The savings banks and the financial revolution. Deposit and lending strategies of the Swedish savings banks, c1860–1920

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Abstract

The aim of this paper is to discuss the role of the savings banks in the development of the Swedish financial system from the mid nineteenth century to the early twentieth century. A distinguishing feature of the Swedish savings banks was their ability to interact with other financial intermediaries and to perform as first movers on different markets. From the mid nineteenth century the savings banks actively took part in restructuring and modernizing the existing financial system, both regarding the development of local and regional deposit markets and an institutionalized credit system.

Our findings, based on substantial empirical research, strongly indicate that the Swedish savings banks played an important role as a link between the older credit system, based on personal knowledge and trust, and the emerging system, based considerably more on impersonal trust (i.e. system trust), governmental regulation and, not least, the standardization of contractual agreements.

In the development of the deposit markets the Swedish savings banks were the first and for a long time the only organisation, besides private bankers, that accepted deposits from the greater public. This meant that the savings banks could be viewed as market makers on the deposits market, especially since they accepted long-term deposits on foreseeable terms. In the latter half of the nineteenth century, other financial intermediaries, especially the commercial banks, more or less copied the deposit standards introduced by the savings banks.

Considering the savings banks' role on the local and regional credit markets, their day-to-day operations were characterized by extensive cooperation with other financial intermediaries, especially commercial banks. Hence, a system of risk distribution developed, based on the interaction, cooperation and personal relations between different banks and bank managers.

The Swedish financial revolution and the development of the financial system

The concept of "financial revolutions" has gained a great deal of attention from financial historians over the past decades. Peter Rousseau and Richard Sylla have listed five key components that constitute the existence of a "good" financial system, i.e. a financial system that supports and drives general economic growth and development. These components are 1) sound public finance and public debt management, 2) stable monetary arrangements, 3) a variety of banks, some with domestic and some with international orientations, 4) a central bank to stabilize domestic finances and manage international financial relations, and 5) well-functioning securities markets.[1] This paper obviously deals primarily with the third requisite, as we try to make evident that the Swedish savings banks did indeed play a role in the development of a modernized financial system.

There are also a number of empirical studies on the role of banks, and other financial intermediaries, in the industrialization process that took place in Sweden from the mid nineteenth century. Lars Sandberg has concluded that an important reason for the successful transformation of the Swedish economy was the financial liberalization and the financial growth from the 1860s.[2] Later studies have strengthened Sandberg's statements regarding the positive role of the modernized financial system for general economic growth, i.e. the financial

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[1] P. Rousseau & R. Sylla, "Financial systems, economic growth and globalization", *NBER Working Paper 8323*, 2001, p. 2–3. See also P. Rousseau & R. Sylla, "Financial revolutions and economic growth", *Explorations in Economic History* 43, 2006, p. 1–12.

[2] L. Sandberg, "Banking and Economic Growth in Sweden before World War I", *Journal of Economic History* 38, 1978, p. 650–80 and L. Sandberg, "The Case of the Impoverished Sophisticate: Human Capital and Swedish Economic Growth before World War I", *Journal of Economic History* 39, 1979, p. 225–41.

system supported the industrialization process and spurred general economic development.[3]

The road to financial modernization was however not an uncomplicated or straightforward one. The severe economic crises in the early nineteenth century had wiped out the few existing financial organizations open to the public, the so-called discount houses. Consequently, the public's confidence in banks was generally rather low, and by the mid nineteenth century Sweden had only 8 commercial banks and 90 savings banks, all of which were strictly concentrated to small and local markets.[4]

In the 1860s however, a lengthy period of expansion regarding the financial system was initiated. The number of savings banks and commercial banks rose dramatically, as did the size the banks' different kinds of businesses; see table 1. Previously, savings banks had mostly been concentrated to the larger cities and the administrative centres. The bylaws for the first Swedish savings banks (Gothenburg 1820 and Stockholm 1821) were the result of a governmental initiative and were used as a role model, not only for the later Swedish savings banks, but also for the first savings banks in both Norway (Christiania 1822) and Finland (Turku 1823). These bylaws emphasized the deposit activities and the savings banks importance in encouraging the less wealthy to thrift and sound economic behaviour, which meant that the savings banks at this early stage

[3] A. Ögren, *Empirical Studies in Money, Credit and Banking: The Swedish Credit Market in Transition, 1834-1913*, Stockholm: Stockholm School of Economics, 2003; A. Ögren, "Financial Revolution, Commercial Banking, Liquidity and Economic Growth in Sweden, 1834–1913", paper presented at the *Sixth European Historical Economics Society Conference in Istanbul*, September 9–10, 2005 and A. Ögren, "Free or central banking? Liquidity and financial deepening in Sweden, 1834–1913", *Explorations in Economic History* 43, 2006, 64–93. See also H. Lindgren & H. Sjögren, "Banking systems as "ideal types" and as political economy: the Swedish case, 1820–1914", in D. Forsyth & D. Verdier eds., *The Origins of National Financial Systems. Alexander Gerschenkron reconsidered*, London: Routledge, 2003; P. Hansson & L. Jonung, "Finance and economic growth: the case of Sweden 1834-1991", *Research in Economics* 51, 1997, 275–301 and O. Broberg, *Konsten att skapa pengar*, Göteborg University, 2006.

