligo che ha ciaschedun signor presidente di tacere li segreti del Sacro monte, in seguito della quale dovranno li signori presidenti, tanto nuovi che vecchi, giurare la plenaria osservanza del contenuto in detta bolla e capitoli letti.

'[...] Quanto al modo, deve il signor priore essere avvertito che il secretario unitamente col notaro instrumentario devono ripartire in sei viaggi con buon ordine e secondo il solito tutti li processi delle zittelle concorrenti e ciò per buona regola e minor incomodo in seguito li suddetti viaggi fra di loro e cioè due signori per ciaschedun viaggio, li quali così accompagnati e serviti da ministro pratico visitano le zittelle già dette nelli modi e con le regole descritte nelle polize a tale effetto stampate. In questa ultima congregazione aperto l'archivio ed estratta ed aperta la cassetta delle imborsazioni già dette dal signor priore si estraeranno dalla borsa de' nobili li nomi di due soggetti e dalla borsa de' cittadini altri due li quali così estratti e riconosciuti attualmente capaci dall'uffizio di presidenti dovranno essere descritti dal segretario in una lettera sigillata la quale dal signor priore viene pregato il signor senatore in occasione di trasferirsi a palazzo per la estrazione del nuovo signor gonfaloniero a volerla presentare al detto illustrissimo ed eccelso senato per la solita conferma e trovandosi impedito o ricusante esso signor senatore dovrà in tal caso il signor priore trasmetterla a palazzo per mezzo del segretario della congregazione e questo non può mai omettersi.'

The Secretary, together with the Monte di Pietà's entire administrative body, was required each year to take a solemn oath following a special plea by the Friar Guardian. He enjoyed particular attention and support from the institution during his professional life—and even after it. In Bologna, dynastic succession into the position of Secretary was rare, though we should note the cases of Annibale Rusticelli, succeeded by his son Giovanni Battista, and also Costanzo Manfredi, whose place was taken by his son Valerio. Carboni provides a comprehensive list of Secretaries from 1561 to 1693 (2014: 182). The co-option of Giovanni Battista Rusticelli by the Monte di Pietà's first Secretary – Annibale Rusticelli – allowed the notary to have a young and trusted assistant—his son. He, in turn, put himself through a period of apprenticeship with the view to assuming his father's place after his death thereby avoiding a traumatic and costly hand-over.

As stated, among the Secretary's main tasks were that of being present at all conciliar assemblies and of writing the minutes. The series of minutes (*Verbali*), still preserved in the Archivio Storico of the Fondazione del Monte di Bologna e Ravenna, is made up of 202 minute books, produced by the secretaries during the conciliar assemblies in a timespan that goes from 1561 to 1924 (1561-1589; 1598-1808; 1814-1924). The paper books, for the more ancient period (which is analyzed here), contain the minutes of the periodic sessions of the Congregation of Presidents of the Monte di Pietà, during which any affair that concerned the institute's life was debated. Each book is generally provided with an alphabetical rubric, called *Abecedarium*, which allows the recovery of decision concerning varied and conspicuous matters.

Conclusions

The most innovative aspects of this chapter have addressed the formation of decisions taken by a governing body through the critical exegesis of primary sources, that is through the study of an archival series, as well as the class of officers that formed and organized it. This has raised issues about the effective handling of power by the city's governing class in the early modern age, specifically in regard to the governing body of the Monte di Pietà of Bologna, through an investigation of the system of the decision making process with respect to the procedure of its recording, archiving and transmission. This highlights the difference between the documentary memory of an institution and the undocumented mechanisms used by its governing body—differences which hold true today. Thus, the archival study of primary sources constitutes a relevant contribution to the broader history of institutions, power and written memory. ■

References

Primary sources

Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie II, Guide Priorali (secc. XVII XVIII), Registro 3, *Ordinazioni fatte dalla Illustrissima Congregazione del S. Monte di Pietà per norma et istruzione degli Illustrissimi Signori Priori pro tempore d'esso Sacro Monte.*

Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie II, Guide Priorali (secc. XVII XVIII), Registro 5, *Ordinazioni fatte dall'Illustrissima Congregazione del Sacro Monte di Pietà per norma et istruzione degli Illustrissimi Signori pro tempore di esso Sacro Monte.*

Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie XII, Verbali, Registro 1, *Decretorum et partitorum* (1561-1582).

Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie XII, Verbali, Registro 3, *Decretorum et partitorum* (1598-1603).

Secondary sources

Alle origini dei Monti di Pietà: i francescani fra etica ed economia nella Società del tardo Medioevo : studi in occasione delle celebrazioni nel V centenario della morte del beato Michele Carcano (1427-1484) fondatore del Monte di Pietà di Bologna, (1984), Bologna: Banca del monte di Bologna e Ravenna.

Antonelli, A. (ed.) (2003), *Il Giornale del Monte della Pietà di Bologna. Studi e edizione del più antico registro contabile del Monte di Pietà di Bologna (1473-1519)* (Bologna).

Antonelli, A. (2011), 'Raccogliere le carte e rappresentare l'ente: l'uso delle immagini nella documentazione del Monte di pietà di Bologna tra XVI e XVIII secolo', in *L'iconografia della solidarietà,* M. Carboni and M. G. Muzzarelli (Venezia).pages

Antonelli, A. (ed.) (2014), *I primi statuti del Monte di pietà di Bologna (1514-1576)* (Bologna).

Antonello, P. (1997), *Dalla pietà al credito. Il Monte di Pietà di Bologna fra Otto e Novecento* (Bologna).

Carboni, M. (1995), *Il debito della città. Mercato del credito, fisco e società a Bologna fra Cinque e Seicento* (Bologna).

Carboni, M. (2014), *Il credito disciplinato. Il Monte di pietà di Bologna in età barocca* (Bologna).

Carboni, M. and Muzzarelli, M. G. (edd.) (2014), *Reti di credito.Circuiti informali, impropri, nascosti (secoli XIII-XIX)* (Bologna).

Carboni, M., Muzzarelli, M. G and Zamagni V. (edd.) (2005), *Sacri recinti del credito. Sedi e storie dei Monti di pietà in Emilia-Romagna* (Venezia).

Chabot, I. and Fornasari, M. (1997), *L'economia della carità. Le doti del Monte di Pietà di Bologna (secoli XVI-XX).* (Bologna).

Checcoli, I. (ed.) (2015), *I Monti frumentari e le forme del credito non monetarie tra Medioevo ed Età contemporanea,* (Bologna).

Collectio actorum. Guida alla Fondazione del Monte e agli archivi storici dei monti di pietà di Bologna e Ravenna (secoli XIII-XX). 1994. Bologna: Fondazione del Monte.

Delbianco, M. (1999), *Le sedi storiche del Monte di pietà di Bologna*, (Firenze).

Fornasari, M. (1993), Il *"Thesoro" della città. Il Monte di Pietà e l'economia bolognese nei secoli XV e XVI*, (Bologna).

Maragi, M. (1974), *I cinquecento anni del Monte di Bologna*, (Bologna).

Mita, P. (1990) 'Gli uffici e le scritture del Monte di Pietà di Bologna. Presidenti, notai e computisti: dall'origine alla fine del Settecento.' *Il Carrobbio* 16: 248-257.

Muzzarelli, M. G. (ed.) (1994), *Banchi ebraici a Bologna nel XV secolo*. Bologna: il Mulino.

Muzzarelli, M. G. (ed.) (2000), *Uomini denaro istituzioni. L'invenzione del Monte di pietà*, (Bologna).

Muzzarelli, M. G. (ed.) (2001), *Il denaro e la salvezza. L'invenzione del Monte di pietà*, (Bologna).

Righi, L. (ed.) (2017), *Storie di frodi. Intacchi, malversazioni e furti nei Monti di pietà e negli istituti caritatevoli tra Medioevo ed Età moderna*, (Bologna).

Sacco, F. C. (1775), *Dei Monti di pietà in generale, del sacro Monte di pietà della città di Bologna dissertazioni due con la serie cronologica de' signori presidenti allo stesso monte dall'anno 1561 fino al corrente 1775 illustrata con varie annotazioni: aggiuntavi la serie de' notari segretarj del medesimo per detto tempo, ed in fine la tavola de' cognomi, e delle cose notabili*, Bologna: Nella Stamperia del Longhi.

Sbarbaro, Massimo. 2005. Le *delibere dei consigli dei Comuni cittadini italiani (secoli XIII-XIV)*. Roma: Edizioni di Storia e Letteratura.

Tanzini, Lorenzo. 2014. *A consiglio. La vita politica nell'Italia dei comuni*. Roma-Bari: Laterza.

Varni, Angelo (ed.). 1996. *Per diritto di conquista. Napoleone e la spoliazione dei Monti di pietà di Bologna e Ravenna*. Bologna: il Mulino.

Appendix 1

Fondazione del Monte di Bologna e Ravenna, Archivio Storico, Monte di pietà di Bologna, serie XII, Verbali, Registro 1, "Decretorum et partitorum ab anno 1561 usque ad 1582"

\+ 1561 +

LIBRO DE' PARTITI DEL SACRO MONTE DELLA PIETÀ AD 1582

Al[9] nome de Dio 1561.

Questo libro si è del Sacro e santo monte della pietà dela cità di Bologna, il qual libro è de carta picola de carte ducento, cioè carte 200, coperto de carta pecorina suso il quale se li scriverano tutti li partiti, che, da hora inanti, si ponerano intra li signori oficiali di esso Monte, de giorno in giorno, secondo che ocorerano in li negocii apertinenti a detto Monte et per fede del vero de volontà de' detti signori oficiali. Io Anibal de' Righi o intitulato il presente libro de mea propria mano questo dì, 13 de magio 1561, essendo priore di essi signori oficiali al presente messer Francesco Balatini.

Io Anibal de Rigo in Bologna scrissi.

Al[10] nome de Dio. A dì 13 de magio 1561

Elezzione d'Annibale Rustighelli in notaro del Monte.

Recordo come questo dì sopradetto li nostri signori oficiali che sono lì infrascritti, cioè: messer Franco Balatini priore, il reverendo conte Marco Antonio Bentivogli, il reverendo messer Leone Loenori, il reverednto padre frate Ludovico Dale Arme guardiano dela Nonciata, l'eccellentissimo dottore messer Anibal Montarentio, il magnifico messer Filipo Carlo Ghisilieri senatore, il conte Polidoro de Castello, messer Rafaello da San Piero, messer Gozadino dî Gozadini hanno eletto et deputato, per partito a fave bianche e negre, per nottaro di esso Monte messer Anibal dî Rustighelli; il qual partito si è ritrovato essere fave numero nove bianche senza alcuna de negre et Io Anibal de' Righi de comissione di essi signori oficiali ò fatto la presente memoria questo dì, mese et anno sopradetto.

Io Anibal dî Righi in Bologna scrissi

+[11] Al nome di Dio a dì 13 maggio 1561

Assonti a retrovendere certi beni alli Gambarini et fare altre cose con loro.

Recordo come questo dì li signori offitiali del Sacro Monte, per detto congregati in suffuciente numero per partito posto a fave bianche et nere et legitimamente ottenuto per tutte le fave bianche numero 10, hanno deputato et eletto il spettabile messer Francesco Balatini al presente priore et l'eccellentissimo dottore messer Annibal Monterentii, duoi di detti signori offitiali, a retrovendere agli heredi di Jacomo et Fancesco di Gambarini certi bieni stabili posti nel contado di Bologna condotti per detti Gambarini col patto di franchare nel modo, forma et per quel pretio de' quali si dice constare negl'instruenti sovra ciò fatti, overo altramente comporsi con detti Gambarini, ricevere et accettare li pretii et ogni promissione et fideiussione et ancho quietare, come parerà a detti signori deputati, anchora per publico instrumento in forma et etiamdio se fosse bisogno componere et finire ogni diferenze sopra di questo vertente et fare ogn'altra cosa necessaria anchor con pieno et libero mandato, caso che facci di bisogno alle predette cose et come più latamente di questa deputatione appare per rogito di me Anniballe Rustichelli notaro del detto Monte et signori offitiali predetti.

Annibal Rusticellus manu propria scrissi

+[12] Al nome di Dio a dì sopradetto, cioè 13 di maggio 1561

Cofirmatione overo nova deputatione di Pompeo Ballestra all'offitio del massaro del Monte da San Pietro.

Recordo che questo dì per li sudetti signori offitiali nel modo come di sopra è stato confirmato over di novo deputato et eletto messer Pompeo dî Balestri in massaro del Sacro monte di pietà di San Piero della città di Bologna con le honoranze et gravezze solite per da questo dì sino alle calende di genaro prossimo che verrà 1562. Qual messer Pompeo ha promessoper se et suoi ministri et gargioni essercitare detto offitio et ministrarlo fidelmente et secondo che conviene, tenere buon conto di tutto ciò che alle sue mani perverrà, render conto della sua ministratione ad ogni volontà di detti signori et a quelli consignare gli avanzi et fare ogni altra cosa contenuta nell'altre sue deputationi et secondo ch'egli è tenuto per la forma delli statuti di detto Monte, de' quali disse haverne piena notitia. Et per detto messer Pompeo et per ogni promessa per lui il magnifico messer Giovan Battista Maltacheti nobile bolognese principalmente et in solido con lui si è obligato et fattone la segurtà con dechiaratione che detto messer Giovan Battista sempre sia obligato come è detto sino a tanto ch'el detto messer Pompeo perseverarà nel detto offitio anchorché passasse il suditto tempo et come più latamente appare per rogito di me Annibal Rustichelli notaio prefato roborato con le clausule solite et con la pena de Xm, 1000 et giuramenti.

Annibal Rusticellus qui scrissi manu propria scrissi.

+[13] Al nome di Dio a dì 23 di maggio 1561

Elettione di Bartholomeo dî Berti all'offitio del massaro del Monte dalle Scole.

Recordo come questo dì li magnifici signori presidenti et offitiali del Sacro monte di pietà per partito posto tra loro et ottenuto in forma hanno eletto e deputato Bartholomeo figliuolo d'Annibal dî Berti in massaro del Monte presso alle Scolle dî legisti per tempo di durata da qui sino alle calende di genaro 1562 con le gravezze et salarii soliti et consueti. Qual massaro con la presentia et consenso del detto suo padre ha promesso essercitare detta massaria fidelmente, tenere buon conto delli pegni tanto in receverli quanto in renderli et conservarli e custodirli da huomo dabene, ad ogni volontàdi detti signori rendere ragione della sua ministratione et nel fine del suo uffitio consignare gli avanzi et fare ogn'altra cosa alla quale sarà tenuto di ragione et per la forma delli statuti di detto Monte. Et per detto Bartolomeo il prefato suo padre et ancho messer Pier Maria già d'Antonio dî Bonamici principalmente et in solido obligandosi hanno fatto la segurtà per ogni cosa per lui promessa volendo essere sempre ubligati sinché detto Bartholomeo perseverarà nel detto uffitio anchorché eccedesse il detto tempo et come più latamente n'appare instrumento rogato per me Anniballe Rustichelli con le clausole solite, sotto la pena de scudi mille d'oro et col giuramento.

Annibal Rusticellus notarius dicti Montis.

12 c. 2v.

+[14] Al nome di Dio a dì 9 di giugno[15] 1561

Assonti a vendere al signor dottore Montarentio un credito di soldi 125 d'oro sopra il Monte Giulio.

Recordo come li sudetti magnifici signori presidenti et uffitiali per partito posto et ottenuto tra loro legitimamente hanno deputato messer Francesco Maria Cospi et messer Francesco Ballatini duoi di loro a vendere et per titulo di vendita cedere al magnifico et eccellentissimo messer Annibal Monterentio tutte le ragioni che detti signori uffitiali in nome del detto Monte hanno sal Monte Giulio di Bologna per tanta rata di quello che piglia la somma di soldi 125 d'oro et della quale se cavano soldi 10 d'oro ogn'anno per tanto pretio quanto bastarà a detto messer Anniballe a cavarne ogn'anno del suo denaro a ragion di sette per sento et a fargline instrumento publico con le clausule solite, salvo però che se detto Monte Giulio per li superiori fosse estinto li detti signori uffitiali non siano tenuti alla difesa né di evittione del detto credito et ragioni et come più ampiamente n'appare rogito di me Annibal Rustichelli.

Annibal Rusticellus qui scrissi.

Vendita del sudetto credito fatta al detto signor dottore Montarentio per lire 600.

E a dì 12 del detto mese di giugno li sudetti messer Francesco Maria et messer Francesco Balatini assonti hanno fatto al sudetto magnifico messer Anniballe Montarentio l'instrumento della vendita et cessione del detto credito per pretio di lire 600 pagate manualmente con le clausole solite, rogato per me notaio antedetto.

+ A dì 29 di giugno 1561

Pagamento di lire 50 de quattrini fatto a suor Martha conversa nel Corpo di Christo in estintione d'un legato di lire 6 ogn'anno fattoli per dottor Marcantonio Tossignano.

Fu estinto un legato di lire 6 ogn'anno fatto per il reverendo dottor Marcantonio Tossignano a suora Martha dal Bello conversa nel monasterio del Corpo di Christo con pagarli lire 50 de quattrini et per lei alla madre badessa delli denari del Sacro monte herede del detto dottor Marcantonio per instrumento rogato ut supra.

+[16] A dì 27 di giugno 1561

Partito sopra la vendita della possessione in Vedrana da farsi al signor Christoforo Angelello dottore et senatore.

Fu posto et ottenuto el partito sopra la vendita della possessione posta nel commune di Vedrana quale era della heredità del Cavalina da farsi al magnifico et eccellentissimo signor Christoforo Angelelli dottore et senatore nel modo et forma contenuto nell'instrumento del detto partito rogato come di sopra.

14 c. 3v.

15 giugno corretto su maggio mediante sottolineatura e una nota nel margine destro riportante: anzi di giugno.

Evolutionary Archives
From description to narration

Concetta Damiani[1]

Author's biography

Concetta Damiani is an archivist with a PhD in economic history from Università degli Studi di Napoli Parthenope. Since 2015 she has worked at the Historical Archives of the Banco di Napoli Foundation. She has worked on various projects to the enhance public engagement with the archival collections at the Historical Archives of the San Pietro a Majella music conservatory in Naples, the Archives of the ex-Ilva Steel Mill in Bagnoli, the Historical Archives of the Italian energy company ENEL, and the Archives of the Industrial Union of Naples. She was also the managing director of the Historical Archives of the Chamber of Commerce of Naples between 2004—2011.

Claudia Grossi[2]

Author's biography

Claudia Grossi has been an archivist at the Historical Archives of the Banco di Napoli Foundation since 2004. She was awarded research funding from the Istituto italiano per gli studi storici 'B. Croce' in Naples from 1999–2003, and she has participated in a series of projects to

1 Banco di Napoli Foundation; concettadamiani01@gmail.com
2 Banco di Napoli Foundation; claudia.grossi@fondazionebanconapoli.it

increase the impact of archival collections at the National Archives in Naples, the Historical Archives of the San Pietro a Majella music conservatory in Naples, and of the Opera Pia del Purgatorio ad Arco in Naples. She has carried out research on archival collections and the history of the city of Naples and of southern Italy, participated in many conferences, and published many articles on related topics.

Gloria Guida[3]

Author's biography

Gloria Guida has been an archivist at the Historical Archives of the Banco di Napoli Foundation since 2004. She was awarded research funding from the Istituto italiano per gli studi storici 'B. Croce' in Naples 1999--2003, and she has worked on projects to increase the public impact of archival collections at the National Archives in Naples, the Historical Archives of the San Pietro a Majella music conservatory in Naples, the archives of the ex-Ilva Steel Mill in Bagnoli, of the ex Casa Santa Ave Gratia Plena in Naples, and the Historical Archives of the ex Casa Santa Ave Gratia Plena of Naples, and the Historical Archives of the Campano Museum in Capua. She has carried out research on archival collections and the history of the city of Naples and of southern Italy, participated in many conferences, and published many articles on related topics.

3 Banco di Napoli Foundation; gloria.guida@fondazionebanconapoli.it

Abstract

This paper describes the reasoning and the planning involved in managing and promoting of the collection of documents found at the Historical Archives of the Banco di Napoli.

The archives, which form part of the Fondazione Banco Napoli, are made up of an uninterrupted series of bank documents dating from the time of the first Neapolitan banks in the sixteenth century to the modern era, and the development of banking organizations in the nineteenth and twentieth centuries. Our foundation has implemented a policy to preserve and promote public engagement with the archives, which, in line with the tradition of protection and safeguarding the collection established during the twentieth century, offers not only pre-research preparatory services but also new forms of communication that render the archives more accessible, overcoming the idea that the documents are reserved for an inner circle of experts or specialists.

Along with the management of the archives in traditional technical-scientific terms, in 2016 a new, innovative project was created, entitled *il Cartastorie*, the Archives Museum. The museum is located in a large storage area of the archives and comprises a multimedia path in which images, sounds and video narration are used to recount stories from the archives. The idea was to develop a display that would promote public engagement with the archives and broaden their use for research into cultural heritage.

Keywords

Archives, communication, history, memory, museum, storytelling

Evolutionary Archives
From description to narration

The Banco di Napoli Foundation Archives contains precious documents from the Neapolitan banks which emerged in the middle of the sixteenth century. The archives comprise documentary evidence of all the institutions that followed, covering the twentieth century as well. Our oldest public bank document is from 1569 and the most recent contains the meeting notes written in 1997 by the Banco di Napoli Board of Directors.

Our enormous archival complex is housed in 330 rooms, eighty kilometres of bookshelves, and contains more than 360,000 registers and folders conserving about 300 million documents; the names contained in our client registers are estimated to be no less than 17 million, just for the eight oldest banks. It is therefore a documentary resource that holds an extraordinary wealth of cultural information which requires our constant management and attention. Our mission is to increase the number of people who use the archives, and to spread the word about its existence.

Our institutional history dates back centuries and can be briefly summarized. The Banco di Napoli was the last of the public banks to be created from religious organizations that were founded in Naples between the sixteenth and seventeenth centuries. It was a conglomerate of the Sacro Monte e Banco della Pietà (1539-1808); Banco dei Poveri (1563-1808); Banco della Santissima Annunziata (1587-1702); Banco di Santa Maria del Popolo (1589-1808); Banco dello Spirito Santo (1590-1808); Banco di Sant'Eligio (1592-1808); Banco di San Giacomo e Vittoria (1597-1809); and the Banco del Santissimo Salvatore (1640-1808). All of these institutions began to act in concert as an integrated organization in 1794, while maintaining their different characteristics. Political unification created the conditions for them to be brought together to form the Banco di Napoli, which became the official mint of the Kingdom of Italy, issuing its unified currency for the next sixty-five years. On May 6, 1926, after transferring currency emission to the Banca d'Italia, the Banco di Napoli became qualified as a legal public credit institution, giving it an important role in the development of Southern Italy. In 1991, in conformity with a new law, the Legge Amato, public banks were allowed to be transformed into corporations, and the Istituto Banco di Napoli di Diritto Pubblico was officially converted into Banco di Napoli S.p.A. This meant that it could offer credit services, and, with further modifications, the institution achieved its final form as the Fondazione Banco di Napoli, a foundation which was given the complete responsibility for the Historical Archives, and later the General Library and the Newspaper Archives.

Contemporary documentation shows the activities carried out by this credit institution, which was incorporated through the merger with Sanpaolo Imi in 2002, after Ina-Bnl had exercised their power as majority shareholders. It was then given the name of Istituto Sanpaolo Banco di Napoli and later Banco di Napoli S.p.A, due to the merger between Banca Intesa and Sanpaolo Imi in 2007. This collection was then taken over by the representatives of the project entitled Archivi di Intesa Sanpaolo with whom we collaborate closely when studying the remaining documentation, given its clear institutional lines. (Brignoneet al, 2006:307; Pino and Mignone, 2016:269). It is clearly important to identify the overall framework and development of an archival patrimony in which the origins and identity of each different institution can be found.

The foundation has structured their policies to facilitate the preservation and promotion of the archives, following the tenacious work of maintenance and safekeeping carried out so effectively during the twentieth century. We generally carry out the preparatory activities for research and develop new frameworks for communication that make the archives more accessible to the general public, moving beyond the circles of experts and specialists.

Managing the archives in both a traditional, as well as a technical-scientific sense involves re-organizing, preparing additional inventories and research tools that often use information technology, managing new documentary acquisitions, opening our doors for consultation, and carrying out research and editorial activities. The documentary fonds, which are open for consultation, cover a chronological period that goes from the second half of the sixteenth century to the twentieth century, and they come with one hundred and three additional research tools, of which seventy are analytical inventories.

Over the past fifteen years, we have launched a series of research and inventory projects for collections dedicated to the arts and artisanship during the sixteenth and seventeenth centuries, and the decade of French rule (1806 –1815); cataloguing was done with the use of Arianna software and included the creation of relative digital collections. A recovery and integration operation of the paper-based inventories of the corpus of documents derived from the eight ancient banks is currently underway; the work will be available for consultation through AriannaWeb, taking advantage of its inherent representative multiplicity (Poggetti, 2008).

Describing the archives today means creating mediation tools that are agile and appropriate to the task. They must represent the documentary archival holdings while taking into consideration their distinct characteristics, specificity, connections and contextual reports. However, we have to be careful to provide guidance in order to convey the key features and common values that the archives contain.

Archivists are not only required to evaluate and classify materials, they must also capture the attention of the public in order to encourage the effective transmission of lessons from the past, while making the experience relevant to contemporary life. The Archives Museum – which is part of the *Fondazione il Cartastorie*– was created as a support structure and as a complement to the traditional historical archives. It is located in a series of rooms housed within the archives, but it does not interfere with the original nature, or the operation, of the archives itself.

A state-of-the-art storytelling mechanism is targeted at a range of different audiences, and its multimedia tour uses images, sounds, and audio-video narratives to enchant visitors. The permanent multimedia exhibition is called Kaleidos, and it projects images and sounds to tell stories emerging from the pages in the archives. Visitors are treated to stories about the devotion of the city's patron saint who was believed to offer protection against natural calamities, or about dark memories of the plague of 1656, or reflections of the controversial behaviour of Raimondo di Sangro, Prince of San Severo 1770-1771.

The recent inauguration of the new area called 'Angolo Cuomo' contains multimedia content regarding themes ranging from the construction of

Figure 1. *il Cartastorie*, museum tour area 1

the San Carlo opera theatre- revisited through the words of the entrepreneur Angelo Carasale (unknown-1742)-and the discovery and recovery of the treasures of Herculaneum by engineer Rocco Gioacchino Alcubierre (1702-1780).

