bulletin

Newsletter from the EABH

1/2010

European Association for
Banking and Financial
History e.V.

Dear Colleagues,

The EABH is proud to report on the success of the first “New Scholar Workshop” which was held in Rüschlikon, Switzerland on 17th-18th March 2010. With this workshop the Association would like to emphasize its commitment to strengthen its links to new scholars. Duncan Ross, responsible for organizing this first initiative fittingly states that “our discipline is in very good hands”. This edition of the bulletin is therefore dedicated to presenting some of the excellent work done within the framework of the Workshop.

Furthermore, the EABH is delighted to learn about the formation of a regional association promoting banking and financial history in Latin America about which you will be able to read in this edition. Further stimulating the excellent working relations between banking historians and archivists of Latin America, Spain, Portugal and the United States, this new association hopes to promote closer ties to other European countries, according to Carlos Marichal, El Colegio de México.

The EABH e. V., in cooperation with National Bank of Belgium is looking forward to welcoming you at this year’s much anticipated conference "Responding to Crises in the Global Financial Environment: Risk Management and Regulation", 21 & 22 May 2010 – National Bank of Belgium, Brussels that explores the historical evolution of risk management and regulation in the finance and insurance industry, and the impact banking and financial crises have had on this evolution, both in a European and global context.

The EABH e.V. is looking forward to another year of fruitful cooperation with you.

Manfred Pohl
Deputy Chairman

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Ethics in Banking

For centuries the banking business has had a negative public image. Historians together with banking archivists and some bankers have undertaken great efforts to help the wider public to understand the social importance and economic logic of banking and they certainly succeeded in this task.
However economic crises are usually periods during which many people and companies suffer because of their indebtedness with the banks. These are also the periods during when banks have to play hard both to save liquidity of assets as well as to continue making profit. In such periods public perception of banks is usually quite negative.
For the banking industry their public image is of crucial importance. And it is not easy to find the right balance between the interest of shareholders, the sellers of banking products, the management and the banks as institutions. All to often short term interests and profit-seeking from hard style business collide with more ethical approaches and long term business thinking.
In this survey we would like to know to what extent banks are concerned with ethical questions and to which extent they are able to control the interests of their main "hard style players".

1. To what extent are "ethical questions" part of the banking staff's and especially management's permanent education? Are there specific "banking ethics" seminars in your bank?
2. Are ethical issues in business part of management discussions on a regular basis? If so, which "ethical problems" do banks address on an everyday basis? Have similar issues been discussed in the past?
3. Which bodies, if any, are responsible for the "ethical approach" of the banks business on a regular basis?

Credit Suisse

1. At Credit Suisse, we strive to achieve the highest standards of transparency, fairness and trustworthiness when conducting our business activities. Consequently, we expect our employees to have a strong sense of personal responsibility, and we provide a framework of binding principles to guide them in their actions. The Credit Suisse Code of Conduct sets out ten key values that all employees worldwide must observe in every aspect of their day-to-day work.
To ensure the personal accountability of each employee, the key values contained in our Code of Conduct − integrity, responsibility, respect, compliance, confidentiality, risk culture, service and excellence, sustainability, cooperation and commitment − are incorporated into each employee's annual performance review.
In 2008, Credit Suisse launched a bank-wide initiative to enhance control processes and to promote compliance with the shared values defined in the Code of Conduct. As part of the program under the leadership of our HR department, employees are required to regularly complete mandatory online training to raise their awareness of the Code of Conduct or critical incidents and to inform them of how to deal with any such occurrences.

2. Credit Suisse's reputation for integrity and fair dealing requires that we maintain the highest standards of ethics and professionalism at all times. All members of the Board of Directors and the Executive Board personally endorse the bank's Code of Conduct and pledge to uphold it at all times.

The boards also expect all of the bank's directors and employees to pursue this vision and to adhere to the principles and values set out in this Code. It is them who strive to make sure that it is implemented as diligently and effectively as possible on a day-to-day working level throughout Credit Suisse.

The very nature of our work means that we are sometimes faced with controversial issues or environmentally and socially sensitive transactions. Examples include the financing of major projects in sectors such as oil production, mining or the pulp and paper industry. On the one hand, we must consider the opportunities created by a project, such as the economic development of a region, the supply of energy or the creation of jobs. On the other hand, the transaction may entail environmental and social risks. Credit Suisse therefore endeavors to achieve high standards in its risk review efforts and when balancing different interests. This includes our willingness to engage in a fair and open dialogue with the different stakeholders to the extent permitted by our duties of confidentiality.

3. The Executive Board is counting on all employees to know and understand our values from the Code of Conduct and to act in accordance with them. In this context, we strive to cultivate a corporate culture that encourages our people to take ownership and to act in the best interests of clients and shareholders at all times.

As one way to escalate potential legal, regulatory or ethical misconduct, employees at Credit Suisse are provided with an Integrity Hotline, which is available globally, 24 hours a day, 7 days a week.

On top management level, the Reputational Risk Sustainability Committee (RRSC), which is chaired by the Group Chief Risk Officer and includes several Executive Board members, ensures the bank-wide implementation of and compliance with the bank's Sustainability Policy and Code of Conduct.

On working level, we have various departments including our global HR department taking care of issues related to ethics. Related to the prevention of money laundering and the financing of terrorism for example, we have a dedicated internal department which is working together with other banks in the Wolfsberg Group to further develop industry-wide standards.

The Central Bank of Hungary

1. The Central Bank of Hungary has a regulation on „ethical questions" which is known by the whole staff. On a regular basis we review the „ethical rules" and every 3-4 years we arrange a series of employee workshops to keep the concept alive.

2. On management meetings mainly professional questions are covered but top management is responsible for any modification of our Ethical Codex which happens every 1-2 years.

3. The top management, the HR department and the Ethical Committee are responsible for the „ethical approach".

Sal. Oppenheim

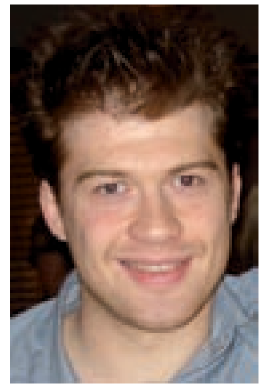
1. To my knowledge, this isn't part our staff training at Sal. Oppenheim. On a practical level, there is a "restricted list" for investments (usually not due to ethical reasons anyway), but on a more general level ethics are not addressed.

2. Ethical questions are also not part of business meetings.

3. There is no body within the bank dealing specificallly with ethical questions.

Gabriele Teichmann
Sal. Oppenheim, Cologne

The British Railway Mania



The recent Dot-Com Bubble and the Subprime Crisis have been reminders of how unpredictable asset prices can be, and examples of the distress which can result from dramatic price reversals. These recent experiences have led to a renewed interest in similar historical episodes, but a consensus has not yet been reached on the causes of such events. To improve our understanding of such episodes, I have focused my research on the British Railway Mania of the 1840s, and was awarded my PhD from Queen's University Belfast in 2009 for my thesis on this topic. Although this period has been described by the Economist (2008) as 'arguably the greatest bubble in history' it has not been analysed in detail by financial historians.

During this time prices of railway shares increased rapidly, but the market then crashed, and prices continued to decline for several years. In my research I argue that changes in asset prices during this period were driven by changes in dividends and leverage, and that once these factors have been accounted for, railway shares were not mispriced. I test this hypothesis by using a new and comprehensive dataset consisting of daily share prices for all of the 868 railway securities listed on the London Stock Exchange between 1843 and 1850, with supplementary data on dividends and non-railway assets also included. This dataset has been computerised from original share price tables published in newspapers throughout this period, and has produced a database consisting of 108,444 observations of the share prices at which trades took place. This data has enabled the construction of detailed market indices and rigorous econometric testing which reveal the key features of the Mania. There has also been

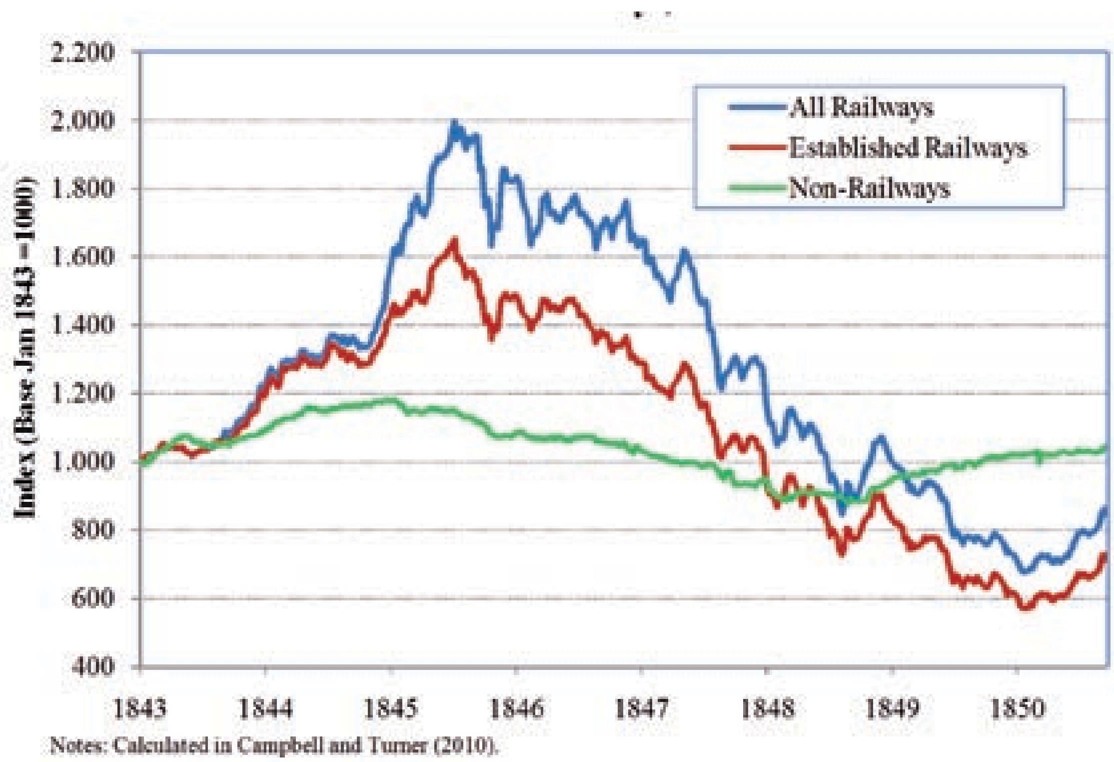


Figure 1: Weekly Market Indices of All Railways, Established Railways and Non-Railways, 1843-50

a systematic analysis of media reporting during this period which reveals the views of those who were participating in these events.

An analysis of the share prices of both established and new railways suggests that railway shares were priced consistently with other assets throughout this period, given their fundamentals. This would suggest that railway assets were not mispriced, even at the market peak, and a 'bubble' was not responsible for price movements. Prices initially increased, and then decreased, due to new information which made investors revise their expectations.

This has an important implication for the current debate on how central banks should deal with possible asset price 'bubbles'. The results imply that prices are driven by information on fundamentals. Consequently, if regulators do not have more information than other market participants it may difficult for them to predict and prevent a market crash ex-ante, and any intervention may be counter-productive.

My research also contributes to our understanding of the Railway Mania in particular, and to historical asset price movements in general. The Railway Mania has been discussed in studies of the early railways (Simmons, 1978, and Jackman, 1966), in works manias and crashes (Nairn, 2002 and Odlyzko, 2010), and by researchers focussing on the historical development of accounting practices, (Bryer, 1991, and McCartney and Arnold, 2003). However, the only detailed analysis of asset price movements has been that of Gayer et al. (1953), who have constructed a market index based on a small sample of just 10 railways, using monthly share price data. My research is also a useful addition to the literature on historical 'bubbles' such as the Tulip Mania (Garber, 2001), the Mississippi Scheme (Velde, 2007), the South Sea Bubble (Temin and Voth, 2004, Dale et al., 2005, and Shea, 2007a), and the boom in the 1920s in Germany (Voth, 2003) and the USA (Donaldson and Kamstra, 1996, and White, 1990).

Background to Railway Mania

A market index, constructed for my research from original sources and discussed in Campbell and Turner (2010), suggests that the prices of railway shares rose by 102 per cent between January

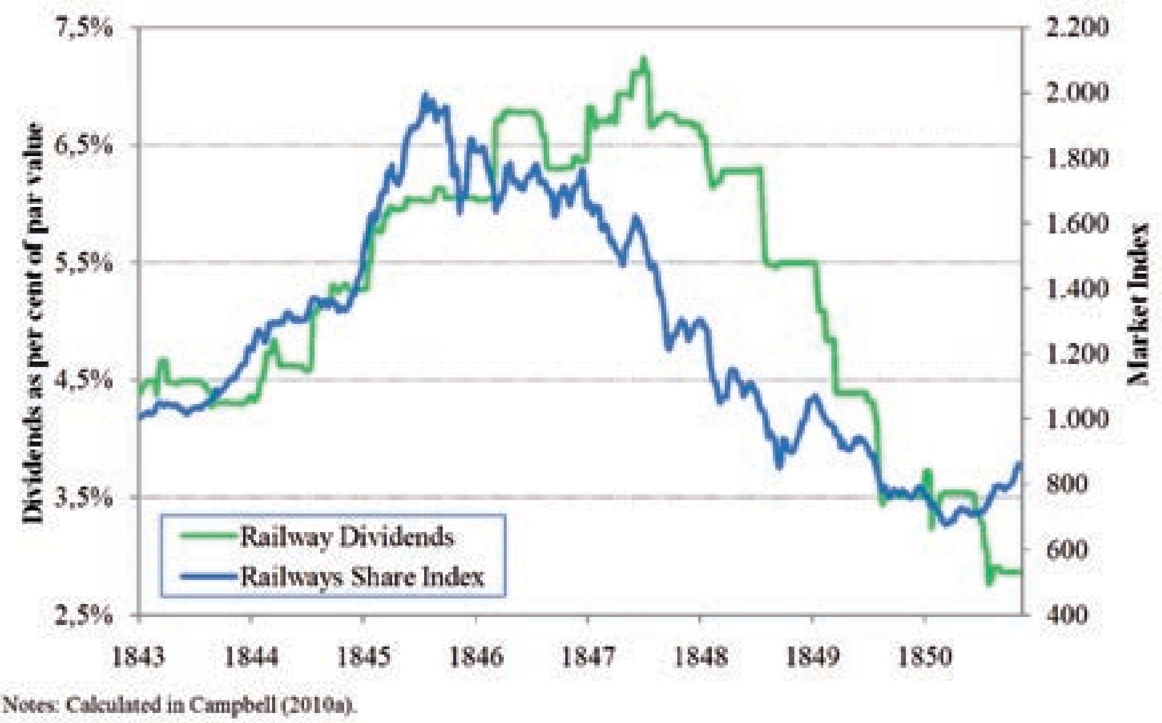


Figure 2: Railway Dividends and Railway Share Index, 1843-50

1843 and October 1845. However, prices then fell by 18 per cent in just over one month, and would continue to fall for several years, being 67 per cent below their peak by 1850, as shown in Figure 1. The established railways, those which had already been constructed before the Mania began, showed similar trends. However, the prices of the non-railway shares were much more stable throughout the period.

These asset price movements were associated with general economic changes which affected a range of assets, and particular changes within the railway industry which made movements in railway share prices substantially more dramatic. The initial displacement in the price of railway shares was related to changes in the economy and fare reductions by most of the established lines, which contributed to increases in the dividends paid by the railways, as shown in Figure 2.

However, a tipping point was reached in the autumn of 1845 with a poor harvest and the onset of the Irish Famine, which may have affected the volume of traffic on the railways. The promotion of new railways was also becoming a concern as they would increase competition within the railway industry, and threatened to cause difficulties in the wider economy as capital was diverted from other uses.

The sudden market crash was initially followed by a brief recovery but was then compounded by a long and almost continual decline until April 1850. Further deterioration in the economy, with the Commercial Crisis of 1847 and the French Revolution of 1848, contributed to lower expectations of dividends. The construction of the new railways which had been promoted during the Mania also had a negative influence. The assets of these new companies could generally be purchased during the boom for a small deposit, but investors were required to make a series of payments in the future, referred to as calls for capital. The volume of calls increased substantially during the latter half of the decade, as shown in Figure 3, and may have contributed to the price declines as investors struggled to make their payments. Those lines which were opened proved to be less

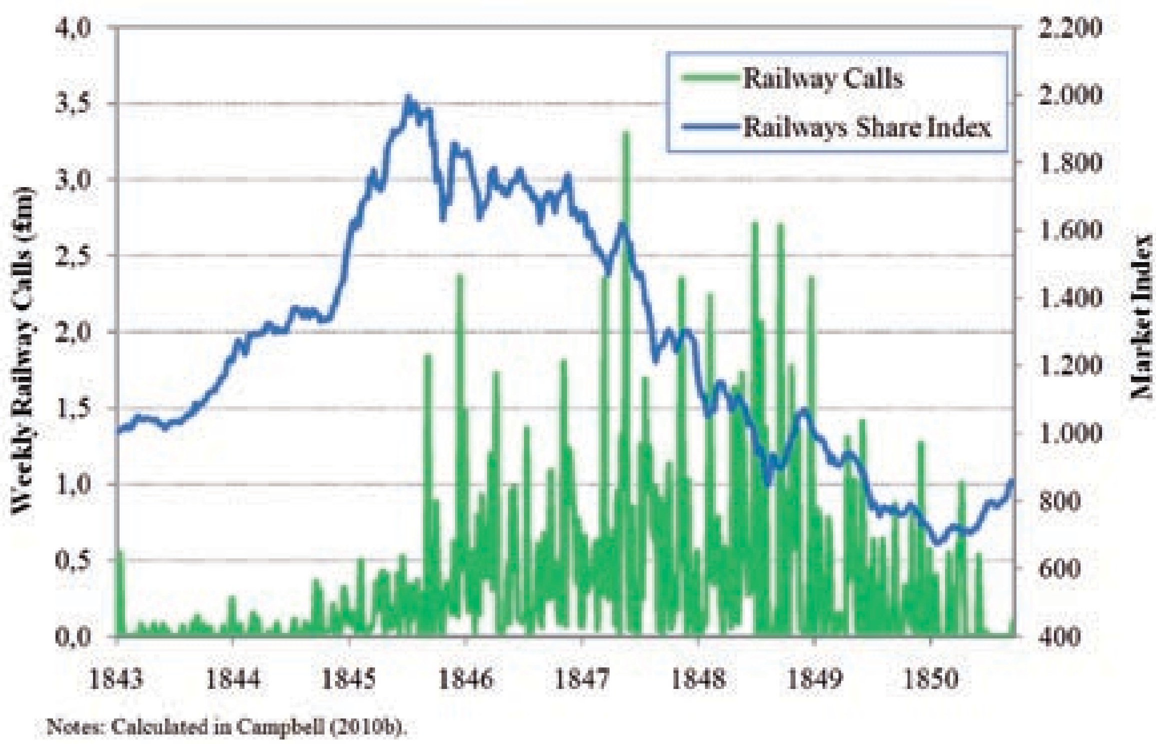


Figure 3: Weekly Railways Calls and Railway Share Index 1843-50

productive than expected, lowering expectations of dividends further.

Research Findings

In Campbell (2010a) I compare the prices of the established railways with the non-railways, controlling for the level of, and growth of, dividends paid by each company. I have found that there was a highly significant relationship between the dividend paid by a company and its share price throughout the period between 1843 and 1850. There is also evidence that investors were able to incorporate short-term future changes in dividend rates into current share prices. A comparison of the railways and non-railways suggests that when two years of future dividend growth are controlled for, the apparent overpricing of the railways is entirely eliminated.

In Campbell (2010b), I compare the prices of different securities issued by the same company with equivalent dividend rights, controlling for differences in uncalled capital. I also compare the prices of the new railways with the non-railways, again controlling for the impact of uncalled capital. Using a series of cointegration tests with daily data it was found that fully paid and partially paid shares were priced consistently, and that the implied dividend which new companies would eventually have to achieve to make their price consistent with other assets was not unrealistically high. There is also a suggestion that the structure of partially paid shares meant that investors were purchasing highly leveraged assets. The leverage created by these assets may have contributed to the initial enthusiasm for investing in railway shares, and the subsequent decline in prices. Leverage significantly increased the returns for investors in new companies, and the deleveraging which ensued, when payments were required, contributed to the fall in prices.

Despite the consistency of pricing which occurred during the Railway Mania, the prices of railway shares still crashed. This suggests that assets do not have to be obviously mispriced before they fall dramatically in value. It may simply be that additional information became available which investors had not expected. The investors who participated in the Railway Mania could be criticised for their lack of foresight, but the problems associated with predicting the future are universal, and should be more widely acknowledged.

If regulators want to prevent future asset price busts they cannot avoid this problem. They may be able to effectively intervene if they have greater foresight than other market participants but, as Bernanke (2002, 2010) has argued, this is a very questionable assumption. Without perfect foresight by regulators, which would allow restrictions to be imposed only when necessary, there would have to be tighter regulation in all periods, and the costs of such restrictions would need to be carefully weighed against the potential benefits.

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Monetary policy and the impact of credit control during France's Golden Age, 1945-1973

Domestic monetary policy in Western Europe countries under Bretton Woods, and during Europe's highest period of growth more generally (1945-1973), is still little known. It is often argued that domestic economic interests were the matter of fiscal and industrial policy while monetary policy focused only on exchange rates and on the adjustment mechanism through the use of Central bank's reserves and capital controls. In such a framework, interactions between monetary policy and fiscal policy were thus at work only when the government and the central bank decided to devaluate, as France did four times between 1948 and 1973. French monetary policy from 1945 to 1973 ("Trente Glorieuses") thus suffers from a bad reputation (passive, inflationary, inefficient) despite the rapid growth of the economy, but no study has attempted to characterize it comprehensively.

My work shows that monetary policy was active throughout the period through qualitative and, most of all, quantitative credit controls and that this policy was strongly concerned with internal problems and domestic industrial policy as well as with external adjustments. Furthermore, econometric estimations clearly show that credit control episodes had a strong and long-lasting impact on the economy. Nevertheless, although credit control episodes contributed widely to the fluctuations of the business cycle, their effect on inflation became deceptive at the end of the 1960s. The discussion about such a change is a great matter and will deserve further work that is beyond the scope of this short presentation.

The importance of these conclusions is twofold: first it sheds a new light on domestic monetary policy under the Bretton Woods system and Europe highest period of growth, second it provides some arguments to the discussion about non conventional monetary policies (those that does not use the bank rate as a primary instrument) and especially direct credit controls. An evaluation of historical episodes of quantitative credit control is an important matter today since China is currently engaged in such policies and most central banks in developed countries have been forced to turn their back on conventional money market operations because of the current economic crisis.

Credit policy and credit control

Contrary to other European countries, such as Belgium and Italy, no rigorous economic stabilization happened in France before the end of September 1948 when fiscal discipline and a restrictive monetary policy were jointly decided. At this date, the French central bank decided to control quantitatively banking credit in various ways in order to fight inflation pressures. The two main features of French monetary policy were, first that credit control episodes were designed to be temporary, and second that quantitative measures (not only qualitative) were taken. The French experience followed measures that have been taken in other European countries, especially in Italy, Belgium and the UK, but it was going to evolve slightly differently. Until 1974, temporary episodes of credit control were the main instruments of monetary policy. After these controls became permanent but less restrictive in 1974, monetary policy focused much more on the bank rate and used money targets.

By October 1947 France first imposed qualitative restrictions on credit that consisted in telling banks the sectors that deserved priority. But they were not sufficient to stop inflation, as stated by the National Credit Council: "qualitative measures are too soft to have an effect on inflation and are only designed to organize a better allocation of credit." (29 September 1948). Thus, by 29 September 1948, the Banque de France decided to implement quantitative measures. These quantitative credit controls could not have been efficient without abilities to supervise banks and the development of a large collection of banking credit statistics. The tools of credit supervision were established first when the Banque de France was nationalized in December 1945 and later, in October 1947, when qualitative (selective) credit control was implemented in order to allocate credit in high priority sectors.

