university of groningen

faculty of economics and business

2024012-EEF

# A narration of banks, economic freedom and liberal democracy

November 2024

Mehmet Baha Karan
Wim Westerman

FEBRI is the research institute of the Faculty of Economics & Business at the University of Groningen. SOM has seven programmes:
- Accounting
- Economics, Econometrics and Finance
- Global Economics & Management
- Innovation & Organization
- Marketing
- Operations Management & Operations Research
- Organizational Behaviour

FEB Research Institute (FEBRI)
Faculty of Economics & Business
University of Groningen

Visiting address:
Nettelbosje 2
9747 AE Groningen
The Netherlands

Postal address:
P.O. Box 800
9700 AV Groningen
The Netherlands

T +31 50 363 9090/7068

www.rug.nl/research/research-feb/

# A Narration of Banks, Economic Freedom and Liberal Democracy

Mehmet Baha Karan
Hacettepe University, Ankara, Turkey

Wim Westerman
University of Groningen, Faculty of Economics and Business, Department of Economics, Econometrics and Finance
w.westerman@rug.nl

# A narration of banks, economic freedom and liberal democracy

*Mehmet Baha Karan (a) and Wim Westerman (b)*

(a) Hacettepe University, Ankara, Turkey; (b) University of Groningen, Groningen, the Netherlands

**October 31, 2024**

**Abstract**

Probably, the Knights Templar as bankers of the Crusaders and softeners of the Church's view on taking interest, impressed early Italian bankers. In particular, the Medici family from Florence established good relations with the Church and wisely benefited from the economic conditions during the Renaissance. The Netherlands differed from prior leading areas in that banking developed here in tandem with economic growth in an open environment. Moreover, the skilful Dutch had access to financial markets and controlled them. The bank money of the Amsterdam Bank of Exchange ensured financial stability and fuelled economic activity. English banking started with the Goldsmiths, who deposited money from the public. The public trusted the Goldsmiths, who could therefore circulate money deposited with them. In this way, a fractional reserve system emerged. While the financial sector grew under open conditions, the Bank of England started as the first modern central bank. France experimented with paper money, but the experiment under the flamboyant Scot John Law became a failure. During the Napoleonic era, the Rothschilds appeared on the stage. Their banking empire was based on the network of five brothers in major European cities. The Rothschilds, with their strong family ties and circulating money across borders, were virtually untouchable. J. P. Morgan, with his strong relations, was the most notable banker in America's Gilded Age. Beyond this, he was successful also in heavy industries, being an outstanding businessman and a true leader. He even saved the U.S. economy from a crisis twice and co-moulded its central banking system. The Ottoman Bank was one of the oldest modern banks operating in a developing country. Being established with much foreign capital, it served as an independent central bank in Turkey after the Ottoman Empire. Throughout the 20$^{th}$ century, banking was largely organized country-wise. 'National Champions' such as Citibank dominated the scene, often benefiting from relationships in (semi-) colonies. Following the breakdown of the post World War II monetary system, thin lines between creative deal making and clear unethical tactics were crossed by unscrupulous bankers at times. In hindsight, economic freedom and liberal democracy were a critical factor in the development of banks as economic cornerstones. It is therefore essential that their entrepreneurial conditions are kept intact, whereas the Global Financial Crisis has shown that controls, internal norm setting and sector innovations may be helpful. Banks and their current partial replacers serve a public task.

*Corresponding address*: Dr. W. (Wim) Westerman, Faculty of Economics and Business, University of Groningen, Nettelbosje 2, 9747 AE Groningen, The Netherlands, w.westerman@rug.nl, tel. +31-50-3637088.

## 1. Introduction

Money drives the world and it is the banks who create it (Bezemer, 2019). They do so as institutions that have been getting shape from the $11^{th}$ century onwards and that are continuing to take up their intermediary roles between suppliers and buyers of money into the present. In order to do so, they had to agree with the rulers of their time upon means of exchange (in terms of Keynes: the transaction role of money) and this is how notably silver and gold coins came to be used to represent generally accepted ways of assessing values of assets in exchange, with later bank notes and bank accounts taking over. With the money created, the banks were able to lend and borrow money (Keynes rather refers to the savings role of money) from each other and from the public. In doing so, they were able to support the global economic development.

