Geld in Amsterdam. Wisselbank en wisselkoersen, 1650-1725
Dehing, P.

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In 1629, in his *Lex Mercatoria*, English economist Gerard de Malynes made a case for the foundation of a bank under royal supervision, arguing that such a bank would stimulate the development of the English economy. The Amsterdam Bank of Exchange *(Amsterdamse Wisselbank*, further referred to below as the Bank) was a shining example of what Malynes had in mind. It was founded in 1609 by the city’s council in an effort to move the organisation of money transfers away from private markets and bring it under the control of the city. The city council used this intervention to impose extra regulations on the market, a deliberate about turn aimed to concentrate all commercial money transfers in the Bank. They did so in the conviction that this would change the behaviour of market parties. In other words: the city of Amsterdam ensured it had the power and the instruments to protect its commerce against the monetary excrescences of the turbulent economic growth.

By opting for an exchange bank, the city demonstrated its vision that the Bank was part of the fundamental infrastructure of the city and that doing nothing, an alternative that involved even greater economic risks, was not an option: unstable money, in the shape of money debasement or devaluation, upset market prices. It also threatened to interfere with regular trade as the consequences of the reduced money value were passed on to lenders. The choice for a change in policy and a bank of exchange was a choice for a bank with a public function, the alternative expected to provide the greatest benefit: monetary equilibrium in the form of a stable currency. Such stability required a sturdy monetary basis, a solid guarantee against debasement, a mandate, and instruments to enable effective control of possible risk factors. Opting for a bank of exchange had great practical effects for monetary transactions in the city and for monetary policy. But it also had the effect of a continuous struggle with respect to roles, responsibilities, competences and tasks between central and regional government and the city of Amsterdam. In theory, various levels of administration within the city – city council, burgomasters and bank commissioners – were pursuing the same goal. In practice it was not always easy to establish who actually pulled which strings and when, and whose influential intercession and actual decisions we have to thank for which conclusion. Not that the bank drifted on the current, but frequent changes in impor-
tant appointments and in government, and shifts in the balance of power meant that monetary decision-making was more a resultant of political conflict than of learned discourse.

But although the city’s resolve now and then disintegrated among its various levels of government, formally and in essence its main political aim was to reduce monetary instability and to gain influence on the real economy through monetary channels. The metallic monetary system of the Dutch Republic had led to a number of persistent problems in Amsterdam. However, this system – together with the less developed bills of exchange and capital market and the large influence of the government – restricted the number of channels for monetary policy. Faced with the traditional monetary transmission channels (interest, prices, financial assets, money supply, credit and prospects), Amsterdam opted for money supply, credit and prospects. By centralising payment services in the Bank, banning cashiers, and introducing a number of additional regulations, the city’s regents tried to regulate money transfers and reduce the monetary insecurity of merchants. When necessary, these merchants were to be able to transfer money quickly and cheaply, deposit coin in the Bank and withdraw high quality coin from the Bank. And above all, their bank deposits had to be protected from the threat of currency depreciation. A stable value in terms of silver, that was the Bank’s original commission, and that was exactly what the merchants could expect from it.

These purposeful monetary politics are the subject of this study. Was the Amsterdam Bank of Exchange indeed a suitable instrument to tackle the main monetary problems in Amsterdam, and thus to effect the city’s monetary policy? What was the effect of the Bank’s operations on the Amsterdam bills of exchange market? These are the two questions at the heart of this study. To answer them, a dual analysis is required. The first aspect is the money supply of the Bank in relation to its organisation, innovation and operational management. This is set out in chapters 3 to 6. The second aspect, described in chapters 7, 8 and 9, focuses on the bills of exchange market and the Bank. In monetary terms, this is the analysis of the relation between so-called target variables (market liquidity, profit, value stability), intermediate variables (money supply, exchange rates) and instrumental variables (bank guilder, receipts, money transfers by giro payments). As many data are taken from several sources, and their quality allows only a qualitative analysis, no regression or time series models were used for the analysis. In some cases, however, statistical tests were applied.

