Finance, structural transformation and growth in 20th century Scandinavia

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That well-developed financial intermediaries promote economic growth is well supported in the literature (see e.g. Levine, 1997; Sylla & Rousseau, 2005). By mobilizing and allocating resources efficiently, reducing information and transaction costs and by facilitating risk management, financial intermediaries perform key roles in the economy and can be considered a cornerstone in economic development.

While there is general agreement that financial intermediary development is positively linked to economic growth, there is still widespread disagreement surrounding many aspects of this relationship. What is, for instance, the impact of structural transformation on financial market conditions and economic growth? How is the role and importance of financial intermediaries affected by changes in the regulatory environment? Do large commercial banking sectors lead to an under provision of venture capital?

The purpose of this session is twofold. First, in order to untangle and examine the complex dynamics of financial market development as well as its relative importance to economic growth, we want to bring together researchers that are actively working on issues pertaining to the role of financial market activities to economic development. Secondly, to further research within this area, we want to investigate the prerequisites for a more systematic future collaboration.

Does bank market concentration foster efficiency, market power, or a quiet life? Analyzing Swedish commercial bank profitability in the long run

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One longstanding and undecided debate within financial economics concerns the relationship between bank market structure, competition and profitability. Empirical research into this issue has leaned very heavily towards cross-section or cross-country analyses of small T samples. The drawback of this approach is that it becomes nearly impossible to account for the large inter-country differences in economic conditions and structure, regulatory setup and other forms of heterogeneity that may be less than perfectly quantifiable across countries. In this paper we employ a different approach, by analyzing more than a century of data on the Swedish commercial banking industry. To this end, we have constructed a unique database of annual balance sheet and income statement data for all Swedish commercial banks between 1870-1990. Our analysis shows that there is no persistent link between market structure, competition and profitability, which is constant through time and context. Rather, the relationship between these variables shifts over time, alongside changes in the external environment. We emphasize the role of bank regulation in guiding bank behavior, market structure development and profit levels, both directly and indirectly, and argue that there is good reason to be skeptical about many of the standard interpretations of results found in the extant financial economics literature.

The balance of imbalance between deposit and lending in Swedish commercial banking 1870-2000

Henric Häggqvist, Uppsala University

This paper studies the role of commercial banks in the economic development of Sweden between 1870 and 1994. We construct a comprehensive, novel dataset of the deposits and lending of banks in order to analyze the banks risk assessment and lending policies over the longer term. In general, banks tended to more risk during boom periods while periods of crisis were linked to a decrease in such lending practices. However, we find large differences in risk behavior among different banks especially during the period before WWII. Our results show that, although it is a basic measurement, the lending/deposit ratio provides an indicator of the impact of economic turbulence on banking practices. Our analysis is based on Swedish commercial banks' balance sheets, which have been collected from different official sources, frequently published by Statistics Sweden. Our new database features all Swedish commercial banks (between 10 and 84 banks per annum). We map some of the largest and middle-sized banks to get a more detailed structure of banks' risk management. Thus, even though the lending/deposit ratio is a basic measurement it serves as an indicator for banking development over a longer period.

Replacing bank money with base money: Lessons for CBDCs from the ending of private bank notes in Sweden

Anders Ögren, Uppsala University

A number of central banks have started to investigate the possibility of issuing so called Central bank Digital Currencies (CBDC). The aim is not only to compete with crypto-currencies of different kinds but also to replace digital commercial bank money, i.e. replacing bank money with central bank issued base money. In this paper we study a similar experiment when the Swedish central bank, the Riksbank, in 1903 replaced private bank notes with their own notes. The result of this policy was a massive increase in commercial bank credit due to the increase in base money, spurring the ongoing boom even further which eventually led to the 1907 crisis. The result is thus questioning the notion that increased monetary issuance by a monetary authority at the expense of the commercial banking system should lead to increased financial stability – as it in fact led to the opposite.

From curios stocksavers to proficient investors: Financialisation of young everyday life seen through investment culture magazines 1985-1994

Charlotte Nilsson, Lund University

This paper deals with the emergence of stock investing as an increasingly naturalized youth everyday life phenomenon. During the 1980s and 1990s, new groups, such as women and youth, were sought out to enter the stock market, which contributed to the development of a mass investment culture. Youth – as collective and individuals – held a prominent position in this process, both as targeted financial consumers and as active lifestyle influencers.

The object of study is Aktiespararna's youth magazines Aktiespararen Junior (1985-1988) and The All Time High (1989-1994). They reached around 15 000 individuals between 16 and 25 years of age. The analysis focuses on critical junctures in the magazine publication over the period.

The results show a naturalization process through a conceptual widening: from stocks via finance to (private) economy. Interacting with the stock market was increasingly portrayed as just one among other crucial concerns in young everyday life, such as education and shopping. Investment knowledge was gradually more presented as a life skill rather than an interest or hobby. Moreover, each juncture carried a separation from the adult sphere, often with a self-confident, even rebellious, touch. Hence, this was not the development of any investment cultures, but young ones.

Bank Customers in a Transitional Period: Swedish Mansion Owner and Society Woman Märta Helena Reenstierna (1753–1841) at Årsta in Stockholm

Anders Perlinge, Stockholm School of Economics

Our knowledge is currently gaining momentum about the change and institutionalization of credit markets in pre-industrial Europe. Less well known, however, is how contemporaneous people were acting from a household-economic perspective.

A unique source that can inform us about this is the comprehensive journal kept by Märta Helena Reenstierna (1753–1841), without intermission between 1793 and 1839 at Årsta mansion in Stockholm. On more than 5,000 pages she describes everything that happened there and in her personal and social life, which embraced considerable parts of the Stockholm high society. The journal has merely been selectively published on several occasions, but scarcely anyone made use of its entire content.

In this paper there will be one single focus: her and her husband's, Cavalry Captain Christian Henrik von Schnell (1733–1811), capacities as credit customers of the National Bank ("Rikets Ständers Bank"). Through her entries a rare view of the apprehension of differences between the private and institutional credit market sectors in this transitional period can be analysed; what belonged to pros and cons with the traditional inter-human economic relations, what was advantageous with the emerging banking sector, and how relevant is the influential concept "transaction costs" during this pre-capitalist market period.