Telling stories is key to our chosen communication strategy, and the stories are presented in various ways. Permanent and temporary exhibition displays are linked to theatre performances, writing workshops, and musical composition and performance (http://www.ilcartastorie.it.)

All of the stories told in the museum are derived from the documentation from the ancient Neapolitan public banks. Many stories are inspired by the credit documents (and/or the relative transcriptions in the daily registers/copybooks), which offer highly detailed accounts of reasons for payment, which, in their simplicity, allow us to recover precious elements for the reconstruction of the daily life encouraging visitors to imagine themselves in the historical moment being recreated.

The objective is to enchant, to captivate, and to interest visitors by applying a communicative strategy which strikes a balance between content, vision, and emotion. This goal presents challenges: translating cultural knowledge should not entail scientific impoverishment or the banalization of content, nor must it eliminate cross-references, or exclude the many possible connections that every bit of cultural heritage contains and suggests. On the contrary, only an effort underpinned by expert knowledge can provide a translation of accessible content and at the same time be faithful to historical truths.

Written testimony, which is in itself not very attractive to visitors, requires techniques to make it intriguing and inclusive. The approach we take is to encourage visitors to become part of a participating community, where inclusion and sharing are part of the strategy to promote personal appropriation and elaboration of the material (Antinucci, 2014; Bodo et al, 2016; Palombini, 2012).

The multimedia installation, *il Cartastorie*, offers new keys to reading and communicating archival heritage-not excluding, but reinforcing and consolidating the value of the classic inventory description. This integrated promotional project, and our unconventional approach to the ‘museification’ of cultural heritage earned us an invitation to participate - as one of the examples of ‘excellence’–at ‘The Best in Heritage’, a worldwide conference in Dubrovnik in September 2018 that identified and awarded prizes for the best projects in the cultural heritage sector during the year. ■

Reference list

Antinucci, F. (2014), *Comunicare nel museo*, (Bari).

Bodo, S., Mascheroni, S., Panigada M. G. (ed.) (2016), *Un patrimonio di storie. La narrazione nei musei, una risorsa per la cittadinanza culturale*, (Milano-Udine).

Brignone, M., Cantaluppi, A., De Luca P. M. (2006), 'Gli archivi del gruppo Sanpaolo Imi dalla privatizzazione alle fusioni del 2002', in D. Porcaro Massafra, M. Messina and G. Tatò (ed.), *Riforme in corsa... Archivi pubblici e archivi d'impresa tra trasformazioni, privatizzazioni e fusioni,* Atti del Convegno di Studi (Bari, 17-18 June 2004), (Bari).

Brunelli, M. (2014), *Heritage Interpretation. Un nuovo approccio per l'educazione al patrimonio*, (Macerata).

Dal Maso, C. (2018), *Racconti da museo. Storytelling d'autore per il museo 4.0*, (Bari).

De Ianni, N. (2007), *Banco di Napoli spa 1991-2002*, Soveria Mannelli: Rubbettino

Demarco, D. (2000), *Contributo alla storia del Banco di Napoli dalle origini all'Unità d'Italia, (*Napoli).

Filangieri, R. (1940), *I banchi di Napoli dalle origini alla costruzione del Banco delle Due Sicilie: 1539-1808*, (Napoli).

Giuva, L.and Guercio M. (ed.) (2014), *Archivistica. Teorie, metodi, pratiche*, (Roma).

Minguzzi, A. Riolo, S. (2016), 'Il management della storia: quale prodotto per quale mercato', *Sinergie. Italian Journal of Management*, 34. 99: 21-38.

Palombini, A. (2012), 'Narrazione e virtualità: possibili prospettive per la comunicazione museale'. *DigItalia*, 1.7: 9-22, http://digitalia.sbn.it/article/viewFile/514/353

Pino, F. and Mignone, A. (2016), *Memorie di valore. Guida ai patrimoni dell'Archivio storico di Intesa Sanpaolo*, (Milano).

Poggetti C. (2008), 'Arianna e Ariannaweb, due strumenti fra descrizione e valorizzazione', *Atlanti*, 18: 405-415, http://www.iias-trieste-maribor.eu/fileadmin/atti/2008/Poggetti.pdf

Sessa, M. (2001), 'L'archivio storico del Banco di Napoli: un patrimonio per la cultura mondiale. Un progetto di valorizzazione e fruizione', 107-114 in M. Sessa (ed), *L'archivio e le banche: ricerca, tutela, gestione*, Atti delle giornate di studio Napoli 11-12 maggio 2000. (Napoli).

Valacchi, F. (2011), 'Una panoramica sugli inventari archivistici nel web', *J-LIS*, 2 (2011), 1, p. 1-18, DOI: 10.4403/jlis.it-4580

Valacchi, F. (2015), *Diventare archivisti. Competenze tecniche di un mestiere sul confine*, (Milano).

Website

http://www.ilcartastorie.it

Bank of Canada Archives
Background, reinvention and renewal

Jane Boyko[1]

Author's biography

Jane Boyko is the chief archivist at the Bank of Canada. As an information management and archives professional with close to 25 years' experience in the field, Jane has worked in a variety of positions throughout Canada. Before coming to the Bank of Canada she worked in institutions such as the Toronto Stock Exchange, where she created a records management and archival program; McMaster and Trent Universities, several municipal/regional archives as well as Library and Archives Canada. In addition, she was a former instructor and coordinator of the archival programs at Algonquin College and with the Archives Association of Ontario. During the 19 years, Jane has worked at the Bank of Canada she has continuously provided advice and guidance to various areas of the Bank about records keeping while at the same time ensuring access to and the longevity of the Archives.

1 Bank of Canada; jboyko@bank-banque-canada.ca

The views expressed in this paper are those of the author and do not necessarily reflect the views of the Bank of Canada.

Abstract

The Bank of Canada's 2016-2018 Medium-Term Plan[2] has outlined three themes that were important to the Bank: reinventing central banking, renewing ways of doing business, and reinforcing a culture of innovation. Many of these questions were specifically addressed by the 2018 Turin *eabh*-UPIER workshop 'Good Archives' and the conference 'Social Aims of Finance'. These are pressing concerns being addressed by banking archivists across Canada with the Bank of Canada's Archives being no exception.

In this paper, I will address the Bank of Canada Archives' role within the institution and describe forthcoming plans and what they mean for researchers, working both inside and outside the institution. In addition, the relevance of some archival research projects which have a bearing on the theme 'Good Archives and the Social Aims of Finance' will be addressed so as to demonstrate why these activities are important to the Bank of Canada.

Keywords

Bank of Canada Archives, government records, archival management, central banking, access

Bank of Canada Archives
Background, reinvention and renewal

History of the Bank and creation of Archives

Legislative beginnings

The Bank of Canada was established through an Act of Legislation on July 3, 1934. It is part of the story of Canada's coming of age after the First World War when Canada's mostly rural population was thinly dispersed and concerned about the financial well-being of Canada. Later in the century and due to the Great Depression's impact on the financial prosperity of the country, the Dominion Government established the Royal Commission on Banking and Currency in Canada, the so-called MacMillan Commission. Through a series of public consultations to understand the country's current state of

2 Medium Term Plan = 3-year strategic plan.

affairs the Commission recommended the development of a new central bank whose role would be 'to promote the economic and financial welfare of the Dominion'.[3]

Created by the government in 1934, the Bank officially commenced business on March 11, 1935 as a privately held institution. Through legislative amendments to the Bank of Canada Act, the Minister of Finance, on behalf of the Dominion Government, became chief shareholder holding 51% of the shares in 1936, thus nationalizing the Bank. By August 15, 1938 the Minister was the sole shareholder, still on behalf of the federal government, when all privately held shares were redeemed. The Bank maintains a considerable amount of independence from the government to carry out its responsibilities.

Early establishment and administration

The Bank started its life in Ottawa, housed in the borrowed offices of the Receiver General in Parliament's East Block. By 1938 it had built and moved into its new offices nearby in the Parliamentary district on Wellington Street, where it still stands today. However, along with the rented government spaces, the Bank acquired many government employees who were familiar with specific government functions that had become part of the new Bank's responsibility upon its foundation. The Bank commenced business with a chief accountant, an auditor, a securities advisor, a Staff Committee responsible for personnel related matters, and two departments: Secretary's and Research.

The Secretary's Department had a diverse set of responsibilities which covered all activities under two sections: Banking Functions[4] and Secretarial Functions;[5] the Secretarial Functions section covered responsibility for central file management. The Research Department was responsible for monetary policy and financial markets [6] and was responsible for a reference library which created a filing system specific to the Department. The filing systems created in each department were distinctly different. By 1973, when the Bank of Canada Archives was established, the centralized files section became a formalized records management programme in the Secretary's Department. In 1979 the Library was transferred to the Secretary's Department.

Discussions on the creation of an archive for the Bank of Canada started in early 1972. The impetus arose at a time when the Bank was receiving more academic requests for material, and when George Watts, an economic historian,

3 Preamble to Bill 19, An Act to Incorporate the Bank of Canada, 5th sess., 17th Parliament, 1934.

4 Banking Functions included administration, control of assets, government bank accounts; advances; government Issues and inspection of agencies (Bank of Canada Organizational Chart, 1936).

5 Secretarial Functions included Executive Committee and Board of Directors meetings, staffing, pension fund; legal matters; Bank premises; filing section; purchases and supervision of expense (Bank of Canada Organizational Chart, 1936).

6 Research Department was responsible for: monetary theory and banking statistics; economic conditions of Canada and elsewhere; public accounts and finance; investment markets; balance of payments Canada; general statistical enquiries (Bank of Canada Organizational Chart, 1936).

was writing articles on the early history of the Bank which were subsequently published in the *Bank of Canada Review*[7]. Because of these early conversations, Watts wrote a preliminary policy for the Archives. His justification for establishing one was that many of the people who had been involved in establishing the Bank of Canada had left the Bank, or would soon be doing so, with the result that corporate memory of the Bank's early years was being lost. In addition, he felt that 'enough time had elapsed to enable the operations of the Bank to be placed into some perspective'[8] and that academics in economics and other fields would require access to this information. Thus, on March 29, 1973 Governor Gerald Bouey established the Archives with the appointment of Watts as its first Archivist. Watts was the ideal candidate to establish the Archives and to develop the necessary infrastructure to support it. In a memorandum to the Bank's Senior Leadership Team, Bouey writes that the Bank:

> '...has been playing an important role in the economic life of Canada and [had] accumulated enough material related to its past activities to justify and indeed necessitate taking on this responsibility of constituting an Archive.'[9]

Watts immediately started inventorying records throughout the Bank, established collection priorities, and started developing conceptual processes as well as receiving the first transfer of records in August 1973.

Relationship with Library and Archives Canada (LAC)

Since the 1936 federal Amendment to the Bank of Canada Act, the Bank has been a publicly held Crown corporation. It has considerable independence from the rest of the Government of Canada in carrying out its responsibilities. This independence influences the Bank's activities from monetary policy to administration. Important to the story of the Bank's Archives as well, is the historical relationship between the Bank and the Public Archives of Canada (PAC).[10]

PAC, now known as Library and Archives Canada (LAC), had a broad and expanding role and mandate to preserve records of government

7 The *Bank of Canada Review* replaced the Bank's *Statistical Summary* publication in 1971. It contained all the statistics and charts previously published plus articles, speeches and press releases and was used as a vehicle to inform the Canadian public about the Canadian economy and central banking.

8 Memorandum by George Watts, 'Archives Policy for the Bank of Canada', 11 Apr. 1972, 70-16-1, Secretary's Department fonds, Bank of Canada Archives.

9 Memo from G.K. Bouey, Governor to Deputy Governors et al, 'Appointment of Archivist', 29 May 1973, 70-5-7, Secretary's Department fonds, Bank of Canada Archives.

10 Known as the Public Archives of Canada between 1912-1986; National Archives of Canada from 1987-2004; Library and Archives Canada from 2004 to present. Wikipedia, 'Library and Archives Canada, 'accessed 03 April 2018, https://en.wikipedia.org/wiki/Library_and_Archives_Canada#History_and_mandate.

departments after 1945. Over the years Public Archives of Canada sought to acquire the Bank's records. In the late 1970s, after hearing that the Bank was inventorying its records, PAC reached out to inquire if the inventory was being completed so that records could be transferred to it. However, as an independent Crown corporation the Bank felt it had the right to manage its own records. In his response to W.I. Smith, a Dominion Archivist with PAC, Governor Bouey addresses this aspect of the Bank:

> 'For a number of reasons, we have regarded it as appropriate that the central bank continue to maintain custody of all its records. Most of these reasons relate to the unique role of the central bank and the confidentiality of many of its relationships. Moreover, given the comparatively narrow and specialized purview of the central bank, even some of our older records form part of the continuing focus of interest; though they may be appropriately lodged in our Archives, we do not regard our Archive as some special form of dead storage and materials therein are likely to be in use sufficiently that we deem it best to maintain them within the institution. Finally, some materials are likely to come into our Archives only if this is our policy.'[11]

Bouey's key point was that as a central bank, the Bank of Canada, has a responsibility to protect the records of its clients. It was important for the Bank to maintain its independence in records keeping, through the formation of its Archives it would enable it to manage its records of historical value.
The reason why the Public Archives Canada approached the Bank in the 1970s stemmed from three different Cabinet Directives from 1967, 1973 and 1977 respectively, which sought to encourage government departments to transfer their records to the Public Archives of Canada. Records were to be transferred after the application of either a 25- or 30-year rule of embargo. However, the Bank of Canada, as a Crown corporation, was never listed as a department, as per the definitions in the Directives, and therefore it felt no need to comply. Even with the advent of both the federal Access to Information (ATI) (1985) and Privacy Acts (1983)[12], listing several departments and agencies—and the subsequent creation of the National Archives of Canada (NAC) Act (1987) making those departments listed in the ATI and Privacy Acts subject to the stipulations in this new Act—the Bank was still not listed.

It was not until 2006, in the ATI Act, Section 3, that the definition of a government institution was redefined, and a part B was added. This addition stipulated that 'any parent Crown corporation, and any wholly-owned

11 Correspondence from G.K. Bouey, Governor of the Bank of Canada, to W.I. Smith, Dominion Archivist, 7 Nov. 1974, 70-5-4, Secretary's Department fonds, Bank of Canada Archives.

12 Combined are referred to as the Access to Information and Privacy Acts (ATIP)

subsidiary of such a corporation, within the meaning of section 83 of the Financial Administration Act'[13] was subject to the federal access and privacy legislation. This clarification of the meaning of 'government department' corrected the oversight. Section 83 of the Financial Administration Act outlines and defines the responsibilities of the various Canadian Crown corporations. However, it is in 83(2a) of the Act that makes this connection with two items of note.

First, a Crown corporation is wholly owned if the corporation's shares are owned by the Crown or held in trust for the Crown. Second, it is noted that the directors of the corporation are either appointed by the Governor in Council or by a Minister of the Crown, subject to the approval of the Governor in Council.[14] These formulations describe the situation of the Bank of Canada and so, as of 2006, the revised ATI Act defined the Bank of Canada as an institution subject to the mandate of the National Archives for the first time. Before 2006, the Bank operated in a legislative grey area in relation to its obligation to transfer records to the Library and Archives Canada and the two institutions did not share a complete consensus on where the records of archival value should ultimately reside.

With continued pressure from the National Archives in the decade after 1987, the Bank launched an internal Archives study to determine if its collection would be better served under the umbrella of the National Archives, enabling it to ensure the Bank's compliance with all legislative obligations regarding records disposition. Letters from the National Archives addressed sections of the new National Archives Act, namely sections 5 and 6, pertaining to records of government institutions and ministerial records. The wording was explicit and indicated which records were to be transferred to the National Archives while also informing the Bank that records could not be destroyed without permission of the National Archivist.

This approach to compliance directly impacted the archival and records management functions at the Bank. As part of the Banks' strategic plan in 1992, the Archives study focused on four main areas: ownership/control of records; the Archives collection; level/quality of services; and, costs/disadvantages in maintaining the Bank's Archives and assessed the legislative requirements. More specifically the Bank assessed section 6(1) of the National Archives Act and felt there was some 'leeway in negotiating an arrangement'[15] with the National Archives. Ultimately the Bank of Canada felt that the legal requirements could be met in several ways and thus based the study's approach on a costing perspective.

13 Access to Information Act, R.S.C., 1985, c. A-1, accessed 25 April 2018, http://laws-lois.justice.gc.ca/eng/acts/A-1/page-1.html#h-1

14 Financial Administration Act. R.S.C., 1985, c. F-11, Section 83 (2) 2006, accessed 25 April 2018, http://laws-lois.justice.gc.ca/eng/acts/F-11/page-15.html#h-22

15 Report on the Archives Study, 30 Oct. 1992, 70-16-1, Secretary's Department. Bank of Canada Archives.

Three options were proposed:
Option A: Transfer the collection of National Significance to the National Archives and maintain the remaining historical collection in the Bank.
Option B: Maintain the Bank's Archives with materially reduced service levels.
Option C: Maintain the Bank's Archives with existing service levels.[16]

Ultimately Option B was chosen as it would provide the Bank a measure of cost savings and control over its archival records while maintaining them onsite at head office. The study positioned the Bank to work with the National Archives in identifying records of national significance and establishing disposition schedules pertaining to the Bank's records. An agreement was reached between the National Archives and the Bank stipulating four priorities were to be completed between May 1993 and August 1994. They were:

- To help the National Archives understand the Bank and its information management practices so that disposition priorities could be established, and multi-year disposition authorities created;
- To establish timeframes for any required disposition work as well as creating the Records Disposition Submission;
- To negotiate an agreement between the two institutions covering the custody and control of the archival records;
- To develop a multi-year disposition plan.[17]

Inherently there was still an ambiguity of purpose between the Bank and the National Archives as shown in the third bullet above. The Bank continued to hold true to its need to manage its records and Archives independently, while the National Archives assumed the eventual transfer of all records having national significance to its custody. As a direct result of a 1993 agreement, an Institutional Specific Disposition Authority (ISDA) was developed for the Bank by the National Archives. It officially came into effect in 1995[18] and covered those records created by the Bank's currency and funds management functions, since these records were regularly transferred to the records management program. The ISDA outlined which records series and files had national importance and included the following stipulation: 'The Bank shall transfer the records to the care and control of the National Archives at such time, if ever, as its *Archival Program*

16 Report on the Archives Study, 30 Oct. 1992.

17 National Archives of Canada, Agreement between the Bank of Canada and the National Archives of Canada on a Records Disposition Plan covering the period May 1993 to August 1994, 70-16-1, Secretary's Department fonds, Bank of Canada Archives.

18 Of note, either at this time or shortly before it, the Bank started applying Multi-Institutional Disposition Authorities (MIDA) which were created independently by the National Archives to assist government departments dispose of administrative records per specific guidelines and not have to apply to the National Archivist on a regular basis.

ceases to exist or at an earlier, mutually agreed date.'[19] *If ever* was the operative phrase and met the Bank of Canada's objective to manage and retain its historical records internally as outlined in the recommended option from the 1992 Archives Study.

Of note, the fourth element of the 1993 agreement between the Bank and the National Archives was never completed and no other ISDA was issued to cover the other functions of the Bank. So, for fifty percent of the Bank's core functions, there was no clear determination of the records that had enduring archival value; nor any clear authority for the Bank to dispose of records created by these functions. It was not until 2015 that this omission was corrected.

In the last few years, the Bank of Canada has maintained its archival program and has been working with the LAC to obtain the rest of the disposition authorities. The Bank is progressing towards becoming fully compliant with the new Library and Archives (LAC) Act (2012) and at the same time disposing of records, in many cases, long overdue for disposition. In 2015, the Bank and LAC arrived at a new agreement, which came into effect in January 2016. This new Records Disposition Authority (RDA) outlines the obligations of the Bank to either dispose of non-archival records or protect records as identified in the Framework to the Authority. In a similar vein to the previous ISDA, and in acknowledgement of the excellent care the Bank takes of its records, Section B.3 states:

> 'The Bank of Canada shall protect in its archives all identified archival records at the expiry of their retention periods. The Bank may choose to transfer archival records to the care and control of LAC as outlined [by the 2015 RDA]'[20].

While the terminology has changed over the course of twenty years, the intent under which the Bank holds onto and protects records of archival significance, has not changed. That LAC continues to respect the independence of the Bank, and the management of its Archives and records of national significance, is represented by this section in the RDA. Therefore, all records identified by the Bank's Archives and LAC as having historical value are housed at the Bank of Canada and will continue to remain there until such a time as the Bank decides to transfer to LAC those portions of its historical records designated as archival under the 2016 RDA.

---

19 National Archives of Canada, Agreement for the Transfer of Archival Records between Bank of Canada and the National Archives of Canada pertaining to Records Disposition Authority No. 95/029. 1995, 70-16-1, Secretary's Department fonds, Bank of Canada Archives.

20 Library and Archives Canada, Disposition Authorization #2015/021 Issued to the Bank of Canada. Library and Archives Canada. Jan. 11, 2016.

The Bank's Archives, collections and research services

From the beginning the Bank of Canada's Archives established purpose was to:

> 'Obtain through purchase or systematic flow of records all material deemed to be of continuing historical value to the institution and to interested outside parties. The principal areas of interest are those documents, artifacts, artworks, photographs and records of the institution, deemed by the Archivist to best describe the origins, operations, interests, policies and evolution of the organization.'[21]

Its mandate was informal and simply stated as 'acquiring, conserving, and making accessible the published and unpublished materials of the Bank's policy and operations.'[22] In 2002 the Archives mandate was updated to reflect the Bank's responsibility towards safeguarding the records identified by the National Archivist.

> 'The Bank of Canada Archives is the official repository for the Bank's artwork and historic records. The Archives is mandated to acquire, preserve and make accessible for present and future researchers records of historical value that provide evidence and information about the Bank's origins, policies, interests, evolution, functions, and activities. The Archives, as stipulated in its agreement with the Library and Archives of Canada, is also responsible for ensuring the long-term preservation of records which have been identified by the Librarian and Archivist of Canada as being of historic or archival importance to Canadians.'[23]

The holdings are similar to archival holdings in most central banks and reflective of that work. Most of the records in the Bank's Archives date from 1934 to present. However, there are a handful of records from earlier in the century pertaining to the issuance and publicity of War Bonds during the First World War as well as some records from the previous century such as deeds for the land upon which the Head Office is situated.

Examples of archived items

The initial intake of records acquired by Archivist George Watts included several files transferred from the Bank's Records Management Section. These were the records that Watts had consulted when he was writing his articles

21 Bank of Canada Archives Purpose and Policy, 30 June 1982, 70-5-4, Secretary's Department fonds, Bank of Canada Archives.

22 Note on Archives Policy, 12 August 1980, 70-5-4, Secretary's Department fonds, Bank of Canada Archives.

23 Bank of Canada Archives Mandate, 2002.

on the Bank's early history and included records on: the Board of Directors, foreign exchange, emergency measures, Canadian National Railways refunding issues, governmental financing and treasury bills, as well as social credit and provincial financing by the government. Archival staff actively pursued obtaining: ledgers and statistical records; news clippings; early governor's papers; photographs of people, and various Bank premises under construction; records relating to policy considerations and decisions; files dealing with isolated events such as the Bank's sale of capital stock; plus, any physical objects which could be used in a permanent display of the Bank of Canada's history.

It is interesting to note that, prior to the creation of the Archives, some governors departed with Bank records; policies concerning their removal being quite different in that era. Most significantly this occurred in two instances: Governors Graham Towers and Louis Rasminsky each removed organizational records upon their retirement. These were eventually returned to the Bank, along with several personal papers, and placed in the Archives. The former tendency to leave office with Bank records caused a trickle-down effect amongst staff for a long time after. As a result, the Archives is sometimes contacted to look at records that are suspected of previous removal. Every effort is made to return these records to the Bank with the possibility of reintegration into the collection.

Organizational evolution of the Archives

The Archives has always been situated within the administrative functions of the Bank, namely the Secretary's Department, now Corporate Services, and as part of the information management section. Originally there were three staff members but with each major restructuring that number was reduced. The Archives now resides under a section called Knowledge and Information Services (K&IS), which integrates the triumvirate of the archives, library and records management programmes. In 2011 K&IS was restructured in order to remove silos and break down other barriers. This improved the alignment of functions and enabled staff to work more collaboratively. Client requests are now triaged at a central point of entry which ensures that clients are no longer required to contact three different groups to find answers. The new structure also solved some procedural issues by eliminating the chance that different clients from the same team could request the same content, leading to different staff members unknowingly working on the same request. These improvements have enabled the teams to respond with efficiency and flexibility to client requests, from answering research queries or managing records (regardless of format), to creating an accessible information environment.

Growing and moving

Shortly after the 2011 K&IS restructuring, the Bank of Canada announced to staff that it would renovate its Head Office Complex and that all staff would relocate for three years to a temporary location. Very little was relocated to the temporary location with staff due to space restrictions; and most of the collections went into storage. Those items that went to the temporary location were placed into specially allocated spaces, such as a small portion of the reference library, two small rooms for active records and some cabinets for the Archives. Despite the immense challenge of having ninety-five percent of the collections off-site, K&IS staff provided excellent service to their clients by establishing retrieval parameters and setting clear expectations of service standards.

The return to the newly renovated Head Office Complex was a cause for celebration. The renovations included custom-designed spaces for K&IS. Upgrades included a large, climate-controlled vault area with bespoke shelving for the Archives and records area. A new space, called the Knowledge Centre, was designed to provide an area for Bank staff to access some of the published print collection, learn about various Bank services and functions, as well as provide a venue for presentations and information open houses. Having these dedicated spaces and collections onsite has made it easier to meet client requests and requirements.

The Archives today

The current Archives collections' structure is organized by department. There are a few individual fonds such as: individual Governor's fonds (Towers and Rasminsky); other committees or government agencies where the Bank's Governor played a significant role; Royal Commission records with implications for the Bank; the Staff Association and Bank of Canada Capital Stock fonds. The entire archival collection has stayed focused on the records of the Bank of Canada.

Today records are transferred through a regular disposition process from records management. With the advent of the new Records Disposition Authority from LAC the Bank can promptly apply disposition to records which have now been fully appraised. Those not having archival value can be destroyed thus reducing any risk to the Bank in holding onto records long term.

