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Mastering the narrative and the dirty tricks of trade: The re-establishment of a Swedish bank in 1668

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ABSTRACT

In 1657, Sweden saw the creation of its first bank, the private royal-chartered Stockholms Banco. It crashed a few years later and was reconstructed as the Bank of the Estates of the Realm. The intention here is to show how a bank could (re)open so soon after a disastrous crash and to point at some key factors in its success. The main argument posits not only that the principals of the new bank required an adequate institutional framework to make a credible commitment, but also that the prosperity of that bank depended upon said principals' ability to control the narrative of the crashed bank and to recruit a good staff with strong personal credit, whose self-interest it could harness and credit it could use.

KEYWORDS

Banking; early modern; institutions; agency; narrative

In the infancy of financial capitalism in seventeenth-century northwestern Europe, big chartered companies for long-distance trade and public banks emerged alongside the small family-based merchant and bank houses of medieval descent, generating new types of intertwined problems connected to management (principals wanting to pick the right staff and govern it effectively) and trust (clients had to consider the companies and banks trustworthy institutions) (Avallone, 1999; Braudel, 1986, pp. 405–414; Carlos & Nicholas, 1990; Gelderblom, 2003, pp. 606–610; Murphy, 2019; Temin & Voth, 2013).

In 1657, Sweden saw the creation of its first bank, the private royal-chartered Stockholm's Banco. The bank was a part of a process to make Swedish society more commercialised, adapting Dutch institutions and practices to a Swedish context, by facilitating credit for both private persons, business companies, and the state (Bindseil, 2019, 223–228; Heckscher, 1936, 592–601; Thomson, 2005, 331–346). In 1660, in an early trial of fiat money, the bank printed its first banknotes. In 1663/1664 the bank crashed, partly due to those notes severely affecting the credit market and the monetary situation. A few years later, in 1668, a new bank, the Bank of the Estates of the Realm (*Riksbens Ständers Bank*, today the *Riksbank*), opened.

Although the Swedish development provides an early example of a public bank, a crash and a re-establishing in the periphery of the vibrant economies in the North Sea region, it has received scant attention. But a study of the transition from Stockholm's Banco to the Bank of the Estates of the Realm is not only crucial for understanding the business of the latter, but can also contribute to our understanding of the rise of institutional credit and

how banks and other companies dealt with problems regarding information asymmetries, supervision, and trust.

The intention here is to show how a bank could open so soon after a disastrous crash and point out the hurdles it had hard to overcome. The main argument posits not only that the principals of the new bank required an adequate institutional framework to make a credible commitment, but also that the prosperity of that bank depended upon said principals' ability to control the narrative of the crashed bank and to recruit a good staff with strong personal credit. However, a shallow talent pool and people keen to use the bank for their benefits made finding the right staff and governance cumbersome.

Institutions, agents, and narratives

The principals of the Bank of the Estates of Realm – the Estates of the nobility, the clergy, and burghers – faced problems of agency when delegating authority to the commissioners of the bank (the bank's senior officials). The Estates were not permanently assembled in the Diet, neither was the parliamentary committee that was formed to audit the bank. The board of governors (elected among the members of the Diet), whose members combined their governorships with regular occupations as parish priests (the clergy), merchants and magistrates (the burghers), or senior government officials (the nobility) met every second week, but the daily business of the bank relied on the discretion of the commissioners. This structure of governance gave the commissioners and other bank officials the opportunity to handle affairs according to their own self-interest and not necessarily in the best interest of the bank. Therefore, the Estates had to work out practices to reduce adverse selection in the hiring processes, avoiding staff that had a risk not to work for the bank's best or becoming an impediment due to lacks of competence or dedication.

The relationship between the depositors and the bank also had the risk of becoming an agency problem (Kiser, 2009, pp. 289–291). Depositors often lack enough information and understanding to monitor banks and banks' relations with the government. The topic of banks in monarchies was delicate at the time; the sovereign was seen as an imminent threat to banks and to all other sorts of funds and there was a widespread opinion that banks only could operate in republics (Bindseil, 2019, pp. 83–85; Dickson, 1967; Kaiser, 1991, pp. 55–56; Pincus, 2009, pp. 394–396; Wennerlind, 2011, pp. 69–70, 74, 111; Ito, 2020, pp. 148–149). This problem could, however, be minimised by formal institutional arrangements. Formal institutions like a well-functioning judicial system upholding the laws and registration of estates etc. and are often seen as fundamental in modern credit markets, but were not always in place in the early modern period (de Soto, 2001; van Bochove et al., 2015). Likewise, institutional frameworks binding the government to its commitment not to seize private property without legal support, fundamental to the functioning of banks, were often very loosely constructed (Hoffman & Norberg, 1994; North & Weingast, 1989; Root, 1989, pp. 240–258). The Estates therefore had to deal with a dual principal–agent problem, having to find methods and people that they could rely on, but that also inspired confidence in potential depositors.

Ann Carlos and Stephen Nicholas, in their studies of the Hudson's Bay and Royal African companies, have analysed how the principals of the companies applied a set of strategies to deal with problems of the same nature – concerning adverse selection and moral hazard – as the governors of the Swedish bank. Criticising previous research, Carlos and Nicholas argue that the companies' directors had a comprehension of the agency problem and often

did manage to control their oversea agents by using various sound strategies (Carlos, 1992; Carlos & Nicholas, 1990, 1993). One of the most important strategies, applied by the Hudson's Bay Company, but not the Royal African, was to create a strong trust network between the principal in London and the agents by employing young people at low positions and letting them work through the ranks, thus creating a 'class of managers very closely allied to the firm' (Carlos, 1992, p. 144). The same strategy was used by the Bank of England when recruiting servants (Murphy, 2010, p. 154). However, the strategy was workable only in established firms; the problem was harder to solve at a start-up stage, a problem not addressed by Carlos and Nicholas.

History provides us with examples on how an adequate institutional framework was not enough for making financial institutions prosper, especially not in their early stages or in times of uncertainties. As mentioned above, a bank needs not only manageable agents, but also people who are trustworthy in the eyes of potential customers or investors. Among the first generation of governors and directors of Bank of England were many leading members of the merchant community of the City. According to Acres, this was an essential factor behind the bank's immediate success; the governors' and directors' strong positions among the London merchants brought credit to the new institution (Abramson, 2005, pp. 7–8; Acres, 1931, pp. 19–26; Dickson, 1967). For a similar analysis of the start of Bank of Scotland in the 1690s, see Saville (1996). The English bank's close connection to the Whig party furthermore boosted its credit in some circles while having the opposite effect in others (Carruthers, 1996; Pincus, 2009, pp. 395–397). In Amsterdam, the commissioners of the municipal Wisselbank were from the beginning elected among the political and financial elite of the city. Over time, however, a process of professionalisation took place, making the commissioners serve longer and becoming more specialised in law and finance. They were also more seldom recruited from the absolute elite of the merchant city ('t Hart, 2009). But not only political convictions and the governors' private credit were crucial; Anne L. Murphy has convincingly shown how the governors of Bank of England paid great attention to the daily 'performance of credit' of its employees in a period when 'the creditworthiness of the state continued to be contested' (Murphy, 2019, pp. 67–73). Correspondingly, it would not be an understatement to call the Bank of the Estates of the Realm's and the Swedish state's creditworthiness contested in the 1660s and 1670s.¹