Chapters 1 and 2 constitute the introduction to the thesis. Chapter 1 focuses on the historiography of the Bank of Exchange, the context of the research questions, the analytical approach used, and the description of sources and data. Chapter 2 sets out how the international economic climate towards the end of the sixteenth century enabled the growth of the economy of the Dutch Republic, and the rise of Amsterdam to a principal commercial metropolis. This chapter outlines how the economy developed in Amsterdam and how a composite money transfer system evolved, with the Bank as its hub. The characteristics of this hub are discussed in chapter 3. Subsequent chapters demonstrate the significance of the Bank for the financial infrastructure in Amsterdam (chapters 4, 5 and 6) and international relations (chapters 7, 8 and 9).
Chapter 3 describes how two factors proved to be important for the foundation of the Bank: 1) the role assigned to various government bodies as guardians of the currency standard, and 2) the monetary market effect of the difference between the ordinance price and market price of coins. Tasks, competences and instruments for monetary policy were spread across central, regional, and local government. This upset the balance of power, opening the way for competition between these levels of government. Not that this made the system unworkable, but it did put Amsterdam between two evils. Dissatisfied merchants claimed full value money. But the city’s council and burgomasters had no grip at all on the composition and level of coin production, or control of the coin circulation. In Amsterdam they largely depended on regional and central levels of government. Provincial government regulated coin production and was responsible for official coin valuation. Setting coin prices on the other hand was the task of the Generality. In this respect everything revolved around the difference between legal coin prices and intrinsic market value or prices, and the demand for coin adjustment. As the central body, the Generality, attempted to keep the ordinance prices of coins in line with the increasing market value of the silver or gold used to mint these coins. To do this, the Generality regularly decreed an increase in the ordinance value of coins. However well intended, this nominal increase was perceived as a surreptitious debasement. Domestic coins were worth less and contemporaries complained of the ‘rise’ of money. Circulation was perceived to be chaotic and the Generality, the States of Holland and the city of Amsterdam were in danger of losing their grip on financial transactions. This also put the protection by these authorities against monetary depreciation and the outflow of high quality domestic coins at risk.

As the market presented problems and the proposal by the Master General of the Mint to the States General and the burgomasters of Amsterdam to the council for a supra-local regulation to found banks of exchange in all commercial cities of the Dutch Republic was not taken up, thus stirring up unrest, Amsterdam decided to found a bank of exchange. The Bank was given a monopoly to set coin prices, determine the money supply, and the supply of informal government money. Following the foundation of the Bank, the regents of Amsterdam attempted to prevent the depreciation of bank balances of account holders, and ensure that account holders could withdraw the amounts they wanted to. Failure on either count would mean that money transfers would come to a standstill and international trade would move elsewhere. In Amsterdam, therefore, preference was given to internal and external exchange rate stability. Protecting bank balances from devaluation, guaranteeing market liquidity and thus capital mobility, streamlining international money transfers and currency management, while also making a profit: these were the four goals with which the city saddled the Bank commissioners in 1609, and with which – through new instructions and ordinances – it attempted to provide a basis for the new reality by means of an adjusted structure. By founding the Bank of Exchange, the regents had adopted the model of the Venetian Banco della piazza di Rialto. Like this bank, the Bank of Exchange prescribed among other things that balances of account holders had to be fully covered by the gold and silver in the
Bank’s safe, and that account holders could not transfer more money than permitted by their balance. In addition, all payments of bills of exchange drawn on Amsterdam were obliged to be paid in bank money and thus via the Bank of Exchange, which meant the bank netted the clearing of the entire Amsterdam exchange trade. Originally, bills of exchange could also be cashed at the Bank, but this was abolished in 1613. In this way, the idea of a separate cash or main account was created (the speciekamer or specie chamber) which was the turning table in the control of inflow and outflow of coins and metal, and thus the control of the metal supply, the supply of bank guilders and informal credits.