[4] B. Andersson, "Early History of Banking in Gothenburg. Discount House Operations 1783-1818", *Scandinavian Economic History Review* 31, 1983, p. 49–67 and I. Nygren, "Transformation of Bank Structures in the Industrial Period: The Case of Sweden 1820-1913", *Journal of European Economic History* 11, 1983, p. 575–603.

officially, i.e. in the general public and political debate, were seen primarily as philanthropic organizations.[5]

Table 1. Various financial measures in percent of GDP and the organizational development of the Swedish banking system, 1860–1910

	1860	*1870*	*1880*	*1890*	*1900*	*1910*
Money Supply (M2)	13	19	36	50	62	78
Savings bank assets	4	7	12	21	22	28
Savings bank deposits	3	6	11	19	20	25
Commercial bank assets	10	20	37	45	62	79
Savings bank lending	3	6	9	17	17	23
Commercial bank deposits	2	8	19	24	35	46
Commercial bank lending	5	11	21	31	46	65
No. of						
Savings banks	155	251	347	380	391	441
Savings bank offices	n.a.	n.a.	921	909	748	854
Commercial banks	30	36	44	43	67	80
Commercial bank offices	50	136	205	190	269	625

Source: A. Ögren 2005 and T. Petersson 2001, p. 71–75.

A common feature of the first wave of Swedish savings banks was the founding fathers' economic and social background. Local elites, i.e. businessmen, local and regional government officials and large landowners, dominated the boards of savings banks from the very beginning.[6] Our interpretation is that the savings banks were in this sense a platform for ambitious local elites to emanate from, in their quest to gain access to local economic and community power. In the savings banks thus both private and public interests could join forces. By engaging in these seemingly philanthropic organizations, local elites consequentially became even more important and more powerful actors in the local social, political and economic spheres. Besides using the savings banks to fulfil their societal duties and responsibilities as the formal (and informal) principals of the local

[5] A Sjölander (2003) and K Lilja (2004). See also S Colliander, ”Huvuddragen av sparbankslagstiftningens utveckling i Finland”, *Ekonomiska samfundets tidskrift*, 1932, vol. 25, pp. 64–156; B Ronning, ”Norsk sparebankvaesen inntil 1850”, in, *Studier i sparing og sparebankvaesen* (Oslo 1972), p. 61; A Bugjerde, *Norske kredittinstitusjoner*, (Oslo 1977), p. 28 and Egge (1983), p. 274.

[6] T Petersson, *Framväxten av ett lokalt banksystem*, (Uppsala 2001), p. 87–89; H Hellgren, *Fasta förbindelser*, (Uppsala 2003), p. 128–131, and A Perlinge, *Sockenbankirerna,* (Stockholm 2005), p. 204–209.

communities, the local elites could furthermore also get access to vital information on local credit markets and, in some cases, access to capital.[7]

By making use of the standardized bylaws, and the official status of philanthropic organization these gave to the savings banks, combined with the founding fathers' societal and economic positions, the newly established savings banks more or less immediately became recognized as reliable and trustworthy financial intermediaries. With sanction and support from local and national government bodies, it was fairly easy for the saving banks to gain acceptance amongst a broad public. The savings banks swiftly earned a reputation as being trustworthy in handling the savings of "ordinary people".

From the 1860s Sweden witnessed almost an explosion in the establishment of savings banks, especially in the countryside. Hundreds and hundreds of savings banks were established in the rural areas. The reasons behind the immense breakthrough for the rural savings banks were, however, not the same as the reasons why savings banks in the larger cities were established and why the latter successfully developed into deposit banks. In the countryside the harsh credit situation for the agricultural sector was obvious, and in particular small and medium-sized farms had severe difficulties in raising the capital necessary for mechanization and other forms of modernization. The urban savings banks could not, and would not, satisfy the farmers' accelerating credit problem. The rural savings banks can thus be seen as a reaction against the urban savings banks' disinterest in lending to small and medium-sized farmers.[8] In the late nineteenth century, it is fair to say that Sweden had a dense network of savings banks, covering almost the entire country.

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[7] The phenomenon of insider lending has been noticed in several geographical and historical contexts, see for example N Lamoreaux, *Insider lending. Banks, personal connections and economic development in industrial New England*, (Cambridge 1994); I Nygren, *Svensk sparbanksutlåning 1820–1913*, (Gothenburg 1967), p. 204–203 and T Petersson, "Playing it safe? Lending policies of the savings bank in Nyköping 1832–1875", in L Fälting et al, *Both a borrower and a lender be. Savings banks in the economic development of Sweden, 1820–1939* (Uppsala 2000).

[8] Lilja (2004), p. 53.

The deposit market revolution

Up to the 1860s the saving banks had been the only financial organizations, beside private bankers, that accepted deposits from the general public. During the second half of the nineteenth century, the Swedish savings banks started to expand very rapidly, not only considering the number of banks, but also with regard to total deposits and the total number of accounts (see tables 1 and 2). A large number of savings banks had at that time been in business for as long as half a century and had become well known and well functioning organizations in their local markets. The fact that the many savings banks all over the country rarely experienced any irregularities in their organizations may have given them a good reputation. Having a reputation as being trustworthy organizations was most important. From the late 1860s the savings banks met growing competition from the commercial banks as the latter opened up their businesses for the public's deposits. The total deposit at these two major financial organizations at this time, savings banks and commercial banks, grew enormously – from 45 millions SEK in 1860 to 2212 millions SEK in 1920; see table 2. This was most probably a consequence of both the fast growing economy in Sweden at this time[9] and also largely dependent on the general public's willingness to place money in these financial organizations.

Table 2. The growth of deposits in the savings banks and the commercial banks, 1860–1920, at 1860 constant prices

Year	Total deposits, millions of SEK		No. of accounts, thousands		Average balance, SEK	
	Savings banks	Commercial banks	Savings banks	Commercial banks	Savings banks	Commercial banks
1860	27	18	188	n.a.	145	n.a.
1880	159	268	753	128	177	1416 (151)[1]
1900	466	824	1201	446	334	1608 (478)[1]
1920	614	1598	2270	2752	270	798 (427)[1]

Source: Statistics of Swedish Commercial Banks, Lilja 2000, p. 33 and Petersson 2001, p. 73.
Note: 1. Average balance on savings accounts.