The doctrine that credit was the main source of inflation is a fundamental feature of postwar French monetary policy. In this sense, there was clearly a 'credit policy' (i.e policy which emphasizes rates of interest and availability of credit) rather than a 'money policy' (i.e policy concerned with the quantity of money) as defined by Milton Friedman. The conviction that credit control should be used only temporarily in order to avoid damages on the competition mechanisms is a second important feature. It is well expressed, among others, in a letter from the Governor of the Banque de France to the Finance Minister on 6 February 1958: "Needless to say that these measures should not be considered as irremovable. They are conceived at a general economic level in response to a specific situation, and the stabilization of credit will need to be changed in one way or another when the factors of this situation evolve. In the long-term, if nothing is done, limitations on banking credit would probably create rents that would distort the normal rules of a competitive sector."

Credit policy was a broad national policy implemented by the government and the National Council of Credit (Conseil National du Credit) – an institution which depended on the Banque de France – and aimed to provide sufficient amount of credit to the economy and to allocate credit across sectors in agreement with the recommendations of the Plan, that is with industrial policy. Thus the aim of monetary policy (through credit controls) was to ensure that credit policy would not lead to an uncontrollable growth of the price level and that external constraints would not threat the domestic credit policy. Hence the use of qualitative credit control in order to depress aggregate demand, restrict the money supply and thus curb inflationist pressures and solve deficits of the balance of payments. It is noteworthy that restrictive monetary policy through credit controls were implemented before the devaluations of 1949, 1958 and 1969: the contraction of internal demand through domestic means preceded abrupt external adjustments.

Using both official publications and primary sources at the Banque de France and the Conseil National du Credit, I have identified six episodes of credit restrictions within the period:

30 September 1948 - 8 June 1950
11 October 1951 - 17 September 1953
11 April 1957 - 5 February 1959
28 February 1963 - 24 June 1965
(3 July) 12 November 1968 - 27 October 1970
November 1972 – October 1973

For each of them, it is possible to study the instruments which were employed (and varied overtime) as well as the objectives of the controls.

From September 1948 to 1973, the French Central Bank used four types of instrument in order to stabilize the economy: the discount rate, minimum reserves requirements (of treasury bonds, of medium term credit, and then obligatory reserves after 1967), quantitative discount ceilings (with penalty discount rates for banks exceeding the maximum allowed), and quantitative ceilings on bank-credit expansions (after 1958).

Thus, if the discount rate of the Banque of France had been one mean of credit control, it had never been the major one. Indeed policymakers knew that the price elasticity of credit demand was very weak and the banks were structurally indebted toward the central bank (the rediscount rate at the Banque de France stayed below the rate of the money market until 1971). Hence French central bankers used it mainly for "its psychological effect", as it is clearly stated in the minutes of the General Council. Policy makers considered it as a 'qualitative' instrument, as opposed to direct credit control, named 'quantitative', which imposed ceilings on discount or credit expansions. The discount rate was also often used to follow international rates (i.e the US rate) in order not to discourage capital outflows. Had the Central Bank used the bank rate as its main instrument, it would have needed to increase it at a very high level in order to push down the demand for credit in this economy where the annual inflation rate often exceeded 4 % and the annual productivity rate was increasing by more than 5%. For some periods, especially the credit control episode of the mid 1960s, when France ran balance of payments surpluses, the bank rate remained low for another reason: the Central Bank was afraid of a gold inflow that could have destabilized and overvalued the Franc.

Simple econometric estimations of the monetary policy reaction function over the period show that the discount rate does not respond to any economic variable, except the US bank rate. On the contrary, according to what can be read in the archives, the decision to restrict credit depended mainly on the evolution of the price level and on the variation of the current account. Even if the General council expressed some considerations about industrial production and unemployment, monetary policy restrictions were not imposed in response to these variables. Indeed, estimations of the impact of economic variables on the decision to restrict credit with a simple forward looking reaction function clearly show a significant impact of the inflation rate, reserves of the central bank and of the variations of the current account on the choice of monetary policy. The other variables are not significant and their coefficients are very weak. Thus the econometric estimations confirm that the French Central Bank's decisions to impose restrictions on credit where positively correlated to the expected inflation rate, and negatively correlated to the change in the current account (that is, restrictive monetary policy was implemented when the current account was worsening), but were not significantly correlated to the variation of credit and output.

Did credit control matter?

The method I use to estimate the impact of monetary policy is clearly inspired from the ''narrative approach of the identification of monetary policy shocks", designed by Christina and David Romer in a 1989 article, in spirit of the method developed by Milton Friedman and Anna Schwartz in their Monetary History of the United States (1963). In order to estimate the impact of monetary restrictions on output, I use the "narrative identification" that allows me to consider the 6 credit control episodes as exogenous on unemployment and industrial production. Furthermore, contrary to a conventional discount rate policy, it is then possible to identify the duration of the monetary restrictions because for each episode we know how long the controls were effective and when they were repealed. After 1973, the nature of French monetary policy changed : direct credit controls became less strict but permanent until 1984, the bank rate was used more systematically and the policy became less independent because it needed coordinating with other European countries. Furthermore, from the end of 1973, France faced big supply shocks and stagflation. For these reasons it would be inappropriate to extend the same method and to apply the same identification procedure after 1973.

Econometric estimations (using VAR) show that, in average, the effect of credit control on industrial production starts after two months and reaches a peak around 25 months, while the effect on unemployment is more delayed (10 months) but also maximum around 25 months. These findings also suggest that the very long-lasting effect of monetary policy is a robust fact.

Finally, I show that no other estimation using conventional measures of monetary policy (discount rate, money supply, foreign bank rate) over this sample is able to generate robust and relevant results. These findings confirm the necessity of the 'narrative approach' in order to study 'non conventional' measures of monetary policy that were implemented under the Bretton Woods system in Western Europe.

This method is thus a nice tool to assess the importance of monetary policy during France's highest period of growth, sometimes considered as the Golden Age (les Trente Glorieuses). In so doing, I also intend to evaluate the evolution of the delay and strength of the responses to monetary shocks over time. Studies of French growth have pointed out that monetary policy could have played a role in the business cycle but none of them have tried to estimate its effect. Also, direct credit controls are often dismissed for theoretical and normative reasons but few studies have attempted to estimate their real effects on the economy. The estimations that I have computed clearly show that monetary policy through credit controls did matter. A variance decomposition analysis shows that around 15% of the variance of production, and 20% of the variance of unemployment are explained by monetary policy over the period, thus highlighting the large influence of this policy on the French business cycle.

How credit control evolved

But the previous results are not all identical across periods. Indeed estimations show that the impact of monetary policy is weaker and more delayed after 1958. This is true not only of industrial production but also of investment and consumption. The weaker efficiency of credit controls on credit after 1958 may explain the weaker effect on output but not the delay of the impact. A more precise analysis shows that the delay of the response of investment can be explained by the delay of the response of mid term credit, a part of which had been exempted from controls in 1968. Conversely, I interpret the delay of the response of consumption as a greater ability of households to smooth their consumption in the 1960s than in the 1950s. Indeed, households' savings (especially liquid savings) were scarce after the war and started to rebuild only at the end of the 1950s, notably because of an active "saving policy" implemented by the Banque de France. The saving rate is not affected by monetary restrictions before 1958 while it falls significantly after, proving that households used savings to smooth their consumption over the period 1959-1973. This results highlights the importance of the 'consumption-saving channel' of monetary policy which is often neglected in current studies.

In addition to these domestic factors influencing the transmission of monetary policy, the restored convertibility of the Franc starting 1959 could also have changed the ability of the Banque de France to control investment through credit. Further work needs to be done on this important topic.

Most importantly, even though the impact of credit control on inflation is more difficult to estimate because of endogeneity problems (credit control is influenced by inflation and vice versa), much evidence suggest that the impact of credit control on inflation became very weak, almost unsignificant, in the 1960s and early 1970s. This result on the inability of credit controls to control inflation remains a puzzle, notably because the impact of credit control on the money supply and on production were still significant over the period (though weaker). Hence some explanations should be found in the features of the French economy that worked as causes of inflation (monopolistic competitions, constant increase in wages, rediscount of

medium term credit) rather than in the inability of the Central Bank to control credit.
At the end of the 1960s, direct controls sparked off many criticisms in France because they seemed to be less effective on inflation and they were accused of creating rents and reinforced the drifting and problems of the industrial policy. Several attempts to liberalize the system failed in the early 1970s and the economic crises then had a paradoxical effect since the government and the Central Bank decided to maintain control permanently starting in 1974 until the mid 1980s (they were repealed progressively between 1983 and 1986). It would be hard to argue that credit control policy met any success in the 1970s and 1980s, and it is thus interesting to investigate why a policy that started to show its limits was finally reinforced. But the long and inglorious agony of credit controls should not make historians and economists turn away from the study and the understanding of its success and effectiveness during the 50s and 60s, which coincided with the highest period of growth that the European economy has experienced so far.

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EHESS

What is the effect of Central Bank branches on credit development? The French case, 1881 to 1911

Central banking is not the job of a single man who only chooses to change interest rates or the quantity of money in a given period of the economic cycle. It is also the microeconomic work inside countries used to pick information from local areas and local banking institutions. Therefore, Central Banks often constitute a network through the active role of their local branches. The aim of such policy is double: to bring help to banks and other credit institutions in cases of illiquidity; to get a better knowledge about mechanisms in action in the monetary system. Basically, both points are important elements of the monetary policy either for its diffusion or its rescue.

Today, developed economies are subject to concentrated and centralised banking structures. It is thus difficult to point out local functions of central bankers. On the other hand, developing economies are subject to local banking but the lack of information, data or adequate policies involve complicated studies on the effects of the central banking network. From this respect, historical experience could shed light on this topic. We thus examined the policy of local implantation of the Banque de France in the XIXth century.

We evaluated the effect of the Banque de France branches (Succursales) network by its impact on credit development. We built on this purpose a theoretical model of banking and tested it econometrically thanks to a new data set about credit development per French districts in 1881, 1891 and 1911 (Map 1 in annexe). The combination of both elements gives evidence of the positive effect of Succursales implantation through the augmentation of liquidity access of clustered banks.

Section one recaps on the historical background. Section two focuses on mechanisms from the theoretical model. Section three gives econometrical results and interpretations. Section four concludes.

1. Historical background

The French banking system in 1880 is a conjunction of three main actors: private bankers, deposit banks (Crédit Lyonnais, Comptoir National d'Escompte and Société Générale) and the Banque de France. What was their place in the credit process?

Local bankers were the biggest supplier of credit in France until the WWI. Estimations from Bouvier (1979) speak of about 70% of the discount market before the end of the nineteenth century. Local bankers had 2017 branches spread over the country in 1875 and 1914 branches in 1910. Nevertheless, their decline was triggered by the deposit banks' competition. As proof, local banker branches accounted for 66% in 1910 compared to 91% in 1875.

Local bankers acted on specific areas and specific industries. They used for their business "soft" information as a way to reduce asymmetries. Hence, they worked with familiar clients of whose activities they were knowledgable. Credits were not limited to the discount of commercial papers. As said by Nishimura (1995) complex devices were set up as a way to supply middle or long term loans. This was especially the case after 1890 into industrial areas (i.e. Longwy, Grenoble, Nancy or Lille).

In summary, local bankers were more able to provide riskier and long run credit thanks to their private knowledge about firms of the business area they belonged for. Furthermore, the competition triggered by deposit banks forced them to use new and riskier credit tools like advance in account to find other markets and survive. From this respect they were probably closer to German banks than French deposit banks.

At the contrary, deposit banks only discounted safe bills and followed the “Gemains” precept after the bubble of 1882. They caught short term deposits and were not included into clusters. Consequently, the information tools they used led them to supply “safe” and short term credit. In other word, their organisational structure pushed them to employ common operations of credits for their business which prevented any risk taking in local areas where small business at risk needed personal contacts (see Stein 2002 for theoretical evidence).

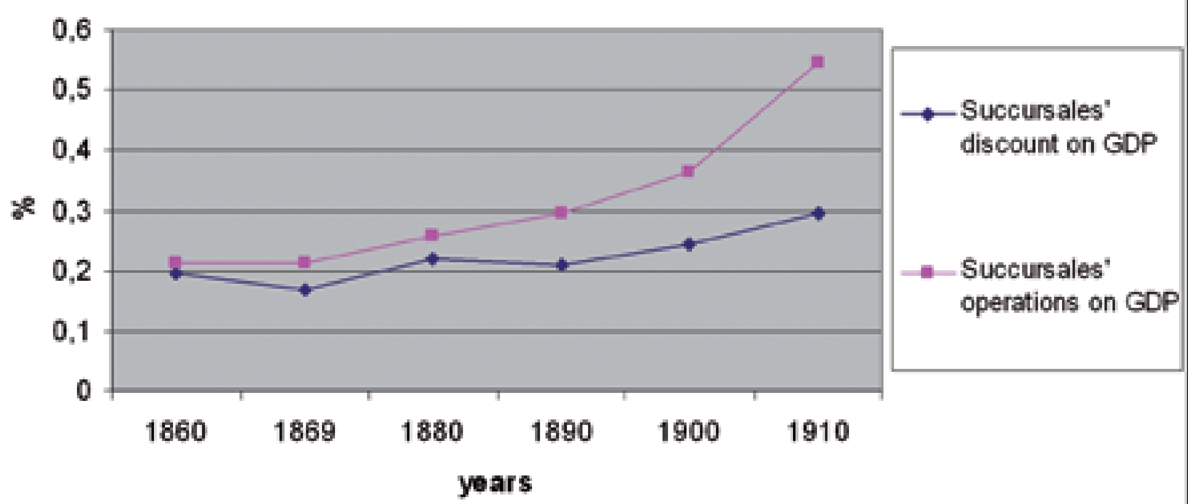
Even if damage related to deposit banks on local banking seems obvious econometrically, there are some doubts about the substitutability of their activities and those of private bankers. Thus, in “soft” information economies, local bankers were less touched by the deposit banks’ expansion.

Disjointedly to its macroeconomic policy, the Banque de France had major microeconomic functions through local money markets. Because of an underdeveloped banking system until the last quarter of the XIXth century (Cf. Levy Leboyer 1979), banking institutions were not able to spread liquidities over the country. Such a situation prevented a robust monetary market and this role was transferred to the Banque de France. Traditionally, three goals were given to the Banque: promoting the nationwide integration of financial markets, reducing interest rates and facilitating credit access. To these aims, Succursales were the perfect tool since its network allowed the removal of surplus from one region to the benefit of the financial needs of others.

The network size of the Banque is explained by several facts. First, as a counterpart of the monopoly issue accorded to the Banque in 1857, the government pressed it to establish a Succursale on every French Département. Once the monopoly was renewed in 1897, the Banque had to set up new Succursales on every “prefectures” and 30 auxiliary offices.In total this meant 129 branches and caused the implantation of 87 of them.

Second, as the Banque was a private institution, profit research explains some installations. This was the case after 1890 due to deposit banks’ expansion. As they discounted safe bills, deposit banks took over

Graph 1: evolution of the importance of Succursales' activities



the usual activities of Succursales. As a result, the Banque partly changed its strategies and redeployed its activities in a more regional way. Nevertheless, implantation always followed external demands.

Third, local lobbies through the action of politicians (deputy or minister) pressured the Banque to set up Succursales in different cities. Also, because of the electoral map, the largest city of each Département had more chance of getting political support.

However, why did cities asked for Succursales? For many firms and local bankers credit access and liquidity were dependant on the Banque's rediscount which was possible only at the Succursale. Because of this informational gap the Banque avoided risks by offering services to local actors. Thus, distance was a major factor of liquidity constraint.

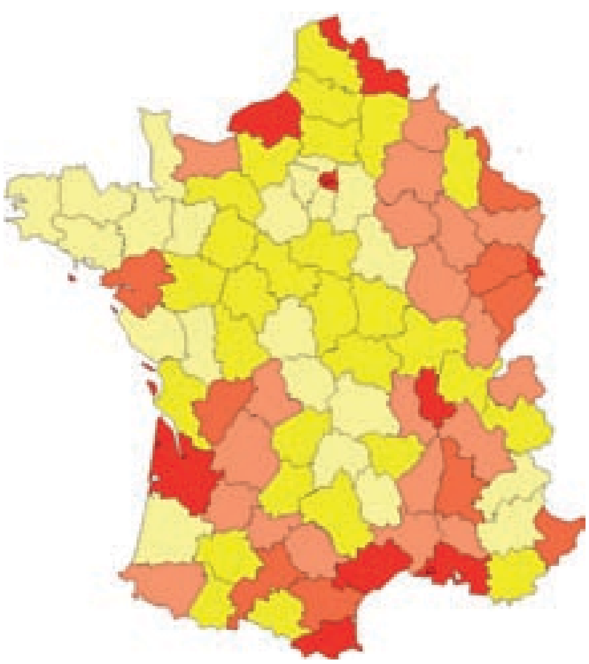
Finally, at the end of the century, new Succursales emerged thanks to the reconstitution of metal provisions. It also provided the opportunity of a more active position of the Banque into the banking system.

All these factors brought the Banque to an "early central banking" action from 1890 to the war (Cf. Lescure 2003) especially through its Succursales. Empirical analysis gives evidences of this hypothesis. First, while the curve of the Banque discount before 1890 followed the economic cycle, it tends to be countercyclical from 1890 to the war (Baubeau 2004). Second the amount of Succursales' discount and other operations increases more than GDP from 1890 to the war (Graph 1).

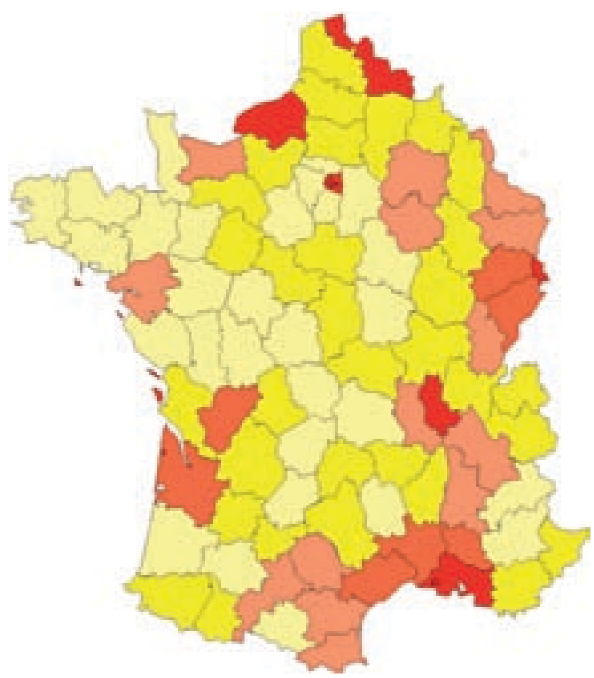
These functions were especially important for local banks evolvement. According to Lescure (2003), 83% of the rediscount portfolio was composed by local bankers' bills in 1880 and 1910. On the other hand, deposit banks accounted for respectively 15.8% and 12.8%. Furthermore, central banking activities allowed rediscount of accommodation and low value papers (Nishimura assessed the former to 6.5% of the total of rediscounted bills). The Banque became more democratic, decentralised and diversified.

2. Mechanisms

Basically the French credit system was built on commercial papers. The first time a producer sets a bill to a client if he is safe enough. If the creditor needs liquidity he asks a bank to rediscount this bill. If the producer and/or the



Credit development in 1881

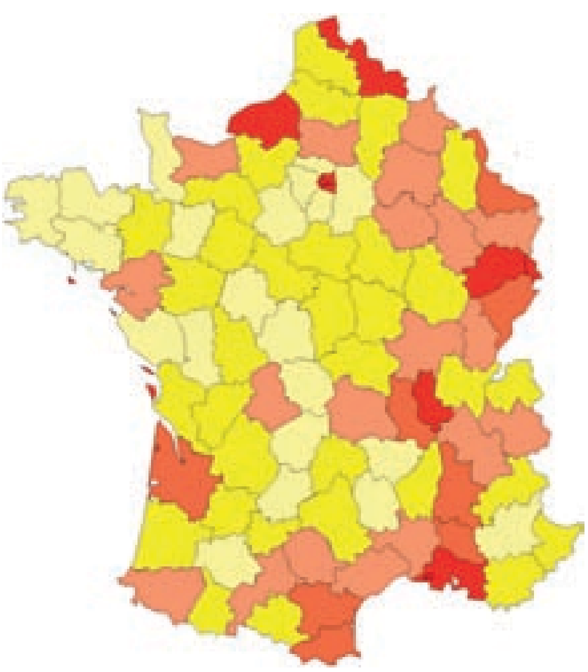


Credit development in 1891

client quality is/are good and known by the bank, funds are lent. At the settlement date the bank waits for the client repayment; if this one fails he can go back to the producer. Other bills could be directly drafted by the bank through an advance on the account. Therefore such credit relations were riskier for the bank as it had to be sure about the quality of its client. Here, the bank could not rely on the knowledge of the producer about the client. It needed personal knowledge to allow rents. Therefore, credit tools help us to separate private from common knowledge, "soft" from "hard" information and unsafe from safe credits.

By the method of discount the Banque de France through its Succursales provided credit to banks (or firms) if and only if commercials papers were twice signed and banks (or firms) well known by it (as proved by the notation system used in all Succursales). Consequently, rediscount could not be done by distant Succursales.

Succursales implantation decreased the risk of banks thanks to the reduction of their liquidity constraint. Therefore, firms and banks close to any Succursale had better credit opportunities and stronger protections against risk of illiquidity.



Credit development in 1911

We employed a banking model using two periods. In t=0 a local banker can not rediscount its bills and has to protect itself against risks with reserves. In t=1 a Succursale appears. Now, the banker can rediscount its "safe" bills and use this procedure as a protection. The model compares profit maximisation on both periods. As long as the rediscount interest rate is low banks take advantage to rediscount their safe bills to the Succursale. They also substitute reserves by safe bills which increases their credit to the economy by the amount of reserves. Another conclusion of the model is the importance of "soft" information utilisation since the amount of reserves in t=0 is dependant to this variable. Through these mechanisms Succursale's implantation increases credit development especially into clusters where the information is more private and firms opaque.

3. Assessment

Since our research assesses the effect of the Succursales network in space and time, panel data was actually the strongest econometric tool. Moreover the econometric model has to avoid biases linked with the lack of variables. Thus, we added control variables. So, the model we test is:

Where CREDEV is the credit development, SUCDENS the Succursales density, CONTROL the control variables (average firm size, population density, firms per capita and number of bank branches per inhabitant), K a constant, u the fixed effect operator and ε the error term. h is the Departement index, t the year index and k the control variable index.

In our basic regression, a Succursale explains 0.039 of the credit development. For an average

Credit development in 1881, 1891 and 1911
Pale yellow if < 0.4; yellow between 0.4 & 0.6
salmon between 0.6 & 0.8
orange between 0.8 & 1.1
red if > 1.1.

Département whose credit development is 0.6, a Succursale accounts for 6.5% of this value (Cf. Bazot 2010a for complete results). Following our theoretical model, as long as the Banque rediscount is high the liquidity access of banks reduces their reserves and enhances the amount of loans supply. However, according to Petersen & Rajan (1997) a multiplicative effect can appear.

Let's admit a cluster. A provider drafts trade credits to clients as long as he knows a bank able to discount his bills easily. If the cluster is locked up and no Succursale is in place, local banks activities are scarse because of costly provision of liquidities. Since Succursales refuse to rediscount bills from distant banks these have to put reserves in the vault. On the contrary, if Succursale appears more bills are discounted by local banks. Therefore, liquidity costs decreases and providers are urged to provide trade credit to their clients. Corollary, if information from the cluster goes outside (if the cluster is porous) a new Succursale is less useful.

What can be drawn from our results? Credit development progresses through Succursales implantation as long as relationship banking remains a key factor of banking supply. Nevertheless did it bring economic development about? Further critics could shed light on this issue. First, such a system did not have global coherency and did not allow real monetary policies. Also, the Banque acted in a microeconomic way instead of a macroeconomic one. Second, such a system relied on costly utilisation of gold and prevents utilisation of modern monetary tools. Third, protection of small banks entailed a kind of economic "jacobisme". It thus averted the emergence of large "universal" banks more able to promote innovation and growth through modern credit tools, critics say.