The strategies used to deal with agency problems and adverse selection and how to perform credit are connected to the conceptualisation of, and the information available about, the situation. Information, however, is never neutral; it is processed by the mind in a specific historical context. How information is valued depends on people's previous experiences, or more specifically, on the narratives of those previous experiences. These narratives are constructed in a process of sensemaking, managing, and conceptualising events and processes in the surrounding world. Per H. Hansen has argued for the usefulness of analysing economic crises from this perspective of sensemaking: actions deemed sensible and people portrayed as genius before a financial crisis can afterwards, by a reformulated narrative, be labelled foolish and greedy. In an initial phase of narration, an event or a process is often surrounded by alternative and competing narratives. Conflicting narratives make it important for the actors to master the narratives to control the choice sets; sensemaking and narration therefore walk hand-in-hand with interest and power (Hansen, 2012b, pp. 673–677). In some cases, not only are the actors reassessed, but also more fundamental matters, such as the role of the market or even the state are reconceptualized. Narratives make sense of past events; but they

also shape the way actors perceive and act, in the present and in the future, producing path dependency (Hansen, 2012a, pp. 698–700). The French and English Mississippi and South Sea Bubbles have from the 1720s and onwards played central roles in narratives of financial markets and public credit (Hoppit, 2002; Neal, 1991, pp. 62, 79–80; White, 1995, p. 235). In France, the narrative of John Law and the failed royal bank and paper money were repeatedly brought up in the discussions on how to find a remedy for the state's bad finances all the way up to the Revolution, making the introduction of paper money an onerous task (Kaiser, 1991, pp. 19–28; Kindleberger, 1993, p. 100; Spang, 2015, pp. 63, 79–82).

There are no modern studies of the internal organisation and management of the early Swedish banks.¹ Neither has much interest been paid to – except from the unlucky fate of Palmstruch – the transitional phase from the crash of Stockholm's Banco to the start of the Bank of the Estates of the Realm. Rather, the process has been seen as unproblematic, but, as discussed further in the following sections, the actors involved found it far from smooth and easy (Brisman, 1918, pp. 75–87, 90–96; Fregert, 2018, p. 95; Ögren, 2016, p. 51; Wetterberg, 2009, pp. 48–49). To understand how a new bank could open in Sweden after the bank crash, we have to understand the contemporary perception of the process and the institutions and people involved in the two banks.

The archive of the Bank of the Estates of the Realm is very well preserved and well suited for this type of study. Unlike much other economic activity in early modern Sweden and Europe in general, it is possible to discover the motives behind nearly everything the bank did. The collegial organisation and the Estates' requests for sound management and auditability required the bank to produce detailed minutes (recording discussions as well as decisions), kept by the decision-making bodies of the bank. In all bodies, the topics of recruitments, trust, and legitimacy were elaborately debated.

Seventeenth-century Swedish banks

In 1657, Johan Palmstruch, with a prior career as a merchant in Amsterdam and commissioner of the Swedish College of Trade, was given a royal charter to start Stockholm's Banco. Although a private company with a number of stakeholders, many of them members of the Council of the Realm (which shared executive power with the King), the bank had a close relationship with King Charles X Gustav. The King was entitled to a share of the bank's profit and appointed a councillor and member of the high nobility as inspector for the bank, Gustav Bonde (from 1660 also Head of the Treasury). Within the regency government that soon followed the King's death in 1660, a consensus prevailed about the usefulness of a bank. However, there was a political fight ongoing between factions about the state's finances and its relationship to the bank. A group of councillors, led by the Head of the Treasury, pursued a policy of sound finances, avoiding reneging and lending on long terms. Under the leadership of the Chancellor Magnus Gabriel De la Gardie, the other faction put the eminent needs of the state first, not afraid of defaulting on debts and paying old loans with new (Wittrock, 1914, pp. 439–450).

The bank was divided into two departments: a loan bank, funding lending with deposits, and an exchange bank (Brisman, 1918, pp. 13–26; Platbärzdis, 1960, pp. 13–20). The practice of noble governance of the Swedish chartered companies – to appoint councillors or other members of the nobility as board members –, was worked out in the first half of the century by the Chancellor Axel Oxenstierna. The Chancellor saw it as a method to balance the

self-interest of the merchants with the virtue to care for the common good, best protected by the nobility (Thomson, 2009, pp. 336–337). For the Chancellor, it was also a strategy to hamper the moneyed interests that at this time had become a political and economic threat to the landed aristocracy dominating the Council.

The history of Stockholm's Banco is short: it crashed due to a bank run in 1663–1664, generally attributed to its overissuing banknotes (*kreditivsedlar* or 'creditnotes'), which led to generous lending, sometimes with no security at all. The situation was worsened by Sweden's copper standard, which made the currency sensitive to changes in the price of copper. A rise in the price on the European market in the early 1660s made copper coins and 'plates'² more valuable as commodities than as money, causing a bank run of people wanting to withdraw their deposits or to exchange their banknotes for copper coins. The undercapitalised bank's overissuance of notes made it impossible for it to meet all the notes presented to it (Edvinsson, 2010, pp. 162–163; Fregert, 2018, p. 96; Heckscher, 1934, pp. 169–171). The bank crisis led to severe disruptions of the monetary system and the credit market in Sweden. According to both Palmstruch and the Council of the Realm, interest rates leaped from six to fifty percent, putting the brakes on the market for land. From the autumn of 1663 and for years after, the bank crash and ensuing economic instability were a recurrent topic for the Council, the de facto government during the decade-long regency period following the death of Charles X Gustav in 1660. To stop the runaway interest, the Council felt compelled to introduce a maximum interest rate of six percent in 1666.³ The money shortage and rising interest rates affected many more people than just the bank customers. Several times over the years, the Council feared that the economic crisis would lead to a political crisis or even to violent insurgencies.⁴

Although the fall of Stockholm's Banco caused a financial crisis, the idea of a Swedish bank prevailed, and a new bank opened in 1668. At the Diets and in the Council, intense discussions continued for years about how to make the new bank a trustworthy institution. One way was to place it out of reach of the sovereign, in the protective arms of the Estates of the Realm: to make a credible commitment that the government could not renege on without putting the prevailing political regime at stake. This type of construction was discussed in the Council from the 1640s onwards; the Estates were however reluctant to take any managerial responsibility for the bank. Nevertheless, the Estates had been involved in different matters concerning Stockholm's Banco during its short time in business. The government searched for example their support to solve upcoming problems with debt collections by credit law amendments and monetary policies.⁵

At the 1668 Diet, the government was the driving force in making the Estates' responsible for the bank while especially the Commoner Estates questioned their use of a bank and feared to become economically liable for eventual economic losses. The government's eagerness in making it the bank of the Estates stemmed from their hopes on the bank to bolster trade by providing credit and clearing services, and, not at least, to act as a source of credit to the Crown.⁶ For the Council and the members of the Estates in favour of a bank, it became important to show that a continuation of banks were beneficial for all and that the fiasco of Stockholm Banco would not be repeated. A recurrent theme in the discussions on the bank was that it should serve everyone, not just the economic or political elites. Both its position as an institution under the Estates and the rather capital-poor society it operated in, with small noble and mercantile elites, made it dependent on customers from a broad cross-section of society (Pihl, 2019). In a note from the Diet of 1668, preserved in the Nobility

Estate's archive, it is described how the new bank's security has to be assured and how it best be done. The first point in the list is to publicly declare (*public ordinum decreto declares*) the bank as beneficial, practicable, and necessary, and in safe from the menacing shadows of the Crown and self-interest.⁷

Even though the new bank was placed under the Estates, it was a new and untested construction, and it was hard for potential investors to know whether the government would leave the bank's funds untouched and honour future loan agreements in times of fiscal hardship. Moreover, it was not only in relation to the sovereign that the institutional framework of the bank was less than robust. Before juridical reforms of the 1720s and 1730s, legal regulation of the credit market in Sweden was relatively weak. Mortgages were not legally required to be registered and the procedures for debt recovery were ambiguous (Ågren, 1992, pp. 42–46; Pihl, 2019). The weak institutional framework, causing information asymmetries made other techniques important such as assessing previous actions and public reputation (Dickson, 1967, pp. 46–47; Flandreau & Flores, 2009, pp. 654–656).

