

Frankfurt am Main: A City of Finance. Banking systems in Frankfurt in the 18th and 19th centuries*

In 1994 Frankfurt am Main celebrated its 1200th anniversary. For this occasion, the city began to be the subject of increased discussion among historians. A reassessment of the city's history is taking place. Disregarding probable results, which will be published later on, I think nobody will deny that Frankfurt's mainspring was and will continue to be commerce and finance.

The importance of commerce and finance for Frankfurt had its origins in the city's trade fairs. These fairs benefitted from imperial privilege and developed from a local agrarian market in the 15th and 16th centuries to an occasion of large size and international importance. Merchants brought a wide range of goods from a great number of countries to Frankfurt.

To be sure, a fair of such size was not only a place where a supply of goods met its demand but also where payments took place. During the time the fair lasted – normally three weeks – one week was designated as a period for payments. There, clearings between individual merchants took place, and goods, delivered at the last fair, were paid for. Interest payments were made and money changed. Since the 15th century bills of exchange were honoured or protested as the case may have been. The complex nature of this economic system, its almost abstract and speculative character based on contracts which in turn were based on Roman law, can be traced back through a set of pamphlets of written legal suits. It is possible to state that the fair has been since its beginning a place of finance, a place at which according to the *Encyclopaedia Britannica*, 'the art of providing the means of payment' has been cultivated.

It was true: the trade in the wake of the fairs made some Frankfurt merchants rich. Additionally the growth of fortunes was favoured because only Frankfurt citizens had the right to exchange foreign money against the home currency. Furthermore, the princes and nobles from the areas surrounding Frankfurt invested their money in the city. Therefore, monetary investment in Frankfurt grew rapidly. These funds were used from the 13th century onwards for smaller private loans. Nevertheless, a money and capital market, later the exchange of bills stayed

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quite important. Such an economic activity was seen in Frankfurt only twice a year at the time of the fairs, and was made possible especially by foreign merchants.

This situation changed radically in the 16th century when some foreign merchants decided to stay in Frankfurt and to pursue their business from this new location while maintaining their old commercial channels. Many came from the southern Netherlands, especially Antwerp, which they were forced to leave owing to Spanish religious persecution. Thanks to them, Frankfurt became a true centre of finance quite similar to Amsterdam. On their own initiative the long distance merchants met at first occasionally, later on a regular basis, at times when no fair was being held to carry out their different monetary and capital transactions. This range of commercial activities was linked to a new commercial technique, namely the creation of the free endorsement. The bill of exchange, or, to be more exact the draft, became a businesslike certificate which took on the function as legal tender during its period of validity. Therefore, the draft showed a particular rate according to the current circumstances of commercial and monetary relations. In this way, the free endorsement led to a market in drafts which however took place only at a few important commercial centers. Only those drafts were qualified to circulate which had been sanctioned for use by those commercial centres. Among them was Frankfurt.

Besides the regular commercial transactions, the aim of these meetings of the merchants, which since the 17th century were called 'Börse' (stock exchange), was to improve the practical and legal conditions of their business. This included the fixing, drafting and publishing of foreign currencies on a regular basis.

Key merchants at the 'Börse' influenced the commercial decisions of the city council. Their proposals led in 1666 to a bill of exchange law, which lasted until the 18th century with only a few alterations. Officially not recognized, the chairmen of the 'Börse' had a great deal of influence.

The money and draft exchange soon had a firm structure within the organisation of the 'Börse.' From the beginning of the 17th century until the late 18th century it formed the heart of the finance centre of Frankfurt. That is all the more remarkable, because the fairs gradually lost their former extraordinary importance. The forms of commercial transaction changed. International commercial connections steadily became more independent of the fairs. The fair of goods changed into fair of samples (Mustermesse). It may be correct to say that the financial centre in Frankfurt which had been formed by fairs, had now been modernized and further developed by the 'Börse'.

The city remained economically important not any more as a location for regular fairs but instead as a site of bill exchange. The significance of this type of clearing activity on an international scale can be judged by the following criteria:

1) How many other important commercial cities were to be found on its public bill or stock exchange lists? 2) What was the geographic radius of the relating drafts? In other words, where the site was fixed on the bill or stock exchange lists of other places. 3) What was the size of its turnover? Evidently, the best index to measure the status of a market of bill-exchange would be the size of its turnover relative to that of other places.