On the contrary, several arguments stress positives effects of the Banque's action. First, Succursales helped to capital market unification on backward areas. Second, due to "soft" information requests of the productive system there was no posibility of a banking concentration. Deposit banks could not find a counterpart to their short run deposits into modern and/or industrial sectors. These often needed long run (and opaque) loans because of their capital dependencies. Hence, as a result of competition triggered by deposit banks on commercial papers, local and regional banks took advantages of their private and local knowledge to redeploy their activities to these "unsafe" businesses. In this respect local and regional banks were closer to the "ideal type" of the German universal bank than huge deposit banks. Third, the Banque showed its flexibility according to the needs of local banks from industrial districts (Cf. Nishimura 1995). Therefore, as the Banque helped local and regional banks, its policy strengthened the utilisation of modern credit tools basically needed by the industry. In summary, the Banque helped local and regional banks, which used new credits for new business more able to innovate and promote growth (Cf. Bazot 2010b for details and evidence).

4. Conclusion

Because distance matters for relationship banking, our assessment proves that any system build on a "soft" informational structure will find an interest in the appearance of local intervention. However two conditions have to be added: first, the intervention does not imply any competition with local actors; second, local actors have to work principally on their own area. By this configuration external intervention could be useful.

Besides, results open perspectives on developing economics. Indeed, this study implies backward economies from small business areas, important local banking businesses and private informational structures. It consequently puts in front the importance of the state intervention to limit credit constraints in such a situation. Since many countries have a similar composition today (Cf. Russia for instance) this paper tells us how local monetary policies could be lead through central banking operations.

Finally, as it improved credit conditions for firms inside local productive system, the Banque could prevent the appearance of large industries and sustained “small” and low productive activities in the long run. Bazot (2010b) shed light on the debate and gives evidence of local banking abilities to finance industry, innovation and GDP per capita growth thanks to their flexibility and their private knowledge.

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Research into the world's first stock exchange

Well-functioning financial markets are vital for economies. They provide a mechanism for pooling resources, they allow investors to manage their risks and they provide investors with price information, allowing them to find profitable investments at low transaction costs. This leads to efficient capital allocation and thus ultimately to economic growth. Markets that perform these functions emerged for the first time in the Dutch Republic in the seventeenth century. As Douglass C. North put it:

"It was of course the Netherlands, and Amsterdam specifically, that these diverse innovations and institutions were put together to create the predecessor of the efficient modern set of markets that make possible the growth of exchange and commerce. […] The development of techniques for spreading risk and transforming uncertainty into actuarial, ascertainable risks, the creation of large-scale markets that allowed for lowering the costs of information […] all were a part of this story."

When he wrote 'efficient modern set of markets', North was no doubt referring in the first place to the secondary market for Dutch East India Company (VOC, founded 1602) shares, the world's first stock exchange, that underwent a staggering development during the seventeenth century. What the market looked like at the end of the seventeenth century is widely known from the famous book Confusión de confusiones (1688) by Joseph Penso de la Vega, the world's first treatise on a stock exchange. De la Vega, a Portuguese Jew who wrote this book in Spanish – probably to instruct his co-religionists about the ins and outs of the share trade – described a remarkably sophisticated market. Traders traded options and futures with much conviction and they constantly tried to be the first to get news from the East Indies and several parts of Europe, hoping to be able to make a profit on new information. The success of the Amsterdam market was such that the share market in London, whose development gained momentum in the 1690s, was modeled after its Dutch counterpart.

The founding of the VOC 1602 initiated an important financial development, but it was not clear from the start that this would happen. To be sure, the VOC was not the first company in history that issued shares. Its predecessors in the Dutch Republic, as well as a number of Italian companies, had also issued tradable shares, but a lively secondary market for shares in these companies did not develop. In my PhD-research, I have analyzed which factors made the development of the secondary market for VOC shares into the first modern financial market possible. In the following I will discuss some findings of my research in brief. After a short overview of the beginnings of the market in the first decade of the seventeenth century, I turn to the issues of standardization of the trade, contract enforcement and management of counterparty risk. Developments in these three fields highly contributed to the success of the market by taking away hesitancy to trade by possible investors and increasing liquidity. Interestingly, as I will show, it was the traders themselves who carried out these innovations.

The VOC was the successor to several earlier Dutch joint-stock companies for the trade on the East Indies. The States General of the Dutch Republic reasoned that the Dutch initiatives in East Asia would be more effective if the separate companies bundled forces. Therefore, in 1602, they granted the VOC a charter. With this charter, the VOC received a monopoly on Dutch trade with all regions east of Cape of Good Hope. The States General called on the inhabitants of all provinces of the Dutch Republic to subscribe to the capital stock of the new company. The fact that this call did not fall on deaf ears – the high returns of the predecessors of the VOC had made the Dutch enthusiastic for the East India trade – was one of the reasons why an active secondary market only developed after the founding of the VOC. Investors subscribed to a staggering total of ƒ6,429,588. In Amsterdam alone, 1143 investors signed up for ƒ3,679,915 – slightly more than 57 percent of the company's total stock. The stock of the other five so-called chambers that formed part of the VOC was significantly smaller and consequently the development of the secondary markets in these cities lagged behind by Amsterdam. So, what set the subscription to the Amsterdam chamber in 1602 apart was the large pool of shareholders who could possibly want to sell their share. To be sure, this pool happened to be large enough for a secondary market to come into being.

The second reason is that the predecessors of the VOC only existed for the duration of a single venture to the East Indies. After the fleet returned, the company was liquidated and the proceeds were paid out to the shareholders. The VOC, however, received a charter for the duration of 21 years. Halfway through this term, in 1612, the shareholders would get the opportunity to redeem their investment. But the VOC never allowed its shareholders to do so and the States General renewed the charter time and again; the capital stock of the company remained unchanged until the VOC was eventually dissolved in 1798. So the only way for shareholders to liquidate their investment was by trading shares on the secondary market. Incidentally, the capital stock of the English East India Company only became fixed in 1657; until that time, the EIC issued separate stock for separate fleets.

Subscribers to the VOC stock had been informed that it was possible to transfer their investment in the VOC by a stipulation on the first page of the subscription book. It read that investors who had agreed on a share transaction were to go to the East India house to ask the company bookkeeper to transfer the share from the seller's to the buyer's account in the company's capital ledgers. This was a necessary thing to do, because the VOC never issued stock certificates – bearer shares did not exist. Hence, the only evidence of an investor's share ownership was a positive balance on the account under his name in the capital books of the VOC. The transfer of a VOC share was thus a laborious process. What also made the share trade look different from today's trade is that there was no standard denomination for 'one VOC share'; share traders always had to mention the nominal value of the share they traded. Therefore, the market value of shares was expressed as a percentage of nominal value.

Large part of the capital ledgers of the Amsterdam chamber have survived, which makes it possible to reconstruct the share transfers that took place in this chamber's capital stock. The capital ledgers show that the market expanded enormously over the century; in 1610, the company bookkeeper registered 409 transactions, in 1641 this number had grown to 790 and in 1672 1604 transfers were registered. An important precondition for the development of the market was that the trade became standardized. The variable denominations of VOC shares proved disadvantageous for combining as many transactions as possible in a single share transfer. If, for example, trader X had bought a share from Y, and Y had bought one from Z, these transactions could be settled by a transfer from Z to X. But this only worked efficiently if all shares entered into the clearing process were of the same denomination. It therefore became customary to trade shares with a nominal value of ƒ3,000. This standardization process is already visible in the first decade of the seventeenth century; in 1610, 32.5% of all shares transferred in the capital books of the Amsterdam chamber had a nominal value of ƒ3,000 or an exact multiple of that amount. This ratio increased markedly over the years. In 1641, it was already 92.4%.

This does not mean that shareholders now almost exclusively owned round amounts of ƒ3,000 or multiples; it rather indicates that ƒ3,000 shares were most often traded. Shares with a nominal value of ƒ3,000 had become a far more liquid asset than shares with other denominations. A number of share traders, the brothers Christoffel and Jan Raphoen were the first in the early 1630s, realized that this situation provided an opportunity to make a profit. These traders started to provide market maker services to the market. They systematically bought shares of awkward denominations and sold ƒ3,000 shares. They thus provided liquidity to the market for awkward denominations and contributed to the standardization of the market for VOC shares. It is likely, but unfortunately bid-ask spread data have not survived, that these market makers paid a lower price for the relatively illiquid shares they bought than the price they asked for the liquid shares they sold, thus making a profit.

However, these data from the capital ledgers only reveal a small part of the secondary market for VOC shares. Traders often tried to settle several transactions in a single share transfer – this reduced transaction costs and the need for large money transfers. Moreover, the share traders started trading derivatives already in the first decade of the seventeenth century. They mainly traded forwards, but options and repos were also traded regularly, especially in the second half of the seventeenth century. These derivative transactions only left traces in the capital books if they eventually led to a share transfer. For the most part, however, derivative transactions were settled by relatively small money payments. I have used the financial administrations and correspondences of active share traders for my analysis of the development of the derivatives market.

Less effort was needed to standardize the derivatives trade – traders simply decided to only use ƒ3,000 shares as underlying values for their forwards. This trade had to contend with another problem, however: counterparty risk. This kind of risk, the risk that the counterparty in a transaction does not live up to his agreements, was very low in a spot transaction; the seller awaited payment before he transferred the share. After finishing payment and transfer, the transaction was immediately completed. The situation was different on the forward market. A pair of traders could very easily conclude a forward deal. The only thing needed was a written contract signed by both parties. The traders did not make a down payment of any kind, so the first payment only took place on the settlement date. The fact that there was hardly any hassle involved – traders did not need to go to a notary or some other official registrar – was of course beneficial to the development of the market, but it further increased counterparty risk. If it turned out that one of the traders lost a large amount of money on the transaction, he could be tempted to renege on his deal; the only proof of the transactions was a private contract. Traders would of course be hesitant to enter into a transaction if they were not sure from the start that the counterparty would live up to his agreements, so it was important that there was some sort of mechanism in place that ensured traders that their deals would be executed.

Traders could go to court if their counterparty failed to comply with a contract, but the problem was that large part of the forward trade was illegal after the States General issued a ban on short selling in February 1610. The immediate cause for this ban had been a bear trading syndicate led by former company director Isaac le Maire. From the moment he had been ousted from the board of directors, Le Maire sought ways to thwart the VOC, one of which was to try to bring the share price down. The syndicate sold a large number of forwards on the market and then spread bad rumors about the company, hoping that this would lead to a price fall. A price decrease would enable them to buy the shares they had to deliver on expiration of the forwards for a low price and hence make a profit. The syndicate's intentions became public before the forwards expired, however, and Le Maire's plan failed. Subsequently, the VOC directors submitted a petition to the States General in which they asked for a ban on short selling, arguing that widows and orphans could be harmed by the low share price. A number of shareholders tried to dissuade the States General from issuing the ban by arguing that trade without restrictions could only have positive effects on the share price, but this was to no avail.

So, from 1610 onwards, shareholders were only allowed to trade shares they legally owned on the spot and forward markets, but the sources clearly show that a number of traders performed far more transactions than their shareholdings would legally allow. Joseph Athias and Manuel Levy Duarte, for example, had monthly share turnovers on the forward market during the period 1683-4 of between ƒ200,000 and ƒ2,000,000, whilst during these years their nominal long position in the VOC never exceeded ƒ3,000. These traders were thus going short on a very large scale, meaning that their trades would not be enforced by the courts if the counterparty would fail to comply with the terms of the contract. They took huge risks and apparently trusted that their counterparties would comply with the contracts.

In the period 1610-30, it was only natural that the forward traders trusted their counterparties; during this period, the trading population largely consisted of wealthy merchants who all belonged to the tight-knit merchant community of Amsterdam. These merchants knew each other very well – they were often even related through marriage – and traded together on a regular basis. They could not afford to lose their reputations by, for example, reneging on a share transaction, because this would also have had large negative effects on their ability to do business on other markets. From the 1630s onwards, however, the community of share traders started to become more diversified. Merchants of lesser standing started to participate and from 1640 onwards Portuguese Jews began to make their appearance on the market. These new entrants also wanted to become active on the forward market, but their reputations were as yet unknown to other traders, which made possible counterparties hesitant to trade with them.

Brokers instantly seized the opportunity to increase their activities on the market; they specialized in gathering information about all traders' reputations. The traders themselves, however, devised an even better solution to the reputation problem. They organized regular meetings of trading clubs. The idea of these clubs was very simple: traders regularly gathered in an inn or coffeehouse to trade shares or settle transactions amongst each other. But simple as these clubs may seem, the trading conditions within the sub-markets of the trading clubs were very different from the general market. Firstly, all members of the trading clubs traded frequently. Hence they formed a community of active traders, who were all very experienced with the rules and customs of the share trade. Secondly, because they traded frequently, their reputation mattered greatly to them. It is easy to see why: for traders who only traded once, it did not matter if they got a bad name, because they never intended to return to the Exchange in the first place. Frequent traders, however, were dependent on their good reputation to be able to keep participating in the trade. The club thus created an environment where it was in the interest of all participants to live up to their agreements. As a result the chances that a trader would renege were smaller in a community that consisted solely of frequent traders than on the market as a whole. Moreover, the confined community size enabled its members to monitor each other; peer pressure made sure that everybody obeyed the rules. This was very different from the market outside the clubs: contrary to today's stock markets, there were no membership requirements for entering the Exchange building, let alone that there were formal requirements to participate in the market that took place on the streets of Amsterdam. The formation of trading clubs thus further reduced transaction costs: traders no longer had to search for information about the creditworthiness of possible counterparties. Moreover, the monitoring possibilities of the clubs reduced the costs of protecting contractors' rights and also of costly enforcement of agreements by a third party, i.e. the court.

The sub-markets of the trading clubs did not function perfectly, however. First of all, as it turned out in 1665 and 1672 – years in which the Dutch Republic was at war, leading to large crashes in the price of VOC shares – there were limits to the effectiveness of the reputation-based enforcement mechanism. In these years, the losses on forward contracts of a number of traders became too large and these traders chose to lose their reputations rather than a large amount of money. Secondly, infrequent traders could not benefit from the system in place in the trading clubs, so for them it was still impossible to find counterparty for a forward transaction.

Once again, the market proved flexible and the traders devised a solution for these imperfections: the repo became more popular. A repo, short for repurchase agreement, is a double spot transaction: a purchase and a repurchase. An example will clarify how repos worked. Trader X wanted to trade a forward, but he could not find counterparty. He could then also buy a ƒ3,000 VOC share and transfer it to moneylender Y. Y would pay him a certain amount of money (let's say ƒ10,000) in return. The traders agreed that X would repurchase the share in six months' time for the same ƒ10,000 plus a compensation for trader Y – an interest payment. What happened is that X borrowed an amount of money on the security of his share. X held the economic ownership of the share during the term of the repo (he gained if the share price increased and lost if it decreased; he was also entitled to possible dividends) whilst he did not have to lock up a large amount of money in the share. Hence repos resembled forward contracts. The main advantage of a repo over a forward was that the moneylender (trader Y) could adjust the size of the loan he would grant on a share to his assessment of the risk involved in the transaction. If the share price was highly volatile, or if he had doubts about the creditworthiness of trader X, he could simply lower the size of the loan. This would increase the chance that he could recoup the loan by selling the share on the market in case trader X failed to redeem it.

So, to conclude, the experiences of 1665 and 1672 did not put a halt to the development of the forward share trade. It merely alerted the forward traders that the risks of the trade they were active in were higher than they might have assumed. They subsequently reverted to repos for transactions they deemed too risky. This did not go without cost, however; the transaction costs for a repo were substantially higher. Repos also enabled irregular traders to participate in the share trade without locking up a large amount of money.

This short review of a few of the factors that contributed to the development of the market for VOC shares has shown that the traders themselves found ways to enable new participants to enter the market and to manage counterparty risk. As such, they initiated the innovations that created the first modern financial market.

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Provincial banking in Austro-Hungarian Monarchy and successor states 1913 / 1925

Provincial financial institutions flourished almost everywhere in Europe in the late nineteenth and early twentieth century, in the form of credit cooperatives, savings banks or joint stock banks. At the beginning of the twentieth century, there were thousands of provincial financial institutions in the Austro-Hungarian Monarchy. They comprised provincial banks and credit cooperatives that had various names, legal forms and financial capacities. They could be found in almost every marketplace, small town and larger village, where they fulfilled various business, economic and social functions. Provincial banking fulfilled important economic and social functions as well as holding a significant share of the banking sector in Austro-Hungarian Monarchy. In the successor states, after the collapse of the Monarchy, provincial banking lost some of its strength, but remained an important factor.

However, the historiography of provincial banking remained underdeveloped due to the limits of archive material, the small number of case studies and a generally low level of knowledge about provincial banking. Much is known about the banking and financial framework in which provincial banking operated but this is not the case for provincial banking itself. Banking and economic histories fail to provide a systematic and in-depth overview of provincial banking in the Austro-Hungarian Monarchy and the successor states.

Transleithenian provincial banking historiography is almost virgin territory. The literature for Cisleithenia is somewhat greater as the Sparkassen as a specific form of banking have attracted the attention of researchers.

Research on provincial banking has been limited because, despite the large numbers of provincial institutions, the related extant archival material is sparse. Provincial banks, being small, generated far fewer business papers than the large metropolitan banks. Balance sheets, eventually annual reports, a few account books and lists of shareholders are usually the most we can find in well-preserved archive material of some provincial banks.

There are other serious obstacles in the way of developing and writing detailed case studies of provincial banks. To date local historians with an interest in banking have shown a lack of understanding regarding accounting and business practices which are so necessary for a comprehensive study of any provincial bank. In addition the provincial banking of the period was a complex. There was a multitude of banks and credit cooperatives, all of which had various legal backgrounds and names and which, as a result of regional differences, did not necessarily have similar business or economic or social objectives.

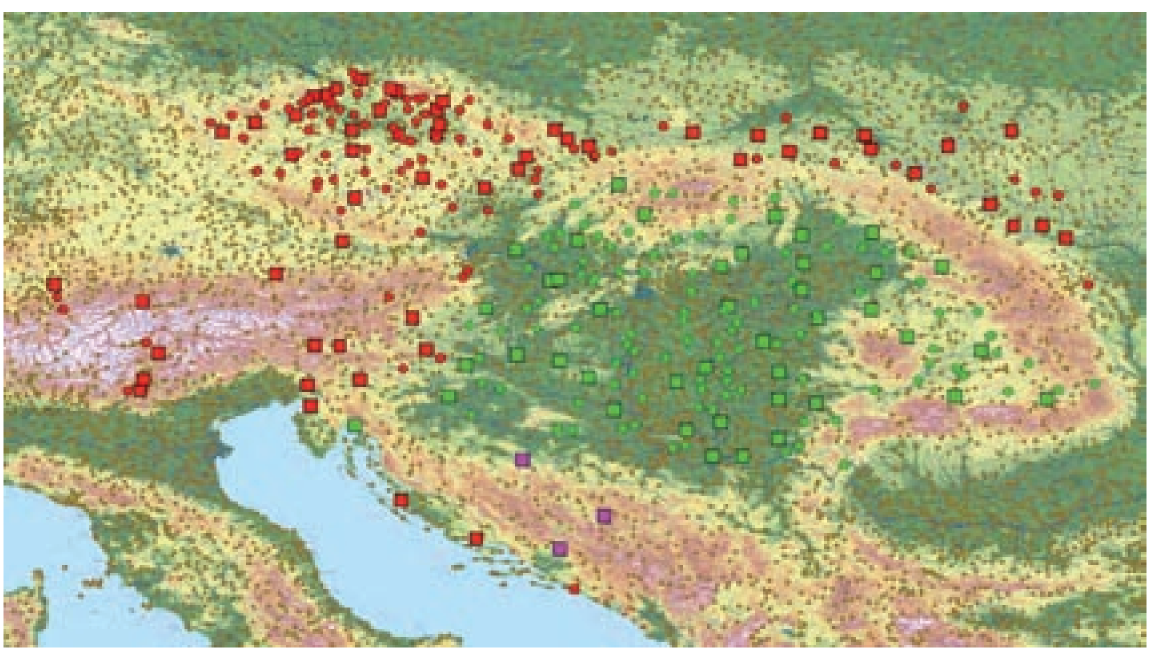
Taking into account the weaknesses of provincial banking historiography, the very large number of provincial banks and, as is subsequently considered, their distinctive financial, economic and social functions, it becomes quite clear that there is a need for a comprehensive study of the topic. In order to establish a foundation for future developments in the field of provincial banking historiography, this research aims to fill this gap.

This thesis aims to fill the gap by reconstructing the broad structure of provincial banking and its place in the overall banking systems of several selected regions of the Austro-Hungarian Monarchy and successor states for the sample years 1913 and 1925. General knowledge and understanding of provincial banking can be improved by analysing the business structure of the provincial banks based on the analysis of balance sheets and the reaction of provincial banking to economic, monetary and political disturbances caused by the collapse of the Austro-Hungarian Monarchy. Research on provincial banking needs to cover issues such as: how many provincial financial institutions can be identified and where were they located? What were the financial capacities of provincial banks and what was their legal status? Furthermore, research would have to provide answers to questions such as: how, and in what form, did provincial banks attract financial resources? Where, and under what conditions, did they invest their financial resources? The study also had to address the question: to what extent were the provincial banks integrated into the financial system and major financial networks? Finally, the study would have to provide some indications regarding the variety of business activities undertaken by provincial banks.

The only way to enter the world of provincial banking was to exploit information available in printed sources – Compasses, contemporary economic publications and some statistical sources. By undertaking a statistical analysis of balance sheets data of provincial banks and information on the existence of financial institutions active in the provincial financial market of seven regions of Austro-Hungary and the successor states for the representative years of 1913 and 1925, it was possible to recognise a number of the legal, structural and business aspects of provincial banking. In the course of this research many characteristics of provincial banking have been recognised and analysed.

This research study provides an analysis for the reference years 1913 and 1925. These years were chosen because they allow an assessment of both the changes and continuities in the banking experience. The political framework and the main economic and financial flows changed following the First World War. On the other hand, the common problem of how to provide financial resources and banking services to provincial economies remained. This means that provincial banking during the period covered is indicative of the turbulence caused by the collapse of the Austro-Hungarian Monarchy and the resultant economic, monetary and political disturbances.

This research does not assess provincial banking across all the territories of the Austro-Hungarian Monarchy and of the successor states. Provincial banking is a very broad topic and, thus, some limits had to be imposed. The chapter on methodology explains how and why the research was restricted to seven case-studies – seven regions variously located in



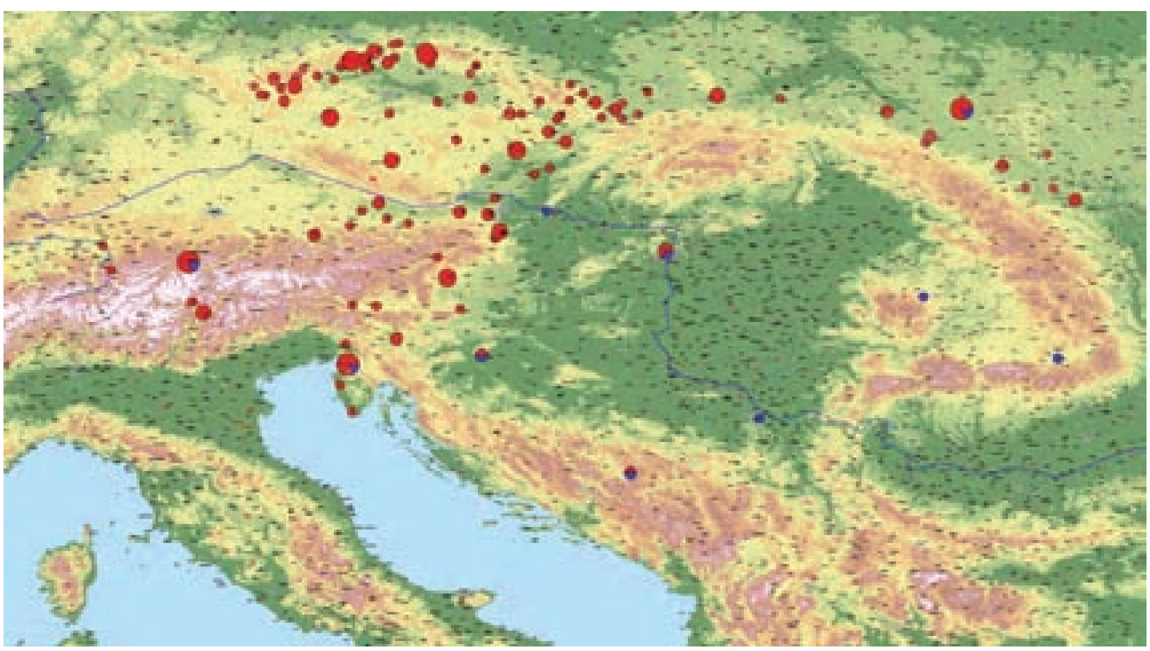
Branches and agencies of the Austro-Hungarian Bank 1913.