In 1668, the Swedish experience of banks could hardly be called confidence-building, making it important for those involved with the new bank to show that they represented something else than Stockholm's Banco. The fall of the old bank had to be conceptualised and communicated in a way that enabled a re-establishing; playing down the risks of moral hazard and the construction of the new bank had to be done in a confidence-inspiring way. In this effort, the staff's backgrounds, skills, and manners were essential. Who to appoint as commissioners and clerks became to some extent a political topic.

As a public agency handling cash and credit in a society often facing a lack of both, the bank attracted the interest of people in financial and mercantile circles. During Sweden's involvement in protracted warfare on the Continent, the state had become dependent on financiers and contractors, many of them combining their private businesses with offices within the bureaucracy (Glete, 2007, pp. 103–104; Landberg, 1971, pp. 42–63; Munthe, 1941, pp. 57–151; Torstendahl, 1979, p. 283; Wittrock, 1914). For these men the bank constituted both a threat and an opportunity. The bank posed a threat to their access to the state's resources since it was made the Crown's cashier, the state's revenue incomes should go via the bank. A position within the bank, however, would give them access to these resources, and not just the Crown's cash flow, in 1668 the Royal Mint was chartered to the bank by the Government.⁸

Escaping the past – the narrative of the fall of Stockholm's Banco

To re-establish public trust in banks, the Estates found it crucial to avoid public confusion between the new and the old bank. The history of the Rikens ständers Bank had to begin in 1668, with no sullyng pre-history connected to Stockholm's Banco. At the Diet of 1668, the Estate of the Nobility discussed how to make the new bank a trustworthy institution. In focus for the discussion was how to minimise the new bank's relationship with the old. Representatives on the board of the new bank were forbidden to take any part in the liquidation of the old one, e.g. stock counting. Moreover, people involved in businesses associated with the old bank had to sever those connections before entering into any relation with the new. Finally, a new building had to be found, 'in all aspects separating the new from the old' (*att uti alle delar hafva honom separerat ifrån dhen gamble*).⁹

To allow the new bank's history to start in 1668, the faults of the old bank had to be unique; they could not be conceived as intrinsic risks of banks in general. An important chapter of the narrative of the crash, therefore, was to clearly differentiate between banks as a general phenomenon and the particular errors of Stockholm's Banco. If the problem were not to be attributed to banks, the organisation or the people involved in the bank at the centre of the crisis must have caused it. This narrative began at the Diet of 1660 and continued at the subsequent Diet of 1664, when the Estates adopted the view that Stockholm's Banco may have caused severe problems in the financial system, but that banks, as a phenomenon, were profitable for the realm.¹⁰ It was said that the old bank had been a beneficial institution for trade and the domestic credit market during its first years in business. However, by departing from the late King Charles X Gustav's intentions, expressed in the bank's charter, the leadership of the bank had caused its fall.¹¹ In this accounting, the king and the government were made blameless for the disastrous event that had damaged an originally beneficial institution.

The same viewpoint was dominant in the Council of the Realm.¹² Some of the councillors were participants in the bank company, such as Gustav Bonde, who was both inspector of the bank and Head of the Treasury. In a report written after the Diet of 1664, when it had been decided to reconstruct the bank, Bonde did his best to depict the bank director Johan Palmstruch as greedy, deserving of all the blame. In the words of Bonde, 'the errors of the master [Palmstruch] had imputed the craft [the bank]'.¹³ Their positions as stakeholders might have given the councillors an incentive to scapegoat Palmstruch and thereby avoiding any of the blame. In previous research, the fall of Stockholm's Banco has sometimes been described as an attempt of some heavily indebted councillors to get rid of a powerful creditor (Ögren, 2016, pp. 51–52; Wetterberg, 2009, pp. 48–49). No explicit proof of this can be found in the sources. Nevertheless, the Council in which the majority was sympathetic towards the continuation of banks, took an active part in formulating what became the dominant narrative about Stockholm's Banco, and, whatever personal causes the councillors had to liquidate Stockholm's Banco, they had to argue for it in the context of the public best (Runeby, 1962, pp. 344–346, 421–422; Runefelt, 2001).

If the bank's management had deviated from the king's good intentions and the bank's charter, the narrative had to explain how and why. In their reply to the decisions of the Diet of 1664, the nobility noted that although they had agreed upon the benefits of banks, something must have caused the problems of Stockholm's Banco. 'Such big and far-reaching inconvenience cannot be the product of chance', the reply declared, 'but must have been caused by a person's neglect, ill will or greed'.¹⁴

Questions about how and why the bank failed were mainly answered by referring to its foundation as a chartered company and the faults of its director, Palmstruch. Companies were meant to make profit, but it was deemed morally wrong to make money on exchange and credit.¹⁵ In the narrative, the construction of the bank as a chartered company rather than as a public institution had enabled Palmstruch to use his own discretion and to hide mismanagement in poor bookkeeping. The motive for Palmstruch's actions was said to be greed, which the bank's organisation could not tame. In his report, Bonde wrote about Palmstruch's great appetite for interest incomes.¹⁶ The depiction of Palmstruch as driven by avarice was further nurtured by a general mistrust of self-interest and chartered companies in Swedish society. Philosophical and political literature and the discussions of the Diets all depicted self-interest as suspicious and a threat to society (Englund, 1989; Runefelt, 2001, pp. 46–90; Thomson,

2009, pp. 107–130). Chartered companies were seen by their critics as especially encouraging of self-interest and greed, making goods and services more expensive.¹⁷

A result of the sensemaking process was the *ex post facto* depiction of Johan Palmstruch as solely responsible for the mismanagement of the old bank, and his innovation the credit notes as the main reason for its fall (Brisman, 1918, pp. 69–80). Although the bank charter stated that Palmstruch and the commissioners should run the bank collegially under the supervision of the inspector, the narrative made Palmstruch the head of the bank. According to the testimony of the former bank commissioner Erik Appelgren in the investigations of Stockholm's Banco's fall, Palmstruch had dominated the governance of the bank, and Appelgren and the other commissioners had had to follow his word (Brisman, 1918, pp. 27–28). The collegial government prescribed by the charter, with Palmstruch and the three commissioners forming the board of the bank, had never been implemented, according to Appelgren, whose statement was picked up in the narrative. It is a reflection of how Palmstruch successfully was made into the sole culprit that even today the failed bank is commonly known as 'Palmstruch's bank'. During its time in business, the bank's formal name was 'Stockholm's Banco', but it was also occasionally called 'The Bank in Stockholm', 'The Royal Bank', or just 'The Bank' (Tingström, 1984, p. 38).¹⁸ Only after its fall, and with the help of the narrative, did it become commonly known as Palmstruch's Bank.

Even though Palmstruch had a key role in both the founding and the crash of the bank, he was not the sole actor. A crucial component in the critique of Palmstruch was his introduction of the credit notes and, accordingly, the new bank was prohibited from issuing notes.¹⁹ However, when the credit notes were introduced in 1661, they had been approved by both the inspector, Gustav Bonde, and the Council. Furthermore, the latter decided to accept the notes in all royal fiscal encounters, confirming them as a currency equivalent to coins made of copper and silver (Brisman, 1918, pp. 61–62; Platbārdis, 1960, pp. 41–42). In fact, by being more proactive – for example, by helping to re-capitalize the bank or following Palmstruch's call to allow it to close during the worst phase of the crisis to let the market settle – the Council of the Realm might have been able to prevent the severe effects of the bank run (Brisman, 1918, pp. 69–75; Ögren, 2016, p. 51).

