Savings banks and Economic Development

Sweden in the 19th Century

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March 2011
1. Introduction

A fact that is scarcely known in northern Europe is that the general idea of savings banks had already been hatched, in France, in the early 17th century. In 1611, Hughes Délestre published a booklet on the establishment of “pawn shops”, which already included the idea of promoting saving. Délestre gave voice to the need to offer workers the possibility of depositing small amounts at a modest interest rate, so as to mitigate periods of hardship. In a 1697 booklet, Daniel Defoe introduced a similar idea. Both, however, remained mere ideas until well into the 18th century, when philanthropic and social-liberal ideas envisaged savings banks as a means to fight and prevent poverty.

In Hamburg a savings bank was founded in 1778, “for people of lesser means”, and a few years later the Oldenburg and Kiel savings banks were established. During the first years of the 19th century, the number of savings banks grew rapidly in Germany, but the movement was stunted by the Napoleonic Wars.
Independent of the German process, similar institutions were established in Great Britain. In 1798, an institution was founded in Tottenham, which resembled savings banks, and the following year another one in Wendower. But the first savings bank with modern characteristics, which served as a standard for the British and Nordic systems, was founded in 1810, in Ruthwell, in southern Scotland. From then on, the ideas that formed the foundation of the European savings banks movement were a subject of serious consideration.

The ideas were imported into Sweden, where savings groups were already in existence, with characteristics that resembled those of savings banks.

In 1805, Berndt Harder Santesson founded a savings group for the workers of one of his own glassworks and a few years later another one with similar characteristics. Bearing in mind the close connection between German and Swedish incipient capitalism, Santesson very probably received inspiration from Germany. In any case, the main goal of the creation of these groups was to help poor classes forestall times of hardship and thus fight against poverty.

During most of the 18th century, economic ideas did not attribute importance to saving. It was even said that saving reduced spending, and therefore lowered both production and employment levels. Classical economics, however, very soon managed to prove that saving was one of the bases for improving production and consequently for strengthening other macroeconomic variables. Saving became the foundation of capital formation and was thus crucial to the well-being of nations. Religious authorities, such as those in Nordic countries, reinforced the increasingly favourable perception of saving by preaching it as a virtue, which also explains part of the process.

Nevertheless, the savings bank movement had to convince people of the advantages of saving and launched nationwide promotional campaigns. The following phrase expresses great pragmatism in a poetic tone, but it also clearly exposes the commercialism that has often lurked behind philanthropy: “Saving does not develop on the basis of commands and sermons, but on the basis of banking institutions, as the earth receives seed. No sensible man squanders seed so as to benefit more. The urge for profit, through a country’s banking institutions, should become the reason to save” (Hessling, 1989).
Savings banks are the oldest banking group in Sweden, and in many respects they have led the march towards the modern banking system. Since 1928, the savings banks’ symbol has been the old oak; its evocation of strength and security has helped make it one of the most famous market icons.

After the creation of savings banks in Gothenburg, in 1820, and in Stockholm, in 1821, the movement expanded with such speed that 500 savings banks existed by the time the old oak became the movement’s symbol. Very soon, savings banks distinguished themselves by their close bonds to local and regional authorities, who sometimes took the initiative when founding savings banks. Among the promoters were also farmers and local businessmen. As a result of this process, Sweden’s savings banks played a key role in the capital formation that was required for the industrialisation process, which in this country did not come about until the second half of the 19th century. The savings generated during the initial stage not only managed to support local investments but also fuelled the consumption of the first manufactured products.

For many years, savings banks acted unaware of their importance in capital formation and economic development. One could say with some exaggeration that savings banks in Sweden ignored that they acted as banking institutions until 40 years ago. But, indeed, savings banks were crucial to the rationalisation and mechanisation of agriculture at the end of the 19th century, the massive migration of the rural population towards cities, the development of the first industries, cultural and educational evolution, etc.

2. Central figures

Four individuals played particularly important roles in the introduction of savings banks to Sweden: Johan Westin, who launched the idea, Carl David Skogman, who outlined it officially, Berndt Harder Santesson, who put it into practice, and Eduard Ludendorff, who headed the first savings bank.