Chapter 4 describes the development of bank money. It tells the story of how the bank guilder came into being, the market for bank guilders and how the market set the prices. The chapter concludes with a model, and my hypothesis that through open market interventions the bank regulated the metal supply and thus market liquidity. Initially, shortly after the Bank was established, it did not have any trouble in fulfilling its original task of maintaining a stable value of bank balances in terms of silver, although it followed the ordinance prices prescribed by the Generality. These prices were adjusted regularly as the other money transfers in the Republic were confronted by coin debasement, among other things as a result of the large influx of relatively light-weight coins from the Spanish Netherlands. The Bank valued these coins as un-minted metal, however, thus in terms of the value of the metal. As a result, it continued to be unprofitable to deposit these coins in the Bank. At the same time, the market price of old, heavy coins rose above their ordinance price, and therefore the bank deposits kept their real value. The situation was less favourable for the Generality. In spite of adjusting ordinance prices, it could not gain control of the market prices of the coins. Legal price rises did not result in the desired stability and thus not in the ending of price adjustments either. In fact they had an opposite effect: coins with a relatively high standard compared with their nominal value disappeared from domestic circulation, and as a result a mixture of coins of varying and predominantly poor quality increasingly dominated circulation.

From 1659 onwards, relations changed. In that year the Dutch Republic introduced a series of new coins in an attempt to oust foreign ones. At the same time, the Bank of Exchange accepted the ‘heavy money’ exchange rate, thus formalising the situation that had developed outside the Bank since 1638. The new coins had a dual price: inside and outside the Bank. The difference in value between units of account inside and outside the Bank resulted in two payment circuits: one of bank money, and one of money circulating outside the bank. From 1659, the Bank had its own monetary unit with which it could regulate its own money supply. Although account holders could still exercise their right of withdrawal, in practice this right was not exercised on a large scale. Instead, a market emerged for bank money. On that market merchants bought and sold bank money, often through the mediation of cashiers and against a specific agio rate. The Bank, too, continued to be active on this market, serving as a bridge between cash in circulation and coin deposits converted into bank guilders. The bank guilder served as the unit of account for bank balances and money transfers going through the
bank. The value of this fictive or virtual bank money often changed compared with its counter value in concrete coins. This difference in value, i.e. the exchange rate between two domestic parallel currencies, was termed agio. The agio fluctuated with the volume of the circulation of bank guilders.

The analysis shows a statistically significant relationship between the course of the agio and the volume of Bank deposits. The monetary effect of the agio on changes in the metal supply is confirmed by fluctuations in both variables. Initially, the agio was very volatile, but it stabilised again relatively quickly. This development is indicative of a major reaction: arbitrage, speculation or intervention. Because the Bank demonstrably only intervened after 1672, the development in the 1640s and 1650s must have been caused by street trade in bank money, trade that was mostly the domain of private cashiers. These cashiers had bank and cash money at their disposal, held accounts at the Bank, thus reducing their costs as they in fact held on to circulating currency at the expense of the Bank until they needed it.

The introduction of the receipt in 1683 was the introduction of an instrument that safeguarded account holders from undesired metal withdrawals, simplified cashier trade and made it possible for the Bank to keep its metal supply at the necessary level quickly and cheaply: the receipt could be traded and the paper represented a right of withdrawal of certain types of coin at a fixed withdrawal price. Before the introduction of the receipt, the bank had the power but not the instruments to curb instability. The receipt gave it both, and by way of open market interventions, it was able to regulate the metal supply and thus the supply of bank money. In theory, the receipt made it possible for the Bank to reduce or expand its supply of bank guilders or metal quickly and cheaply. The most suitable moment for this was determined by the negative correlation between the price of the receipt and the withdrawal or market value of bank money: if the receipt price rose, the agio – and thus the value of bank money – fell. This was unfavourable for holders of bank money, but favourable for receipt bearers. A higher value of bank money was in the interest of bank money and account holders. Receipt bearers on the other hand benefited when the agio decreased. However, because receipts were cheap when the agio was high, and relatively expensive when it was low, and because the receipt price fluctuated with market agio developments, it was very profitable to speculate with receipts using the effect of this price and substitution mechanism; and not only for account holders, but also for Bank governors.