Undoubtedly, the modern paper or rather electronic money standard has not ended the journey of money and most likely will also not do so in the near future. The development of technology, the emergence of plastic credit cards, smart phone apps and virtual currencies will keep the question of whether to switch to another system in the future alive. Blockchain is in this respect a technology that may or may not fundamentally change the modern money standard, depending on whether legislational entities will use it for backing the supply of their own currencies, or whether one or more decentralized systems take over such as with Bitcoin and its probably more efficient successors. George P. O'Driscoll (2015), an American economist with experience at Citigroup and the Federal Reserve, adds an interesting element to discussion in stating that "the selection of a monetary standard is not merely a technical issue. It is also an embodiment of political values, and one's view of the relationship between the citizen and the state." This notion will bring us to study the relationship between economic freedom, liberal democracy and monetary system performance at the end of this paper.

The banks have shouldered the difficulties of the monetary system, brought it into modern times and are now adapting themselves to the conditions of a new system. The banks have developed many modern methods and tools while showing their ability to continue their existence with great struggles for hundreds of years. Their success practices, which were readily adapted and still used as of today, were the product of nearly a thousand years of effort, shaped by the political and economic events experienced in this process. With the reputation that the banks had gained and assured over time, these organizations had ensured the operation of the monetary standard they created. Throughout the history of banking, while the leading banks from the medieval Knights Templar and the Florentine Medici Bank, the 17th century Amsterdam Bank of Exchange and London Goldmiths to J.P. Morgan's early $20^{th}$ century bank and the late $20^{th}$ century National Champions such as Citibank, have been evolving over time, their success in the financial markets has by no means been accidental. Rather, it has been based on some key innovative characteristics that we somewhat romantically will call banking secrets. While many of these features are still valid today, some of them were related to even very old times. For more details, check the methodological and case-wise appendix. To start with, we explore them below briefly.

## 2. Evaluation of the Banking Secrets

Various studies are examining which factors are more critical in the success of banks in modern times. One of the most comprehensive of these was written by Peter Rousseau (2003), a specialist in the U.S. Federal Reserve. He investigated the relationship between bank performance and economic development over the last three centuries. His study points out that banking plays a vital role in mobilizing the economy's resources in the early development of countries and reveals that the financial sector and economic development mutually contribute to each other. Indeed, this connection is evident in all bank success stories we examined. Banks were fuelled by the economic growth of their time. In this way, they played an essential role in increasing the savings of their countries and providing resources for investments, and contributing to economic growth through trade. The Knights Templar were a player of the most significant economic activity of the Middle Ages, which began with Crusades to the Holy Land and stretching the Church's view on levying interest. The Medici, Dutch, and Goldsmith bankers benefited from the growing international trade in the new age. While the Renaissance movement, during the 14th century, played an essential role in the Medici's glory, in the 17th century, Western European economies grew based on colonization and industrialization and paved the way for new banking activities. Similarly, the growth of the post-Napoleonic British and continental economies gave opportunities to the five Rothschild brothers. J.P. Morgan was backed by the rapidly developing U.S. economy in the later 19th century. The semi-colonial Ottoman Bank benefited from the free trade Turkish Empire environment after the Tanzimat Edict of 1838 and global trade conditions. The National Champions, with Citibank as a striking example, especially benefited from the post World War II global upswing and deregulations.

Most of the studies investigating the performance of banks naturally reflect current conditions. Although these studies do not sufficiently consider the historical factors, it is possible to draw some inferences from them. The papers reveal that the reputation and image of the bank (Bambenger, 1989; Canals, 1993; Johnson and Johnson, 1985), the bank's location and business opportunities (Canals, 1993), the number of branches of the bank (Canals, 1993; Wilde and Singer, 1993), the service quality and scope of the bank (Bambenger, 1989; Johnson and Johnson, 1985), as well as interest rates and commissions (Bamberger, 1989) are more prominent factors in bank performances.

