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What banking services for Europe's economic development in the Early Modern period?

Messengers and the credit market in the Spanish Netherlands in the 17th century

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Is a developed banking services sector a necessary precondition for economic development? Recent revisionist literature in economic history argues that it is not. O. Gelderblom *et alii* and P. Hoffman *et alii*, for example, suggest that economic development in 17th century Amsterdam and 18th century France took place in the absence of a noteworthy banking sector.¹ According to these studies in both, the Amsterdam's and the French credit market, the intermediation by banks was bypassed, allowing for "direct" and "peer to peer lending". Functions usually associated with banks, such as the anonymous matchmaking between borrowers and lenders, were carried out by other institutions. In France, it were the notaries who matched borrowers and lenders. They were in possession of intimate knowledge about the financial situation of their clients, which in turn enabled them to reduce information asymmetries between borrowers and lenders. This advantage prevented the emergence of a modern banking sector in Paris. In Amsterdam, it was the existence of an open access and highly developed credit market, which allowed every market participant for controlling risk and for pricing loans accordingly, that made banks superfluous and enabled borrowers and lenders to rely on simple brokers. Moreover, because of the narrow interest rate spreads, powerful merchant houses who disposed of large private equity, such as the the Trip or the Deutz, refrained from accepting deposits and from starting the business of deposit banks. The lesson to be learned here is that in today's emerging markets and countries, the development of the banking sector is not a necessary prerequisite for economic growth, and that locally established alternative credit market structures may perform as good or even better.

Were there then no banks at all in 17th century Amsterdam and in 18th century France? The answer to this question depends on how we define banking institutions and what functions we associate with them. Amsterdam, of course, hosted the *Wisselbank*, the most famous public bank in 17th century Europe, but its functions were restricted to payment services and its charter forbade any lending activity. Amsterdam was also the home of numerous and powerful merchant houses, who

¹ Oscar Gelderblom, Joost Jonker, Clemens Kool, "Direct finance in the Dutch Golden Age", *Economic History Review*, 69,4 (2016), p. 1178-1198. Philip T. Hoffman, Gilles Postel-Vinay, Jean-Laurent Rosenthal, *Dark Matter Credit: The Development of Peer-to-Peer Lending and Banking in France*, Princeton University Press, 2019.

did carry out a lending activity. But because they only lent on the basis of their personal assets, without taking any deposits, Gelderblom *et alii* prefer to term them “private equity operators” rather than bankers. This contrasts with the appreciation of 17th and 18th century’s contemporaries, for whom there did were business enterprises that qualified for the designation of “banks”, and businessmen that were addressed to as “bankers”. However, these designations did not have the same meaning than they have today. According to contemporary dictionaries, such as the one published in 1675 by Jacques Savary, Early Modern banking consisted not in fractional deposit banking, but in an exchange business, i. e. in a trade in bills of exchange. Hoffman *et alii* acknowledge the existence of banks doing that kind of business, but do not include in their study of the French credit market any credit provided by banking services because of its alleged limited magnitude with regard to the notarial credit. The notaries’ dominance of the 18th century French credit market is believed such that it appeared legitimate to not at all consider the business carried out by banks when estimating the total amount of loans granted in France during the Age of Enlightenment. Thus, recent literature conveys the idea that banks played an only minor role in the remarkable growth of the Dutch economy in the 17th century and of the French economy in the 18th century.

In this paper, I will revisit this idea by looking at the credit market in the Southern Netherlands, the country situated between the Kingdom of France and the Dutch Republic. The period of investigation chosen is the middle of the 17th century, the period considered the heyday of Dutch capitalism and economic power. The study will focus on Antwerp, the financial hub of the Southern Netherlands. Although since the Dutch civil wars in the 16th century Antwerp was no longer part of what was to become the United Provinces, the city on the Scheldt remained closely connected to its Northern neighbor (bills of exchange continued to be issued in Flemish pounds in Amsterdam) and maintained its position as the main international exchange of Flanders, one of Europe’s core economic regions since the High Middle Ages. By focussing on the business schemes of Antwerp bankers and on messengers that linked Antwerp with all of the country’s major production centers, I will show that banking services provided by messengers and Antwerp credit purveyors played a decisive role for the working of the country’s credit market. I full further show that credit was provided through a trade in bills of exchange and I will analyze the working mechanism of this trade. Finally, I will show that this trade constituted the core business of a group of operators that were specialized in banking services, and laid out the financial foundations of the country’s commercial and manufacturing activity.