[9] O Krantz & L Schön 2007," Swedish Historical National Accounts 1800-2000", *Lund Studies in Economic History 41*. Lund.

In the following we will put forward some main arguments concerning in what way the savings banks were market makers on the deposit markets in Sweden. We argue that the savings banks presence and their experience on the local arenas during the first half of the nineteenth century were important prerequisites for the deposit market revolution in the late nineteenth century.

The early savers in the Swedish savings banks were in many cases persons from their target groups; workers and servants and their children. However, several of these early account holders had difficulties in keeping up their savings in the savings account in accordance with the savings banks' regulations and as a result had to close their accounts after a short time. But even from the start, a large portion of the account holders in Sweden were also, despite what the regulations stated, middle-class people.[10] These people had often a surplus to save, and as they had some sort of education they also understood the advantages of opening an account in the savings bank. In the second half of the nineteenth century preconditions for maintaining an account improved also for the general workers.[11] The school reform in 1842 and improving economic conditions facilitated for the original target groups to make use of the savings banks. As is shown in table 2 the number of account holders quadrupled between 1860 and 1880 and from then on almost doubled every twenty years until 1920. At the end of the nineteenth century approximately one out of every four Swede had an account in a savings bank, and one out of every seven had an account in a commercial bank. In 1920 almost 50 percent of the inhabitants had an account in one or several of these kinds of banks.

The Swedish savings banks, in comparison to those in other countries, apparently even from the beginning attracted female savers and children. In Sweden the female savers constituted about 50 percent of the total number of account holders in the second half of the nineteenth century, which is remarkable

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[10] Savings banks had strict regulations concerning the maximum levels of deposits as well as defined rules concerning inactive accounts. See for example A. Silow 1926; Lilja (2000); Lilja (2004), chapter 5.

[11] O Krantz & L Schön 2007," Swedish Historical National Accounts 1800-2000", *Lund Studies in Economic History 41*. Lund, Table 4.

as most of them were not only minors but subordinated to men as well during the whole period studied. Approximately one fourth or even one third of the accounts was held by children (under the age of 16). These children often belonged to the middle and also the upper classes, but often enough also parents belonging to the working classes opened an account for (all) their children.[12] This practise to save for their children's future by saving in a bank account is still, almost two hundred years later, most common in our part of the world. It is not merely a way to plan for the future, but it also has a pedagogical purpose by teaching children and youngsters how to accumulate money.

The success that the savings banks experienced during their early period and up until the 1860s can mainly be seen as a consequence of the depositors' trust and confidence in the local founding fathers and their successors on the boards. This involvement of well-known and highly regarded persons may have functioned as an important assurance for those depositors that made use of the bank. Several of the founders who were employers also made an account in the savings banks a precondition for their employees and even put a part of their salaries in an account at the savings bank. This was as important for the earlier financial organization(s); close social control in the local community as well as personal trust had been a presumption for private bankers as well as the savings and loan associations' operations.[13]

The savings banks' principal ideas were formulated in their bylaws. This document, which was written down as the savings bank was founded, declared in detail how the bank was going to operate. That the regulations were set down, they were, however, later on adjusted as a consequence of changing circumstances, implied a stability for the organization that may have further strengthened the public's trust. Standardized rules concerning the banks'

[12] The reform in 1921 gave married women the same economic and legal rights as men. This had been pass for widows even before, and during the late nineteenth century several reforms changed the legal system giving unmarried women better conditions as they gradually were released from their legal incapacity. A Göransson (1993), "Gender and Property Rights Capital, Kin and Owner Influence in Nineteenth and Twentieth-Century Sweden", *Business History*, vol. 35 p. 11-32. Lilja (2000); Lilja (2004), chapter 5.

[13] Lilja (2000); Lilja (2004), chapter 5; Perlinge (2005), chapter 2.

operations, with rules for deposits as well as withdrawals and rules concerning interest as well as lending policy, could all together be contrasted to the arbitrariness that could be found among the private bankers. These rules and regulations gave the savings banks yet another operational advantage simply by the terms that were stipulated; accepting long term deposits, up to 10 years, and giving a comparatively high level of interest on deposits were exceptional at this time. Several of these terms were later on also copied and used by followers operating on the market for deposits. Thus, there were several factors that worked together in promoting the savings banks for potential savers as these first and foremost wanted a safe investment; the non-profit organization and the fact that the board represented the local community were important because they strengthened the banks' legitimacy, stability and predictability, and advantageous terms granted good enough investment conditions. By the middle of the nineteenth century most savings banks chose to adjust their regulations, thereby making it easier for accountholders to make withdrawals, and the deposits levels gradually moved upwards as the circumstances on the local credit market changed. These changes may have been most important in attracting depositors to the savings banks.[14]

Adjusting the savings banks' regulations was not only a way to meet changes on the local deposits market, but could also be regarded as the boards' way to formulate the long term approach concerning the savings banks' main operations. The initial characteristics that the savings banks had of being a savings and loan association, springing from their philanthropical motives, changed over time. As the savings banks expanded and became more established in the local communities, they also became more professional bank organizations, with offices or buildings of their own and with hired staffs. Availability was also further extended by expanding opening hours. This professionalization together with changes in the regulations during the latter half of the nineteenth century, now accepting deposits from all members of society (as in practice had been the case even from the start) may have convinced people that the savings banks no

[14] See for example A. Silow (1926), p.235-280.

longer were to be looked upon as philanthropically associations, but rather as "real" banks. This important change was also formulated in the first savings banks legislation; the 1892 Savings Banks Law.[15] This law was of major importance for the savings banks' brand name, not only because it regulated the characteristics of savings banks, but also since the legislation made sure that the savings banks were put under system control.