Czechoslovakia, Hungary and the western parts of the Kingdom of Serbs, Croats and Slovenes. The analysis of provincial banking and the role it played in the financial systems of the seven distinct and carefully selected regions will provide an understanding of the phenomenon of provincial banking in East-Central Europe.

Since the archival material was often very limited, fragmented and multilingual, research on provincial banking was based on high-quality contemporary printed sources. First of all, there were the financial Compasses, which offer a considerable amount of detailed information on all aspects of banking, including the provincial banks. Also, the research has utilised other contemporary economic publications. Data from the financial Compasses and economic publications provided the possibility of establishing a broad picture of provincial banking in the Austro-Hungarian Monarchy and the successor states.

The first stage of the research was to identify all the provincial banks and their branches as well as the branches of other banks active in the provincial financial market. Approximately 2,000 banks, savings banks, branches, agencies, private banking houses and credit cooperatives were identified in Czechoslovakia, 1,500 in Hungary and less than 1,000 in the selected regions of Yugoslavia. Thus, a broad outline of the structure of provincial financial services was reconstructed. Since balance sheet data were included in Compasses, it was possible to re-calculate certain values, thus enabling some conclusions to be drawn about the financial resources and business structure of provincial banks. 1557 ballance shets of provincial banks were analysed for the mark year 1913 and 1330 for the mark year 1925. This thesis presents the findings which resulted from the reconstruction of the structure of the banking system, and the balance sheet analysis of provincial banks.

The database provided the opportunity to produce maps. Maps display, in a detailed way, spatial differences in the banking systems. Maps can represent financial indicators which have been calculated from the balance sheet database, such as savings per head, profit/balance sum ratio and assets and liability structures. However, even the spatial representation of networks of branches and agencies or spatial distribution of various banking institutions attracts attention. Maps offer a number of indications for future case studies. In the course of this research project, numerous maps were created, only some of which were used in the context of this



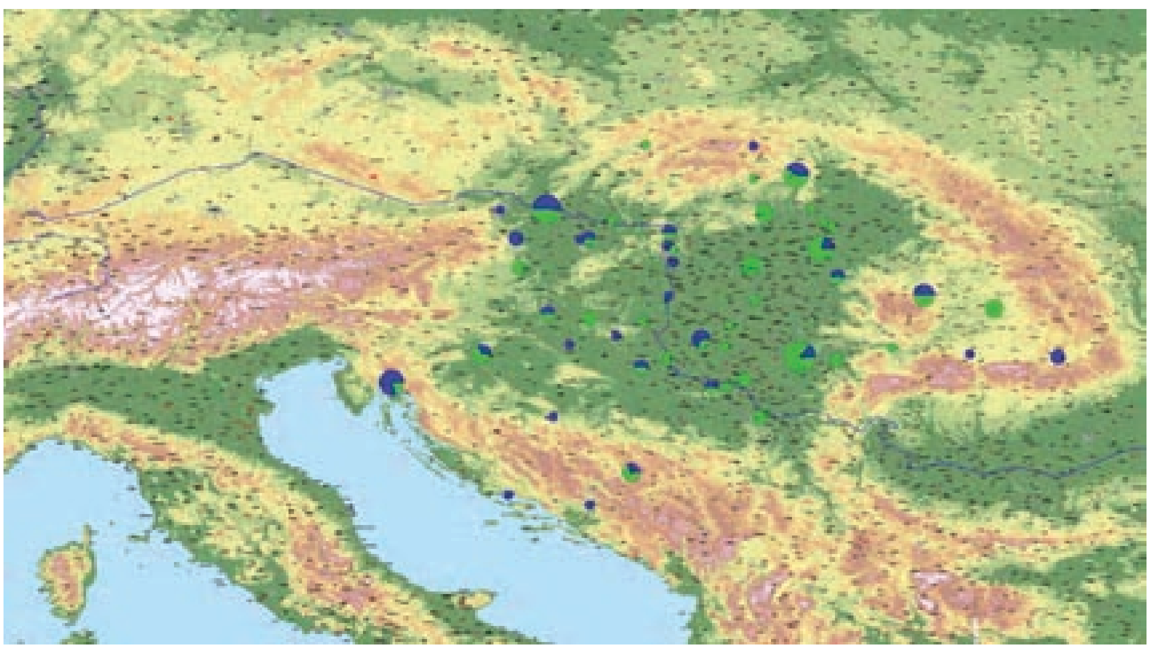
Branches and affiliations of the Viennese commercial banks 1913. *Source: PROVBANK DATABASE.*

work. The author can provide about 250 maps to the interested 'financial map reader'.

This thesis comprises two parts. The first presents the general framework of the research and is composed of three chapters. The first chapter outlines the methodology used in the research. The second offers some introductory information on the credit cooperative movement, provincial banking and economic nationalism. The third attempts to explain briefly the main economic and banking frameworks in which provincial banking operated before and after the First World War.

In the chapter on methodology, all sources of data relating to provincial banking are described. The methodology employed in collecting and analysing the records is also explained. For each region and each reference year the research generated two types of database. The 'identification database' presents data about all financial institutions found in a region. The 'balance sheet database' concentrates solely on provincial banks and the specific information contained in their balance sheets. The glossary of balance sheets and banking terminology in the appendix will hopefully assist potential researchers undertaking similar research in the future.

Before presenting the detailed results of the analysis of provincial banking, it was necessary to provide some introductory comments on the practical problems associated with provincial banking. These are dealt with in the second chapter. Here, the difference between provincial banking in Cisleithenia and in Transleithenia is highlighted. Provincial banking developed somewhere between the credit cooperative movement at the bottom and high finance at the top, so it is necessary to introduce the reader to the credit cooperative movement of the Monarchy. During the marked expansion of the credit cooperative movement at the end of the nineteenth and the beginning of the twentieth century, these institutions tried to meet different demands for micro-credits and underwent various organisational metamorphoses. Many financial innovations within provincial banking were connected with the credit cooperative movement. However, the credit cooperative movement lost most of its economic importance during the interwar period. Nonetheless, the cooperatives managed to remain in the local financial market, thanks to their flexibility and adaptability, and sometimes because of their political importance at the local level. The problem of economic nationalism, which was

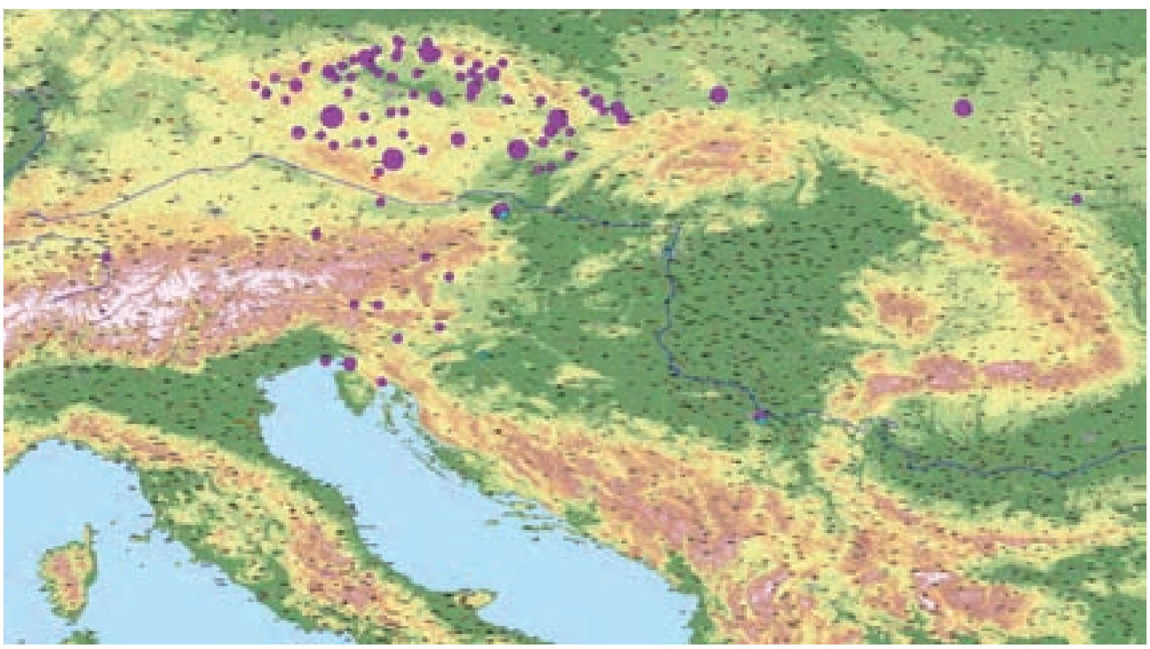


Branches and affiliations of the Budapest commercial banks 1913. *Source: PROVBANK DATABASE.*

often related to the credit cooperative movement, as well as to provincial banking – and in some cases to metropolitan banking – is dealt with in a separate section of this chapter. This presents a mainly theoretical background to the problem of economic nationalism, while its regional variations are included in the regional analysis in Part two.

The third chapter is divided into two sections: one concerned with the framework of the Austro-Hungarian Monarchy and the other with the situation after the collapse of the Monarchy. Provincial banking in the Austro-Hungarian Monarchy and the successor states developed within a broader framework and was influenced by metropolitan banking and business networks, and by economic and political changes in the course of the establishment of the successor states. The section concerned with the Austro-Hungarian framework is an attempt to explain the background against which provincial banking developed. Economic life in the Monarchy prior to the First World War was characterised by the dominance of a few major financial centres and the radiating networks of commercial banks. However, the importance of the central bank and its network for monetisation, credit distribution and the economic integration of the Monarchy is not to be underestimated. In addition, there were the banking networks of the postal savings banks, which assisted the payment systems of the provincial economies. Since it was decided to undertake a comparative analysis of the years 1913 and 1925, it is necessary to provide some information about the changes unfolding in both the financial sector and economic structure. The transformation of the stable and huge market of the Austro-Hungarian Monarchy into the smaller markets of Czechoslovakia, Hungary and Yugoslavia resulted in many changes in the banking sector. The problems related to monetary instability, the nostrification of the banks and the re-integration of financial markets are assessed in the section addressing the consequences of the First World War.

Part two consists of seven case studies. It is divided into two chapters considering Transleithenia and Cisleithenia individually. These two regional chapters contain the results of the analysis of the provincial banking in seven regions of the successor states. This analysis draws from a database which comprises information on all financial institutions in these regions and the balance sheets of the provincial banks. The analytical model applied for Cisleithenia differed from that for Transleithenia



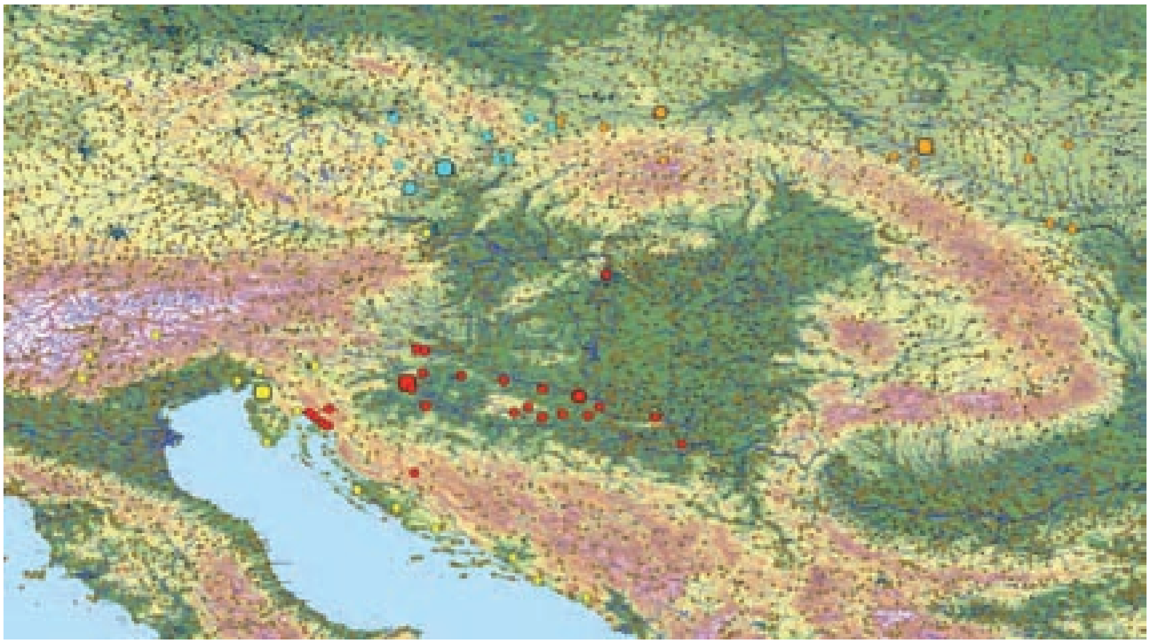
Branches, agencies and affiliations of the Prague commercial banks 1913. *Source: PROVBANK DATABASE.*

as a result of differences in provincial banking and accounting practices. The chapter on Cisleithenia contains an analysis of provincial banking in Bohemia and Moravia with Silesia, and the chapter on Transleithenia comprises the analysis of Hungary, Slovakia, Croatia, Vojvodina and Bosnia and Herzegovina. The final section of each chapter is a comparative analysis of the regional results for Transleithenia and Cisleithenia.

Banking to a great extent reflects the economic life of provincial economies. Provincial banking can be an excellent indicator of the problems related to the economic development of the region. Thus, the last chapter is an attempt to recognise the role played by provincial banks in the process of the economic development of the region. Throughout the nineteenth and most of the twentieth century, Eastern Europe was an arena where two different economic cultures met: the less monetised world of the non-market, subsistence peasant and the profit- and market-oriented capitalistic world. The structural change of Eastern Europe, the transformation from a non-market, subsistence peasant-culture based world into a market-oriented economy was a long process in which the banking system played a significant role. Provincial banking was enevitable catalisator of this 'great transformation'.

The database information is valuable in itself because of the quantity of data collected. It contains information on all financial institutions within the assessed territory for the reference years, and balance sheet information for provincial banks. It is presented in a two separate volumes of the thesis as an appendix.

Banking is a very flexible business sector – research recognised the various metamorphoses and the extreme flexibility of provincial banking – both in legal forms, banking architecture and the businesses of the banks. In the course of this research we developed a number of financial indicators and had to conclude that in many aspects of banking it is hard to talk about "typical" or "average" results. Provincial banking, like all forms of banking, was never static – it varied according to time and geography. And each bank had its own history. The legal framework had a limited impact on the banking sector – the need for financial services as well as the financial market conditions shaped provincial banking. The business structure of banks could change rapidly, as was shown by the difference between the balance sheets structure for 1913 and 1925. The architecture of the banking systems was

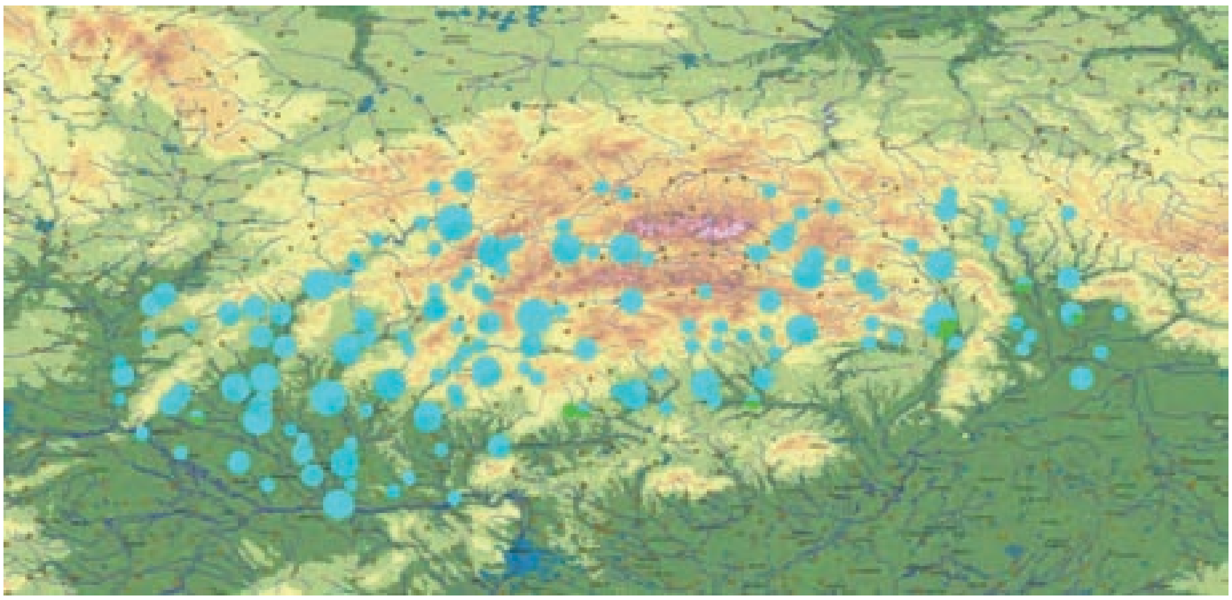


Regional branching networks – Trieste, Brno, Lvow, Zagreb 1913. *Source: PROVBANK DATABASE.*

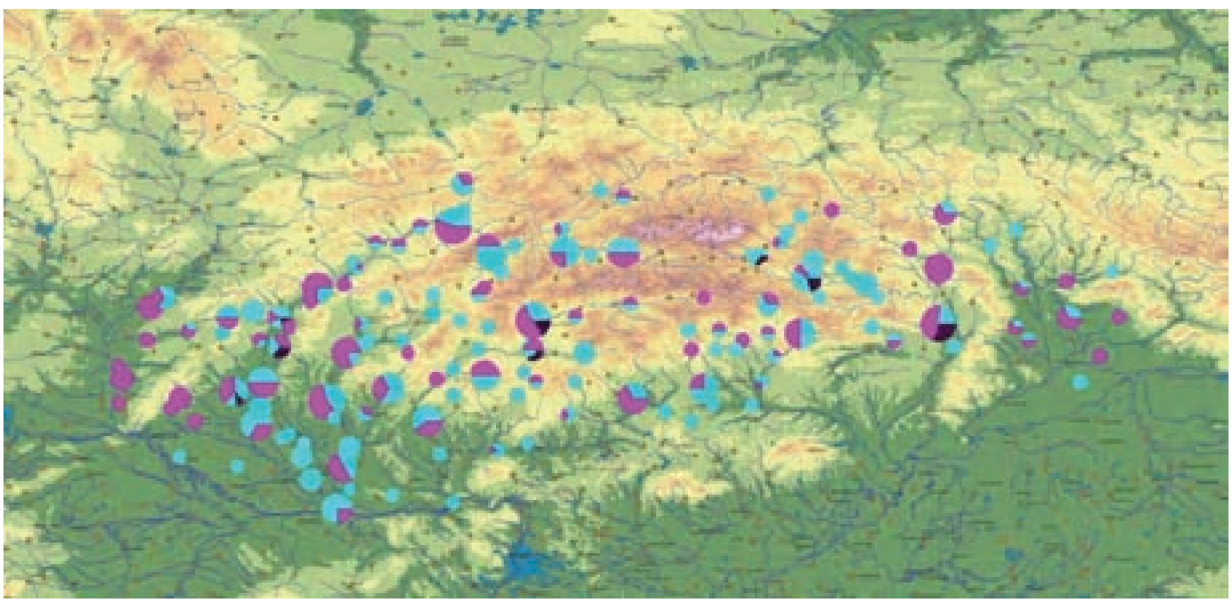
equally flexible.

Notwithstanding, the financial indicators and analysis shown in this thesis have a valuable role to play. The database analysis and the results of this research are not only useful in understanding provincial banking. They can also help us to understand past economies. Information on banking can provide a source for national accounting and be an indicator for economic historical research. Provincial banking history can indicate a number of problems to be assessed in provincial economic history. Banking history can also surpass the limitations of national accounting historiography – regional and spatial analysis and the building of time serials. Future research is needed to derive a methodology which will exploit banking history data for an understanding of the economic past.

Provincial economies present one huge financial market. Another very interesting process identified in this thesis was the process of the financial integration of provincial economies. There was a complex relationship between metropolitan and provincial banks. Metropolitan and provincial banks both competed and co-



Slovakia 1913 – provincial banking based system



Slovakia 1925 – branches penetrating provincial banking system operated in this market. The main instruments of financial linking between metropolitan financial centres and provincial economies were business links between provincial and metropolitan banks, and affiliations and branches of metropolitan banks within provincial economies. In this thesis, a distinction between financial centres, regional economic centres and small towns was highlighted and many differences in banking business links were recognised. In addition, the role of affiliations as linking instruments was recognised and measured. Metamorphoses in relationships – branches versus independent banks – are interesting, but while their implications were discussed in this thesis, the limitations of such analysis were also considered.

In the course of research we recognised the importance of economic nationalism and regional patriotism as ideological forces which supported the building of the provincial financial institutions. Financial weakness, a need to attract resources and customers and a need to strengthen their political and social position by non-financial instruments forced many of the provincial banks to use those ideological weapons. Ideologisation of financial institutions had an ultimately positive consequence on economic development – it supported the growth of the provincial sector. However, for the development of an internal market, it was necessary that all the segments of an economy grew in a similar manner. Because of their high flexibility and adaptability, provincial banks and credit cooperatives assisted economic growth in all segments of the economy.

The conclusion of this thesis is that provincial banking developed as a result of the rapid development of provincial economies whose needs for financial services could not be satisfied by the slowly developing branch networks of commercial metropolitan banks. Thus, provincial banking is equivalent to a form of widely adopted niche banking.

Provincial banking was an enduring phenomenon. The business of provincial banks was based on the interaction of everybody who was interested in them: local savers and economic elites, municipal authorities and political forces, the staff of the provincial banks and their main owners, big commercial banks and the state. These interest groups competed for as much influence on provincial banks as possible, while, at the same time, they cared about the banks' stability and successful operations. Local savers could decide whether or not to bring their savings to the bank. Economic elites, who were interested both in financial resources and other financial services, tended to be in close contact with the bank, usually by means of different formal and informal personal relationships. The importance of professionals employed in provincial banks cannot be underestimated. Their interest was to stay employed, keep receiving benefits and maintain or improve their professional position. Municipal authorities and political forces had to take care of the stability of provincial banks. Urbanisation projects often depended on financial resources from provincial banks. From the perspective of big commercial banks, small provincial banks were particular kinds of independent branches, and provided an opportunity for them to expand their own business without establishing an expensive and inert network of branches. Having a strong commercial bank or umbrella institution in the background was crucial for the successful operation of provincial banks. Because of the sound resources and the economic importance of provincial banks, the state provided a legal framework and some supervision. Thanks to all those interested subjects, most of our small provincial boats successfully navigated the turbulence of the first half of the twentieth century.