In the following, I will illustrate the role and function of banks by looking at the micro level of individual business operations and by putting at the centre of the analysis the transaction and its

specific economic context. Each loan contract is indeed embedded in a specific business operation, which is different from the point of view of the lender with respect to the one of the borrower. Therefore, the following demonstration will proceed on the basis of a close analysis of representative credit transactions. The type of source used are account books, kept in the archives in Antwerp, that hold an exceptional rich collection of account books for the Early Modern period and that allow for comparing business procedures of different firms operating at the same time.

Credit transactions are ubiquitous in commercial account books. This is because goods were most of the time sold with a payment term of several months (with a prefixed discount rate in case of anticipated payment); and because commercial paper, such as bills of exchange, had a double function: they were payment instruments, and at the same time credit instruments. This omnipresence requires to choose a starting point for the inquiry. The one we have chosen is rather unconventional, since it concerns the transactions that Antwerp firms operated with so called messengers, a group of agents that have not yet been acknowledged by the literature on credit markets.

An analysis of the 894 entries of the accounts that the Antwerp firm of Louis & Robert Le Candele holds in its general ledger with Louis Collage, designated as “messenger of Ghent” (“messenger de Gand”) in the five year span ranging from 1654 to 1658, reveals that they concern exclusively exchange operations and the payments thereto related. One category of operations concerns long-term bills of exchange (between 3 and 12 months) that were issued by and drawn on operators based in Ghent or surroundings, but which were payable in Antwerp. An important group within this category concerns bills whose drawer and drawee were the same person. Consider a bill of 832 pound Flemish (*pond vlaams* = £ vls.) drawn by Jean Toebast from Ghent on himself that the Le Candele record on May 23rd 1656 in their account books. The bill is recorded together with three other ones, that are not detailed here for the sake of a better understanding of this particular operation. Thus, the entry in their Journal reads as follows:

P(ar) divers à Louis Collage 1289 (£ vls.) 6 (shillings) 8 (pence) pour quatre lettres suivantes à son ordre payab(les) en Anvers luy avancé au 31 courant à ½ pc.to, au 15 et 19 juillet à 1 ¼ pc.to, au 15/08 à 1 ⅝ pc.to (...) p. estranger Jean Toebast de Gand pour sa promesse du 15 feb(vrier) à 6 uso ... 832 (£ vls.)

According to this entry, Toebast issued the bill in Ghent on February 15 payable at a term of 6 months in Antwerp to Collage, who traded it in Antwerp to the Le Candele at the discount rate of 1 ⅝ percent on May 23rd. On the same day, this discount-operation generated a second entry in the general ledger, this time on the debit side of the account that the Le Candele held with Collage. The corresponding entry in the Journal reads:

P(ar) Louis Collage à Gaingh et perte £ (vls.) 18:3:4 advance de £ (vls.) 1289:6:8 en son credit.

The Le Candele thus debited Collage for the amount that they withhold (£ vls. 18:3:4) from the total face value (£ vls. 1289:6:8) of the four bills that they discounted. Since this was their profit of this operation, they credited their Gain & Loss account accordingly, following the principles of the double-entry bookkeeping technique. When applying the discount-rate of 1 $\frac{5}{8}$ percent to the face value of Toebast's bill (£ vls. 832), we conclude that the Le Candele paid £ vls. 818:13:11 for the bill. Note that 17th century Antwerp banker calculated the amount they withhold not on the basis of the bill's face value, but on the basis of the difference between the face value and the amount withhold, i. e.:

$$818:13:11 + (818:13:11 \times 1 \frac{5}{8}/100) = 832$$

In order to determine the annual interest rate based on this operation, we have to take into account that the period for which the discount-rate applied ranged from May 23rd, when Collage traded the bill to Le Candele, to August 15, when the bill's 6 months term came to maturity. Thus, applying a discount-rate of 1 $\frac{5}{8}$ percent to a period of 11 weeks or 2 $\frac{3}{4}$ months results in an annual interest rate of 7 percent.