The empirical evidence that the Bank controlled the supply and demand of money and was thus able to neutralise the largest sources of instability is presented in chapter 5. Account holders deposited their money in the Bank to make payments. They also put it there to protect it from devaluation and financial unrest. These two motives explain the strong fluctuations in the increase and dynamics in numbers of account holders, and the accelerated increase in the balance amount per account holder from the beginning of the eighteenth century. In the course of two centuries, the development of the total money supply, the total amount of bank deposits, shows shorter and shorter, but also more vigorous cycles of growth and contraction. For the
period 1666-1702 the development of the money supply can be explained by deposits of coin by account holders and purchases and sales of precious metal by the Bank itself. In the years before 1672, coin deposited by account holders was the driving force behind the increase in metal supplies. Between 1672 and 1681 these supplies changed mainly as a result of purchases by the Bank. This active open market policy placed the bank in a head wind. It intervened to correct for deficits in the supply, thus tempering fluctuations in the metal supply, and depressing the rate of the agio. After 1681 purchases and sales show infrequent peaks, which indicate occasional purchases and sales. The governors of the Bank were responsible for this active cash management, prompted by assayers and via the specie chamber to buy or sell. In this context, the specie chamber functioned as an actual intervention department of the Bank. After 1683 the receipt played a crucial part in these interventions. As a necessary economic instrument, it not only enabled the Bank to curb market fluctuations, it was also an instrument in the financial game in which the Bank, as monopolist, had the opportunity - by way of specific purchases and sales - to speculate without taking too much risk.

However, the Bank not only stabilised the money supply. It also gained control of the demand for money or the velocity of the bank guilder. The fact that the Bank corrected the surplus demand on the guilder market is evident from the course of the fluctuations in a number of relevant variables. Where this course was relatively steady for one group of bank variables (agio, amount of deposits, lending, payments turnover) for a long period, for a second group (inflow and outflow of precious metal and the velocity of the bank guilder) it was considerably more volatile, and also stabilised at a higher level. Small fluctuations reflect natural adjustment. Larger swings indicate speculation or adequate response to changing market conditions. The latter turns out to have been the case. Stabilisation of the money demand at a high level of volatility indicates control of liquidity. This was made possible by centralisation and concentration of payments in the Bank, which – with its multiform provision of services - operated as a conversion and clearing house. An open market policy, with specified purchases and sales of metal resembled short-term opportunism, but in fact gave the Bank control of the inflow and outflow of coin and metal and thus of the liquidity of the bank guilder market. This control was a direct merit of the bank and a consequence of its consolidated problem approach. Indirectly it was a consequence of the monetary policy of the government of Amsterdam. The only conclusion that can be drawn from the result is that, given the limitations for pursuance of a monetary policy, regulating the bank money supply was not just the only way to make monetary transmission possible; the implementation of this policy was also successful.

The Bank’s consolidated approach to the problem is further worked out in chapter 6. It shows that the bank not only reduced instability by controlling money supply and demand. Improved management and financial risk management geared to the free market also contributed to this. The Bank management was not primarily aimed at profitability. Liquidity was more important. The Bank even suffered losses. The cost
effectiveness of money transfers posed a number of problems for the Bank’s commissioners. Since its founding, the Bank’s two financial pillars consisted in commission on purchases and sales of coin and metal, and revenues from interest on loans. The Bank broke into these sources with varying success. This success is among other things evident from how profits developed. Compared with the total balance, the profit ratio showed the highest level in the first three decades of the seventeenth century, and in the 1740s. As the main player on the market, the Bank gained control of this market in the seventeenth century, pushing up the price of silver, outplaying the mint masters and realising high profits from commission and speculation. In the 1740s revenues from interest on loans peaked. The Bank financed this credit from its own capital, that consisted of deducted profits. The Bank’s mainstay was its well-organised and active cash management; this centred on the separate cash and main accounts of the specie chamer, and was implemented by those chasers of conversion and sales commissions, the Bank’s assayers.