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EABH bulletin editor

The impact of the global financial crisis on risk management's evolution in banking systems

The global financial crisis that has spread around the world has caused a considerable slowdown in most developed countries and has already affected financial markets and growth prospects in developing countries. This period was also characterized by a widespread tendency of deregulation and the emergence of financial innovations, which were insufficiently regulated. In fact, these trends were closely connected to the strong forces of globalization. The authors focus on analysis of financial health of Eastern European banks, generally well-capitalized, still, hardly hit due to collapses in property prices, economic contractions, currency volatility and a reliance on external funding. Foreign parent banks dominate the region's banking systems, accounting for 60% to 90% market share, depending on the country. Since peak non-performing loans levels will in most countries be reached in 2010, the level of recovery rates and impact on profitability will depend on the quality of legal systems and the availability of tested non performing loans (NPL) collection procedures. Exit strategies for crisis are also analyzed. Banks must improve their risk management procedures and the authorities must provide a regulatory framework and a prudential framework for banks in terms of the capital and rules in order to ensure that banks are sufficiently capitalized and remain liquid at all times. For supervisory institution, risk assessment is a priority subject for the year 2010. The emerging influence of the risk function is a need for an integrated risk management. The credit crisis has also highlighted some specific challenges in how banks manage risk and also the need for rethinking bank's approach to risk management.

Over the last 18 months, the world's financial system has faced the greatest crisis for a least a century, recognized as the greatest crisis in the history of finance capitalism and more severe than the collapse of the US banking system between 1929 and 1933. Financial problems have emerged simultaneously in many different countries and its economic impact is being felt throughout the world as a result of the increased interconnectedness of the global economy.

The global financial crisis that has spread around the world has caused a considerable slowdown in most developed countries and has already affected financial markets and growth prospects in developing countries.

The crisis followed a period of significant globalization of banking activities, both wholesale and retail. This period was also characterized by a widespread tendency of deregulation and the emergence of financial innovations, which were insufficiently regulated. In fact, these trends were closely connected to the strong forces of globalization. Moreover, the crisis followed a significant extension of cross-border retail activity, particularly in Europe, through physical branches or online. Major European investment banks, expanded extensively in important world capitals and major US investment banks developed much larger operations and extensive networks throughout the world. For instance, UK banks like Barclays, RBS and HSBC significantly expanded their US operations.

The crisis revealed fault lines in the global regulation and supervision of some of these cross-border firms. The essence of the problem, as the Governor of the Bank of England, Mervyn King has emphasized, is that global banking institutions are global in life, but national in death. That is, when crises occur, it is national central banks which have to provide lender-of-last-resort support and national governments that provide fiscal support, and that if there is a failure, bankruptcy procedures are national and it matters with which specific legal entity a creditor has their claim.

Although the crisis was an extraordinarily complex event with multiple causes, weaknesses in the risk-management practices of many financial firms, together with insufficient buffers of capital and liquidity, were clearly an important factor. Unfortunately, regulators and supervisors did not identify and remedy many of those weaknesses in a timely way. (Chairman Ben S. Bernanke at the Federal Reserve Bank of Boston 54th Economic Conference, Chatham, Massachusetts, October 23, 2009)

“Notably, to promote financial stability and to address the extremely serious problem posed by firms perceived as "too big to fail," legislative action is needed to create new mechanisms for oversight of the financial system as a whole; to ensure that all systemically important financial firms are subject to effective consolidated supervision; and to establish procedures for winding down a failing, systemically critical institution without seriously damaging the financial system and the economy.”

It is recognized that the crisis was to a large extent caused by a protracted period of low interest rates, high securitization activity and a relaxation of banks’ lending standards in an environment of weak banking supervision.

According to the European Union single market rules, banks which are recognized by their home country supervisors as sound have a right to operate as branches in other member states. Moreover, as a result depositors in one country (or the government) can be vulnerable to the failure of banks in another country if the home country concerned lacks the supervisory resources to ensure bank solvency, or the fiscal resources to fund bank rescue, and if the deposit insurance cover is low and unfunded.

Also, supervisors in the United States and abroad are now actively reviewing prudential standards and supervisory approaches to incorporate the lessons of the crisis. The Federal Reserve is participating in a range of joint efforts to ensure that large, systemically critical financial institutions hold more and higher-quality capital, improve their risk-management practices and have more robust liquidity management.

All this will put further strain on the financial sector, which to a large degree in central and Eastern Europe is owned by Western banking groups. A co-ordinated effort by all major players under the Vienna Initiative averted a large-scale withdrawal by these banks. But the region's financial sector faces a period of stress and adjustment.

Analysis of financial health indicators shows that Eastern European banks are generally well-capitalized. Nevertheless, they have been hard hit, amid the global financial crisis, due to collapses in property prices, economic contractions, currency volatility and a reliance on external funding.

Questions have also been raised about the commitment of Western European banks to the region. Foreign parent banks dominate the region's banking systems, accounting for 60% to 90% market share, depending on the country.

Non-performing loans: NPL management is crucial for future profitability.

Non-performing loans rate (%)		
2009	feb	8.42
	mar	9.40
	apr	10.50
	may	11.46
	jun	11.76
	jul	12.57
	aug	13.33
	sep	14.18
	oct	14.81
	nov	15.39
	dec	15.25
2010	jan	16.20
	feb	16.61

Source: NBR (National Bank of Romania, Monthly bulletin - February 2010)

Peak non-performing loans levels will in most countries be reached in 2010. The level of recovery rates and impact on profitability will depend on the quality of legal systems and the availability of tested NPL collection procedures.

For example, according to National Bank of Romania's statistics, non-performing loans rate has reached 16 percent in February 2010. Economy experts estimate that delays in credit reimbursements will continue to increase in the following months. The Romanian banking system is one of the most affected from the region, in terms of non-performing loans in total amount of credits. In September 2008, in Romania, the non-performing rate was 5.12 percent, according to the NBR's statistics. The recession triggered high decrease of income for companies and also unemployment.

In comparison to other companies in the region, members of the European Union, in Poland and Hungary, the non-performing loans rate will reach this year 8-9 percent, whereas in Slovenia and Slovakia, it is estimated at most 6 percent.

One implication from the Credit Crunch view is that increased non-performing loans can cause the decline in commercial bank credits, as banks with high level of non-performing loans in their portfolio may become increasingly reluctant to take up new risks and commit new loans.

Non-performing loans have been considered being one of the most important factors causing reluctance for the banks to provide credit. Specially, the reluctance of banks to lend can be caused by several reasons, such as the increased capital adequacy requirement imposed by Basel Accords; impaired debt-servicing capacity, especially small-to-medium enterprises (SMEs); risks of a further fall in collateral value, etc., which make the interest rate not to serve as the main determinant by banks in credit approval.

In a high NPL condition, banks increasingly tend to carry out internal consolidation to improve the asset quality rather than distributing credit. Also, the high level of NPLs requires banks to raise provision for loan loss that decreases the banks' revenue and reduces the funds for new lending. This has major consequences for the economy and the economic growth because unavailability of credit to finance firm's working capitals and investments might trigger the second round business failure which in turn exacerbates the quality of bank loans, resulting in a re-emerging of banking or financial failure.

• The old "domino" effect of crisis mechanism was replaced by "gravitational wave" effect.

Classical financial crisis normally occurred for example via non-performing loans (NPLs) which were developed by lax internal policies applied at the time of prosperity rapidly decreasing capacity of the clients to pay debt at the time of economic downturn. Once an institution had a high level of NPLs, it was becoming vulnerable to all possible external downsides. Often times a fall of one major institution, caused by bad loans, taken down another one which had an exposure to the primary one. This process was taking steps from one institution to another and was called broadly "a domino effect".

• Exposure of Western Banks in Eastern Europe

Big Western parent banks are expected to keep their Eastern Europe exposure which, even in a tougher regional environment, is set to remain an important source of profitability for those banks. Still, funding for new loans will be reduced significantly. Only some niche players (either foreign or local) might consider exiting the market and in turn some new market entries are possible.

The integration of financial markets and financial infrastructures in the European Union (EU), together with the growing number of large and complex financial groups with cross-border operations, contributes to the efficiency and stability of the EU financial system. At the same time, financial integration increases the scope for cross-border and cross-sector contagion and thus the likelihood of a systemic crisis affecting more than one Member State. Financial stability is, therefore, a common concern for all Member States and the EU as a whole, and must be safeguarded on the basis of close cooperation among all parties, taking also into account the wider international context.

• The role of the supervisory authorities

In the developed economies of our times, the main rationales for regulatory intervention in the banking sector are the preservation of the stability of the banking system from generalized crises (preservation of systemic risk), and the protection of consumer of financial services offered by credit institutions (consumer protection) .

A major theme of the financial crisis is catastrophic failures of regulatory oversight. Furthermore, supervisory authority is altogether consistent with and supportive of the Fed's role as the monetary authority, for the very simple and straightforward reason that financial institutions are the transmission belt of monetary policy. (Federal Reserve Chairman Ben Bernanke, December 2009)

Most fundamentally, the problem of "too-big-to-fail" is not that institutions are too big; it is that there is currently no authority to wind down a financial conglomerate in an orderly way. More effective supervision, coupled with the authority to seize and wind down large firms, is the appropriate remedy to "too-big-to-fail." Large, globally active financial institutions have expanded the supply of credit and other financial services to emerging market economies, contributing importantly to the expansion of trade flows, opening foreign markets to U.S. goods and services and, therefore, contributing importantly to economic growth and job creation. (Financial Services Forum, December 2009).

The need for tough new rules to make financial institutions safer and to constrain excessive risk-taking is recognized, and the need for a regulatory framework that should address risks to the financial system as a whole. It is desirable to bring an end to the belief that some financial institutions are too big to fail. But for this, a new resolution regime is needed for large, complex, and interconnected financial firms, similar to that already established for banks. To end too-big-to-fail, the new regime should permit regulators to close a failing firm and impose losses on shareholders and creditors. (Chairman Ben S. Bernanke, the Dallas Regional Chamber, Dallas, Texas, April 7, 2010).

• When financial innovation outpaces regulation

The President of the Financial Stability Board has stated that "regulation must not prevent innovation, which is necessary if we are to improve product choices for consumers and an expanded access to credit" hence "the goal will be to strengthen the resilience of the system without hindering the process of market discipline and innovation that are essential to the financial sector’s contribution to economic growth”.

Increased freedom of action and advances in financial theory and computing power are generally taken as explaining the recent wave of financial innovations. Their contribution to economic growth is seen as coming from the improvements in risk management they are able to disseminate all over the economic system.

After millions of high-brow man-hours spent in the last thirty years designing regulatory schemes we may be sympathetic with the reluctance to restart from scratch. However, since the official position is based on the conviction that the laissez-faire approach to financial risks must be maintained, it is a terribly difficult task for regulators and supervisors to strike a balance between the freedom to innovate and the dangers coming from it. More so if we follow the widely accepted view that it is unavoidable for regulation to lag behind innovations coming from the private sector.

The current financial crisis has attracted attention to the new financial instruments and

“innovations” such as derivatives, off-balance sheet vehicles, hedge funds etc. They are named as new products and institutions because what is really new is their dimension relative to the size of the economies they should serve. Thus, risk measurement and capital hedging became the hallmark of banking regulation.
However, 'new' financial instruments and institutions should be kept inside qualitative and quantitative boundaries of risks that private operators can manage and the authorities can control.

• Risk-assessment and the financial stability framework
Beyond the immediate crisis, improving the EU’s financial stability framework will be essential. Implementing the recommendations of the de Larosière report deserves strong support. Nonetheless, reforms will eventually need to go further to ensure a cross-sectorial integration of supervisory arrangements and establish an effective framework for cross-border crisis management and resolution.
For supervisory institution, risk assessment is a priority subject for the year 2010, especially for the Committee of European Banking Supervisors, its work programme focuses on the assessment of the EU banking sector and periodic risk assessments, pillar 2:
• Periodic risk assessments: an increased attention to macro-economic and bank sector analyses is considered important to assess the resilience of the EU banking sector and to receive early warnings for supervisory purposes. The Committee of European Banking Supervisors (CEBS) contributions focus on regular risk assessments and stress testing. In 2008, CEBS developed a mechanism for performing such focused risk assessments on a periodic basis, building upon macro-economic analyses and using a bottom-up approach. In 2010, CEBS will continue to deliver these risk assessments, identifying important risk areas, their relevance to banks and the measures banks have taken to mitigate these risks.
• Pillar 2: Pillar 2 is an area in which at the moment there is still need for further convergence of practices amongst member states. Following the crisis, CEBS will develop guidelines in a number of important areas. The developments of guidelines for joint assessments and decision will contribute to more consistent and effective application of the principles to be applied to cross-border banks in order to assess the capital adequacy under the Supervisory Review and Evaluation Process and for the Risk Assessment of cross-border banks in general. Also the current guidelines on concentration risk will be updated in 2010 in the light of the lessons learnt from the crisis and the Committee of European Banking Supervisors will undertake an implementation study and develop further guidance on the topic of remuneration.
Banks must improve their risk management procedures and review their compensation practices. The authorities must provide a regulatory framework that supports the goal of getting the right incentives in place. This has consequences in particular for the design of the prudential framework for banks, for the supervisory review of banks’ risk management procedures, and for rules on compensation and pay.
In terms of the prudential framework, the capital base of banks needs to be strengthened and rules must be introduced to ensure that they are sufficiently capitalized and remain liquid at all times.

• Rethinking bank’s approach to risk management. The emerging influence of the risk function and the need for an integrated risk management
In developing and growing the business, executive teams should try to ensure that all employees are aware of and involved in managing risk, with senior management setting the overall strategic direction and embedding risk management philosophy across the business, ensuring that

risk can be measured, reported and managed. They should also provide clear guidance reflected in explicit policies and procedures and a clear expectation of compliance with these. Risk management responsibilities should be streamlined so that risk can be owned and managed within the business unit, but quickly escalated through the risk management function and business units to the Board and its relevant committees where necessary.

Kevin Blakely, President and CEO, The Risk Management Association, also emphasizes the importance of the risk committee, which he believes "should oversee the active acceptance of risk within the organization and make sure it's mitigated, managed and priced for."

The credit crisis has highlighted some specific challenges in how banks manage risk, with perhaps the biggest concern being the apparent over reliance on quantitative models in decision-making. Even those that used more sophisticated models and testing were not always able to predict what was effectively a once in a lifetime set of circumstances.

Some risk management agendas and budgets in recent years appear to have been driven by the need to meet regulatory expectations set by such initiatives as Basel II, CSE, and Sarbanes-Oxley.

Such a compliance focus may possibly have distracted risk management resources from addressing wider organizational risks. It is recognized that the crisis was to a large extent caused by a protracted period of low interest rates, high securitization activity and a relaxation of banks' lending standards in an environment of weak banking supervision.

The Basel II capital framework, currently used by the majority of banks, can be strengthened, encouraging management to develop more forward-looking approaches to measuring risk. These would go beyond simply measuring capital and incorporate expert judgment on exposures, limits, reserves, liquidity and capital. To give it real teeth, economic capital should be tied into executive compensation so that rewards are based upon the economic value brought to the organization.

• Exit strategies for crisis: The solution for the global financial stability is the economic growth. Analysts are also watching for any revision of estimates for economic growth in the euro zone. Currently the central bank projects growth of 0.8 percent this year and 1.2 percent in 2011.

Some current rules must be changed through:

• more European coordination in regulation, supervision and deposit insurance; and

• more host country national powers in regulating and supervising the branches of banks based in other member states.

To address these problems in the future requires some combination of:

• More international cooperation in ongoing supervision through, for instance, colleges of supervisors and more intense international cooperation and coordination in crisis management.

• An increased use of host country powers to require strongly capitalized local subsidiaries, ring-fenced liquidity and restrictions on intra-group exposures and flows.

But the financial crisis should also be seen as an opportunity to undertake regulatory reform. It also gives banks a chance to overhaul their risk management practices and verify that the procedures they adopt take full account of the complexities of the financial markets.

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Fire in Swiss Re's Early History, 1864-1906 : Perspectives for an Environmental Business History?

Reinsurance as a technique (i.e. insuring insurers) has existed at least since the fourteenth century and evolved from marine insurance. However, independent reinsurance companies as we know them today have only started emerging in the 1840s. This time lag in the development of reinsurance into an independent sector of the insurance business is mainly due to the two different forms in which reinsurance could be transacted, namely co-insurance and reinsurance. Co-insurance (several insurers sharing in one insurance-technical risk) dominated marine insurance well into the 19th century. Fire reinsurance (one fire insurer acting as the reinsurer for another fire insurer), on the other hand, only developed after the foundation of the first joint-stock fire insurance companies. The earliest of the latter emerged in Great Britain at the beginning of the eighteenth century. Denmark, France and Germany followed in the early and mid 1800s.

With the acceleration of the industrialization in the 1820s the number of fire insurance companies started increasing and consequently competition between them grew fiercer. Since at this stage all actors, the reinsured fire companies as well as the reinsuring fire companies, were active in the same market this form of reinsurance became increasingly unattractive owing to the lack of confidentiality. That is, the reinsured fire insurance company had to fear losing its insured risk to the former reinsuring party after the termination of their contract. The first step out of this dilemma was to found dependent affiliates which would grant the mother firm reinsurance cover. However, the affiliate would mainly reinsure the mother company's surpluses, thus creating a dangerous correlation between their respective risk portfolios in case of large-scale loss. These market structural risks as well as the devastating fire of Hamburg in 1842 made clear the importance of the creation of independent reinsurance companies for the spreading of (fire) risk. The world's first independent reinsurer, Kölnische Rück (today Genre), was founded four years after this fire disaster in 1846.

Another early independent reinsurance company which was founded as a result of a large-scale conflagration was Schweizerische Rückversicherungsgesellschaft, also known as Schweizer Rück (today Swiss Re). In 1861 the Swiss town of Glarus was almost completely destroyed by fire. Even the obligatory cantonal fire insurance and donations from all parts of Switzerland taken together were not able to cover the loss of CHF 8.7 million (1861 value, equivalent to CHF 729,085,970 in 2008), with CHF 2.4 million (CHF 201,127,164 in 2008) remaining uncovered. Under the impression of the Glarus-disaster, apparently, the foundation of a Swiss reinsurance company had been discussed in Swiss financial and insurance circles. Two years later, in 1863, Moritz Ignatz Grossmann, the director of a Swiss fire insurance company (Helvetia Feuer) put forward his "expertise on the foundation of a reinsurance company" to the members of the administrative council of Schweizerische Kreditanstalt (today Credit Suisse). It is clear from this document that Grossmann hoped for (or even counted on) the support of the already well-reputed Swiss bank founded by the notorious Alfred Escher. Indeed, the go-ahead for the foundation of a Swiss reinsurance company was given soon enough by Schweizerische Kreditanstalt so that the business could be started early in 1864.

Although called Schweizerische

Rückversicherungsgesellschaft, it was clear from the outset that the company could not focus on Switzerland alone but had to spread risks globally in order to avoid catastrophic loss (one single event affecting a (large) number of reinsured risks at the same time). Therefore, the history of SRC is a "global" history already in 1864. Furthermore, the history of SRC is very much the history of its fire branch until the turn of the century and even into the first decade of the twentieth century, since up to that time the fire branch on average accounted for between 50 and 60 per cent of the company's premium income. Similarly, slumps in income in the fire branch meant slumps for the whole company (see figure 1), although these grew less marked with the progress of the company and the consequent establishment of new branches (the company started with fire and transport only, taking up life reinsurance in 1865 and accident/ liability reinsurance in 1881) and the creation of free reserves at the end of the 1880s.

Thus, after initial "birth pains" and a rather modest increase in business volume in the first two decades, generally, the company was consolidated after 1888. Nevertheless, setbacks continued to occur throughout the 1890s. While in the first twenty-five years of business SRC's cedents had mostly been German, Swiss, Italian and Austrian, in the second quarter-century of business Scandinavian and British companies gained importance for the company's premium income. It is important in this context to differentiate between the provenance of SRC's cedents and the location of reinsured risks. As stated above, the latter were spread globally (as far as Yokohama, Bombay and Calcutta) already in 1864. Furthermore, it is important to note that SRC's first US affiliate was founded only in 1910, relatively late compared to the other large contemporary reinsurers Kölnische Rück and

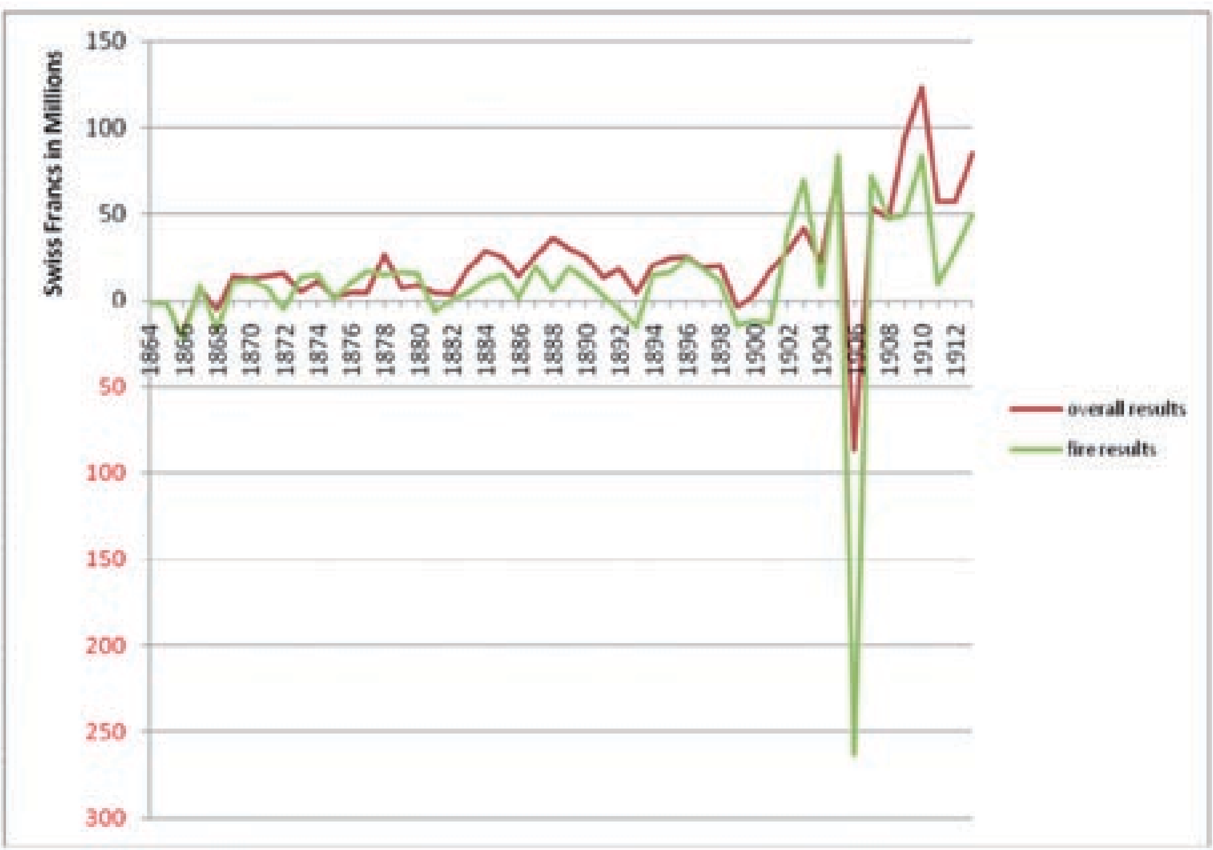

Figure 1 Juxtaposition of SRC's overall gross result with the fire branch's gross result, 1864-1913 showing a close correlation until 1907. Adjusted values (2008 Swiss Francs).

Münchener Rück (today Munich Re) who had opened their US affiliates already in the 1890s. SRC's first bumpy years, all in the red, seemed particularly interesting and called for a close-up investigation, since with conspicuous frequency SRC meeting minutes mentioned hot and droughty weather conditions stretching over wide geographical areas as a cause for catastrophic loss in the fire branch (see figure 2). Even though SRC had adhered to the principle of wide spatial dispersion of risks, this principle was in fact overruled several times. Hence, one may hypothesize that, counter to the common understanding that fire is a "human-made" disaster, climatic (i.e. "natural") conditions played a significant role in the early years of the company's fortunes, even where the losses concerned city conflagrations. This may sound counterintuitive, in particular since Frost and Jones propagate the "fire gap" and a "greater durability of nineteenth century cities." However, despite the fact that building codes had been introduced and fireproof building materials were employed increasingly, devastating city fires did still occur in Europe and in particular in the USA, as the stock of wood-built houses of previous eras could not be transformed into fire safe buildings over night. Could such climatic conditions as mentioned above affect nineteenth century wood-built cities and towns in the same way as they would affect wood in the "natural" environment? In climate research, climatic phenomena favoring fire-proneness on such a large scale are called warm/dry anomalies. The latter are determined by their deviance from monthly mean temperatures, or monthly mean precipitation patterns respectively. Further aspects determining an anomaly are its scale of deviation, both, its temporal and its spatial extension. Such warm/dry anomalies could effectively be identified with the help of nineteenth century measured data, showing climatic conditions over Europe throughout the summer months of the respective years of loss.