Unfortunately, suitable figures – at least for Frankfurt – are not available. We have to be content with a few hints: In 1799 the total sum of drafts negotiated in Frankfurt was estimated by the chairmen of the 'Börse' at about 5 Million fl. In 1860 the number of 60 discount houses in the city may give a slight impression of the turnover that took place. The oldest preserved printed bill or stock exchange list dates back from 1642. These lists were written in the 17th century in Italian, in the 18th century in French, and, finally, at the end of that century in German. A list of important places of draft negotiations from 1726 shows that during this year rates for twelve other places (Venice, Amsterdam, London, Hamburg, Leipzig, Naumburg, Lyon, Norimberg, Prague, Augsburg, Vienna, Breslau) were present in Frankfurt. At eleven places (Amsterdam, Basel, Berlin Brunswick, Bremen, Geneva, Leipzig, Naumburg, Norimberg, Prague, Vienna) rates for drafts drawn up in Frankfurt were present. On a bill or stock exchange form, published one year later in 1727, we can make out 16 sections. Antwerp, Bremen, Breslau, Geneva, Leipzig, Naumburg and Prague were not quoted, however. In connection with Amsterdam three sections were reserved but left blank, for Leipzig two blank spaces were present. Amsterdam was distinguished between 'en banque', 'en courant' and a currency of draft until the month of August. The sections for Leipzig were separated as drafts drawn at the fair and other drafts.

In the first part of the 19th century in Frankfurt twelve locations were present. Amsterdam, Augsburg, Hamburg, Leipzig, Lyon, London, Vienna were present as before. Venice, Prague, Breslau, Naumburg and Norimberg were replaced by Berlin, Bremen, Paris, Milan and Triest. Frankfurt itself was now present at 28 places: Aachen, Amsterdam, Antwerp, Augsburg, Basel, Berlin, Bordeaux, Bremen, Brussels, Elberfeld, Geneva, Ghent, Genoa, Hamburg, Cologne, Leipzig, London, Luik, Milan, Naples, Odessa, Paris, Porto, Rome, Triest, Venice, Vienna, Stockholm and Zurich.

For ranking the importance of the locations where draft negotiations took place, three categories were laid down in economic history research: places of first order, where not only regional, but mainly regular international draft rates were present, places of second order, where mainly regional and only seldom international draft rates were present, and, finally, places of third order, where only regional draft rates were regularly present. During the 18th century and the first half of the 19th century there existed only three places of the first order in Germany: Hamburg, Augsburg, and, of course, Frankfurt.

The negotiations of the drafts were carried out by private banking firms and/or brokers. The 'Frankfurter Mercantil-Schema', a regularly published list of all Frankfurt merchants in the 18th century estimated the 'banquiers' the most important branch of the city's business-life. Of course, their main profit resulted from the negotiation of drafts, but they were also busy in commission agencies and as carriers. Only in the 19th century did they give up their commercial activities.

Due to improved commercial and banking communication in the 19th century, the dominating role of draft negotiations decreased, even if they still remain today an important part of banking transactions. At the end of the 18th century, Frank-

furt received a new dimension in its significance as a city of finance. Its financial market developed into a highly efficient stock market.

It is not astonishing that the stock market – more than the negotiation of drafts – has received special historiographical attention. There are relatively old but very instructive surveys which describe Frankfurt's prosperity during the 19th century in general, but only recently have studies of special problems been published, namely a consideration of how the actors at the markets followed their calculating strategies or how the development of the stock market was influenced by the capital demand of the state.

Let us refer to this last point. The growth of the finance market in Frankfurt didn't happen at random, neither did the introduction of the bill exchange. The causes for the development of a stock market in Frankfurt were based on four points, as H.- P. Ullmann stated recently. Assumption of and demand for capital were preconditions already at hand in Frankfurt. Firstly, Frankfurt represented in the eyes of its contemporaries an acknowledged and a long time functioning centre of finance. Secondly, the demand for capital for the administration of the state grew considerably. Thirdly, this demand met in Frankfurt a voluminous money and capital supply. Lastly, Frankfurt adopted the epochmaking innovation of public loans on the basis of individual bond- or shareholding relatively late, as did Amsterdam.

We find these grown market structures more or less still today: the participants at the market, those, who tried to place a loan and those who are prepared to subscribe to it, market institutions by which the loans were negotiated, banking firms, the stock exchange and its brokers.