What happened with the bill between the date when it was issued (February 15) and the date when Collage traded it to the Le Candele (May 23rd)? Collage's general ledger, running from 1653 to 1657, that happily survived in the archives of the city of Ghent, gives us the answer. On February 19, Collage credits the account he holds with Toebast with £ vls. 800 "p(ar) brief van £ 832 op 6 uso". This means that shortly after its issuance, Collage bought the bill from Toebast in Ghent at a discount-rate of 4 percent (= annual rate of 8 percent), before selling it 3 months later to the Le Candele in Antwerp at 1 $\frac{5}{8}$ percent. In doing so, Collage thus made a profit of £ vls. 18:13:11 (= £ vls. 818:13:11 – £ vls. 800).

Hence, there are two successive credit providers to Toebast in this exchange operation, one being involved directly, the other one indirectly: at first Louis Collage, messenger of Ghent ; then Robert & Louis Le Candele, banker in Antwerp.

What does Toebast want Collage to do with the credit that the sale of his bill provided him in Collage's ledger? A look at the debit side of Toebast's account reveals that there are two patterns of settlement that he orders Collage to carry out on his account: either to pay him cash or to do payments to people in Ghent and surroundings; or to arrange for payments in Anwerp. In case of the latter option, according to the entries in Collage's ledger, there is systematically an operator involved, named Andries Dias, who may be identified as Collage's cashier in Anwerp.

Dias is also involved in the payment that the Le Candele provide to Collage for the discounted bill. The debit side of Collage's accounts in the Le Candele ledgers contains in fact three entries that balance almost exactly Collage's credit for the four bills that he sold to the Le Candele on May 23rd, totalling £ vls. 1289:6:8. The three entries read in Le Candele's Journal as follows:

(1) May 23 1656: P(ar) Louis Collage £ 350 à Andries Dias à estranger Pieter de Cock.

(2) May 26 1656: P(ar) Louis Collage £ 637:17:5 à Andries Dias à André Denis à J.o Bapt.a Adriaenss(en) son reste.

(3) May 26 1656: P(ar) Louis Collage £ 357:18:4 à Andries Dias à André Denis à Gillebert Farvacque.

The payment procedure concerns a multi-lateral compensation of payments, which was the most common payment procedure on the Antwerp exchange. In each of the three payments, the Le Candele pay Collage via Dias. Consider for this the third payment: the Le Candele credit Farvacque, who in his turn credits Denis, Denis credits Dias, and Dias credits Collage. Inversely, Collage should debit Dias in his ledger for the amount that Dias received on his behalf in Antwerp. This is exactly what happened: On May 22nd, Collage debits the account he holds with Dias with £ vls. 1271:3:4, specifying: "Andries Dias is debiteur an Collagie voor Le Candele". If one adds to the £ vls. 1271:3:4 the £ vls. 18:3:4 that the Le Candele withheld for their discounting service, one obtains exactly the face value of the four bills traded (£ 1289:6:8).

Dias is also involved when the bill of £ vls. 832 comes to maturity. The bill falls due on August 15, but in their accountancy, the Le Candele record payment only on August 29, because the payer obviously took full advantage of the delay of maximum 14 days that was allowed for the payment of due bills on the Antwerp exchange. The bill's payer, however, was not the drawee, i. e. Jean Toebast, contrary to what might suggest the corresponding entry in Le Candele's Journal :

P(ar) Louis Collage £ 832 à Andries Dias à Jean Toebast.