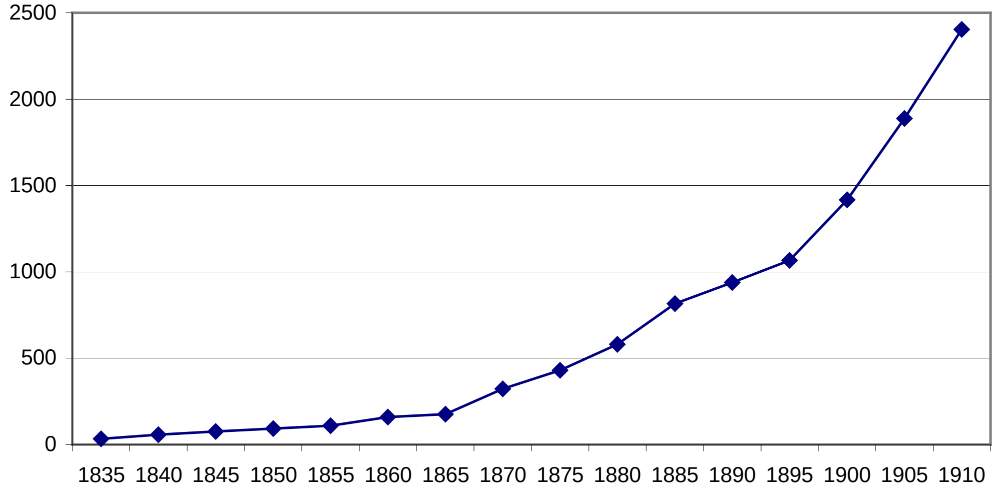
[15] Svensk författningssamling. 1892:59 Lag angående sparbanker (the 1892 Savings Banks Law)

Cooperation, insider lending and bank-industry networks: the lending activities

Concerning the growth of the institutional credit market one must recognize the vast quantitative increase taking place from the 1860s (figure 1). The total volume of Swedish institutional credit approximately redoubled every tenth year up to the early twentieth century. Credits from the rather newly established financial organizations, such as the savings banks but even more so from the commercial banks and the mortgage institutions, thus replaced those credits previously handled by the non-institutional, or informal, credit market actors, such as merchant houses, local dealers and brokers. Several empirical studies on the ratio between the non-institutionalized and the institutionalized credit systems in Sweden has shown that the earlier credit system was in good health all the way up to the turn of the nineteenth century. In the mid nineteenth century, up to 80–90 percent of the total credit volume on local credit markets consisted of credits granted by non-institutional lenders. Still as late as 1900, when we had dense networks of savings and commercial banks, up to 40 percent of total credits were handled on the informal credit market.[16]

[16] Several estimations has been done on the Swedish case, see H. Lindgren, ”The Modernization of Swedish Credit Markets, 1840–1905: Evidence from Probate Records”, *The Journal of Economic History*, 2002, vol. 62, no. 3, p. 810–832; Hellgren (2003), p. 61–88; Lilja (2004), p. 129–148 and Perlinge (2005), p. 264–267.

Figure 1. The growth of the Swedish institutional credit market, 1835-1910



Source: Lindgren (2002), p. 814.
Comment: in millions of constant (1835) SEK.

From the very beginning the Swedish savings banks were focused on investing the deposits on the local credit markets. Lending to local industry, commerce and business in general thus became a hallmark. With this investment policy the Swedish savings banks differed from many of the European savings banks. The savings banks in for example Denmark, England, Scotland, Ireland, France and Belgium in general had very different investment policies. The type of assets the savings banks in these countries could hold was closely circumscribed by legislation, and they did not generally invest in, or lend to, local or regional industry or business. Instead, the savings banks' investments were highly concentrated to government bonds.[17] Due to their focus on investing the savers' deposits in local and regional markets for risk capital, the Swedish savings banks developed into one of the major players on the credit markets in the nineteenth century (table 3).

[17] Karlsson & Petersson (2006).

Table 3. Market shares on the Swedish credit market, 1860–1920, in percent

Year	Savings banks	Commercial banks	Bank of Sweden	Mortgage institutions	Others
1860	12	24	19	40	5
1870	14	29	10	38	9
1880	14	35	8	35	8
1890	19	37	7	29	8
1900	18	50	6	17	9
1910	19	54	0	13	14
1920	15	71	0	6	9

Source: Larsson (1993) and Petersson (2001), p. 71.

Up to the mid nineteenth century the savings banks suffered from a lack of reliable investment opportunities. Insider lending, i.e. lending to the bank's donors and/or managers, was widespread. To generalize, the Swedish savings banks thus supplied loans to rather wealthy borrowers, mostly large landowners and local businessmen. The redistribution of capital was thus in practice a sort of "reverse Robin Hood-strategy"; the deposits of many small savers were transferred into a few, large loans.

An important component in this investment policy was the influence of *social control*. It held down the administrative costs within the savings banks, and it also diminished both the risks with loans and the costs of controlling and enforcing the credit contracts. One might have expected that a problem of trust would arise with the "reverse Robin Hood-strategy", a problem stemming from mistrust on the part of the small savers. This was, however, not the case. Instead, the local elites governing the savings banks succeeded in transferring their already existing societal legitimacy to the savings banks. Hence, the savings banks became part of the patriarchal structure of Swedish society. Detailed studies of the structure of the borrowers in the savings banks have furthermore revealed a discrepancy between the socio-economic background of the depositors and the borrowers respectively. For example, female borrowers were (of course) very rare, despite the fact that they made up the backbone of the depositors. The typical borrower in the Swedish savings banks was thus a male, in his most active years (30-50 years), engaged in some kind of locally based business activity and belonging to the middle- or higher socio-economic classes of society.[18]

The Swedish savings banks concentrated their investments to giving loans to the public all the way up to the early twentieth century. The domestic market for issuing bonds grew at a fast rate in the late nineteenth century, giving the savings banks the alternative to invest in both private and public bonds. However, a majority of the savings banks chose to stick to their traditions of giving loans, instead of investing in bonds (table 4).

