UPPSALA PAPERS IN FINANCIAL HISTORY

REPORT NO 12
2000

THE A BORROWER AND A LENDER BE
SAVINGS BANKS IN THE ECONOMIC DEVELOPMENT OF SWEDEN
1820-1939

PAPERS PRESENTED AT THE 24TH ANNUAL MEETING OF THE SOCIAL SCIENCE
HISTORY ASSOCIATION, FORT WORTH, USA, NOVEMBER 11-13 1999,
WITH COMMENTS

Lars Fälting
Hilda Hellgren
Tom Petersson
Anders Sjölander

DEPARTMENT OF ECONOMIC HISTORY
ISSN 1104-0726
ISRN UU-EKHI-R - 12 - SE
CONTENTS

INTRODUCTION ................................................................................. 2

NORMS AND LEGISLATION IN THE SWEDISH SAVINGS BANK BUSINESS ...... 3
Anders Sjölander
COMMENT .......................................................................................... 15
Mikael Lönnborg

PLAYING IT SAFE? LENDING POLICIES OF THE SAVINGS BANK IN
NYKÖPING 1832-1875 ........................................................................ 18
Tom Petersson
COMMENT .......................................................................................... 35
Elyce J. Rotella

FINANCING WORKERS’ HOMES - A RISKY BUSINESS. FINANCING OF
OWNER-OCCUPIED HOUSES. THE CASE OF NYKÖPING, SWEDEN
1908-1920 .......................................................................................... 37
Lars Fälting
COMMENT .......................................................................................... 52
Kenneth Snowden

ONE FOR ALL - ALL FOR ONE? NETWORKS BETWEEN GUARANTORS
AND BORROWERS DURING THE LATE 19TH CENTURY ...................... 56
Hilda Hellgren
COMMENT .......................................................................................... 66
Lars G. Sandberg
INTRODUCTION

The articles in this volume of Uppsala Papers in Financial History were presented at the 24th annual meeting of the Social Science History Association in Fort Worth, Texas in November 1999. The authors are all participants of the Savings Bank Project at the Department of Economic History, Uppsala University.

The principal aim of the research is to determine the contribution of the savings banks in Swedish economic development between 1820 and 1970. The project is divided into three parts. The first part examines formal and informal institutions, which were of importance in shaping the savings banks and their actions. Secondly, the project includes studies on lending and how the lending structure evolved over time. Lastly the project is concerned with savings, and more specifically, savings as a life-cycle phenomenon. However, in this paper long-term savings will not be discussed.

The savings banks were important actors on the credit market in Sweden from the mid 19th century onwards. Anders Sjölander’s paper analyzes the establishment of legislation concerning savings banks working in a previously relatively un-regulated market.

The other three papers in this volume study the lending operations and policies of various savings banks from the early 1830s up to World War I. Since the Swedish savings banks were strongly influenced by local conditions, the local approach is utilized in these three studies. One of the striking changes in the 19th century credit market is the transition from a one based on personal relationships to a less personalized and more formal system. This transition is described and analyzed in Tom Petersson’s and Hilda Hellgren’s contributions. This transition is illustrated through the study of mortgage and guarantor loans. The borrowers themselves are important subjects of these studies.

Finally, Lars Fältling’s paper discusses the financing of workers’ homes during urbanization and the role of the savings banks in this process.

---

1 The authors are indebted to Lynn Karlsson and Mary Hilson for checking the English language and to Mikael Lönningbärg, Elyce J. Rotella, Lars G. Sandberg and Kenneth Snowden, for their valuable and thoughtful comments.
Norms and Legislation in the Swedish Savings Bank Business

Anders Sjölander
Uppsala University

Abstract
This paper concerns the legislation of the Swedish savings banks movement, why and how certain informal local institutions were transformed into national law while others were not. Prior to national governmental regulations, in the late 19th century, the Swedish savings banks had developed a variety of local features. Some of them were focused on collecting savings from people of smaller means. In other savings banks, lending money was the main purpose of the business. Competition in the credit market had grown by the end of the century, and in many regions the private banks and the savings banks competed for the same customers. In other regions there was no competition at all.

I analyze the legislative process during industrialization and study how different interest groups tried to shape the Savings Banks Law and the credit market in general. In order to understand the behavior of the actors in the parliament, I study their geographical and social origins. The reform of the parliament during the democratization process in the late 19th and early 20th centuries brought people from new social groups and with new ideas to the parliament. For some members of the parliament pure economic interests were decisive, for others it was a matter of ideological and political interests.

Background
Traditionally the Swedish savings banks have been considered parts of the same movement, the savings bank movement, with roots in the early 19th century. The official ideology of the movement was to give less wealthy people in society the opportunity to save their money. If these people could save some money in good times, they could use it later when times got worse. But there was also another purpose, namely to protect people from the temptation of spending their money on morally questionable goods or services, e.g. alcohol, tobacco and luxury consumer goods. However, the intentions failed and the development of the savings banks was modest.1

Almost every early savings bank was founded in a town by people from the wealthier classes and it was difficult to get ordinary people to use the savings banks. Perhaps this was because they were new types of

1Sommarin (1940).
organizations and people were not used to saving. It could also be that people did not feel they had money to save. There was also a huge amount of mutual suspicion between the lower classes, i.e. the working class, and the wealthier classes. They apparently did not trust one another.

In the middle of the 19th century people in the countryside began to found savings banks. In these banks the lending was as important as the savings. The founders were farmers and the savings banks gave that class of people the opportunity to receive loans and make investments in new technical products. The fact that these banks were founded by the same class as the customers gave them a more central role in the local economy. Even in the towns lending became important, especially for small businessmen and craftsmen. Some of the savings banks had many branch offices and activities, quite like the private banks. Still there were savings banks whose activities remained very modest.

In accordance with the traditional idea about the natural division of labor in the credit market, the savings banks ought to offer less wealthy people the possibility to save money. The private banks* were to provide industry and trade with short-term credits, and the mortgage institutes were supposed to finance the agricultural sector. When the private banks concentrated their activity on deposits from the public, during the late 19th century, they became competitors to many savings banks. The private banks even became the dominating actors in lending (see table 1). The traditional idea about the natural division of labor in the credit market did not really correspond with reality. There were major local variations, however.

The ‘Swedish savings banks were unregulated for fifty years, until the late 19th century. Because of this they developed major differences, and it became difficult to pass a law which was supposed to include all different kinds of savings banks. These first attempts to regulate the savings banks business were weak, and the savings banks could continue their business as usual. When the Swedish financial market became more intensively regulated in the early 20th century, the regulation was to a large extent based on practice and tradition.'

---

2 “Private banks” includes commercial banks and other smaller banks except savings banks.
TABLE 1. THE INSTITUTIONAL MONEY LENDING IN THE SWEDISH CREDIT MARKET 1840-1910. (PERCENT; TOTAL LENDING IN MILLION SEK)

<table>
<thead>
<tr>
<th>Year</th>
<th>The National Bank</th>
<th>Private Banks</th>
<th>Savings Banks</th>
<th>Mortgage Institutes</th>
<th>Insurance Companies</th>
<th>Other</th>
<th>Total Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>1840</td>
<td>32</td>
<td>16</td>
<td>8</td>
<td>21</td>
<td>0</td>
<td>3</td>
<td>61</td>
</tr>
<tr>
<td>1850</td>
<td>35</td>
<td>16</td>
<td>11</td>
<td>33</td>
<td>0</td>
<td>5</td>
<td>99</td>
</tr>
<tr>
<td>1860</td>
<td>19</td>
<td>26</td>
<td>13</td>
<td>40</td>
<td>0</td>
<td>2</td>
<td>211</td>
</tr>
<tr>
<td>1870</td>
<td>10</td>
<td>29</td>
<td>14</td>
<td>38</td>
<td>0</td>
<td>9</td>
<td>415</td>
</tr>
<tr>
<td>1880</td>
<td>8</td>
<td>35</td>
<td>14</td>
<td>35</td>
<td>7</td>
<td>1</td>
<td>827</td>
</tr>
<tr>
<td>1890</td>
<td>7</td>
<td>36</td>
<td>19</td>
<td>29</td>
<td>8</td>
<td>1</td>
<td>1255</td>
</tr>
<tr>
<td>1900</td>
<td>6</td>
<td>50</td>
<td>18</td>
<td>17</td>
<td>8</td>
<td>1</td>
<td>2104</td>
</tr>
<tr>
<td>1910</td>
<td>5</td>
<td>54</td>
<td>19</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td><strong>3808</strong></td>
</tr>
</tbody>
</table>


PURPOSE
This paper concerns why and how certain norms were transformed into national law while others were not, during the period from the 1880s to the 1920s. I am interested in which individuals and groups took part in the debate and if there were some clear lines of argumentation. Which ideas and norms was the argumentation based on? The reformation of the parliament during the democratization process, in the late 19th and early 20th centuries, brought people from new social groups and with new ideas to the parliament. I believe that the argumentation was dependent on their experience of savings banks activity. Previous research has also shown that the activity of the local savings banks was dependent on the members of the boards, not only on the local economy.

THEORETICAL FRAMEWORK
A common idea amongst economists is that regulation of a market, in this case the financial market, should improve its efficiency, integrity and infrastructure. A different approach is to stress the importance of ideological preferences. There is also some evidence of the importance of financial networks in order to circumvent governmental regulation. In the longer perspective this have forced the legislation to change. Therefore, I believe that one needs a broad perspective when studying the establishment of governmental regulations.

---

1 e.g. Petersson (1999).
2 Merton (1993).
I am using a broad theoretical framework. The study is based on Douglass C. North’s institutional works. I see institutions as important in history and I am using a vocabulary taken from institutional theory, e.g. formal and informal institutions, path-dependency and transaction-costs. Inside the institutional framework there are rational actors displaying self-interest.’ From that standpoint I imagine that individuals use organizations and legislation to promote their own interests. Previous research has also pointed out the importance of interest groups in the Swedish political system.’

**Methodology**

I am using material from the Swedish parliament. This material is often described as the most important source for the Swedish history. The main materials are different reports of the proceedings from the chambers of the parliament and the committees. A problem is that it is impossible to know how the members of the parliament voted individually. My solution is to follow the debate and just deal with the active members of the parliament, the ones who took part in the debate.

The members of the parliament are classified in different categories according to their title, home address, political party etc. These categories are substitutes for a study of personal networks. I assume that the interests and networks are more similar inside these categories than those between the categories. My idea is to use a qualitative method to see to what degree these factors were important. The tables in this paper give only a broad picture of the debate, not an exact overview.

**The legislative process in Sweden in the late 19th and early 20th centuries**

In Sweden the parliament is responsible for legislation. In the period of this study the parliament was organized into two chambers. The first chamber consisted of people from the higher classes and was more conservative than the second chamber. Not everyone had the right to vote in parliamentary elections. Special sets of demands, mostly economical, set the limits on enfranchisement. Economic development during the period gave more and more people the right to vote and together with the growing liberal and working-class movements this forced the parliament to pass a law, in 1909, which gave the right to vote to all men. The parties became more important and the distance between the members of the parliament and the people grew. When the government proposed a bill a committee had to

---

1North (1990).
prepare it before the chambers could vote. The results of the voting in both chambers had to be the same.

Previous research has shown that interest groups were an important factor in the legislation process in the 1920s and 1930s. It has also shown that individuals could have a big influence on the process. In the savings banks question there were two major interest groups, the Savings Banks Association and the Bank Association. However, the Bank Association was mostly interested in the question of the use of capital and savings limits. Another important interest group was the County Government Boards, but they were mostly interested in the question of the inspection of the savings banks.

**The Savings Banks Law from 1923 in Summary**

The law from 1923 stated that the savings banks should deal both with savings and lending. The boards were supposed to be elected by the members of the board plus some kind of democratic assembly. There were also limitations on the influence of private banks in the savings banks boards. The use of the capital was also more intensely regulated and the surplus could be used for information about savings or for the benefit of everyone. The law also stated that the County Government Boards were responsible for the inspection of the savings banks business.

**The debate in the parliament**

The first observation is the lack of interest in the savings bank question. Just a few members of the parliament took part in the debate. This was most obvious in the first chamber of the parliament. The members almost entirely repeated the statements from the parliament committee. In the second chamber the discussion was sometimes more intense. The debate was also more intense during the year when a bill was proposed. In the other years there was less interest in the issue.

The debate around the savings banks was mainly concentrated on five questions:

1) The purpose of savings banks  
2) The board  
3) Deposits and the use of capital  
4) The use of the surplus  
5) The control of the savings banks business

---

1 Carlsson (1988).  
4 Reports from the savings banks committee.  
5 SFS1923:286.
The standpoints taken in the last four questions were highly dependent on the standpoints in the first question.

**THE PURPOSE OF SAVINGS BANKS**

In the introduction I said that earlier investigations have shown differences between the savings banks. It is also clear that there existed totally different opinions in the parliament about the purpose of the Swedish savings banks. At least three major opinions existed and the people who argued for them thought their own opinion was the natural one. According to the first position the only purpose of the savings banks was to collect money from people of smaller means; lending was not seen as a savings bank's business. The second opinion said that savings banks should collect money from public at large and have an active lending policy. The third, and the last major opinion, argued for freedom and to let savings banks compete with the private banks, e.g. no limits on deposits.

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings</strong></td>
</tr>
<tr>
<td>Upper-class</td>
</tr>
<tr>
<td>Lower upper-class</td>
</tr>
<tr>
<td>Merchants</td>
</tr>
<tr>
<td>Craftsmen</td>
</tr>
<tr>
<td>Farmers</td>
</tr>
<tr>
<td>Workers</td>
</tr>
<tr>
<td>Town</td>
</tr>
<tr>
<td>Countryside</td>
</tr>
</tbody>
</table>

Source: Reports of the proceedings from the chambers of the parliament.