Accordingly, all of the banks put forward by us were successful in banking and became prestigious institutions of their time. Although John Law's Royal Bank was a very prestigious institution in early 18$^{th}$ century France, it lost that position due to an economic depression, however. The banks were the most critical players in their markets and were located in strategic centres on seaside and trade routes such as Florence, Amsterdam and London. They had no problems in reaching new business opportunities. Almost all of them had an extensive branch network, and they had global business relationships. Also, the banks developed many innovative financial instruments and methods during their golden period and shaped banking history. While the Knights Templar explored financial instruments such as money orders, transferable deposits, trusts, safe and custodian services, and retirement practices, the Medici's developed letters of credit, next to accounting methods and a holding-type organization. The Dutch came with bank money, IPOs, investment banking and mutual funds. On the other hand, the Goldsmith bankers invented the discounting of bills and the fractional reserve system with limited backing of their notes. John Law was the inventor of paper money; the Rothschilds founded the Eurobond market, and the industrialist J.P. Morgan developed industry banking with a negotiation model. The Ottoman Bank presented modern banking to the Ottoman Empire. The National Champions improved and combined many financial instruments on cash management, investment banking and consumer banking. These instruments and methods were generally more profitable than the old ones and increased the efficiency of the banking services.

In addition to the innovations, organization skills, good communication, and market intelligence were other factors behind the success of banks in the past centuries. These features are still essential for banks today. The global organization and relations of the Knights Templar, Medici, and Dutch bankers enabled them to obtain comprehensive information about the markets and convert this information into a vast amount of profit. Similarly, British Goldsmiths could access all kinds of information in Europe through the relations they established. However, the flamboyant Scot John Law could not use his knowledge well; he had behaved too optimistically, bluffed and lost. In this vein, no one had yet been as successful in communication as the Rothschilds nor organized global operations on such a large scale. J.P. Morgan, moreover, obtained funds from England with family connections and forked them into U.S. businesses. The Ottoman Bank closely followed the regional developments via a strong branch-based banking network. The National Champions were good in marketing and sales, as well as in acquisitions, whereas the fortune gained and lost by scandalous traders appeared to have just casual effects.

Apart from all of the above, many bankers had one exciting thing in common. This feature was dubious morality and had not been tolerated in modern times but also at any time earlier. Quite a few of the bankers had some dark connections during their early years and accumulated capital in unethical ways. Dutch merchants amassed large-scale wealth through the slave trade, while the Medici's dirty dealings with Baldassare Cossa, the false Pope John, had earned them a fortune. British Goldsmiths did not hesitate to distribute bribes while doing their job. The Rothschilds might have seized wealth from the Prince Baron von Estorff, who had fled from Napoleon's armies. According to a strong claim, J.P. Morgan defrauded the State by trading weapons in the Civil War years. In short, behind probably much of the banks' wealth were shady businesses and unlawful practices, and these may have made up their start-up capital, allegedly earning them enormous amounts of money. The cryptoqueen "Dr Ruja" Ignatova who started the unicorn OneCoin in the 2010s showed a distant and magnified example of this type of behaviour, as did some traders and their supervisors at traditional banks 'going for the bucks'.

Another factor of influence on the development of banks can be labelled as imperialism. It is undeniable that the Knights Templar, despite of their noble serving of the Church's presence in the Holy City of Jerusalem, can also be viewed as bankers serving papal expansion. The late 15$^{th}$ to early 18$^{th}$ Dutch and English bankers were effectively supporting a war machine of royals and republicans, enabling them to strengthen home bases and to expand into colonies in Eastern Asia, the African coast and North America. The Rothschilds also served warrying parties, albeit just in Europe, and were among the last bankers for whom this was a core business. J.P. Morgan, despite of the above peculiar story on his Civil War business, was rather inward U.S. oriented, whereas American bankers after him did not finance warfare but did support the expansion of 'U.S.A. Inc.' abroad. Interestingly, the Ottoman Bank can be viewed as a bank serving the Empire's territorial defences and the National Champions such as Deutsche Bank would probably not have become so large as they were at in the beginning of the 21st century if it had not been for their (semi-) colonial activities abroad or colonial start-up base at home.