Johan Westin (1751-1828) was a prominent politician and a member of the board of directors of the National Bank. Having studied the savings banks legislation passed by Parliament in Great Britain in 1817, the following year he proposed similar institutions for Sweden, which aroused considerable interest in Parliament.
However, his idea that the National Debt Office should take charge of savings banks met with no success; a Parliamentary committee decided the government should not be in charge of such activity. Instead, the committee proposed to the government that “some talented person” should write a paper on the so-called savings banks, in order to offer the public a clear notion of the definition of such banks.

Carl David Skogman (1786-1856), who played the most crucial role of the four, was the “talented person” whom the government entrusted with introducing the idea of savings banks. His paper on the subject was published in 1819, and 1,000 copies were printed. At the time, Sweden was experiencing serious financial problems: the monetary system was anarchic, public finances were inadequate and the economy was underdeveloped. The country needed fresh ideas from abroad, particularly from England, which was considered the cradle of the new world economy.

Skogman wrote several papers during an official journey to the U.S. and Britain. Back in Sweden, in 1815, he held several offices and, among other activities, concerned himself with the banking system. The forerunning “discount” banks that had been established after 1770 were suffering because of the economic crisis and liquidity and management problems. The government named Skogman head of one of the most important banks, and in 1817 he was appointed secretary of the committee charged with resolving the banking crisis, among other tasks. He soon was named minister of finance and trade, and towards 1830 he was undoubtedly the government’s key figure.

His 1819 paper compared experiences in Scotland and England of dealing with the poor. He claimed that English laws on social welfare encouraged vagrancy and harmed the working class interests. In Scotland, however, the first savings banks showed the positive effects of organised saving. The paper concluded that there were better ways to prevent poverty than social welfare programmes: society’s upper classes should not only help financially but also do good deeds and promote work and saving as a means to economic independence. Thus savings banks were the best solution transform “help to self-help”, and for the well-to-do classes to avoid tax increases to fund social welfare. For savings banks to be successful, according to Skogman, persons of “fortune and well-known integrity” had to convince potential savers of the banks’ efficiency and of their founders’ altruistic aims.
Berndt Harder Santesson (1776-1862) was a practical man who organised saving among workers. His main field, however, was industry. He headed several companies and was the owner of two glassworks. In Swedish history he is especially known as the builder of the Great Canal that spans the country and as a member of Parliament. Santesson was born in Gothenburg, where he spent most of his life.

As early as 1805 he established his first “savings bank” in one of his glassworks, and reached an agreement with the workers to save 10% of their wages in order to meet future needs. The deposited savings, which earned 5% interest, were invested in the same glassworks. The general idea was to generate funds for employees to use in old age, but funds could also be withdrawn in the event of transfer. Santesson continued to create savings banks in his successive positions, and some of them endured for many years. In many senses, Santesson was a man of the future.

Eduard Ludendorff (1790-1824) was a businessman of German origin who founded Sweden’s first savings bank (1820), and in addition to devoting time to religious and liberal ideas, he was engaged in developing trade and markets. After studying in Berlin, he worked in his family’s trading house, and later became involved with Swedish trade. With great effort, Ludendorff managed to acquire the funds required to create the first savings bank, and in his own home created the administrative and commercial foundation for its development in Gothenburg.

3. The first savings banks

In addition to causing great damage to agriculture, the crisis after the Napoleonic Wars wreaked havoc on Gothenburg’s commercial life. Real estate prices fell and bankruptcies were numerous. The city’s own “discount bank” closed its doors to the general public. Thus it was the first savings bank that became the bank of local businessmen.

The first savings bank’s statutes were based on Skogman’s 1819 paper, but they differed in that they required half the members of the board of directors to be elected from among the persons who contributed to the bank’s founding and maintenance, and that the rest be appointed by royal decree. The Parliament’s view was that savings banks would need support from public authorities to gain the people’s confidence, but this was not the case.
When the second savings bank was founded in Stockholm, in 1821, no royal appointment was required either. On the other hand, when new savings banks were established, the county governor or another public official would often automatically become a member of the board of directors.

The fact that Skogman’s idea to appoint half of the board members by royal decree was unsuccessful actually resulted in a positive outcome. Savings banks develop without government control and in a decentralised way, which at the same time creates closer bonds to local activities and strengthens the general public’s trust in these institutions.