In fact, a look in Le Candele's general ledger reveals that it is not Toebast's account that is credited here, but the impersonal account entitled "Estrangers debiteurs de lettres de change payab(les) en Anvers". This is also the account that the Le Candele debited when they acquired the bill from Collage on May 23rd. In a matter of fact, this account is crucial for the understanding of the entire architecture of Le Candele's accountancy: When acquiring bills before maturity, they debit this account; and when reselling these bills or when receiving payment for them at maturity, they credit it. The account therefore serves as a virtual repository where bills are temporally "stored" while awaiting their maturity. They are the most important accounts in Le Candele's general ledger, both in terms of number of entries and in terms of total turnover.

Now, who paid for the bill of £ vls. 832 at its maturity? According to the above quoted

Journal-entry of August 29, it was Collage. However, Collage didn't pay cash, but here again through multi-lateral compensation via Dias: The Le Candele credited their account "Estrangers debiteurs..." and debited Collage; Collage debited Toebast and credited Dias (which he did on August 31, according to his general ledger); Dias, finally, must have debited Collage. By doing so, Dias balanced the account he held with Collage of the credit-entry of May 22nd. This way, Toebast settled the bill via Collage, and Collage via Dias.

A systematic analysis of Le Candele's and of Collage's accountancy reveals that if this settlement procedure was the end of story of Toebast's bill of exchange of £ vls. 832, it was not the end of story of his debt with Collage and the Le Candele. In fact, Toebast rolled over part of the bill's value: On August 28, one day before the entry of the £ vls. 832-bill's settlement in the Le Candele ledgers, Toebast issued a new bill of exchange drawn on himself, this time amounting to £ vls. 612 and drawn at a 3-months term, i. e. falling due on November 28. Then, two weeks after its expiry date (accounting probably for the 2-weeks delay for the payment of bills in Antwerp), on December 16, he issued a new bill, this time amounting to £ vls. 624 and with a 6-month term. One day before its expiry date, on June 15 1657, he then issued a new bill of £ vls. 648, again with a 6-month term, thus coming to maturity on December 15. The itinerary that these bills followed physically (from the Ghent to the Antwerp exchanges) and virtually (in Collage's and Le Candele's ledgers), as well as the discounting and payment procedures are exactly the same than those described above for the £ vls. 832-bill. This way, a loan that initially had been contracted in February 1656 was still outstanding in December 1657. Moreover, the notion of 'initially' has to be understood in a relative way, since Collage's accounts in the Le Candele-ledgers record six other similar loans given to Toebast in form of bills of exchange, ranging from £ vls. 318 to 416, between August 1654 and January 1656. Either way, this example of roll-over credit shows how a short-term credit instrument, i. e. bills of exchange, were used as medium-term if not as long-term credit instrument. In comparison to the instruments of notarial credit (bills obligatory and annuities), bills of exchange bore the advantage to be more flexible and adjustable to momentary needs, both in terms of the loan size and the contract period; in addition, their tradibility and the existence of exchange markets with operators specialized in the discounting business such as Collage and the Le Candele's assured their liquidity.

The entire story of the £ vls. 832-loan contained in Toebast's bill is yet still not told and goes beyond the successive discounting and roll-over operations. This is because even though the transaction features all of the characteristics of an exchange operation, the bill issued by Toebast, as it is recorded in Le Candele's ledgers, is not a "lettre de change", but a "promesse de change". This means that at the expiry date of the "promise", Toebast commits himself to deliver a real bill of exchange. Collage's ledgers reveal that Toebast kept his promise, since the credit side of his

account record a bill of 1,000 French écus, drawn on Paris at the rate of exchange of 92 pence Flemish per écu, equalling £ vls. 383:6:8. Toebast is credited on August 24 1656, 9 days after the expiry date of the £ vls. 832-bill. For Toebast, this was no exceptional exchange operation, since the credit side of his accounts with Collage record 28 other bills drawn on Paris for a total value of 28,000 French écus between September 11, 1654 and February 15, 1657. Thus, as to his accounts in Collage's ledgers, Toebast had two ways of taking out loans: Either by selling bills drawn on himself payable in Antwerp, or by drawing bills on Paris.