However, as it cannot be overstressed, there was a more critical factor behind the success of banks. This factor, is the atmosphere of economic freedom and liberal democracy. In stories told on bank history, banks either have benefited from moderate regimes and democratic values or have reached positions beyond the reach of the authorities. While the Knights Templar softened religious interest rules and had a supranational role, the Church and the kings could not interfere with the operations of the Medici's, the English Goldsmiths, or the 'untouchable' Rothschilds. The Ottoman Bank also developed in an environment where the right to own property and inheritance was allowed. The Dutch bankers, J.P. Morgan (who even saved the U.S. from a crisis twice) and the National Champions had no major trouble with the leaders of their country; they happily operated under non-royal administrations that were probably even too lenient and not enough in control at times. Although administration standards have generally improved over the last centuries, the level of development has not always been the same in every country. The factor of liberal democracy and economic freedom remains essential for many countries. Under the current conditions, although it is not possible for the governments of the countries to directly seize the savings of the people, they may limit the working conditions of the banks either by reducing the independence of the central banks or by intervening in the financial markets in various ways and for peculiar reasons.

## 3. Economic Freedom, Liberal Democracy, Financial Performance and a Final Remark

According to Gwartney and Lawson (2003), the key elements of economic freedom are personal choice, voluntary exchange, freedom to compete and protection of persons and property. With economic freedom, individiduals can themselves decide upon if and how they want to contribute to the economy. They exchange products and services in open markets, where volumes and prices act as linking pins. Attaining and maintaining personal welfare would be a goal on its own - not to be disturbed by others. The government has an important role in sustaining the economic freedom of a country. The American Heritage Foundation produces a yearly index (2023 Index of Economic Freedom, n.d.) and scores economic freedom on the following twelve factors, with in fact half of them indicating a financial aspect:

- rule of law (property rights, government integrity, judicial effectiveness),
- government size (government spending, tax burden, fiscal health),
- regulatory efficiency (business freedom, labour freedom, monetary freedom) and
- open markets (trade freedom, investment freedom, financial freedom).

Banking models started in the Mediterranean basin with the Knights Templar and the Medici's. Then, with activities in the Netherlands and England, banking moved to Northern Europe and the U.S.A. In short, banking has continued to develop geographically from south to northwest. This orientation was not accidental and was associated with economic freedom and democratic regimes. The democratization began in Northern European countries such as the Netherlands and England as of the 17th century. Banks found a suitable living atmosphere here. Acemoğlu et al. (2014) analysed historical examples and concluded that democracy is necessary for economic development. Democracy encourages investment and economic reforms, improves education, reduces social unrest by taking care of the welfare of the people, and grows the country's economy. There were no extreme examples that democracy would constrain the growth of less developed economies. Let us take this on board.

Currently, the degree of economic freedom is measured by indices prepared by various bodies. One of these indices is the Financial Freedom Index, designed by 'The Heritage Foundation' in the U.S.A. and commonly used by many researchers (2022 Index of Economic Freedom, n.d.). This index shows the degree of independence of the financial sector from government control and intervention. In this context, an ideal banking environment requires minimal government intervention. The power of independent central banks is limited to supervising banks and financial institutions' compliance with their contractual obligations and preventing fraud in the market. Bank loans are allocated according to market conditions in ideal markets, and there are no government-owned financial institutions. Financial institutions provide various financial services to individuals and companies; banks can lend, accept deposits and transact in foreign currencies. While foreign financial institutions operate freely in ideal financial markets, they are expected to be subject to the same legislation as local institutions. The index scores the financial freedom of economies in the following five areas:

- The extent of government regulation of financial services,
- The degree of state intervention in banks and other financial firms through direct and indirect ownership,
- The extent of financial and capital market development,
- Government influence on the allocation of credit, and
- Openness to foreign competition.

As of 2021, Singapore tops the list with 89.7 points, followed by New Zealand, Australia, Switzerland, and Ireland. Accordingly, the countries whose stories we touched upon more amply are listed; England 7th, Netherlands 16th, U.S.A. 20th, France 64th, Italy 68th, and Turkey 76th. Countries in Northern Europe are considered to be very liberal financially, as we would expect, while the group further south, including France, Italy, and Turkey, is considered moderately free. Chortareas et al. (2013) researched the relationship between financial freedom and bank returns using the Financial Freedom Index. Their study included many commercial banks operating in 27 European Union member states in the 2000s. They found that the higher the degree of financial freedom of an economy, the lower the costs and the higher the banks' returns. Moreover, their study shows that the effects of financial freedom on bank efficiency are more pronounced in countries with democratic political systems where governments implement sound policies and pay attention to corporate governance principles (Chortareas et al., 2013).