Table 4. The investment structure of the Swedish savings banks 1876–1910, in percent of total investments

Year	Lending	Bonds	Deposits in other banks	Other	Total assets, in millions SEK at constant prices [1880]
1880	77	17	5	1	158
1890	79	12	5	4	276
1900	79	12	4	5	469
1910	82	10	4	4	940

Source: Petersson (2001), p. 75.

From the 1860s the structure of the borrowers gradually changed, both qualitatively and quantitatively. The number of loans increased dramatically, as smaller loans were granted on a much larger scale than previously. New socio-economic categories of borrowers were now accepted by the savings banks. The mechanization and modernization of Swedish agriculture led to an increasing demand for capital, which also had an effect on the establishment of savings banks and the savings banks' financial operations. Institutional changes, such as changes in the laws of succession, gave female inheritors the same rights as males. As a consequence, the need for financial capital to buy off (female) inheritors increased. Furthermore, the need for investments increased as a result of changes in production technology and as cattle farming became more common.[19] These changes led to increasing prices of land, which further boosted the need for

[18] Petersson (2001), Hellgren (2003), p. 113–133; Lilja (2004), p. 142–146 and Perlinge (2005), p. 192–193.

[19] Morell (1997).

capital. In response to this demand, a large share of the more newly established rural savings banks were focused on meeting the capital needs of this transition-process.

The more recently established savings banks could also make use of the older savings banks' good reputation – i.e. their brand name – and take advantage of their experience, especially regarding lending activities. The repeated transactions had created a general and widespread trust in the savings banks, a trust combined of both personal trust – trust for the donors and managers of the savings banks – and system trust – the modernized financial system, of which the savings banks were an essential component, had proven to be viable and trustworthy. The generally not so wealthy clients of the savings banks now increased their influence, and the previously top-down character of the Swedish savings banks shifted into a more mutual, and maybe even equal, one.[20]

In the late nineteenth century the professionalization of the savings banks and the standardization of the lending routines made possible a change in the structure of borrowers. Through effective risk management, the Swedish savings banks could now handle large volumes of loans. At this point, savings banks could even grant comparatively large loans to previously excluded categories of borrowers, such as skilled workers without tangible assets.

Many local savings banks had previously devoted a large portion of their investments to loans to local business, industry and commerce. With the legal introduction of separate functions for commercial and savings banks in the 1890s ("the natural order"), many savings banks were disqualified from continuing to perform banking business, such as short-term lending to local industry and the offering of financial services such as accounting of bills, i.e. services that too much resembled those performed by the continuously growing number of commercial banks. The new legislation was officially motivated by concern for the well-being of the depositors – the savings banks should not be given the

[20] Petersson (2001) and Hellgren (2003).

possibility to risk the savings of “ordinary” people – but apparently also had some effects on the savings banks’ ability to compete on the local credit markets.[21]

Some savings banks continued to engage in the financing of business and industry even after the institutional change, especially in the newly industrialized cities in the north of Sweden, but the general trend was still a change towards more long-term and delimited lending operations.[22]

[21] Sjölander (2003).

[22] Nygren (1967).

The financing of the urban revolution[23]

At the beginning of the twentieth century, urbanization led to an increasing demand for housing in cities. Housing and the financing of housing became a challenge for the existing credit market and a central political question. Several institutions and organizations developed during the first years of the twentieth century to handle the risk connected with loans to low income households. One of the main actors was the savings banks.

The debate concerning housing and the living standard of workers followed the problems arising with urbanization. One problem, among others, was the shortage of housing for workers. The number of flats was too small and the standard of the existing flats was more than poor. As a result epidemic-related illness flourished and unregulated housing sprang up around the cities. This was defined as a problem for society to solve, and a strong ideological argument developed, which suggested that workers' ownership of their own housing was efficient for society. The politicians argued that ownership would have disciplinary effects on the workers and that housing conditions would became better. Ownership in itself was thus politically desirable, but the credit market did not supply the mortgages and capital accumulation among the workers was low.

One of the main conditions to provide housing is financing. Of course it was possible for landlords to obtain loans to build rental housing for this group of people, but because of the risks associated with this kind of housing the interest rate would became high and consequently the rent was too high for the target group. In the USA of the nineteenth and early twentieth centuries, high down payments for owner-occupied homes was a standard method of minimizing risk to the lender.[24] However, this was not the case in Sweden, where down payments were very low. With almost no down payment, how did borrowers control the risk associated with giving mortgages?

[23] This section is primarily based on Fälting (2001).

[24] Alder G., Rotella E., (1998), Bying Homes with Borrowed Money: Worker´s Use Of Mortgage Credit In The Late 19th Century. Un published paper Indiana University, Uppsala University.

In a market situation the lenders will restrict the “loan to value” ratio (LTV) to around 50-60 percent. For workers either a high down payment will be required or borrowing from a secondary or informal credit market will be necessary. High down payments will also require high real wages to make capital accumulation for the down payment possible. If the LTV value is higher then 50-60 per cent, the risks associated with this kind of lending rise above sound banking judgment.

In principle there are two ways to go: high down payments or finding a way to control the risks associated with high LTV lending. The first method was actually the situation that was discussed in the political discussion concerning the difficulties for ordinary people to get a big loan compared to their annual income. Controlling the risk associated with housing construction for low income household was the method chosen.