How the Archives is used

The Bank of Canada's Archives are accessed by a wide variety of people. On average, there are eighty research requests each year using approximately three months of one full-time staff resource. Most of the requests received come from internal clients, such as the Bank's Communications Department which frequently requests images for special events or other marketing projects. Requests for archival records by other departments of the Bank is rising. For example, more internal economists have been using the Archives to study past monetary policy decisions. They often search through advice and guidance records, or are searching for particular data sets, to assist in analysing recent current events and international activities.

External clients can be divided into three categories: graduate students working on their Masters or PhD theses; historians studying a specific aspect of the Bank's activities; and treasure hunters who are trying to study the movement of gold during the Second World War. More specifically, the treasure hunters search for records pertaining to the transfer of gold and securities from the United Kingdom to Canada during this turbulent time.

Excluding the Bank's penchant for nostalgia and celebrating anniversaries there are noticeable trends among requests. Sixteen years ago, the Archives received multiple requests for information surrounding Canada's role the Bretton Woods and Savanah Agreements and on Canada's experience with fixed and floating rates. Over the past ten years, the Archives has received numerous requests for information about the movement of gold and gold safekeeping during the Second World War, as well as propaganda to raise funds in Canada to support the War effort. Lately there have also been queries concerning the Bank of Canada's relationship with the Canadian government. People are examining the early legislation and subsequent amendments to the Bank's responsibilities. Other topics of interest include past chartered bank failures and financial crises; the Automotive Pact between Canada and the United States and its relation to the first North American Free Trade Agreement (NAFTA); or exchange rate data. People also ask for records from the Bank's early decades, e.g., some of the first employees and their roles in the Bank at its start-up and into the fifties. There has even been fiction[24] written about the Bank and its formative years during the Second World War. And of course, there is always a desire for the pictorial history of the Bank, its people, its activities and its buildings.

Sadly, there are still some obstacles that remain, making the granting of access to clients sometimes complicated. To overcome these obstacles, the Archives will address these barriers to access in the near future. The review will reflect the Bank's desire to renew its ways of doing business and reinforcing a culture of innovation over its next Medium-Term Plan.

Renewing its ways of doing business by removing barriers to access

Providing access to the Archives is a challenge since approximately only one percent of the records held are publicly available. This represents the portion of records which are previously published copies of press releases, annual reports, editions of the *Bank of Canada Review*, as well as unpublished content such as internal newsletters, some photos, and other records.

24 Ian McKercher, *The Underling*, (2012).

Unfortunately, the rest of the archival records are classified[25] and this poses a problem for providing access. Additionally, each file and record need to be reviewed before release to determine if there are any exemptions through federal access and privacy legislation.

The Bank's gold safekeeping files dated between 1934 and 1952 are part of the one percent of records that are open and provide an example of when review was needed. These files were released in 1997 after a letter received from the Canadian Jewish Congress and Canada's National Holocaust Remembrance Committee asked the Bank to open an investigation into its wartime gold operations. The records used for the investigation's final report, *Due Diligence*, underwent rigorous review in which the Bank not only declassified records and applied ATIP legislation but also contacted all central or other banks plus government departments for permission to release relevant content. This is the only case of large-scale application to release records that the Archives has participated in. Any records released after 1992 has been done on an ad-hoc basis as requests are made.

The current records release process is lengthy as several consultations are needed within the Bank. The process includes checking with records' Offices of Primary Interest (OPI's) to corporate Security for risk management reviews, and then finally the Bank's own ATIP office for their assessment. On top of which, the Archives must contact any third-party institution from other Canadian government departments, foreign governments, or other central banks for permission to release their content.

Moving forward the Archives is looking at a large project to open the records through the application of 10-20-30 year rules to declassify or downgrade content and then to apply ATIP rules. The anticipated outcome is that a large portion of records will be available to researchers without a lengthy wait to access the content.

Record labelling and tools for digital cataloguing

Another impediment to accessing the Bank's archival records is the need for an improved description of the records. In the past the Archives created finding aids using Microsoft Word to describe content down to the file level and by mimicking the file structure created by Records Management. Furthermore, the Archives used nine Microsoft Access databases to manage a combination of archival processes and description such as: accessioning transfers of records; capturing research requests; describing photographs, artefacts and the Bank-owned Art Collection to the item level; as well as having a complete index of the staff newsletter. In the fall of 2011, the Archives acquired MINISIS's M2A and M3[26] software as MS Access would no longer be supported.

25 Records are classified at Top Secret, Secret, Confidential or Protected A, B or C.

26 MINISIS was originally developed in Ottawa in 1975. It has developed M2A for archives management and description and M3 for museums management and cataloguing, along with several other products. Please see https://www.minisisinc.com/ for more information about the company and its products.

In anticipation of the Bank's renovations, K&IS, in June 2012, created a team to input the archival MS Word finding aids into M2A. At the same time creating an inventory of the entire collection which would then be more easily searched from than by using approximately seventy individual finding aids. This work was completed in one and a half years and the description only went to the series level. This means, when necessary, the older MS Word finding aids still need to be consulted to find the correct file and box.

Therefore, a second, medium-term project will be to fully develop the archival descriptions in M2A and reduce the need to rely on MS Word documents. The eventual outcome will be to have these descriptions available through the Bank of Canada's intranet making it easier for internal clients to access content. It is hoped that in the future the descriptions will also be made available through the Bank's website to offer external clients improved access.

As a result of the new Records Disposition Authority from LAC the Bank's Archives will be receiving more records that have never had disposition applied. Making these records available in a timely fashion will be necessary to support the work of the Bank. In combination with declassifying records and upgrading descriptions the Archives is being positioned over the next three years to provide people with greater access to the Bank's history.

Finally, a digitization project is currently underway that is being managed through the Bank's Library. Funding was provided in 2017 for the start of a mass digitization of the Bank's publications. To date, the Bank now has digital copies of all its annual reports, Statistical Summaries, *Bank of Canada Reviews*, published Governors' speeches, Bank of Canada press releases, and some of the *Bank of Canada Act* and its amendments. These will be available for Bank employees via the internal library catalogue and through the enterprise content management software (SharePoint). Portable Document Formats (PDFs) of these publications will also make it easier for the Archives to provide additional support to external clients when the content is requested. K&IS has ensured that there is more resourcing for digitization this year and the Archives is participating in the project.

Digitizing the Bank of Canada's records

Currently the Archives digitizes content on an on-demand basis when requested material needs to be delivered electronically or used for other purposes such as in electronic publications etc. Less than one percent of the collection is digitized, and the part that is consists of mostly photographs and Victory Loan campaign posters. Therefore, the need to take advantage of the resources available to get archival content digitized on a larger scale is significant.

Content from the National War Finance Committee (NWFC) fonds is being considered for such an opportunity. The NWFC was responsible for the promotion, sale and distribution of War Savings Certificates, stamps and Victory

Loan Bonds during the Second World War. While a few of the advertising materials have been digitized, having a more complete digital record of some the campaign activities is a bonus. It is a popular topic, along with gold movement, attracting researchers and history buffs alike, and the Archives is often asked for copies of the Victory Loan campaign posters.

As part of the project the Archives is also considering other areas of interest which can be digitized with minimal work. One area being considered is the Archives photograph collection. Making this collection available online would benefit many of the Bank's departments as the Bank is moving towards having a higher visibility through its website and on social media.

There is a fourth activity impacting archival records. Along with the work done with Library and Archives Canada, and the subsequent Records Disposition Authority, K&IS is also reviewing the combined records disposition schedules and file plan. Through this review retentions are being updated while records series are being reviewed for accuracy and consolidation whenever possible. Records identified by LAC are marked as historical and will eventually transfer to the Bank's Archives. The Bank's Archives has an additional role to identify those records which have value to the Bank, over and above the value to LAC. Because of these reviews, over the past two years, K&IS has winnowed down the records series from over three hundred to two hundred and fifty. This will eliminate the need for selective appraisal on both paper and electronic records which in turn frees time for archival resources to focus on other priorities.

The Bank has recently implemented Collabware in its enterprise content management system, SharePoint, to manage electronic and physical records. Retentions will be now applied to electronic records as they are created. Furthermore, part of the plan is to apply a declassification schema to the records. Once all the elements are in place disposition can commence. The implication for the Archives is more clearly identified records which will transfer at the end of a retention date with little or no access barriers, save those that fall under ATIP rules. Combined with the activities surrounding current archival records, the Archives will be in position to provide improved access not only to physical records but also to newer transfers.

Digitization leads to marketing opportunities

Aside from digitization the Archival collections are being socialized in ways they never have been before. Over the past few years there has been substantial requests for images, especially those surrounding the Bank's head office and its construction in the thirties and then the addition of the towers in the 1970s. These and other historical images have been presented in special internal publications; as a special section in the staff magazine *Bank Notes* and now on social media. The new Bank of Canada Museum has also approached the Archives and some artefacts are on display in the Museum to help illustrate the Bank of Canada's history. The Museum gift shop has reproduced several of the Victory Loan

Campaign posters and is selling the images on postcards, mugs, hats etc. In addition, they are considering designing a series of Christmas cards which would showcase archival content. Aside from other departments tapping into the Archives collection, K&IS is also highlighting aspects of the Archives collection.

Before the 2011 changes, and as part of the broader records management team meetings, the Archives created an 'Archival Moment' which showcased an item or photo in a five-minute presentation usually delivered at the end of the meeting. It was used as a vehicle to introduce the team to the work and collections of the Archives. The 'Archival Moment' has now morphed from five minutes to thirty, changed its name to 'From the Archives' and is available throughout the Bank. The expanded version focuses on a specific historical event, a fonds, an aspect of a fonds, or Bank activity, and is delivered as a presentation in our new Knowledge Centre. These popular bilingual sessions are delivered internally with a hands-on component for other employees to see and handle archival records.

Conclusion

Over the past few years, the Archives has supported several initiatives in K&IS and at the Bank. It provided background material to Facilities Services prior to the renovations and then after the move back. It has provided documentation of past financial crises to support research into the future. The history it holds supports the Bank of Canada Museum which tells not only the history of the Bank to the public but more specifically tells story of the Bank's functions and helps Canadians understand the economy. However, it has struggled to provide full access to content to meet the changing demands of the Bank.

Through current initiatives the Archives is seriously examining how it is supporting its clients and examining its oversight of its historical records responsibility. Like the phoenix rising from ashes the Archives is looking at ways renewing itself so that it can be part of the solution and help to reinforce a culture of innovation. Does this earn it the qualification 'good archives'? Perhaps. The Archives has reached a tipping point and it is certainly time for it to participate more fully in the digital age. Only in this manner can it become more integrated in the collaborative online venture that the Bank aspires to. It can only be demonstrated over time if these initiatives will be successful in providing the type of stewardship and access necessary to continue to maintain its collection onsite and to meet access demands. Forbes suggests that 'We are amid the largest era of institutional change in the history of our planet. We're calling it 'the Great Rewrite.''[27] After all, is 'reinvent' not a synonym for 'rewrite'? Is this not what archives around the world are doing to meet research demands? Will this reinvention be a full rewrite? It can

27 Forbes Media, 'The Great Rewrite,' KPMG Voice, accessed 02 May 2018 https://www.forbes.com/kpmg/the-great-rewrite/#/0.

certainly be hoped that having celebrated its forty-fifth anniversary in 2018 date, the Bank of Canada's Archives will be finally coming of age.

Reference list

'Agreement for the Transfer of Archival Records between Bank of Canada and the National Archives of Canada pertaining to Records Disposition Authority No. 95/029'Canada.

Archives Mandate, Bank of Canada Archives (2002). Archives Mandate. (Ottawa)., 2002.

Bank of Canada (2018), 'About the Bank'. Accessed April 3, 2018, https://www.bankofcanada.ca/about/.

Bank of Canada, (2005), *The Bank of Canada: An Illustrated History,* (Ottawa).

Bank of Canada (2018), 'About the Bank of Canada, 'Knowledge Centre.' Accessed April 25, 2018, https://intranet-en.bank-banque-canada.ca/the-bank/234-wellington/knowledge-centre/.

Bank of Canada (2015), Central Banking for the New Era: The Bank of Canada's 2016-08 Medium-Term Plan, (Ottawa).

'Canada. Access to Information Act. R.S.C.', (1985), c. A-1. Accessed 25 April 2018, http://laws-lois.justice.gc.ca/eng/acts/A-1/page-1.html#h-1.

Financial Administration Act. R.S.C., 1985, c. F-11. Accessed 25 April 2018, http://laws-lois.justice.gc.ca/eng/acts/F-11/page-15.html#h-22.

Fullarton, D.D. H. (1986), *Graham Towers and his Times*, (Toronto).

House of Commons (1934), 'Canada. Bill 19. An Act to Incorporate the Bank of Canada. 5th sess., 17th Parliament', (Ottawa: House of Commons).

Knowledge and Information Services (2017), 'Entente: Bank of Canada'.

Library and Archives Canada. Disposition Authorization #2015/021 Issued to the Bank of Canada. Ottawa, Jan. 11, 2016.

McKercher, I. (2012), *The Underling*, (Renfrew).

MINISIS Inc. 'MINISIS Inc. Company Overview.' Accessed April 25, 2018, https://www.minisisinc.com/.

National Archives of Canada (1995), Agreement for the Transfer of Archival Records between Bank of Canada and the National Archives of Canada pertaining to Records Disposition Authority No. 95/029 (. Ottawa) a, 1995.

National Archives Act, Revised Statutes of Canada 1985 c.1 (3rd Supp.). Accessed April 25, 2018, http://laws.justice.gc.ca/eng/acts/N-2.5/20021231/P1TT3xt3.html.

Powell, J. (2005), A *History of the Canadian Dollar*, (Ottawa).

Schembri, L. 'Canada's Experience with a Flexible Exchange Rate in the 1950s: Valuable Lessons Learned', Bank *of Canada Review,* Spring 2008: 3-10.

Secretary's Department fonds, Bank of Canada Archives, Ottawa, Ontario, Canada.

'The Great Rewrite'. *KPMG Voice.* Accessed 02 May 2018, https://www.forbes.com/kpmg/the-great-rewrite/#/0.

Watts, G. (1993), *The Bank of Canada: Origins and Early History*, (Ottawa).

Wikipedia, 'Library and Archives Canada,' accessed 03 April 2018, https://en.wikipedia.org/wiki/Library_and_Archives_Canada#History_and_mandate.

Johannesburg's financial globalization (c.1880-1910) & South African financial archives

Mariusz Lukasiewicz[1]

Author's biography

Mariusz Lukasiewicz is a lecturer in African history at the Institute for African Studies, University of Leipzig. His research and teaching interests focus on the history of economic institutions and financial intermediaries in a global historical perspective. His current research project investigates the business history of African stock exchanges in the post-independence period.

1 Institute for African Studies, University of Leipzig; mariusz.lukasiewicz@uni-leipzig.de

Abstract

This chapter discusses South Africa's 19th century financial environment by drawing on the archives of the Johannesburg Stock Exchange (JSE), the Standard Bank of South Africa, and their partner financial intermediaries in Johannesburg and Europe. The JSE archives, housed at the JSE headquarters in Sandton, Johannesburg constitute a virtually complete set of internal management and member journals of the Exchange, making it the oldest existing repository of stock exchange documents in sub-Saharan Africa. The JSE's earliest archival documents reveal the development of global financial and political networks between the capital markets of Kimberley, London, Paris and Johannesburg in the Exchange's formative years. Although the future of record-keeping and archival management in South African financial institutions remains uncertain, this chapter provides a survey of Johannesburg's undervalued archival collections with the aim of promoting greater awareness of South Africa's financial history during the first age of financial globalization.

Keywords

Stock exchange, financial globalization, archives, South Africa, Johannesburg

Johannesburg's financial globalization (c.1880-1910) & South African financial archives

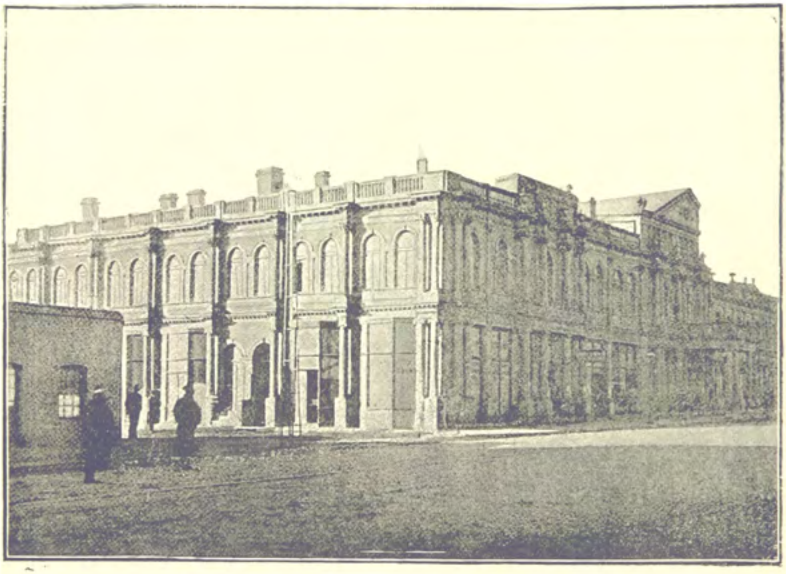
The multiple gold discoveries in the newly independent South African Republic (ZAR) in the early 1880s transformed the small agricultural economy into an industrializing settler republic on the brink of a mining and financial revolution.[2] In 1886, the largest gold deposits were discovered on the range of hills known as the Witwatersrand, changing the course of South African history. The beginning of the gold rush ensured that the ZAR, and later the whole South African colonial economy, experienced an economic transition which led to the birth of a new financial industry, that ultimately contributed to the increasing polarization of the region's racialized society. The rapid increase in gold production in and around the town of Johannesburg generated an explosion of growth in local, colonial and foreign financial intermediaries such as banks,[3] insurance companies and brokers, and most significantly, the Johannesburg Stock Exchange (JSE). The development of the ZAR's gold mining industry ensured that the whole Southern African regional economy

2 More commonly known as the Transvaal.
3 For a comprehensive early history of banking in the South African Republic, see: Arndt, 1928:336-345.

experienced an economic revolution which would come to be dominated by international financial capitalism (Richardson and Van Helten, 1980).

Founded on the 8th November 1887, the JSE contributed to the exceptionalism of South Africa's early financial history, creating an alternative capital market to London and other Southern African exchanges in the Cape Colony and Natal. From its early beginnings in a canvas tent on the dusty gold fields of Johannesburg to the prominence of its current strategic location in Johannesburg's new financial centre in the suburb of Sandton, the JSE connected South Africa's natural resource industries with international financial and human capital (Lukasiewicz, 2017). Despite being the oldest, and most capitalized stock exchange on the African continent, its business history, and especially the history of its formation and integration with global capital are largely unknown to financial historians, both in South Africa and in the rest of the world. Johannesburg's financial archives in general, and the JSE's in particular, provide an outstanding testimony to reflect on many aspects of financial infrastructure and financial globalization during the late 19th century.

Figure: 1. The Johannesburg Stock Exchange in 1893.



15.—THE EXCHANGE.—PHOTOGRAPHED BY GANNON AND HAWKSEY.

Source: Digitized by British Library.

The internal records, such as the almost inaccessible collection of internal JSE administrative journals that have been sporadically consulted, shed light on the organisation's structural, operational and administrative capacity. The JSE archives, housed at the JSE headquarters in Sandton, constitute a virtually complete set of internal management and member journals of the Exchange. Although the majority of the collection is devoted to journals of the JSE Management Committee, some of the most interesting documents include pension schemes, members' subscription fees, members' legal disputes, internal accounting books and various permanent, or temporary sub-committees. By studying these collections and mapping the international correspondence, one can conclude that the establishment of Africa's premier capital market was not a stand-alone institutional project, but clearly one that depended upon an imported legislative structure, as well as its extensive connections with regional, local and global financial institutions.

This chapter describes South Africa's main business records and archival holdings of sources for research into Johannesburg's financial industry, with a particular focus on the JSE and its partner intermediaries, in its formative period between 1880 and 1910. A review of the primary sources available provides an introduction to the JSE's foundation, growth and interaction with Southern Africa's gold mining trade and the global capital market. The archival collections and business records discussed serve as an intellectual call to carefully examine the concealed narratives of colonial business enterprise in South Africa.

Modern corporate histories often serve as necessary publicity tools, uniting staff members and their separate departments in a common organisational framework, they often risk being seen as 'interesting,' but ultimately not relevant to the very society and economy they operate in. More important for the historical materials in business historiography, financial records are particularly vulnerable at periods of substantial political and economic transformation. It is thus essential to bear in mind that the majority of the primary records reviewed here date from a period when British colonial and South African apartheid-era institutions were geared to the exploitation of Africa's natural, capital and most significantly, human resources. As controversial and sensitive as South African economic history has been during the nation's political transformation to democracy, little research has dealt with specific institutional histories of financial intermediaries that still continue to drive the post-apartheid economy.[4] The ideological nuances in all the archival doc-

4 This was recently confirmed by South African History Archive's attempt to gain access to the South African Reserve Bank's records relating to apartheid era economic crimes. The High Court of South Africa ruled in the Bank's favour, stating that such disclosure of documents would jeopardize the economic interests and financial welfare of South Africa. See: Statement by the South African History Archive. https://www.opensecrets.org.za/court-strikes-blow-transparency/. For discussion on the historical responsibility of South African mining sector see: Ansari, S., 2017.

uments exposed in this review, their past interpretations and complex interrelations need to be analysed in the present context of a democratic South Africa (Dominy, 2017). The wider objective of this review is to shed light on Johannesburg's financial archives and to revive the discussion of South Africa's financial past.

Towards a history of stock exchanges in South Africa

Historically, the African continent has attracted far less financial capital than other parts of the world in relative and absolute terms (Rönnbäck et al, 2019). Although African capital markets continue to lack significant liquidity and offer a comparatively narrow range of financial products, transactions on stock exchanges in many parts of Africa have proved to be some of the best performing and most lucrative worldwide (Schiereck et al, 2018). While capital markets in Western economies have suffered from a drop in listed companies since the turn of the millennium, the number and value of listings at stock exchanges on the African continent is increasing, and the importance of stock exchanges for equity issues is being recognized by local and foreign investors in Africa (Ojah, K. and Kodongo, O., 2015). Even if the growth in IPOs on stock exchanges in Africa has been primarily driven by government privatization programs, investors in mature capital markets view the trend as proof of the continent's reintegration into the global economy (Moss, 2003:5). Given this rise in interest, and trade, in African securities (Ntim, 2012), it is surprising, and perhaps a little alarming, that the early history of the stock exchanges in Africa remains unexplored. Isolated studies, such as that of Moss, have focused on the major development of African stock exchanges in the post-independence era (Moss, 2003), but the history of African stock exchanges during the first age of financial globalization, between 1870 and the Great War, remains largely unknown and under-appreciated by business, as well as economic and financial historians.[5]

Although securities were traded on informal markets at an earlier date, the first official stock exchange on the African continent was the Alexandria Stock Exchange. Founded in 1883, shortly after the Anglo-French invasion of Alexandria, it was loosely tied to the Cairo exchange in 1906 to form the Egyptian Exchange. Despite the strategic political objectives of the Alexandria Stock Exchange, a significant amount of capital directed at underdeveloped financial markets in Africa made its way south (Lukasiewicz, 2019). It was in Southern Africa where most of the stock exchanges on the African

5 Michie discusses the development of securities markets in Southern Africa as part of global settler colonialism in the Southern Hemisphere that was preceded by growth in capital-intensive mining. See: Michie, 2007:108-9 For discussion on South African capitalism in the first age of financial globalization. See: Hart, K., and Padayachee, V, 2013: 62-4.

continent took place prior to the Great War (See Table 1). First in Kimberley in the Cape Colony during the diamond rush of 1870s, and then in Johannesburg in the ZAR from 1886, colonial and international financial intermediaries underwrote and financed the largest wave of mining investments on the African continent during the 19th century (Rönnbäck et al, 2019).

Table 1: African Stock Exchanges in 1903

Country	Location of Stock Exchange	Official Year of Establishment
Egypt	Alexandria Cairo	1883 1903
Rhodesia	(Salisbury Harare) Bulawayo Gwelo (Gweru) Umtali (Mature)	1894 1894 1898 1898
S. Africa	Kimberley Pietermaritzburg Barberton Johannesburg Cape Town Durban	1880 1881 1885 1887 1889 1889

Source: Lukasiewicz

The contemporary business accounts and commentaries indicated that following the discovery of large scale deposits of gold in South Africa in 1886, mineral discoveries transformed the rural hinterland and shaped the economy with unprecedented speed (Phimister, 2018). Johannesburg underwent a rapid development of industrial enterprise, mining, construction and financial services during the early months of 1888 (Jeppe, F., 1889). Once the production of gold from the mines was underway, the rise of multiple financial institutions and intermediaries provided the economic opportunities on which the mining industry was built. The township of Johannesburg grew from a small mining camp into a volatile industrial city of thousands over the space of a decade, creating the first site on the African continent where capital, labour and industry came together in a violent colonial confrontation over territorial control between British and Boer settlers (Nuttall et al, 2008).

Johannesburg Stock Exchange and 19th century global finance

Before national governments began to implement stronger regulation of various aspects of stock exchanges during the 20th century, the development of rules and regulation were left to the operators of the exchanges. Even though financial markets had existed for centuries, the globalization of Western capital in the 19th century straddled distinct political jurisdictions that differed in economic infrastructure, legal institutions and corporate culture, and which embraced a multiplicity of trade-generating factors such as economic endowments, technologies and investor preferences (Obstfeld et al, 2004:10). The JSE may have been located inside the ZAR, but Pretoria's republican government exerted minimal oversight and regulatory control. The early experience of trading the shares of South African mining companies on the London Stock Exchange (LSE), meant that the JSE used it as a model (See: Lukasiewicz, 2017:722-4). Based on the financial developments during the Kimberley diamond boom, and the short gold rush in Barberton in the eastern part of the ZAR in the early 1880s, there was an obvious bias towards the shared common corporate heritage and colonial financial administration in London (See: Michie, 2007:107-8.).