The relationship between the independence of central banks and national development is investigated in many scientific studies. Akıncı et al. (2015) revealed in a periodical of the Turkish central bank that financial freedom and economic growth would increase when the independence level of the central bank rises in both the long and short run. In addition, in the long run, central bank independence and financial freedom variables were two critical factors that determine the level of economic growth.

Undoubtedly, Turkey is not the first or only country with problems balancing financial freedom and economic growth, having repeatedly had problems in this respect in the last fifty years. Currently, the place of most of these countries in the financial freedom index is above the 140th rank. Turkey and numerous emerging countries have realized over the past three decades that there is no need to fight with the financial markets. The administrators of these countries have made their central banks independent since the 2000s by drawing essential lessons from the previous crises. However, some countries such as Turkey and Argentina could not follow the same line and had experienced a severe decline in the central bank's financial freedom. These countries could not solve the financial problems, the institutionalization in the countries weakened, and economic growth slowed down considerably.

Likely, this degression will not continue for the countries involved in the coming years. They will be able to overcome their crises by using their capabilities. Like John Law's France, the Goldsmith's England, or J.P. Morgan's U.S.A., they will master troubled periods with progressive economic dynamics and well-educated citizens. They probably will end the political reckonings in their countries and manage to fix their systems over time. The easy way to overcome an economic crisis is to go through a series of reforms that will enable the economy to adapt to the current order. The hard way is to plunge into the agonizing course of economic freedom and its market system requirements. However, the evolutionary process will work somehow, systems and structures that are not suitable with orderly markets will weaken and give way to timely institutions and administrations. The exciting stories told to us whisper that financial markets help to interpret money system complexities and moreover manage to adjust economies, that is: as long and as far as these markets in turn are kept in check and balanced by their customers, suppliers and watchdogs. Moreover, we tend to believe that banks do not just go with the winds, but rather adapt to the character of their participants. Finally, as already indicated above, there is also something like public choice, or call it politics. Liberal democracies do better, we feel.

Liberal democracy is a concept that should not be confused with the vision of specific national political parties such as the Liberal Democrats in the United Kingdom, Germany and the Netherlands, but a theoretical construct consisting of two parts: liberalism and democracy. Democracy is, loosely stated, the ruling of state affairs by the people (cf. Rhoden, 2015). In the same vein, liberalism can refer to pursuing individual rights tolerantly and fair governmental justice enforcement. Rhoden (2015) denotes that the separate concepts can be put on two axes, with the grade of liberal democracy being determined by the interplay of them. Robert Dahl (1915-2014) was an influential writer on liberal democracy, to which he refers in terms of rights that can be summarised as follows (Dahl, 1971; 1989):

- freedom to form and join political organizations and interest groups,
- freedom of expression on broadly defined political matters,
- free and fair elections, as well as the right to vote and equal voting,
- to run for public office and to freely assemble support and votes,
- freedom of alternative sources of information and enlighted understanding and
- right to control government policy through votes, agenda control and elsewise.

Having stated the above, it is not the end. Acemoğlu et al. (2014) speak of a narrow corridor to balance state and society interests. Even in liberal democracies, unfairness may occur. Moreover, (near) banks are private associations with public tasks. They may serve the public above all. Call it a calling.