When the members of parliament are divided into the different categories, social status, home address etc., there are some patterns. Amongst the upper classes many were against competition with the private banks. Often these members had close economic and personal connections with the private banks and therefore had nothing to gain from freer savings banks. Savings banks should not, according to the upper classes, take any risks at all. The farmers and the members who represented the lower classes argued for freer savings banks. They also felt that the private banks took capital from the countryside in favor of the towns. If the savings banks had the possibility to compete with the private banks the capital could stay in the countryside. Cheap lending to local society was the main purpose of the savings banks. These opinions correspond with the business of the
savings banks in the towns and in the countryside. The savings banks in the towns seldom tried to compete with the private banks. This lead us to the next big question, the boards.

The boards
In the towns there were often personal connections between the boards of the private banks and the savings banks. In the first part of the 19th century it was difficult to found private banks so the local élite founded savings banks instead. At least a couple of these savings banks were used like ordinary banks. When it became possible to found local private banks, these became a more rational alternative and the share-holders could earn money from the business. But they retained their influence in the boards of the savings banks, and when the competition for ordinary peoples’ saving started in the late 19th century, these savings banks had no chance to compete. The boards were supposed to represent the savers, which was not the case in reality. The boards were also afraid of the new radical elements in society.

Table 3. The social status of the members of the boards
in the Swedish town savings banks, 1889 and 1925, percent

<table>
<thead>
<tr>
<th></th>
<th>1889</th>
<th>1925</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper-class</td>
<td>23</td>
<td>28</td>
</tr>
<tr>
<td>Lower upper-class</td>
<td>41</td>
<td>44</td>
</tr>
<tr>
<td>Merchants</td>
<td>31</td>
<td>20</td>
</tr>
<tr>
<td>Craftsmen</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Farmers</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Workers</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>99</td>
</tr>
</tbody>
</table>

Source: Sveriges bankmatrikel (The Swedish Bank Register).

The boards of the savings banks in the countryside consisted of farmers. The customers were also farmers, so the boards represented the savers. But these savings banks were also criticized. The complaints came from people who stood outside the inner circle of the savings banks. They thought that they had a smaller chance of receiving cheap loans.

In almost every savings bank the boards elected the new members of the board. When the society changed in a democratic direction, the savings banks became a conservative element. The boards still chose new members from the same groups as earlier. In the parliament the liberals and the Social Democratic Party asked for more democratic savings banks, but at first

1 Nygren (1985).
their demands were not answered. The Swedish Savings Banks Association did not want any regulation at all in this question. They referred to the successful history of the savings banks and suggested that that showed that regulation was unnecessarily. Some people, especially in the 19th century, believed that a discussion about the way to elect members of the board questioned the honor of the board members. But despite this the parliament passed a law, which forced the savings banks to change the procedure of the elections. In the table below most of the upper-class members who asked for a reformation of the system were liberals. They believed that the savings banks could play a more important role, especially in the towns, if they became more democratic.

**TABLE 4. OPINIONS IN THE PARLIAMENT ABOUT THE ELECTION TO THE BOARDS OF THE SAVINGS BANKS, 1882-1923**

<table>
<thead>
<tr>
<th>Class</th>
<th>Self-renewal is good</th>
<th>Self-renewal is bad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper-class</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Lower upper-class</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Merchants</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Craftsmen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers</td>
<td>14</td>
<td>6</td>
</tr>
<tr>
<td>Workers</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Town</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>Countryside</td>
<td>22</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Reports of the proceedings from the chambers of the parliament.

The process above is quite clear evidence of path-dependency in history. When society changed, the old customs remained influential and legislation was the only way to change that.

**THE USE OF CAPITAL**

As we have seen above there were quite clear differences between the savings banks. The use of the capital was dependent on the two first questions, the purpose of savings banks and the boards, and the estimated risk.
In many savings banks insider lending was common for almost the entire 19th century. Few people saw anything unnatural with this procedure. In the latter part of the century there developed some criticism against this and from the 1890s it was forbidden.

In the savings banks in the towns it was common to have share security on loans. The interest rate was in fact lower than for other securities. These lenders were often people from the same upper classes as the members of the boards. In the countryside there was much suspicion against the modern industry in the towns. The people in the countryside did not want the capital to be invested in the towns. Therefore they preferred to lend against a personal guarantee. In the countryside it was also difficult to use mortgages. The farmers had often already mortgaged their real estate and the crofters had no real estate. This is the reason why they kept lending against a personal guarantee as legal option from 1890s. There had been complaints about the high risks of these loans, but the close personal networks in the countryside could reduce them to a minimum. There had been almost no losses at all with these loans. For smaller savings banks these loans were easier to administrate and the transaction costs were low.

The use of the surplus

The smaller savings banks had often a very small surplus, but the larger savings banks, both in the towns and in the countryside, sometimes had a quite big surplus. Before the legislation the local savings banks could use the surplus as they wanted. Only the local regulations limited their freedom, but these regulations had no real value. They could easily be changed or just ignored. The criticism against the use of the surplus was severe. The people who stood outside the inner circle felt that the surplus was used for

<table>
<thead>
<tr>
<th></th>
<th>Forbid insider lending</th>
<th>Avoid industry</th>
<th>Security the most important</th>
<th>Local factors</th>
<th>Local investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper-class</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Lower upper-class</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Merchants</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Craftsmen</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers</td>
<td>20</td>
<td></td>
<td></td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>Workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town</td>
<td>10</td>
<td>5</td>
<td>11</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Countryside</td>
<td>8</td>
<td>21</td>
<td>1</td>
<td>24</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Reports of the proceedings from the chambers of the parliament.
the board members’ own projects. The big question was whether the surplus should be used for information on savings and savings propaganda or if it should be used for charity, or for the benefit of everyone. In some cases the surplus had financed projects that were supposed to be financed by taxation. In other cases the savings banks collected capital in the countryside and then financed projects in the towns.

Some members of the parliament thought that the freedom to use the surplus was one of the reasons why people had founded savings banks and that if that opportunity were removed, the interest in the savings banks would decline. The board of the Savings Banks Association argued for savings propaganda, but that opinion was not representative for all savings banks.

The inspection

The County Government Board was in charge of the inspection of the savings banks. This led to differences in the control in the different counties and a discussion emerged about the possibility of instituting a central, national inspection. As the size of the savings banks’ business grew, demands for a new form of control increased. To some people new inspection was necessary to maintain confidence in the savings banks. Other people did not see any decline in confidence in the savings banks. Maybe some savings banks had a better reputation than they deserved.

Table 6. The opinion about savings banks inspection among the members of the parliament 1882-1923

<table>
<thead>
<tr>
<th>Category</th>
<th>Central inspection</th>
<th>Regional/local inspection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper-class</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower upper-class</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchants</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Craftsmen</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Farmers</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>Workers</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Town</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>Countryside</td>
<td>2</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: Reports of the proceedings from the chambers of the parliament.

In table 6 it is quite clear that the majority were against a central inspection. Members of the parliament from the countryside were against that. According to them the inspection should take local factors in consideration. Almost all of the County Government Boards asked for a central inspection. They thought it was difficult to administer the inspection.
**Conclusions**
The institutional development of the Swedish credit market during the 19th and the early 20th centuries went hand in hand with the transformation of production. In that process the ideological and political basis of society changed and influenced the design of the institutional framework. With regard to the Savings Banks’ Law, the efficiency of the financial system seems not to have been considered as important as ideological preferences and self-interest. In small communities the savings banks, with no profit interest and low transactions costs, could have developed into an efficient alternative to private banks. But it was not in the interest of the private banks and the upper-classes, so they argued for limitations of the savings banks’ business.

In the beginning I mentioned “the savings banks movement”, but this is misleading. There was no one savings banks movement; if anything there were several different savings banks movements, with different purposes. There were different interests in the towns and in the countryside. Therefore the Savings Banks Association, which organized all different kinds of savings banks, could only play a minor roll in the legislation process. Thanks to the democratization process during industrialization, new networks were built and new ideas had an impact on the politics. In this paper I have discussed the importance of social status. It appears quite clear that the old elite did not voluntarily give up their dominating positions. When new categories of people were able to influence politics, they forced the savings banks to become more democratic and they broke the path-dependency.
BIBLIOGRAPHY

Primary sources
Andra kammaren protokoll 1882-1923 (Reports of the proceedings from the second chamber of the parliament).
Första kammarens protokoll 1882-1923 (Reports of the proceedings from the first chamber of the parliament).
Motioner första och andra kammaren 1882-1923 (Bills from the first and second chambers of the parliament).
Sparbankskommittén 1910, 1920 (The Savings Banks Committee).
Svensk forfattningssamling (SFS) 1923:286 (The Savings Banks Law from 1923).
Sveriges bankmatrikel 1892, 1927 (The Swedish Bank Register).
Utskottsprotokoll 1882-1923 (Reports from the parliament committees).

Secondary sources
Petersson, Tom (1999), Kreditmarknad i omvandling. Uppsala.
Sommarin, Emil (1940), Grundläggningen av vårt sparbanksväsen. Stockholm.
The paper of Anders Sjölander concerns the legislation of the Swedish savings banks, how and why certain local rules and procedures were transformed into national laws. The main idea is that before the establishment of regulations for savings banks on a national level, each local market developed an informal structure to cope with structural uncertainty. The local markets also developed a specific pattern that focused on either collecting savings from people of small means or lending funds to local business. These differences led to different ways of conducting business among local savings banks and therefore it is hard to see the national savings banks movement as one single movement. At the same time it is possible to see that the conduct of savings banks in local markets served as a model for the establishment of national regulations.

Sjölander analyses this process through studying how different interest groups tried to influence the institutional set-up for savings banks. Different social groups in the Swedish parliament are detected by looking at members' geographical and social origins. One important conclusion is that members of parliament with ties to the towns were striving to constrain the possibility for savings banks to compete with private commercial banks. One way to do this was to establish regulations that allowed the savings bank only to act as an organization that collected savings from people with small means. On the other hand, members of parliament with origins in the countryside, argued for legislation that also gave the savings bank an opportunity to conduct an active lending policy to local businessmen. This was mainly due to the major difficulties faced by farmers in borrowing money from private commercial banks.

In this comment, my intention is to discuss some factors that need more attention from the author, especially because this paper is only work in progress at this stage. An interesting question is whether it is possible to make a connection between the conduct of local savings banks and the establishment of a national institutional structure. Of course, there must have been a lot of linkages between these factors, but is it possible to make this connection in a scientific manner? By this I mean, is it possible to sort out the factors that did and did not influence the establishment of regulation on a national level? Sjölander's most critical problem is to build a bridge between local conduct, which in turn differed in different regions, and the national discussion and formation of laws.

Another question concerns the use of the theoretical tools of institutional theory. Sjölander points out that he is using the vocabulary taken from in-
institutional theory, for example formal and informal institutions, path-dependency and transaction-costs, but he is not defining the meaning of these terms or how to use them in his empirical research. The extensive use of institutional theory, especially in the field of economic history, has repeatedly shown us the need to be cautious when it is applied to empirical research. If the theoretical tools are not defined it is quite easy to end up in a discussion with no possibility of grasping driving forces and effects. My suggestion is to define the theoretical tools in a very strict manner and also explain how these are used in the empirical study. Thereby it is possible to contribute to the discussion of institutions and their impact on economic development and also how economic development affect the pattern of institutional change.

The empirical part of the study concerns mainly the debate in the Swedish parliament about the establishment of specific regulations for saving banks. Sjölander has made a major effort to find different interest groups in the parliament although the division of actors into different social groups and the presumption that they act in the same manner can cause a lot of problems. One example can be found in table 2 that looks at opinions about the purpose of savings banks amongst the members of parliament. The outcome of that qualitative analysis is that members of the parliament who were living in towns, to a greater extent that members from the countryside, were in favor of saving banks acting only to collect savings. On the contrary, members in the parliament from the countryside preferred savings banks as organizations with an active lending policy. To be able to draw this conclusion it is necessary to make a strict definition of the difference between the two groups. For example, does a town located in an area defined as countryside belong to the town or the countryside? Different definitions of the groups, based on the surrounding environment, could change the results in a significant way. The time span in the same table, 40 years, can also raise some questions about differences inside the different groups, i.e. changes in society during this period also has to been discussed to clarify any changes in the social groups over time. These problems need to be discussed more thoroughly by the author in the future.

A way of avoiding these problems is to conduct a micro-oriented study for several different regions and savings banks. In this case, it is necessary to study the local environment to be able to say anything about what is happening on a national level. Especially in this case, when the main topic is to see how the conduct of local savings banks influenced the establishment of regulations at a national level. A micro-oriented investigation could also be a way to detect local formal and informal institutions, and thereby contribute to the debate about the institutional set-up in local markets. But research that tries to investigate such a complex process as this
always has to be very careful about the impact of different factors on the studied object.

One problem, though, is that the micro-oriented study in one region can only give us one pointer to the local influence on national regulations. It is necessary to perform studies in different regions, with different local features and conduct, to be able to draw far-reaching conclusions about this topic. But it is my deepest belief that Anders Sjölander's future research, and finally his dissertation, will give us the opportunity to learn more about the establishment of the institutional set-up in a specific business branch, both in a local market that was going through a process of learning-by-doing, and also how local experiences are transformed to regulate a specific type of banking on the national level.