When the occasion arose, commissioners also did their bit, for example by offering a discount on bank money to merchants who sold silver to the bank, a method which put them constantly one up on their competitors. After 1683, the Bank covered the risks of this treasury management with receipts. Because receipts were cheap when agio was high, and relatively expensive when agio was low, and because developments in receipt prices moved in parallel with fluctuations in the market agio, speculating with receipts was often a profitable business. The receipt was an option with leverage. Receipt holders could take leveraged positions without having to have the necessary capital to do so. This enabled the holders to systematically safeguard against coin price fluctuations. The pre-programmed effect of the receipt and the correlation between its market price and the price of bank money meant the built-in price and market damping mechanism also worked as an automatic stabiliser. The receipt thus functioned as the equivalent of an open market operation without the necessity of actual transactions. As the Bank urged its assayers to buy and sell receipts strategically and to realise considerable profits from arbitrage, it in fact operated as a modern hedge fund, profiting from market volatility and market inefficiencies.

From 1683 onwards, the Bank of Amsterdam was no longer under excessive pressure to perform. It followed a strategy aimed at realising maximum results and maximising earning capacity. Based on the same idea, the burgomasters of Amsterdam had the Bank grant informal loans. These loans strongly resembled a form of ad hoc support by the city council to individual persons or institutions. The fact that - through monetary financing - the bank served as a buffer for the city’s coffers in times of financial uncertainty and as a turning table for many other relation based transfers shows that market liquidity was the Bank’s number one priority. Only organisations and persons from whom the burgomasters expected to receive favours, or institutions which they thought should receive support received credit from the Bank. The Bank’s financial intermediation can therefore be typified as a mixed system with a clear formal arm’s length structure, and some informal relationship-based rules. In addition to formal rules for account holders, their transactions, and instruments tradable publicly on the
exchange, there were also informally applied rules, such as those concerning loans to the city’s treasury, the *Bank van Lening* and the VOC Chamber in Amsterdam. Financial support to the latter was taken from the reserves of the specie chamber, which was used as a secret money box, or shock absorber.

The effect of the Bank’s efforts on the liquidity and organisation of the exchange market is set out in chapters 7, 8 and 9. Chapter 7 focuses on the Amsterdam bills of exchange market and the analysis of short-term exchange rates in Amsterdam and other European cities, volatility and disruptions of these rates and the market liquidity. The Amsterdam bills of exchange market turned out not to be a model of calm. Long-term bills in particular were sensitive to disruptions. Compared with other cities, it was the short-term rates that were more variable in Amsterdam than in London and Venice, especially in the 1640s and 1690s. The cause of the fluctuations in Amsterdam can be attributed to the interest rate structure in there and the paradoxical situation that – while initiatives for exchange transactions were taken outside the Netherlands – the transactions themselves were concentrated in Amsterdam. This situation was the result of imbalances in trade. The financial transactions connected with this trade consisted mainly of bills of exchange being drawn on Amsterdam from abroad. These foreign drafts on Amsterdam turned out to be much cheaper than vice versa. Drawing on Amsterdam also meant cheap credit, almost immediate cash, and no currency risks, as payment was required to take place through the Bank. Furthermore, as a result of discounting long-term paper, money was almost immediately available in Amsterdam, as the interest there for regular paper and commercial credit was relatively low. Drawing bills on Amsterdam and discounting them there was usually cheaper than buying at the current rate.