At this point, I would like to return to some particularities of the initial period of this new capital market in Frankfurt. It is notable that the imperial Habsburg government in Vienna was the first to use Frankfurt as its principal capital market. Between 1778 and 1793 Vienna placed 38 loans that were negotiated by the Frankfurt banking firm 'Gebrüder Bethmann'. The stock exchange list from the third of July 1797 gives an impression of the important position of the Viennese government as customer of the Frankfurt finance market. Of course, it intended to satisfy its almost endless demand for capital – and Frankfurt was able to do so. Furthermore this expressed a special relationship between the imperial house and the city on the Main. The relationship was able to develop due to Frankfurt's special legal status as an imperial city (Reichsstadt). It had been the imperial government that stabilized and protected the city in periods of inner problems or threats coming from outside. Until 1866 Frankfurt remained in political and commercial terms more or less well disposed towards Austria.

According to historical evidence, only a small part of the obligations which were negotiated in Frankfurt remained in the city itself. The domestic banking firms not only negotiated but also subscribed frequently to loans raised in Frankfurt but did not plan to do so in terms of long-term investment. They looked for successful short-term speculations. Long-term obligation investment could be found only with wealthy private citizens. The major part of obligations had been subscribed by creditors from Frankfurt, fulfilling their intentions to provide credit in larger

amounts and in an easier way than before, when loans had only one or a few creditors and one debtor.

When a market for public obligations – later for industrial shares – came into existence, a new type of banking-firm developed: The bank specialised in negotiating public loans (Emissionsbank). The name of the house of Bethmann was already mentioned. These typical ‘merchant-bankers’ conceded between 1754 and 1778 thirty private loans of total 2½ Mill. fl. to different princes and nobles. Between 1778 and 1793 the bank was able to negotiate the Habsburg loans in Frankfurt with a total sum of 17,2 Mill fl. Other banking firms followed. Prussia, smaller German countries and Denmark obtained their capital in the same way from Frankfurt. The wars following the French revolution and the wars led by Napoleon also hit Frankfurt and its firms with state obligations.

From 1797 until 1813/14 the city was subjected in different ways to French power and it became impossible to keep the previously close commercial connections with Vienna. The Viennese government, for example, interdicted a loan in 1795, the purpose of which was to pay a forced contribution to Paris.

The loan negotiations started again in 1815 when the question arose of how to put the new and restored political and social order on a solid fiscal basis. For the same reason the interrupted liquidation of older debts was finally continued by the state treasuries. A long file of public loans was raised, often special banking associations were formed which connected different financial centres and looked for better conditions for negotiators and subscribers to calm a lot of mistrust, which had grown during the war period towards the capital market mechanism. The leading banking firm in Frankfurt until that time, the Bethmann Bank, lost this position, like other houses in other cities, to the Frankfurt Rothschilds. The Rothschilds had built up, still during the Napoleonic period, an Europe-wide branch system and after 1815 was the banking firm which was lending to the entire continent – an aspect too well known and not necessary to be discussed here to a greater extent.

I think it is evident that a more or less minute reconstruction of the Frankfurt financial market or even less the stock exchange will be neither possible nor suitable here. Therefore I would like at least to give a short survey of the developments that happened in this market during the 19th century. We can distinguish here four interdependant periods. The first, from 1790 to 1820, marked by an exclusive dominance of public loans. From 1820 to 1860 public loans remained dominant, but in 1820 a first bank share of the Austrian Nationalbank, in 1836 a second of the ‘Bayerische Hypotheken- und Wechselbank’ had been introduced at the Frankfurt stock exchange. Shares and obligations of other banking firms and the newly founded railway companies followed. In 1847 twelve shares were fixed at the stock exchange list and one year later, in 1848, 44 public loans were fixed, twice as much as in Berlin’s stock exchange (25) and many more than in Hamburg (9), Leipzig (8) or Vienna (5). Between 1853 and 1856 the proportion of banking shares grew substantially. During these years eleven new banking-shares were introduced, among them the first banking-share of the ‘Bank für Handel und Industrie’ in Darmstadt. This banking firm was founded after the pattern of the Parisian ‘crédit mobilier’. In

1854 the 'Frankfurter Bank' was founded by private capital (the Rothschilds were involved), following the example of Paris and Darmstadt. Thereby ideas of Frankfurt merchants and bankers since the late 18th century came to fruition, namely to dispose over a banking firm whose exclusive assignment was to facilitate the circulation of money as a Frankfurt issuing bank.