To sum up, Anders Sjölander's paper is the first report of a topic that been neglected in earlier research and raises a lot of new questions, and my comments have only been an attempt to discuss different problems that in some way have to be solved in the final report. Finally I must say that I am looking forward to further discussions and results in this interesting area of research.
This paper provides some new insights into the role of savings banks in the credit market of 19th century Sweden. The investments and lending operations of the savings bank in Nyköping, founded in 1832 in the administrative and commercial center of the county of Södermanland, are followed through four decades. Archive material generated by the savings bank, such as minutes of the board and accounting records, is the basis for the study.

Following the trend in recent research on savings banks, and on banking in general during the early phases of industrialization, the focus is on the local level. In addition more attention than previously is given to the actual banking function of the savings bank in Nyköping, including a close look at the borrowers and their economic position in the local community.

The savings bank in Nyköping depended heavily on lending in its investments. Until the very last few years of this study, more than 90 percent of the administered deposits were transformed into loans, granted to the public.

Three categories of borrowers initially dominated. These were the landed gentry and higher officers; shopkeepers and wholesale dealers; and finally manufacturers and craftsmen. Later, loans were granted to a wider body of borrowers, and supplementary categories appeared, such as farmers, public officials and local authorities. Still, loans to local industry remained an important part of the savings banks investments. The savings bank in Nyköping thus played an active role in financing local industry and manufacturing, as well as municipal infrastructure and regional agriculture.

The structure of the local credit market, which was dominated by personal relationships, strongly influenced the savings bank in Nyköping in other ways as well. Until the 1860’s the dominating form of collateral was personal security. Insider lending was widespread during the whole period.

The investment decisions and lending policies of the savings bank in Nyköping are interpreted as deliberate strategies to overcome problems of asymmetric information and to minimize the risks involved with lending. These strategies were in some sense successful. Soon after its establishment the savings bank in Nyköping grew to be the dominating savings
bank in the county, attracting thousand of small depositors and achieving a high degree of credibility amongst the public.

The savings bank in Nyköping combined the classic function of savings banks, that is collecting and managing the funds of small savers, with the more risky task of financing different sectors of the local economy.

**INTRODUCTION**

In 1832 a savings bank was established in the city of Nyköping, the administrative and commercial center of the county of Södermanland. By using archive material generated by the savings bank in Nyköping, a somewhat new perspective on the role played by savings banks in providing credit is given. Firstly, this paper contributes to the growing literature on savings banks and their role in local credit markets during the 19th century. This means that the focus here is on the investments of the savings bank in Nyköping. How important was lending in relation to other forms of investment? Another major question concerns the borrowers in the bank. To whom did the savings bank in Nyköping lend? Is it possible to make any statement on the role played by the savings bank in the local credit market? Did it promote entrepreneurship and economic development?

Banks which make loans, especially newly established banks, face some basic problems. One fundamental uncertainty in bank lending concerns the possibility of borrower default. Information on borrowers and their creditworthiness is thus vital in order to avoid the twin dangers associated with making loans—moral hazard and adverse selection. Banks thus have strong incentives to carefully screen potential borrowers and to monitor debtors and their economic performance. Consequently, banks have devised a variety of strategies to cope with the threats of moral hazard and adverse selection. One strategy has been to invest a large amount of resources in monitoring debtors and in acquiring privileged, detailed information on the performance of clients.1

The question to be answered in this paper is thus: how did the savings bank in Nyköping deal with the uncertainties and risks associated with lending?

---

1The importance of information, personal contacts and the overall local character of banking in the early stages of industrialization has been widely recognized— for example; Cottrell (1980), Hudson (1986), Collins (1991), Newton (1996), Bodenhorn (1997), Bowen & Cottrell (1997) and Hollis & Sweetman (1998). Moral hazard in bank lending can be seen as a form of agency cost with the creditor acting as a principal, the borrower as an agent. Conflicts of interest may arise when the borrower is tempted to use the loan to finance high risk projects (to maximize returns) whereas the lender seeks to maximize the chances of being repaid in full. The danger of adverse selection can arise where information asymmetries make it difficult for the creditor to distinguish satisfactorily between good and bad risks - Baker & Collins (1999), pp. 2-3.
RECENT RESEARCH ON EUROPEAN SAVINGS BANKS

Recent historical research on savings banks in the European and Scandinavian context has somewhat reassessed the role of savings banks in economic development. Earlier research had emphasized the socio-political element of the savings banks. They were seen as philanthropic institutions with the objective of encouraging self-help among the poor, by offering them an opportunity to save for old age or sickness, thereby reducing the cost of poor relief for local governments. The savings banks have also been recognized as important market makers for deposits by introducing institutional saving to the general public. Studies on banks in general and their role in the financing of industrial development during the 19th and early 20th centuries have to a large extent been associated with the development of joint-stock commercial banking. In comparison with the commercial banks, the savings banks seem to have played a wholly subordinate role, if any at all.

Recent research on savings banks, on the other hand, has placed more focus on the actual banking function, instead of reiterating the savings bank’s socio-political importance. Furthermore a clear shift from a national to a regional/local focus is a distinct feature in these studies. Instead of looking at aggregate figures, recent research has examined the lending policies of individual savings banks and thoroughly surveyed the local environment. New information has been presented, revising earlier views on the role of savings banks in economic development. Savings banks did, at least in some cases, provide vital assistance to agricultural growth, to investments in local industry and to infrastructural investments.

The savings banks in Western Europe in the 19th century seem to fall into two different categories with regard to their lending policies. On the one hand, there are the savings banks in England, Scotland, Ireland, France, Belgium and, to some extent, Denmark. Savings banks in these countries were merely passive deposit-institutions, with no active investment policies at all. These savings banks are recognized as being specialized in the area of promoting middle- and working-class thrift, and the type of assets they could hold was closely circumscribed by legislation. They did not invest in, or lend to, industry at all. Their investments were highly concentrated to government bonds.


The savings banks in Norway, Finland, Germany and maybe also Sweden seem to have been the very opposite of the passive savings banks. By concentrating on the financing of a small number of relatively large-scale projects and well-established enterprises, the commercial banks in these countries neglected large segments of potential customers, for example new business enterprises, small and medium-sized industry and housing. For a long time these segments of customers were thus left to institutions such as savings banks, credit cooperatives and small private bankers. Savings banks developed as major sources of funds for small and medium-sized industry and for municipal infrastructure in many regions before the First World War. There were possibilities for small and medium-sized industrial firms to borrow from savings banks, provided that the loan was secured by a mortgage or other form of collateral. Thereby the traditional view of the importance of the great banks for industrial finance has been questioned, and the conclusion been drawn that savings banks, mortgage banks and credit cooperatives supplied external finance to the industrial firms that were not joint-stock companies.'

To sum up, recent research has shown that using somewhat different methods and approaches to the fundamental questions can be fruitful. The evidence on Swedish savings banks is still rather weak. Earlier research has merely touched upon the subject of financing different sectors of the local economies.²

THE SWEDISH CREDIT MARKET DURING THE 19TH CENTURY
The Swedish credit market underwent a radical development during the 19th century. In the first decades of the 19th century the Swedish banking system had been reduced to only one bank—the Riksbank (The National Bank of Sweden). The Riksbank acted as a government commercial bank until the late 19th century and devoted itself to the distribution of subsidized loans as part of the government’s economic policy. The nodes in the early financial system were instead the numerous urban dealers and brokers, the merchant houses and innkeepers who made loans and accepted deposits from the public. There were also a lot of national and local funds and foundations seeking investment opportunities.³

In 1820 the first savings bank in Sweden was founded in Gothenburg. It was soon followed by savings banks in a number of larger cities all around

---


Lindgren (1999). The informal credit market, defined as the private promissory note market plus loans from financial institutions other than banks, provided over 80% of total long-term loans in the early 1840’s.
the country. At the request of the national government, county governors were often active in the establishment of savings banks. Consequently, savings banks were frequently established in county capitals, which often were the commercial centers of the regions as well. But the county governors were merely important as founders. When the business operations started, the early savings banks were much more dependent on local businessmen, who had the knowledge and the personal networks required for this kind of business. From the mid 19th century and onwards, savings banks were founded mostly in the countryside. Contributing to this development was the harsh credit situation for Swedish agriculture. The smaller farmers in particular had difficulties in raising the capital necessary for mechanization and other forms of modernization. In contrast to the earlier savings banks, the explicit purpose of these savings banks was to provide the agricultural sector with capital.¹

The first commercial banks and mortgage institutions were established in the 1830's. Mortgage institutions appeared on a large scale in the Swedish credit market from the 1840's. The breakthrough for commercial banking did not come until the late 1850's. At that time commercial banking began spreading outside the largest cities, and a number of branch offices were established throughout the country. The mortgage institutions, the commercial banks and the Riksbank all concentrated their efforts on meeting the demands for rural credits. The transformation and modernization of the commercial banks in the late 1850's and in the 1860's involved more concentration on lending to large-scale industrial projects, a well-developed national system of co-operation, as well as a breakthrough for joint-stock banking.²

### Table 1. The Swedish Formal Credit Market 1835-1875, Shares in Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings Banks</th>
<th>Commercial Banks</th>
<th>Mortgage Institutions</th>
<th>The National Bank of Sweden</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>82</td>
<td>0</td>
</tr>
<tr>
<td>1840</td>
<td>8</td>
<td>16</td>
<td>21</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>1845</td>
<td>8</td>
<td>13</td>
<td>24</td>
<td>46</td>
<td>9</td>
</tr>
<tr>
<td>1850</td>
<td>11</td>
<td>16</td>
<td>33</td>
<td>35</td>
<td>5</td>
</tr>
<tr>
<td>1855</td>
<td>13</td>
<td>16</td>
<td>46</td>
<td>22</td>
<td>3</td>
</tr>
<tr>
<td>1860</td>
<td>12</td>
<td>24</td>
<td>38</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>1865</td>
<td>12</td>
<td>25</td>
<td>43</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>1870</td>
<td>14</td>
<td>29</td>
<td>38</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>1875</td>
<td>16</td>
<td>38</td>
<td>30</td>
<td>7</td>
<td>9</td>
</tr>
</tbody>
</table>


---

¹Petersson (1999).
THE LOCAL CREDIT MARKET IN NYKÖPING AND THE ESTABLISHMENT OF A SAVINGS BANK

In late 1832 the savings bank in Nyköping opened for business. According to the first statutes, the savings bank was open for all inhabitants of the county. The founders of the county’s second savings bank were mostly local merchants and manufacturers, the landed gentry and, of course, the county governor. The board of directors was consequently dominated by the same categories of the local socio-economic elite during the period up to 1875.

During the 19th century the county of Södermanland, south of the capital Stockholm, was an agricultural district, dominated by very large estates, in most cases belonging to the landed gentry. For centuries the city of Nyköping, located on the Baltic Sea, had been the center for commerce in the county. The trading rights given to the city of Nyköping permitted local businessmen to sail directly to foreign destinations with their own vessels. In the late 18th century several small-scale textile industries were established in the city, utilizing natural waterfalls for power. Nyköping was also the seat of the county government, which meant that many administrative offices of different kinds were situated in the city.

By the year 1832, when the savings bank was established, Nyköping ranked as the 21st most populous Swedish city, with nearly 3000 inhabitants. As in many other regions/countries in the early stages of industrialization, industry in Nyköping at this time was dominated by the textile industry. A second feature of industry in Nyköping was its mechanical factories. Nyköping’s single largest manufacturing enterprise in 1832 was the cloth mill belonging to the two brothers Pehr and Abraham Löfvenius. It employed almost 100 hands in 1832. According to the records of the Hallmark court in Nyköping, the 19 factories within the boundaries of the city employed 345 workers.

The city of Nyköping experienced three major economic and demographic periods of growth during the 19th century. The first growth period was in the 1810’s, when the textile industry expanded heavily. Nyköping’s population grew by 50 percent, from 2000 to 3000 inhabitants during this decade. Thereafter the demand for labor decreased when the textile industry was partially mechanized.

A second period of growth lasted from the early 1830’s to the late 1860’s. The city grew much faster than the average Swedish city during this period. The expansion was once again led by the textile industry, which now diversified into new products and new markets. This develop-

---

1 Falck (1932).
ment came to a sudden halt in the late 1860’s. During the course of just three years almost the whole textile industry in Nyköping was shut down. Furthermore, Nyköping’s largest employer, Nyköpings Bruks- och faktori-bolag – a mechanical factory, went bankrupt in 1866. The population shrank heavily during the years 1865 to 1870, from 5000 to 4000 inhabitants.

It took more than 20 years to recover from the decline in the 1860’s. At the end of the century new industries were established again in Nyköping, and the third growth period occurred. In addition to the formerly dominating textile and mechanical industry, large-scale furniture industries were also established.'

Despite a slow start, the business of the savings bank in Nyköping soon prospered. The number of depositors grew steadily from the 1840’s. In 1875 the savings bank in Nyköping was clearly the largest savings bank in the county, with more than 5300 depositors and administering more than a million kronor in deposits.'

The structure and financial management

The savings bank in Nyköping depended heavily on lending for its investments from the very beginning. During the first years, up to 1838, large parts of the deposits were lent to one single borrower – the trading Company belonging to two of the founders of the bank, Pehr and Abraham Löfvenius. According to the minutes of the board from this period, this was a only a temporary solution, brought about by the difficulties in finding borrowers at all. Up to the early 1870’s, lending totally dominated the investments. After the establishment of commercial banks in the city (in 1847 and 1859), deposits in these institutions occasionally occurred, but mostly only in smaller amounts. The period of general national prosperity during the early 1870’s also had an effect on the investments of the savings bank in Nyköping. The market for bonds, issued by industrial and railway companies but also by the government, grew hastily. At the same time, the savings bank in Nyköping experienced troubles in finding appropriate borrowers. As for many other savings banks throughout the

---

1 ibid.