The risk with high LTV could be controlled by three different strategies: risk distribution, social control and technical regulations. Risk distribution was accomplished through cooperation between the savings bank, the commercial bank, the local government and the employers. The relations between these actors were connected via a nexus of contracts through a cooperative organization. This cooperative was governed by workers themselves.

The cooperative solution was indeed engaged in enforcing the social control necessary; for example in the cooperative collected the money from each worker and paid the savings bank. The ownership of the house was initially the cooperative’s, and each member had an option to buy the house.

The technical regulation was achieved through cooperation between the city, the cooperative and the banks.

As the shift in collateral suggests (table 5), mortgages gradually became the hallmark of the lending of the Swedish savings banks, a hallmark that persisted for the entire twentieth century. With regard to the external financing of houses, the savings banks had a market share of 25 percent (of the total volume of external credits for housing mortgages) in the early 1910s.[25]

[25] Bergström (1916), p. 178-179.

Table 5. Collateral in the lending of the Swedish savings banks 1876–1910, shares in percent

Year	Mortgage	Name	Shares	Total advances, in Millions SEK
1876	51	44	5	116
1880	56	40	4	121
1890	64	31	5	241
1900	68	24	8	362
1910	71	21	8	693

Source: Petersson (2001), p. 78.

Case studies of local savings banks throughout Sweden confirm the general picture. The number of loans increased sharply from the 1870s, reflecting the fact that it was now possible for new, large categories of borrowers to get a loan in the savings banks. The industrial revolution and its obvious consequences, such as the increasing urbanization and the need for new and better living conditions in the cities, naturally had a great impact on this process. The standardized contracts in the savings banks and the new forms of collateral used by a majority of the savings banks gradually gave the savings banks a distinct character of being a bank for the growing working class. When the own-your-own-home associations (see the following section) had their breakthrough in the early twentieth century, this character became all the more noticeable as these associations to a large degree depended on credits from the local savings banks.[26]

The savings banks were very active in creating housing capital for the inhabitants in the growing cities. This was possible firstly through the savings banks' local knowledge of both the employers, who guaranteed the repayment of the loans, and the employees/borrowers, who established cooperative building societies. These societies exerted the social control and the repayment guaranty previously executed and enforced by the bank.[27]

In some cases the savings banks supported the "own your own home" (*egnahems)* movement by granting loans for up to 85 percent of production costs and by offering low interest rates. While other loans charged between 5 percent and 6 percent, the owner-occupied home loans were made at 4.5 percent. At best,

[26] Sjölander (2003), Hellgren (2003) and Petersson (2001).

[27] Fälting (2001), Petersson (2001).

the bank had a 0.5 percent margin over its deposit rate. Normally no bank lent more than 50 percent of a building's value. It was the city's guarantee of construction costs, together with the savings bank's benevolent attitude, that made the higher loan percentage possible. The Savings Bank Law of 1892 forbade savings banks from providing credit for building. This rule made it impossible for the savings bank to provide construction credits for owner-occupied homes. This problem was solved by having the local commercial bank provide the construction credits. Once construction was finished, the loan was transferred to the savings bank. Here is an example of how ineffective formal institutions could be circumvented.

In principle, this system of financing can be said to constitute a subsidization of housing. First of all, the city's guarantee constitutes a type of subsidy, not so much of the interest rate but rather of the level of the loan. Without the guarantee, the savings banks would not have lent 85 percent of the cost. Even the collective security provided by the "own your own" associations constituted a subsidy in that it reduced the savings bank's risk exposure.

The solution of the discussion of housing for workers was the "Own your own" movement that originated in Germany and Denmark and spread in Sweden during the last decade of nineteenth century. Initially this idea focused on a rural, very small production unit for one family, but it was introduced as a solution for urban housing as well at the turn of the century. In towns local "own your own" home associations were created by active skilled workers.

The functions of this association were to select members, build the houses and inspect the maintenance while the houses were under cooperative ownership. To become a member of the association one had to apply, and the board approved new members. The association had established a social norm.

The board was very active in the building process. Firstly the town engineer had to write a standard technical description of the houses, certifying that they complied with town regulations. Furthermore, the technical specification was central for the bidding. The association asked for tenders from three or four contractors for every house built. After the bidding they formally contracted the preferred contractor. This technical and contractual process was handled with trust and care.

During the first years of the association, there was an inspection of the tenant houses every three months. The inspection concerned the maintenance and respectability of the house. In some cases the board had to order a tenant to make repairs. Afterwards the board inspected the work to make sure that it had been done.

It can be seen how the association made agreements with various parties and that these were collective solutions. Private ownership was thus neither important for the city, the firm nor the bank. The association acted for the future owner. This made it possible for the members to build a home of their own with a low cash down payment.

The result of this development was a new system for financing housing. Risk distribution was handled through a guarantee from the local government and supplementary financing by employers. The local government issued technical regulations to secure the value of the houses. Credit was given by savings banks to a cooperative of workers who built their homes themselves. With credit given to cooperative organization, workers themselves had to establish and enforce social norms to avoid free rider problems.

The backbone of this solution was of course the central position that the savings banks had in the local society. During the nineteenth century the savings banks were established as a part of a patriarchal system and had served as an intermediary between old and new. With new modern legislation such as the “natural order”, the savings banks succeeded in acting in a new environment and handling risk management for a new group of customers in order to provide loans desirable for both the individual and society.

The Swedish savings banks in an international comparison: conclusions

Sweden, as well as the other Nordic countries, in the late nineteenth and early twentieth centuries developed from being comparatively backward in all economic aspects to having economies characterized by general growth and prosperity. The industrial revolution was accompanied by a financial revolution, consisting for instance of a rapid growth in the number of financial organizations, of financial services offered to a greater public and of a general quantitative and qualitative shift in these services. The savings banks were an essential part of the Swedish financial revolution.