From the juxtaposition of SRC sources (meeting minutes, annual reports as well as written correspondence and account books)

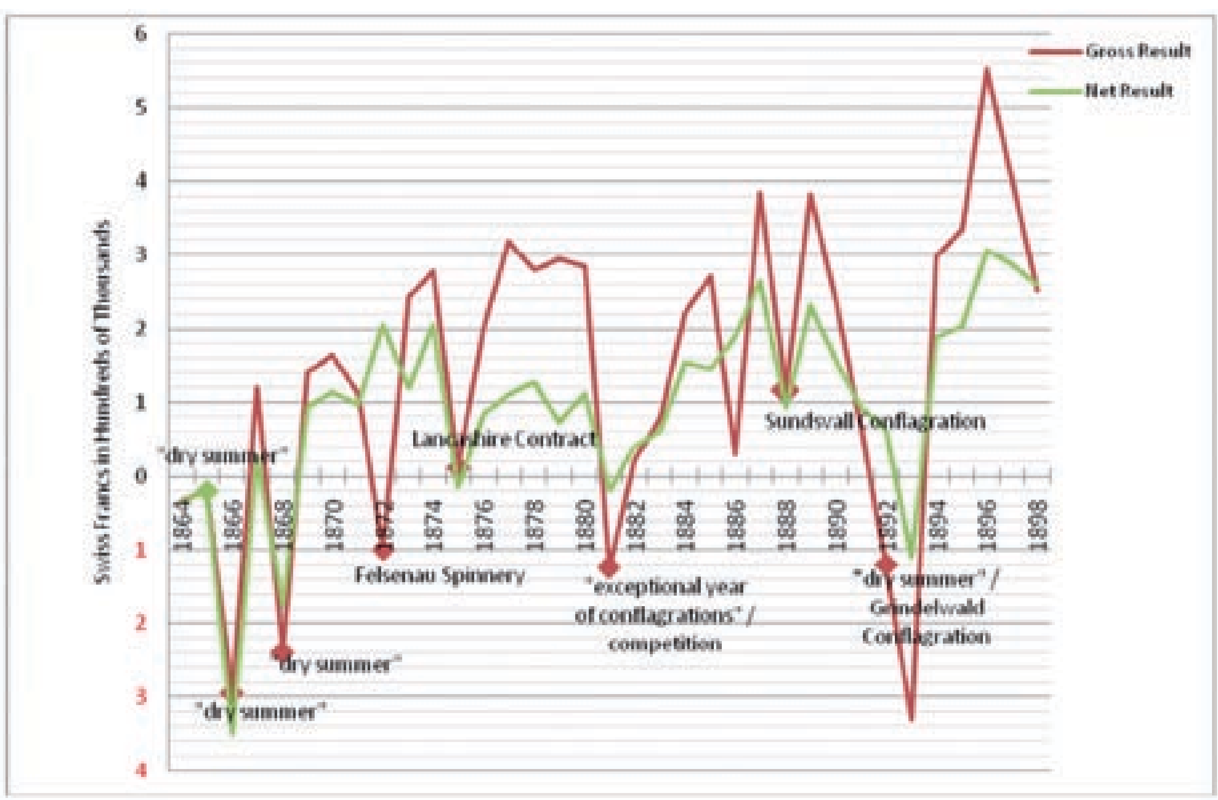

Figure 2 SRC Fire Branch: Annual Gross and Net Results, 1864-1898 (unadjusted values).

with the weather charts two distinct patterns of loss, each with its respective post-disaster risk management, emerge. On the one hand there were years such as 1865 or 1868 (see figure 2) where "unusual" or "anomalous" climatic conditions were mentioned as the cause for an accumulation of fire disasters in no further specified countries of Europe. In these instances, catastrophic loss refers to the macro-distribution of risks, that is, to a large number of exposed units located in different countries throughout Europe. After such losses, SRC sources never mention measures that were introduced to mitigate such risk. On the other hand, there were years such as 1866 (Bragernes, Norway) or 1888 (Sundsvall, Sweden), where SRC incurred high loss from specific events. In these instances, SRC dealt with a different type of catastrophic loss which affected the company's micro-distribution of risks in one location (town or city). In these focused cases of catastrophic loss the climatic factor was thus confined to a local warm/dry anomaly, rather than affecting several countries at a time. However, local weather extremes were no less devastating from a general socio-economic as well as from a company-specific point of view. In those cases where the micro-distribution of exposed units in a city or town was affected, different but clear-cut measures to mitigate risk (i.e. cancelling contracts, raising premiums) were either taken or discussed with other involved reinsurance companies by written correspondence.

In 1888 SRC was involved in the conflagrations of Sundsvall and Umeå, two Swedish towns which burned down simultaneously on June 25, 1888. SRC Sources, climate reconstructions and a study by Lars Nilsson indicate a "local" warm/dry anomaly spanning across Sweden, which caused the traditional wood-built cities as well as the country's abundant forests to burn for several days in June 1888. SRC had reinsured three of the four Swedish fire insurers involved in the conflagration and incurred heavy losses. The exceptionally well documented conflagration allows for a meticulous reconstruction of the events affecting SRC. What is more, the recorded post-disaster correspondence between the director of SRC and his colleague, the director of the German Gladbach Re, illustrates a process of lobby-group formation among reinsurers which ultimately led to the rebuilding of wooden Sundsvall in stone.

From the study of this and further correspondence (concerning the aftermath of the earthquake and fire of San Francisco in 1906), the conclusion lies near that insurance theory's concept of "objective risk" is relative insofar as the definition of risk is re-negotiated and shaped between reinsurers and insurers after such catastrophic loss. From the connection of this conclusion with the Sundsvall-sources a five-level risk model evolved. Each level represents one of the stakeholders within the insurance system (starting with the insured unit followed by the insured, insurers, reinsurers and retrocessionaries respectively) and allows visualizing the formation of lobby-groups and risk communication on and across levels (see figure 3).

Returning to the connection of fire and its climatic context mentioned above, one may hypothesize further that fire is ultimately as much a "natural" hazard as storms and floods and that an exclusive focus on the trigger of fires (i.e. "human-made" or "natural") falls short of an accurate categorization. The basis this hypothesis is silhouetted against is the common understanding that fire is an element under human control and that most fires occurring in the built environment are therefore "human-made". Similarly, fires in the environment, uninhabited by humans and without humans as igniters are considered "natural fires". The human-nature divide is deeply ingrained in western thinking. In the case of insurance it is mirrored in the distinction between fire in the human realm, which is perceived as a "conventional risk" (typically thought of as affecting one building only) and fires in nature (forest and bush fires) which are, however, still not considered "natural hazards". For contemporaries this might make sense at first glance, since fire has virtually been banished from twentieth and twenty-first century cities. But, has it really? With growing populations and urban sprawl to the fringes where the "natural" and the built environments meet, fire as a threat for human habitat has returned; in particular, where such habitat consists of the same combustible material as the surrounding "nature". Hence, it seems called for to abandon a trigger-focused approach to fire, in other words, not to stop at the spark from the steam boat's chimney (Sundsvall 1888) or Mrs. O' Leary's cow (Chicago 1871) as causes for fire but to look further for the underlying preconditions that enable the spark to become a large-scale conflagration.

The connection between the (re-)insurance industry and climate impact or variability may seem a little unusual from a business history point of view. However, in the recent debate about global climate change and the challenges it poses to risk management, the economist Nicholas Stern and the sociologist Anthony Giddens have stressed the importance of the insurance sector and the role it could play concerning mitigation and adaptation strategies to climate change. While Stern affirmatively suggests that "insurance provides another important mechanism through which market signals can drive adaptation", and that "Insurance has a long history of driving risk management through pricing risk, providing incentives to reduce risk, and imposing risk-related terms on policies", Giddens apprehensively cautions that withdrawal from risky insurance markets cannot be a solution, but that innovative ways of insuring natural catastrophe risks in particular must be thought of. Both views may provide an impulse for business historians in general and insurance historians in particular to reach across boundaries and increase investigation into the human-environment interface.
For quite a while before Stern and Giddens, there have been voices – or rather one voice – in business history calling for the discipline's "greening" or for an "Ecocultural History of Business". Environmental historians, while taking up the insurance industry as a field of study , on

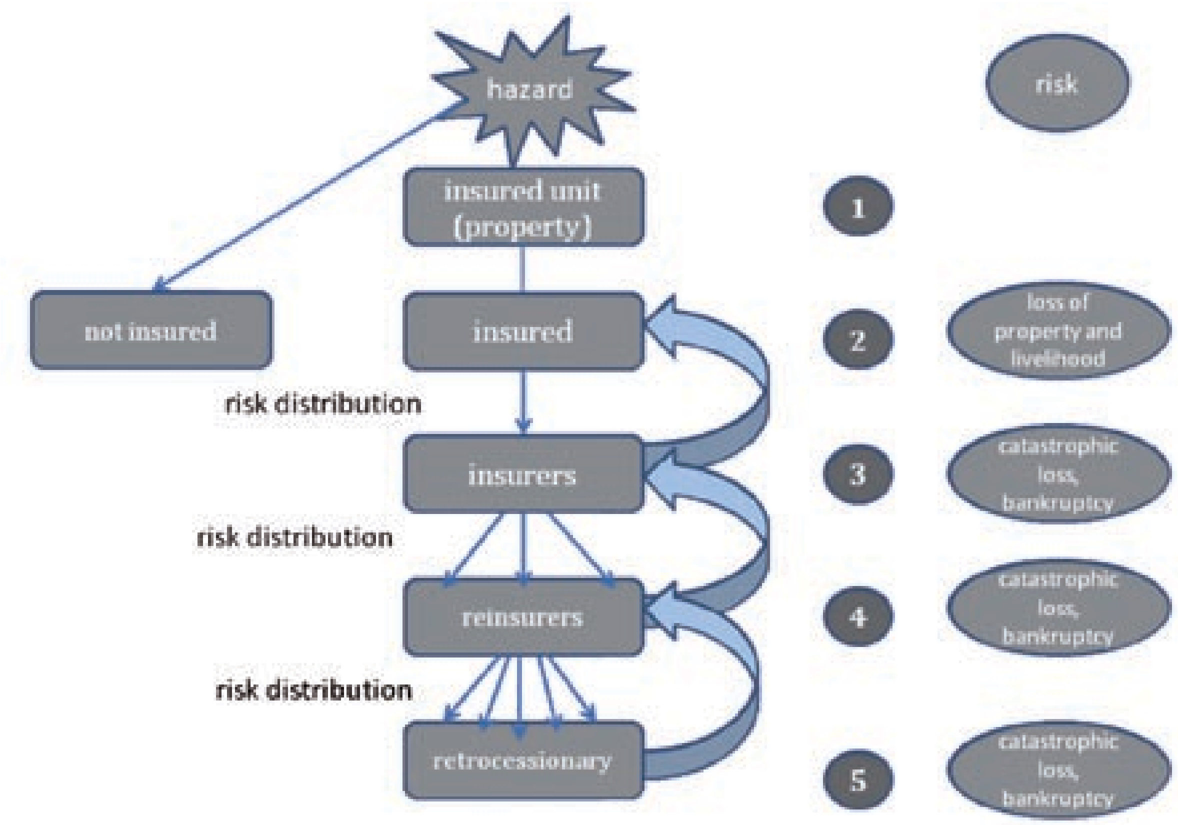

Figure 3 The five-level risk model

the whole seem not (yet?) to have responded to Meisner Rosen's call for a close cooperation between business and environmental historians. Hopes for a convergence of the two research fields do not have to be abandoned, however, since the German "Historikertag" (after all the largest humanities congress of Europe) in 2008 featured the panel "'Nature Incorporated'. Business History and Environmental Change".
Thus, I would like to take up Meisner Rosen's initiative and suggest opening up the field of environmental business history as a common ground for business as well as environmental historians to explore the interaction of their respective fields of research. Obviously, there are businesses which are more plausibly researched in this context than others. This may in particular be true for the emerging sustainability sector which has only started emerging since the beginning of the environmental movement in the 1960s. However, any history of businesses depending on the accessibility and availability of natural resources will sooner or later happen upon a present whose confidence in exponential economic growth has been unsettled by the realization of the finiteness of such resources. A changed perspective of the present and future will ask different questions to the past.
Connecting back to Stern and Giddens, an environmental business history may have vital insights to add to the currently debated, mostly economic strategies of adaptation to global change. Points of convergence could be corporate governance, consumer responsibility, business networks, risk management etc. A concept which seems highly adaptable for business as well as environmental historians in the context of the global change debate is the "Great Acceleration" (Will Steffen, Paul Crutzen, John McNeill), also known as the "1950s Syndrome" (Christian Pfister). The concept refers to the exponential rise in carbon dioxide (and other greenhouse gas) output, as well as to the take-off of the era of fossil fuel. Whole business sectors and with them national economies have been built on the assumed infinite availability of fossil energies. Socio-economic structures and path dependencies have evolved, which are radically being called into question by prognoses on "peak oil" as well as by the implications of human-induced climate change. With environmental and climatic problems thus becoming global issues involving all levels of human life (i.e. politics, economics, the organization of societies) it makes sense to look at both, business as well as environmental history, from the integrative perspective of an environmental business history.

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The results of this research are soon to be published:
Rohland, Eleoora, Sharing the Risk. Fire, Climate and Disaster: Swiss Re 1864-1906 (forthcoming in June 2010).

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Introducing a new database:
The Banque de France's weekly balance sheets, 1840-1998

In 2001, Prof. Olivier Feiertag (University of Rouen) and Prof. Michel Margairaz (University Paris 1 Sorbonne) launched the ambitious project to collect and publish, with the support of the Banque de France (the French central bank), all statistical material relevant for historians and economists from the Banque's archives. Under the responsibility of the scientific committee of the Banque de France's Mission historique that they headed, they created a group labelled "Annhis" promoting several projects: revenues data, monetary series, employees directories, balance sheet series… In order to achieve this last project, they hired Agnes Bottex and I, by then both PhD students, to type, correct and establish the series based upon the published weekly balance sheets of the Banque de France.

Given the extension of these series, over 150 years and over 200 different items, the charge to conceive and correct the database befell on me and I completed typing and correcting data in Autumn 2007. An overcharged agenda and the impossibility to obtain a leave to complete this project further postponed publication, while the choice to circulate it in an easily readable and downloadable file format was endorsed by the Banque de France's Mission Historique only in Spring 2009. Now completed, but still needing some improvements – namely precisions upon the different assets and liabilities categories and a general introduction such as this text – the database will be presented for electronic publication Autumn 2010.

The following paper, after a general preview, will proceed in two steps, first addressing the origins and motivations for the balance sheets publication; second summarizing the essential traits of the database and will conclude by evoking one of the possible specific uses of the database: zooming in.

A general preview

At its inception, the idea was to build a three-level database, comprising the detailed original items, aggregated series offering 150 years of continuity, and total assets and liabilities series. A first stage was completed and published in 2003 on the Banque de France's website for the 1898-1974 period . But further series building showed that the original project, i.e. to combine sometimes very short-lived original series and permanent aggregated series could not be performed without strong distortions at least from a historical point of view. This does not mean that any aggregation would not be historically or economically grounded, rather that aggregation has to be based upon explicit choices and methodologies, related to and explained by the user's needs. In fact, the only aggregated series – under some reservations – that could be extended over the full time-period were the total assets and total liabilities series.

The reason for this shortfall is twofold. First, the very role of the Banque de France evolved considerably over time, as did its statute, from that of a privileged publicly incorporated bank, enjoying a local and later a national monopole over banknotes emission, to that of a modern state-owned central bank, responsible for macroeconomic tasks and permanent supervision over the payment system and second-rank financial actors. Created in 1800 through an alliance between private bankers and the new strongman of France – Napoléon Bonaparte – the Banque de France's monopole was by then limited to Paris and combined the interests of the state (facilitating transfers of tax revenues and public expenses), of the private bankers (as an exclusive "club" offering access to liquidity) and of the general (merchant) public by pushing down the rate of interest through the ceiling of its discount rate at the "normal" level of 4%. Second, recurring economic and political crises, in 1825, 1839, 1839, 1846… forced the Banque, directly or under heavy government pressure to extend its operations and accept to play a countercyclical role. For example, it consolidated short-term credits against mortgage collaterals in 1848/49 or accepted to suspend statutory rules such as the payment of the stamp-tax on bills of exchange by the bearer before discounting them (1830 and 1848). As a consequence, the very structure of its balance-sheet changed, in response to its evolving role, to government pressure and to the progress in accounting techniques. Examples include items such as credits collateralized by railways bonds (1857), moratorium bills of exchange (1870, 1914), provisional credits to the state for the payment of the expenses of the occupation German troops (1940) or credit extended to or by the IMF or the EPU (European Payment Union).

The balance sheet then came to reflect less and less actual commercial operations and more and more interventions on the currency, on the interbank lending market and towards the state. If such shifts pose a problem of time consistency, they also illustrate the emergence of the "art of central banking" and the changing conditions and instruments of monetary policies.

The origins and motivations for the publication of the Banque de France's balance sheets

The publicity of the Banque de France's balance sheets was imposed from its inception, as indicated by the "primitive statutes" dated February 13th 1800, which stated that during the shareholders annual meeting should be presented the "summarized account of the previous year operations" (art. 14). The "fundamental statutes" (which more or less governed the Banque de France until 1974) of 1808 entrusted the General Council (the Board) with the establishment of the "yearly account" of the Banque's operations (art. 39) which had to be adopted by the assembled shareholders. The published evidence show simplified but clear balance sheets, reflecting common banking and financial practices that can be traced back at least to the Caisse d'escompte, the precedent issuing bank incorporated in 1776 and forced to bankrupt in 1791.

But even made public, these yearly balance sheets were not readily available nor necessarily faithful to the annual operations (window dressing). It was not until the law of 30 June 1840 extending its charter that for the first time the Banque was compelled to hand over to the Finance Minister an "average situation of the Banque" (art. 5) to be published on a quarterly basis. These two terms are very important. "Average" seems to remove the possibility of window dressing, as the published document should reflect not only the most recent (and best controlled) entries, but rather the ordinary course of its operations. "Situations" refers to a somewhat simplified version of the balance sheet, most notably considering the fixed assets and the detail of the reserves. In the course of time, this term of "situation" remained, even if the idea of an averaging changed with the increasing of the publication frequency.

This increase in frequency appears as a direct consequence of the inconvertibility (in precious metals) of the Banque's banknotes implemented by the decree of 15 March 1848, art. 6. In order to support the trust in banknotes and demonstrate the commitment of the Banque not to issue banknotes in excess of its metallic reserve ratio,

Period	Periodicity	Gaps
30 June 1840 – 15 March 1848	Quarterly	None
15 March 1848 – 11 March 1852	Weekly	None
11 March 1852 – 9 June 1864	Monthly	None
9 June 1864 – 31/12/1998	Weekly	Seven

Table 1 – Periodicity and gaps of the BDF's "situations" publication

it was compelled to publish a "situation" every week, i.e. a simplified balance sheet, as long as banknotes remained unredeemable. The weekly "situation", relative to the previous week's operations, was to be published in the Moniteur, the daily paper publishing all governmental and legislative news, decrees and laws. Also, when banknotes were made redeemable again by the decree of 11 March 1852 (art. 5), the Banque was legally entitled to resume its quarterly publication.

Nevertheless, the General Council, during its 11 March 1852 meeting, decided for a monthly publication, the second Thursday of each month (except if it happened on one of the rare compulsory bank holiday, such as Christmas, New Year's Day and Easter). Pillet-Will, member of the General Council, justified this innovation by their concern in "giving satisfaction to the legitimate curiosity of the public". One explanation for this move is that the relationship between the Banque and the state was muddled by rumours regarding the financing of the Coup d'Etat that brought Napoleon Bonaparte (to become Napoleon III) to dictatorial power 2 December 1851 . By publishing monthly "situations", the Banque could prove its relative autonomy from the State unbalanced powers.

But soon afterwards, the Banque was faced with its most important challenge yet. As a consequence of the annexationist policy of Napoléon III, a new privileged issuing bank was incorporated in the continental French territory: the Banque de Savoie. Soon under the Pereire brothers thumb, this bank challenged the de facto monopoly of the Banque de France established 1848 , promoting aggressive rate-cuts and extensive banknotes circulation to fund industrial and public utilities investments. The quagmire that ensued forced the Banque de France to justify, directly or through straw writers, its policy and prove that it was not managed in the sole interest of its larger shareholders – the 200 ones that could access the shareholders annual meeting. Transparency and accountability became an asset in such a context, the more so since the Pereire's businesses were not that transparent, as their over-investments in various speculative schemes would soon prove.

Also, the 9 June 1864, the General Council decided for a weekly "situation" publication, fixed on Thursdays by another act of the Council as of 1 June 1865. But contrary to the past, the published situation would refer to the week

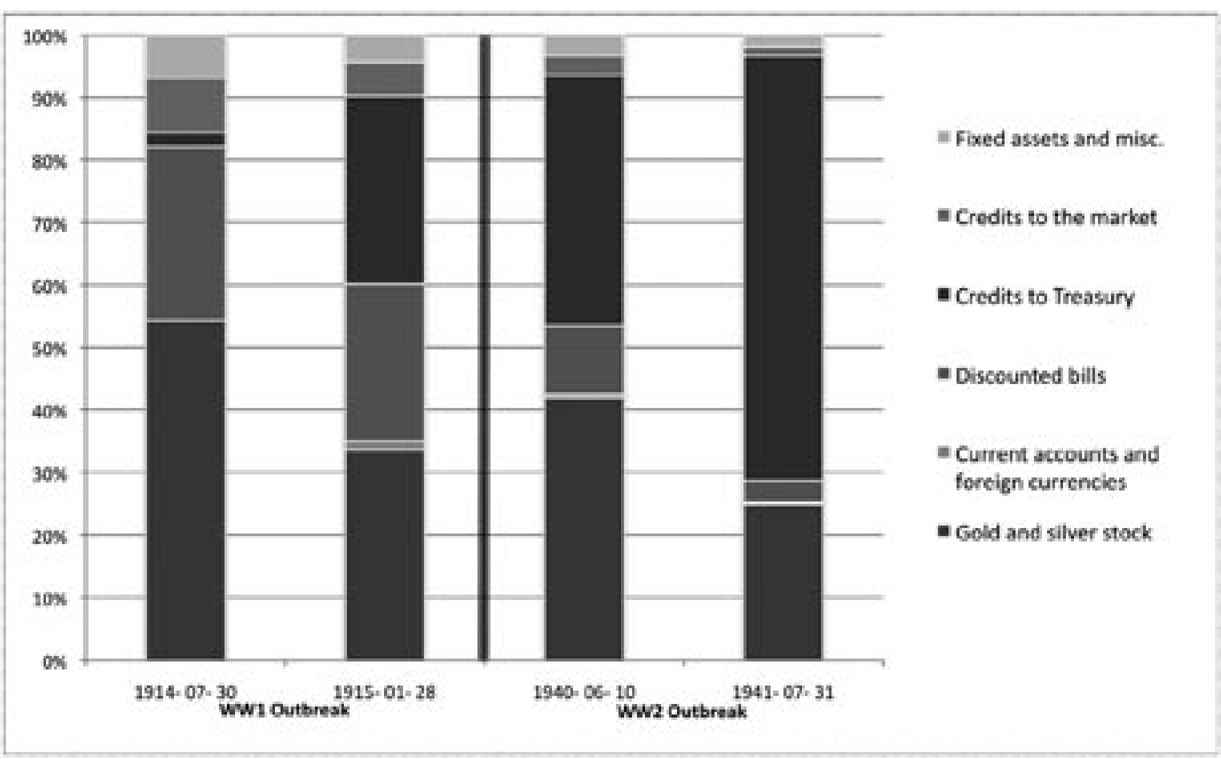
Period	Cause	Alternative sources available
15 September 1870 – 6 July 1871	War	Some items available, especially after cease-fire agreed on (January 1871).
6 August 1914 – 28 January 1915	War	For main items, but comparison made difficult because of occupied areas.
10 June 1940 – 31 July 1941	War	Perhaps for a very few items, but even then, figures might be not reliable.
13 July 1944 – 28 December 1944	War	Note that a situation was prepared – its is not clear whether it was published – 30 November 1944.
31 May 1945 – 2 August 1945	Monetary reform	Likely archival evidence.
29 January 1948 – 4 March 1948	Monetary reform	Likely archival evidence.
23 May 1968	Social Movement	One week gap, likely archival evidence.