2 The second largest savings bank in the county was Eskilstuna Savings Bank with 3000 depositors / 720 000 kronor. Up to 1847 the savings bank was the only bank in Nyköping. In 1847 a branch office of Mälarprovinsens enskilda bank (the private bank of the provinces around lake Mälaren) was opened. In 1859 a second commercial bank - Nyköpings Filialbank (a privately owned but state-subsidized commercial bank) - started its business in Nyköping. So far no archive material from these two banks has been found. Still it is a fact that the majority of the founders and directors of these two banks were simultaneously active in Nyköpings Savings Bank. – Bolin (1951).
country, the solution for the savings bank in Nyköping was to invest in bonds.’

**Table 2. The Investments of the Savings Bank in Nyköping 1835-1875, Percentage of Total Assets**

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans</th>
<th>Bonds</th>
<th>Commercial Bank Deposits</th>
<th>Other</th>
<th>Total</th>
<th>Total Assets in Kronor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>87</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>100</td>
<td>11,187</td>
</tr>
<tr>
<td>1840</td>
<td>96</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>100</td>
<td>36,908</td>
</tr>
<tr>
<td>1845</td>
<td>99</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>100</td>
<td>67,873</td>
</tr>
<tr>
<td>1850</td>
<td>99</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>100</td>
<td>182,895</td>
</tr>
<tr>
<td>1855</td>
<td>90</td>
<td>0</td>
<td>7</td>
<td>3</td>
<td>100</td>
<td>320,219</td>
</tr>
<tr>
<td>1860</td>
<td>94</td>
<td>0</td>
<td>6</td>
<td>0</td>
<td>100</td>
<td>483,511</td>
</tr>
<tr>
<td>1865</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>690,716</td>
</tr>
<tr>
<td>1870</td>
<td>95</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>100</td>
<td>794,597</td>
</tr>
</tbody>
</table>

Source: Minutes of the board and accounting records, and Falck (1932).

**The Lending Operations**

After its initial problems, the lending operations of the savings bank in Nyköping accelerated somewhat from the 1840’s. But both the number of loans granted annually and the total number of outstanding loans were deliberately held down by the boards during the period up to 1875. The increase in the total amount invested in loans was thus not followed by a corresponding increase in the number of outstanding loans.

**Table 3. Number of Loans, Granted Annually and Outstanding Loans in the Savings Bank in Nyköping, 1835-1875**

<table>
<thead>
<tr>
<th>Year</th>
<th>Annually granted loans</th>
<th>Outstanding loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>1840</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>1845</td>
<td>12</td>
<td>73</td>
</tr>
<tr>
<td>1850</td>
<td>36</td>
<td>131</td>
</tr>
<tr>
<td>1855</td>
<td>23</td>
<td>155</td>
</tr>
<tr>
<td>1860</td>
<td>27</td>
<td>141</td>
</tr>
<tr>
<td>1865</td>
<td>13</td>
<td>164</td>
</tr>
<tr>
<td>1870</td>
<td>32</td>
<td>161</td>
</tr>
<tr>
<td>1875</td>
<td>28</td>
<td>181</td>
</tr>
</tbody>
</table>

Source: Minutes of the board and accounting records.

The strategy of keeping the total numbers of outstanding loans to a minimum led to another striking feature of the lending operations in the savings

---

1 The savings bank in Nyköping invested mainly in government bonds and in bonds issued by stable financial institutions.
bank: the dominance of large loans in the loan portfolio (figure 1). At first sight, this dependence on large loans could have involved great risks for the bank, were one, or a couple, of major borrowers to default. Considering the relatively small reserve funds, varying from 4 to 8 percent of the administered funds, this risk-taking seems even more surprising. Selecting the “right” borrowers must thus have been an important task for the boards of the savings bank in Nyköping.

**FIGURE 1. THE 10 AND 25 LARGEST BORROWERS RESPECTIVELY IN THE SAVINGS BANK IN NYKÖPING 1835-1875, SHARE OF TOTAL LOAN PORTFOLIO, PERCENT**

Source: Accounting records.

Before returning to this question of how these risks were handled, the borrowers in the savings bank will be described in more detail.

**The borrowers**

One of the questions to be answered in this paper regards to whom the savings bank in Nyköping lent its funds. It is perhaps not so surprising that, the landed gentry and higher officers were one of the dominating categories of borrowers until the 1870’s. Since a large portion of the landed gentry and higher officers were large landowners, the loans from the savings bank in Nyköping to the agricultural sector (in this broader definition) were in fact reminiscent of the lending operations conducted by the early commercial banks and the mortgage institutions. As already mentioned, these were intended to meet the demands of the large-scale farmers and landowners, totally ignoring the small farmers. In the savings bank in Nyköping however, also these smaller farmers could obtain credit, presuming acceptable collateral was presented.
In the standard work on the financing of Swedish industry before World War 1, it is concluded that most capital during the initial phase of industrialization in Sweden (1830-1870) came from wealthy private persons, such as merchants in the larger cities and public officials. Reinvestment of profits, and thus the degree of self-financing, was very high during this phase. Later on, commercial banks, and to a lesser extent savings banks and other credit-institutions, took over as major sources for investments.\(^{1}\)

Loans to businessmen and manufacturers, including companies, were an important part of the savings bank’s lending policy during the whole period up to 1875. Both small-scale merchants and larger manufacturing companies were among this category of borrowers. Somewhat surprisingly, the loans from the savings bank in Nyköping to local manufacturers and businessmen did not decrease after the establishment of two commercial banks in the city of Nyköping in 1847 and 1859. On the contrary they increased in the early 1870's. In the beginning of 1873 three local manufacturers bought a large complex of factory buildings and restarted the large-scale production of textiles. In all, 70,000 kronor were invested in this business venture, partially (30,000 kronor) financed through a loan from the savings bank. Another example of industrial lending was the largest loan ever – 75,000 kronor, made in 1874 to the two owners of a paper-mill just outside the city.

---

\(^{1}\) Gårdlund (1947).

**Table 4. The Borrowers in the Savings Bank in Nyköping 1835-1875. Shares of Total Lending, Percent**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Landed Gentry and Higher Officers</th>
<th>Shop-keepers and Wholesale Dealers’</th>
<th>Manufacturers and Crafts’</th>
<th>Public Officials</th>
<th>Local Authorities</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>5</td>
<td>34</td>
<td>23</td>
<td>26</td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>1840</td>
<td>11</td>
<td>25</td>
<td>20</td>
<td>26</td>
<td>8</td>
<td>0</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>1845</td>
<td>20</td>
<td>14</td>
<td>12</td>
<td>22</td>
<td>12</td>
<td>0</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>1850</td>
<td>21</td>
<td>22</td>
<td>3</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>1855</td>
<td>20</td>
<td>19</td>
<td>12</td>
<td>17</td>
<td>16</td>
<td>2</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>1860</td>
<td>12</td>
<td>27</td>
<td>10</td>
<td>11</td>
<td>16</td>
<td>2</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>1865</td>
<td>12</td>
<td>22</td>
<td>7</td>
<td>13</td>
<td>10</td>
<td>15</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>1870</td>
<td>18</td>
<td>22</td>
<td>8</td>
<td>13</td>
<td>6</td>
<td>14</td>
<td>19</td>
<td>100</td>
</tr>
<tr>
<td>1875</td>
<td>14</td>
<td>9</td>
<td>3</td>
<td>29</td>
<td>4</td>
<td>25</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Minutes of the board and accounting records.
1. Including companies.
From the early 1860’s loans to local authorities increased, both in the city of Nyköping and in the rural districts of the county. A corresponding increase at the national level appeared at the same time within the whole savings banks system. In contrast to other categories of borrowers in the savings bank in Nyköping, local authorities always stated the purposes of loans in their loan applications. Loans to local authorities outside the city of Nyköping were mainly used to finance the building of schools. The loans to local authorities within Nyköping were mainly used to finance municipal infrastructure. The largest of this category of loans was granted in 1861 to the city of Nyköping to build a gasworks. The total cost of building the gasworks was 100 000 kronor, and the loan granted by the savings bank in Nyköping financed half of it—50 000 kronor.

**Personal guarantee the dominating form of collateral**

In the savings bank in Nyköping personal guarantee was the dominating form of collateral up to the 1860’s. The variations between different savings banks throughout the country were great in this respect. In some savings banks, such as the one in Gothenburg, lending against security of goods dominated totally, in others lending against real estate mortgages dominated. The savings bank in Nyköping relied extensively on personal guarantees.

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal guarantee</th>
<th>Mortgage</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>72</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>1840</td>
<td>66</td>
<td>30</td>
<td>4</td>
</tr>
<tr>
<td>1845</td>
<td>60</td>
<td>39</td>
<td>1</td>
</tr>
<tr>
<td>1850</td>
<td>54</td>
<td>41</td>
<td>5</td>
</tr>
<tr>
<td>1855</td>
<td>57</td>
<td>28</td>
<td>15</td>
</tr>
<tr>
<td>1860</td>
<td>56</td>
<td>33</td>
<td>9</td>
</tr>
<tr>
<td>1865</td>
<td>30</td>
<td>53</td>
<td>17</td>
</tr>
<tr>
<td>1870</td>
<td>23</td>
<td>57</td>
<td>20</td>
</tr>
<tr>
<td>1875</td>
<td>27</td>
<td>49</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Minutes of the board and accounting records.

From the mid 1860’s onwards, the use of personal guarantee as collateral decreased in the savings bank in Nyköping. There were some practical reasons for this development. Firstly, the whole administrative organization, and thereby the costs surrounding the system of personal guarantees were minimized.

2 For example 32 000 kronor was granted in 1864 to the parish of Västra Vingåker in order to finance the building of nine schoolhouses.
guarantees expanded at this time. Many of the guarantors, who had acted as guarantors for decades and were well-known to the bank, died or moved to other cities, and new guarantors had to be found. Searching for and assessing new guarantors demanded resources, both from the borrowers and from the bank.

Furthermore, the expanding number of loans secured by personal guarantees made it hard for the bank to keep track of the rising number of guarantors. Every loan secured by personal guarantee had at least two guarantors, and in some cases up to six guarantors. Every guarantor was equally important to the bank, which meant that any guarantor who disappeared had to be replaced. Since many of the guarantors in Nyköping were businessmen, bankruptcy among guarantors (as well as among the borrowers) was a frequent problem for the savings bank.

The use of mortgages as securities was also becoming more and more widespread among savings banks in general from the mid 19th century, which could have reduced the aversion against this form of collateral. Finally, in 1875, the rules and procedures surrounding mortgages were much simplified, reducing costs in terms of time and money, which also hastened this development.

Insider lending

The last, and maybe most important, part of the savings bank’s lending policy and of its strategy to overcome problems of moral hazard and adverse selection, was the frequently occurring phenomenon of insider lending. Insider lending has for some time been recognized as a distinct feature of banking, especially in the early stages of industrialization. Still, insider lending has so far attracted very little attention from European, and especially Scandinavian, banking historians.

As mentioned above, insider lending occurred from the very beginning in the savings bank in Nyköping. A large portion of the funds were initially lent to two of the founders and directors of the bank – Pehr and Abraham Löfvenius. During the whole of the period up until 1875, insider lending was frequent. But insiders also made personal guarantees for borrowers that were “outsiders”. The total amount of insider lending could then occasionally rise to more than 80 percent of the annual lending.

—

1 Lamoreaux (1994) and others.
In 1846 the accountants tried to call the board’s attention to the high frequency of insider lending, which was seen as unsatisfactory by the accountants. At the same time, the accountants suggested a maximum amount that one single person could be responsible for - both as a borrower and as a guarantor. The board of directors rejected the suggestion with the motive that the board at all times thoroughly assessed the quality of offered collateral. 

When the use of mortgages as collateral and loans to local authorities increased, insider lending somewhat decreased. Personal knowledge of customers and their businesses seemed to become less important for the bank. The extent of insider lending within the whole savings bank system is not known, but as late as 1890 one form of insider lending (against personal guarantee) was prohibited. At the same time members of the boards and other insiders were prohibited to act as guarantors in their own savings bank.

---

1. Minute of the board, 28.3.1846.
Table 7. Insider Lending in the Savings Bank in Nyköping, Share of Total Lending, 10 and 25 Largest Borrowers Counted

<table>
<thead>
<tr>
<th>Year</th>
<th>10 largest borrowers</th>
<th>25 largest borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1835</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>1840</td>
<td>38</td>
<td>47</td>
</tr>
<tr>
<td>1845</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>1850</td>
<td>21</td>
<td>33</td>
</tr>
<tr>
<td>1855</td>
<td>14</td>
<td>30</td>
</tr>
<tr>
<td>1860</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>1865</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>1870</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>1875</td>
<td>12</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Accounting records, and Bolin (1951).

Conclusion
This study of the savings bank in Nyköping during the period from 1832 to 1875 has dealt with the lending policies and with the investments that were made by the bank. So far, very few studies have been done of the borrowers in Swedish savings banks. The savings bank in Nyköping did not merely make loans to the traditional categories of borrowers in savings banks and in other credit institutions during the early and mid 19th century, that is above all the large landowners. In fact, the savings bank in Nyköping also provided large portions of its investments to local merchants and manufacturers. In some sense, with these loans to new and increasingly important sectors of the local economy, the savings bank in Nyköping contributed to local economic development.