The savings banks could in several ways be said to have been market makers on the local credit market. The savings banks were often for a long period of time the only credit organisations on the local arena, besides private bankers, and their presence and experience were most important for the later financial organisations that entered the financial market.

A large number of accounts were opened and large amounts of money were deposited in the savings banks – money that was important for the development of the local credit market as it was reinvested. The savings banks succeeded in attracting depositors both from the previously private deposit market as well as new groups of customers. The typical account holder in the savings banks was from the latter half of the nineteenth century, as the average balances on the savings accounts show in table 2, men and women from the working or middle classes. The commercial banks on the other hand attracted mainly company owners, the middle classes and wealthier persons. But it was not that uncommon that a person held an account in both kinds of banks.

The more quantitative development of the investments and lending operations of the Swedish savings banks is rather straightforward and uncomplicated. From the very beginning the savings banks devoted a vast majority of their investments to loans to the public. In general, between 70 and 80 percent of the total investments made by the savings banks consisted of loans to the public.

Consequently, the savings banks developed into a major player on the total domestic credit market. In the early twentieth century the savings banks had a market share of nearly 20 percent of the total credit market.

Turning to the more qualitative development, especially with regard to the lending operations, we can identify rather different hallmarks during the early development phase (up to the 1860s) on the one hand and the latter phase on the other. The early phase was characterized by networks, by cooperation with other financial organizations and by insider lending. The founding fathers of the savings banks and the first generation of managers thus made extensive use of their personal networks and relations in making investment decisions in "their" savings banks. The savings banks were in many cases the first institutionalized financial intermediator to be established on the local credit market, thus to some extent replacing, or at least complementing, more informal sources of credits such as local merchants and money brokers. Since the savings banks also lacked the necessary resources to build up an organization to systematically control and supervise a large group of borrowers, alternative ways of minimizing the financial risks connected to lending had to be found. Using personal relations to point out credit- and trustworthy borrowers and to make use of more informal, or social, control of the borrowers was thus the method used by many of the early savings banks. Insider lending was thus consequently a rather widespread phenomenon amongst these savings banks.

From the 1860s we can identify a qualitative shift in the investments and lending operations of the savings banks. Firstly, the use of mortgages as collateral had its breakthrough, thus replacing personal guarantee as the dominant form of collateral. This shift was partly due to the fact that many savings banks had developed into rather large financial intermediaries and simply could not handle the growing numbers of borrowers. The use of personal guarantee as collateral by definition demanded personal knowledge of the borrowers on the part of the savings bank, its organization and its managers and personnel. If a savings bank had a large number of borrowers and hundreds, or maybe even thousands of loan applications every year, it was no longer possible to uphold a system based on personal knowledge. The shift towards mortgages as the dominant form of collateral was furthermore spurred by an institutional change, making it much less complicated and less time-consuming to use mortgages as collateral. To sum up the circumstances surrounding this specific change, the transaction costs to give loans on mortgage, in relation to using personal guarantee, was considerably lowered.

We can also distinguish a rather apparent change in the characteristics of the typical borrower in the savings banks. In the early stages loans to local business, commerce and industry had dominated in many savings banks, both in rural and urban areas. In the late nineteenth century the city savings banks by and large devoted their lending operations to the increasing demand for financing of housing for the growing working classes. In the rural areas on the other hand, the importance of the savings banks was clearly their effort to meet the credit demands from small-scale farmers. In all, the changing character of the lending operations during the late nineteenth century and the early twentieth century established the savings banks as being a bank for the lower and middle classes, i.e. a bank for "ordinary people". This character has then been very apparent during the bulk of the twentieth century.

An important part of how risk management was conducted in individual savings banks was their role in the local and regional bank-industry networks that appeared from the mid nineteenth century throughout the country. The savings banks had an important function of being market makers on the local financial markets and acquired valuable knowledge, information and practical experiences from these markets. When cooperating with other, later established financial organizations, especially the commercial banks, these capabilities in many cases were used to build up local and regional bank-industry networks. The role of the savings banks in these networks was clearly a complementary one, supporting the long-term development of both commercial banks and the industrial and commercial interests within the networks. The savings banks thus took care of the less risky, and less profitable, financial operations conducted by the financial organizations within the networks.

In the beginning of the twentieth century, urbanization led to an increasing demand for housing in the cities. Housing and the financing of housing became a challenge for the existing credit market and a central political question. Several institutions and organizations developed during the first years of the 20th century to handle the risk connected with loans to low income households. One of the main organizations was the savings banks.

Case studies of local savings banks throughout Sweden confirm the general picture. The number of loans increased sharply from the 1870s, reflecting the fact that it was now possible for new, large categories of borrowers to get a loan in the savings banks. The standardized contracts in the savings banks and the new forms of collateral used by a majority of the savings banks gradually gave the savings banks a distinct character of being a bank for the growing working class. When the “own-your-own-home” associations had their breakthrough in the early twentieth century, this character became all the more noticeable as these associations to a large degree depended on credits from the local savings banks.

The result of this development was a new system for financing housing. Risk distribution was handled through a guarantee from the local government and supplementary financing by employers. The local government issued technical regulations to secure the value of the houses. Credit was given by savings banks to a cooperative of workers who built their homes themselves. With credit given to cooperative organizations, workers themselves had to establish and enforce social norms to avoid free rider problems.

Once again, the savings bank has played a key role as a link between two different systems. The first aspect was the role in the transformation from an informal to a formal credit market, and the second aspect was their role in the transformation from patriarchal society with personal trust towards an early form of general welfare society mainly based on system trust.