**Reference List**


1. 2022 Index of Economic Freedom. (n.d.). *Financial Freedom: Banking Efficiency and Economic Freedom*. [online] Available at: https://www.heritage.org/index/financial-freedom.
2. Accemoğlu, D., Naidu, S., Restrepo, P. and Robinson, J.A. (2014). *Democracy Does Cause Growth*. Cambridge, Mass.: National Bureau Of Economic Research.
3. Akıncı, M., Akıncı, Y.G. and Yılmaz, Ö. (2015). The Relationship Between Central Bank Independence, Financial Freedom and Economic Growth: A Panel ARDL Bounds Testing Approach. *Central Bank Review*, [online] 15(3), 1-14.
4. Bambenger, I. (1989). Developing Competitive Advantage in Small and Medium-Size Firms. *Long Range Planning*, 22(5), 80-88. doi:10.1016/0024-6301(89)90172-6.
5. Bezemer, D. (2019). *Money and its uses*, Triodos Bank. https://admin.dezwijger.nl/wp-content/uploads/2019/07/Money_and_its_uses-development-or-wealth_Dirk_Bezemer-1-5.pdf.
6. Canals, J. (1993). *Competitive Strategies in European Banking*. New York: Clarendon Press.
7. Chortareas, G.E., Girardone, C. and Ventouri, A. (2013). Financial freedom and bank efficiency: Evidence from the European Union. *Journal of Banking & Finance*, [online] 37(4), 1223-1231.
8. Dahl, R.A. (1971). *Polyarchy; Participation and Opposition*, New Haven, Yale University Press.
9. Dahl, R.A. (1989). *Democracy and its Critics*, New Haven, Yale University Press.
10. Johnson, F.P. and Johnson, R.D. (1985). *Commercial Bank Management*. Dryden Press.
11. Mikesell, R.F. (1994). *The Bretton Woods Debates: a Memoir*. Princeton: International Finance Section, Dept. Of Economics, Princeton University.
12. O'Driscoll, G.P. (2015). *Money Standards: an Introduction.* https://www.cato.org/blog/monetary-standards-introduction.
13. Rhoden, T. F. (2013). The liberal in liberal democracy. *Democratization*, 22(3), 560–578.
14. Rousseau, P.L. (2003). *Historical Perspectives on Financial Development and Economic Growth. Review*, 85(4), 81-105. doi:10.20955/r.85.81-106.
15. Wilde, P.R. and Singer, E.M. (1993). Banks vs. Insurers: If the Banks Win, Does Anyone Lose? *Journal of the American Society of CLU*, 47(3).

## Appendix

Much of this article relates to a text by Mehmet Baha Karan, Wim Westerman and Jacob Wijngaard (2024) on history of banks. However, the narrative given in the main text and below deviates in several respects. Firstly, some details that did not make it into the book are taken on board. Secondly, the book takes the perspective of an ongoing power game between the seminal banks studied and the rulers of their times, whereas this article rather takes on a more general approach that focuses on the critical success factors of the monetary system with the bankers as key players, especially relating this to notions of economic freedom and liberal democracy. Below, we briefly describe our main case examples, starting from kind of the beginning.

*The Medici Bank in the late Middle Ages*

The renaissance Italian Medici family, entrepreneurs with a focus on financing, had much to draw upon. Roman banking going beyond money exchange in the beginning of the first millennium and Middle East early medieval trade banking could have inspired them and rather the Knights Templar, a congregation of monks supporting the Crusades, developed many of the practices they could further. The Templars stretched the view of the Church on taking interest by way of service fee and the Medici's took this on, using their books to see where business could be developed or had to be halted. Entities throughout Western Europe acted as profit centres. Under prosperous conditions with moderate warfare and maintaining sound relations with the Church and city states governed by open-minded local upper classes, operations grew. Fascinating is the position taken by Cosimo de' Medici (1389-1464). He was a strategist, networker and administrator. He grew and reorganised the Bank. Being briefly expelled, he could eliminate his enemies in the home base Florence. See also the seminal text by Raymond de Roover (1999).

*Dutch banking for growth in the 1600s and 1700s*

The Renaissance entered The Netherlands late. Yet, an influx of southern Dutch ('Belgian') refugees around 1590 into especially Amsterdam fuelled a booming atmosphere. The city council regulated the markets but else let things go. The Amsterdam Bank of Exchange could accept bills of exchange, transfer money and lend to governmental bodies and the Dutch East India Company. It provided bank money to private customers backed by gold and silver deposits. With also the world's first large securities exchange, the stable Amsterdam financial market became exemplary. The proud trader and venture capitalist Dirck van Os (1556-1614), portrayed by Rembrandt, is said to have initiated the foundation of the Bank of Exchange (https://nl.wikipedia.org/wiki/Dirck_van_Os). While still existing, its financial innovation role was quietly taken over by private banks. For further reading, also on the next three sections, refer e.g. to the historical overview by Green (1989).

*British 1600s and 1700s fractional banking efforts*

England (and Scotland) also fell out of the Middle Ages quite abruptly, with a Civil War (1642-1651). War debts had eroded the financial system and this is how London goldsmiths became trusted custodians. The Goldsmiths used their role to create paper money with bills of exchange, above deposit levels. The grandest one was Edward Blackwell, the 'great money man'. British financial policy improved and opened up, but government debts remained an issue. Enter the Bank of England (1691), the world's first genuine large central bank, even issuing bank notes. Yet, there was more going on, in private banking, like in the Netherlands in the same period.