Interest structure, asymmetric trade relations and prescribed uniform exchange transactions through the Bank, alongside the mixed system of financial mediation rendered the Amsterdam market very liquid, transparent and relatively cheap. In the longer term, however, more fundamental forces determined the course of exchange rates in Amsterdam. These fundamental forces are described in chapter 8, which relates the monetary growth of the Bank to the bills of exchange market in Amsterdam. The analysis demonstrates that the Bank facilitated arbitrage between transferable money, precious metal and bills of exchange, and in this way absorbed short-term turbulence on the exchange market. In spite of the strong relationship, especially in 1640s, between changes in the Bank’s metal supplies and exchange rates in Amsterdam, the arbitrage was not effective, as in these years irregularities and market disruptions occurred that would not have occurred under effective arbitrage.

This arbitrage not only linked international currency markets to the domestic gold and silver supplies of England, France, Spain and the Dutch Republic. In fact the Bank also enabled arbitrage that let the shock wave effects of war financing on the exchange rates penetrate deep into the domestic monetary environment. England, for example, experienced the arbitrage effect of high and low exchange rates in combination with large-scale gold and silver exports to Amsterdam. These shocks were observed mainly in Amsterdam, where the market was relatively most sensitive to movements of pre-
cious metal and a demand surplus in bills of exchange, at least compared with London and Venice.

Although relative prices determined the course of the exchange rates in the longer term, this was not yet the case in the first half of the seventeenth century. Purchasing power parity did not yet exist; for purchasing power parity, relative prices have to be equal to, or at least follow, the exchange rate. Therefore, fluctuations in the rates in the first half of the seventeenth century cannot be explained by price movements. However, in the longer term, exchange rates did come under the influence of relative prices. Moreover, in the first half of the seventeenth century, all currencies, with a few extreme exceptions, were strongly overvalued against the Flemish pound. With the strong undervaluation of the Flemish pound, the Dutch Republic had its trade partners at a considerable competitive disadvantage. One major reason for this long-term undervaluation was the confidence in the bank guilder and the monetary policy of the city of Amsterdam: even though Amsterdam was inundated with guilders, or guilder-dominated liquid means, inflation of the guilder did not occur because the Bank was able to retain its strength by buying and selling, and an exchange rate policy that made imports from abroad cheap and kept inflation at bay. Later, this extra money and the low real interest rate – the consequences of the exceptionally large savings surplus – did lead to a run on shares and other forms of capital and a number of burst bubbles, such as in the 1680s and the 1720s. Although the Bank had no direct grip on the volatility of exchange rates, indirectly it could influence it. This was not because its precious metal supply stabilised the rates. The Bank’s monetary supplies were rather a source for arbitrage and unrest, as it is quite easy to deposit and withdraw precious metals. The Bank’s influence consisted in its considered exchange rate policy and the regulation of its metal supply and the synchronisation of all payments in one currency, via the Bank. In this way it curbed the disadvantages of exchange rate fluctuations for its account holders. As a result, Amsterdam merchants were affected considerably less by these fluctuations than their foreign competitors. It was a form of currency control which reflected public confidence in the Bank. This conclusion is also the answer to my second research question, on the effect of Bank’s transactions on exchange rates. The Bank brought stability and was able to curb large fluctuations in exchange rates, albeit indirectly.