We have already mentioned that savings banks, as far as their goals are concerned, were in line with the bourgeois ideology of the day, but their success was rather fuelled by meeting genuine economic needs. The use of money was spreading, and as a result so too was the need for financial institutions. In 1822, three new savings banks were created. During the remainder of the 1820s two to three savings banks were founded annually, so that by 1830 24 savings banks, most of which were located in the county capitals, existed.

The savings bank movement’s explicit mission was to promote saving. Providing loans was also important, although theoretically as a secondary mission. The most common interest rate for deposits was 5%, and therefore loans were usually granted at 6%. In 1828, savings banks were authorised to open accounts in the National Bank, but since the latter paid interest at 3% or less, savings banks did not use it to a great extent. As a rule, deposited money was invested in businesses more or less headed directly by savings bank board members. In Gothenburg, as we have already mentioned, loans to industry and trade predominated during the first years. According to the auditors, most of the loans were secured by easily sold commodities. Of the total sum of loans in 1821, 23,000 Swedish crowns were guaranteed by iron and steel securities, 9,400 by gold and silver securities and 7,300 by miscellaneous shares (Hessling, 1989). Loans against personal securities were also very common; this way many workers and farmers were able to gradually free themselves of local usurers.

During the second half of the 19th century, owing to the industrial revolution, the new savings banks set the goal of gaining their local population’s support to pursue a new activity: developing agriculture and small business. At the time, there was a limitless need for local loans.
Traditional villages were changing, farmers were deserting their land and new land was being farmed. In 1839, the statutes of a new savings bank in southern Sweden declared that loans should be offered to small-scale farmers, making it the first to establish loan-granting as a savings bank service. This generated a wave of new savings banks.

During this period, we also find a particularly interesting reason for the increase in the number of savings banks. In the counties of southern Sweden, towards the mid-19th century, grain exports, revenues, and, consequently, savings increased. In many cases, savings banks in cities refused to accept new deposits, for obvious reasons: more money means more work, and most work in savings banks was performed on a voluntary basis. Thus parish savings banks met this increased demand and proliferated (Hessling, 1989).

Agrarian crises during the second half of the 19th century also fuelled the proliferation of savings banks. In general, farmers’ trust in local savings banks grows stronger in times of crisis, as savings banks offer better loan conditions than mortgage institutions or commercial banks do. The 1862 local administration reform attracted additional interest in creating savings banks, because the latter was a necessary complement to the reform.

For a long time, loans with personal securities were the predominant type from savings banks – with the exception of the largest banks, where mortgage loans and loans with other non-personal securities have always been of great importance. Because of the saving bank’s philanthropic and patriarchal nature, and because its loans were small, borrowers and guarantors were trusted more than real securities. In small communities, where bank employees knew the residents, loans with personal securities were quite suitable. Thus this type of loan continued to serve its purpose until well into the 20th century.

Initially, mortgage loans were usually redeemed in order to make way for new borrowers, but when pay-off rules were introduced it could be avoided and capital formation could be fostered simultaneously, which soon became one of savings banks’ main goals. Industrialisation increased demand for this type of loan, thus savings banks increasingly specialised in larger loans, at cheaper administrative cost, which in time made it possible to hire wage-earning employees.
The 1892 Savings Banks Act, as we shall see, caused certain difficulties. Some savings banks were forced to cut down on their loans to industry, trade and local agriculture. Therefore, real estate loans, with the exception of industrial real estate, became predominant. Loans to local authorities also continued to grow as a result of the needs of new population centres.

The Savings Banks Act was a turning point. By the mid-19th century, commercial banks had attained an important position. The first one had been founded in 1831, in Ystad, southern Sweden. The important role of commercial banks in the industrialisation process is undisputable. In a way, the Savings Banks Act echoed the power achieved by commercial banks, which experienced their most expansive period during the three decades following its passage.

Incredibly, savings banks were not represented on the committee in charge of preparing the Savings Banks Act. Commercial banks, however, were well represented. The committee chairman was a well-known commercial bank shareholder and 17 bank representatives participated. This had a profound impact on the bill. Loans to business, according to the Act, were the purview of commercial banks, while savings banks should be limited to savings administration. Thus a division of functions was established that would mark the savings bank industry until the mid-20th century.