Initially, the JSE was an independent financial institution, governed only by its own rules and regulations approved by the JSE General Committee. The separate ownership of the JSE building and the actual management of the Exchange created a complex web of interested parties with very different economic and social objectives (See: Lukasiewicz, 2019). The original owner and proprietor of the JSE, the Johannesburg Exchange & Chambers Company was founded in late 1887 by the London-born and Kimberley-trained mining speculator Benjamin Woollan, but was only formally registered in the ZAR on 28 February 1888 (Jeppe, 1889:105). Although the Johannesburg Exchange & Chambers Company was registered with the Transvaal Chamber of Commerce (Goldman, 1892:38), the Pretoria government had neither the authority nor, in all probability, the intention, to regulate trade in securities in Johannesburg and Barberton.[6]

A significant aspect of memberships of the JSE was that banks exerted a marked presence on the trading floor. Unlike London, New York and Paris, bankers were allowed to become members of the Exchange, and did so in great numbers. The direct involvement of banks in JSE operations during the early years of the Exchange led to the rapid development of share trade in Johannesburg and the rest of Southern Africa. Local and colonial banks were viewed as active partners in the expansion and financing of the mining industry, but they remained too undercapitalised to be considered a threat

6 Standard Bank Johannesburg Branch, GMO 3/2/1/1, 17 August 1892:19.

to the JSE's monopoly on share trade. The first bank manager admitted joining the JSE was William Wright, the manager of the colonial Bank of Africa, but as anticipated and encouraged by most directors, the Standard Bank became the official bank of the Exchange. By inviting banks and bankers to join the JSE as members, the Exchange hoped to prevent, or at least restrict, the development of a curb market where banks could capture the market for certain JSE products and market them directly to their customers.

Johannesburg's archival trail

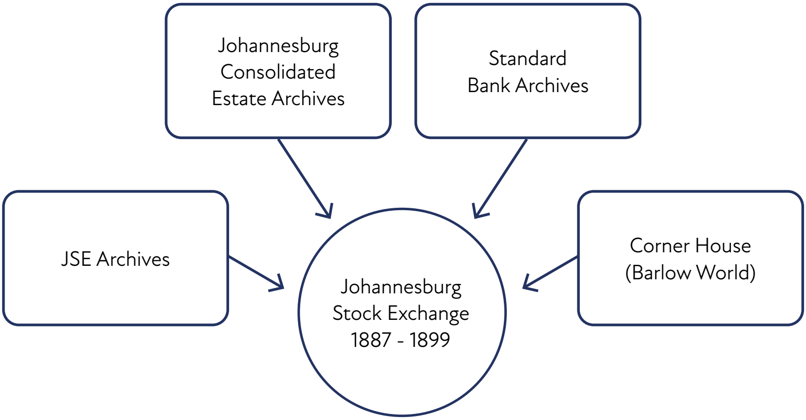
As difficult as academic research on South African economic and financial history may be, archival research in South Africa is a far more complicated matter than even the best researchers in the field care to realise. Although South Africa's general problem of keeping adequate records and supporting archival preservation was formally addressed in the late 1970s (Fraser, 1978), little has been done to improve state and private archival collections in the past forty years (Harris, 2002). The South African government underestimates the value of archival holdings and the important role of archivists in post-Apartheid South Africa, and has put numerous public archives under significant pressure to justify their existence after the transition to democracy. Hardly surprising then that historians working on South Africa are forced to go to great lengths to access even very humdrum official records, and that – as the closure of the Chamber of Mines Archives demonstrates – many strategic economic institutions are less than supportive of investigations into their past (Seoka, 2013).

Although the archival professionalism installed in the Cape Colony allowed a phase of research into its economic history to take place at various public and private institutions in the Western Cape province in the 20th century, the limited and sporadic access to economic and business archives in other parts of South Africa has subsequently become a major constraint to historical research in Southern Africa.[7] If the Wits Historical Papers, Barlow World Archives, Brenthurst Archives and the Standard Bank Archives do offer a high level of archival and academic support, other archives remain poorly managed and hard to access.

7 John Iliffe made an important point of how the opening of public and private business archives in South Africa could shift the focus of research from theoretical disputes about the origins of apartheid to detailed empirical accounts of economic development. See: Iliffe, 1999:87-103.

Harris emphasizes how many public archival collections were destroyed between 1990 and 1994 'in an attempt to keep the apartheid state's darkest secrets hidden.' See: Harris, 2002:63–86.

Figure 2: Main archival sources for JSE



This archival review focuses on documents located in the frequently overlooked collection of JSE administrative journals. The JSE archives (fig. 3), housed at the JSE headquarters in Sandton, constitute a nearly complete set of internal management and member journals of the Exchange. Although the majority of the collection is devoted to journals of the JSE General Committee, there are also various records documenting members' subscription fees, members' legal disputes, accounting books and various temporary sub-committees.

Figure 3: JSE Minutes of Ordinary Meetings of the Management Committee 1889-1910.

Source: Private photo. Mariusz Lukasiewicz

As with many studies of stock exchanges, the key to understanding the JSE's establishment, regulatory mechanism, organisational structure and operations, lies in the records of official meetings. The first available complete book of *Minutes of Ordinary Meetings of the Management Committee* begins with the meeting on 29 October 1889 and reflects on a list of resolutions affecting the Rules of Regulations passed by the Committee at the previous meeting. The format of all subsequent meetings is very similar and can be summarised as follows:

- Attendance
- Objective of meeting
- Corrections from last meeting
- Report and decisions on new applications for company listing
- Member disputes
- Amendments to the Rules and Regulations
- Activities of the House

Although the Meeting Minutes Books constitute the most complete collection, the Member's Roll Books are particularly interesting. The members' ledgers record the names of all the new incoming members, the type of membership subscriptions and their payments. These ledgers read like the *Who's Who* of South African and international finance of the late 19th century, providing considerable evidence of the involvement of specific individuals and imperial networks in the financial operations of the JSE.

The second archival collection used for mapping Johannesburg's early financial organizational structure is the private Brenthurst Library. Housing many official documents of the De Beers Mining Group and the Oppenheimer family, the library also holds the records of the Johannesburg Consolidates Estate (JCE), the early proprietor and landowner of the JSE. Established in 1888, the company was one of the most significant property owners in Johannesburg and the ZAR of the late 1880s and 1890s.[8] As the JSE's landlord, the JCE owned the physical building of the JSE and played a part in numerous disputes involving its management committee. The JCE purchased the JSE building on behalf of Barney Barnato in April 1889, making the Kimberley diamond millionaire its *de facto* sole owner, and placing him firmly in the centre of Johannesburg's booming economy. Although only the records of the Director's meetings for the years 1888-1894 are available, the JCE's minute books show details of how the Barnato Building, housing the JSE, was managed and reveal the determination of the JCE to regulate all commercial and public activities on its premises.

The third set of archives that convey the institutional and personal connections between the JSE and Johannesburg's growing financial sector, are the extensive Standard Bank collection, housed at the Standard Bank

8 *The Story of 'Johnnies'*, 1889-1964: *A History of the Johannesburg Consolidated Investment Co. Ltd*, 1965.

headquarters in Johannesburg. The financial performance of the Standard Bank varied considerably during the last forty years of the 19th century, though the bank remained the largest financial institution in Southern Africa throughout that period and continued to serve as the JSE's official bank (Mabin et al, 1987:7). The archive stores records including the general managers' letters, inspection reports, customer books as well as early photographs of Johannesburg's fledgling commercial district. The detailed monthly, annual and managerial reports for the period 1886-1910 provide substantial evidence of the bank's relationship with the stock market and many of the mining companies listed on the Official List. The Standard Bank Manager Reports acknowledged an extremely high degree of debtors propped up by questionable JSE-listed securities.[9] Along with Barnato, Cecil John Rhodes' financiers in Johannesburg, Hermann Eckstein and Alfred Beit, were at the top of debtor's list.[10]

The fourth major archival collection for studying Johannesburg's global connections are the Barlow Rand Archives. Rand Mines Limited, one of the first deep-level mine projects in Johannesburg established early in 1893, set up the Rand Mines Archives in 1963, creating the most comprehensive collection of business archives in Southern Africa.[11] The Barlow Archives are of great value, showing the migration of financial professionals from Kimberley, to Barberton and later to Johannesburg in the 1880s. This large collection, which has only partially been indexed, is made up of letters, telegrams and official company reports that were sent from the diamond and gold fields to various financial partners in London and Paris. Early transactions on the Kimberley, Barberton and Johannesburg stock exchanges are well covered in the documents, enabling personal connections between the diamond and gold revolutions to be mapped. The reports of various companies owned and managed by Rhodes, Eckstein, Wernher, Beit, Porges and other Johannesburg 'Randlords' are the most detailed primary sources on South Africa's economic, financial and engineering history during the mineral revolutions. The company reports and their various international correspondences shed light on the simultaneous development of Southern Africa's mining and financial industries, but most importantly for financial historians, provide a detailed administrative, regulatory, social and cultural record of raising industrial capital through the international promotion of stock issues.

All these archival collections are located in South Africa, but a number of document depositories can be consulted in Europe as well. The most important sources for examining the primary motivation for establishing the JSE are held at the Guildhall Library, which is currently part of the extensive

9 Speculation in Johannesburg. General Manager's Department: Letters to London Office. Standard Bank of South Africa. 5 December 1888. p. 21.

10 Inspection Report on Standard Bank Branch as on 19 January 1889. SBA. Johannesburg Inspection Reports. (1889).

11 For an excellent overview of the initial Barlow Rand collection, see: Fraser, 1978.

complex of London Metropolitan Libraries. The Guildhall Library houses many historical records from the City of London's financial institutions and is the official archive for the London Stock Exchange. The greater majority of the LSE archive consists of General Purposes Committee minutes, various internal sub-committees, rules and regulations, membership records, as well as mining company application files, which provide vital evidence of the procedures for inclusion on the LSE's Official List. Using a number of internal journals maintained by Henry Burdett, the secretary of the Share and Loan Department of the LSE between 1880 and 1898 (See: Burdett, 1886-1889), these sources reveal that colonial diamond mines such as the Kimberley Waterworks Company and the Anglo African Diamond Mining Company were able to mount successful applications for listing as early as 1881, and that gold mining companies applying in the mid-1880s were subjected to greater scrutiny. The LSE archives permit systematic comparison of listing requirements and joint-stock company flotations between the mining market on the LSE and the JSE.

London was the most capitalised security market of the late 19th century, but it was not the only European market interested in South African mining securities. Johannesburg's financial connections to Europe's second largest capital market, in Paris, can be traced at the Banque de Paris et des Pays-Bas' (Paribas) archive, located at the bank's headquarters in Paris. The archives provide a valuable insight into many aspects of the finance of South African mining in France as well as the activities of French financial intermediaries who introduced investors to South African gold mining securities. Several internal reports held at *Paribas* chronicle the establishment of the Banque française d'Afrique du Sud in 1895, which enlisted the support of the most influential French capitalists of the Belle Époque who had extensive links to the management of the Paris Bourse and South African gold mining in Johannesburg. Most importantly, *Paribas'* reports reveal clear evidence of strategic financial partnerships and personal networks spanning Johannesburg and Paris.

Conclusions

The development and growth of Johannesburg's financial industry in the last quarter of the 19th century changed the nature of South Africa's economy and facilitated its rapid entry into an increasingly global financial system. Johannesburg's gold mines became increasingly important at a time when the world's industrializing economies were adjusting to a monetary system based on the gold standard, but the role of finance and financial institutions that supported the development of South Africa's gold industry has remained understudied and undervalued as a critical component of the region's industrial complex. The Johannesburg Stock Exchange, at the centre of Johannesburg's capital market, was not an isolated stock exchange in Southern Africa, but an international financial intermediary attracting foreign financial, and human capital from all over the world.

Given the range of business record collections consulted for this review, this chapter has assessed the most important archival collections for the study of Southern Africa's financial history, and the JSE's early development. Along with primary material from the JSE's partner institutions, such as the Johannesburg Estate Company, the Chamber of Mines and the Standard Bank, these archives offer an insight into the local, regional and global development of South Africa's financial system during the first age of financial globalization. Early Johannesburg's financial archival trail reveals the formative operations and impact of an emerging capital market on international finance during the height of European colonial expansion in Africa. The institutional organisation, market dynamics, political intervention, information asymmetries and technological tools of frontier financial capitalism are documented in detail in well-preserved business records. By emphasising the analysis of the JSE's early rules and social organisation, this survey is intended to guide future research based on primary documentation of corporate regulation and practices in 19th century colonial South Africa that are often undervalued.

As a contribution to South African history, the conquest of distance and time through new telecommunications technology quickly integrated Johannesburg's capital market of the late 19th century into the global economy. JSE became a nodal point for financial connections between Johannesburg, London and Paris helping, in part, to facilitate the largest wave of mining investments on the African continent prior to WWI. Early Johannesburg's financial industry provides the source material and opportunity to reflect on many issues of colonial coercion and racial abuses that further intensified under the country's apartheid system. As important as international financial intermediaries such as the JSE are to the modern South African economy, this review intends to promote further engagement with South African financial history from a local and global perspective. ■

Reference list

Africa Capital Markets Watch (2019), PricewaterhouseCoopers. March 2020

https://www.pwc.com/ng/en/assets/pdf/africa-capital-markets-watch-2019.pdf.

Ansari, S. (2017), The neo-liberal incentive structure and the absence of the developmental state in post-apartheid South Africa. *African Affairs*, 116. 463: 206-232.

Arndt, E.H.D. (1928), *Banking and Currency Development in South Africa:(1652-1927); with an App. on the Rise of Savings Banking in South Africa,* (Juta).

Barber, S. H. (1904), *Transvaal Gold Law. Translation into English of Law No. 15 of 1898,* (Cape Town).

Bryant, M. (1987), *Taking Stock: Johannesburg Stock Exchange, the First 100 Years,* (Johannesburg).

Burdett, H. (1886-1889), *Burdett's Official Intelligence,* (London: Committee of the Stock Exchange).

Cassis, Y. (2010), *Capitals of Capital: The Rise and Fall of International Financial Centres 1780-2009.* (Cambridge).

Court strikes blow against transparency. 24 March 2018. Statement by the South African History Archive (SAHA). Open Secrets. https://www.opensecrets.org.za/court-strikes-blow-transparency/.

Davis, L. E. and Huttenback, R. A. (1986), *Mammon and the pursuit of Empire: The political economy of British Imperialism, 1860-1912,* (Cambridge).

Dominy, G. (2017), 'The effects of an administrative and policy vacuum on access to archives in South Africa', *Archival Science*, 17.4: 393-408.

Duguid, C. (1901), *The story of the Stock Exchange: its history and position*, (London).

Dupont, H. (1893), *Les mines d'or de l'Afrique du Sud*, (Paris).

Eichengreen, B. and Flandreau, M. (1997), *The Gold Standard in Theory and History,* (London).

Fraser, M. (1978), Profile of a South African Company Archive. *Archivaria*, 7: 95-102.

Goldman, C. S. (1892), *The Financial, Statistical, and General History of the Gold & Other Companies of Witwatersrand, South Africa,* (London).

Harris, V. (2002), 'The archival sliver: power, memory, and archives in South Africa', *Archival Science,* 2.1-2: 63-86.

Hart, K., and Padayachee, V. (2013), 'A history of South African capitalism in national and global perspective', *Transformation: Critical Perspectives on Southern Africa,* 81.1: 55-85.

Iliffe, J. (1999), 'The South African economy, 1652–1997.' *The Economic History Review,* 52. 1: 87-103.

Jeppe, F. (1889), *Jeppe's Transvaal almanac and directory for 1889,* (Cape Town).

Johannesburg Estate Company (1889–1899), *Minutes of the Board of the Johannesburg Estate. Company,* Johannesburg: Brenthurst Library Archive.

JSE General Committee (1889–1899), *Members' roll books 1889–1899,* Johannesburg: Johannesburg Stock Exchange Archive.

JSE General Committee. (1889–1899), *Minutes of an ordinary meeting of the general committee.* Johannesburg: Johannesburg Stock Exchange Archive.

Jones, Stuart, (1996), *The Great Imperial Banks in South Africa. A Study of the Business of Standard Bank and Barclays Bank 1861-1961,* (Pretoria).

Kennedy, E. E. (1890), *Waiting for the Boom,* (London).

Klein, H. (1948), *The story of the Johannesburg Stock Exchange: 1887-1947,* Johannesburg: The Committee of the Johannesburg Stock Exchange.

Kubicek, R. V. (1979), *Economic imperialism in theory and practice: the case of South African gold mining finance 1886-1914* (Durham).

Lukasiewicz, M. (2021), 'Early regulation and social organisation on the Johannesburg Stock Exchange, 1887–1892', *Business History*, vol 63. (Forthcoming) DOI: 10.1080/00076791.2019.1598380.

Lukasiewicz, M. (2017,) 'From diamonds to gold: The making of the Johannesburg Stock Exchange, 1880–1890', *Journal of South African Studies*, 43.4: 715-732.

Mabin, A. and Conradie, B. (edd.) (1987), *The confidence of the whole country: Standard Bank reports on economic conditions in Southern Africa, 1865-1902*, Standard Bank Investment Corporation.

Michie, R. (2007), *The global securities market: A history* (Oxford).

Moss, T. (2003), *Adventure Capitalism: Globalization and the political economy of stock markets in Africa*. (Basingstoke).

Nuttall, S. and Mbembe, A. (2008), *Johannesburg: the elusive metropolis*, (Durham).

Ntim, C. G. (2012) 'Why African stock markets should formally harmonise and integrate their operations.' *African Review of Economics and Finance*, 4.1:53-72.

Obstfeld, M. and Taylor, A.M. (2004), *Global capital markets: integration, crisis, and growth* (Cambridge).

Ojah, K. and Kodongo, O. (2015), 'Financial markets development in Africa' in Monga, C. and Lin, J.Y. (edd.) *The Oxford handbook of Africa and economics* 2: 401--423 (Oxford).

Phimister, I. (2018), 'Frenzied finance: Gold mining in the globalizing south, c.1886–1896' in Mountford, B. and Tuffnell, S. (edd) *A global history of gold rushes*: 139-162 (Berkeley).

Richardson, P., and Van Helten, J-J. (1980) 'The gold mining industry in the Transvaal 1886-99', in Warwick, P. (ed.) *The South African War: The Anglo-Boer War 1899-1902*: 18-36 (Harlow).

Rönnbäck, K. and Broberg, O. (2019), 'Capital and Colonialism in Theory', in *Capital and Colonialism* :39-54 (London).

Rosenthal, E. (1968), *On 'change through the Years; a History of Share Dealing in South Africa* (Cape Town).

Schiereck, D., Freytag, A., Grimm, M. and Bretschneider, W.H. (2018), *Public corporations in Africa: A continental survey on stock exchanges and capital markets performance (No. 2018-013). Jena Economic Research Papers.*

Seoka, Jo. 16 October 2013. *Time to end poverty for those who dig SA's wealth*. Business Report. http://www.iol.co.za/business/opinion/time-to-end-poverty-for-those-who-dig-sa-s-wealth-1.1592554#.Ul5b35WBLw4.

Standard Bank Johannesburg Branch (1887–1897), Inspection Reports, Standard Bank of South Africa Archives, Johannesburg.

The Story of 'Johnnies', 1889-1964: A History of the Johannesburg Consolidated Investment Co. Ltd. (Johannesburg).

van den Bersselaar, D. (2018), 'Business records as sources for African history' in Oxford Research Encyclopedia of African History DOI: 10.1093/acrefore/9780190277734.013.237 (Oxford).

Van Helten J-J. and Cassis, Y. (1990), Capitalism in a mature economy: Financial institutions, capital exports and British industry, 1870-1939, (London).

Van Onselen, C. (1982), Studies in the Social and Economic History of the Witwatersrand 1886-1914: New Babylon, (London).

Good businesses and good archives
Perspectives from the records of a moneylender in rural India

J Howard M Jones[1]

Author's biography

Howard Jones is a Senior Research Fellow at the Institute of Commonwealth Studies, School of Advanced Study, University of London. He has an academic background in social anthropology and economics. His main area of work concerns India, where his research focusses on moneylender finance, financial inclusion, livelihood diversification and migration, and the expansion of private schooling in the country. He has been the principal investigator of three UK government-funded research projects examining access to financial services in Africa and India. In 2006 he was awarded the Aneurin Bevan Memorial Fellowship by the Indian Council for Cultural Relations to support his work in rural finance.

1 Institute of Commonwealth Studies, School of Advanced Study, University of London; howard.jones@sas.ac.uk

Abstract

Based on the business records of a rural moneylender in Western India, the paper explores what is meant by 'good' archives and by 'good' financial institutions. Policy makers in India have long thought of moneylenders as 'not' good, and, through a succession of institutional financial service interventions, have sought to reduce, if not remove altogether, the market share of these financial agents. In more recent years the paradigm of financial inclusion - by equating inclusion with access to formal sector finance - has further marginalised informal finance and bolstered negative perceptions of moneylenders. Even so, especially in rural parts of the country, the share of outstanding household cash debt sourced from these financial service providers remains high and, in some areas, has even increased. Archival material from the informal financial sector provides unique insights into why this remains the case and demonstrates that the study of historically important informal financial service providers is relevant to present day financial sector debate and policy.

Keywords

Moneylender finance, business records, financial inclusion

Acknowledgements

I am very grateful to Mandy Banton for alerting me to the Call for papers for the 'good' archives workshop. The fieldwork on livelihoods and migration in 2011 was supported by a research grant from the British Academy for which I would like to express my gratitude. Thanks are due to Mahendra Joshi for his much appreciated and long-standing assistance. I would also like to thank Joseph Chiriyankandath for his help with data input and analysis, and Marylin Williams for her much-valued help in editing the paper. I would like to thank Chris Phillips for a very useful comment which triggered more thought on the 'social' aspects of the moneylender's business. Thanks, are also due to Adrian E. Tschoegl for his comments on the preliminary draft of this paper presented at the Turin Conference on 'good' archives.

Good businesses and good archives
Perspectives from the records of a moneylender in rural India

Introduction

In their Call for papers, the organisers of the 'good archives' workshop encouraged the presentation of archive material from ten different types of financial service providers – businesses that are regarded as 'good' in the sense of having, or having had, 'a wider social goal beyond profit', e.g. public banks, co-operatives, savings banks, microfinance institutions etc. Implicitly, the archives of such businesses are regarded as 'good' because they are able to provide us with lessons about, and possibilities for, the future provision of more socially minded forms of finance.

This paper presents the case of the business and business records of a particular moneylender in rural India. Even though he has ongoing business records rather than an archive as such, and he is of a type of financial agent generally regarded as 'not' good, and as having no 'explicit' social objectives beyond profit – his is an interesting example. While his records do not entirely conform to the characteristics of an archive provided by the International Council on Archives (www.ica.org), especially with respect to access and longevity, the evidence contained in his business records can be used to explore what constitutes a 'good' business and a 'good' archive, the relationship between the two and the relevance such records have for future financial service provision.

While micro-businesses, like the one discussed here, are the poor relation of corporations, they do form the vast majority of businesses around the world. This is markedly true in India. As of August 2019, there were just eight or nine established business archives in the country with a further five to six in the process of being set up.[2] By contrast, in 2007 there were 26 million unregistered micro, small, and medium enterprises (MSMEs) in India, and a further1.6 million or so MSMEs that were registered (Kushnir, et al., 2010). Although the business records of a micro business may be small in comparison to the archives of a large corporation, they often contain a wealth of evidence relating to the business itself, that may be relevant to debates in the wider financial sector and the issues being raised in the 'good' archives workshop.

2 I am grateful to Vrunda Pathare, Chief Archivist of the Godrez Archives, for this information.

Pre- and Post-Independence views on moneylender finance in India

Malcolm Darling, a member of the Indian Civil Service who became Registrar of co-operative societies in 1927, published his classic work on rural indebtedness in the Punjab in 1925. The book provides an indication of the opprobrium attached to moneylending approximately twenty years before independence (Darling, 1928; Jones, 2008). He described it as a vicious and demoralising system, one that, if uncontrolled, would sooner or later involve the bondage of the borrower, emphasising how the combined roles played by village moneylenders - as the cultivator's banker, dealer and shopkeeper - offered multiple opportunities for malpractice and exploitation. Where the 'client' was a cultivator, the moneylender was felt to pose not just a risk to individual borrowers, but also to the wider economy and society. Moreover, the author identified two other characteristics of moneylenders which may help explain both historic and present-day antipathies towards these financial agents. First, he noted that they were individual lenders, remarking that that usury became more acceptable in public opinion with the comparatively impersonal organisation of the banker (ibid., 1928:197). Second, he noted that the moneylenders were not just individual providers of credit, but were also separate from, 'other than', their clients. With specific reference to the district of Musaffargarh - a district with a majority Muslim population - he described how moneylender clients, were 'at the mercy of a class alien in race, religion and trade.' (ibid.:219). While the notion of a separate 'race' is doubtless contentious, the use of the term illustrates the degree of difference and separateness perceived by Darling to exist between these lenders and borrowers.

With reference to the Sonthal Rebellion of 1855, the Deccan Riots in the mid-1870s and those of Ajmer in 1891, Darling describes all three as '...disturbances...inspired by the hatred of the money-lender' (Darling, 1928:223). Analysing the role and practices of the *sahukar* (professional moneylender) within the broader context of usury (using Habib's 1964 definition of usury as 'lending at interest, whatever the rate or the form of extracting it'), Hardiman (1996) examines how such revolts did not as a rule seek to eliminate the moneylender, but rather sought to restore what was felt to be a less usurious and more morally correct relationship. Even so, Hardiman describes how the fear of a wider peasant revolt in the aftermath of the Deccan Riots led to a more critical view of usury on the part of the colonial authorities.

The Deccan Riots Commission produced its report in 1876. It identified two ways of dealing with agricultural indebtedness: by regulating the activities of moneylenders and by competing with the moneylenders in the provision of credit. The former strategy was initiated with the Deccan Agricultural Relief Act of 1879, and the latter was inaugurated, somewhat tenuously, by the Loan Acts in the early 1880s (Catanach, 1970). Since then, there has been a succession of institutional financial service provision interventions, designed to decrease the market share held by moneylenders. It began with the promotion of the co-operative movement; then the banks were nationalised in 1969 and were given priority sector lending requirements; the establishment of Regional Rural Banks followed in 1975. Subsequently, there has been the development of the Self-Help-Group-Bank linkage programme (1992 onwards), the introduction of business facilitators and business correspondents (2006) – the latter acting as agents for the banks and targets set (2006), amongst other measures, by the Reserve Bank of India, for banks to cover unbanked villages in the country (Reserve Bank of India, 2007; Jones, 2008). More recent policies include a wider set of measures (e.g., health insurance, life insurance, approval for small finance banks, financial literacy) in the anticipation that they will improve the level of financial inclusion in the country (CRISIL, 2018).