How can we then characterize the investments and lending operations of the Swedish savings banks in an international, comparative perspective? In the *Nordic* context the Norwegian savings banks stands out as the most successful ones (table 6). In the early twentieth century the Norwegian savings banks had a market share of almost one third of the domestic credit market. The savings banks in Norway had a stronger local and independent character than for example the Swedish savings banks, which also in many cases prevented commercial banks from establishing on local and regional financial markets for a very long time. Hence, the Norwegian savings banks did not accept taking on a subordinate role in relation to commercial banks as the Swedish savings banks often did. The Norwegian savings banks were thus the most successful of the Nordic savings banks in offering vital and long-term assistance to the development of local and regional industry, commerce and municipal infrastructure and also to general economic development.[28]

The Danish savings banks are a special case. Initially more than 90 percent of their investments were placed in the government treasury. But from the late 1830s criticism against this system, i.e. not allowing the savings banks to meet the credit demands on the local credit markets, increased rapidly. In 1848 the Danish savings banks lost the right to place the saver's deposits in the treasury, and they almost immediately developed into major players on the local credit markets. Especially the rural savings banks made important contributions in the late nineteenth century to meet the demands of the swiftly developing agricultural sector of the Danish economy.[29] Finally, the development of the Finnish savings banks had, as was the case for Finnish economy as a whole, a rather slow and late start in comparison the other Nordic countries. The lack of demand, reflecting the general development level of the Finnish economy, during the most of the nineteenth century clearly held back the development of the savings banks. On the

[28] Å Egge, ”Transformation of Bank Structures in the Industrial Period: the Case of Norway 1830–1914”, *The Journal of European Economic History*, 1983, vol. 12, p. 271–294; T Brandal et al, *Penger spart-penger tjent*, (Oslo 1989); B Ronning, ”Norsk sparebankvaesen inntil 1850”, in, *Studier i sparing og sparebankvaesen* (Oslo 1972); E Lange, ”Bankstruktur og kundeforhold”, in *Bankstruktur og kundforhold i langtidsperspektiv*, (Oslo 1992).

[29] S–Å Hansen, “The Transformation of Bank Structures in the Industrial Period. The Case of Denmark”, *The Journal of European Economic History*, 1982, vol. 11, p. 575–603; N Clemmensen, *Sparekassebevaegelsen i Danmark 1810–1914*, (Copenhagen 1985); O Blinkenberg-Nielsen, *De danske sognesparekasser 1865-1914*, (Copenhagen 1950); E Hoffmeyer, *Strukturaendringar på penge- og kapitalmarkedet*, (Copenhagen 1960).

other hand, the Finnish savings bank continued to gain markets shares during the twentieth century at a pace that surpassed their Nordic counterparts.[30]

Table 6. Market-shares on the institutional credit markets in the Scandinavian countries, 1840-1910. Savings banks (SB), commercial banks (CB) and national banks (NB), percent

Year	Denmark			Finland			Norway			Sweden		
	SB	CB	NB	*SB*	CB	NB	*SB*	CB	NB	*SB*	CB	NB
1840	..	..	..	*8*	.	51	*21*	.	69	*8*	16	53
1850	*10*	1	74	*11*	.	52	*20*	1	75	*11*	16	36
1860	*19*	9	41	*7*	.	50	*27*	12	48	*12*	24	17
1870	*27*	13	29	*7*	21	20	*33*	16	35	*14*	29	10
1880	*26*	16	17	*11*	26	15	*36*	18	29	*14*	35	8
1890	*25*	15	13	*15*	37	16	*34*	20	25	*19*	37	7
1900	*23*	18	11	*12*	50	9	*29*	30	20	*18*	50	6
1910	*19*	21	7	*16*	61	12	*30*	30	19	*19*	54	5

Source: S–Å Hansen, ”Kreditformer og industriel vaekst i Danmark”, in G Authén–Blom ed., *Utviklingen av kreditt og kredittinstitusjoner i de nordiske land ca. 1850–1914* (Oslo 1977), p. 20; E Pihkala, ”Kredit och kreditformer i Finland, 1840–1914”, in G Authén–Blom op. cit., p. 39–40; Å Egge, ”Transformation of bank structures in the industrial period: the case of Norway 1830–1914”, *Journal of European Economic History*, 1983, vol. 12, p. 271–294 and I Nygren, *Från Stockholms Banco till Citibank,* (Stockholm, 1985), p. 140–150.

In a somewhat wider, European perspective the investments and lending operations of the nineteenth century and early twentieth century savings banks seem to fall into two, rather separate categories. The savings banks in, for example, Great Britain, France and Belgium have been characterized as being specialized in collecting the savings of the less-wealthy public, foremost the growing working class. Considering the potentially rather wide range of financial services that banks could choose to offer their clients at this time, these types of savings banks were merely passive deposit organizations, with hardly any active investment policies at all. With regard to savings banks' potential contribution to general economic development, to industrial growth and to urbanization in these countries, their role must be understood as one characterized first and foremost by passivity and inflexibility, although they did make important, but indirect,

[30] J Lefgren, *Banking in the Early Industrialization of Finland, 1860–1914,* (Salt Lake City 1975); A Kuusterä, *Idé och pengar. Sparbankerna i det finländska samhället 1822–1994,* (Helsinki 1996).

contributions in collecting savings and redistributing them to other sectors of the economy.

There are some resemblances between the Nordic savings banks and the savings banks in Germany, Austria and Hungary, savings banks that constitute the other category of savings banks. These savings banks showed, in various degrees, several similarities with the commercial banks regarding the character of the actual, daily businesses. We would like to characterize the Nordic savings banks, with some partial exceptions regarding the Finnish savings banks, as even more banking- and credit-oriented, thus aiming at not only fulfilling the classic function of savings banks, i.e. collecting and managing the funds of small savers, but also taking on the much more effort-demanding and risky task of financing different sectors of the local economies.

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