The credit notes had been depicted as one of the primary causes of the crisis, and in both the Council and at the Diets of 1664 and 1668, the notes were frequent targets of criticism, described as the root of all evil.²⁰ In the council, the Chancellor argued that credit notes must be banned since they were what 'offended the public most' (*man mäst stöta sig på*).²¹ The following year, the Council agreed to a ban on credit notes since they 'offend people'.²² By lending not only in relation to its reserves, but also on its credit, Stockholm's Banco had approached a new view and practice on money and credit. As one of the former commissioners of the bank explained: 'It must not be as much money in the bank as notes, for if the notes are treated right so they are trusted and widely spread, they will not soon return'.²³ A minority of the Diet and the Council shared this view, but the fear to scare off the public and a will to demonstrate an ability to take action, the majority preferred a ban. By redeeming the old notes and forbidding any reissue by the reconstructed bank, the Council and the Estates signalled that they had the will and the strength to take action and solve the crisis, but at the cost of Palmstruch and the banknotes.

The narrative of the credit notes was to dictate the business of the Bank of the Estates of the Realm and its relation to the government for decades to come. During both the war against Denmark in the 1670s and the Great Northern War in the early eighteenth century,

the Crown made repeated proposals to begin issuing banknotes, but the bank denied all of them, referring to the disastrous events of the early 1660s and the statute's prohibition on notes (Brisman, 1918, pp. 172–173; Winton & Ericsson, 2019, pp. 27–28). 'Experience is the best teacher' (*Experientia ähr den bästa magistra*) Henrik Falkenberg, member of the parliamentary committee of the bank, stated in the discussion of credit notes in 1672, referring to the narrative of Stockholm's Banco.²⁴ The prohibition limited the bank's ability to provide emergency financing to the state in times of war, but without the ban and a strong narrative against the issuing of notes, it might have been impossible to reconstruct a bank at all (Hendrickson, 2020). The narrative not only gave the new bank room to manoeuvre; it also circumscribed it.

A legal process against Johan Palmstruch in which he was charged with fraud complemented the making of the narrative at the Diets and in the Council. Palmstruch's eventual death sentence, however, was later commuted to imprisonment and hard labour (Platbärzdis, 1960, pp. 32–33). The credit notes and the bank's corporate form as a private company, the main objections against the bank in discussions outside the court, played minor roles in the legal process. The prosecutor (*hovrättsfiskalen*) focussed on Palmstruch's failure to make any annual stock counts or financial statements and the bank's deficit of 88.000 daler silvermynt. From a seventeenth-century viewpoint, accounting errors was not a major issue; private businesses were seldom annually closing their books, but the bank's semi-public position might have made the lack a more serious fault. The deficit was due to miscalculations caused by understaffing and problems emanating from the system of multiple currencies and fluctuating exchange rates (Brisman, 1918, pp. 77–79). No signs of deliberate fraud by Palmstruch can be found in the sources, and as shown above, the narrative outside the courtroom focussed on other issues.

It was the narratives' demarcation of what had been acceptable and what not had been in Palmstruch's behaviour, rather than the juridical process, that come to guide the opinion on banks among the Estates and the public. The narrative and its central dichotomy – banks good, Palmstruch bad – set the stage for the recreation of the bank in a new shape, with no aspersions cast on banks in general or the other actors involved. The narrative was essential to gather a majority at the Diet for a bank under the Estates and parts of it find its way into the Diets decision on the foundation of Bank of the Estates of the Realm. As mentioned above, the matter of credit notes were fore example given a paragraph of its own in the bank's statutes. The credit notes is there described as being misused and the cause of disorder, therefore, they and any notes of their resemblance, should be forever banned.²⁵ If the principals of the new bank managed to avoid greed, self-interest, arbitrary rule, and their manifestation in Johan Palmstruch and banknotes, there would be a future for banks in Sweden. By controlling the past, they could form and direct the future, and could even recruit the new bank's staff from among people who had served the old, as long as the narrative guided the recruiting process.

The right men in the right place – the commissioners

After the Diet of 1668 agreed to start a new bank, deliberations followed within and among the three Estates at the Diet and within the board of the bank about the appointment of commissioners who were to lead and oversee the bank's daily business. The Estates of the nobility, the clergy, and the burghers appointed two commissioners each. The fourth estate, the peasantry, voluntarily chose not to participate (Brisman, 1918, p. 84).

The principals of the bank had some formal devices to eliminate the principal–agent problem. Commissioners and clerks were to be personally liable for eventual losses caused by maladministration. To assure that they could meet any further claims for economic compensation, staff handling cash money had to provide the bank with a personal security signed by two guarantors.²⁶ Besides their personal liability, all employees had to swear oaths of loyalty to the Estates and to secrecy.²⁷ By applying strict accounting practices and auditing by both the parliamentary committee at the Diets and the board, the Estates monitored the officials' work and if needed, special commissions could also be appointed to investigate the business (Brisman, 1918, pp. 102–125). These tools were commonly used in European banks and companies of the time to avoid moral hazard and are one aspect of making the bank a trustworthy institution; the other was finding the right people to take the oaths and keep the books (Davids, 2004; Murphy, 2019; Soll, 2010). In this process, the governors faced problems of adverse selection: how to be assured of recruiting the right persons? The financial circles of Stockholm were narrow and the talent pool of people with experiences of banking, or any other kinds of advanced financial undertakings, can best be described as somewhat shallow (Gerentz, 1951, pp. 56–57). And in a political context characterised by a distrustful relation between the traditional landowning, state-serving elite and new upcoming merchants and financial bureaucrats the hiring process also became a political balancing act. The chairman of the bank's board of governors, Jakob Fleming – an aristocrat serving in the Treasury and by marriage related to two subsequent Heads of the Treasury, Gustav Bonde and Seved Bååt – was most probably rather suspicious of letting the moneyed interests to close to the bank (Elgenstierna, 1925–1936).

Discussions about staffing reveal not only the qualifications searched for in a commissioner, but also the use of the Stockholm's Banco narrative in the formation of the new bank. The narrative had identified greed, self-interest, and arbitrary rule as the vices that had caused the fall of the old bank, and it guided the Estates in their work to find commissioners who could strengthen the trustworthiness of the bank.

The speaker of the nobility began his estate's deliberations by declaring that they were looking for men of good reputation (*frägd*) and high competence (*capacité*).²⁸ The importance and function of a good reputation were further articulated by the chairman of the board, Jakob Fleming, argued that they should search for people of a certain age who had 'experience and reputation' (*erfaren och till anseende*). According to Fleming, such a person would render honour to the bank as an institution and the commissioners as a collective.²⁹ Furthermore, the candidates had to have good manners, be receptive to the needs of the customers, and neither neglect nor disbenefit anyone.³⁰

Following discussions about recruitment at the Diet and in meetings of the board, the staffing requirements of good reputation and high competence emerged from and were based on the criteria of education, experience, and (not least) social and economic credit. Since banks were a novelty, banking skills were rare in Sweden – banking in itself was an emerging technology – and the eyes of the recruiters fell on people who had been involved in Stockholm's Banco and those with financial experience from abroad.³¹

Training and skills

The family backgrounds and education of the candidates fell into two main categories: sons of merchants with merchant training and sons of civil servants and priests often with some

years at university. Joachim Pötter, later ennobled under the name of Lillienhoff, is a representative example of the merchant group of candidates. He was born in the provincial town of Nyköping as the son of an immigrant German goldsmith and related on his maternal side to merchant families in Lübeck. At twelve years old, he was put in merchant training in Rotterdam and from the age of fifteen he was employed in Amsterdam, first by a notary public and later in a merchant's office. Back in Sweden, he became one of the wealthiest and most influential merchants and a major contractor to the state. Pötter married Petronella Lohe – daughter of Henrik Lohe, a merchant from Jever living in Sweden and deeply involved in the iron industry and export – that further expanded his involvement in international trade (Gillingstam, 1982–1984). Alongside his merchant career, he had served as a civil servant, first in the primary court (*kämnärsrätten*) in Stockholm. However, his profound insights into foreign trade and the economic life of Amsterdam gave him a strong reputation in mercantile circles, and in 1665, he was appointed commissioner of the College of Trade, whose mission was to improve Swedish foreign trade. In the 1660s, he also partake in two commissions, evaluating Sweden's monetary policy (Högberg, 1980–1981). A telling example of his reputation is that even Palmstruch, who had lived and worked in the Dutch metropole for more than a decade, referred to Pötter as well informed about the practices of the banks in Amsterdam.³²