The paradigm of financial inclusion, by treating the unbanked as financially excluded, reinforces the marginalisation of informal finance. For example, the 2013 Credit Rating Information Services of India Limited (CRISIL) report on financial inclusion in India, states that 'an estimated 40% of its population is still without access even to basic financial services'. This is not the case. Although forty per cent of the population may lack access to bank services (the measure of financial inclusion), they have variable access to a range of informal financial service providers. Many financial providers do reach the poor although they are not recorded in the CRISIL Index and other measures of financial inclusion (Jhabwala, 2014). Morever, the CRISIL Inclusix 2018 report, which currently lists insurers along with banks and microfinance institutions in their financial inclusion index, dismisses non-formal channels of financing as unfit to 'be considered effective'.

In 2010 the microfinance bubble burst in the state of Andhra Pradesh, an event thereafter referred to as the microfinance crisis in India. At the time, errant microfinance institutions (MFIs judged to be lending at exorbitant rates of interest to clients already in debt to other MFIs, and engaging in coercive repayment practices) were referred to in the press as white-collar moneylenders, thus simultaneously preserving the reputation of 'good' microfinance and reinforcing the distaste provoked by moneylending.

Changing shares of institutional and non-institutional credit in rural India

For Darling (1928:271), 'The primary objective of co-operation in India was to oust the money-lender and reduce the burden of debt'. Co-operation was, in his view, '...by far the best direct method of combating the money-lender.' (ibid.:234). As a consequence, with the development of the co-operative movement in India he believed that 'The moneylender could now be dispensed with...' (ibid.:208). Decades later, in a similar vein, in the mid-1980s, Gadgil (1986), then Chief General Manager of the National Bank for Agriculture and Rural Development, declared that the professional moneylender had virtually vanished from villages in India. True, between 1951 and 1991, with the expansion of institutional credit provision, the decline in the share of non-institutional credit within rural household debt was dramatic, from nearly 94 per cent to 36 per cent respectively (GOI, 2016). Even so, in 1991 more than a third of rural outstanding household debt was still held by non-institutional providers, largely moneylenders. Moreover, the next two decades witnessed an increase (43% in 2002, and 44% in 2012), not a decrease in this share (GOI, 2016). In 2012, the proportion of rural household debt across India sourced from moneylenders (33.2%) was actually greater than that sourced from the commercial banks (25.1%). Thus, by 2012, over eighty years after Darling's pronouncement, moneylenders in rural India were far from being dispensed with.

The Reserve Bank of India Technical Group to Review Legislations on Moneylending (2007) attributed this situation to what they saw as the 'disconnect' between the organised banking system (in terms of outreach, attitudes, limited and delayed finance) and the typical needs and features of small borrowers. By contrast, the moneylenders are described as offering a 'doorstep' service that, while catering to the consumer needs, respects clients' need for privacy. Taylor (2012) argues that constraints within the rural banking system, following financial sector reforms in the 1990s, prompted a decline in social banking initiatives, increasing reliance on rural informal lenders. The Report of the Task Force on 'Credit Related Issues of Farmers' (GOI, 2010) attributed the continued dependence of small and marginal farmers on informal finance to the increasing diversification of the need for credit in the agricultural sector. In fact, credit needs were also diversifying due to wider changes in the rural economy and household livelihood patterns, which could entail new forms of 'precarious existence' (Jones, 2016; Taylor, 2012).

With the non-institutional financial sector continuing to finance a high, and in some areas a growing proportion of rural credit needs, a radically different approach was suggested in the report of the Technical Group to Review Legislations on Moneylending (plural because this is an individual concern for each State in the country; RBI, 2007). The report proposed the creation of a new category of registered moneylenders (termed accredited loan providers), who, were they to meet certain requirements, would receive credit facilities from banks which they could then extend as loans to their individual clients (Jones, 2008). This marked a shift. Instead of the established policy of replacing moneylenders with institutional financial sector alternatives, such moneylenders would be officially linked to the formal financial sector. Shortly after the Technical Group's report was published, these proposals were denounced as a '...perverse scheme that would co-opt moneylenders into the organised banking system.' by the journal Economic and Political

Weekly (2007:3187). But was it so perverse to suggest fostering a connection between moneylenders and banking when policies to substitute institutional credit for non-institutional credit had not proved effective?

Location and context of the moneylender study

For India as a whole, 44 per cent of rural household debt was sourced from non-institutional agents in 2012. This percentage varied substantially across different states in the country (GOI, 2016). In Rajasthan, where the moneylender discussed in this paper is based, the proportion of rural household debt sourced from the non-institutional sector was very nearly 70 per cent (69%), with as much as 65 per cent of rural household debt held by moneylenders (GOI, 2016). At this time, commercial banks, including regional rural banks, and co-operative societies/banks held only 16 per cent and 13 per cent, respectively, of rural household debt across the state.

Dungarpur, the district where the moneylender is based, is one of the poorest districts in Rajasthan. Over 90 per cent (93%) of Dungarpur's population live in rural areas, and just over 70 per cent (71%) of the population are classified as belonging to a Scheduled Tribe (GOI, 2011), an historically disadvantaged section of Indian society qualifying for reserved status under the country's reservation policy – a long-standing form of affirmative action (Jones, 2018). Moreover, the tribal population living in the district mainly belong to the Bhil tribe, a poorer and more disadvantaged tribal group compared to the Minas, numerically the other major tribal group in the state (Sundar, 2007). In Dungarpur Bhil households are largely located in dispersed village settlements (*pals*). Their landholdings are mainly rain-fed and dependent on the very variable monsoon rains. Seasonal migration, traditionally to the neighbouring state of Gujarat and to Mumbai, usually on the part of the male members of households working in the construction and service sectors, has long been a feature of their livelihoods (Jones, et al., 2014). By contrast, the caste Hindu and Jain populations in rural areas of Dungarpur largely reside in nucleated villages, where both government and private sector services (including shopkeepers and moneylenders) have traditionally been concentrated (Jones, 2016).

The village in which the moneylender resides, referred to as 'Chandrapur' in this and other papers, is a settlement combining a nucleated centre, in which the caste Hindu and Jain households are situated, and an adjacent undulating area of land where the tribal households are located (Jones, ibid.). In 2010/11 there were 283 households in the village as a whole. The population living in the surrounding, almost exclusively tribal villages, provided the primary client base for the many shops and services located in the centre of Chandrapur. The moneylender whose records are discussed in this paper is a Jain - the Jains being a traditional shopkeeping and trading community in the country (Jain, 1929), who form a distinct religious group (Doniger, 2014). In terms of India's social hierarchy, they have a high-status position similar to that of their Hindu merchant caste counterparts. The fifteen or so money-lenders in Chandrapur, are very largely from this community.

Information recorded in the records of the moneylender

Village-based studies of finance in India, usually based on extensive fieldwork in a local area and using the ethnographic method of participant observation, tend to report higher levels of non-institutional finance, and correspondingly lower levels of institutional finance, than large-scale surveys (Jones, 2008). Even so, using participant observation does not necessarily establish access to the business records of informal financial agents. In my case, this was only achieved by staying with a relative of the moneylender for an extended period of time, and through subsequent visits when I was able to stay with the immediate family of the moneylender himself. The opportunity arose as follows: one day, in the early 1980s, following an evening meal, the moneylender took some jewellery out of his briefcase. Tied to each piece of jewellery was a hand-written note. He started to copy the information written on each piece of paper into a notebook. I asked the moneylender what he was doing. It was the beginning of a long journey into his business records.

The details that the moneylender records for each loan in his business records are shown in Table 1, along with two areas of additional information requested by the researcher for selected years. The information recorded is not only accurate, detailed, and specific to each day that loans are advanced, it is also information that is largely impossible to obtain from alternative sources.

Table 1. Information recorded in the records of the moneylender.

Information traditionally recorded for each loan in the records					Additional information requested by the researcher for selected years	
Date the loan was taken	Name of client	Village of client	Type & weight of jewellery	Amount of money advanced	Reason for the loan	Date the loan was repaid

Source: Primary data collection.

The information the moneylender records concerns three matters: the collateral left with him; the client taking the loan; and the loan itself. He records the type and weight of the jewellery. This helps him to identify the right piece of jewellery on repayment of the loan. Details of each client's name and village of residence are also recorded. Regarding the loan itself, he notes the amount of money advanced to the client and the date of the transaction. Recorded information is kept to a minimum. For the moneylender, the speed of transaction is an important consideration in ensuring client satisfaction and repeat business. Moreover, with the jewellery in his keeping, and usually not more than around 40 per cent of its value advanced as a loan, no further information is needed. When a loan is repaid, a line is simply drawn through the details in the account books. However, once good relations had been established with the family, I was able to ask if the moneylender might be willing to add two items to his record for selected years: first, why the client needed the loan, and second, the date the loan was repaid. This he agreed to do. For research purposes, this additional information greatly enhances the value of his business records.

Findings from the business records of the moneylender

The account books of the moneylender run from Diwali (the annual festival of lights celebrated by Hindus, Sikhs and Jains) to Diwali. The exact timing of Diwali varies but it falls within the months of October/November each year. This is when the details of unpaid loans are transferred to new account books which are then used to record the details of loans advanced over the forthcoming twelve months. At the time of the Turin workshop, the five years of the most detailed information recorded by the moneylender and/or his son were 1982-1983, 1988-1989, 2000-2001, 2010-2011 and 2013-2014. These are referred to as reference years in the text and highlighted in bold in Table 2. It was possible to obtain less detailed information, i.e., the number of loans and their value, for some additional years. Information for three of these years (2011/12, 2012/13 and 2014/15) is also provided in Table 2.

Bearing in mind that informal credit channels are held to be unfit to be considered effective (CRISIL Inclusix, 2018) what does the information recorded tell us about some key indicators of effectiveness: loan provision, clients, the purposes for which loans were taken, and loan repayment?

With the exception of the year 2007-2008, when there was a slight decline, there was a steady increase (especially after 2008-2009) in the number of loans provided; from 290 in 1982-1983 to 1429 in 2012-2013. Then, over the next two years, there was a very substantial decline in the number of loans he advanced, 953 in 2013-2014, and just 636 loans in 2014-2015. This was not due to growing competition from the formal financial sector (even

Table 2. The moneylender's loan portfolio 1982/83 – 2014/15.

Year*	Total number of loans	Total value of loans		Average value of loans	
		INRs Nominal values	INRs Real values **	INRs Nominal values	INRs Real values **
1982/83	290	35,615	295,856	123	1,020
1988/89	335	110,818	580,858	331	1,733
2000/01	342	249,099	528,835	728	1,546
2010/11	1,227	2,636,380	3,131,419	2,149	2,552
2011/12	*1,293*	*3,196,439*	*3,534,686*	*2,472*	*2,734*
2012/13	*1,429*	*3,540,055*	*3,684,377*	*2,477*	*2,578*
2013/14***	953	1,997,425	1,997,425	2,096	2,096
2014/15	*636*	*1,109,095*	*1,068,886*	*1,744*	*1,681*

Source: Primary data collection.
* Detailed breakdown of loans is available for years in bold; for all other years data are summary
** Reserve Bank of India (RBI) deflators (Base year = 2013/14)
*** The total and average GB£ values (nominal) of the loan portfolio in 2013/14 were GB£20,740 and GB£ 21.76 respectively.

though there was a bank located nearby since the 1980s) but reveals that the business records need to be seen in the context of the family's lifecycle and financial obligations at different points in time. By 2008, the daughters had been married and the expenses incurred were out of the way; around the same time one of the sons had completed his school education and was working full-time in his father's shop – a general goods shop. These two factors were likely to have enabled an expansion of the retail and moneylending businesses. Conversely, negative life events can have the opposite effect. Such an event happened in 2013 and this had a serious impact on the family's finances and limited the ability of the moneylender to advance loans. From the perspective of this single moneylender, at this point, his informal credit channel might be considered as not completely effective, in that some clients had to be turned away. However, there were other moneylenders in the village to whom these clients could turn; the decline in moneylender provision was not necessarily systemic. Subsequently the second son in the family has secured salaried employment which is likely to have helped restore credit flow.

Moreover, there are other aspects of the moneylender's loan provision which continued to be 'effective' even when the total number of loans declined. Loans were advanced during every month of the five reference years, with variations determined by the seasonality of clients' needs, reflecting a demand-led system. Moreover, his records show that Desai's (1979) observation that the moneylender has no effective competitor in the small loans market still held true in 2015. On average, for the five reference years, over 40 per cent (43%) of his loans were for up to a value of only INRs 999 (approximately £10), while nearly 70 per cent (68%) of the loans were for up to a value of just INRs 1,999. The smallest loans taken during the five years were quite tiny, varying between just INRs 91 in 1982-1983 and INRs 119 in 2010-2011. What formal or semi-formal credit channel, whether a bank or a microfinance institution, however social their remit, would be able to offer such small value loans? The minimum size of a gold loan (INRs 10,000: approximately £100), the formal sector's equivalent of a pawn-broking loan, available from the bank nearby, was over one hundred times larger than the smallest loan provided by the moneylender. As we shall see, the moneylender also had no effective competitor in the informal financial sector, a point addressed below after identifying his main client base.

At different points in time, whether during the course of one year, or over several years, the way the names of clients and their villages were recorded varied – shorter or longer versions of a client's name could be used, and on different occasions the name of the client's village or the sub-area of the village might be recorded. In order to analyse these data, it was important to clarify and standardise the references directly with the moneylender to achieve comparability in the records over time. With this done, the information in the archive tells us a great deal about the clients using this channel of informal credit. The great majority of clients, an average of 89 per cent for the five reference years, were from outside the village – mostly clients from the surrounding tribal settlements – roughly a 10 km radius. Within Chandrapur, on average for these five years, just over 40 per cent were from the tribal part of the village. In addition, those caste clients from Chandrapur, and from a few other villages, were almost all from lower-status castes in the Other Backward Classes (OBC) category or from castes in the Scheduled Caste (former untouchable castes) category (Jones, 2018). Like the Scheduled Tribes, these two categories have reserved status in the country (ibid.). Thus, evidence from the records confirms the point made by Jhabwala (2014) that informal credit channels are those that do actually reach the poor. Furthermore, for the four reference years from 1988-1989 onwards, between 11 per cent and 18 per cent of loans were taken by women clients.

Over the years a number of informal savings and credit groups, a possible alternative to moneylender credit, were established in the village, but membership was confined to those with reliable and regular sources of income (Jones, 1994). For the great majority of tribal households, both agricultural and non-agricultural sources of income were uncertain and precarious, largely precluding them from membership of such groups, or from forming their own savings and credit groups, and also precluding them, on a regular basis, from lending to, or borrowing from, friends and family. In this sense, the moneylender faced very limited formal or informal competition in the small loans market.

Although on average, for the four reference years from 1988-1989 onwards, the records show that while the majority of his clients (65%) took only one loan over each of the twelve-month periods, other clients took more than a single loan. In 2010-2011 and in 2013-2014, the maximum number of loans provided to a single client was 19 and 15 respectively. Admittedly, the number of loans for each of these two clients were exceptional, but they nonetheless illustrate multiple loan provision that formal channels would be highly unlikely, or be willing, to provide.

There were many reasons why clients took out a loan. As noted earlier this information was not normally of any importance to the moneylender. It was first recorded at my request for loans advanced during 1988-1989. Again, some further clarification was needed, e.g., if loans to buy grain were used for food or for cultivation. The moneylender subsequently recorded loan purpose information for 2000/01 and 2010/11. Ten categories of need were identified from the details recorded: agriculture, business/occupation, finance, house construction and repair, durable and non-durable consumer goods, health, education, travel, social/religious, litigation. For these ten categories, Table 3. shows the average percentage of loans, for the three years, by number and by value.

Table 3. Purposes of loans taken from the moneylender for 1988/89, 2000/01 and 2010/11.

Categories of loan purposes	Average % by Number of Loans for 1988/89, 2000/01 & 2010/11	Average % by Value of Loans for 1988/89, 2000/01 & 2010/11
Agriculture	15.28	14.71
Business/occupation	4.62	10.21
Finance	2.42	6.34
House construction/repair	5.67	11.58
Consumer goods	13.76	7.01
Health	17.65	12.35
Education	2.26	2.61
Travel	13.76	8.34
Social/religious	22.79	24.71
Litigation	1.79	2.07

Source: Primary data collection.

Social/religious purposes (including marriage) accounted for nearly a quarter of all loans by number and by value. Similarly, agricultural loans accounted for just over 15 per cent by number and just under15 per cent by value. Some loan categories had higher percentage values in terms of loan value compared to those for the number of loans: business/occupation, finance, house construction/repairs. These reflect the relatively higher financing requirements within these categories of need. Conversely, some loan categories had higher percentage values in terms of number of loans: consumer goods, health, travel. These reflect the relatively lower financing requirements of some of the component needs, e.g., many of the health loans were to buy small amounts of medicine while many of the travel loans were to finance relatively low-cost bus fares to reach seasonal work destinations in Gujarat and Mumbai. Even so, it is clear that this informal credit channel catered to a wide range of both production and consumption needs. Moreover, most of these ten categories could be further divided into many sub-categories relating to very specific credit needs, e.g.,17 different reasons for taking agricultural loans, variously relating to land, irrigation, machinery, livestock, labour and other inputs. In addition, a specific reason within one of the categories could itself comprise a range of different needs, e.g., the major demand within the social/religious category was for marriage loans – these included fairly substantial sums of money to help finance marriage ceremonies, but they also included much smaller amounts of money to enable a client to simply attend such a ceremony.

The reader may well wonder if the clients were telling the moneylender the truth when they gave him the reason for needing a loan. Corroborating evidence comes from the records themselves. Examining the seasonality of loan provision reveals that particular loan purposes were aligned with the 'right' time of year for such loans, e.g., marriage loans were taken during the marriage season, loans to pay labour for ploughing a field or for harvesting crops took place at specific points in the agricultural cycle. Moreover, the question was asked in a gentle and indirect manner, and in any case, there was no reason for the clients not to tell the truth to the moneylender, since they would receive the loan whatever the reason given.

The interest rates charged by the moneylender varied inversely with the size of the loan and they increased overall during the 2013-2014 financial year, perhaps reflecting the tightening of his personal finances around that time. During 2013-2014, the monthly interest charge was 3 per cent (for loans above INRs 1000-and 5 per cent (for loans between INRs 500-1000). Loans below the value of INRs 500 incurred an additional 10 per cent service charge in the first month. Before 2013-2014, all loans above INRs 500 were charged at the rate of 3 per cent, while loans below this figure also incurred the same rate and an additional 10 per cent charge in the first month. His annualised interest rates were higher than those offered for gold loans which could be advanced by the nearby bank at rates of between 13 to 16.5 per cent. However, only silver jewellery is possessed in any quantity by the tribal households, jewellery that fails to qualify for the bank's gold loans, and the minimum size of the bank's gold loans (INRs 10,000) is higher than for loans typically required by tribal households (over the five reference years nearly 70% of the moneylender's loans were for less than one fifth of this amount). Furthermore, while the moneylender loans could be repaid with a minimum repayment charge of one month, the bank's gold loans had a fixed duration of either six months or twelve months, with penalty charges levied with foreclosure.

The repayment dates recorded in the records indicated when the client repaid the loan. Interest payments were calculated with reference to calendar months. So, a repayment date of even the 1st of the month after the loan was taken would include a monthly charge for that month. Even so, and bearing in mind the interest rates above, taking 2010-2011 as an example, a substantial proportion of loans were repaid relatively quickly. Nearly half (46%) of the 1,227 loans advanced to clients were repaid within three months, 63 per cent of loans repaid within six months, and just over 70 per cent (71%) of loans repaid within nine months. With heavily collateralised loans there is a strong incentive for the borrowers to repay if at all possible. Even so, subsequent enquiry showed that the jewellery for ten per cent of the loans taken over 2010-2011 had been sold by the moneylender. This, however, may not be end of the matter. If a client so insisted, and with details of the type and weight of jewellery recorded in his records, the moneylender could arrange for one of the blacksmiths in the village to make an equivalent item on payment of the outstanding amount.

While the moneylender's business did not have any explicit social goals beyond profit, there were important social dimensions to his lending. From the records this can be seen in terms of his client base (largely the Bhil Tribe, a traditionally disadvantaged group), the scale of his loan provision (high proportions of very small loans), the possibility of multiple loan provision, and the wide range of credit needs that are financed from these loans. Other important social dimensions to his business were observable simply by sitting in his shop. The moneylender knows each client by name. He speaks the local language. Clients are made to feel welcome and the transaction is private. However poor, both male and female clients are not daunted by approaching the shop. No loan request forms need to be completed; there is thus no need to ask staff or other customers for assistance. Moreover, the transaction is over in minutes, a very welcome feature of loan provision after walking miles over hill and dale in the monsoon rains or in the summer heat.

Conclusions

In the twenty-first century, historically important agents in the informal financial sector continue to be of significance, albeit to varying degrees, for a significant proportion of the population across the world. Historical studies and reports, especially of moneylender finance, provide useful insights into contemporary perceptions of and antipathies towards such agents. Moreover, such financial service providers may well have business records, however modest these may be compared to the archives held by their counterparts in the formal, institutional, financial sector. Such records demonstrate that it is not the case that the financially excluded (as conventionally defined) have no access to financial services. In addition, access to these records provides evidence, rather than speculation, about the submerged part of the rural finance iceberg, a secret world, very often hidden from view, but one that does provide financial services to poorer sections of society.

What relevance does information recorded in the accounts of the moneylender have for the notions of a 'good' business and a 'good' archive, and for present day financial sector policy and debates? Information from the moneylender's records suggests that just because he did not have stated social goals beyond profit, does not mean that his business was not 'good'. Data derived from these records, in conjunction with observation of his business practice, shows that there are many aspects of the service he provides that were 'good' and that would be difficult, if not impossible, for formal financial institutions to replicate. His business was not just a doorstep service. His door was open to all, however poor, from dawn till dusk, and if his shop was closed a needy client could knock on the door of his house at any time. Rather than being made to feel embarrassed because they can't fill out a bank form, or because they need to ask someone for help to do so, each client was known and made to feel welcome. Loan provision was instant, non-judgemental, and provided for an impressively wide range of household needs, advanced at a time when the loan was actually needed, and may be supplied in tiny amounts, and on multiple occasions. These seem to be important features of an 'effective' financing channel, rather than a channel designated as unfit to 'be considered as effective'. True, the interest rates charged by the moneylender were higher than those for the closest formal sector equivalent, a gold loan from the local bank, but as we have already noted, even this type of bank loan is hardly an alternative since the majority of the moneylender's clients required loans considerably below the minimum size of loan the bank was able to provide. Moreover, high proportions of the moneylender's loans were repaid within short time periods.

For a financial institution to have wider social goals beyond profit is no guarantee that the business is 'good'. At the time of the 2010 microfinance crisis in India, the microfinance institutions concerned all had explicit social goals beyond profit. However, investigation beyond such stated objectives showed that their business practices were anything but good: in reality they were judged to be unethical and coercive. Moreover, even if the business of a financial service provider is regarded as 'not' good, it is not the case that the archives/records of such a provider are correspondingly 'not' good. If, following the points made in this paper, the case-study moneylender is still regarded as 'not' good, it could be argued that his records are 'good', in the sense that they contain a wealth of factual information, especially about the financing requirements of poor clients, in the broadest sense, that otherwise would be very difficult, if not impossible, to obtain.

Formal financial institutions, however social their goals are stated to be, are unlikely to displace their informal counterparts, or provide services useful to the poorer sections of society, unless they can address the real financial service needs of the disadvantaged. The business records of informal financial service providers can play a unique role in identifying the specific financial needs that their formal sector counterparts have to address if they too are to reach these same disadvantaged sections of the population. ■

Reference list

Catanach, I.J. (1970), *Rural Credit in Western India 1875-1930*, (Berkeley, Los Angeles, London).

CRISIL. (2013), *CRISIL Inclusix. An Index to measure India's progress on Financial Inclusion,* (Mumbai).

CRISIL. (2018), *CRISIL Inclusix. An Index to measure India's progress on Financial Inclusion,* (Mumbai).

Darling, M. L. (1928), *The Punjab Peasant in Prosperity and Debt*, 2nd ed. (London).

Desai, S.S.M. (1979), *Rural Banking in India*, (Bombay).

Doniger, W. (2014), *On Hinduism*, (New York).

Gadgil, M.V. (1986), 'Agricultural credit in India: a review of performance and policies'. *Indian Journal of Agricultural Economics* III.2: 282-309.

Government of India (2010), *Report of the Task Force on Credit Related Issues of Farmers*. New Delhi: Ministry of Agriculture, Department of Agriculture and Cooperation.

Government of India (2011), *Census of India 2011*. New Delhi: Government of India, Ministry of Home Affairs, Office of the Registrar General and Census Commissioner.

Government of India (2016), *Household Indebtedness in India, NSS 70th Round*. New Delhi: Ministry of Statistics and Programme Implementation, National Sample Survey Office.

Habib, I. (1964), 'Usury in medieval India'. *Comparative Studies in History and Society* 6.4: 303-419.

Hardiman, D. (1996), *Feeding the Bania. Peasants and Usurers in Western India*, (Delhi).

Jain, C. (1929), *Indigenous Banking in India*, (London).

Jhabvala, R. (2014), 'Women and the poor are invisible in the Crisil index of financial inclusion'. *The Indian Express*, January 9, 2014.

Jones, J.H.M. (1994), 'A Changing Financial Landscape in India: Macro-level and Micro-level Perspectives', in *Financial Landscapes Reconstructed*, ed. F. J. A. Bouman and O. Hospes, 305-324, (Boulder, San Francisco, Oxford).

Jones, J.H.M. (2008), 'Informal finance and rural finance policy in India: historical and contemporary perspectives', *Contemporary South Asia* 16.3: 269-285.

Jones, J.H.M., Williams, M.J., and Joshi, M. P. (2014), 'Domestic migration and remittances in India: Rajasthani tribal migrants working in Gujarat', *Enterprise Development and Microfinance* 25.2: 150-162.