4. Savings banks and local communities

By encouraging individual savings, savings banks have contributed to stabilising the value of money and hence to curbing inflation, particularly to finance major public projects and mobilise funds for potential crises. However, savings banks have been local institutions with a defined sphere of activities and specific rules adapted to local circumstances. The savings collected in one region, as a rule, are used in that very region. This has enabled savings banks to enter new sectors, in accordance with local needs, to develop local industries, thus helping to improve regional balance.

From the start, Swedish savings banks operated as independent banks. Before the Second World War, and particularly before 1892, strong central governance and uniform performance and credit-granting standards were rare.
Each savings bank had its own policy. In Gothenburg, the savings bank was engaged in export and import commodity mortgages, while in Stockholm it focused on real estate mortgages. The interesting point is that each savings bank’s lending reflected local trade and industry, and each bank tried to adapt its credit policy to changes in economic development. Moreover, savings banks adjusted to general credit needs. Municipalities borrowed money to invest in infrastructure programmes, while savings banks consistently supported financing for housing construction and government borrowing. To a great extent, savings banks have acted as though they were government banks, given that the public sector has never needed to own institutions that meet local and general credit demands so well.

Initially, certain savings banks had difficulties, since they totally lacked economic support from government authorities. Savings banks were not even allowed to invest part of their assets in the Swedish Central Bank against a fair interest rate. Apparently, the government felt that savings banks should manage on their own, and that the Central Bank should not be burdened with any possible expenses. But beginning in 1830, savings banks were entitled to invest some of their capital in the Central Bank, which in some cases proved vital. The fact that savings banks were forced from the very beginning to approach the market without government support may explain why many savings banks developed rapidly from public utility undertakings into common money-holding institutions.

It took a rather long time before it was officially recognised that savings banks could be of great value to business: they made it possible to establish small-scale enterprises, carry out soil and real estate improvements, etc. They could also help the poor strive to improve their lot. And of course such local support enhanced the general public’s well-being. Savings bank loans remained within the local community and empowered it to develop.

Eduard Ludendorff, the founder of the Gothenburg savings bank, was committed to poor relief, which may have contributed to the bank’s granting several loans to poor widows. As security for their loans they left personal property such as jewellery, silver cutlery, etc. The bank’s first annual report stated that its assistance included not only managing small deposits, but also granting loans to people in temporary need. Thus poor and needy people would not have to resort to public poor relief, which in the long run does not benefit the individual.
In other words, the bank helped people help themselves. If it did not, the report stated, small borrowers would otherwise fall prey to usurers or be forced to sell their property at a loss.

However, the Gothenburg savings bank was not the only one to accept personal property as security for loans. Many other savings banks accepted “good and working pocket watches”, gold rings, etc., as security. Auditors of several savings banks pointed out that their business was beginning to look like a pawnshop.

The Gothenburg savings bank had other ways to illustrate its responsibility towards the community. For example, when an embezzlement scandal rocked its major competitor, Gothenburg savings bank took it over, thus securing depositors’ money. Meanwhile, savings banks in general earned a reputation for cash donations. During the 19th century, they donated generously to education and granted subsidies to organisations engaged in poor relief. As a rule, savings banks leaders and board members were people who took an interest in economics and social development. Many pursued commercial, agricultural, industrial and other social activities.

The government’s hands-off approach to savings banks – from the very beginning, it had no interest in either centralising or steering them towards the purchase of securities or government bonds – determined the path they took. For most, their only chance to grow was in trying to make deposits productive by loaning money on local markets. Other savings banks took it upon themselves to finance local and county infrastructure. Moreover, through their social work, comprised mainly of donations and financial support, savings banks contributed to the country’s economic and social development and thus shaped the foundation of economic growth.

5. Savings bank lending

The first savings banks main goal was to administer the savings of people of lesser means. By and by, new savings banks were created to serve a broader purpose. Many founders were philanthropists and businessmen simultaneously. The Färs Savings Bank was founded, in 1839, with the granting of loans as a primary mission, and many others were created to grant agriculture loans. Thus farmers could obtain loans with better conditions than those of either commercial banks or mortgage associations.
In many cases, loans were granted to the members of savings bank boards of directors, but also against personal guarantee and against collateral. In ports, loans were usually granted against securities in export/import goods. In the Stockholm City Savings Bank it was common to borrow money against bonds, and as the Stock Exchange developed, loans against securities in shares became crucial to savings banks in general (Nygren, 1981). The most common loans, however, were against real estate mortgages and valuables. As the demand for loans grew, in the 1850s, the statutes of many savings bank stated explicitly that their purpose was granting loans in addition to administering savings.

