What did Notaries and Town Secretaries Do? The Pricing of Risk in Local Credit Markets in the Low Countries, 1500-1800.[1]

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Abstract

We explore financial market development in preindustrial Europe by examining the services supplied by notaries and town secretaries. Using a new dataset of 13,000 credit transactions registered in six different cities in the Low Countries between 1500 and 1780, we analyse who used these financial services, for which purposes, and at what price. We find that large sums could be allocated to businessmen and small loans to individual private borrowers, and that notaries and town secretaries used the information available to them to assess the risk of individual loans. Yet they failed to obtain a commanding position on the capital market in the way Parisian notaries did. In the Low Countries notaries and town secretaries remained locked up in one, comparatively small, market segment, largely because they did not possess the information advantage of their French counterparts. Our findings highlight the degree to which subtle regulatory differences profoundly affected the dynamics of financial market evolution.

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Précis

Well-functioning financial systems contribute to the growth and development of economies (Levine 1997, Sylla 2002), but countries with similar performance show wide differences in how their respective financial systems are configured. Despite a long-running debate about the respective merits of particular configurations, say banks versus markets or the presumed advantages of *Universalbanken*, we do not know what the optimum configuration is, still less what explains the differences from one country to another (Sylla and Toniolo 1991; Fohlin 1999; Levine 2002; Carlos and Neal 2011; Calomiris and Haber 2014). This matters all the more in the light of the recent financial crisis, which affected some systems far more than others (e.g. Bordo et al. 2015).

The history of Europe before the Industrial Revolution can help to explain differences between financial systems but we have to tread carefully. Financial history research all too often focuses on early examples of deposit banking and securities trading in Holland and England in the seventeenth and eighteenth centuries, or Italian and Flemish cities in the late medieval period. Tracing the pedigree of institutions that dominate financial markets today is important, but it also distorts our view on the funding of business in Europe before the Industrial Revolution. Not only were most firms financed directly, through family deposits, partnerships, suppliers' credit or money market loans, but there also existed a very large and diverse group of intermediaries – money changers, notaries, cashiers, attorneys, and town magistrates – who have long gone but at the time played a very important role in the financing of business operations.

The pioneering work of Hoffman, Postel-Vinay, and Rosenthal (2000) on French notaries has taught us how capable intermediaries other than banks and stock exchanges were in performing key financial functions. Parisian notaries exchanged the information they gathered from the sales of property, the issuing of government debt, and the management of the estates of deceased clients, and then build on this pool of shared knowledge to match the supply and demand for funds of their respective clients. In subsequent work Hoffman et al. (2015) documented similar operations by notaries elsewhere in France. But notaries were not the only public officials offering such services. In several counties in seventeenth-century England attorneys played a similar role, while in German towns, already in the late medieval period, local magistrates organized the sales of private annuities, which throughout the early modern era remained one of the principal credit instruments capitalizing future income from landed property and real estate (Schnapper 1956; Baum 1976; Van Bochove et al. 2013) .

In this paper we explore the case of the Low Countries, where from the sixteenth century onwards both forms of debt registration and related intermediation existed side-by-side. Just like in Germany, town secretaries throughout the Netherlands registered life and term annuities from the fourteenth century onwards (Soly 1974; Van der Heijden 2006; Zuijderduijn 2009). Then, from around 1530, public notaries widened their range of legal services. Working under a public seal they started supporting local entrepreneurs wanting to formalize miscellaneous contracts either as a precautionary measure or as a first step in legal proceedings. In doing so notaries in the Netherlands also built a valuable store of information which they could use to provide businessmen with an even wider range of services, including the writing of freight contracts and the buying and selling of real and financial assets. Thus, from the late sixteenth century onwards, entrepreneurs in the Low Countries could choose between the town hall and the offices of local notaries to register private credit transactions.

Wanting to establish the relative importance of of these solutions, we built an extensive, new database of credit transactions registered by town secretaries and notaries in six different cities in the Low Countries between 1500 and 1580. The six cities are Amsterdam, Utrecht, Den Bosch, Leiden, Antwerp, and Ghent. The sample was compiled to reflect differences in political regime and economic outlook. Until the end of the sixteenth century all six cities belonged in the Habsburg empire, but thereafter the northern cities - Amsterdam, Utrecht, Leiden, and from 1628 onwards, Den Bosch – became part of the Dutch Republic, whereas Ghent and Antwerp remained in the Habsburg empire. As for their economic position, Antwerp and Amsterdam were major international financial and trading hubs, while Ghent and Leiden were manufacturing cities. For each of the six cities we extracted data from notarial and municipal records for eight benchmark years: 1500, 1540, 1580, 1620, 1660, 1700, 1740, and 1780. These records contain all contracts registered by notaries and city secretaries as they were required by law to keep records.

Table 1: No. of observations

City	1500	1540	1580	1595	1620	1660	1700	1740	1780	Total
Amsterdam	0	0	116	527	537	701	314	496	345	3,036
Antwerp	355	311	111	0	231	508	610	230	210	2,566
Den Bosch	0	0	211	0	485	201	398	208	245	1,748
Gent	748	499	112	0	112	313	450	303	464	3,001
Leiden	0	0	6	0	222	826	152	202	105	1,513
Utrecht	243	50	79		193	156	124	190	241	1,276
Total	**1,346**	**860**	**635**	**527**	**1,780**	**2,705**	**2,048**	**1,729**	**1,610**	**13,140**

Our database contains more than 13,000 contracts, spanning six cities and the period between 1500 and 1780. For each contract we collected the loan size, interest rate, maturity, debt instrument, loan purpose, collateral, as well as the gender, place of residence and occupation of creditors and debtors. Using this new dataset, the present paper tries to answer three related questions. First, we measure the relative importance of each of the two forms of intermediation through a comparison of the number and value of loans – both in absolute numbers and per capita – registered in the six towns from the sixteenth through eighteenth centuries. Second, we analyse what kind of debts were registered looking at the loan terms, purpose, and possible personal relationships between debtors and creditors. Finally, we use these loan characteristics in a multivariate regression analysis to determine how risk was priced in these credit markets and with what level of precision this was done.

We find that notaries and town secretaries allocated large sums to businessmen and small loans to individual private borrowers and used available information to assess the risk of individual loans. The pricing of different loan characteristics reveals that riskier clients consistently had to pay higher interest rates, while mechanisms existed to mitigate risk (e.g. putting down collateral, presenting a guarantor) which broadened access to credit. Yet the notaries and town secretaries failed to obtain a commanding position on the capital market in the way Parisian notaries did and remained locked in a comparatively small segment of the total market, largely because they did not possess the information advantages of their French counterparts. The notaries, for instance, played no role in either the marketing of public debt or in the mortgage market. The town secretaries were central in the mortgage market, but of only secondary importance in the wider loan market, dominated as it was by a highly liquid form of commercial lending on collateral of personal bonds or of securities (Gelderblom, Jonker and Kool, 2015). These findings highlight the degree to which subtle regulatory differences profoundly affected the dynamics of financial market evolution.

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