The accountancy of the Antwerp banker Jean-Baptiste de La Bistrade, kept in the archives of the Plantijn-Museum in Antwerp, allows us to learn more about Toebast's bills on Paris. Based on La Bistrade's ledgers, we have been able to track down 10 bills drawn by Toebast from Ghent on Paris between 1657 and 1669, totalling 7,000 écus. All bills are drawn at a 2-month maturity, thus at a shorter term than the bills Toebast drew on himself payable in Antwerp. It nonetheless makes them a liquid short-term credit instrument to Toebast, who issued 7 out of the 10 bills payable to Collage and the 3 other ones payable to Antwerp merchants. Of these 7 bills payable to him, Collage traded, that is to say endorsed 6 directly to La Bistrade shortly after their issuance, probably after having brought them from Ghent to Antwerp. La Bistrade then "stored" these bills on his impersonal account entitled "Change de Paris" until, shortly before they came to maturity, he either sold them again on the Antwerp exchange at a more advantageous exchange rate than the one at which he had acquired them from Collage, or sent them to his correspondents in Paris, either on their or on his own account, in order to cash them in from the drawees. In order to balance his correspondent's accounts, he then awaited the return-bills from Paris, which were normally also drawn at a 2-months term. This business scheme is fundamental for an understanding of La Bistrade's activity as a banker, as in his accountancy it is reflected by the importance of accounts similar to "Change de Paris", such as "Change de Hambourg", "Change de Londres", "Change de Amsterdam", "Change de Middelbourg", "Change de Lille", "Change de Spanie" etc. We find exactly the same business scheme and accounts in the Le Candele ledgers and in those of Henri-François Schilders, another Antwerp banker whose accountancy we have analysed (1660-1678). With accounts such as "Change de ..." and "Estrangers debiteurs de lettres de change payables à Anvers", we are at the heart of the Antwerp short-term credit system, based on a trade in bills of exchange that made the living of a group of bankers who represented the city's commercial elite.

To Toebast, however, the bills on Paris were not only instrumental for providing him credit. In line with the double function of bills of exchange as credit and as payment instrument, Toebast's bills served him also to operate payments. This dimension of Toebast's bills on Paris is revealed by one of his journals kept in the archives of the city of Ghent: Toebast drew those bills in order to get reimbursed for his consignments of textile products that he addressed to correspondants in the

French capital.

The export of textiles, notably linen, is also the reason for the second important category of bills of exchange that are recorded on the accounts that the Le Candele's held with Collage. All of these bills were drawn by operators from Ghent or nearby towns such as Oudenaarde on the Le Candele, who honored them on the account of correspondents based in London. On the account of these same London correspondents, the Le Candele received linen textiles from the bill's drawers from Ghent, consignments that they dispatched further to Haarlem, where the linen probably was bleached. It therefore seems clear that the bills drawn from Ghent on the Le Candele in Antwerp were to serve the Ghent operators as reimbursement of the expenses they incurred when purchasing the linen on the account of their London principals. Linen products were indeed one of the main export article of the numerous Flemish textile manufacturing centres and was highly in demand throughout Europe and the American colonies. The Amsterdam based firm widow Coymans for instance, whose account books are kept in the archives of the city of Amsterdam, covering the period from 1649 to 1653, consigns its purchases of linen from Ghent and Oudenaarde to correspondents based notably in Italy (Venice, Livorno, Messina) and in Spain (San Sebastian, Seville).