Local authorities obtained savings bank loans to finance infrastructure, schools and hospitals. It might be argued that local needs determined the development of lending. They drove Swedish savings banks to develop as independent credit institutions and become, in the second half of the 19th century, more important than commercial banks. Thus the Swedish savings banks movement turned out to be rather unique in Europe.

Savings banks would never have survived without increasing their lending. Unfortunately, it took time for the savings bank movement to understand this and for the top savings banks to take the lead and increase lending (Sommarin, 1940). Borrowers were offered possibilities to expand their businesses, using loans for agriculture, buildings, tool purchases and materials. Some savings banks even borrowed capital from private banks to grant loans.

For the Gothenburg savings bank, lending against commodity collateral was the dominant form of credit during its first 20 years. There was also a great number of small loans against silver and gold collateral. Several other savings banks lent against valuables and became full-service pawnborkers. This form of lending was replaced gradually by more modern forms. Moreover, the Gothenburg savings bank made it possible to establish Gothenburg Private Bank, since almost one-third of the paid-up share capital was mortgaged at the savings bank. Thus cooperation in and the differentiation of Gothenburg’s banking sector was established.

The Norrköping savings bank was founded in 1824 by two manufacturers who lent against mortgages, valuables such as silver and gold, and even securities in shares in steamships sailing the Norrköping-Stockholm route. The last was not entirely according to its statutes, but it met the local community’s needs.
In northern Sweden, the Piteå savings bank suffered a small loss during its first year, 1852, but the total amount in loans granted almost equalled that in deposits. Regional agricultural societies were the main players behind efforts to improve the state of agriculture and infrastructure, which led to the creation of several savings banks.

At the Söderhamn savings bank the first mortgage loan against security in land was granted on the first banking day. During the 1850s and 1860s, lending was based on real estate mortgages, but loans against shares gradually increased, and at the turn of the century this form of lending had risen to approximately half the amount of deposits.

The expressed intention of various early savings banks was to prevent poverty. However, when savings banks opened in rural areas, lending became the key purpose, as from the beginning their focus was on the credit market (Perlinge, 2005). Around 1840, many new savings banks were defined as credit-oriented, targeting agriculture and agricultural communities.

Promissory notes an debt obligations, which were means of payment accepted by the local community, i.e. as local bills, comprised much the local credit market. Thus institutional loans were not very important at the beginning of the 19th century, but they expanded as local savings banks were created and partly took over traditional instruments, in the sense that savings banks mainly granted loans as promissory notes against security or mortgage.

During the Industrial Revolution, the British strategy to help the poor by encouraging deposits in savings banks, which in turn invested money in the English government, did not work in Sweden. And investing savings banks’ money in government bonds could not be materialised, largely because of the lack of a developed bond market. Instead, savings banks had to play the part of independent banks.

Savings banks did not share a lot in common when it came to their lending practices. Each savings bank had its own pattern, adapted to the needs of the local credit market. In Gothenburg, as we know, money was raised on merchants’ export/import commodities, and in Vänernsborg deposited savings were lent to the savings bank’s board members. Savings bank lending for agriculture fuelled transformation and specialisation in the 1840s and 1850s and led to the foundation of industrial society.
One significant idea amongst savings banks was that savings generated in local communities should be used for local credit needs. This was of great importance to the savings banks’ own development since the increasing lending activity created greater needs to procure deposits. Little by little, the work done by savings banks through promotion of savings, savings clubs, school savings, etc. became a complement to their business. All this undoubtedly provided very strong impulses that furthered Sweden’s economic growth.

Various reports in the 1960s and 1970s (Nygren) analysed the role savings banks played in the development of local credit markets and the incipient industry. For instance, overall Swedish savings bank lending against shares as security doubled between 1876 and 1893, and equalled 25% of commercial bank share lending during the latter years of that period. Lending to businesses was a strong component of savings bank lending. At the same time, board members could be engaged in other credit institutions and local commercial banks. Thus savings banks played an even more important role in financing local business by transferring means between institutions and through common strategic ideas.