The other group of candidates were sons of civil servants or members of the clergy, university-trained or with careers begun in junior positions in the state administration. Several had studied both at Uppsala University and at universities in Germany and the United Provinces. As in many European countries at the time, a tug-of-war was ongoing between the universities on one side and the government and central bureaucracy at the other. The former advocated a humanistic academic tradition, while the latter tried to transform university education to satisfy needs for more worldly knowledge (Gaunt, 1975, p. 31; Niléhn, 1983, pp. 141–144). The chair of the board, Jakob Fleming, stated that they were looking for candidates who had mastered bookkeeping, especially of landed estates, but who also had in-depth knowledge of the land market and property law.³³ One of the intentions of starting a bank was to attract foreign capital to Sweden; another was to let the bank work like the giro bank in Amsterdam to stimulate trade (Bindseil, 2019, pp. 223–226). These undertakings demanded knowledge in languages, banking, and international trade. Of the skills mentioned, only law was taught at Swedish universities, the others had to be acquired abroad. A characteristic feature of favoured candidates was being well-travelled, and their foreign experiences attracted great attention in the selection process (Niléhn, 1983, pp. 150–157, 172–173; Norrhem, 1993, pp. 39–41). Johannes Pontin, a cherished candidate from the clergy was described as both well-educated and well-travelled.³⁴

A common way to gain knowledge and skills useful in administration and management was to start in a junior position at one of the colleges. By showing ambition and good learning skills (and preferably also having good contacts), young men could soon advance within the organisation. Joakim Skyttehielm, one of the candidates from the nobility, is a good example of how a young man could combine being perceptive with making the right contacts to advance without university studies. He had served the state since his late teens, first as a copyist, but quite soon in other somewhat more prominent positions (Andersson, 2003–2006, p. 519). In 1664 he was appointed secretary at Stockholm's Banco, which was in liquidation. However, he was soon transferred to the Treasury, where he kept the position of secretary, working closely with the Head of the Treasury, Gustav Bonde, the former

inspector of Stockholm's Banco. Erik Appelgren was another example of the great importance of having good contacts. Appelgren served as a commissioner of both Stockholm's Banco and the Bank of the Estates of the Realm. His family relations and his career reveal strong ties to the monarchs, the Head of the Treasury, and the economic elite. His father had long served the state, finishing in a senior position in the Treasury. Before he became a commissioner of Stockholm's Banco (recruited by Gustav Bonde, who had served with Erik's father in the Treasury (Kleberg, 1957, pp. 12–13, 34, 43, 55), Appelgren had served as a page in the court of Queen Christina. Later on, Appelgren married Christina Drakenhielm, the daughter of Wilhelm Drakenhielm, Head of Foreign Customs and a prominent contractor to the state (Jacobson & Hildebrand, 1945).

Loyal and credible men

Erik Appelgren and Johan Skyttehielm were two of the very few in Sweden with practical experiences of banking technology. In the staffing discussions, Skyttehielm was described as a man of profound insight into the kind of banking performed in Sweden and was said to have worked hard for the reconstruction of the bank.³⁵ Although he merited the position, he was not appointed. Instead, the nobility picked Erik Appelgren, the former commissioner of Stockholm's Banco. His connections to the old bank did not count against him, the scapegoating of Palmstruch had decoupled Appelgren from the old bank and he was found useful in the process of the bank's reconstruction. A third candidate with banking experience was Anders Gudmundsson, the bookkeeper of the noble family Falkenberg. He was acclaimed for his work for the family, whose office was described as a kind of bank (*espece av en bank*), which had given him skills in banking.

The three candidates with banking experience were all described as unselfish and praised for taking good care of the interests of their principals: Stockholm's Banco and the Falkenberg family. Skyttehielm had, according to his proponents, 'cared for the public good' (*mente publico väl*) and he was characterised as a 'capable subject' (*capabelt subjectum*). Appelgren was commended for his high competence and his 'well known care' (*välbekiende omsorg*) for the bank. Even for the one who had not served with Palmstruch, loyalty was an important consideration. It was said that Gudmundsson had served the Falkenbergs impeccably and that he would serve the bank and the Estates just as well.³⁶ The characterisations of Skyttehielm, Appelgren, and Gudmundsson stand in marked contrast to the greedy and self-interested character of Palmstruch in the dominant narrative.

Characterised as an obedient servant to the Falkenbergs, Gudmundsson was nevertheless discussed as a potential threat to the new bank. His connection to the family was perceived as a risk, since the family and the new bank were competitors in Stockholm's credit market. Some, who thought his connection to the Falkenbergs was unproblematic given the ongoing liquidation of the family's office, argued that the oath all commissioners were required to swear to the bank and the Estates would guarantee his loyalty. As a good Christian, according to the chairman of the board, he would remember his oath. The oath therefore became an instrument by which to transfer Gudmundsson's loyalty from the Falkenbergs to the bank. In this process, Gudmundsson's religious faith was fundamental to the validity of the oath.³⁷

Loyalty was also the main issue in discussions of candidates from the burghers' estate. Daniel Caméen was member of the governmental and juridical administrative body of

Stockholm (the magistrates' court, *rådstugurätt*), and he intended to keep that position if he became a bank commissioner. Both the clergy and the nobility found that contradictory to the agreements made about how to re-establish trust in banks. The speaker of the nobility stressed that the two other Estates had chosen people with no bonds of loyalty other than to the bank. Furthermore, he found it suspicious that a commissioner of the bank, an institution under the Estates, should serve an institution under another corporation, the Magistrates of Stockholm. If Caméen kept both positions, he risked neglecting or mismanaging one of the two; a potential risk of a conflict of interests could also affect the trustworthiness of the bank. The speaker of the burgher estate refused to force Caméen to quit as a magistrate, insisting he would rather let the bank fall. Instead, an agreement was made between the Estates in which Caméen could keep his position as a magistrate, but must withdraw from daily work, participating only in elections of mayors and new members of the magistrate.³⁸

Loyalty and good behaviour were highlighted as crucial qualities of a potential commissioner in all the discussions about candidates. These qualities were to be assured by the candidates' networks. The commissioners were all described as 'known' or 'well known' in the deliberations. Their personas were fixed in social and economic networks connecting them to other reliable and trustworthy people. People firmly anchored in a network would not succumb to greed or other vices without risking their positions within the network (Muldrew, 1998, pp. 3–7, 148–157). To recruit well-known people was a way to reduce both adverse selection and moral hazard since network connections, at least ideally, both provided information on previous deeds and regulated future behaviour. And not at least, it was a way to keep the control within the network; a good example is Erik Appelgren, well-rooted in the network around the Treasury and commissioner in both of the banks.