*French banking around 1700: the role of John Law*

John Law was not just a Scottish adventurer who duelled for the sake of the honour of a woman and thereby killed his opponent, causing him to flee out of London, but also an economist who invented paper money while using the Royal Bank that he erected to recover state finances as a vehicle to fuel the French economy. Alas, the associated money creation ended in the Mississippi Company bubble around a state-led investment project in North America in the early 1720s, much akin to a comparable failed British project and making bankers distrusted.

*The Rothschilds, the early 19$^{th}$ century global banking empire*

Meyer Amschel Rothschild was the founding father of an originally Jewish-German banking dynasty with five sons networking from major European cities, with the workaholic Nathan in London perhaps being the most influential one. The virtually untouchable brothers circulated money across borders to states and corporations in the Napoleonic period. The Rothschilds were e.g. forceful during the French-British Suez Canal Incident of 1852, but failed to become strong in the United States of America. Not just this paved the way for strong U.S. banks.

*J.P. Morgan, the banker who 'saved America'*

With his British roots and even having worked as a banker in London and with a strong personality, the 'Gilded Age' industrialist (cf. U.S. Steel) and banking tycoon John Pierpont (J.P.) Morgan was an ideal person to 'save America' during banking crises in 1895 and especially 1907, using forceful negotiation tactics. He was also said to be a prime moulder of the U.S. Federal Reserve System 'Fed' as a sort of central bank. J.P. Morgan's bank survived its leader, carve outs, economic crises as well as a merger into JPMorgan Chase.

*The Ottoman Bank, serving the sultans and beyond around 1900*

In being originally a semi-colonial bank with a lot of British and French capital, the Ottoman Bank brought western banking to a region that was still much in the Middle Ages. It acted as a central bank, financed state debt but also economic modernisation and weathered political crises, e.g. when Turkey did away with the Ottoman sultans - becoming a republic in the 1920s. Interestingly, politicians such as the well-equipped Minister Cavid Bey had a big say in the Bank's hey days, but the Bank remained fairly independent throughout up until a 2001 merger.

*The 20th and early 21st century national champion banks*

As it matters, many of the leading banks in western countries became large in their home base and beyond, because of their (colonial) heritage, including the Bank of Montreal (Canada), the British HSBC, Credit Suisse of Switzerland, the Dutch ABN AMRO and Deutsche Bank (Germany). Salient is the latter's 2002-2012 CEO, the Swiss Josef Ackermann - a moneymaker and a diplomat in one. Especially after World War II and before the Global Financial Crisis of around 2010, banks were juggling on thin lines between creative deal making and unethical tactics, growing too big and making desperate central bankers having to save and slash them.

*Citibank as a 20th century U.S. game changer*

The most exciting national banking champion of the 20th century might have been Citibank. Originally being a kind of private New York central bank and investment bank in one, the Bank grew its business both abroad and in terms of products, being limited by restrictive U.S. regulation from the 1930s, but readily finding ways to work with it creatively and pressing for its release, while at the same time serving interests of 'America Inc'. A merger with Travelers Group, announced in 1998, appeared to be too big a step and was partially unwound already before the Global Financial Crisis hit the banking world. As to striking persons in the Citibank history, the names of the visionary Walter Wriston, the operations and consumer-interested John Reed and finally the aggressive dealmaker Stanford Weil come to the fore.

*The Global Financial Crisis of around 2010 and the future*

Citibank's Charles Prince is the unfortunate person who said that one has got to get up as long as the music plays, but Citibank was also one of the unfortunate banks that had to be quickly saved by the Fed when the Global Financial Crisis of 2008 and beyond spread around, following especially the collapse of the investment bank Lehman Brothers. Citibank was cut down, as were other National Champions, whereas also stricter controls and new market developments with e.g. renewed central banking may make their roles less outspoken than before.

**Appendix Reference List**

De Roover, R. (1999). *The Rise and Decline of the Medici Bank, 1397-1494*, Cambridge MA: Harvard University Press.
Green, E. (1989). *Banking: An Illustrated History*, New York NY: Rizzoli.
Karan, M.B., Westerman, W., and Wijngaard, J. (2024). *A History of Banks: From the Knights Templar to the Present Era*, Cham, Switzerland: Springer Nature.