Jones, J.H.M. (2016), 'A child of the City: a Longitudinal Study of Stratification and Migration in a Rajasthan Village', *International Review of Social Science Research* 6.3: 107-117.

Jones, J.H.M. (2018), 'Social hierarchy and enrolment in government and private schools in rural India: longitudinal evidence from a Rajasthan village', *Oxford Review of Education* 44. 3: 353-369.

Kushnir, K., Mirmulstein, M.L. and Ramalho, R. (2010), *Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What affects the Count?* Washington D.C.: IFC and the World Bank.

'Moneylenders as Agents of Development?'. 2007. *Economic and Political Weekly*. 4 August, 3187-3188.

Reserve Bank of India (2007), *The Report of the Technical Group to Review Legislations on Money Lending*, Mumbai: RBI

Sunder, N. (2007), 'Rights for forgotten tribes'. *Hindustan Times*, June 4, 2007.

Taylor, M. (2012), "The Antinomies of 'Financial Inclusion': Debt, Distress and the Workings of Indian Microfinance". *Journal of Agrarian Change* 12.4: 601-610.

The Crédit Agricole archives

Pascal Pénot[1]

Author's biography

Pascal Pénot is an archivist. He received a Masters of History and a Masters of Archives and Records Management from the University of Angers. He worked as archivist at the NATO Archives in 2001-2002, and subsequently served as assistant manager at the archives of the French Occupation of Germany and Austria After the Second World War at the records depository of the French Foreign Office in Colmar (2002-2006). He became an archivist at Crédit Agricole SA in 2006, assuming full responsibility for its Historical Archives in 2016.

1 Crédit Agricole; pascal.penot@credit-agricole-sa.fr

Abstract

Crédit Agricole was established in France towards the end of the 19th century. It was launched in response to the pressing need of the owners of small, family-run farms to secure short-term loans in order to develop their yield. It catered to the needs of a cash-poor rural population that had previously been denied financial support because they could not meet the credit requirements needed to secure loans. Today, the bank has become one of the world's leading players in co-operative banking and insurance and has subsidiaries all over the world. But it developed from the ground up: mutual societies developed into local banks, then came the regional banks, and eventually this led to the setting up of the Office National du Crédit Agricole in 1920 (renamed Caisse Nationale de Crédit Agricole in 1926). The organization of the archives of the Crédit Agricole reflects the decentralized nature of the bank: each entity is independent from the other and manages its archives autonomously. This is symptomatic of a bank that began operating in the French regions prior to developing into a national institution.

Keywords

Archives, banking archives, business archives, financial history, French banks, mutual credit

The Crédit Agricole archives

Crédit Agricole: from specialized credit to universal banking

The history of the Crédit Agricole was initiated by the works of André Gueslin, who studied the general history of the institution from the origins to the early 1970's (Gueslin 1978; 1984). This history will be completed by Hubert Bonin in 2020. Alongside this is about thirty studies have been devoted to Crédit Agricole's regional banks, in books about the history of these regional mutual banks, or in academic research. The three most recent studies cover La Réunion (Reilhac, 2019), the Bourgogne (Guillemin, 2019) and the Pyrénées-Gascogne (Jalabert, 2020). Finally, a special issue of the *Revue française d'histoire économique*, in print at the end of 2020 will cover the Credit Agricole's history and its links with mutualism.

All these works show that the Crédit Agricole initially followed a different path to big finance (see T. Claeys, 2020 on the failure of the capitalist bank, The Société du Crédit Agricole which failed twenty years after its foundation). It was set up in the late nineteenth century to meet the needs of the French small-holders who lacked the wherewithal to repay bank loans at usurious rates of interest. At this point French small-holders were excluded from banking services; indeed many of them were wary of taking loans, seeing indebtedness as a way of incurring the evil eye. Nevertheless, their need was acute, and, in some regions, local notables began to organize various kinds of co-operative support based on the model of mutual assistance. In 1880, such support was encouraged by the creation of the National Society for the Promotion of Agriculture and by the law of 1884, permitting the foundation of agricultural unions. In 1885, the first Crédit Agricole Society was founded at Salins-les-Bains, in the Jura. Inspired by German pioneers in co-operative banking, such as Franz Hermann Schulze-Delitzsch (who opened the first co-operative bank in Saxony in 1850) and Friedrich Wilhelm Raiffeisen[2], it operated according to mutual principles, pooling resources so as to extend small-scale loans to its members, for example for the purchase of seeds, small equipment, or fertilizers. Today, we would call this as a system of micro-credit. The organization was democratic, since each member was eligible to vote, regardless of the level of resources they had entrusted to the safekeeping of the society.

Figure 1: Former office of the Crédit Agricole Society of the district of Poligny, in Salins-les-Bains.

Credit: Archives historiques de Crédit Agricole SA.

2 For a presentation of Raiffeisen and Schulze-Delitzsch, see André Gueslin, *Les Origines du Crédit agricole*, *op. cit*, p. 49-66.

Based on a system of local mutual credit, the first Crédit Agricole society offered a new solution to the pressing need to secure financial support for agriculture. It was model that was enthusiastically adopted by the politicians of the Third Republic who were anxious to secure the rural vote. In 1894, a law was passed to inaugurate the establishment of local mutual banks across the whole of France. By 1897, these banks were facing financial difficulties, and the Ministry of Agriculture asked the Bank of France to refinance Crédit Agricole by a contribution of forty million francs and an annual state subsidy of two million francs to be distributed to the local mutual banks. This was initially handled by the Ministry of Agriculture. Then, in 1899, a new law was passed to allow the creation of regional banks that would serve as intermediaries, by distributing the annual regional subsidies of two million francs to the local mutual banks. With the creation of the Office National du Crédit Agricole in 1920, renamed Caisse Nationale de Crédit Agricole in 1926, the apex of this pyramidal organization was put into place. The Office served as the central bank for the regional mutual banks and oversaw them. It was an atypical organization: a public institution, the Caisse Nationale, served as the central organ for private societies, and the regional mutual banks. After the end of the Second World War, in 1947, the Fédération Nationale du Crédit Agricole was set up; it provided a forum for representatives of the regional banks and enabled them to develop the strategy of the group. The Fédération represented the world of regional mutual banks vis-à-vis the Caisse Nationale and public authorities.

As the century wore on Crédit Agricole expanded its activities nationwide. From specializing in agricultural loans, it developed a network of rural banks that, from the 1960's onwards, began financing of agri-food companies, small and medium-sized companies, and other businesses. Crédit Agricole expanded geographically, opening new branches in areas to boost its activity nationwide, and it developed the range financial services on offer, finally becoming a universal bank in the early 1990's.

The pyramidal system remained intact until 1987 when the Caisse Nationale de Crédit Agricole was privatized. It was sold by the French State to the regional mutual banks who became the majority shareholders. The Fédération still represents the regional mutual banks and has become increasingly important. It is still a decentralized organization: each regional bank is independent, and the general policy is set out by the Fédération. Once it was independent of state intervention, Crédit Agricole grew rapidly by making some large acquisitions: Banque Indosuez in 1996, Sofinco in 1998, Crédit Lyonnais in 2003, and so on. Finally, in 2001, the Caisse Nationale was floated on the French stock exchange under the name of Crédit Agricole SA.

The distribution of the archives of Crédit Agricole

Crédit Agricole now consists of a central institution, Crédit Agricole SA, the Fédération Nationale, thirty-nine regional banks, 2,509 local banks and thousands of subsidiaries—which include international companies, like Crédit Agricole Corporate and Investment Bank (CACIB) and the asset management company, Amundi (currently the largest asset management company in Europe) or Caceis, which offers investment services for the group. Each entity is charged with the maintenance of its archives, and how they are conserved varies considerably. Many archives are still arranged on an ad hoc basis. Apart from the archives belonging to Crédit Agricole SA there has not yet been a sustained effort to streamline archival management across the group. The Maison de Salins Foundation was established in 2017 in order to provide strategic planning for the preservation of the archives across the group.

The role of the Historical Archives Service of Crédit Agricole SA

Some years before the centenary celebrations of the 1894 Local Banks Act, a professional historical archival service was set up to manage the Historical Archives of the Caisse Nationale de Crédit Agricole[3]. It aims to collect, classify, conserve the archives of Crédit Agricole SA, to maintain a reading room open to university researchers, and to offer a consultation service for anyone that requests it, such as regional banks and their subsidiaries.

These archives have much to reveal about the history of implementing mutual support in rural France to finance the local economy. They include:

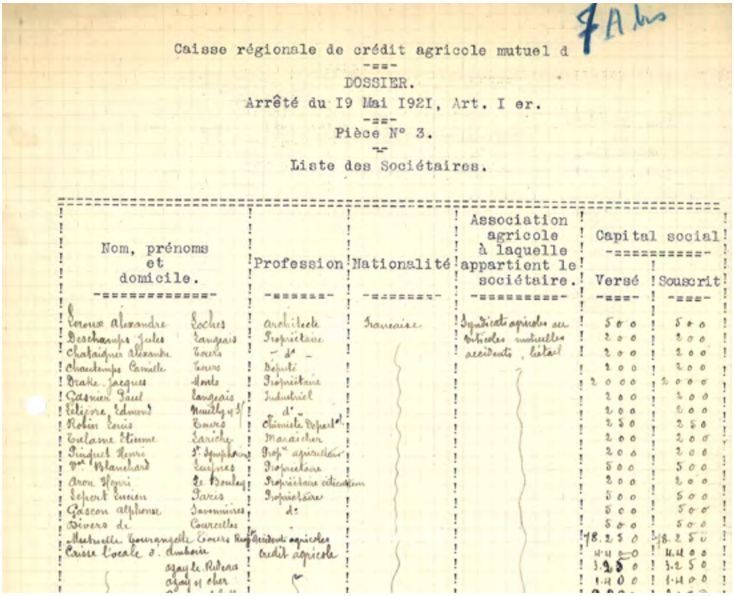
- Records of general meetings of the Fédération Nationale du Crédit Agricole (419 AH). The archival fonds of the Fédération Nationale are yet to be declassified. Nevertheless, the Historical Archives of Crédit Agricole SA retain records of its general meetings from 1958. The files contain position papers, statements and the reports of working groups that relate to mutualist practice, such as *The Renewal of Mutualism,* issued in 1976, or *The responsibility of Crédit agricole as a mutual bank in regional development* (several speeches in 1973, 1974 and 1976). These and other records reveal how the Crédit Agricole group has perceived its mission, as well as its role in society more generally.

- The constituent files of the regional banks (312 AH). These files were created from 1920 to 1950 by a legal department of the Caisse Nationale as they developed their oversight of the regional banks. The archive contains key

3 Now Crédit Agricole SA.

papers of the hundred original regional banks including: minutes of constituent general meetings, lists of first members and subscribers, lists of directors, annual reports, articles of association, by-laws and balance sheets. All these documents make it possible to study the history of regional banks, the composition of their membership and the regional economy, and the activities of local banks in their localities. The digitization of this collection his now effective. Access to these files is frequently requested by regional banks wishing to explore their history or rediscover their founding principles. The digitization of annual reports, articles of association, internal regulations, etc. will be completed by digitization missing copies from other archives. There is as yet no complete collection of these documents, and since many regional banks were closed in the wake of a series of mergers in the nineties, leaving only thirty-nine out of hundred regional banks in operation, we will have to extract copies from the Crédit Lyonnais archives[4]. Indeed, the Economic and Financial Studies Department of Crédit Lyonnais has collected the annual reports of thousands of companies, including the regional banks of Crédit Agricole.

Figure 2: Extract from a list of first subscribers of the Caisse régionale of Indre-et-Loire.



Caisse régionale de crédit agricole mutuel d

DOSSIER.

Arrêté du 19 Mai 1921, Art. 1 er.

Pièce N° 3.

Liste des Sociétaires.

Nom, prénoms et domicile.		Profession	Nationalité	Association agricole à laquelle appartient le sociétaire.	Capital social Versé	Capital social Souscrit
Leroux Alexandre	Loches	Architecte	Française	Syndicats agricoles ou viticoles mutuelles accidents, bétail	500	500
Deschamps Jules	Langeais	Propriétaire			200	200
Chataigner Alexandre	Tours	– d° –			200	200
Chautemps Camille	Tours	Député			200	200
Drake Jacques	Monts	Propriétaire			2000	2000
Gasnier Paul	Langeais	Industriel			200	200
Leliepvre Edmond	Neuilly s/ S	d°			200	200
Robin Louis	Tours	Chimiste Départ[l]			250	250
Gelanne Etienne	Lariche	Maraîcher			200	200
Pinguet Henri	St Symphorien	Prop[re] agriculteur			200	200
Vve Blanchard	Luynes	Propriétaire			500	500
Aron Henri	Le Boulay	Propriétaire viticulteur			200	200
Lefort Lucien	Paris	Propriétaire			500	500
Gascon Alphonse	Savonnières	d°			500	500
Divers de	Courcelles				500	500
Mutuelle Tourangelle	Tours Rue [illegible]	Accidents agricoles			78.250	78.250
Caisse locale d'Amboise		Crédit agricole			4.400	4.400
	Azay le Rideau				3.250	3.250
	Azay s/ Cher				1.400	1.400

Credit: Archives historiques de Crédit Agricole SA.

4 The Historical Archives department of Crédit Agricole SA is responsible for the archival holdings of two subsidiaries: the former Crédit Lyonnais (now known as LCL), whose archives date back to 1863, and Crédit Agricole Corporate and Investment Bank, and its former societies (Banque de l'Indochine, Banque Indosuez, etc.).

- The files of the general inspection of the Caisse Nationale (576 AH). This general inspection derives from the department which was set up in 1916 by the Ministry of Agriculture to manage the regional banks. This department became integrated within the Office National du Crédit Agricole when it was set up. The Historical Archives department maintains archives concerning inspections of regional banks, representing more than 900 archive files dating from the late 1960's. These files contain, among other things, reports of investigations as well as general documents of reference. Here again, these files make it possible to study how Crédit Agricole distributed credit to the population and industries in the regions. They are also useful to study the network of local banks and the workings of this mutualist organization. Many papers will be de-classified after a fifty-year embargo.

- Co-operative loan files (375 AH). The Crédit Agricole SA Historical Archives retains an archival fond of co-operative loans files. It contains the paperwork of more than 4,600 loan agreements drawn up between the regional banks and agricultural co-operatives from 1905-1970s. These loans required the approval of the Caisse Nationale, which explains why these agreements are preserved at the Historical Archives of Crédit Agricole SA. The co-operatives include cheesemakers, wine producers, dairy products, etc. Looking at these records makes it possible to grasp the nature of France's regional agriculture and the history of the way it was financed.

- The series of investigations on local credit banks (593 AH). Discovered only recently, this archive was created by the Caisse Nationale during the 1970s and early 1980s. It contains the regional banks annual reports regarding their local banks. These reports typically contain a general census, a description of the scale of the membership of local mutual banks, the details of their creation, or their closure. This provides very precise data on Crédit Agricole as a mutual or co-operative institution. These documents will enable researchers to develop a prosopography of the stakeholders in these mutual institutions. Finally, the files hold the correspondence between the regional banks and the Caisse Nationale de Crédit Agricole about specific cases regarding the creation or closure of local mutual banks.

Finally, the Historical Archives of Crédit Agricole SA hold the annual reports of the Caisse Nationale and minutes of its Board of Directors dating back to its inception. These two sets of documents contain information provided by local and regional banks, in particular regarding decisions on the allocation of loans to co-operatives, or to communities, wishing to equip their territory with electricity (from 1923, Crédit Agricole distributed electrification loans to local authorities. By 1930, 6,650 municipalities had already benefited from these loans which represents 35 % of the rural communes concerned).

The Maison de Salins Foundation

For the most part archives are managed at the local and regional level, and until very recently they were not overseen by a governing body. This changed in December 2017, when an umbrella organization called the Maison de Salins Foundation was created, which brought together 30 regional banks, Crédit Agricole SA, Crédit Agricole Assurances, Crédit Agricole Immobilier, and Cariparma. Its headquarters are located in Salins-les-Bains, in the restored building of the first local bank, and its remit is to stimulate reflection on the mutual and co-operative model, its history, practices and its future. By pooling resources, it aims to digitize the archives and key photographs and images of the historical archives of the founding members. The Foundation has also taken over management of the Crédit Agricole Business History Prize, which awards an annual grant to support the publication of a historical study of economic history or business history.

The Foundation's first project is to create an open access repository where documents can be consulted online: https://collections.maison-salins.fr/s/patrimoine/page/accueil. The aim is to consolidate a corpus of documents in order to facilitate research into the history of the co-operative movement in France. This site is not only covering the Crédit Agricole group but also the different families of the co-operative world: co-operatives and users, businesses, production, credit and other co-operative societies of collective interest. Concerning the Crédit Agricole, the first publication consists in 1,628 annual reports or general meetings minutes of regional mutual banks between 1899 and 1966. Next, by-laws, balance sheets, etc. will be digitized. As mentioned above, there is no centralized physical reading-room to concentrate historical archives of the regional banks. This digital initiative makes it possible to circumvent this difficulty and to facilitate the consultation of documents kept in different places.

This project will restore Crédit Agricole to its rightful place within the general history of co-operation. Actually, the website acts as portal for other archival fonds belonging to the Confédération Nationale de la Mutualité, de la Coopération et du Crédit Agricoles[5] and some texts related to the history of the agricultural production co-operatives.

5 The National Confederation of Mutuality, Agricultural Co-operation and Credit is the descendant of the National Society for the Promotion of Agriculture founded in 1880.

Figure 3: The office of the Maison de Salins Foundation in the restored building of the first local bank in Salins-les-Bains.

Credit: Fondation Maison de Salins.

The oral archives

During the 1990s and early 2000s, a campaign to collect oral testimonies was conducted by the Historical Archives of Crédit Agricole SA. The corpus brings together managers (presidents of regional banks, general managers of regional banks and of the Caisse Nationale) as well as staff. This collection will give flesh to the history of the Crédit Agricole by revealing how elected officials and employees saw their work, and its usefulness in the territories concerned.

This initiative has been driven by a small group of members of the Association of Retired Managers of the Crédit Agricole[6]. The interviewees are all members of this association and are therefore general managers, assistant general managers and managers of regional banks. Contacts have already been made with the association of former presidents of regional banks to expand this corpus.

This project has been funded by the Maison de Salins Foundation, and with the support of the Historical Archival Service of Crédit Agricole SA who provide technical guidance (conservation, description and communication). Rights of reproduction and use have been formulated in a contract signed by the interviewees and interviewers. It provides first-hand accounts of the local activity of Crédit Agricole in its role as financier of the economy and organizer of mutual life.

The notions of utility, mutualism and financing of agriculture are still relevant in the Crédit Agricole Group. In 2017, an ethical charter was published to recollect and promote its values of proximity, responsibility and solidarity. One of the group's entities, the Grameen Credit Agricole Microfinance Foundation, is putting these key guiding principles into practice around the world. This institution fights poverty and financial exclusion through microcredit and social business in developing countries. Founded in 2008 and endowed with €50 million by Crédit Agricole SA, it now supports 47 microfinance institutions (MFIs), mainly working in the farming and rural sector with high social impact, and 13 social business companies. No fewer than three million people are supported by partner MFIs, principally in South and South-East Asia and Sub-Saharan Africa. Recently, in 2019, the Crédit Agricole reaffirmed its attachment its original principles by deploying the slogan, 'Working every day in the interest of our customers and society', placing utility at the center of the group's action. We are thus witnessing a revival of the core principles of mutual support, no longer swayed by purely financial motivations. ■

6 Association des cadres dirigeants retraités du Crédit Agricole (ACDRCA).

Reference list

Bonin, H. (2020), *Le Crédit agricole (1951-2001) : de la banque des campagnes à la banque universelle,* (Genève).

Bosséno, C. (1994), *Crédit Agricole, un siècle au présent (des origines aux années 50)*, (Paris).

Claeys,T. (2020), 'La Société de Crédit agricole, fondée en 1861 : une expérience malheureuse', *Revue française d'histoire économique*, n° 13, p. 22-37.

Gueslin, A. (1978), *Les Origines du Crédit agricole*, (Nancy).

Gueslin, A. (1984), *Histoire des crédits agricoles, tome 1 : l'envol des caisses mutuelles (1910-1960)*, (Paris).

Gueslin, A. (1984), *Histoire des crédit agricoles, tome 2 : vers la banque universelle? (depuis 1960)*, (Paris).

Guillemin, J. (2019), *Le Crédit agricole en Bourgogne, une mutuelle paysanne (1896-1975)* (Tours).

Jalabert,L (2020), *Histoire du Crédit Agricole Pyrénées-Gascogne, 1902-2019*, (Pau).

Reilhac, L. (2019), *Le Crédit agricole de La Réunion (1949-2019): la conviction du développement*, (Saint-Denis).

Project for recovery of Spain's banking archives

María de Inclán Sánchez[1]

Author's biography

María de Inclán Sánchez is the Head of the Record Management Unit of Banco de España.

She holds a Graduate Degree in Geography and History with a specialisation in Medieval History of the Universidad Complutense in Madrid (1989/1994). She further obtained a Masters Degree in Archival Sciences of the Archivo Histórico Nacional, Spain (1994/1996) and a Master in Cultural Management, Tourism, Heritage and Nature of the Instituto Universitario Ortega y Gasset (1998/1999). Additionally, she completed the Program for Management Development in Public Administration in ESADE Business School (2010/2011).

She worked as an archivist for the Spanish National Archives and the Spanish Parliament between 1994 and 1997 and as an information specialist in the FAES Foundation between 1997 and 1999. From 1999 until 2005 she worked as senior consulting expert in record management in consulting. Since 2005 she has been working at the Banco de España, first as specialist in document management, later as Head of the Record Management Unit and since 2013 as Head of the Archives and Documents Management Division.

1 Banco de España; mlinclan@bde.es

She is an expert in record management, electronic administration and digital transformation. She is the author of several articles and speeches concerned with the above presented topics.

Elena Serrano García[2]

Author's biography

Elena Serrano García is the Manager of the Historical and General Archives Unit, Banco de España, Madrid. She holds a Graduate Degree in Geography and History, with a specialization in Medieval History, from the Universidad Autónoma of Madrid (1981/1986). She has Masters in Archives Degree from San Pablo CEU University (1987/1988). She worked as an archivist in the Historical Archives of the Royal Palace in Madrid (1988/1995), where she was responsible for the organization and description of several historical documents.

In 1995 she joined the Archives of the Banco de España as specialist in historical archives, becoming Manager of the Historical and General Archives Unit in 2019. Her work has focused on the identification, treatment, description and valuation of historical document fonds. She has managed several major projects involving treatment of the Bank's document heritage collections such as the Architecture Plans Collection and the Historical Photograph Collection. She is the author of several articles and publications about the above presented. Her most recent books deals with the historical plans of Banco de España's buildings and the Guide to Historical Banking Archives in Spain.

2 Banco de España; elena.serrano@bde.es

Abstract

During the last five years, the Banco de España has been responsible for a project entitled 'Archives Recovery for Spanish Financial Institutions'. The project was motivated by concern about the potential danger of losing archives belonging to financial institutions. Over the years many archives have disappeared as a result of mergers and acquisitions. The loss of these archives and documents is detrimental to historical research. The project consists of three phases: (i) the creation of a 'Financial Institutions Map' which covers all current and historical Spanish financial institutions, including those which have been established through mergers and acquisitions. This phase has been the key to identifying current financial institutions so that the respective archives could be found. (ii) The creation of a team whose members belong to some financial institutions. One of its tasks is to locate archives. (iii) Publishing a 'Guide of Historical Archives of Financial Institutions in Spain'. Includes the description of archives and a study of the Spanish financial system. The main aspects of the project have been the location of a large number of unknown bank and saving bank archives; making the archives available for the scientific research; making the financial institutions conscious of the importance of archives conservation; establishing a network in order to increase the individual efforts of institutions; establishing a work method to be replicated in similar situations.

Keywords

Recovery of banking archives, disappeared banking archives, financial institutions map, finding banking archives, preservation banking archives, Guide of historical banking archives in Spain

Project for recovery of Spain's banking archives

The idea

Banco de España (founded in 1782 as the Banco Nacional de San Carlos) has demonstrated throughout its history that it attaches great importance to the conservation of its documents. The minutes of its first board meeting, held on 9 January 1783, record the initial decision to store the resolutions adopted by the General Meeting in the archives, together with all the other 'papers that must be conserved to date'. Over the course of 236 years, the archives have been organised and used by the bank's staff at its head offices and branches, by its governing bodies and, since the mid-1940s by scholars. Until then no one had considered that the bank's documents and files might be used as an historical source. But it was not until the 1960s and 1970s that the bank's senior management realised that it would be a good idea to open up the archives, and various reports were prepared proposing that they be reorganised to allow them to be used by researchers from outside the bank.

On 30 November 1979 the working group for the modernisation of the Banco de España's Archives, coordinated by Francisco Núñez-Lagos, the then Deputy Secretary of the Banco de España, presented to the General Secretary the proposed rules for regulating access to the historical resources belonging to the Banco de España's General Archives. It was agreed that the new Historical Archives would include all documents dating back more than forty years and would be open to consultation by all users with a researcher's card issued by the Banco de España.

The doors of the Banco de España's Historical Archives were formally opened to researchers in 1982 with the inauguration of the reading room. To mark this event, which coincided with the bicentenary of the founding of Banco Nacional de San Carlos, the First Congress on Economic Archives of Private Institutions was held. The Congress attracted a large group of experts, including economic historians and archivists from financial institutions, corporations and public institutions. The Congress provided a forum for reflection on business archives and on their possible future (Banco de España, 1983). The papers presented included, most notably, those on banking archives in the 19th and 20th centuries by Professors Gabriel Tortella and Pedro Tedde, on business archives in Andalusia by Professor Rafael Castejón, on industrial archives in Catalonia by Professor Jordi Nadal and on private economic archives in the Basque Country by Manuel Basas Fernández, in addition to those presented by the archivists Margarita Vázquez de Parga on current banking and business archives and Teresa Tortella on the Banco de España's Archives.