Table 2 – Interruptions in the BDF's situations publications

closed the previous Wednesday evening, and not to the previous week. Another difference was that the "situation" were from then on decided and conceived by the Banque – even if the Finance Minister kept a wary eye on it, to block any information that could backfire – which appeared as both the controller and the controlled... In fact, it was not until the "Decree modifying the texts governing the administrative management of the Banque and deciding the principles for establishing the balance sheet", 14 December 1936, that such principles became a public rather than a Banque's matter. The Decree, Part VII ("Of the periodical situations and balance"), stated that the Banque had to deliver every week "an excerpt of its situation" to the Finance Minister, to be published in the Journal Officiel – the daily paper that had succeeded the Moniteur in the mean time.

This decree actually embodied the changing nature of the Banque de France. Contrary to some proposals, the Front Populaire's government did not nationalize the Banque de France, i.e. it did not buy or confiscated its capital. But the reform imposed made the Banque the state's arm in monetary matters, displacing the General Council members who were bankers and rich capitalists to replace them by representatives of the "general economic interests of the nation", i.e. a few higher ranking civil servants, heads of state financial agencies, and delegates from the employers and employees unions. This reform occurred a few weeks only after the franc, abandoning its gold-peg parity, was devaluated. To ensure that the Banque would provide the state and the public with adequate information, and to reassure the public trust into the national money and banknotes, it is then not surprising that the art. 26 of the decree stated that "This weekly statement will make clear the amount of the metallic reserve and of liabilities at view as well as the coverage percentage resulting from these two figures. It will also state in a detailed manner the asset entries from which originated the liabilities at view and that guarantee them."

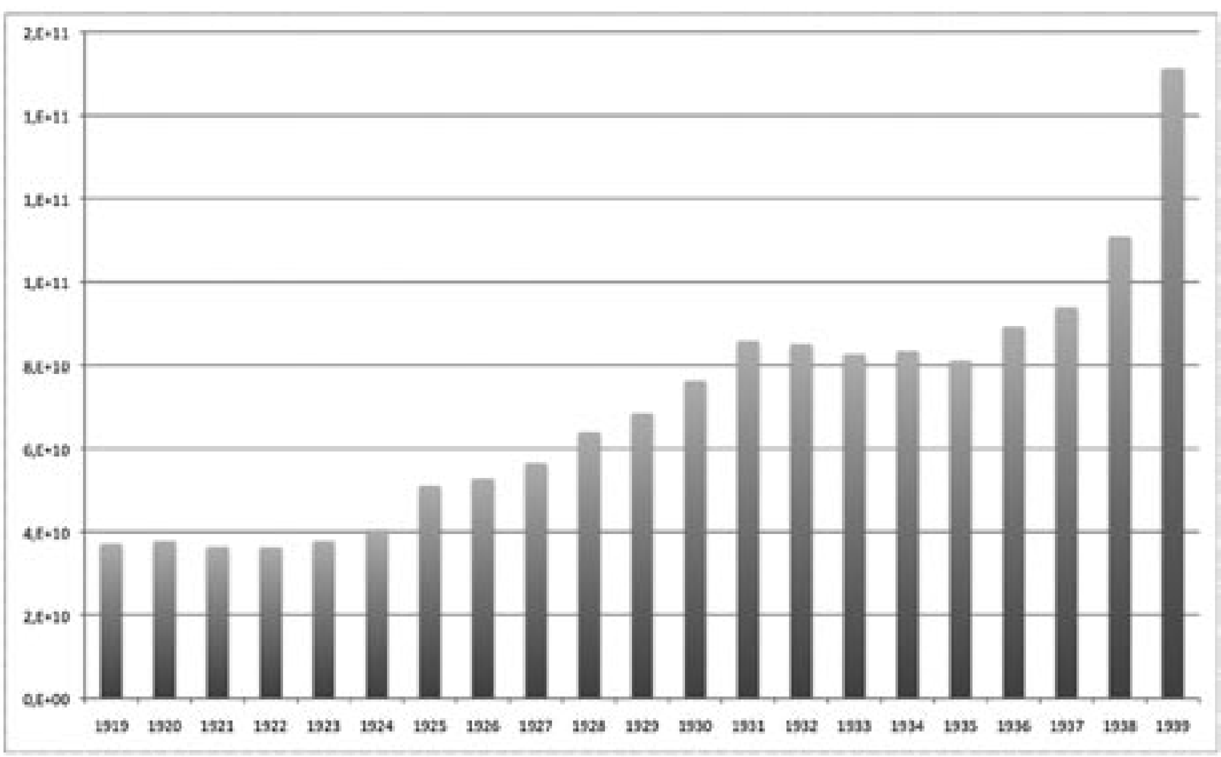
From a general point of view, two main differences spring up between the 1848 and 1936 decrees. First, the "situation" is not a simplified version of the balance sheet anymore, but becomes the actual picture of the Banque's situation at any



Graph 1 – Structural breaks in the BDF's balance sheet immediately before and after interruption: WW1 and WW2 moment – of which the simplified picture is given by the excerpt. Second, the terms of the decree state clearly that the Finance Minister have no choice but to publish the “situation”: they are only the canal through which that publication occurs, with the benefit that they are informed at least 12 hours (Thursday evening) before the public (Friday morning).

In that respect, the choice of Thursday at the publishing date is meaningful. Indeed, it gave the opportunity to the public, given the technical constraints of printed publication, to update its information as soon as Friday, at the week closing. If the bank had chosen to publish the Friday evening situation, it would not have been available before Monday morning to most Frenchmen. But on the other hand, because many merchants were balancing their accounts on Fridays, and had for that purpose remitted their credit bills to the Banque for its cashing service, a large proportion of these cashing operations, and their consequences on the Banque’s balance sheet, remained hidden from week to week. Indeed, if the Paris central office’s Thursday operations were part of the “situation”, it was not necessarily the case of the provincial branches, that became more and more numerous from 1836 to 1927, because of the delays in the transmission of the local balances.

After 1936, and even more after the formal nationalization of 2 December 1945, he Banque de France’s “situation” obeyed the rule of the state and the accelerating evolution of its monetary control instruments following the return to full convertibility (1959), the 1969 devaluation and the 1971-1976 transition to a floating exchange rate mechanism, albeit complicated by the European attempts to link their currencies. The most important steps in that respect, very visible in the entries and the very organization (hierarchical structure) of the balance sheet, were the discarding of the key role once devoted to metallic reserve, the growing share of the European currency agreements until the integration of the Banque de France into the Central Banks Europeans System (CBES) and, in parallel, the progressive disdain of the population for this weekly piece of information epitomized by its progressive vanishing from



Graph 2: The BDF’s banknotes circulation, 1920-1939 (end of year), in FF

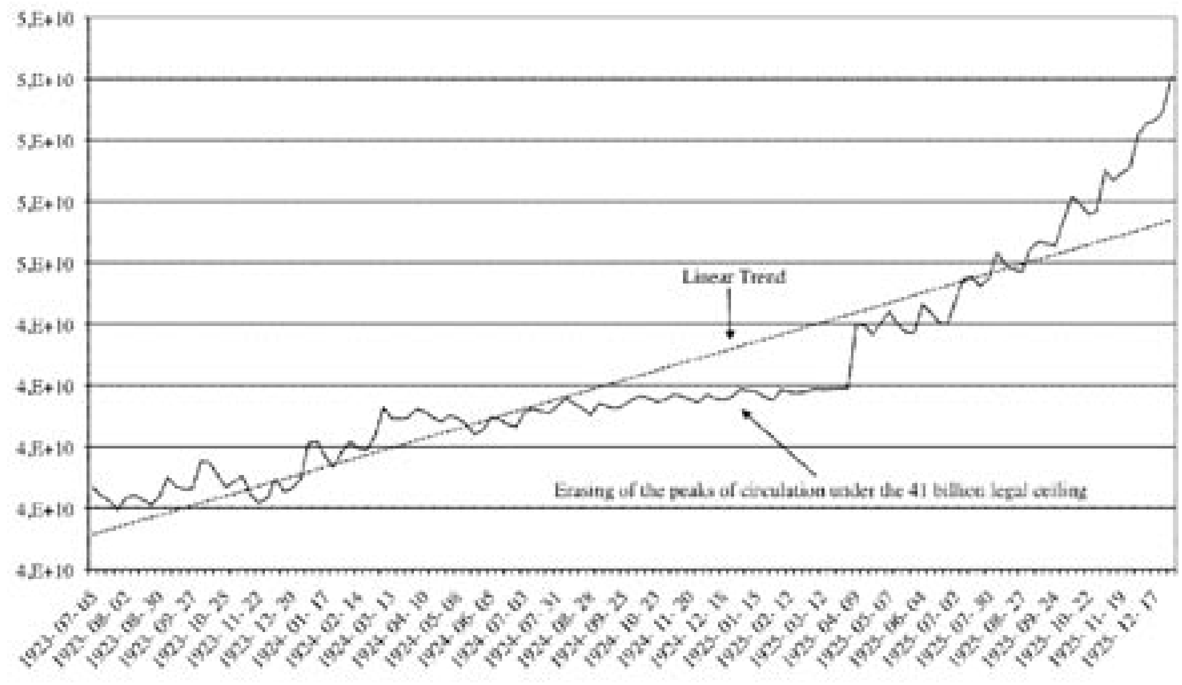
the main newspapers during the 1980s and 1990s. Last, our database ends in 1998, when the franc ceased to be an international currency, remaining only a mean of payments for a few more years before being entirely displaced by the euro, in July 2002.

The essential traits of the Banque de France's "situation" database

At first glance, the database is a table crossing dates and entries. It is completed by two pieces of information: a detailed account of the variations (and their dates) in the entries, so as to reduce the total number of entries when the change in the name of an entry does not affect its content; a note when one or several values for one given date are not ascertained (which is visible when the total assets and liabilities differ). But, as explained supra, the periodicity of the series is not constant, as visible in the following table.

A 150 years statistical study based upon the database must then either use interpolated values for older periods, or (and) reduced periodicity for more recent periods. But one can state that a weekly study of over 150 years would not yield much more results than a monthly or yearly series: higher periodicity is the most useful for shorter term studies.

A second problem arises from the gaps (Table 2). They all are but one related to wars and the monetary reforms they necessitated. Indeed, France has been invaded three times in one woman's lifetime: 1870, 1914 and 1940. Each time invasion disrupted information networks or even put to a partial or complete halt the accounting operations of the Banque de France. One additional problem is that because they are so disruptive, wars provoke very large shifts in assets and liabilities amounts and structures, as is visible in Graph 1, shifts that are made difficult to trace since "situations" are not available. One solution would be to complete the database by other series built from archival records, less systematic perhaps, but offering some insight on these changes, instead of brutal steps. But war disruptions have also been used by the government and the monetary authorities for their own purpose: for example, the 1948 banknotes exchange led to a suspension of publication that had more political purposes – the issue of the gold backing of banknotes – than technical ones. Last, wars make figures less comparable, since



Graph 3: A weekly zoom on the BDF's balance sheet 1924 manipulation: banknotes circulation in FF

invaded areas are not consolidated in the total amounts any more, creating structural biases.
The third problem arises from the unit used in this table: the French franc. Indeed, three different phenomenon impact this unit – and a fourth one will be briefly evoked. First, the metallic or external value of the franc evolved over time: legally stable from 1803 to 1928, it changed in reality in three occasions: when France shifted from bimetallism to limping bimetallism and then monometallism ; when France suspended convertibility in 1914 and maintained its legal structure even after the exchange rates registered over 80% devaluation; when the re-evaluation process was stopped in December 1926, waiting for a new legal metallic definition of the franc, which intervened in June 1928. This metallic value did not endure since, as we have seen, it was officially reduced and actually abandoned in September 1936. The restoration of 1959 was only partial since the Franc was not made convertible in gold but only in other convertible currencies. Last, the external value of the franc started fluctuating with the Bretton Woods demise, but had already been devalued in December 1969. Since the franc has steadily lost its value against more stable currencies (Deutschmark or Swiss franc) but kept more or less at par with the British pound or the U.S. dollar, while appreciating against the Italian lira.
Second, the unit itself has been subject to a hundredfold reduction, through the reform that implemented the “nouveau franc” (new franc) in 1960, visible in the 31 December 1959 and 7 January 1960 situations. Of course, such a reduction in the unit of value proceeds from the high inflation that started 1914 and which is the third bias affecting our database unit. Indeed, the database is strictly nominal in value, and it is not desirable to try to remedy this for several reasons: there exists no weekly price index; price variations are highly affected by non-monetary effects (price control and repression); price indexes are subject to high political and social biases (the “index policy” during the 1953-1957 period); the use of deflators would create strong statistical interferences affecting the quality of the data.
A fourth point worth mentioning, but very complex to assess, stems from the monetization dynamics of the country, i.e. the process through which French people were more and more led to think and express their economic relationships in francs, rather than with staples or local units of work, surface and volume. This process started long before the beginning of our database, but neared its asymptote somewhere between 1914 and 1939.

One of the possible uses of the database: zooming in

A simple use of the database is that it enables us to “zoom in” on one particular period. To make this clear, graph 2 sketches the amount of circulating banknotes at year’s end during the 1920s-1930s, on a yearly basis. Graph 3 proposes a weekly zoom from July 1923 to December 1925, showing evidence of the manipulation of figures realized by the Banque de France to avoid overtaking the 41 billion francs maximum set by law.
Of course, there are many other possible uses of this data, for example it offers real opportunity to study in detail seasonality, economic peak, coverage and collateral emission policy of the Banque, etc. Moreover, its unique 150 years range allows comparison over time. Only researchers, with their questions, skills and methodologies, will answer this question of the possible uses of such a database.

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EABH Symposium for
New Researchers in Banking and Financial History

At the 2008 meeting of the Academic Advisory Committee, it was agreed that a symposium for new researchers (defined as within five years of completion of a PhD) should be organised. Myself and Rudolf Frei, of Swiss Re were delegated to organise this. Rudi offered the support of Swiss Re and the use of their beautiful corporate training facilities in Zurich as the location. Suitable dates were agreed for March 17-18 2010, and a call for papers was issued. Fourteen papers were submitted and a selection panel of myself and Niels-Viggo Hauteur of Swiss Re. chose nine papers to be presented at the symposium. In the end, there were four sessions of two papers each (one presenter had to withdraw for medical reasons). The model chosen was designed to allow significant time for the authors to present the work, and for the paper to be discussed in detail and at some length by the audience. These discussions were characterised as informed, critical and supportive. All the papers were of a very high standard and confirmed my view that our discipline is very good hands. As had been agreed at the AAC meeting of 2009, two of the papers were selected and invited to join the programme of the Brussels conference.

After two days of intense but very enjoyable discussions, all the participants – the paper givers, session chairs and commentators – declared the meeting a resounding success. Additional intellectual input from Professors Peter Hertner, Leonardo Caruana de las Cagigas and Stefano Battilossi added significantly to the quality of feedback and discussion of the papers. Swiss Re's excellent and very generous hospitality was much appreciated; the location contributed much to the success of the event, as did Marnie Giuranna's usual efficient and highly valued administrative support.

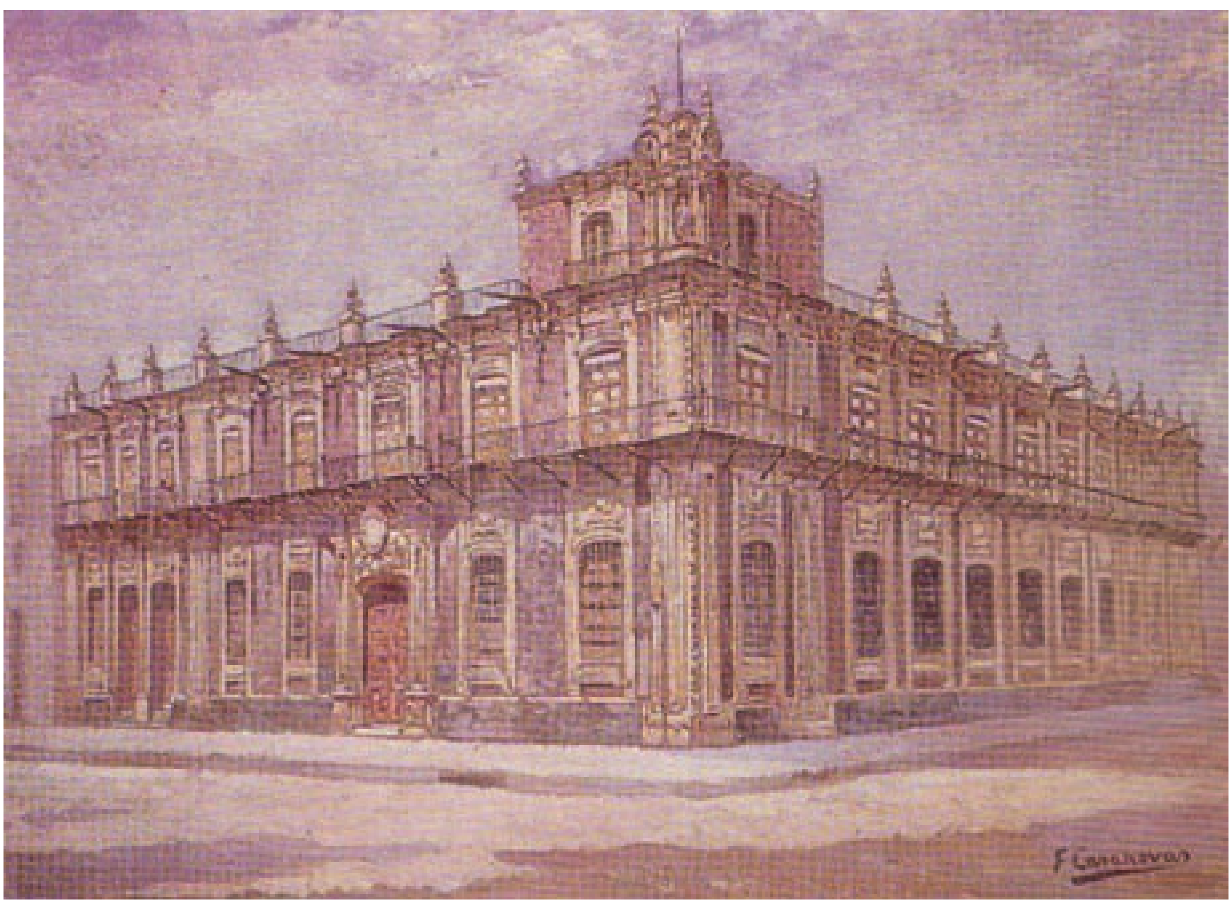
This was a very successful event and a very direct and valuable means by which the EABH can support the discipline of financial and banking history. I would strongly urge the AAC to continue to support the organisation of this symposium on a biennial basis.

Duncan Ross
University of Glasgow

Mexican bank archives:
A note for financial historians
(January 2009)

Business history is an increasingly rich and varied terrain for research in Latin America. In the present essay I present an overview of key aspects of banking history in the region, with special emphasis on sources in Argentina and Mexico. The richness of archives in both countries vividly illustrates the great potential for future studies on the history of individual banks as well as the evolution of banking systems, the relation between banking firms and industrial and agricultural development, the role of banks in government finance, the special character of the historical trajectories of central banks, the rise and relative decline of state development banks and the complex history of foreign banks in Latin America from the nineteenth century to the present.

The advance of business history in Latin America has been closely linked to a growing awareness of the usefulness of studying the history of enterprise to understand many facets not only of economic history but also of social and political history. Nonetheless, it should be noted that the historical literature on banks in the diverse nations of Latin America increased very slowly from the late 1960s until the 1990s, a trend which has not yet been explained. In contrast, there has been a veritable boom in research and publications in the last 15 years. The reasons for this recent dynamism in the field has much to do with the identification of Latin American banking history as an understudied field of both economic and business history with notable potential, and has attracted both scholars in the



Palacio de los Condes de San Mateo de Valparaiso region as well as a score of researchers in the United States, Great Britain and Spain who are interested in specific subjects of banking and financial history. Particular attention has been devoted in published studies to Argentina, Brazil and Mexico but a significant number of studies on the history of banking in Colombia and Peru also have been produced in the last twenty years, along with key monographs on Cuba, Peru and Uruguay, among others.

An important factor in stimulating studies on the banking and financial histories of the Latin American nations has been the increasing awareness of the richness of key bank archives, a number of which are already well conserved and/or organized. In recent years attention has been devoted by financial historians and by a few banks to the conservation, organization and classification of historical banking archives in several countries, but the challenges are still great. Among the major obstacles is the lack of awareness of bank directors and high government functionaries of the cultural, historical and, indeed monetary value of these large documentary repositories. Specialists in evaluation of the market value of archival and documentary holdings are rarely consulted by bank directors, despite the fact that they would find that their paper holdings are actually worth much gold ! Nonetheless, many archive and or collections of bank documents have been destroyed in the past because of ignorance. The purpose of this essay is to outline the most important sources (particularly archival) for the history of banking and finance in Argentina and Mexico in the nineteenth and twentieth centuries, with a set of complementary comments on sources for other countries of the Latin American region..…..

Banking history and archives in Mexico

Of the larger Latin American nations, Mexico was relatively slow in the development of banks. The Bank of London, Mexico and South America, which established its main office in the nation’s capital in 1864, soon opened branches in five provincial capitals, mainly in regions with silver mines. This first bank introduced bank notes and allowed circles of Mexican merchants and property owners to become familiar with modern banking practice. But it was not until the 1880s that a true banking system began to take root. The largest institution was the Banco Nacional de México (later known as Banamex) was founded in 1884 by a coalition of French bankers and investors who allied

First employees of Banco Nacional de México (1884) with a large group of merchants and merchant bankers in Mexico, mostly of Spanish and German origin. This institution (with a nominal capital of 20 million silver pesos or some 16 million dollars) immediately became banker to the federal government, handled its accounts and issued much of its internal and external debt. At the same time, Banamex performed as a commercial bank that soon set up over twenty branches throughout the country, creating the first broad-scale branch bank network in the nation.

The Banamex and the Banco de Londres y México remained the two largest financial firms until the outbreak of the Mexican revolution (1910-1920). But from the 1880s there began to emerge a fairly large number of regional commercial banks in most provincial capitals. By 1910 there were some twenty-five regional banks as well as five investment banks and two small mortgage institutions. Virtually all placed their stock in formal and informal capital markets and most prospered until the crisis of 1907, from which they recovered quit quickly.

The first insurgent movements of the Mexican revolution, which began in late 1910, did not immediately threaten the banks since conflict was initially most intense in rural areas. But as the conflict broadened and as the government of Victoriano Huerta (1913-1914) faced increased opposition, financial markets weakened. The Mexican stock market soon closed and the government suspended payments on the foreign debt. Following the defeat of the Huerta administration in February, 1914, there was an all-out struggle between the revolutionary forces of Pancho Villa and Emiliano Zapata the constitutional army led by Venustiano Carranza that pused the country into full-fledged civil war. The immoderate issue by all the rival armies led swiftly to a process of hyperinflation and the virtual collapse of the banking system. Most banks were taken over by the administration of Carranza in late 1915 and placed under the control of the new office called the Comisión Monetaria, which nationalized their gold reserves and put many of them into a process of liquidation that would take years. The whole process of financial reconstruction would take years. Some banks began operating normally but on a much reduced scale after 1920, but it was not until the establishment of the central bank, the Banco de México, in 1925 that it became clear that the government authorities were desirous of financial reconstruction on a significant scale. There followed the establishment of a number of development banks and regional commercial banks in the 1930s and by the 1950s, the Mexican banking system was contributing in a solid way to expansion of the economy.