Chapter 9 explains the significance of the Bank for the international development of Amsterdam. It shows how Amsterdam also manifested itself as a financial centre. At the end of the seventeenth century Amsterdam offered the specific liquidity and transparency which had long been the trademark of Antwerp: transferring money to places not quoted in Amsterdam, but from where bills of exchange could be drawn on Amsterdam. A new centrality index, compiled from the same exchange rate quotes, demonstrates that from 1650 onwards Amsterdam was at the top of a hierarchically ordered geographic system of exchange and payments. The index also shows that Amsterdam had reached this position in a relatively short period of time, and remained there in the company of a changing cluster of European cities. Together, these cities formed the key financial area of Europe. The rise of Amsterdam did not result in a parallel and
complete reorganisation of the European bills of exchange market, however. The existing structure continued for some time. What it did result in was the transformation of the bank guilder from a monetary unit for domestic use to a currency that started to fulfil various functions at several levels, and evolved into a key international currency. Because all commercial money transfers were concentrated in the Bank, they were also synchronised in one currency. This gave Amsterdam merchants two competitive advantages: it neutralised their sensitivity to exchange rate fluctuations, and gave them simple and fast access to large amounts of international money. Add to this that from 1683 a derivative (the receipt) became valid that reduced borrowing from the Bank to a non-risk forward transaction, thus lowering the threshold for entering the Amsterdam market, and it becomes clear that in part because of this the market opened up to outsiders. The result was that the market did not move elsewhere, but retained its liquidity because of the extra trade. The Bank therefore not only responded actively to competition; by way of the hedging construction of the receipt, it also gave itself the option of centralised and active currency control and – on a market concentrated in Amsterdam – a well nigh unassailable competitive position. This position enabled the Bank to grow into a leading clearing house of international money transfers and the main storehouse of gold and silver. The operational management of the Bank thus also extended to the international financial community, without the Bank having autonomous influence on the money supply created in that community.

Fifty years on, what had started out in 1609 as an emergency government package to solve the acute payment problems of traders had developed into a new standard of payment (the Bank of Amsterdam’s bank money), and an extensive system of monetary exchange through the Bank. The Bank’s controlling role in this respect meant it served as a conversion bureau, clearing house, money lender and reserve fund. From this consolidated approach, around the middle of the seventeenth century the policy aimed at a stable bank guilder also became evident. A few decades later the Bank regulated its money supply with specific open market operations. It was also revealed as a successful provider of commercial services. Not only was it able to keep a check on its spending, it also built up its revenues, increasing its monetary power to correct the market and safeguard the essential societal infrastructure of money transfers. In spite of differences in views on monetary transmission and the cyclical movement of actual economic developments, the Bank turned out to be a fitting way to exert monetary influence. In other words, in times of change, the Bank had at its disposal suitable instruments to tackle Amsterdam’s main monetary problems: it was an adequate mediator for the realisation of the set goals.

Against the background of the actual economic developments, the approach adopted by the Amsterdam city council was in many cases very realistic; as were the underlying views on the effects of monetary adjustment. In the situation of the early seventeenth century with its explosive growth, rising inflation and outflow of money to the Baltic, and the Middle and Far East, it was thought that monetary and financial expansion would benefit trade, production and employment. At other times, for example when the municipal coffers became depleted, they let themselves be
guided by actual developments in the city’s economy and what was deemed necessary, and fell back on monetary financing by the Bank. In doing so, the city’s burgomasters gave the Bank more freedom than they openly admitted. Outside the council they permitted loans and support funding that they thought necessary to sustain the city’s economy. If the historiography had to supplemented in just one respect, it would be that the city’s regents allowed themselves the monetary audacity they deemed necessary from a functional perspective. The Bank’s practice was strict with respect to excessive behaviour by individual account holders on the other hand: it was not tolerated, because the Bank’s self-interest was not synchronous with the public interest.

In the period under review here, the institutional design of the Bank was a cast iron one, and the policy goals were clear to everyone: maintaining the intrinsic and external value of the money deposited in the Bank and putting in place an effective system of money transfers. The Bank operated in a small open economy with hazy monetary relations, a money supply that was difficult to control, vague definitions about what money was, variable mint par rates, freely fluctuating exchange rates, substantial capital flows and a formal export ban for gold and silver outside the provincial mints. Within this economy, which grew to be an international superpower, the council of the city of Amsterdam had the Bank develop the instruments and the power to suppress monetary instability.