Table 1: Institutional lending 1835-1875. Millions of SEK.

<table>
<thead>
<tr>
<th></th>
<th>Central Bank</th>
<th>Debt Office</th>
<th>Commercial Banks</th>
<th>Savings Banks*</th>
<th>Mortgage Institutions</th>
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</thead>
<tbody>
<tr>
<td>1835</td>
<td>27</td>
<td>-</td>
<td>2</td>
<td>2</td>
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<td>1840</td>
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<tr>
<td>1850</td>
<td>35</td>
<td>4</td>
<td>16</td>
<td>11</td>
<td>33</td>
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<tr>
<td>1855</td>
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<td>4</td>
<td>24</td>
<td>20</td>
<td>70</td>
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<td>49</td>
<td>7</td>
<td>246</td>
<td>111</td>
<td>213</td>
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</table>

* Note that the size of savings bank loans were generally much smaller.
Already in the 1830s and 1840s, several savings banks developed a type of lending that in practice turned them into a kind of commercial bank for the urban bourgeoisie. Savings banks increased institutional lending, and as time went on they managed to break down the private promissory note lending system.

The banking innovations achieved by savings banks consisted mainly in that they developed the local credit market, differentiated lending according to the varying conditions of the sphere of action, and increased deposits as a source of financing lending.

After 1820, new savings banks opened with great frequency. In 1859, there were already 125, with an overall lending of 27 million SEK. By 1875, the number of savings banks had grown to 325, and lending totalled approximately 150 million SEK, including loans to local authorities.

The first savings banks were established in cities and trade areas. Railway creation fuelled savings bank creation. In most cases, this build-up was supported by philanthropy and savings ideas, but in practice the banks were limited to the local credit market. In rural areas, however, savings banks were established with a view to gaining access to greater lending opportunities. Agriculture needed financing, and it is obvious that a strong agricultural region such as Skåne in the south of Sweden, savings banks were founded with the support of agricultural societies.

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings Banks*</th>
<th>Commercial Banks</th>
<th>Commercial Banks**</th>
</tr>
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<tbody>
<tr>
<td>1876</td>
<td>116</td>
<td>104</td>
<td>294</td>
</tr>
<tr>
<td>1880</td>
<td>121</td>
<td>109</td>
<td>287</td>
</tr>
<tr>
<td>1890</td>
<td>241</td>
<td>203</td>
<td>457</td>
</tr>
<tr>
<td>1900</td>
<td>362</td>
<td>462</td>
<td>1,046</td>
</tr>
<tr>
<td>1910</td>
<td>693</td>
<td>1,029</td>
<td>2,063</td>
</tr>
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</table>

* Loans to Local Authorities excluded  
** Including other lending (Letters of Credit, Bills of Exchange, etc.)  
Section “Savings Banks’ Lending” based on Nygren’s work.
In the mid-19th century “county” savings banks proliferated. They were founded with the support of county administrative boards and agricultural societies and were intended as both savings and lending banks. Their intended purpose, which was not fully realised, was to cover the whole country in a homogenous way, and they were thus partly a reaction to the diverse structure of savings banks. Between 1865 and 1885, almost 200 “parish savings banks” were created. When crops failed, the need for agricultural loans was great. Therefore, agricultural societies supported a vast network of local savings banks.

Naturally, deposits were the basis for lending, but the idea of developing deposits with that intention was sometimes unfamiliar to board members. In practice, deposits depended on the kind of depositors that predominated. It is rather obvious that a savings bank whose customers were mainly workers had a weaker balance than savings banks where trade, craftsmen, and persons of rank predominated. Therefore, the possibility of receiving deposits from well-to-do citizens was crucial to a savings bank’s development (Nygren, 1981).

In general, by 1870 the economic situation in Sweden allowed for more extensive and generalised saving. The institutional credit market was expanding, and therefore money stayed in banks instead of passing on to the private promissory note lending market.