The case of one of the clergy's candidates, Samuel Molsdorf, illustrates the risks of being unknown and the bank principals' caution when choosing commissioners. Some of the participants in the discussion about Molsdorf explicitly stated that they did not know (*kende*) him, and among those who did know him, his reputation was less than sterling. One of the nobles, Hammarskjöld, had heard a rumour that Molsdorf had maltreated his own mother. Although members of the clergy gainsaid Hammarskjöld, the speaker of the nobility found the rumours about Molsdorf grave. Since the bank was an 'important institution' (*värk af importance*), in need of trustworthy persons, he requested an enquiry. The Estates also gave the board of the bank the right to dismiss Molsdorf and elect a new commissioner in his place if any proofs of his bad behaviour appeared. In an attempt to separate Molsdorf's private behaviour from his professional persona, his proponents reiterated that his reputation as a servant of the College of War was unsullied. Although the clergy elected Molsdorf, he never had the opportunity to serve as commissioner for any considerable period, if at all. At one of its first meetings, the board of the bank decided to dismiss him due to his ill treatment of his mother and further rumours brought to the board's notice of his recalcitrant behaviour during his service in the college.³⁹ The board concluded that Molsdorf's reputation did 'not bode well' (*intet gott promitterade*).⁴⁰

Although the board had no shred of real evidence, nor could cite any court charges raised against Molsdorf, the rumours were too serious for them to allow him to serve the bank. By mistreating his own mother and defying his superiors (if indeed he had), he had challenged the fundamental hierarchical order of the society. Molsdorf was the only candidate deemed

as unknown to some in the discussion at the Diet, and in his case, it is clear that his reputation and inability to mobilise the support of his network played a crucial role in his failure to keep the position of commissioner.

The Estates' and the bank directors' concerns about the commissioners' reputations expose the banks' need of its commissioners' credit. From the beginning, the bank itself had no, or very little, credit of its own. By searching for commissioners known to the Estates – and seen as trustworthy by the public, the dual principal–agent problem could be eased. The Estates needed trustworthy people to run their bank, and the depositors needed trustworthy people to handle their money. Alongside loyalty and good reputation, financial resources were an important source of credit.

Joachim Pötter and another candidate, Anders Faxell, are good examples of the new bank's need of the commissioners' private and social economic credit. Faxell was mayor of the town of Malmö in the newly won (from Denmark) southern provinces of Sweden (Platbärzdis, 1960, p. 73).⁴¹ He was said to have strong credit in the south and to be willing to recommend the bank to the people there.⁴² If Faxell was picked for his good contacts in the south, Pötter was chosen for his economic credit and his financial ingenuity. During the liquidation of the old bank, he had offered to take over the bank, although the Council of the Realm found his offer too costly. Later, they let him handle the process of redeeming the old banknotes since they had difficulties managing the process due to the Crown's lack of liquidity (Brisman, 1918, p. 75, 82–83). Pötter's supporters emphasised that he was 'a man of wealth and good credit' (*een man af capital och credit*) and that he 'mastered all the dirty tricks of trade' (*viste alle kiöpmennens streck och finesser*).⁴³ The speaker of the nobility added that Pötter was as essential to the bank's prosperity as the bank itself. The discussion on Pötter was ended by another outspoken member of the estate, who said that if Pötter did not get a position in the bank, he would do his best to thwart any attempts to reconstruct it successfully.⁴⁴ The statement aired an awareness of the bank's importance as a resource and the threats that it might encounter.

In the discussions on replacing Molsdorf with someone competent in the businesses of landed Estates, Pötter said it would be useful if the commissioners could help and complement each other (*den ena kommissarien den andra handen räcka*).⁴⁵ It is evident that the commissioners did, to some extent, complement each other. The merchants had strong personal credit and deep insights into foreign trade. Pötter had both training and work experience in the financial heart of Europe, Amsterdam, and Faxell could facilitate the Stockholm-centered bank's expansion of its network into the newly won provinces in the south. Appelgren was a man proven to be loyal to the old bank, and his time in Stockholm's Banco had given him experience in running a bank.

The new bank needed commissioners loyal to both the bank and the Estates. At the same time, they needed people with banking skills and insights into trade and the land market. Looking at the first generation of commissioners, it seems that loyalty and skills were difficult to find in one person. Several of the commissioner were men of strong personal agency and credit, interested in the bank to bolster their own businesses, as the quote about the risk of Pötter thwarting the bank showed.

The selection process also revealed qualities that the Estates were not looking for, or even were actively trying to avoid. Anders Gudmundsson, although he had worked in a bank-like business, was suspect because of his bonds to the Falkenbergs. Molsdorf, unknown to some and to some others a man of a dubious reputation as an abusive son and

obstructive employee could risk the reputation of the bank and harm the commissioners' ability to govern.

From master of the dirty tricks of trade to an obedient servant

Quite soon after the Riksbank started business, tensions arose between the commissioners and the board. The board considered the commissioners too independent in their management of the bank and too reluctant to consult the board for advice – in some cases even using the bank for their own profit. On the other side, the commissioners perceived themselves as the decision-making body of the bank and defined the board's role as being available to 'help and second'.⁴⁶ The relationship between the two bodies was a frequent topic in their joint meetings.⁴⁷

In the board's own meetings, the causes of the tensions were formulated more directly. Jacob Fleming stated that 'the whole town is talking about the authority of Pötter and that he is at one with the bank and the bank is at one with him'. Fleming was backed by another board member, who stated that Pötter's authority discredited the whole bank.⁴⁸ The immediate crisis was caused by a letter that Pötter, in his own name, had written to the Chancellor of the Realm on bank matters. The board regarded it as an infringement of the Estates' instructions to the bank, in which the collegiality of the united commissioners played a crucial role. If it became publicly known that the bank was run 'by one person himself', it would cause irreparable damage to the bank's reputation.⁴⁹ Given the great significance attributed to Johan Palmstruch's arbitrary rule as the cause of the old bank's fall, the board feared that public rumour would equate Pötter with Palmstruch and that the association would undermine trust in the new institution.

A further reason for the tensions was the Crown charter for Swedish export of artillery pieces to increase the bank's cash flow and strengthen its credit. The trade earlier chartered to private merchants but then chartered to the bank to improve its cash flow led to vivid discussions in the bank. Pötter took an active part in these discussions, and he recommended that the bank, for the moment, decline the charter. According to Pötter, potential bank clients would be confused if the bank started to trade, something he argued no other European banks were doing, and this could jeopardise the bank's credibility. It would be better to let the bank strengthen its credit and capital reserves, and then, within a few years, accept the charter. Meanwhile, he could take care of the exports himself. In this, he did not go unchallenged. The board accused him of being driven by self-interest and trying to lay his hands on the trade.⁵⁰

The careers of the first generation of commissioners were relatively short. They either returned to their private businesses within a few years or advanced to higher positions within the state. In 1681, four of them (Appelgren, Berg, Gerdes and Terserus) lost their positions, partly due to overlending (the commissioners were not allowed to lend sums over 3,000 daler silvermynt without consulting the board), lending against insufficient securities, and faults in their control of pawned objects. Besides losing their positions, they and the two commissioners who were left, were sentenced to compensate the bank for its losses on these loans (Brisman, 1918, pp. 120–123). The harsh treatment of the commissioners must be seen in the light of the narrative of Stockholm's Banco in which overlending and arbitrary rule – not following the statutes, – were vital. The sacking of the commissioners was an endpoint in the decade-long tug of war between the commissioners and the board (and the Estates)

and a result of the boards apply to the Diet 1680 to form a commission of members of the Estates to investigate the commissioners work (Brisman, 1918, p. 107).

After the first generation, the Estates stopped recruiting merchants or higher officials from central bodies of the state. Instead, a practice evolved of promotion through the ranks of both clerks and commissioners, see Table 1. Promotion through the ranks was a way to assure both competence and loyalty. At the Diet of 1672, the parliamentary bank committee discussed the succession of commissioners. The clergy's delegate argued for the bookkeepers' right to advance to commissioners, which also became practice.⁵¹ A more elaborate

Table 1. Commissioners of the Riksens ständers bank (RSB), appointed 1668–1700.