The second major issue in this paper deals with how dangers and risks connected to making loans were handled by the savings bank in Nyköping. From its establishment in 1832 the savings bank depended heavily on personal trust in, and personal knowledge of, its borrowers. The system of personal guarantors and insider lending worked very well for the savings bank in Nyköping, despite frequent bankruptcies amongst the borrowers. The guarantors accepted their obligations and held the bank free from losses.

But in the long run, changes were inevitable. The costs of searching for and assessing both guarantors and borrowers grew with time and with the expansion of the savings bank in Nyköping. From the 1870's lending against mortgages became less costly and furthermore, insider lending also became less accepted.
BIBLIOGRAPHY

Primary sources
Nyköpings sparbank (The savings bank in Nyköping)
Styrelseprotokoll 1832-1875 (Minutes of the board).
Räkenskaper för Nyköpings sparbank 1832-1875 (Accounting records).

Hall- och Manufakturrätten i Nyköping (Hallmark Court of Nyköping)
Register över företagare i Nyköping (Register of businessmen in Nyköping).

Secondary sources
Brisman, Sven (1924/1934), Sveriges affärsbanker. Z-ZZ (The commercial banks in Sweden), Stockholm.
Cameron, Rondo (1967), Banking in the Early Stages of Zndustrialization, Oxford.
Clemmensen, Niels (1985), Sparekassebevaegelsen i Danmark 1810-1914 (The Savings Bank Movement in Denmark 1810-1914), Copenhagen.


Gärdlund, Torsten (1947), *Svensk industrifinansiering under genombrötsskedet 1830-1913* (The financing of Swedish industry 1830-1913), Stockholm.


All four papers in this session are part of a larger integrated project that examines the role of savings banks in the development of the Swedish economy in the nineteenth and twentieth centuries. I was fortunate to come to know this project and its participants last year when I visited Uppsala University. I admire the project, respect the researchers, and covet the data.

Tom Petersson’s paper about lending by the savings bank in Nyköping tells a fascinating story of a cozy little capital market. It goes like this: A bunch of guys got together in 1832 and set up a savings bank in the quaint but bustling town of Nyköping. They collected some deposits and promptly turned around and lent the money to themselves, most notably to the local textile titans – the brothers Löfvenius.

Tom, trusting guy that he is, casts a benign eye on this “insider lending” and reports that the minutes of the board meetings characterize the loans to the Löfvenius brothers as a solution to the “difficulties of finding any borrowers at all”. I am of a more suspicious nature and question whether we should see this as the behavior of ‘good guys’ or ‘bad guys’. How should we evaluate the lending of the savings bank in Nyköping in terms of its impact on the well-being of the depositors and on the overall level of economic development?

The insider lending behavior described in this paper raises an old question in the savings bank literature -- how are we to understand the motives of the people who set up savings banks? It is well known that the usual rhetoric of savings bank founders stressed philanthropic motives. In the savings bank I know best, the Philadelphia Savings Bank Society in the U.S., the founders stated their motives as a desire to help “the large classes of humble and helpless, but thrifty and prudent” by providing them a safe place to keep their savings. But not everyone has taken the savings bank founders at their philanthropic word. Some have suggested that savings banks were set up by clever conspiracies of wealthy individuals, posing as do-gooders, to collect deposits from the lower classes and use these deposits for their own purposes. Is that what was happening in Nyköping?

Were the founders of the savings bank in Nyköping public spirited philanthropists or were they self-interested seekers after loans who hit on an untapped source of capital to fund their own projects?

I can’t answer that question, and Tom doesn’t try, but after reading this paper, I am inclined to conclude that at least in the case of the savings bank in Nyköping, it may not matter very much. Even if the founders and directors were nasty guys only looking out for their own interests, it ap-
pears that their interests may have coincided with the interests of their depositors and with the overall interests of the community. Even though insider lending was sometimes as much as 80 percent of total lending, Tom tells us that the bank bore no losses despite the fact that some borrowers and guarantors went bankrupt. This was insider lending, but it does not seem to have been a Ponzi scheme.

Indeed it seems as if the savings bank in Nyköping may have been important stimulus to economic growth in Södermanland. It made loans to the dynamic industrial sector at a time when commercial banks favored agricultural investments and discriminated against industrialists and merchants. And it was a big player in providing funds to local government social overhead capital projects including schools and a gasworks.

So, it sounds like a very happy story. Perhaps, the skeptic in me wonders, a story that is too good to be true. Like all fine papers, this one leaves the reader with questions and hungering for more – more date, more analysis, more aspects of the story. I hope that Tom’s future papers will give us more information about the depositors. What return did they earn on their deposits and how does that return compare with alternatives? I would also like to know more of the institutional history. If it so that no one ever suffered from insider lending, why in 1890 was the practice of personal guarantees prohibited?

Most of all I want an explicit assessment of the contribution of savings banks to the course of Swedish economic development – a connection between the microeconomics of the bank, its lenders and depositors and the macroeconomics of growth. Of course, that is the big issue that motivates all the people working in the Savings Bank Project. We can hope that when all the various pieces of the project are completed, the big picture will emerge from a synthesis. I expect, however, that it will take another step, perhaps a counterfactual or comparative study to truly come up with a satisfying answer to the question: How important were savings banks in the development of the Swedish economy? I anxiously await the answer both because of its importance for Swedish economic history and because of its importance for the broad issue of the role of capital market developments in the process of economic growth.
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 20th century to handle the risk connected with loans to low income households.

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.

INTRODUCTION
During the first decade of this century there was a rapid increase in urban population in Sweden. 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 become better.

Ownership in itself was thus politically desirable, but the credit market did not supply the mortgage and capital accumulation among the workers was low. Under these circumstances - how did workers finance their homes?
The Case of Owner-Occupied Housing in Sweden

Emigration and urbanization depopulated rural Sweden at the end of the 19th century. A political awakening swept over the country and the fear of political upheavals infected, among others, the estate-owning class. Since the landowners were represented in the national parliament, housing conditions became a national question. In addition, the State was interested in encouraging the settlement of crown lands in the northern provinces. Two parallel arguments that united Liberals and Conservatives can be discerned in the parliamentary debates. The Conservatives viewed the construction of owner-occupied housing as enhancing social stability through increased private ownership. The Liberals, for their part, emphasized the social aspects of home ownership. This social aspect became increasingly important over time and emerged as the dominant argument in favor of an active housing policy. After almost twenty years of discussion, a Home Ownership Committee was appointed. In 1902 this Committee submitted a legislative proposal on owner-occupied housing. The proposal was accepted by the parliament and from 1905 it became possible for individuals to borrow from the State in order to build their own homes. These funds were not intended to create suburbs, but were primarily intended for rural areas. The loans were available under two categories: agricultural homes, which were designated for modest-sized, family subsistence farms, and residential homes, which were designated for agricultural workers. As the following quote demonstrates, these loans were not available to just anybody:

*Such a home ownership loan may only be granted to a worker, man or woman, who is a Swedish citizen, is of good character and is known for thriftiness, sobriety and honorable behavior, and who principally supports himself by physical labor. Furthermore, although he is capable of contributing to the creation of his home, he is in need of substantial assistance for its realization. Home ownership loans should, as a general rule, not be granted to persons under age 25 or over age 50.*

It was not easy to meet these requirements, and consequently the number of loans granted was modest during the first few years. As the quote makes clear, egnahem were to be the homes of a particular social class. These were the workers’ homes. The single-family residences of the middle class were called “villas”. Today this classification no longer holds, egnahem and “villa” being treated as synonymous. Still, the term egnahem has often been used to mean a home with State financing.

---

1. The latter definition of rural went to be not urban planned areas.
2. SFS 1904 N:r 36 mom 2.
An investigation by the National Association Against Emigration deals with the development of owner-occupied home construction in Sweden. It was a cross-section study of owner occupied housing construction in Sweden in 1915. It demonstrated that there was extensive owner-occupied home construction and that approximately 70 cities were either developing or were planning areas for such construction. Implementation and financing, however, differed from city to city. Some cities chose not to bring these areas under the auspices of their urban plan so that loans from the Home Ownership Loan Fund could be obtained. Other cities preferred to subject the areas to urban planning in order to maintain better control over development. These cities often organized an alternative form of financing. In addition to owner-occupied housing construction in the cities, some private and State enterprises also supported such construction.

As noted above, these State home ownership loans were designed for rural areas and the regulations prevented loans from being made on real estate located within areas subject to urban planning. Local governments, however, could evade these rules by not subjecting areas in close proximity to a city to urban planning. Potential home owners in those areas would thus be eligible for State loans. This is an excellent example of how organizations can neutralize formal institutions, thereby creating a new norm that eventually becomes a new institution. During the period 1904-1939, half of all Swedish residential construction was in the form of owner occupied homes. Of these, approximately half had received loans from the Home Ownership Fund.

In 1912, a Housing Commission was created. Among the reports it issued in the years up to 1918 was one concerned the provision of secondary housing credits. As a result of this report, the State expanded its involvement in the financing of owner-occupied homes through the creation in 1920 of a Construction Fund. This Fund was to support construction in and near cities and other urban areas. The Commission’s principal proposal, the creation of a central fund for secondary housing loans, was not adopted however. Only in 1928 was the State Housing Credit Fund created, with its associated Guaranty Corporation. These organizations were to deal in second and third mortgages. In 1942 new State loans were introduced to support construction of owner-occupied houses. These new loans were available until 1991.

1 The definition of city was depending of the acceptance of four cities Act. One of them was the building Act, that regulated construction in order to prevent fire. In the year of 1907 a new revised Act was introduced, with a more rigid form for urban planning. The legislation gave the local community a lot more possibilities to plan and regulate were to built.

2 Nationalföreningen mot emigration (1915)


4 SOU 1928:10.
It is clear that the government has long been involved in the financing of owner-occupied homes. The State has both lowered costs through subsidization and has made the first mortgages more secure by lending beyond the limits of the private market. By lending on mortgages in excess of the market’s maximum limit, the State was establishing a price floor. This “calmed” the market, and made it easier and cheaper to obtain basic financing than otherwise would have been the case. This can also be considered a subsidy from the State.

My work is intended to illuminate the structure and the needs that led to the creation of the State housing subsidy system. The analysis also will consider the connection of the Swedish model to the egnahem movement.

Uncertainty and Risks Associated with Lending to Workers Homes

In the USA of the 19th and early 20th centuries, high down payments for owner-occupied homes was a standard method of minimizing risk to the lender. 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?

In a market situation the lenders will restrict the “loan to value” ratio (LTV) to around 50-60 percent. For the 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.

This paper will not answer the question concerning whether or not there were lower wages in Sweden than elsewhere; neither will this paper address the issue of failing credit markets. Instead, this paper will focus on the organizational solutions to make financing of worker’s homes possible, without high down payments. One example is the cooperative associations which handle some risk. Risk management, which can be divided into three parts - risk distribution, technical control and social regulation - is the focus of this paper.

The main question is how to transform uncertainty into calculated risks. This means that the uncertainties have to be defined. I suggest that there are three main uncertainties that have to be transformed into risks to enable the financing of workers’ homes. These uncertainties are income, production and maintenance.

Income uncertainty is a common problem in all lending - how do we know that our customer will pay the mortgage? The evaluation of the borrowers’ credit-worthiness is central for the transformation of this un-

certainty to a risk. This evaluation is based on the reputation, education and skill of the borrower, it is important for the lender to have personal knowledge and information about the borrower for success in controlling the uncertainties of income.

The production uncertainties are more difficult to handle. Because the lender has security in real estate, the quality of the building is essential. The workers who build their own homes have to convince the bank that their technical decisions will both guarantee the longevity of the house, as well as ensuring its attractiveness on the real estate market.

Finally, there is the question regarding the uncertainty of maintenance of the property. With borrowed capital accounting for a high level of financing, it is important that the owner maintains his or her property so that the value does not diminish. This uncertainty can be controlled by inspection and/or social norms created by the contracts.

These three uncertainties have to be dealt with before houses with low down payments can be built. I will argue that the construction organization can solve these problems and transfer them into risks. Before I present the case study I will make some remarks on a theoretical framework for analyzing the empirical data.

**Theoretical Views**

The framework of analysis will use the neo-institutional approach, especially transaction costs economics. When property rights are exchanged transaction costs will arise. The level of the transaction costs depends on the complexity of the exchange. With complex exchanges there will often be complex contractual situations. The transaction costs will be lower when exchanges are standardized. With no standardized exchanges, transaction costs are too high to make business possible. This was the case in the financing of owner-occupied houses in the beginning of this century in Sweden.

Formal and informal institutions are central for the actors’ expectations regarding behavior. If a new market is established the organizational structure can result in new institutional settings both formal and informal. In the beginning contracts and the means to enforce them are central in minimizing transaction costs. In this case I will show how the combination of defined property rights and a new organization are shaping the rules of the games. The property rights are defined in the town plan and in legis-


lation regarding real estate. These well-defined property rights are a requisite for financing real estate.

The Production of Houses in Nyköping 1904 – 1948
During the period from 1904 - 1948, 269 houses were built by workers for their own use. In Figure 1 the distribution of production over time is shown. It is clear that production was cyclical, and the peak periods were the early 1910s, the late 1920s and from 1942.

Figure 1 Production of owner-occupied houses for workers in Nyköping 1904 – 1948.

Source: Archives of Nyköping City Court.