Saving bank boards of directors, which frequently represented local business, often decided how lending was aimed. Lending was adjusted to the board’s views and the development of the credit market. When savings banks started lending, there were a great many “board loans”, i.e. board members taking over deposits themselves for investment. Later on, others close to board members or with similar professions and interests could get involved in the lending process. There are many examples of board members who were involved in railways, wood products, industrial enterprises, banks and handicrafts, etc. Many board members also held similar positions in private banks. “Board loans” were sometimes a last resort, when no better investment could be found, but in some cases they led to conflict and even loss.
6. Differentiated credit system

In the early 19th century, the board’s knowledge of people was crucial and could in part compensate for the lack of economic knowledge when loans against personal guarantee were granted. In addition, it was possible to cancel such loans at short notice. During the first half of the 19th century, private individual loans came mainly from other private individuals. These loans were complemented with others from savings banks and were largely based on personal relationships. Later, mortgage loans were considered less risky and increased at the same time as commercial loans, also based on personal relationships. A savings bank was not primarily an independent organisation, but rather a part of local business.

Table 3: Percentage of Securities in Different Savings Banks Groups, 1859

<table>
<thead>
<tr>
<th></th>
<th>Personal guarantee</th>
<th>Rural real estate</th>
<th>Urban real estate</th>
<th>Other credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 1,000,000</td>
<td>10</td>
<td>22</td>
<td>26</td>
<td>42</td>
</tr>
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<td>500,000-1,000,000</td>
<td>44</td>
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<td>8</td>
</tr>
<tr>
<td>250,000-500,000</td>
<td>54</td>
<td>22</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Under 250,000</td>
<td>56</td>
<td>21</td>
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</tr>
<tr>
<td>Activity</td>
<td></td>
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<tr>
<td>City savings banks</td>
<td>33</td>
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<tr>
<td>County savings banks</td>
<td>37</td>
<td>33</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>Hundred savings banks</td>
<td>77</td>
<td>19</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Parish savings banks</td>
<td>76</td>
<td>14</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Founded</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 1836</td>
<td>29</td>
<td>23</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>1836-1850</td>
<td>64</td>
<td>15</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>From 1851</td>
<td>72</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>
Most loans against personal guarantee were small, and therefore adapted to the category of customers that savings banks intended to serve. Bigger loans against personal guarantee offered savings banks advantages owing to their stability and were also less costly to administer per currency unit. Mortgage loans, however, were administratively burdensome.

Unfortunately, loans against personal guarantee turned out to be inadequate to grant loans for construction, including that of railways and stations, housing and business buildings, as well as for agriculture. Savings banks had to change direction and procedures and consider mortgage loans as safer. On the other hand, it was rather obvious that loans against personal guarantee involved high administration costs. The transition to the mortgage loan-based structure influenced the future of savings banks. In 1912, they were the most important credit institutions for financing housing. They played a less important role for share lending. In 1859, the large savings banks of Stockholm, Gothenburg and Uppsala had nearly 90% of total savings bank share lending. In smaller savings banks this form of lending was less significant.

Savings banks contributed to the country's infrastructure development via a large amount of lending on railway shares, which was granted according to advantageous conditions. Loans were also granted on shares in factories and industries, and also on the wood sector. After the 1860s, savings banks granted loans to finance important community investments, e.g. water and sewage disposal systems, gasworks, streets, etc. Part of health care reform was also financed by savings banks.

In general, savings banks focused in granting small loans. For example, during some periods of the 19th century, they only granted real estate loans at below half the rateable value of the real estate. By limiting loan size, they were able to increase the number of loans to different individuals, thus achieving better risk apportionment. In order to reach new borrowers, they could cancel granted loans, but owing to the problems this might create, amortisation rules were introduced later. Through this repayment obligation, savings banks also contributed, through borrowers, to enhancing the capital formation that became one of their main tasks (Sommarin, 1940). Our oldest savings banks thus pioneered a function of utmost importance to the Swedish people of today.
Savings banks also targeted the bond market. In the 1820s, the Stockholm savings bank based nearly 40% of its investment of funds on bonds, mainly government and local community bonds. It was situated at the centre of Sweden’s bond market and its board was dominated by persons close to government, for instance, Carl David Skogman. By financing major local projects, bonds contributed to the country’s economic development.