All of the bills drawn by operators from Ghent and Oudenaarde on the Le Candele were payable to Collage. We may assume that after their issuance, Collage brought them to Antwerp where he presented them to the Le Candele. The Antwerp banker then paid the bill's value either directly to Collage or, in most of the cases, to Dias. This is why Collage, when recording these bills drawn on the Le Candele in his general ledger, credits the accounts of the bills' drawers and debits the account he holds with Dias. This way of doing is not surprising, since it is in line with the proceeding that we have seen above regarding the bills drawn by Toebast on himself. However, what is striking here, is what happens on the credit side of Dias' accounts in Collage's ledgers: The credit side contains numerous entries that record large payments in specie. This means that Collage received large amounts of cash from Dias that he then brought to Ghent, where he delivered it to the providers of the bills drawn on Antwerp. This explains why all of these bills were drawn payable on sight ("à vue"), i. e. at only 1 or 2 days after their presentation to the drawee. Obviously, the Ghent bill-drawers were pressed to obtain reimbursement for their purchases of linen or other goods. And this reimbursement had to be in specie, so we may assume, since the purveyors of the linen – weavers producing in villages and at the countryside and disposing of a limited credit line – needed cash to meet their daily living expenses. This payment procedure is in line with the way the widow Coymans paid for her purchases of Flemish linen: She either sends cash directly from Amsterdam to Ghent, or she gives to her correspondent in Antwerp the order to do so.

This working mechanism, in which messengers play a decisive role, is by no means limited

to the trade and payment circuit linking Ghent and Antwerp. Accounts held with messengers from the various regional textile production centres are indeed ubiquitous in the accountancy of Antwerp bankers. The Le Candele as well as La Bistrate and Schilders operate an extensive trade in bills of exchange not only with Collage, messenger of Ghent, but also with messengers from Valenciennes, Cambrai, Courtrai, Mons, Oudenaarde, Mechelen and Brussels. Whatever messenger and city involved, these bills arrange for the same flows of goods and money: Seen from the perspective of the production centres, an outbound movement of textiles towards destinations throughout Europe, and an inbound flow of cash and credit from Antwerp.

The lessons to be learnt from this analysis hold as well for the study of Early Modern than for contemporary credit markets. Every debt has its history, which is determined by the credit instrument on which it relied. Beyond the attempt to establish the total value of debts contracted in a given city or country, it is the study of the way credit instruments have been used, and of their embeddedness in wider operations – whether of commercial or other nature – that the working mechanism of credit markets may be understood. In this respect, it seems that drawing on models such as “bank based” and “market based economies”, referring to notions such as “modern” and “traditional” credit markets, or opposing “deposit banks” to “private equity managers” does not get to the core of the matter and may even be misleading. Our approach to credit markets has rather been driven by the notion of “setting”, by which we mean the interaction of different groups of operators (producers, messengers, merchants, bankers, notaries, cashiers etc.) knitting a web of specific ties that organize an exchange of credit, money and goods on the local, regional and international level. Our analysis of the setting in the Southern Netherlands has shown that it heavily depended on the use of bills of exchange traded by messengers, cashiers and – named as such with respect to the contemporaries’ acceptance of the term – bankers. It has also shown the importance for an understanding of the Antwerp credit market of linking this financial hub with the manufacturing activities and the financial needs of cities located in its immediate and wider surroundings.

Was this setting peculiar to the Southern Netherlands? There seem to be parallels to the Venetian credit market where, like in Antwerp, bills of exchange apparently played a similar crucial role. According to a letter written by the Venetian based banker Giovanni Druyvesteyn to La Bistrate, lending at a fixed interest rate (what the contemporaries called *a deposito*) was not allowed in Venice. Instead, credit was provided through bills of exchange drawn on fair cities, such as Bolzano, Novi or Lyon. At the bills’ maturity, there would be return-bills issued drawn on Venice – a credit-provision that worked the same way than the one described above concerning the “Change de Paris” accounts. If this similarity is confirmed, may it be explained by the influence that Italian merchant law and business practices had on the development of the customary law in

business matters on the Antwerp exchange since the late 15th century?

With respect to Amsterdam, the lending *a deposito* seems to have been common practice, as suggest the large accounts entitled “Interest reequening van penningen op deposito” in the general ledger of the widow Coymans. Currently, we are analyzing the numerous accounts that this Amsterdam based firm held with purveyors of textile products located in Haarlem and Leyden. Are the credit and payment patterns similar or different to the ones observed in the Southern Netherlands?