How can we explain this supply of houses? If we look at the demand side of housing by using the indicators of population, real wages and economic conditions there is a connection between this and construction. During the early years of the century and in the late 1930s there was a rapid increase in population. These were also two periods of economic prosperity. During the late 1920s population and real wages were stable, but the economic conditions were quite good. Put simply, there is a connection between the supply of houses for workers and the demand for housing. However there were also institutional changes before each increase in the construction of housing. In 1908 the town of Nyköping arranged financing for workers’ homes. In 1920 the state introduced a nationwide financial system for this type of housing. This system was dismantled in 1931. In 1942 a new state-subsidized financial system was introduced. As a result of the regulations introduced during the 1940’s, government loans have come to dominate the production of owner-occupied homes. During the period 1950-1991, such loans contributed to the financing of 75-95% of all new owner-occupied homes.¹

In this paper I will focus on the production of owner-occupied homes in the 1910s. From an institutional point of view this first period is interesting, because it was the first time that financial arrangements were created.

A Case Study: Housing in Nyköping 1908-1914
Nyköping is a medieval city located approximately 110 kilometers south of Stockholm. It is a port city on the Baltic Sea. The city was an early industrial center, having several important industries during the 19th century. Industrialization characterized the city, especially during the late 19th and the early 20th centuries. Increased industrial employment, resulted in turn in increased handicraft production and trade. The rapid growth of industry during the first years of the 20th century, and especially the establishment of Nordiska Kompaniet’s (NK's) workshops in Nyköping in 1904, resulted in a rapid growth of population. Between 1880 and 1910, the city's population doubled. Although there was an excess of births over deaths, the growth of population was largely the result of accelerating net immigration. After reaching a peak in the period 1905-1913, population growth slowed and remained largely constant after 1920.

The Town and Its Institutional Background
The city pursued an pro-active policy with respect to Nordiska Kompaniet. When NK was deciding where to locate its workshops, various local governments competed by offering the firm favorable conditions. It is sometimes maintained that Nyköping was picked because one of the leaders of NK had been born in the city. It is important to note, however, that Nyköping offered land and electric power on favorable terms. The NK facilities required almost 300 workers, many of whom migrated from Stockholm.

It is easy to see how this rapidly increasing population might raise concerns about housing. In 1907, the City Council raised the following question: “How can the housing shortage that is expected to materialize next year and thereafter be forestalled?” A committee was appointed to develop, in co-operation with workers interested in the egnahem movement, proposals for solving the housing shortage.

The Committee began by discussing the need for measures to enable workers to obtain decent housing. It was agreed that the great importance of healthy, cheap and pleasant housing, both to individual families and to

---

1 Nordiska Kompaniet in Stockholm was Sweden’s first, and most exclusive, department store. NK's workshops principally produced furniture for the Stockholm store.
4 The local owner-occupied Committee, in Nyköping, report p. 1.
society as a whole, was a generally accepted fact. The Committee argued that overcrowding, especially with lodgers, had socially undesirable consequences. Thus it was the duty of society to prevent such a situation. On this premise, the Committee continued its work, supported by the spontaneously emerging opinion in favor of owner occupied homes. *Egnahems* associations were formed to work for the spread of owner-occupied housing.

The first problem considered was the geographical location of an *Egnahems* district. An enquiry into the matter concluded that an area east of the city known as the *Flodmanska* Plots would be suitable. This area had an elevated and sunny location and it would allow the inhabitants to cultivate some land. Furthermore, the area could be developed without the need for blasting, resulting in lower property prices.

The Committee recommended that the area be subjected to urban planning even though that would prevent the utilization of State home ownership loans. *Nyköping* city plan had been drawn up by the Hallman architectural firm, which already had been commissioned to revise the plan. The price of the property was to be based on actual costs. The legal status of the properties was discussed at some length, and the possibility of utilizing the newly established Leasehold Act was considered. Due to the difficulty of obtaining loans on leaseholds, however, the Committee advocated ownership. A construction ordinance that regulated building within the area was appended to the city plan. This ordinance amounted to a limitation of the owner’s property rights. Some examples of these limitations included the size of the building, the number of kitchen and specification for fire protection. The city also demanded in a supplementary contract that the right to build was limited to one year.

The City accepted this proposal from the Committee and, provided loan guarantees for the *Egnahem* associations once the area had been developed. That is, guarantees were provided directly to the associations that purchased and built on the land. Initially, ownership was collective through the associations. The residents had a tenure agreement with the associations and over time, the properties were converted to individual ownership. Some properties were not transferred until the mid 1950’s.

The organization of the construction of owner-occupied homes was based on extensive co-operation among various parties in *Nyköping*. The initiative came simultaneously from the City and from the co-operative

---


2 Leased building land for the construction of owner occupied homes, Mats Deland of the Department of Economic History at Stockholm University is working on a dissertation concerning the Building Sites Leasing Institute.

3 The local own-your-own Committee’s, in *Nyköping*, report p 10.
egnahems associations. Two such associations were formed in Nyköping. One of these, Nyköping’s Villastad u.p.a., was designated for workers in NK's workshops in Nyköping. Nyköping’s Egnahemskoloni was the association designated for other industrial workers in the City. The aim of the associations was to obtain construction loans collective. This meant that the savings bank in Nyköping (Nyköpings sparbank), Södermanlands Enskilda' Bank and the City of Nyköping worked together to supply financing for the construction of owner-occupied homes. Cooperation was facilitated by the fact that the decision makers in the three organizations, at least to some extent, constituted an overlapping group. This finance system lent up to 85% of actual production costs. The remainder was made up by down payment.

As noted above, NK moved its workshops to Nyköping in 1904. Right from its founding in 1902, the Company had displayed a great interest in its employees. On April 26, 1908, the association, Nyköpings Villastad, wrote to NK requesting supplemental financing for owner-occupied home construction. In August 1908, NK responded that it was willing to provide loans for the remaining 15% of the production cost.¹

My study deals with an area that the city laid out in 1908 as a response to the Committee’s work. It consisted of 115 lots, most of which were built on before 1920 and especially before 1913. The organization of that financing will be described below.

Egnahems Associations
The Committee’s efforts to provide land for owner-occupied homes increased interest in the actual construction of such homes. The workers at NK formed an egnahems association, Nyköpings Villastad, with membership open to workers interested in building a home. As a newly-founded organization, the Association sent the previously mentioned request for supplementary funding to NK. Their letter referred both to the company's difficulties in recruiting competent personnel and to the workers’ miserable housing situation, characterized both by crowded conditions and high rents.

NK met the loan request from Nyköpings Villastad and the Association was able to commence building. Land was bought from the city and money was borrowed from the savings bank in Nyköping. Houses were built and members moved in, although the houses continued to be owned by the Association.

¹ Nyköpings sparbank was the local savings bank. Södermanlands Enskilda Bank was the regular provincial bank.

² The Minutes of Nordiska Kompaniet’s Board of Directors, August 7, 1908.
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. However the total number of members was limited to 46. There is no evidence in the minutes that any application was rejected. This does not prove that there was no control; on the contrary, people knew in advance the requisites for acceptance and did not apply if they could not meet them. 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 constructors for every house built. After the bidding they formally contracted the preferred constructor. 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 in Nyköpings Villastad to build a home of their own without a cash down payment.

The Workshops of Nordiska Kompaniet

*Nordiska Kompaniet (NK)* was the only firm in Nyköping willing to lend money to its employees for the construction of homes. Why did NK do so? One possible reason is that the firm, as noted by the workers, had trouble recruiting competent personnel. The firm was a newcomer to the city and was eager to compete for labor. A mutual dependence might have existed between the city and NK with regard to the location of NK in Nyköping. Both the city and NK might have been interested in providing the workers with high quality housing. NK pursued an active personnel policy of which these loans can be seen as one component. The firm, with its patriarchal tendencies, encouraged the growth of an “NK-spirit”. It probably was a combination of these reasons that led to NK's involvement in the *egnahems* movement in Nyköping. In other communities there also were firms that supported the movement. These, however, were usually the totally dominant local employer, playing a traditional, patriarchal role.
The savings bank in Nyköping

The savings bank in Nyköping supported the *egnahems* movement in Nyköping, both by granting loans for up to 85% of production costs and by offering low interest rates. While other loans charged between 5% and 6%, the owner-occupied home loans were made at 4.5%. At best, the Bank had a 0.5% margin over its deposit rate. Normally no bank lent more than 50% of a building’s value. It was the city’s guarantee of construction costs, together with the savings banks 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, Södermanlands Enskilda 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.

On January 23, 1908, the Savings Bank Association, an interest organization for the savings banks, sent a questionnaire to its members concerning their attitude to the *egnahems* movement. The intent was to encourage savings banks’ support for the movement. The Association believed that patriotic and social motives made it truly important for the savings banks, to support the *egnahems* movement, without however accepting increased risk.’ The savings bank in Nyköping considered its response to the questionnaire at a meeting on February 3, 1908. The Board of the Bank supported the proposal that the costs of a study of the owner occupied home loans of the savings banks should be borne by the Association.’

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 bank would not have lent 85% of the cost. Even the collective security provided by the *egnahems* associations constituted a subsidy in that it reduced the savings banks risk exposure. It is my contention that these subsidies were necessary for the establishment of this new market. The embryo of a system that can be seen in Nyköping constitutes one piece in the puzzle that, once completed, was formalized in the 1948 organization of the financing of owner-occupied homes in Sweden.

---

1 Questionnaire from the Savings Banks Association to its members, January 23, 1908
2 The Minutes of the Board, the savings bank in Nyköping, February 3, 1908.
CONCLUSIONS

In Nyköping, the local government, the co-operative societies and local businesses all agreed on the financing of housing. Other important local actors were the local savings banks and, to some degree, the local commercial banks. Together they got the production of owner-occupied homes going. The motivation of the various parties differed but the result was that ordinary workers were given the opportunity to live in their own houses. Agreements between organizations made the construction possible with little scope being given to individual ownership. During the period 1909-1920 there were three organizational alternatives for the building of owner-occupied homes. NK’s “own your own home” association built the greatest number of houses, most of them before 1913. Individuals whose houses were built within that organization needed no down payment. They did not, however, initially own the houses. In the other association, Nyköpings Egnahemskoloni, a larger individual contribution was required since it did not receive any supplementary loans. Just like NK’s association, however, they received the city’s guarantee. Also in this Association, the houses were not privately owned but instead belonged to the Association, in some cases until the mid 1950’s. Finally, there was privately financed building without the city’s guarantee. While few such houses were built before World War 1, they later became dominant. The workers who lived in the houses built in Nyköping during the early years of the century did not own these houses. Instead they were owned by the cooperative egnahem associations. Over time, however, these homes were transferred to private owners. This process began only a few years after construction and stretched on until the mid 1950’s.
I argue that this organizational structure transformed the uncertainties into risks which were predictable. NK took the highest financial risk. Thereafter the city and eventually the savings bank financed the most secure part. In this paper I proposed three main uncertainties that have to be solved to enable the construction of low down payment houses. These were income, construction and maintenance uncertainties.

The employer has the best knowledge of the employees’ future income. Because the employer agrees to finance the 15 percent down payment, this secure the income risk for the other lenders.

The cooperative association controlled the production risk. First it implemented the city’s technical descriptions. Second it initiated a professional tenders for the construction. Finally, after construction, the association continued to inspect the houses to guarantee sufficient maintenance. During the construction period the city engineer was controller for both the city and the savings banks. With this arrangement the production and maintenance uncertainties were controlled. And it is obvious that the cooperative association was both crucial and successful.

In this financial system, which was introduced in 1908 to create owner-occupied homes, the lender’s risks were divided between different parties. The risks were distributed between the firm, the city and the savings bank. To accept these risks a technical control was introduced. As a result, the technical regulation led to standardized building and hence, the construc-
tion contract was less complex. In other words, this standardization diminished transaction costs. Finally, the *egnahems* associations used information of members of the town to secure desirable behavior among the workers. This was carried out by introducing social norms and actually monitoring them.

**BIBLIOGRAPHY**

**Primary sources**

*Företagsarkiv Stockholm (Business Archives in Stockholm)*
Nordiska kompaniets arkiv, Styrelseprotokoll 1902 – 1910

*Nyköpings sparbanks arkiv (Archives of Nyköping’s savings bank)*
Styrelseprotokoll 1908, 1909

*Nyköpings stadsarkiv (Archives of the City of Nyköping)*
Egnahemskommittén 1907

*Nyköpings tingsrätt (Archives of Nyköping City Court)*
Fastighetsböcker, egnahemstomttema

**Secondary sources**


SOU 1928: 10 Betänkande ang. ordnandet av viss bostadskredit.
SOU 1935:2 Betänkande med forslag rör. lån och årliga bidrag av statsmedel för
främjande av bostadsförsörjningen för mindre bemedlade barnfamiljer. Bostadsociala
utredningen.
SOU 1935:28 Utredning med forslag om egnahemskonsulenter hos hushållningssäll-
skapen av statens egnahemsstyrelse.
SOU 1936: 14 Betänkande ang. planmässigt sparande och dels statliga bosättningslån.
SOU 1937:43 Betankande med forslag rör. lån och bidrag av statsmedel till främjande
av bostadsförsörjningen för mindre bemedlade barnrika familjer i egnahem mm.
SOU 1945:63 Slutbetänkande av bostadsociala utredningen.
Comment

Kenneth Snowden
University of North Carolina at Greensboro

This collection of papers drawn from the Swedish Savings Bank Project offer an unusual and fascinating glimpse into the development of an important financial intermediary. Because my own interest is in mortgage finance, I was intrigued to see some evidence in a couple of papers concerning the role that these banks played in the Swedish mortgage market before 1900. Tom Petersson, for example, shows that about 30 percent of the loan portfolio of the Nyköping Savings Bank was secured by real estate between 1835-1860, after which the share increased to more than 50 percent. Petersson notes that the costs of making and administering mortgage loans were reduced in 1875 by the implementation of simpler rules and procedures. Although he does not describe these institutional considerations in detail, Petersson suggests that they led to an increasing reliance on this form of investment by mortgage banks after 1880. Hilda Hellgren confirmed this pattern for the Sala bank for which mortgages represented 55 percent of loans in 1880 and 67 percent in 1910. Both papers only mention the increasing importance of mortgage lending to the savings banks during the period, and instead focus primarily on personal guarantee loans. I hope that we will learn much more about the pre-1900 mortgage lending business of these institutions from the participants of the Savings Bank project (loan amounts, terms and types of properties financed), and an assessment of the impact this channel had on the local and national Swedish economy.