Bonds also exerted a balancing influence on savings banks, when deposits could not be invested against the usual securities. For instance, investment in the Stockholm savings bank’s bonds increased four-fold between 1831 and 1840, and between 1841 and 1850. The same development can be observed in lending to local authorities and associations between 1842 and 1850, when the number of loans for Stockholm real estate hardly changed.

In 1876, bond holding amounted to 17%, or SEK 26 million of the savings bank total investment of SEK 151 million (Nygren, 1981). Towards the end of the 19th century, savings banks had come a long way, considering the number of banks and branch offices and society’s interest in them. But they could not completely fulfil their intended role of reducing costs in order to mitigate poverty and support social welfare. On the other hand, savings banks could build up institutional saving in banks and contribute to a differentiated credit system.

The 1892 Savings Banks Act introduced some restrictions on savings bank activity, but since the banks were firmly rooted in local communities, authorities had fairly limited possibilities of controlling them. One important aim was to create more space for commercial bank activity, and it was argued that savings banks should not be able to compete against commercial banks, because it put depositor money at risk. Therefore, savings banks were forbidden to grant loans other than against promissory notes and similar instruments of debt; they could no longer grant letters of credit or offer cheque accounts; and they were obliged to hold a cash reserve. A few years later, there was an idea, which never did evolve into law, to forbid lending against securities in shares entirely and to introduce a maximum deposit amount of SEK 10,000 in all savings banks. For the time being, commercial banks had won the battle.
7. Summary

During most of the 18th century, economic ideas did not attribute importance to saving. It was even said that saving reduced spending and therefore lowered both production and employment levels. Classical economics, however, very soon managed to prove that saving was one of the bases for improving production and consequently for strengthening other macroeconomic variables.

Saving became the foundation of capital formation and was thus crucial to the well-being of nations. Religious authorities, such as those in Nordic countries, reinforced the increasingly favourable perception of saving by preaching it as a virtue, which also explains part of the process.

Savings banks would never have survived without increasing their lending. Borrowers were offered possibilities to expand their businesses, through agricultural improvements, new buildings, purchasing tools and working material, etc. Unfortunately, it took some time before there was understanding and consideration of these incomparably crucial results of the savings banks movement, so as to enable certain leading savings bankers to strive to increase lending.

Savings bank lending supported 1840s and 1850s agricultural transformation and specialisation, and consequently the foundation of industrial society. One significant idea amongst savings banks was that the savings generated in local communities should be used for local credit needs. This in turn was of great importance to the savings banks’ own development since the growing lending activity created greater needs to procure deposits. Little by little, the work done by savings banks through promotion of savings, savings clubs, school savings, etc., complemented their business. All this undoubtedly provided very strong impulses that spurred Sweden’s economic growth.

Among the promoters there were also farmers and local businessmen. As a result of this process, Sweden’s savings banks played a key role in the capital formation that was required for the industrialisation process, which in this country did not come about until the second half of the 19th century. The savings generated during the initial stage not only managed to support local investments but also made up the basis for the expansion of consumption of the first manufactured products.
The fact that from the very beginning the government had no interest in either centralising savings banks or steering them towards purchasing securities or government bonds determined the path that Swedish savings banks would take. The only chance most of them had was that of trying to make deposits productive by offering money on local markets. On the other hand, savings banks took it upon themselves to finance local and county infrastructure. Moreover, through their social work, mostly donations and financial support, savings banks contributed very actively to the country’s economic and social development. Thus savings banks shaped the foundation of economic growth.

In addition, savings banks adjusted to general credit needs. They lent to municipalities to invest in infrastructure programmes, helped finance housing construction, supported government borrowing during the world wars, and so on. To a very great extent, savings banks have acted in part as though they were government banks. The government sector has never had any need to own institutions that meet local and general credit demands so well.

Lending to businesses and entrepreneurs was a strong component of savings bank lending. At the same time, board members could be engaged in other credit institutions and local commercial banks. Thus savings banks played an even more important role in financing local business by transferring means between institutions and through common strategic ideas.

The banking innovation achieved by savings banks consisted mainly of the fact that they developed the local credit market, differentiated lending according to the varying conditions of the sphere of action, and increased deposits as a source of financing lending.

Savings banks could not completely fulfil their intended role of reducing costs in order to mitigate poverty and support social welfare. On the other hand, savings banks could build up institutional saving in banks and contribute to creating a differentiated credit system.
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