Starting service	Ending service	Appointed commissioner	Years as commissioner	Years in the bank	Name	Previous position	Estate
1668	1673	1668	5	5	Joachim Pötter (ennobled as Lillienhoff)	Merchant and commissioner of the College of Trade	Nobility
1668	1673	1668	5	5	Niclas Keder	Merchant	Burghers
1668	1674	1668	6	6	Daniel Cameén	Town magistrate Stockholm	Burghers
1668	1675	1668	7	7	Johan Pontin	Tutor and librarian	Clergy
1668	1681	1668	13	13	Erik Appelpgren	Commissioner of Stockholm's Banco	Nobility
1668	1684	1668	16	16	Daniel Faxell	Mayor of Malmö	Clergy
1668	1681	1670	11	13	Elof Terserus	Cashier at RSB	Clergy
1668	1681	1674	7	13	Johan Gerdes	Vice-commissioner of RSB	Burghers
1668	1696	1675	21	28	Magnus Molin	Vice-commissioner of RSB	Clergy
1668	1683	1681	2	15	Anders Brodinus	Secretary at RSB	Burghers
1669	1696	1684	12	27	Anders Strömmer	Bookkeeper at RSB	Clergy
1670	1696	1681	15	26	Eric Camoén	Bookkeeper at RSB	Clergy
1671	1712	1684	28	41	Sven Brink	Cashier and bookkeeper at RSB	Clergy
1672	1681	1672	9	9	Carl Jonsson Berg	Merchant and civil servant	Burghers
1673	1689	1675	14	16	Hans Stålhandske	Vice-commissioner of RSB	Nobility
1675	1713	1696	17	38	Gabriel Roling	Bookkeeper (former cashier) at RSB	Clergy
1675	1693			18	Georg/Johan Hattun	n/a	
1679	1687	1681	6	8	Jonas Erdtman (ennobled as Schönberg)	Prosecutor (<i>fiskal</i>) at RSB	Nobility
1679	1701	1696	5	22	Berndt Insulander	Bookkeeper at RSB	Clergy
1680	1698	1680	18	18	Anders Ehrenfeldt	District judge	Nobility
1680	1722	1698	24	42	Albert Feindt	Scribe and bookkeeper at RSB	
1686	1696	1687	9	10	Lars Nyman	n/a	Nobility
1689	1700	1689	11	11	Gustav Oljeqvist	Servant at the Chancellery College	Nobility
1692	1741	1728	13	49	Jonas Söderling	Bookkeeper at RSB	
1693	1706	1701	5	13	Johan Fahlbom	Bookkeeper at RSB	Clergy
1694	1737	1731	6	43	Anders Sahlbeck	Scribe at RSB	
1696	1714			18	Daniel Lagerbom	Embassy secretary	
1697	1740	1726	14	43	Arvid Dahl (ennobled as Psilanderhjelm)	Bookkeeper at RSB	Nobility
1698	1722	1698	24	24	Gerhard Palmstruch	Steward in a noble household	Nobility
1700	1750	1747	3	50	Essaias Zedritz	Accountant general in RSB	

Source: Swedish National Archive (SNA), Riksbanken, Riksbankens manuskriptsamling vol. 5; F. Silfverstolpe, Biografisk matrikel över bankens ämbetsmän och betjante, vol 1; SNA, Riksbanken, Riksbankens manuskriptsamling vol. 6; B. Ohlsson, Matrikel över tjänstemän vid Sveriges riksbank etc. 1668–1911; Svenskt biografiskt lexikon.

discussion about the recruitment of a cashier (*kassör*) considered what kinds of skills the new bank should seek and how to satisfy the bank's need for skilled and loyal personnel. When one of the candidates, who served as *hovmästare* (steward) in a noble household, admitted that he was not trained in bookkeeping, the commissioners rejected him, saying they did not want a 'simple teller'. They looked for a man who could eventually succeed one of the bookkeepers.⁵² Beginning in the 1670s, cashiers frequently advanced to bookkeepers and bookkeepers to commissioners (see Table 1). Beside advancements through the rank, aristocrats recommended their clerks and servants for positions in the bank. Gerhard Palmstruch, nephew of Johan Palmstruch, was recommended by his former employer, the councillor Johan Gabriel Stenbock in 1698 for the position as commissioner. By then, the name Palmstruch seems to have lost some of its negative connotations and Gerhard Palmstruch was not a rich merchant, but an obedient servant to Stenbock and the bank.⁵³

Within a decade, the bank had built strong credit of its own and was no longer in need of the personal credit or trade know-how of merchants such as Pötter and Keder, the banking skills of senior Stockholm's Banco staff such as Appelgren, or the regional network of Faxell. These men, especially those with merchant backgrounds, had businesses and social positions stronger than those of the new bank, meaning they were not dependent on the bank for their living. That power and independence meant they could pose a threat to the bank's business and well-being and might exploit the bank to further their own business interests. An oath could not solve this imbalance of power. Now the bank wanted people with experience from, and loyalty to, its own business. As long as no man had too great a position in the management of the bank, it was safe. The same process together with the boards' and Estates' close control of the commissioners, made also the bank less attractive for people in merchant and financial circles. In a way, a trustworthy institution had replaced personal credit.

In some central aspects, the new bank became more successful than its predecessor had been. One of these were its trust-building capabilities. It managed to survive its first years and began quite soon to attract substantial deposits (Table 2).

Conclusion

The decision of the Estates at the Diet of 1668 to take the crashed Stockholm's Banco under their protection did not guarantee the bank a future success, and the process of restarting a Swedish bank was not as smooth as described in previous research. Stockholm's Banco

Table 2. Deposits in Stockholm's Banco and The Bank of the Estates of the Realm, daler silvermynt.

Year	Deposits
Stockholm's Banco	
1658	66,666
1660	133,333
1663	n/a
1664	n/a
The Bank of the Estates of the Realm	
1668	28,577
1670	210,038
1672	384,360
1674	514,760
1685	3,021,269
1690	3,644,314

Source: Brisman 1918, p. 44, 50, appendix I pp. 12–14.

and Johan Palmstruch may well have been causing the same effects as John Law and the French failed attempt at a bank and paper money: a long-lasting distaste for both. However, in Sweden a new bank soon replaced the crashed one. The reasons for this are many, but an essential factor was the work done and narrative constructed in the reconstruction process. The institutional framework – a bank under the estates, as far as possible from a confiscating sovereign, and charters and statutes giving the governors of the bank tools to bind the interest of the staff to the interest of the bank – was not perceived as enough in the start-up stage; it had to be bolstered by people with strong personal credit.

The principals had to ensure the public that the new bank would not be seen as a copy of the old. To do so, they needed to control the narrative of the old bank and to connect the new bank with solvency – not with runs and arbitrary rule. Components in this process were to master the narrative of Stockholm's Banco and to recruit men of strong private credit as commissioners of the Bank of the Estates of the Realm. Separating Palmstruch from others involved in Stockholm's Banco made it possible to restart the bank and to recruit the new staff from people who had served in the old bank, the latter was of great importance in a society with small mercantile and financial circles. At the same time. The narrative also limited the agency of the new bank; paper money was separated from the core business of banks and was avoided by the bank for a long time.

The formal tools applied by the governors of the bank to make it a governable and trustworthy institution included oath-sworn and personally liable commissioners, and formal instructions for monitoring and auditing by the board of the bank and a parliamentary committee. These methods of solving agency problems were found in a toolbox the bank shared with banks and companies in Europe.

The principals of the Swedish bank identified potential problems and remedies were at hand. A harder problem was to find a balance between control and the discretion needed by the commissioners to run the daily business. In the recruitment process, the Estates looked for men with solid social and economic credit who could lend the bank credit and trustworthiness. Central aspects of this process were reputation; the candidates had to be known, meaning they had to be attached to the networks of the representatives of the Estates and the board of the bank. This turned out to be delicate, as among the first generation of commissioners the loyalties were not always primarily with the bank; some of them seem likely to use, and did use, the bank for their own gains. In the same way as the English companies and banks, the Swedish bank quite soon began to promote commissioners and servants through the ranks, creating bands of loyalty and dependence. Ties of dependence inside the bank – between its clerks, commissioners, and governors – replaced personal ties outside the bank – between the commissioners and the customers. The bank itself was made trustworthy, not just the persons in it.