A closer look at the late nineteenth century mortgage lending operations of the savings banks would help to establish Lars Fälting’s suggestion that they served residential borrowers poorly during the period. The pattern would certainly be consistent with U.S. experience where savings banks focussed primarily on commercial mortgage loans before 1900. Fälting asserts that the neglect in the Swedish case was the result of the high transaction costs and lending risks that were associated with making and administering non-standardized home mortgages. He goes on to show that these problems were overcome in Nyköping by the establishment in 1908 of a very complex, and interesting, lending mechanism. Fälting describes this mechanism as a partnership among city government, a local employer, and the savings bank itself. Local government participated by sponsoring a group of “Own Your Own Home" associations. The members of these groups monitored the construction of homes and were responsible for maintenance of the property—in fact, these cooperatively-owned associations actually owned the houses occupied by their members. In addition to
sponsoring the associations, the city government guaranteed their mortgage indebtedness. Given the local government’s assurance the Nyköping Savings Bank agreed to furnish low-interest, high loan-to-value (85 percent) to the associations and their members. Finally, the important Nordiska Kompaniet facility in Nyköping provided the 15 percent minimum down payment for its employees who formed their own associations. The partnership among the city, a large employer and the savings bank that Fälting describes represented an institutional innovation that provided attractive home mortgage loans in Nyköping for the first time.

Fälting argues that the “Own Your Own Home” movement worked because it established an efficient mortgage lending apparatus. By providing loan guarantees the city reduced the substantial lending risks associated with home mortgage lending which had inhibited savings banks from entering the market on their own. In addition, the structure allowed a standardization of mortgage loans that reduced the banks transaction costs. Fälting’s argument is plausible, but the paper could provide more supporting details. For example, the actual lending terms of the mortgages made to the associations (such as term-to-maturity and amortization provisions) are not discussed, nor are we told whether the association took out individual loans on each home or a single mortgage on all of the residences it owned. Furthermore, loan servicing procedures are not spelled out—did members make loan payments to the association or did they deal directly with the bank? Features such as these would have determined the true level of transactions costs associated with these loans as well as the portion of these that were borne by the Nyköping Savings Bank. The level and distribution of lending risks, on the other hand, would have been a function of several contractual features that are not fully spelled out. In the event of default, when and how was the city obliged to honor its guarantee? Was the down payment provided by the Nordiska Kompaniet in the form of a second mortgage, an unsecured loan, or as a pure transfer? At what point did the individual member of an association gain undisputed equity right in his or her home? Each of these contractual features would have affected the risks faced by the different parties and determined their incentives to honor their commitments. These factors must be carefully assessed before a convincing case can be made that the “On-Your-Own-Home” associations were truly "efficient".

In Fälting’s defense, I understand that many of these points are discussed at length in his dissertation. But details aside, it seems likely to this reader that these associations succeeded not only because they reduced transactions costs and lending risks, but also because they shifted these risks and costs from the Savings Bank to the other parties—the association members, the city and the Nordiska Kompaniet. By being relieved of all these, the Savings Bank viewed the home mortgages as nearly risk-free assets.
with very low transactions costs, and so it was willing to offer loans at very low rates. This interpretation, it seems to me, represents an interesting alternative to Fälting’s emphasis on the “institutional efficiency” of this very complex mechanism.

To be complete, explanations of institutional change should not only explain why a new mechanism worked, but also the timing and location of its appearance. For the Nyköping case several related issues come to mind. First of all, do we know whether the Own Your Own Home associations were unique to Nyköping, or if they were being introduced in other cities around the same time? Moreover, do we understand why these mechanisms were introduced in 1905 and not, for instance, ten years before or after. It seems that the arrival of the Nordiska Kompaniet plant in 1904 was the catalyst in Nyköping and it would be interesting to know if this connection between employer and mortgage market innovation was replicated elsewhere in Sweden. A final question of timing, however, may be the most important. Fälting explains that the Nyköping associations appeared prior to the national government’s interventions on behalf of home mortgage lenders—the Construction Fund in 1920, the State Housing Credit Fund in 1928, and state home mortgage loans in 1942. In fact, Fälting hopes to “illuminate the structure and the needs that led to the creation of the State housing subsidy system.” (p. 5). He has thoroughly convinced me that the Nyköping case is an ideal starting point for this research. But I would have liked to have seen some comparisons of the association’s lending structures with those implemented by the State in later years.

Besides confronting the “why, when and where” problems, students of institutional innovation must also ask "why not some other solution?” In the case of the Nyköping "Own-Your-Own-Home" associations there is a natural candidate to consider—the building and loan associations that appeared in the US and England. By 1905 these cooperatively-owned, unsubsidized and virtually unregulated agencies had been in operation for more than seventy years. They became the dominant source of home mortgage credit in the US during the 1880s, and in that decade spread rapidly from their Northeastern roots to thousands of large, medium and small communities in every region and state. Why did this very successful innovation not penetrate the Swedish home mortgage market? This type of counterfactual can be easily shrugged off with an appeal to social, cultural or legal considerations, but sometimes there is much to be learned by confronting more particular explanations. For example, building associations in the US did best in communities where white collar and skilled blue collar workers were abundant. Perhaps the level and distribution of income and wealth in Swedish cities at this time did not permit workers to join together in the same way to self-finance their own mortgage debt. Alternatively, building
associations in the US were generally organized and voluntarily operated by building and real estate professionals who were interested in structures that could provide loans to potential customers. These building and real estate professions were booming in the US in the late nineteenth century as waves of immigrants poured into cities throughout the country. Is it possible that these occupations were relatively much less important in Sweden at this time? It is difficult to sort through explanations of these types to understand why particular institutions arise in some nations and not others—but Fälting’s investigation of the Nyköping home mortgage system certainly provides some very tempting grist for the comparative historical mill.

Despite the quibbles and reservations raised above, I thoroughly enjoyed reading and thinking about Fälting’s paper. I am also thoroughly convinced that it will play a major role in any future examination of the historical development of the Swedish residential mortgage market. His work, and the other papers presented in this program, are a testament to the value of major collaborative efforts of this kind. These early fruits of the Swedish Savings Bank project trace provide a multi-faceted, but interrelated picture of financial institutional change that is unusually valuable and promising. I look forward to the remainder of the harvest.
One for all—all for one?
Networks between guarantors and borrowers during the late 19th century

Hilda Hellgren
Uppsala University

Abstract
The focus of this study is on the relationship between borrowers and guarantors in savings banks in an historical perspective. One result of my case study of the city of Sala, a conservative, mining-dependent city surrounded by farming districts, is that social networks between borrowers and guarantors were of major importance. The study indicates that there were several similarities between borrowers and guarantors. For instance they often lived close to one another. In addition they often had professions within the same field. Therefore one conclusion is that these networks were important when it came to the structure of the bank’s clients. From the bank’s perspective one can see this as reducing risk and lowering transaction costs, although it might not always have been an advantage from a borrower’s perspective since it might have been more difficult for those individuals without contacts to take out a loan. Additionally this might have slowed down the bank’s development which seems to have been true in this case. From a borrower’s perspective it seems to have been an advantage to know someone who was known to the bank. On the other hand it might also have been a disadvantage when it came to those individuals with fewer contacts who then had fewer possibilities to find guarantors.

This study in a wider context
In this paper I will focus mainly on savings banks, studying the relationship between borrowers and guarantors during a period when the institutionalized credit market, meaning a bank-orientated credit market, was still under development in Sweden. My doctoral thesis is mainly concerned with two perspectives forming a united platform of understanding the process of Swedish bank building during the 2nd half of the 19th century up until the early 20th century. This involves a study of the increased use of the savings banks and the decreased use of private lenders as creditors. The other perspective mentioned is concerned with the non-institutionalized credit market built up by private bankers and trading houses. Preliminary results indicate that networks were a very important part of the

1 Trading houses were also used during this period of time, but are excluded from my study.
relationship between lender and borrower, a relationship similar to the one described between guarantors and borrowers as well."

In this study of guarantor-borrower relationships in savings banks refer primarily to preliminary results found in relation to the year 1890. The reason for this is that the rest of the material is not yet complete. The results in this paper will be presented in the first part (of two) in my doctoral thesis.

**Topics Studied**

One of my aims then is to study the transformation of the non-institutionalized credit market into the institutionalized credit market. Examination of this change is of major interest. Did the same types of people (with regard to age, social status and so on) who used the non-institutionalized credits then become lenders using guarantee loans, stock loans or mortgage loans in a savings bank? There are indications that although the savings bank expanded their lending, some conservative characteristics from the non-institutionalized lending still remained although legislators wanted this to change. There might have been a change in the amount of individual loans, but not in the number of guarantee loans. Further studies are therefore needed to address; for instance - who used guarantee loans and to what extent? What can be said about the relationship between borrower and guarantor? Why did the bank still use guarantee loans, when the savings bank’s own regulation from 1893 onwards stated that guarantee loans were only allowed to be 50% of the saver’s deposits.’ The reason for this was because of the fact that mortgage loans were considered much more secure than the guarantee loans.

**Table 2: Lending in Sweden by Types of Loans in the Savings Banks 1880-1910 (Million Crowns)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgage Loan</th>
<th>Guarantee-loans</th>
<th>Stock-loan</th>
<th>Municipality loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1880</td>
<td>67</td>
<td>49</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1890</td>
<td>155</td>
<td>74</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>1900</td>
<td>246</td>
<td>86</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>1910</td>
<td>493</td>
<td>143</td>
<td>55</td>
<td>35</td>
</tr>
</tbody>
</table>


---

1. Lindgren, coming and Hellgren, coming.
2. Municipality loans were not, for obvious reasons, for private persons and are hence excluded from my study.
Looking at the table above, one clearly sees that mortgage loans to a large extent were being used to a large extent in the Swedish savings banks during this period. There are however, other ways of looking at this information. If one looks at Sala for instance, it becomes clear that the guarantee loans by far outnumber the mortgage loans. This is where my study becomes important. The guarantee loans might not have been as important when it came to the amount loaned, but they must certainly have been important for the banks, not to mention their importance for the individuals since many of them were probably unable to take out a loan from the commercial banks or any other place.

MATERIAL USED IN THIS STUDY
Like many other studies concerning the past, the question is whether or not the existing material from this era will be sufficient to achieve the purpose of the study. Fortunately the Swedish archives provide rich source materials in the form of church records and so on. The information is mainly found in sources originating from the excellent old Swedish documents concerning matters relating to the church. In this material inhabitants of the cities as well as people living in the countryside have been categorized on the basis of e.g. year of birth, marital status, family structure, address, profession and so on. The savings bank’s material is also very rich, but there are still a few major information gaps which will be discussed below.

Material from the savings bank
The savings bank in question for this study was founded in 1831. Most of the material originating from this period and up to the present day has, with a few exceptions, been preserved, including minutes from the savings bank’s board, records of lending and records of savings deposits. The way of keeping these books changed over time, but the information in the books mainly remained the same. Some exceptions exist however, and these are discussed later on. For this study I have primarily used two sources; loan record books and to some extent also records from the board. From the first type of books it is possible to obtain information on the borrower. This information includes the borrower’s name and the size of the loan. Usually one also finds information on the security of the loan. In most cases the borrower’s title and address are included. Difficulties arise

1 Also if the non-institutionalized credit market and the private bankers were dissolved the possibility for these individuals to take a loan somewhere else than in a savings-bank must have decreased.
2 This was the case in many other savings banks as well. See Nygren (1970) p. 7 ff.
3 The guarantor loans provides information of the name of the guarantor and usually where this person lives, and in some cases his or hers title. The mortgage loans contains the object of the mortgage - and often also where it was situated and when the person in question had raised the mortgage.
when this information is not available in the savings bank’s material. This is when other complementary material is required. Yet there are still some individuals who cannot be found in this other material they are few. A much more common problem is that it can be difficult to identify some of the borrowers and guarantors. This problem arises when there are more than two individuals with the same name, who cannot be separated from each other by looking at their title and/or their address. Where there is no possible way to distinguish this individual from the others, these have been grouped as unidentified individuals.

Complementary material
By using the material from the savings bank in Sala one can get a fairly good picture of what their lending-structure looked like, but there are a few pieces of information that need to be collected from other sources. This information is mainly supplementary to the information found in the savings bank’s material. For instance the titles of the guarantors and borrowers are not always available, but these can be found in other sources. Additional information is also available on for instance the family size of the borrower in question, or his or her age. Consequently this provides a very good base for characterization of the “typical” savings banks borrower.