For a few years during the third period (1860 – 1875), in 1871, 1872 and 1873, the number of quoted shares at the Frankfurt stock exchange went up to 48. This quantitative upswing depended upon the suspension of the obligatory licence for joint stock companies by the Prussian state. This reflected the hectic activities of the German 'Gründerjahre' after the victorious war against France. This period received its historical particularity from a stream of foreign loans that were now quoted at the Frankfurt stock exchange. Among these loans were many of North and South American or Oriental origin – the so called 'Exoten'.

The years following 1875 were often marked as years of beginning decline. No doubt, this impression referred to the changed political circumstances in Germany: the loss of Frankfurt's political independence, its incorporation into Prussia, the founding of the second Reich. Berlin as the capital of Prussia and the Reich surpassed Frankfurt as a centre of finance. The Reichsbank, established in 1875, took its seat in Berlin. The installation of the 'Mark' as the new German currency, made Frankfurt superfluous as a clearing centre between southern and northern Germany with their formerly different currencies. The banking firms in Berlin turned in contrast to Frankfurt banking firms quite early for the negotiation of industrial shares. But the firms believed that in Frankfurt, owing to the influence of the Rothschilds, industrial shares were too risky and less lucrative. At the end of 1912 439 foreign loans were quoted in Frankfurt, but only 115 of these shares were not quoted in Berlin as well.

In 1913 94 banking firms existed, 14 joint-stock or cooperative banking firms and 8 branches of national large banks. Between 1797 and 1873 378 foreign loans were negotiated in Frankfurt, that amounts to 4,9 per year. Apparently, during times of war or other times of political crisis, for instance from 1797 to 1815, no loans were negotiated. From 1880 to the First World War only 39 foreign loans were raised – a mean of 1,1 a year.

No doubt, Frankfurt or rather its council, parliamentary institutions and citizens were conscious of the fact that their wealth was based on commerce and finance. They were politically in no way ambitious, which was valid also in regard to the surrounding area. All their administrative conceptions were subordinated to commercial maxims. But this did not mean that active merchants and bankers were normally addressed with functions of government in modern times. In the first phase from the beginning up until into the 16th century a sort of nobility had been formed out of a social group of 'old' merchants, which gave up business and tried to involve itself in politics or simply enjoyed leading a 'Rentier' existence.

In the late middle ages Frankfurt provided the geographic space and infrastructure for foreign merchants to do their business. In this second phase commercial activity within the city itself resulted from the Flemish immigration, which opened a larger field of possibilities to business. The city administration practised liberal

economic ideas in the commercial and financial field – contrary to the area of handicraft production that remained subordinated to guild compulsion until the second half of the 19th century.

Formulating the bill of exchange law, for example, the city council, conforming to the wishes of the merchants, gave them a free hand to pass the stock exchange regulations or to negotiate money and loans according to their own ideas.

A previously unknown, more regulating element was introduced through the founding of the public chamber of commerce. This policy instrument was introduced by a new government out of Aschaffenburg from 1806 to 1813.

During the period of the Free City (1815 – 1866) once again, certain ideas had the upper hand which made possible the most extensive commercial liberties in Frankfurt. That is the reason why Frankfurt hesitated in joining the German ‘Zollverein’. In 1866 citizens argued in Frankfurt, that the city would be more useful to Prussia if it would keep its political and economical independence instead of becoming an ordinary Prussian town.

Nevertheless, the actual Prussian annexation did not change the commercial constitution of Frankfurt decisively. The sovereign handling of its own interests was lost, but the Prussian side practised quite liberal economic conceptions, so that Frankfurt remained without difficulty a city of finance whose financial importance even grew afterwards.

The development towards an industrial centre which started in the nineties of the 19th century – late but on a massive scale – didn’t change the previous economic set-up. A second, parallel branch of economic activity was gradually formed.

The political changes and burdens that Frankfurt had to experience during the 30 Years War, the Napoleonic predominance or the Prussian annexation, caused distress. Decreasing commercial success influenced the level of the rates and from time to time the commercial connections were blocked. Never, however, were the three features which characterized the financial side of Frankfurt disturbed for a longer period: trade fair credits, bills of exchange, public and industrial loans. The commercial Frankfurt seemed to be à la longue remarkably impervious to political events.

This story is not very extraordinary. The development of all other financial centres in Europe seems to be in many ways similar to that of Frankfurt. Nevertheless, the success of Frankfurt as a site for finance is inseparable from the general history of the city as a whole. As is so often the case, economic history is directly related to urban history.

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