For business and economic historians interested in the rise and fall of the early Mexican banking system as well as subsequent reconstruction, there are several excellent archival sources. To begin with, there is the magnificent historical archive of Banamex which was organized in 1989/90 as a result of a cooperative agreement


BANCO NACIONAL DE MEXICO
BANQUE NATIONALE DU MEXIQUE
BANCO NACIONAL DE MEXICO

Share of Banco Nacional de México

between the bank and the Colegio de México, the latter providing academic counsel and support. This archive provides excellent service to researchers who seek to do research there. Located in the annex to an eighteenth century palace in downtown Mexico City, the holding include extensive minutes of the executive board from the early 1880s, reports of annual stockholders's meetings (with detailed information on stock distribution for the first four decades), extensive bank correspondence with clients, accounting reports and much information on branch business. It also has a complete run of contracts of the public debt of the Mexican government taken or issued by the bank between 1884 and 1914.

Research in the Banamex archive has been essential to at least six doctoral theses on the history of Mexican banking and finance produced in the last fifteen years. These include the Stanford doctoral thesis (now a first-rate book) by Harvard Business School Professor, Noel Maurer, that of Emilio Zebadúa at Harvard University on Mexican finance in the 1920s and 1930s, the thesis on Porfirian finance by Thomas Pasananti defended at the University of Chicago, doctoral theses by Mónica Gómez and Luis Anaya at the Colegio de México and that of Leonor Ludlow at the Colegio de Michoacán on the origins of Mexican banking. Jointly these works have helped transform the formerly quite barren field of Mexican banking history which is now covered by a broad literature of detailed studies that span from 1860 to the 1980s.

Another rich but less explored source is the repository of documents known as “Antiguos bancos de emisión” which is at the Archivo General de Nación (AGN). Here are some 3,000 volumes of books and papers of fifteen Mexican banks that were taken over by the government during the revolution in 1916, including the leading banks in Oaxaca, Veracruz, Puebla, Zacatecas, Nuevo León, Chihuahua and so forth. Leonor Ludlow has produced a detailed study (published by the AGN) of the archival holdings of the Banco Mercantil de Veracruz which was an especially dynamic bank between the 1880s and 1914. In the same archive there are five hundred volumes of the Banco Minero de Chihuahua which was one of the most important banks in northern Mexico before the revolution. The founder of this bank was the entrepreneur and politician Enrique Creel; fortunately for historians the Creel papers have been conserved and recently donated to the private library of the Condumex/Carso historical foundation in Mexico City. At this same library can be found the personal archive of José Yves Limantour, minister and virtual czar of Mexican finance between 1892 and 1910; his papers are

Bank note of ten Pesos

of interest to economic historians for various reasons but especially because he was behind the key legislation of 1897 which set down the basis for the reorganization of the Mexican banking system in the early twentieth century.
While these old sources on the financial history Mexico are rich and accesible to researchers, there are more difficulties in exploring recent bank archives. In some cases there are important troves of documents but as yet largely unclassified: this is the case with the papers of Nacional Financiera, the government investment bank that has been active since 1934, deposited in the AGN. Similarly, in the case of the Banco de Comercio Exterior (Mexico's Ex/Im Bank) established in 1938, there is a large archive of documents in a warehouse in Mexico City but no professional archivist in charge and place for a researcher. No banking historian has worked with these papers. Private commercial banks in Mexico have no historical archives outside of the splendid one managed by Banamex. The Banco Serfin/Santander unfortunately has not conserved their historical records despite the fact that the bank is the direct descendant of the first banking institution set up in Mexico in the 1860s. There is no public information on the holdings of other private banks or of banks privatized in the 1990s.
On the other hand, a gleaming new light for business and bank historians in the dark is the newly organized historical archive of the Mexican central bank, the Banco de México. For decades there was virtually no access to the papers and historical records of this key and powerful institution, but in the last four years a major effort has been launched to save, conserve and classify its historical documents. A special new building is being planned and some twenty young archival specialists and historians have been hired to carry out conservation and classification tasks under the direction of a small but splendid supervisory staff. An important complement is the library which holds not only a large collection of economic and financial texts but also a series of non-bank archival sources which have been made available to historians in the last year: these include a large portion of the historical records of the Ferrocarril Nacional, one of the two largest railway companies in the country between 1882 and 1906, as well as also important holdings on the Mexican foreign debt between 1920 and 1946. In summary, both the Banco de México and the Banamex historical archives are leading the way in conservation of the main sources for the banking and financial history of Mexico and making them available to researchers.

Carlos Marichal
El Colegio de México

Latin American banking historians and archivists promote the formation of a regional association

At the invitation of the central bank of Mexico, the Banco de México and of the prestigious research institution, El Colegio de México, banking historians and archivists met for a colloquium on February 2, 2010 during which there were presented nine scholarly papers on the history of banking and finance in Latin America, Spain, Portugal and the United States. In the afternoon session, four papers were presented which provide an idea of the current state of banking and financial historical archives in the region. At the close of this meeting, the participants agreed to promote the creation of a new Association of Banking and Financial History of Latin America. The purpose of this professional group of banking historians and archivists is to help promote the creation and/or conservation of existing banking archives in Latin America, to promote studies on banking and financial history in the region and to broaden international ties to other groups of scholars and archivists. Evidently, among the first objectives of this group is to work to establish close relations with the European Association of Banking and Financial History, which is the outstanding organization in the field.

In the morning sessions, banking historians from various countries focused in a first session on the history of central banking. Dr. Pablo Martín Aceña from the Universidad de Alcalá de Henares in Spain, opened the colloquium with a review of banking crises in Spain over the last century in historical and contemporary perspective. The next speaker was Dr. Jaime Reis from the Universidad de Lisboa, with a talk titled "Bagehot for 'followers': How did the Portuguese lender of last resort do it during the post World War I crises?" Then there followed a presentation by Dr. Adolfo Meisel of the Banco de la República of Colombia with a historical survey of the role of the Colombian central bank from 1922 to the present. The session was closed by a talk by Dr. Eugene White of Rutgers University, titled "Lessons from the history of bank supervision in the United States".

The second session included scholarly presentations on the history of commercial banking in Argentina in the early twentieth century, Mexican regional banks at the end of the nineteenth century, Spanish banks in Cuba in the nineteenth century, the expansion of the Spanish global bank, BBVA, in Latin America in recent years, and a survey of Mexican commercial banks between 1940 and 1990.

The afternoon session was opened with a talk by the director of the Mexican National Archives, Dra. Aurora Gómez Galvarriato, who explained the importance of bank and financial sources available in historical archives in Mexico. There followed a talk by Carlos Zapata, director of the recently established historical archives of the Colombian central bank, which are now housed in a modern building and have facilities for researchers. Also of great interest was the lecture by Dr. Victor Arroyo, director of the historical archives of BBVA in Spain, who explained plans to stimulate branch banks in Latin America to establish their historical collections. Finally, Messrs. Victor Manuel Espinosa Mejía, and Luis Eduardo Cristiani explained the progress made in the establishment of the historical archive of the Banco de México, which will be housed in a new specially designed building in next June of 2010.

The colloquium demonstrated the considerable progress being made in historical archives of banks in Latin America, although there are a great number of future challenges as this task has just recently begun. The meeting also illustrated the excellent working relations between banking historians and archivists of Latin America, Spain, Portugal and the United States. It is to be hoped that this first effort can allow for closer ties with banking historians and archivists of additional countries such as Great Britain, France, Germany, Belgium, Holland, Switzerand, Italy and Canada where there are enormously rich banking archives which can contribute to the further and future development of the financial history of Latin America.

The members of the first committees of the Association of Latin American banking and financial history are listed below. We expect to have a pilot web site up and running by the end of spring, 2010.

Carlos Marichal
El Colegio de México

The first Academic Commission of the Association is composed of the following members:

Dr. Carlos Marichal	El Colegio de México
Dra. Gail Triner	Rutgers University
Dr. Gustavo del Angel	Banco de México
Dr. Pablo Aceña Martin	Universidad de Alcalá de Henares
Dr. Adolfo Meisel	Banco de la República de Colombia
Dr. Guy Pierre	Universidad de la Ciudad de México
Dr. Andrés Regalsky	Universidad Nacional de Tres de Febrero
Dr. Jaime Reis	Universidade de Lisboa
Dr. Eugene White	Rutgers University

The first Executive Commission of Bank archivists of the Association is composed of the following members:

Lic. Liliana Cova	Banco de la República Argentina
Lic. Leonardo Coitinho de Sá	Banco Central do Brasil
Lic. Carlos Zapata	Banco de la República de Colombia
Dr. Victor Arroyo	Archivo Histórico de BBVA (España)
Lic. Eduardo Luis Cristiani	Banco de México - Sierra
Ing. Victor Manuel Espinosa	Banco de México - Mejía

Beate Sturm
\`wat ich schuldich war\`
Privatkredit im frühneutzeitlichen Hannover 1550 – 1750

In this doctoral thesis, the Historian Beate Sturm analyzes the development, the legal framework and the administration structures of the credit business in early modern Hannover. In addition to presenting various social practices and phenomena the book discusses the conflicts caused by raising credits and the long term consequences of these conflicts. Furthermore the thesis gives answers to the following questions: Did additional linkages to the credit contract between creditors and debtors exist? Did the status of a person enhance the opportunities of receiving loans? What positive impacts did credits have on society? The study also reveals the structures that enabled private persons to bridge money shortages, to make long-term investments and it shows how loans served creditors as pension or other funds.
It is proven that raising loans with all its positive and negative effects was part of the social practice in early modern times in the German region of Hannover. Its modalities were a daily business like today.
The edition provides the first broad analysis of the social, mental, cultural and ordinary aspects in the history of private credit in the early modern history. It presents the wide cross-linkage in the private, secular and clerical dimensions of society and reveals that loans were an essential, necessary and likewise ambivalent part of daily life. The author concludes that the private credit business seemed to be a quite modern element of early modern society. The present publication is an important contribution to the field of banking and financial history.

Beate Sturm studied History, French, Pedagogy and Politics in Hannover and Rouen. She concluded the present dissertation at the University of Hannover (2002-2006) and joined afterwards a trainee program at the regional archive of Baden Wuertemberg and the Marburg Archive's School shortly afterwards. Ms. Sturm was an employee at the University of Göttingen as well as the Max Planck Society from 2008 to 2009. Now she's engaged as head of the main archive of the department of Kleve. Her main research fields are: Social, economic, cultural and mental history in the business history of the early modern 20th century, pedagogy of archiving, as well as issues regarding long-term archiving and digitization.

A bank with its head held high
Airdrie Savings Bank – A History

Airdrie Savings Bank celebrates 175 years of successful business. The Bank is the sole survivor of the UK's savings bank movement. Staying true to its moral and social roots for nearly two centuries, the Airdrie Savings Bank is one of the few banks that today remains totally independent, well-capitalised and sustainable. Moreover, it is able to hold its head up with integrity – because, for 175 years, the Airdrie Savings Bank has celebrated the triumph of thrift.

The Bank's 175th anniversary, together with the 200th anniversary of the savings bank movement, were marked on 23rd February at a reception held at the Scottish Parliament. At that reception, the Bank's President Mr Bob Boyle was delighted to announce the publication of a commemorative book: "Airdrie Savings Bank – A History." The book records the Bank's continued unerring focus on serving the community in which it is based, and for which it was founded to support, and gives some explanation to its remarkable stability in these turbulent economic times. The way ASB weathered the recent banking crisis has drawn admiration from all over the world – at home there were reports in most of the major British papers, with features in the Times and the Economist. Overseas media also took an interest – there were articles in Asian Banker and Le Monde; Al Jazeera broadcast a feature which later appeared on YouTube. Everyone was seeking an explanation as to how the UK's only savings bank could have avoided the pitfalls into which the UK's most powerful banks had fallen.

This book tells that story, tracking the history of its unique culture; the community it has so humbly served; its shrewd investment history and decision-making; the intelligence and focus of the trustees and staff determined to remain of public service.

Professor Charles W. Munn, OBE, BA, PhD, FCIBS, is the author of several books on the history of Scottish financial institutions, including the History of the Clydesdale Bank. Munn was a lecturer in business history at the University of Glasgow before becoming Chief Executive of the Chartered Institute of Bankers in Scotland – a post he held from 1988 until 2007. He was also Executive in Charge of the Committee of Scottish Clearing Bankers. Munn lectures in business ethics and his work on this subject has been published internationally. An honorary professor at the Universities of West of Scotland, Dundee, Glasgow and Stirling, he was awarded the OBE for services to banking in 2005.

Copies are available only from Airdrie Savings Bank
To order copies please write to:

Marketing Manager
Airdrie Savings Bank
56 Stirling Street
AIRDRIE ML6 0AW

Order forms are also available on the Bank's website www.airdriesavingsbank.com

Summer School for Archivists

The EABH e.V. in association with the Rothschild Archives, the Business Archives Council and the School of Library and Information Studies, University College London, is delighted to invite you to the

International Summer School for Archivists
The Archivist as a Communicator
6th – 10th September 2010
UCL, London

This course is designed specifically for archivists and record managers and aims to encourage discussion on a wide range of issues. It will be suitable for small to large banks and financial institutions.

Draft Programme

Monday, 6th September 2010

Chair: Melanie Aspey, The Rothschild Archive

Morning Session

Opening Keynote
The Archivist as a Communicator
Victor Gray, The Rothschild Archive

Participants' presentations
Students

Myers Briggs exercises
Learning and Development Group – N M Rothschild & Sons
Belinda Grinham and Angela Walker

Afternoon Session

Why Are We Archiving/Cataloguing? To Whom Are We Communicating?
Jennifer Bunn, UCL
Group Working

Tuesday, 7th September 2010

Chair: Mike Anson, Business Archives Council

Morning Session

Participants' presentations
Students

National Strategy on Business Archives
Katey Logan, The National Archives

Afternoon Session

Participants' presentations
Students

Visit to The Guardian Newsroom Archive
Mariam Yamin

Wednesday, 8th September 2010

Chair: to be announced

Morning Session

Web Page Construction – Theory
Andrew Dawson, UCL

Web Page Construction – Practice (Lab.)
Andrew Dawson, UCL

Afternoon Session

Museum on the Mound's Educat. Programme
Helen Redmond-Cooper, HBOS plc

Thursday, 9th September 2010

Chair: Elisabeth Shepherd, UCL

Morning Session

Change Management for Archives and Archivists
Adam Blackie, The National Archives

Afternoon Session

Internal Communication and Corporate Social Responsibility
Tina Staples, HSBC
HSBC History Wall, led by Tina Staples

Friday, 10th September 2010

Chair: to be announced

Morning Session

Finalising Group Working;
Presentation of Works

Closing Keynote
Melanie Aspey, The Rothschild Archive

Registration and Fees

Please note that participation in the Summer School is limited to 25 participants and that we will proceed on a first come first serve basis.
Fees for the Summer School will cover the course itself, course material, lunch, refreshments and participation in the related events:

Members of the EABH	600,00 Euro
Non-members	1.300,00 Euro

Deadline for registration is: Monday, 31 May 2010.
The organizers would be delighted to welcome you to this much anticipated event.
For more information please visit: www.eabh.info

Workshop

Risk Management in Archives: Hazards Old and New

Thursday, 20th May 2010

Conference Centre of the National Bank of Belgium
61, Rue Montagne aux Herbes Potagères, Brussels

Draft Programme

Welcoming Address
Manfred Pohl, EABH e.V., Frankfurt am Main

I Session
Chair: Melanie Aspey, The Rothschild Archive

Vicky Lemieux, Credit Suisse
Justin Cavernelis-Frost, The Rothschild Archives
Bank's Cultural Foundations and Historical Archives under Challenging Economic Climates: the Case of Piraeus Bank Group Cultural Foundation
Elli Kravvariti, Piraeus Bank Group Cultural Foundation

II Session
Chair: Anders Perlinge, The Foundation for Economic History Research within Banking and Enterprise

Ingmar Fröjd, Swedish National Archives
Ulrich Fischer, Stadtarchiv Köln

Discussion and Concluding Remarks
Melanie Aspey and Anders Perlinge

Responding to Crises in the Global Financial Environment
Risk Management and Regulation

21st - 22nd May 2010
Brussels, Belgium

Friday, 21st May 2010

Welcome Address
Member of the Board of National Bank of Belgium
Member of BoM of EABH e.V.

Key Note Speech
Lord Adair Turner, Financial Services Authority, London

Panel Discussion: Crises and the Financial Sector: Lessons from the Past and Present
Moderator: Lars Jonung, European Commission/Stockholm School of Economics
Herman Daems, BNP Paribas Fortis, Brussels
Lee Foulger, European Commission
Thomas Hess, Swiss Reinsurance Company Ltd, Zurich
Lord Adair Turner, Financial Services Authority, London
William White, OECD, Paris

Session 1: What Happens When Financial Innovation Outpaces Regulation
Chairman: Harold James, Princeton University

Siegmund Warburg and the Financial Integration of Europe, 1945-1982
Niall Ferguson, Harvard University, Cambridge
Regulatory Arbitrage and Re-regulation in International Banking: Lessons from Recent History for the Future
Christos V. Gortsos, Panteion University of Athens
Third-Party and Private Enforcement on the World's First Stock Exchange. The Amsterdam Market for VOC Shares, 1602-1700
Lodewijk Petram, University of Amsterdam

Session 2: Global Financial Flows and Regulation
Chairman: Piet Clement, BIS, Basel

Facts and Fictions about Rating Agencies
Marc Flandreau, Graduate Institute of International and Development Studies, Geneva
Regulatory Response to the "Roots of all Evil": The Re-Shaping of the Bank-Industry-Financial Market Interlock in the US Glass-Steagall and the 1936 Italian Banking Acts
Claire Giordano, Banca d'Italia, Rome
Integration of Banking Markets - An Insurmountable Challenge to Modern Trade Policy?
Welf Werner, Jacobs University, Bremen

Saturday, 22nd May 2010

Session 3: Risk Management
Chairman: Stefano Battilossi, Universidad Carlos III de Madrid

Cooperative Banking in Times of Financial Turbulences: the Netherlands in the Pre-World War II-Period
Joke Mooij, Rabobank Nederland, Utrecht
Reinsurance in Crisis: How Swiss Re Overcame the Great Depression of the 1930s
Tobias Straumann, University of Zurich
Earthquake versus Fire: the Struggle over Insurance in the Aftermath of the 1906 San Francisco Disaster
Eleonora Rohland, Institute for Advanced Study in the Humanities, Essen

Session 4: How does Crisis Impact on Archives
Chairman: Francesca Pino, Intesa Sanpaolo, Milan

On guard: archives, archivists and historians at times of crisis
Edwin Green, Business Archives Council, London
Do Crises have an Impact on Archives?
Hans Naess, National Archives of Norway/ICA, Oslo
Current crisis impact on BNP Paribas archives : our experience and thoughts
Anna Grimault, BNP Paribas, Paris

Concluding Remarks

EABH Annual Conference 2011

The EABH is delighted to announce its 2011 Conference entitled

Corporate Governance in Financial Institutions:
Historical Developments and Current Problems
20th-21st May 2011
Amsterdam, the Netherlands

The topic of the 2011 EABH annual conference - corporate governance in financial institutions - intends to evoke discussion about the historical antecedents and evolution of the management, control, ownership and regulation in financial institutions. In particular, the conference will focus on four topics:

1) Models of corporate governance - How have corporate governance models developed in history? For example, what are the roots of the Continental European or Rhineland (two-tier) model vis-à-vis the Anglo-Saxon model? Do other governance models prevail in the financial sector? Has a changing environment in relation to stakeholders, globalization, and business systems had an impact on the corporate governance of financial institutions, such as banks and insurance companies?

2) Governance mechanisms in financial institutions - Which mechanisms/factors have influenced the corporate governance of financial institutions, including ownership structures (role of families, shareholders, cooperative organizations, state banks etc.) and boards of directors? What are key differences and similarities in corporate governance of different players in the financial sector?

3) Regulation and legislation of governance - How does government regulation relate to developments in the financial sector? What are the consequences, for example, of countries joining the EU, the consequences of the current crisis? Does an economic or financial crisis have consequences for the corporate government of a financial institution?

4) Archives and corporate governance - How can an archivist or document manager prepare for changes in corporate governance? Key words in this topic are controlling, evidence, legal, IT. What is displayed in the company archive? How does a company archive anticipate to or play in new research topics?

The EABH would be delighted to welcome you to its 2011 conference. More information will be available at www.eabh.info in the coming months.

Bankers may seem serious, dealing with our money, wearing dark suits..., but also they know how to laugh.

One day the legendary banker Amadeo Peter Giannini (whose Bank of America National Trust and Savings Association weathered the Depression and become the largest privately owned bank in the world) asked a distinguished looking grey-haired gentleman to get him a taxi. When the man dutifully obliged, Giannini gave him a quarter. The recipient, clearly embarrassed, explained that he was the head of the Los Angeles Bank of America. Giannini duly apologised, took back the quarter, and gave him a dollar.

At the Penn Square Bank closing, FDIC closing personnel were assigned portfolios of large, complex, distressed oil and gas loans to evaluate for potential recovery. A certain wildcat drilling company, whose owners were notorious for both their wild and extravagant lifestyles and their lack of success in the oil patch, had an $18 million loan outstanding. The loan initially was valued at a complete $18 million loss. A few days later, a local newspaper ran a front-page article proclaiming in the headline that the drilling company had hit an “Elephant Well.” As it now appeared that the borrowers were rich and their debt would be paid in full, the valuation estimate was changed to reflect full recovery of the $18 million loan. Nearly a week passed before it was discovered that the company had drilled into the Oklahoma Gas & Electric underground storage facility. Both claimed that they had no idea.

The youngster walked into the bank to open an account. He had twenty-five dollars. The bank's vice-president gave him a benign smile and asked how such a small boy had accumulated so much money.

"Selling Christmas cards," the boy said.

"Well," said the banker, "you've done very well. Sold them to lots of people, obviously."

"Nope," the boy answered proudly, "I sold all of them to one family. Their dog bit me."

It was decided that the ten-year-old girl of the family should be given something practical for Christmas. "Suppose we open a savings account in the bank for you?" suggested her mother.

"Now remember, darling," said the mother, "as they arrived at the bank, "it's your account so you fill out the application."

The child was doing just fine until she came to the space where it said, "Name of your former bank." She pondered that a moment, and then put down,"piggy".

In later life, Tristan Bernard often found himself in dire financial straits. Indeed, the writer was once obliged to withdraw all of his money from an account at the Banque de France.

Check in hand, Bernard paused to return the salute of the armed guard stationed outside the bank. "Thank you, my friend," he said. "You may go home now."

The Early Office Museum™

The Early Office Museum™ engages in research on the history and evolution of offices, antique office machines and equipment, and business technology based on original documents, artifacts, and vintage photographs.
The Early Office Museum is "just" a website without"real" collections, office items or a physical location. The curator and staff of three have worked for many years to create this online museum. It is included in The Collector's Weekly Hall of Fame for Best Collector Sites on the Web.
To see their interesting collections visit: www.officemuseum.com or www.earlyofficemuseum.com

National Class 2000 Bookkeeping and Distributing Machine

According to a 1937 text, "The bookkeeping machine of cash-register origin differs from other bookkeeping machines both in appearance and in operation. This machine consists of a bank of keys very similar in appearance to a cash register. One set of keys is for debits, another for credits, the rest for balance, total, subtotal, error, and so on. In place of the cash drawer, there are two horizontal writing surfaces, one having place for the insertion of a card or cards for posting and the other containing a continuous roll or audit sheet on which are automatically posted all entries made by the machine. Machines of this type are widely used by savings banks, building-loan associations, hotels, personal loan companies, retail stores, and many other types of business in which periodic payments may be made." (John S. MacDonald, Office Management, 1937, pp. 60-61).

Paymaster's Office, Master Mechanics Building, Pennsylvania Railroad, Altoona, PA, 1910. Photograph dated by wall calendar.

Teller's office, 1911. There are two men, a teller's cage, a Burroughs adding machine, letter filing cabinets, vertical filing cabinets, a candlestick telephone, and a 1911 calendar advertising Singer Sewing Machines.