By way of the Bank, the city council focused consciously on regulating the local money supply and improving supervision of international money transactions. In this respect the council preached monetary flexibility. It could not gain complete control of the money supply - and certainly not of price levels. This was because it was by no means clear exactly how much money was in circulation, and therefore the Bank could not cut off the flow of money or steer towards curbing inflation in times of rising prices and an overstrained economy. What it could - and did - do was make optimal use of the room to manoeuvre its mandate provided and neutralise currency risks for its account holders.

By regulating the money supply, the Bank also stabilised the demand for money and gained control over liquidity. This must also have been the case in the period of high economic growth before 1650. The Bank’s transactions had an effect on the money demand then, too, an effect that unfortunately cannot be proven directly for the earliest period, but that very probably did occur: the demand for money must have increased, because the velocity grew too fast for the money supply to keep up with. In theory, this must have resulted in deflationary pressure on the economy: the increased demand for gold and silver must have made minted money scarcer and more expensive, and thus must have reduced the prices of goods. If this had been the case, the money supply would have had a direct and proportional effect on the general price level and the value of money would have been the same as the metal it was made of. None of this was the case in Amsterdam. Generally speaking, prices did not fall, and exchange rates and the value of the money remained quite stable.
The Bank was obviously not only the profit-loving champion of open market politics. It was certainly also a champion in terms of value stability. It contributed importantly to respectable market relations and to the solidity and stability of the entire financial system. On the market, the hedging construction of the receipt gave the Bank a well-nigh unassailable competitive position, and with its centralised and active currency management it earned a great deal of money from acting as a premium hunter and always ending as the winner. In brief, the introduction and employment of the receipt changed the market: the longer the bank was active, the more its provision of direct services evolved, bringing monetary stability, reputable market relations and elastic liquidity.

The Bank of Amsterdam provided an adequate solution for what was in its core a stubborn problem: the permanent pressure on monetary stability and the continuous conflicts about preventing the real debasement of money. Ultimately, the Bank curbed the instability of bank money, and thus of the monetary system, without affecting the basic function of that system, i.e. the supply of money. The council of Amsterdam gained and kept a grip on the financial community. This increased confidence in the Bank. As a bastion against monetary disruption, this faith in the Bank revealed itself as an evolutionary beast, that required innovation and adaptation for its long-term development and growth. Indeed, in the course of the years the original model of the Bank of Amsterdam underwent a number of adjustments and changes, confirming the role the city council assigned to itself and to the Bank. The council relied on the doctrine of conservative progress of the original Italian bank model. It had been designed to absorb unexpected external shocks and thus offer protection against intangible instability. The council itself kept a tight rein to realise this mission: it made money transfer transactions a public task and rendered their supervision more manageable. Ultimately, the Bank’s stability and the new route of the city council resulted in much needed confidence, confidence that in turn helped to consolidate the stability.

This resulted in the paradox that practical monetary flexibility based on instruments applied as feelers turned out to be a wise economic principle for the implementation of the city council’s economic politics. The same council, that interpreted its mandate very broadly, certainly did not tolerate any monetary influence outside its control. Through the Bank, the council in fact pursued a stable-money policy: via the Bank it curbed the excrescences of the monetary system. In other words, the Bank was an exceptionally suitable instrument for monetary policy, at times restrictive, and at times stimulating. At the beginning of the seventeenth century, when the stability of the money system was at risk, there was not much choice. The city opted for a bank that, when founded, was given the task of saving the monetary system and prevent the breakdown of society.

From today’s perspective, a Bank of Exchange seems an strange construction. But in our times of mass monetary and financial disillusionment, the experiences of three to four centuries ago should stop and make us think. In the summer of 2011, Simon Schama even dared to express a small I-told-you-so, by comparing present decision-
making practices in uncertain circumstances to those in the past. In an interview with the Dutch newspaper De Volkskrant of 2 July he stated: ‘If the world had had the example of the Netherlands in the Golden Age, we would now be better off.’ By which he meant that even while we are stumbling, we sometimes tend to forget that, however diverse the cumulative changes and adaptations have been in the course of time, monetary institutions are necessary in order not to fall flat on our faces.