Description of Sala - The Silver City
Sala is a city of tradition. Founded as early as in the 15th century, the city has for many years been called “the silver city” due to the fact that there was a major silver mine there. Sala produced most of the Swedish silver during the 19th century and was then a prosperous city. When the mine became less important the expansion of Sala ceased, but the old traditions associated with the mine lived on in the city for a long period. The relationship between the inhabitants of Sala and the silver mine was damaged, but the mine still had the inhabitants in its clutches as it were. One problem was that a majority of Sala inhabitants had a close connection to the mine. Consequently, when the mine got into difficulties, the inhabitants of Sala were affected as well mainly because they had to find other jobs. The silver mine was also important for other reasons. In many mining towns in Sweden there was a certain conservative “spirit” which also to some extent was patriarchal. This meant that Sala’s development in other areas was fairly slow, and the city’s existing social structure was so deeply rooted in people’s minds that it was very difficult to change it. In the first part of my thesis some of the explanations concerning the network relations and so
forth, very much depend upon this “bruksanda” - the conservative spirit.’ This spirit must have been at the back of the minds of the board of the savings bank in Sala, for instance, when it was time for them to look at the loan applications. This spirit most probably resulted in a different borrower structure compared to another city of the same size but without the conservative spirit. Another factor influencing the results of this study is that Sala probably developed slower and to a less extensively. The conservative spirit might not have been a disadvantage though since it brought people in the local society closer together and the knowledge of this might have been used by the board members.

Most people in the areas surrounding Sala were farmers. For the most part they were against innovations threatening local moves connected to the “bruksanda” and this aversion might have prevented large groups of people from using the savings bank. Sala expanded during the late 19th century, but not quite to the same extent as many other Swedish towns. This expansion took place especially after the railway had been built. During the last decades of the 19th century, various industries were also established.

The savings bank in Sala was founded in 1831, but no competitors appeared in Sala until the commercial bank was established in 1866. At most there were five commercial bank offices in Sala during the period of my study."

**Networks**
The study of the borrower-guarantor relationship can be analyzed from the social network analysis approach. This approach studies, as the name suggests, social relationships between individuals, individuals who hence form a network. Social network analysis might be a useful tool when it comes to analyzing this extensive material, by structuring and by some means also quantifying it. This has not been applied much to historical material as yet, but the studies which have been done generally all favor the social network analysis.

When speaking of networks in this paper I refer to social networks. This can more specifically be defined as “a specific type of relation linking a defined set of persons, objects or events”. Or to use the terminology of

---

1 This is a very complex term even in Swedish - and a simplification of this term is being used in this paper. The “bruksanda” is found in many other towns in the same part of Sweden, and not only in Sala.
2 Unfortunately there is little information on how large these commercial bank offices were. Information on loans in terms of number, amount and security would of course be useful in this study.
3 By quantifying in this case I mean that the loan amount can be seen as a unit of measurement.
some network theorists - the Zinks between actors.¹ The specific type of relation in this paper is the borrower-guarantor relationship and also to some extent the board members' relationship to the borrowers and the guarantors. The defined set is made up not only of these individuals, but also the act of borrowing money.

INDIVIDUALS WITH MANY LENDING AND GUARANTOR COMMITMENTS²

First of all there was a surprisingly small group of individuals who were more involved in the bank than one would expect.³ There were some 60 people (4% of the total population) who had commitments in approximately 25 percent of the total number of loans.⁴ Commitments in this case means that they were either a borrower or a guarantor and in some cases they even acted as both. One individual had as many as 26 commitments. This person acted as a guarantor 22 times and had 4 loans. This phenomenon is particularly interesting in terms of risk because it shows how vulnerable the bank would have been if one of their borrowers went bankrupt. If borrowers did go bankrupt the consequence would have been that the guarantors would step in. However, if they were bankrupt in the first place - how could they possibly have had enough means to do so? Additionally, these individuals often had loans of their own and did not only act as guarantors. Did these individuals really have enough assets for this?⁵ More surprisingly, some of these individuals also supported each other. For instance borrower Mr. Andersson has a guarantor, Mr. Malm. Later Mr. Malm takes a loan and then uses Mr. Andersson as a guarantor. Therefore, in reality neither of them might have had enough assets to cover this loan. Also when looking at the characteristics of these individuals with many commitments the following can be stated: First of all they often came from the same geographical area. Secondly, they often had jobs within the same

²In this paper I only present preliminary results from one year, 1890. In my study I have also looked more closely at the years 1870 and 1910. During these years I have complete coverage of all the loans in the bank. For the years 1860, 1880 and 1900 I will study the new loans taken during these years. My intention is to show how the lending in the savings bank developed and study factors which changed over time in relation to loan structure (i.e. amount and number of loans, and information on the lenders).
³In this case I am referring to those individuals who had more than 10 commitments (where they had loans and/or were guarantors).
⁴This information is for 1890; the number might vary for the other years. For further information see the material description. The total number of commitments in 1890 were 17 177.
⁵Taxation records will provide information on this. In addition estate inventories can be used to see whether or not the savings bank borrowers also had other types of loans. Naturally there is a bias in this since the individuals in estate inventories are dead and therefore there is a tendency; that firstly these individuals are older than the rest of the population and secondly that they might have been sick for some time before they passed away and consequently might have changed their borrowing structure.
field. This also raises the question of whether or not these individuals were a cross-section of Sala and the surroundings population, which naturally will be studied further. However, most of these individuals seem to have owned their own land or been master craftsmen, which means that very few non-land owners and workers were part of this arrangement. Since the savings banks in Sweden originally were founded to help the less well situated to save, and indirectly also to get credit, this therefore raises several interesting questions. Firstly, which groups were borrowers and/or guarantors in the savings bank, and secondly, when did the workers start to use the savings bank not only to save in, but to borrow from? This second question can also be seen from another perspective - namely from the bank’s perspective - when were the workers and non-landowners considered reliable as borrowers? Unfortunately there will not be any results presented in this paper, but the questions remain for further studies.

This does not differ from the ordinary relationship between guarantor and borrower though. However it is of major importance to notice that there were similarities between the borrowers in the savings bank. This illustrates the limitation of the system, but also indicates the opposite - perhaps it was a secure system since these people naturally had a good relationship already from the start. In addition, the savings bank in Sala stated that they had not experienced any losses on guarantee loans, only on mortgage loans.¹

Unfortunately there is no information available on loan applications that were turned down in Sala. This information would naturally have been useful in relation to the nature of the loans that were accepted.²

Table 2: The parishes which the individuals with more than 10 commitments came from in 1890 (preliminary results)

<table>
<thead>
<tr>
<th>Parish</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sala Landsforsamling (country parish)</td>
<td>6</td>
</tr>
<tr>
<td>Sala Stadsforsamling (town parish)</td>
<td>15</td>
</tr>
<tr>
<td>Kila</td>
<td>10</td>
</tr>
<tr>
<td>Möklinta</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Census of population 1890. Note that not all of the individuals with more than 10 commitments have been found in this material. Further studies will be undertaken to find these individuals.

¹ Rydin (1903) p. 22.
² This information can be found in some other savings banks though. For instance in Gävle savings bank where it is possible to see the number of loans turned down, as well as loan amount. See Sjölander (1996) p. 41 f.f.
The table above illustrates the importance of being close to the city center and hence also the savings bank. Möklinta is the parish situated fixthest away from Sala, and has not surprisingly the smallest number of individuals with many commitments. Sala town parish has the largest number, which illustrates the importance of being close. This is where the savings bank was situated.

**Table 3: Profession for individuals with more than 10 commitments in 1890 (Preliminary Results)**

<table>
<thead>
<tr>
<th>Profession</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>farm owner</td>
<td>18</td>
</tr>
<tr>
<td>dairy man</td>
<td>1</td>
</tr>
<tr>
<td>miner (owning parts of the mine)</td>
<td>3</td>
</tr>
<tr>
<td>smith</td>
<td>4</td>
</tr>
<tr>
<td>mine worker</td>
<td>4</td>
</tr>
<tr>
<td>brass craftsman</td>
<td>1</td>
</tr>
<tr>
<td>former farm owner</td>
<td>1</td>
</tr>
<tr>
<td>tanner</td>
<td>1</td>
</tr>
<tr>
<td>shopkeeper</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Census of population 1890 and savings banks lending material 1890.

From the table above two groups are found. The first group seems to consist of farm related individuals (farm owners and former farm owners) and the other group of mine related individuals (miners, mine workers, smiths). Altogether these groups made up a majority of these individuals. Therefore it is possible to say that the individuals outside the city were land owners in some way. The mine related individuals were important in the city, and here some workers are spotted as well. Still the workers were fairly few.

**CROSS - GUARANTEEING**

Looking from a bank perspective there was probably a smaller risk involved in using people with 10 commitments or more as guarantors since the board knew the people involved. However, there was also a higher risk since bankruptcy for one of the bank’s clients would put other clients in the bank in trouble as well due to the well-developed chain or network of borrower/guarantor. This also raises the question of whether or not it was possible for the clients to “cover” this as it were. If not, the bank naturally was in trouble.
From a borrower perspective though, taking a loan might have been difficult if they had no immediate contact with members of the bank’s board. By using a person already known to the bank as a guarantor this would improve the reputation of the borrower and possibly also give the borrower an advantage when it came to taking a loan.
BIBLIOGRAPHY

Primary sources
Uppsala Landsarkiv (The provincial record office of Uppsala)
Husförhörslängder (Parish records):
  Kila (AI: 21A - B) 1886-1895.
  Möklinta (AI: 16A - B) 1881-1890.
  Sala landsförsamling (AI: 21A) 1886-1895.
  Sala stadsförsamling (AI: 21A - C) 1886-1895.

Sala sparbank (The savings bank in Sala)
Styrelseprotokoll, i Sala sparbanks kassaräkning och verifikationer 1890 (Minutes of the board).
Utlåningsböcker 1890 (Lending records).

Secondary sources


Näsmark, Johan (1928) Sala stads sparbank 1828 - 1928 Minnesskrift (Sala savings bank 1828 - 1928 Memorial publication) Sala.

Rydin, Axel (1903) Anteckningar rörande Sala sparbank åren 1832-1902 (Notes concerning Sala Savings bank the years 1832 - 1902) Stockholm.

As is appropriate for a preliminary work, this paper raises some intriguing questions. Thus the author can look forward to additional long hours of work, hopefully to be rewarded by some important results.

The paper basically constitutes a case study of the universal historical shift of banking practices away from a highly personal to a largely impersonal approach. One important aspect of this change was the reduced reliance on signature loans secured by co-signers (or guarantors). Other forms of collateral increasingly replaced these: in the case of savings banks, largely mortgages on real estate.

The older practice of mainly granting loans on the security of co-signatures is virtually always criticized as being certainly old-fashioned, risky and inefficient and even, quite possibly, corrupt. In particular, it is argued that the resulting interlocking web, or network, of loans and guarantees constitutes a "house of cards". The fact that the same individuals are both borrowers and guarantors, often of many loans, is seen as setting the stage for a "domino" effect. The failure of one individual will lead to a series of further bankruptcies culminating in a collapse of the bank in question.

On several occasions, the author gives expression to such concerns. Thus she notes that "there was also a higher risk of bankruptcy for one of the bank's clients would put other clients in the bank in trouble as well due to the well-developed chain of borrower/guarantor" (p.63). She also reports that "mortgage loans were considered much more secure than the guarantee loans" (p.57). On the other hand, there was an advantage to the bank "knowing" the people involved (p.63). Most startlingly of all, however, she reports that Sala Savings Bank "had not experienced any losses on guarantee loans, only on mortgage loans"! (p.62).

This last, counter intuitive, result, raises the possibility that the efficacy of relying on co-signatures for loan security should be re-examined. Two possible advantages of this system can easily be deduced. First of all, the joint assets of the network of borrowers/guarantors were likely to be much more diversified than a portfolio consisting entirely of mortgages. Thus, to the extent that falling capital values during an economic crisis were concentrated on one type of asset (in this case, real estate), it would certainly be better for a bank to have its loans ultimately secured by a diversified portfolio.

The second advantage was the ready availability of information on the economic position (and reliability) of the limited number of persons involved. Furthermore, the "house of cards" view seems to be based on a
belief that previous generations lacked our own marvelous intelligence and insight. In fact, they must have been aware of this danger and have taken it into account.

This perspective raises the possibility that the shift away from the personally guaranteed loans toward other types of lending (especially on the security of mortgages) in fact was necessary, but not necessarily desirable, response to rising information costs. As the economy grew and became increasingly anonymous, the banks were forced to rely more heavily for collateral directly on the assets of the individual borrower. It was the best they could do under the circumstances.

I believe the author is in an excellent position to test this hypothesis. She could measure the joint portfolio of the Sala Savings Bank’s network of borrowers/guarantors. How did their portfolio of assets compare with their debts? How diversified was their portfolio? How did fluctuations in the value of their portfolio of assets compare with fluctuations in the value of just real estate? I believe answers to these questions would be of great interest, not just to me, but to many economic historians.

Let me close my remarks by congratulating the author on excellent the preliminary work she has done and on the opportunities for further research of great interest that she has unearthed. I wish her the best of luck with her continuing thesis work.
Uppsala Papers in Economic History of the following series:

RESEARCH REPORTS


WORKING PAPERS

BASIC READINGS


WORKING PAPERS IN TRANSPORT AND COMMUNICATION HISTORY


<table>
<thead>
<tr>
<th>UPPSALA PAPERS IN FINANCIAL HISTORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mats Larsson: Aktörer, marknader och re leringar. Sveriges finansiella system under 1900-talet. 1 893.</td>
</tr>
</tbody>
</table>