The principals' concerns for the narrative of Stockholm's Banco and the great care with which they elected the commissioners show that for understanding the processes behind successes and failures of early modern banks, we cannot look only at their institutional frameworks. The upholding of a credible commitment rested on three pillars: controlling the past; anchoring the institution in personal relations and networks; and setting up and following an adequate institutional framework. By looking at the Swedish case, we have been given a deeper insight into the first stages of the process that made institutional credit to a complement to private credit for both states and private individuals.

Notes

1. Since Sven Brisman's history of the bank, published in 1918, very few empirical studies of the early years of Swedish banking have been carried out (Brisman, 1918).
2. Sweden had a multi-currency standard. Copper was one standard, with the copper content of the coins or plates (*plåtar*, the bigger denominations that could weigh as much as 19.7 kilograms) used as the base of the currency.
3. 'Placat, angående interessene. Datum Stockholm den 14. november år 1666', printed in von Stiernman (1729).
4. Swedish National Archive (SNA) Det odelade kansliet. Rådsprotokoll (RP) Vol. 41a, 9 June 1664; Vol. 40b, 12 October 1664.
5. Sveriges ridderskaps och adels riksdagsprotokoll, Åttonde delen, 1660: 281; Prästeståndets riksdagsprotokoll på riksgäldskontorets uppdrag utgivna av Jan Liedgren (P R), 2 1660: 132.
6. On Sweden as a capital-poor society, see Tilly (1990).
7. SNA, Ständernas plena och kanslier, Ridderskapet och adeln, Riksdagen 1668 vol. 20:R 30: 6.
8. Kongl. May:tz Försäkring gifwen Rijkens Ständer, på några wilkor och Fördelar til Bancens Bästa, paragraph IV.
9. *Sveriges ridderskaps och adels riksdagsprotokoll*. (RAP) *Tionde delen 1668* (Stockholm 1893): 450.
10. RAP *Åttonde delen 1660*: 241; RAP *Nionde delen 1664*: 82–83, 188, 226, 447; *Prästeståndets riksdagsprotokoll på riksgäldskontorets uppdrag utgivna av Jan Liedgren* (PR), 2 1660: 132, 230; PR 1664: 359, 367.
11. RAP *Nionde delen 1664*: 84. PR 2 1664: 359, 364, 484–485, 644; SNA, Sveriges riksdag, Sekreta utskottet 1668–1714, vol. R2373, 1668, 206–208.
12. SNA, RP, vol. 39 1663: 353; vol. 40a 1664: 420, 497.
13. SNA, Säfstaholmsamlingen 1, Pappershandskrifter vol. 59, Oförgrifligt betänkande till Stockholm's Bancos redres och stabiliment.
14. RAP *Nionde delen 1664*: 412.
15. *Sveriges ridderskaps och adels riksdagsprotokoll* 1668: 70; 93
16. SNA, Säfstaholmsamlingen 1, Pappershandskrifter vol 59, Oförgrifligt betänkande till Stockholm's bancos redres och stabiliment.
17. X forthcoming. A similar discourse was also present in England at the same time; see Dickson (1967, chapter 2).
18. SNA, Palmstruchska banken I, korrespondens 1660–1667.
19. Sweriges riktes ständers beslut och förordning om banken i Stockholm, Dat. Den 22. Septemb. Åhr 1668, paragraph LXXI, printed in von Stiernman (1753).
20. SNA, Det odelade kansliet. Rådsprotokoll, vol. 39, 1663; 327; vol. 40a, 1664: 497; vol. 40b 1664: 328, 427; vol. 44 1665: 36; vol. 45 1666: 172; RAP *Nionde delen 1664*: 226, 447; RAP *Tionde delen 1668*: 372; PR, 2 1664: 378, 438, 485, 509, 650
21. SNA, Det odelade kansliet. Rådsprotokoll, vol. 44 1665: 36.
22. SNA, Det odelade kansliet. Rådsprotokoll, vol. 45 1666: 172.
23. Sekreta bankoportokoll 1677-03-27.
24. Bankoutskottets protokoll 1672-11-21.
25. *Swerige Rijkens Ständers Beslut och Förordning om Banken i Stockholm. Dat. Den 22 Septemb Åhr 1668*, paragraph LXXI.
26. *Instruction. Hwarefter Sweriges Rijkens Ständer wela, att the sex uti banken förordnade ordinarie commisarierna wid thet embetet the anförrorr ähr, skola hafwa sig att regulera och rätta. Actum Stockholm uppå Rikzdagen den 21 septemb. A:o 1668.* Paragraph 12. This seems to have been the practice in many places in Europe, for example see Avallone (1999, pp. 116–117) and Murphy (2019, p. 70).
27. *Instruction. Hwar efter Sweriges riktes stander wela att dhe sex gode herrar och män som med Banco Wäsendet inseende att hafwa af them förordnade äro, må sig hafwa att regulera och rätta, Actum Stockholm uppå rikzdagen den 21 septembris A:o 1668.* Paragraph 10; *Instruction. Hwarefter Sweriges Rijkens Ständer wela, att the sex uti banken förordnade ordinarie commisarierna wid thet embetet the anförrorr ähr, skola hafwa sig att regulera och rätta. Actum Stockholm uppå*

- Riksdagen den 21 septemb. A:o 1668* Paragraph 13. On the use of oaths sworn to the king by the Swedish state administration, see Cavallin (2003) and Nauman (2017).
28. RAP, *Tionde delen 1668*: 467.
 29. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol 294 1668–1669: 67–68.
 30. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol 294 1668–1669: 82.
 31. About banking as an emerging technology, see Temin and Voth (2006).
 32. SNA, *Det odelade kansliet. Rådsprotokoll*, vol. 39 1663: 328.
 33. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 66–67.
 34. RAP *Tionde delen 1668*: 462.
 35. RAP *Tionde delen 1668*: 445.
 36. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 71.
 37. On the importance of faith in the recruitment of Bank of England clerks and commissioners to the Bank of Amsterdam, see Murphy (2015) and 't Hart (2009, p. 149).
 38. RAP *Tionde delen 1668*: 472.
 39. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 65.
 40. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 13.
 41. Gudmundsson turns however up in a commission responsible for inventorying Stockholm Banco during its liquidation. *Platbärzdis, Sveriges första*: 73.
 42. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 73.
 43. RAP *Tionde delen 1668*: 443.
 44. RAP *Tionde delen 1668*: 443.
 45. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 67.
 46. SNA, *Riksbanken, Kommissariernas protokoll, Huvudserien Renskrivna protokoll* vol. 859, 1668: 5–6.
 47. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 14, 40–41.
 48. SNA, *Riksbanken, Bankofullmäktiges protokoll Huvudserien Renskrivna protokoll* vol. 1 1668–1674: 7–13.
 49. SNA, *Riksbanken, Bankofullmäktiges protokoll Huvudserien Renskrivna protokoll* vol. 1 1668–1674: 10.
 50. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 98–137.
 51. SNA, *Bankoutsrottet, protokoll*, vol R 4528: 60–66.
 52. SNA, *Riksbanken, Bankoprotokoll renskrivna*, vol. 294 1668–1669: 10.
 53. SNA, *Riksbanken, Riksbankens manuskriptsamling* vol. 5; F. Silfverstolpe, 296.

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Notes on contributor

Christopher Pihls work focuses on different ways to make a living in the early modern era. He has been studying how the gender division of labour affected and was affected by the state formation process in sixteenth century Sweden. His current work deals with the Swedish credit market c. 1660–1700 and the role of the Bank of Sweden (founded in 1668).

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