In his concluding remarks, Professor Gonzalo Anes emphasised that all archives are of interest to economic historians, and indeed to many other historians as well, indicating that in addition to the major well-known archives there are also many other hidden archives, waiting to be discovered and used (Anes, 1983). He noted that a lack of space and conservation difficulties, not to mention the vicissitudes of time and ignorance, had led to the loss of countless public and private archives, and highlighted the need to take stock of these losses and to take action to prevent further losses in the future. Josefina Domènech spoke of the rich documentation contained in banking and business archives, taking as an example the project for the selection, assessment and compilation of the most important historical documentation conserved over many years in the various archives of la Caixa de Pensions, the origin of the marvellous Historical Archives of Fundación Bancaria 'la Caixa' (Domènech, 1983).

At the time there was much talk of the limited experience of working with banking archives, on account of banks' refusal to make their documents and papers available for consultation. Among other factors, the lack of attention and time dedicated to cataloguing the archives hindered access and consultation.

Professor Gonzalo Anes concluded by underlining the need for co-operation for the conservation of archives and the possibility that archivists and economic historians might establish more regular contact.

> 'Documents must be conserved, catalogued and made available to the public; whether they are concentrated in one place or scattered about is of less importance' (Anes, 1983).

He believed it was vital that people be aware of the need to conserve archives, that the archives be catalogued and that, above all, they be made available to the public.

Four years later, in June 1986, the 'Second Congress on Economic Archives of Private Institutions: Sources for the History of Banking and Trade in Spain' was held. The main aim was to encourage financial and economic institutions to make an effort to maintain their archives and make them more accessible. Papers were presented on the collection of the Banco de Bilbao and its London branch, by Professor Pablo Martín-Aceña; on the collection of Banco de Crédito Industrial, by Professor Gabriel Tortella and the archivists Carlota Bustelo, Elisa García-Morales and Natalia Marín; and on the collection of Banco Hipotecario and Banco de Crédito Agrícola by Consuelo Varela. The first conclusion to come out of the Congress was the unanimous request that the Banco de España endeavour to convince private financial institutions to rescue and classify their historical archives and make them available to researchers. Another proposal was the request for regulations or guidelines on how to select the important documents to be conserved at active businesses, and how to make them available and maintain them.

José Manuel Mata, Director General of the State Archives, gave the closing address, recalling that archives exist not only to be classified, conserved and selected, but also to be disseminated, and that this requires major efforts as regards organization, description and selection (Banco de España, 1988:243-244).

In the period between the first Congress and the second Congress held in 1986, Law 16/1985 on Spanish Historical Heritage was enacted. This was a highly significant step in Spanish legislation in the field of conservation and dissemination of archives and documents. In his report on business archives in Spain for the International Council on Archives, Section on Business and Labour Archives, José Andrés González Pedraza underlined that in Spain there was no national legislation on business archives (González Pedraza, 2008). Nor were there any regulations that obliged financial institutions to create and maintain archival centres for the classification and dissemination of documents. In addition, insofar as the conservation of documents of commercial and former savings banks was concerned, banking regulations on the production and conservation of documents had to be taken into account, as well as commercial, labour, environmental, security and tax legislation, among others.

Law 16/1985, which is still in force today, requires that owners of documentary heritage conserve and protect it, use it in a way that does not prevent it from being conserved, keep it in an appropriate place and allow it to be consulted by researchers who have submitted a reasoned request. However, a number of questions arise. What constitutes 'documentary heritage'? How does management of this heritage affect economic and financial institutions and businesses? What happens to the documents of commercial and savings banks that have disappeared, been absorbed or merged? Article 49 of Law 16/1985 establishes which documents constitute documentary heritage:

1. For the purposes of the Law, a document is understood to be any expression, in natural or conventional language, and any other expression, in the form of a graphic, sound or image, in any kind of material medium, including electronic media. Non-original copies of publications are excluded.
2. Documentary Heritage includes documents from any period that were produced, conserved or compiled, in the exercise of their functions, by any public institution or agency, by any legal persons in whose capital the State or other public institutions hold a majority stake, or by private natural or legal persons managing public services insofar as management of such services are concerned.
3. Documentary Heritage also includes documents dating back more than 40 years that were produced, conserved or compiled, in the pursuit of their activities, by political, trade union or religious associations or bodies or by private cultural and educational associations, foundations or bodies.
4. Also included under Documentary Heritage are documents dating back more than 100 years that were produced, conserved or compiled by any other private institutions or individuals.
5. The central government may declare as Documentary Heritage documents that are more recent but are deemed worthy of that consideration.'[3]

Article 59(1) of Law 16/1985 defines archives as:

> 'Organic groups of documents, or the compilation of several such groups, compiled by public or private legal persons, in the pursuit of their activities, to be used for purposes of research, culture, information and administrative management. Archives are also understood to be cultural institutions where such organic groups are compiled, conserved, classified and disseminated for the above-mentioned purposes.'[4]

The archives and documents of commercial and savings banks were covered under Article 49(3) and (4); Article 59(1) would also apply to them,

3 Ley 16/1985. De 25 de junio, de Patrimonio Histórico Español.
4 Ibid.

albeit without expressly mentioning them. Hence the need for management to be aware of their value and importance in order to understand how events occurred and why certain decisions were taken.

During the 1980s and 1990s, successive regulations were approved that developed and regulated the functions and competencies of archives, although it was not until 2011 that the Spanish Archives System was established, and the Central Government Archives System, and access thereto was regulated (Royal Decree 1708/2011 of 18 November 2011). This regulation does not apply to private archives, but its principles serve as a source of inspiration, since they address not only heritage conservation and protection, but the need to give the general public access to the broad range of documents held in archives. The regulations also include a new challenge that we, as archivists, historians, computer experts and financial institution management staff need to address, namely new digital formats – databases, electronic files and blockchain technology – and how to conserve them for the future.

In view of both private and public institutions' awareness of the importance of conserving their documentary heritage, in the 1990s and 2000s the Banco de España continued to work on the recovery and dissemination of its Historical Archives, making its document collection available to researchers, scholars and the general public. Doctoral theses and research articles were written, lawsuits were settled, many individuals received help to research family and local matters; concerns were met, and stories were clarified. Over this period, the Banco de España published numerous works, books and articles: outstanding documentary sources for the study both of Spanish and international economic history.

The 1980s and early 1990s witnessed not only the birth of the Banco de España's Historical Archives but the emergence of several initiatives by private banks and savings banks to organise their archives, although the economic and political circumstances of the time seem to have prevented this in some cases. We know of at least four projects at Banco de Bilbao, Banco Urquijo, Banco Hipotecario and Caja de Pensiones de Cataluña y Baleares where this occurred (Tortella, T., 2001). All of these institutions had years of institutional history of great value for understanding the economic and banking history of Spain. But this was a period of crisis, which transformed the Spanish banking scene, and this may have prevented some of these projects from coming to fruition. Nevertheless, it did see the creation of the Historical Archives of both Caja de Pensiones (1979) and Banco de Bilbao (1980).

The project

In 2007, 21 years after the Second Congress on Economic Archives of Private Institutions, the idea that the Banco de España should foster an initiative to recover the historical archives of the Spanish banking sector, in accordance with the conclusions drawn at the Congress held in summer 1986, was taken up again. The growing concern for the future of the archives of commercial and savings banks, and the risk of their being scattered and lost, energised Ángel Luis López Roa, Professor in Applied Economics at the Universidad Complutense of Madrid and Council Member of the Banco de España between 2005 and 2017, to reinstate the initiative. He encouraged the Deputy General Secretary and the persons responsible for the Banco de España's Historical Archives to embark on a project to recover the historical banking archives. The aim was to locate the greatest possible number of archives of commercial and savings banks, including those of institutions that had either disappeared or had merged or been absorbed, so that they could be disseminated and opened up to researchers.

The first questions posed were what to look for, and where and how to look for it. As a starting point, it was considered that a banking map should be drawn up, depicting in chronological and logical fashion the history of the institutions and the transformations undergone (mergers, absorptions and acquisitions). The map would also include the name changes made at commercial and savings banks and would serve to identify the institutions, putting all the information in context. It is important to note that in 2008 there were 66 commercial banks and 46 savings banks in Spain[5], with an estimated number of almost 440 archives to be located.

Over the next two years, in order to discover the physical location of the archives, questionnaires were sent to financial institutions and commercial and savings banks. The aim was to get a general idea of the level of interest of commercial and savings banks in this initiative and to obtain the necessary information to contact and locate the archives. In view of the very mixed response, and the vagueness of the information obtained, the Banco de España considered the need to reassess the progress and outcome of the work undertaken and proposed a new approach and methodology.

The apparent lack of interest on the part of the financial institutions, the unsuccessful approach chosen for the initiative and the severe financial crisis at the time meant that for several years the project remained dormant.

In 2013 it was taken up again, with a firm determination to achieve the objectives set, to be materialised in the form of a guide on all the historical archives conserved, on who manages them and where they are kept, and which we present here. The Banco de España hired the lecturer in History and Economic Institutions at the Universidad de Castilla-La Mancha, María del Carmen Angulo Teja, to update and review the first version of the banking map that had been drawn up in 2008 and which, after the worst years of the crisis and reorganization of the commercial and savings banks, was no longer

5 Banco de España Registry of Institutions. Book of Institutions 31 December 2008.

up to date. The preparation of the new version of the map acted as a driving force for the process of locating commercial and savings banks' archives and drawing up a Guide to Historical Banking Archives in Spain (*Guía de archivos históricos de la banca en España)*. The latest version of the map is dated 31 December 2017. At that date there were 59 commercial banks and two savings banks registered as such.[6]

The definitive backing for the project came in 2015 when a working group was set up comprising the institutions that were interested in the initiative with a strong background in archives: Banco Santander, BBVA, Banca March, Banco Sabadell, Banco Popular (which would be absorbed by Banco Santander in 2017) and the Spanish Confederation of Savings Banks (CECA), plus the Banco de España. At the first meeting, held in May 2015, a clear objective was defined: to foster the conservation of financial institutions' archives. To that end a common strategy was established, and experience was shared in identifying and recovering collections, in digital transformation and digitisation processes, in the management, improvement of services and standardisation of processes and in achieving access and availability. The working group was promptly joined by Fundación Bancaja and Fundación Bancaria 'la Caixa'.

From 2015, and up to the publication of the guide, which wound up the research and the first phase of the project, the commercial banks and foundations of the former savings banks, plus the CECA and our team at the Banco de España continued to work on locating, describing and standardising our old archives collections, preparing classification tables, and on their digitisation, conservation and dissemination.

The methodology

The methodology chosen was essentially determined by the initial motivation for the project which has underpinned it throughout; namely, that the Banco de España should pro-actively encourage and foster the conservation of commercial and savings banks' archives, which are at constant risk of being forgotten and lost, especially in cases where the original institutions have disappeared. It is not easy to undertake a project to locate and recover archives when many of the commercial and savings banks that created them no longer exist, and no one is very sure where to look or who to ask. Hence the need for research and for a project. Here we will explain how the Banco de España, and specifically the Archives and Document Management Division, developed the Project for Recovery of Spain's Banking Archives that we present below.

6 Ibid, 31 December 2017

From the start of the process, it was deemed necessary to pursue two lines of action. The first was to carry out a comprehensive study of the commercial and savings banks that have existed over time in Spain. Although economic historians have written a great deal on banking and banks in Spain and on banking crises and past absorptions and mergers, we could not find a systematic study that portrayed the banking scene comprehensively. The second line of action proposed was to develop a working methodology that would allow us to locate the institutions previously identified in that study. Within this approach, and in view of the large number of institutions that had disappeared due to mergers and absorptions, it was considered a priority to perform an analysis of banking consolidation and thus ascertain in which current commercial and savings banks we could find the archives of other institutions integrated in them. In other words, gaining precise knowledge of the history of banking consolidation would give us complete information on which commercial and savings banks to search for and would give us the clues to identify the current owners of all the archives of the institutions that had disappeared due to merger and absorption. We were aware that under this methodology we were going to leave to one side the search for the archives of institutions that had disappeared due to liquidation rather than integration within other institutions, but a preliminary study showed us that in quantitative terms — though not always in qualitative terms — this type of institution represented a smaller percentage with respect to the first group. Therefore, we postponed the identification and location of archives of institutions that had simply disappeared to a later phase. In this group there are certainly major banks whose weighting in Spanish economic and financial history has been great and, therefore, work has already started on an extension of the project to recover information on these banks and, if possible, their documents. We can cite by way of example major institutions such as Crédito de la Unión Minera or Banco de Barcelona, the latter almost miraculously rescued from oblivion several years ago and now available for consultation in the National Archives of Catalonia (Blasco Martel, 2003).

In short, our first objective was the institutions that disappeared due to merger or absorption. In the planning of the project and in line with the initial approach, two successive phases of action were established, the first of which was key to the performance and success of the second.

Phase 1. Preparation of the Banking map

In the history of the Spanish banking system, the growing trend towards banking concentration is well known, and there is an abundance of specialised literature on this subject.[7] However, as we have already pointed out, in the research carried out during the planning of the project, we did not uncover an overview that compiled in a detailed, comprehensive and systematic manner, for each bank in operation at that time, a history that, starting from its date of formation, gathered all the information about each of the commercial and savings banks with which it had merged or which it had acquired up to the present day. Accordingly, we decided to develop a working tool that would accurately provide us with this information. We called this instrument the Banking map, the creation of which was entrusted to Professor María del Carmen Angulo.

The Banking map entailed systematic exhaustive research into the creation, modification, absorption and mergers of commercial and savings banks over time and their integration within other institutions. It reflects all the commercial and savings banks registered on 31 December 2017 in the Banco de España Registry of Institutions and, within each of them, the data on their origin, changes in name and absorptions and mergers performed. In turn, with regard to the banks acquired by, or merged with them, it includes the data on their formation, changes in name and their own absorptions/mergers, and so on.

Table 1. Example of information compiled in the Banking map.

0003 BANCO DE DEPOSITOS, S.A.	1893	Banco Arícola Caja de Ahorros y Monte de Piedad de Pollensa
	1927	(Mallorca)
	1975	Change of denomination to Banco Agrícola de Pollensa, S.A. Change of denomination to Banco Depósitos, S.A.; change of address to Madrid
	2008	Absortion of Banco Condal, S.A. Barcelona, (1887): origin Sucesores de Rosés y Cia Barcelona, (1887); change of denomination to Rosés y Cia (1922); to Banca Rosés, S.A. (1930); to Banco Condal, S.A. (1957); change of address to Madrid (1994).

Source: C. Angulo Teja, *Mapa de bancos y cajas de ahorros basado en el Registro de entidades del Banco de España.*

Thus, an instrument was successfully created whereby each institution that had disappeared due to merger or absorption have been recorded within its absorbing institution and within the Spanish banking institutions in existence on 31 December 2017. We show by way of example the information compiled in the Banking map for a given institution (Angulo Teja, M (2018) [Table 1].

7 By way of example, Gabriel Tortella's article (2001) and bibliography.

The Banking map is conceived as a living instrument which must be updated with the changes that occur annually in the Spanish banking scene and that are reflected in the Banco de España Registry of Institutions.

Phase 2. Archives localization

The Banking map enabled us to identify a good number of our interlocutors, since it meant we knew who to ask about each institution that had disappeared.

From this point, we were in a position to embark on the second phase of the project. This phase involved contacting the institutions registered in the Banco de España Registry, asking them for the archives of the banks that were nested beneath them on the Banking map, and trying to locate them. A round of contacts was established with Spanish financial institutions to enquire about the destination of documents from a whole list of commercial and savings banks that were potentially deposited in their own archives.

This was considered an ambitious objective, albeit with a more uncertain outcome, as it depended on the establishment of a network of professional relationships that a priori we were not sure we could create. Contact was initiated with those institutions engaged in projects for the recovery of their documentary heritage, whether in an early stage or an advanced stage of development, such as CECA, BBVA, Banco Santander or Banco Sabadell; before addressing other banks and banking foundations. All were invited to get involved and participate in the project, and it can be said that, although the initiative was not entirely successful, it did secure the participation of eight institutions and banking foundations, as well as CECA. It should be noted that these nine institutions account for the mergers and absorptions of most of the banking institutions that have ever existed. To date, and we are always open to new additions, the archives of Banco Sabadell, Banco Santander, BBVA, Fundación Bancaja, Fundación Caja Inmaculada, Fundación Especial Pinnae, Fundación 'la Caixa', FUNDos and CECA have participated.

Publication of the Guide

Although not as many institutions and banking foundations have participated in the project as we would have wished, meaning that we have not located as many archives as we had planned, we wanted to close the project on 31 December 2017, and publicise the work carried out and the results obtained, through the publication of a *Guide to Historical Banking Archives in Spain* (Inclán Sánchez, M., de et al., 2018). We believe that the project has achieved results worthy of dissemination, first, because of the wealth of information that it will provide to users of the archives and the general public and, second, because it may help to raise the other institutions' awareness of the importance of identifying their own documentary heritage. The project is open to new additions of institutions, foundations and archives, and this will result in a future update of the Guide that is now being published.

The Guide is a descriptive tool compiling the contents of Spanish banking archives, which brings together the descriptions of all the archives identified in a single tome. To this end, we requested the banks and banking foundations participating in the project to contribute a brief description of each of their collections, with a view to offering to users the information necessary to understand their potential value and facilitate their consultation.

The Guide features the Historical Archives of the Banco de España, Banco Sabadell, Banco Santander and BBVA, as well as those of the Bancaja, Caja Inmaculada, Especial Pinnae, 'la Caixa' and FUNDos foundations and of CECA. To facilitate the use and understanding of the Guide, these descriptions are standardized in accordance with the General International Standard Archival Description (ISAD (G), 2000). Also, the Guide contains very useful information about the archives themselves as institutions with archival holdings, and provides information regarding the location of the archives, the opening hours for users and the services it offers. This information is also standardised in accordance with the International Standard for Describing Institutions with Archival Holdings (ISDIAH, 2008).

The Guide is accompanied by an introductory essay on 'The evolution of the Spanish banking system in the twentieth century', which Professor Pedro Tedde de Lorca, historian of the Banco de España and academic of the Royal Academy of History, was kind enough to prepare. Pedro Tedde's work provides the context and historical coordinates that make it possible to understand all aspects of the content of the Guide and, therefore, we would like to express our sincere gratitude for his contribution.

The Guide concludes with the Banking map drawn up by Professor Carmen Angulo, which offers an overview of the history of Spanish banking mergers and absorptions. As well as having been the key tool for locating the archives, the Banking map is the instrument that will allow us in the future to continue with the investigative work to find the archives that are still to be identified.

Results and conclusions

The level of results obtained in relation to the ambitious objectives set out in the project makes it impossible to consider the work we are now publishing to be finished. Certainly, the search for archives has not been exhausted; on the contrary, it must -- and can – be completed in the future by locating more banking archives. In fact, in the course of the project we have become aware that more archives are preserved than appear in the Guide.

Although for various reasons several institutions were not involved in the first phase of the project, some institutions and foundations have expressed their interest in participating in the future. We expect that the right circumstances for this involvement will soon arise and that the publication of the Guide to Historical Banking Archives in Spain will encourage the participation of other institutions, which will undoubtedly enrich the information in the Guide, research and conservation of historical memory as a whole.

With regard to the archives of institutions that are not integrated in other institutions, which means they do not appear on the Banking map, it should be noted that we are already working on their identification. We are aware that this is a very complex chapter that we have yet to embark on due to, among other things, the greater initial difficulty in locating banks that have gone into liquidation as compared to the absorbed and merged banks. We know that it will not be easy to find these archives. Some of them may be deposited in another public or private archives (see the example of Banco de Barcelona mentioned above), some may be in the hands of bankers' families, some may not have been conserved, while other archives may yet be discovered at the most unexpected time in the most unexpected place. We hope that this work will soon bear fruit.

More than 600 institutions are identified in the Banking map, but only 180 archives have been located, representing 30% of the total archives that should be located. Several of these 180 institutions whose archives have been located, however, have a major weighting in the Spanish banking system and, therefore, their qualitative value is greater: Banco de Bilbao, Banco Hispano Americano, Banco Central, Banco Santander, Banco Sabadell, La Caixa, to give just a few examples. It is undoubtedly a lower figure than would be desirable, although it is much more than was known 35 years ago, as reflected in the minutes of the Congresses on Economic Archives of Private Institutions organised by the Banco de España in 1982 and 1986 (Banco de España 1983; 1988). We have come a long way since then, when the major banking archives that now appear in this Guide did not exist, the Banco de España Archives had just made its debut as an archives open to research and some other initiatives were timidly launched. Many uncertainties and concerns were expressed in conversations between the historians and archivists present at those congresses.

It is clear that our sensitivity to the past has grown since then and many institutions are now more aware of the rich documentary heritage that constitutes historical memory. There is also a growing awareness that an institution's heritage does not belong exclusively to it but is part of the shared past of the cities and of communities it was involved with: archives constitute a common heritage of society as a whole. Relationships with society are reflected in many of the documents that are preserved, which contribute a wealth of information on diverse topics beyond the commercial or savings bank itself, such as local trade, customers, relationships with public bodies, shareholders, employees, welfare projects, state-owned assets, socio-political conflicts and countless other issues.

It is quite possible that many banking archives have been lost in the passage of time, forgotten, disregarded, unknown, or devalued by those who came across them. Yolanda Blasco puts it very aptly in her account of the discovery of the Banco de Barcelona Archives, there is always the hope that some ‘anonymous hands’ (Blasco Martel, 2003:200) have had the foresight and enough sensitivity to take care of those documents that *no longer served any purpose*, thinking that they might be useful at some point or at least feeling slightly nervous about destroying them forever. It would not come as a surprise — nor would it be unprecedented — if documents or entire archives were discovered buried away in some hidden corner of a basement, forgotten by time, unknown to all. And perhaps some renovation work or a building transfer, which moves everything around, will make them emerge from their stagnation and abandonment. Everything is possible--let’s hope this is the case.

We would like to point out that the involvement of other banks and banking foundations played a decisive role in the success of the work now being published. Their technical contributions and their co-operation in establishing networks were key to the results obtained, which would not have been achieved without their participation. We would like to take this opportunity to thank all the participants and their generous contributions: BBVA, Banco Sabadell, Banco Santander, CECA, Fundación Bancaja, Fundación Bancaria ‘la Caixa’, Fundación Caja Inmaculada, Fundación FUNDos and Fundación Pinnae.

One of the greatest achievements of the project is the wealth of information that the ‘Guide to Historical Banking Archives’ offers to historical research and, in particular, to economic and financial historical research. This Guide can be deemed to constitute a true ‘guide of sources’ for any research to be carried out on the basis of documents from banking archives, and it is the first time that such a compilation has been published in Spain. Not only does it present in a single work the complete list of preserved banking archives, which is truly innovative, but it also offers descriptions of the contents of each documentary collection, which provides the researcher with the most relevant information to appreciate the scope and content of what can be found in each collection.

Finally, it should be noted that the archives of commercial and savings banks were created to safeguard the relevant documents that attest to their activity: the minutes of their general meetings, their accounting books, their acquisition, merger and absorption records, documents referring to their movable assets, their deeds, their correspondence, testimonies of welfare projects, etc. When these documents lose their primary value, they should be kept for research and should be sent to these archives for processing, dissemination and consultation. The Heritage Law helps us to achieve this, but it is essential to raise the awareness of the heads of banks, banking foundations and savings banks, historians, researchers, citizens and archivists of the need to invest in this recovery of banking archives.

Reference list

Anes, G. (1983), 'Resumen y conclusiones', in *Actas del Primer Congreso sobre Archivos Económicos de Entidades Privadas,* (Madrid: Archivo Histórico del Banco de España): 169-174.

Angulo Teja, M. (2018), 'Mapa de bancos y cajas de ahorros', in M. de Inclán Sánchez, E. Serrano García and A. Calleja Fernández (edd.) *Guía de archivos históricos de la banca en España*, (Madrid): 259-285.

Banco de España (1983), *Actas del Primer Congreso sobre Archivos Económicos de Entidades Privadas España* (3-4 de junio de 1982), (Madrid: Archivo Histórico del Banco de España).

Banco de España (1988), *Actas del Segundo Congreso sobre Archivos Económicos de Entidades Privadas: Fuentes para la Historia de la Banca y del Comercio en España* (26-17 de junio de 1986), (Madrid: Archivo Histórico del Banco de España).

Blasco Martel, Y. (2003), 'Una nueva fuente bancaria: El Banco de Barcelona, 1844-1920', *Revista de Historia Industrial*, 23:199-206.

Domènech, J. (1983), 'El archivo histórico de una institución financiera de los siglos XVIII y XIX', in *Actas del Primer Congreso sobre Archivos Económicos de Entidades Privadas*, (Madrid: Archivo Histórico del Banco de España): 89-92.

González Pedraza, J.A. (2008), *Informe sobre los Archivos de Empresas en España, Consejo Internacional de Archivos, Sección de Archivos Económicos y del Trabajo* (CIA SBL). Available at http://www.fhvl.es/fhvl/images/content/pdfs/PDF_NUMERO_27.pdf [consultation on 19 November 2018].

Inclán Sánchez, M. , Serrano García, E. and Calleja Fernández, A. (edd.) (2018), *Guía de archivos históricos de la banca en España*, (Madrid).

ISAD (G): General International Standard Archival Description, Ottawa, International Council on Archives (2nd ed.). Available at https://www.ica.org/en/isadg-general-international-standard-archival-description-second-edition [consulted on 21 May 2018].

ISDIAH: International Standard for Describing Institutions with Archival Holdings, London, International Council on Archives (1st ed.). Available at https://www.ica.org org/sites/default/files/CBPS_2008_Guidelines_ISDIAH_ First-edition_EN.pdf [consulted on 21 May 2018].

Ley 16/1985, de 25 de junio, del Patrimonio Histórico Español, *Boletín Oficial del Estado*, 155 (29 June 1985).

Polh, M., Tortella,T. and van der Wee, H. (edd.) (2001), *A Century of Banking Consolidation in Europe. The History and Archives of Mergers and Acquisitions*, (Adlershot).

Tortella, G. (2001), 'Bank Mergers and Consolidation in Spanish History', in Manfred Polh, Teresa Tortella and Herman van der Wee (edd.), *A Century of Banking Consolidation in Europe. The History and Archives of Mergers and Acquisitions*, (Adlershot): 18-49.

Tortella, T. (2001), 'Spanish Banking Archives and the Legacy of Mergers and Acquisitions', in Manfred Polh, Teresa Tortella and Herman van der Wee (edd.), *A Century of Banking Consolidation in Europe. The History and Archives of Mergers and Acquisitions*, (Adlershot): 50-61.

The historical archives of the European Investment Bank
A non-profit European Union institution

Valérie Mathevon[1]

Author's biography

Valérie Mathevon holds a PhD in History and Civilisation from the European University Institute (E.U.I) in Florence, Italy. Since 2005, she has held several positions at the Historical Archives of the European Union (HAEU). In 2018, she was appointed permanent archivist at the Historical Archives of the European Union; she is in charge of some institutional fonds (European Investment Bank, Court of Justice of the European Union) and some private fonds.

1 Archivist at the Historical Archives of the European Union (HAEU); Valerie.Mathevon@EUI.eu

Abstract

The European Investment Bank (EIB) was founded in 1957 under the Treaty of Rome and the creation of the European Economic Community (EEC). It is a non-profit European Union (EU) institution which enjoys its own legal personality and financial autonomy within the Community system.

On the 1st of July 2005 a contract of deposit was ratified by the EIB and the European University Institute (EUI) that rendered the University responsible for receiving, preserving, and granting public access to the Historical Archives of all the European Community institutions after a period of 30 years.

The Historical Archives holdings of EIB fonds composed of different sub-fonds together with an important collection of publications, currently amount to some 1,500 inventoried files, all of them available via the Internet in form of downloadable PDF files.

Keywords

European Investment Bank, Historical Archives of the European Union, historical archives, public access, original loan records, disclosure, minutes, reports

The historical archives of the European Investment Bank
A non-profit European Union institution

Founded by the Treaty of Rome, the European Investment Bank (EIB) started its operations in 1958 as an autonomous financial body operating within what would later become the European Union (EU). The idea of creating an organisation to support investments in regional development and infrastructure developed in 1950 and was based on the model of the International Bank for Reconstruction and Development (IBRD). The Article 130 of the European Economic Community (EEC) Treaty announces the tasks assigned to the EIB:

> ‘to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the common market in the interest of the Community’[2];

with time the Bank would extend its action outside of the Community. The EIB seeks to foster the development, integration, economic and social cohesion of

2 Treaty establishing the European Economic Community (EEC) signed in Rome on 25 March 1957, entered into force on 1st January 1958.

EU Member States via investment, and it supports the EU's development policy worldwide. Since its creation in 1958 until 2018, the Bank has invested in approximately 12,000 sustainable investment projects in more than 160 countries.

The Historical Archives of the European Union (HAEU), part of the European University Institute (EUI), are according to the regulation of the Council of the European Communities and the decision of the Commission of the European Communities the official archives that comprise the historical documents of the EU institutions, which are declassified after a period of thirty years[3]. The EIB signed its first contract of deposit with the EUI in 2005. Since then, the Bank has transferred its historical documents to Florence on a regular basis. A Framework Partnership Agreement between the HAEU and the EU Institutions was signed in 2011 and was reinforced in 2015 to increase the role of the Archives, the co-operation between the HAEU and the institutions, setting out provisions for the management of archival collections to improve public access.

In 2009, on the occasion of the launch of its fourth public consultation process (focused on a revised Public Disclosure Policy together with a revised Transparency Policy and the Complaints Mechanism) the Bank published the details of the consultation process and the rules governing the availability and transparency of its archives on its website[4]. The EIB Public Disclosure Policy approved by the EIB Board of Directors on 28 March 2006 states that,

> 'The EIB's disclosure policy is founded on a presumption of disclosure of information, in line with EU legislation, those of the EU Member States, and internationally accepted principles. All information held by the Bank is subject to disclosure upon request, unless there is a compelling reason for non-disclosure. As the EIB operates as a bank, there are certain constraints on information it discloses.'[5]

According to the terms of the contract of deposit, the EIB sends to the HAEU the original declassified papers together with their digital copies, and of all officially translated versions of the text. In fact, the Bank scans any record sent to Florence. Once they arrive at the HAEU, the files are inventoried and made available to the public in our data base or in the reading room either on microfiche or via the internet as a downloadable PDF file. These files are searchable through the inventory in the HAEU database. In 2017, the EU institutional inventories of fonds housed on the HAUE's website received about 49,000 visits. More than 9,600 searches concerned the EIB

3 The Provisions: Decision of the Commission of the EC and the Regulation of Council of the EC, February 1983 were implemented by the creation of the Historical Archives of the European Union.

4 *Public Disclosure Policy, Principles, rules and procedures (2006/C 332/11),* Official Journal of the European Union, 30/12/2006.

5 Idem, article 22.

fonds inventory (20%) and just under 1,800 files were downloaded as PDFs.

The EIB fonds currently includes almost 1,500 inventoried files. Within the EIB fonds is a number of sub-fonds, including an important collection of publications (periodical, occasional, and thematic).

Among the historical records deposited at the HAEU is a series regarding the institution's creation (proposals and preliminary works, research of the headquarters), its primary activities (projects carried out between 1959 and 1971), lesser known activities (agreement of subsidies or aid allocated under strictly defined conditions, 1959 through 1980), the Board of Directors' work, and its relationships with the Members States during the EEC's first enlargement as well as-with several banking institutions.

There are two significant series regarding the creation of the EIB; the first includes the preliminary proposals and preparatory work while the other traces the search for their headquarters.

The ad hoc Group: the prehistory of the Bank

This first series includes twenty-three files collected between October and December 1956 by Giandomenico Sertoli, one of the first directors of the EIB, who participated to the creation of the Bank. At the Messina Conference (1 to 3 June 1955) the six members of the ECSC set up an intergovernmental committee (The Spaak Committee) composed by different commissions tasked with examining and drawing up a report on specific issues: energy, nuclear energy, transport and public works, and the formation of a common market. In May 1956 at the Venice Conference the proposals contained in the Spaak Report -drafted the month before in Brussels - were approved by foreign ministers from Germany, France, the Netherlands, Belgium and Luxembourg and it was agreed that they should be used to draw up a treaty for the formation of a general common market and the creation of a fund for investment . The intergovernmental negotiations proceeded, but the creation of an investment fund posed a lot of difficulties to the common market commission. The commission assigned an ad hoc group with the task of drafting the statutes for the investment fund to be agreed at the Intergovernmental Conference, where the treaties for the establishment of the Common Market and Euratom (the European Atomic Energy Community) were to be ratified. Giandomenico Sertoli, Secretary of the ad hoc group between October and December 1956 collected its working documents, including the draft statutes, minutes of meetings, reports, and the protocol of the Funds' statutes. In 1994, Giandomenico Sertoli decided to deposit all these documents to the historical archives of the EIB. This series contains all the preliminary proposals and preparatory work tied to the EIB's creation.

The EIB's headquarters

The second series covers the establishment of the EIB's headquarters including: the protracted search for a suitable location during its sojourn in Brussels 1958; the move to Luxembourg in 1968; and the construction and subsequent relocation of the Bank to its current premises at the Plateau de Kirchberg in Luxembourg in the early 1980s.

The Minutes of the Board of Directors 1958-1988

The series covering the Minutes of the Board of Directors meetings from 1958 to 1988 sheds light on the activities and decision-making process of the EIB. The Board of Directors had the exclusive authority to take decisions in matters regarding loans, guarantees and borrowings. The Board of Directors met approximately ten times a year and the minutes included the members list, the agenda, the approval of the minutes of the previous meeting, the deliberations and decisions made regarding loan proposals, guarantees and loan programmes.

The main activities of the EIB

The main activity of the EIB is illustrated by the sub fonds regarding loans granted by the Bank between April 1959 and May 1971. The sub fonds' 142 files are the most consulted records within the EIB Historical Archives. This sub-fonds covers twenty-six projects financed by the EIB during this period. Twenty-five projects took place in five of the six founding member states (France, Belgium, Luxembourg, Germany and Italy, with the exception of the Netherlands), the other was a project carried out by AASM (Associated African States and Madagascar) in the Ivory Coast. Each project generated many files documenting and illustrating all the steps of the loan contract. The documentation for each includes preliminary proposals, legal files and contracts, loan contracts (both the original signed contract and the guarantee or agreement on eventual guarantee), project evaluation reports created during the final phases of loan transfer or reimbursement, and financial files regarding loan transfers and reimbursement and accountancy details.

The priority of the EIB loans during that first period (1959-1971) was to offer financial assistance to less developed regions for modernising initiatives, and funding projects of common interest to different Member States in order to strengthen the common market. Concerning the projects financed by the EIB between 1959 and 1971, the Bank has declassified the archival material concerning twelve of the 187 projects based in Italy and particularly in the Mezzogiorno (eleven projects)[6]. Of these EIB loans ten went to industrial initiatives and two to infrastructure development. For example, the EIB financed the Rumianca project for the construction of a chemical complex[7] in Cagliari, Sardinia, and an Alfa Romeo project for the construction of a factory in Pomigliano d'Arco (Naples), to produce diesel engines[8]. In the transport sector, two loans were signed: one with the SNCF (the French state-owned railway company) and the other with the FS (Italian State Railways) for the modernisation of the Italian and French railway line between Genoa-Modane and Chambéry[9].In France, the Bank participated in the economic development of rural areas of in the Landes region, granting a loan to the Compagnie des Landes de Gascogne for agricultural schemes and the improvement of waste management in forest areas[10]. Finally, the first EIB's loan in Germany went to the energy sector in the Bundesland of Berlin for the construction of a thermal power station—the Bewag project[11].

Relations of the EIB with the Member States: the first enlargement

At the end of 2010, the EIB declassified a series of historical records regarding its relationship with the Member States, subsequently made available by the HAEU at the beginning of 2013. This series comprises sixty-eight files concerning the 'First Enlargement of the European Communities: adhesion to the statutes of the EIB'. Covering the period 1958-1982 these files convey the intense debates conducted between representatives of the candidate countries and the EIB concerning the construction of an expanded banking and financial community. The process of acceding to the EEC obliged the four candidate countries to accept the statutes of the EIB. This entailed long and difficult negotiations regarding the standardisation of each candidate country's financial contributions, increases in subscribed capital, the necessary changes to agricultural and regional policies, the number of member countries' national representatives in governing bodies, and the adaptation of work procedures of the Bank (regarding questions of the composition of staff, the decisions procedures, and etc.). The gradual conversion to the principles of community banking by the UK, Ireland and Denmark entailed a series of adjustments and

6 *« La Banque et l'Union européenne, La BEI 1958-2008 »* sous la direction d'Eric Bussière, Michel Dumoulin et Emilie Willaert, 2008, p.77.

7 Rumianca project, Historical Archives of the European Union (HAEU), BEI 2101 to BEI 2110.

8 Alfa Romeo project, HAEU, BEI 2035 to BEI 2038.

9 FS Gênes-Modane project, HAEU, BEI 2043 to BEI 2046 and SNCF Modane-Chambéry project, HAEU, BEI 2026 to BEI 2030.

10 Landes de Gascogne project, HAEU, BEI 2091 to BEI 2100.

11 Bewag project, HAEU, BEI 2051 to 2054.

compromises on the lead up to the Treaty of Accession that only Norway did not ratify, remaining refractory to the EIB's system[12].

EIB's other activities

A series of twenty-four files concerns the EIB's relationship with the international banking community and financial bodies; of particular importance are the files regarding 'Relations between the EIB and the World Bank'. This series covers the relationship between the EIB and the World Bank from 1958 and 1980. Although these were two very different institutions in terms of their functions and undertakings, with the World Bank having been developed in 1944 out of the Bretton Woods Agreement, the two financial and banking institutions met frequently during this period. Their relationship is characterised by exchange and emulation in the context of an ongoing reflection on their working procedures. In fact, these files tell us about exchanges of detailed information and reveal how their frequent meetings became progressively institutionalised. From 1975 the 'Reciprocal Exchange of Documents with Regional Development Banks' became established between the World Bank and the EIB. Some amendments were made to this arrangement, when the Lomé Convention came into force in 1975, for example, which extended the EIB's activity outside the European Community to countries in Africa the Caribbean and the Pacific (APC). To facilitate this initiative the EIB received a series of President's reports, working papers, appraisal reports, Country Economic Reports, and even Country and Project Documentation[13] from the World Bank. In the 80's the two institutions met regularly at World Bank/IMF Annual Meetings, where the presidents of the regional development banks, the representatives of the World Bank and other international financial institutions including the EIB gathered to discuss questions of common interest. Furthermore, the EIB participated in the consultations of the International Bank of Reconstruction and Development (IBRD), in 1971 with the Consultative Group for the Democratic Republic of the Congo, and in 1976 with the Consultative Group for East Africa. These meetings were an opportunity to clarify methods and objectives.

Last but not least, a very interesting series composed of 54 files deals with the lesser known activities of the EIB: 'Aides, dons et subsides exceptionnels' during the period 1958–1980. This series deals with the agreement of subsidies in the annual budget. Under strictly defined conditions, the beneficiary was under no obligation to reimburse the subsidies. The aid allocated by the EIB between 1958 and 1980 went towards the reconstruction of countries hit by climatic catastrophes, earthquakes, and armed conflicts (notably in the aftermath of the civil

12 Norway wanted to become EEC member on several occasions, not simply in 1973, but the proposal was always rejected by Norwegian people's referenda.

13 HAEU, BEI 5569.

war in Lebanon), as well as support for cultural programmes and the protection of heritage.

Despite the good intentions announced in the Review of Public Disclosure Policy in 2009 the EIB has being slow to declassify its records after the thirty-year embargo period. As stated on the EIB's website: declassification 'is the process according to which records, previously classified according to the EIB's Information Classification Policy, cease to be subject to that classification system.'[14] According to the EU regulations and the Bank policies, declassification is a case-by-case process and as an historical archive we are aware that some documents may be covered by exceptions (protection of personal data, commercial interests...) even after the expiry of the period of thirty years, starting from the date of the creation of the document. But at the time of writing, we are witnessing something approaching a twenty-year time lag since the most recent declassified loan contract records are from 1971. It is our hope that –because of the stipulation that 'documents not declassified at the first examination shall be re-examined periodically and at least every five years'[15] – the EIB's sixtieth anniversary, celebrated this year, will be an opportunity to transfer new historical records to the HAEU. Recent enlargements have involved new challenges for the Bank, above all the necessary adjustment in its structure due to the increasing number of the shareholders, and the extension of the area for its intervention following the new Member States' loan needs. To analyse the role and also the impact of the EIB in the 80s it would be essential to have access to the historical archives of the loan projects granted by the EIB after the first, second, and third enlargements, and in particular the accession of Greece, Spain and Portugal emerging from a period of dictatorship.

Reference list

European Investment Bank,*Review of public disclosure policy*, 2009.

La Banque et l'Union européenne, La BEI 1958-2008 sous la direction d'Eric Bussière, Michel Dumoulin et Emilie Willaert, 2008.

Emilie Willaert, (2009), *Au cœur de l'Europe en construction: la banque européenne d'investissement, la France et l'intégration économique de l'Europe, des années 1950 au début des années 1980*, Doctoral thesis.

René Leboutte, 'La Banque européenne d'investissement: cinquante ans de cohésion économique et sociale', in Devaux S., Leboutte R., Poirier P. (dir.), *Le Traité de Rome: histoires pluridisciplinaires. L'apport du Traité de Rome instituant la Communauté économique européenne*, (Bruxelles), 2009, pp. 81-104.

14 *Questions and answers* about the EIB Historical Archives Policy: https://www.eib.org/en/publications/archives/index.htm

15 *EIB Rules on historical archives (Adopted by the Bank's Management Committee on 7th of October 2005) (2005/C 289/07)*, Official Journal of the European Union, 22/11/2005, Article 2.

Annex 1

'Good' Archives

14 June 2018
Collegio Carlo Alberto, Turin, Italy

eabh in cooperation with Fondazione 1563 per l' Arte e la Cultura della Compagnia di San Paolo, Compagnia di San Paolo and UPIER

Program

Moderator: April Miller, World Bank Group Archives

Welcome
Anna Cantaluppi, Director of Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo
Hugo Bänziger, Banque Lombard Odier, Chairman of *eabh*

Keynote Speech
Catherine Schenk, UPIER

Session 1
Connection between solidarity and banking from the Archives of Compagnia di San Paolo
Anna Cantaluppi, Fondazione 1563

The administration of political decisions on credit: The minute books of the Monte di Pietà of Bologna in the 16th and 17th centuries. A source to confront
Armando Antonelli, Fondazione del Monte di Bologna e Ravenna
Fondazione Banco di Napoli's evolutionary archives: From description to narration
Concetta Damiani & Claudia Grossi, Fondazione Banco di Napoli

Session 2

The Bank of Canada archives
Jane Boyko, Bank of Canada

Boers, banks and gold: Financial globalization (1880-1910) and the state of South African financial archives
Mariusz Lukasiewicz, University of Leipzig

Archive material from the informal financial sector: A moneylender's records in rural India
Howard Jones, University of London

Session 3

The Bavarian Raiffeisenbanks and the effort of building a network of local archives
Silvia Lolli Gallowsky, Genossenschaftsverband Bayern e.V.

The archives of Credit Agricole
Pascal Pénot, Credit Agricole

The Banco de España historical archives
María de Inclán & Elena Serrano, Banco de España

Session 4

The historical archives of the European Investment Bank, a non-profit European Union institution
Valerie Mathevon, Historical Archives of the European Union

Building society, building an archive
Sara Kinsey, Nationwide Building Society

A responsible business – the archives of the Halifax Building Society and the Trustee Savings Banks
Karen Sampson, Lloyds Banking Group

Closing remarks
April Miller, World Bank Group Archives

Dinner Speech
Piero Gastaldo, Fondazione 1563

Social Aims of Finance

June 2018
Collegio Carlo Alberto, Turin, Italy

eabh in cooperation with Fondazione 1563 per l' Arte e la Cultura della Compagnia di San Paolo and Compagnia di San Paolo

Program

Moderators:

Lilia Costabile, University of Naples
Harold James, Princeton University

Welcome

Francesco Profumo, President of Compagnia di San Paolo
Carmen Hofmann, Secretary General of *eabh*

Keynote

Institutional diversity and social inclusion
Rym Ayadi, CASS Business School, City University of London

Morning Session 1

Between ethics and profit: shaping a coordinated credit network in pre-modern and modern Italy
Mauro Carboni & Massimo Fornasari, University of Bologna

Keys to financial success for socially oriented banks. Lessons from the public banks of Naples
Lilia Costabile, University of Naples

The Compagnia di San Paolo in Turin. Charity and credit
Claudio Bermond, University of Torino & Fausto Piola Caselli, University of Cassino

Inclusive business models as unique selling points between past and future
Paul Thomes, RWTH Aachen University

Contemporary history of impact financing
Maximilian Martin, Banque Lombard Odier

Morning Session 2

Christian religious orders and money: The example of the Observant Franciscan Friars in the 15th Century

Gianfranco Armando, Secret Archives of the Vatican

Credere, credit and money: how social is risk-sharing in Islamic finance?

Valentino Cattelan, The Käte Hamburger Center for Advanced Study in the Humanities "Law as Culture"

Social Entrepreneurship: The Rothschilds as bankers and philanthropists (c.1850-1930
Klaus Weber, European University Viadrina Frankfurt (Oder)

Panel Discussion

How can alternative forms of finance compete?

Moderator: Catherine Schenk, Oxford University

Rym Ayadi, CASS Business School, City University of London
Giovanni Ferri, LUMSA University of Rome

Goran Jeras, eBanka

Maximilian Martin, Banque Lombard Odier
Marco Ratti, Banca Prossima

Afternoon Session 1

Taking account of the details – A micro perspective on the function of savings banks in early-nineteenth century England
Linda Perriton, University of Sterling & Stuart Henderson, Dublin Institute of Technology

British building societies 1970-2000: the changing conditions for a viable not-for-profit alternative in a financialized economy
Olivier Butzbach, University of Campania Luigi Vanvitelli

The origins of the (cooperative) species: Raiffeisen banking in the Netherlands, 1898-1909
Chris Colvin, Queen's University Belfast

Afternoon Session 2

Adapting to a changing world. The Swedish savings banks in the 21st century
Tom Petersson, Uppsala University

The evolution of the social and cultural investments of the Spanish savings banks, 1926-1990: the 'social and cultural work'
Ángel Pascual Martinez Soto, University of Murcia

Social aspects of the insurance history of mutual assistance in Italy
Gian Savino Pene Vidari & Enrico Genta Ternavasio, Association 'Amici del Museo di Reale Mutua'

Closing Remarks

Harold James, Princeton University

The academic committee of 'Good' archives and 'Social aims of finance' was formed by: Anna Cantaluppi, Lilia Costabile, Carmen Hofmann, Joost Jonker, Catherine Schenk.

Collaborators

eabh

eabh is an international, independent non-profit association that places current challenges of the financial sector into historical context. We connect financial practitioners and academics with an interest in long term financial developments on a global level.

eabh promotes archives. Accurate and accessible records of past activities are the indispensable foundation for a sustainable global financial system and for the protection of global financial stability.

eabh is membership based in order to guarantee the soundness and independence of its research. Institutional members have access to an international network of banking, insurance and history experts who provide competent advice for sustainable business development.

eabh
The European Association for Banking and Financial History e.V.
www.bankinghistory.org
@financialhistory

Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo is one of the operating bodies of Fondazione Compagnia di San Paolo. Its mission is to safeguard, enrich and promote the artistic, cultural, archival and library heritage and to support research and advanced training programs in the humanities.

Fondazione 1563 manages and promotes the Historical Archives of Fondazione 1563 Compagnia di San Paolo and supports an articulated program of study and research on Baroque and Global History.

The archives bear witness to the Fondazione's long history, spanning from the 16th to the 20th century, which is an important source of information on the social, economic and cultural history in the Piedmontese and Italian contexts, available to scholars and to the community.

In order to provide access to these resources, the Fondazione 1563 sponsors an extensive online publication program featuring digitized series and entire sections of the archives, inventories, catalogues and other research tools.
http://www.fondazione1563.it/en/

Fondazione Compagnia di San Paolo
Since 1563, Fondazione Compagnia di San Paolo has been working out of Turin for the common good, with a focus on people. Its experience has taught Fondazione Compagnia di San Paolo that the well-being of individuals is closely linked to that of their community. This is why, for Fondazione Compagnia di San Paolo, the Sustainable Development Goals set by the United Nations are a valuable opportunity to contribute to the future of humankind at all levels: the Fondazione has taken on this challenge and reorganised itself accordingly.

Fondazione Compagnia di San Paolo has three main Goals: Culture, People and Planet, which can be achieved through fourteen Missions. It is committed to preserving and expanding its endowment in order to make contributions and develop projects working alongside institutions and in collaboration with its auxiliary bodies. This is its commitment, for the common good and for everyone's future.
https://www.compagniadisanpaolo.it/en/

The Editors

Anna Cantaluppi
is an archivist and historian. She organized and arranged the creation of the San Paolo Historical Archives between 1986 and 1988; she was Head of the Historical Archives of Istituto Bancario San Paolo di Torino and Compagnia di San Paolo (1989- 2018) and Director of Fondazione 1563 per l'Arte e la Cultura della Compagnia di San Paolo (2015-2019). Since 1997 she has coordinated the editorial series of Historical Archives. She is a frequent author of publications in two main fields: banking archives and history; modern history and literature (in particular concerning the social history of Piedmont between the 16th and 17th centuries). Her work has included curating the modern edition of the 17th century *Istoria della venerabilissima Compagnia della fede catolica sotto l'invocazione di San Paolo by Emanuele Tesauro* (2003) and co-editing *La Compagnia di San Paolo (1563-2013)*, published by Einaudi (2013). She has been member of the Academic Council of *eabh* since 2017.

Chloe Colchester
holds a PhD in cultural anthropology from UCL. She joined the Centre for the Study of Ancient Documents (CSAD) at the University of Oxford in 2017. She is currently project coordinator for Change, a project on the history of the development of coinage in ancient Anatolia, and for Crossreads, a project to trace multicultural relations in ancient Sicilian inscriptions.

Lilia Costabile
is Professor of Economics at the University of Naples Federico II, Life Member of Clare Hall, Cambridge, and Fellow of the Royal Historical Society. Her research has been published in academic journals including *The Economic Journal, The Cambridge Journal of Economics, The European Journal of the History of Economic Thought, Structural Change and Economic Dynamics*. She is the author of *Malthus. Sviluppo e ristagno della produzione capitalistica*, and editor of several other books. In 2018 she co-edited with Larry Neal *Financial Innovation and Resilience. A Comparative Perspective on the Public Banks of Naples (1462-1808)*. She has been the principal investigator on research funded by the Italian National Research Council, the Ministry of Education, and the BCE among others. Lilia Costabile earned a first degree in Philosophy at the University of Florence, and a Ph.D. in Economics at the University of Cambridge. In 2016 she received the Prize of the President of the Italian Republic awarded by the Lincei Academy for her contributions to economics and the history of economic thought.

Carmen Hofmann
is Secretary General of *eabh*. Previously she worked as a freelance researcher, interpreter and language teacher, management assistant in consulting and event organizer for Frankfurt Fair. She studied economics, Roman and Arab studies. Carmen writes about *Architecture & Finance* (*eabh* bulletin, 2020) and is the editor of 'History of Financial Institutions. Essays on the history of European finance, 1800–1950' (Routledge 2016) and the *eabh* bulletin series.

Catherine R. Schenk
is Professor of Economic and Social History at the University of Oxford. After completing her undergraduate and Masters degrees at University of Toronto in Economics, International Relations and Chinese Studies, she went to the London School of Economics to complete her PhD in Economic History. Since then she has held academic positions at Victoria University of Wellington, New Zealand, Royal Holloway, University of London and University of Glasgow. She has been visiting professor at Nankai University, China, and Hong Kong University. Outside academia she has spent time as a visiting researcher at the Bank for International Settlements, the International Monetary Fund and at the Hong Kong Institute for Monetary Research. She is an Associate Fellow in international economics at Chatham House, London.

Matthias Weber
studied History and Law in Frankfurt and in Amsterdam (Netherlands). In 1993, he obtained a M.A. degree, and in 1996 he received a PhD from the Frankfurt University. In 1997 he joined the *Frankfurter Allgemeine Zeitung* Media Archives, while training as an Information Specialist at the University of Applied Sciences of Potsdam. In 2000, after working one year at the television archives of the broadcast corporation *Südwestrundfunk* in Mainz, he joined the European Central Bank. Since then, Matthias has performed a wide range of records management and archives tasks. Between 2012 and 2013, he went on leave to teach records management at the Archives School in Marburg.

Fondazione 1563 per l'Arte e la Cultura

eabh

we do history