# List of research reports

2019001-EEF: Lugalla, I.M., J. Jacobs, and W. Westerman, Drivers of Women Entrepreneurs in Tourism in Tanzania: Capital, Goal Setting and Business Growth

2019002-EEF: Brock, E.O. de, On Incremental and Agile Development of (Information) Systems

2019003-OPERA: Laan, N. van der, R.H. Teunter, W. Romeijnders, and O.A. Kilic, The Data-driven Newsvendor Problem: Achieving On-target Service Levels.

2019004-EEF: Dijk, H., and J. Mierau, Mental Health over the Life Course: Evidence for a U-Shape?

2019005-EEF: Freriks, R.D., and J.O. Mierau, Heterogeneous Effects of School Resources on Child Mental Health Development: Evidence from the Netherlands.

2019006-OPERA: Broek, M.A.J. uit het, R.H. Teunter, B. de Jonge, J. Veldman, Joint Condition-based Maintenance and Condition-based Production Optimization.

2019007-OPERA: Broek, M.A.J. uit het, R.H. Teunter, B. de Jonge, J. Veldman, Joint Condition-based Maintenance and Load-sharing Optimization for Multi-unit Systems with Economic Dependency

2019008-EEF: Keller, J.T. G.H. Kuper, and M. Mulder, Competition under Regulation: Do Regulated Gas Transmission System Operators in Merged Markets Compete on Network Tariffs?

2019009-EEF: Hulshof, D. and M. Mulder, Renewable Energy Use as Environmental CSR Behavior and the Impact on Firm Profit

2019010-EEF: Boot, T., Confidence Regions for Averaging Estimators

2020001-OPERA: Foreest, N.D. van, and J. Wijngaard. On Proportionally Fair Solutions for the Divorced-Parents Problem

2020002-EEF: Niccodemi, G., R. Alessie, V. Angelini, J. Mierau, and T. Wansbeek. Refining Clustered Standard Errors with Few Clusters

2020003-I&O: Bogt, H. ter, Performance and other Accounting Information in the Public Sector: A Prominent Role in the Politicians' Control Tasks?

2020004-I&O: Fisch, C., M. Wyrwich, T.L. Nguyen, and J.H. Block, Historical Institutional Differences and Entrepreneurship: The Case of Socialist Legacy in Vietnam

2020005-I&O: Fritsch, M. and M. Wyrwich. Is Innovation (Increasingly) Concentrated in Large Cities? An Internatinal Comparison

2020006-GEM: Oosterhaven, J., Decomposing Economic Growth Decompositions.

2020007-I&O: Fritsch, M., M. Obschonka, F. Wahl, and M. Wyrwich. The Deep Imprint of Roman Sandals: Evidence of Long-lasting Effects of Roman Rule on Personality, Economic Performance, and Well-Being in Germany

2020008-EEF: Heijnen, P., On the Computation of Equilibrium in Discontinuous Economic Games

2020009-EEF: Romensen, G.J. and A.R. Soetevent, Improving Worker Productivity Through Tailored Performance Feedback: Field Experimental Evidence from Bus Drivers

2020010-EEF: Rao, Z., M. Groneck, and R. Alessie, Should I Stay or Should I Go? Intergenerational Transfers and Residential Choice. Evidence from China

2020011-EEF: Kwaak, C. van der, Unintended Consequences of Central Bank Lending in Financial Crises

2020012-EEF: Soetevent, A.R., Determinants choice set variation in demand estimation – with an application to the electric vehicle public charging market

2020013-EEF: Kwaak, C. van der, Old-Keynesianism in the New Keynesian model

2020014-EEF: Plaat, M. van der, Loan Sales and the Tyranny of Distance in U.S. Residential Mortgage Lending

2020015-I&O: Fritsch, M., and M. Wyrwich, Initial Conditions and Regional Performance in the Aftermath of Disruptive Shocks: The Case of East Germany after Socialism

2020016-OPERA: Laan, N. van der, and W. Romeijnders, A Converging Benders' Decomposition Algorithm for Two-stage Mixed-integer Recourse Models

2021001-OPERA: Baardman, L., K.J. Roodbergen, H.J. Carlo, and A.H. Schrotenboer, A Special Case of the Multiple Traveling Salesmen Problem in End-of-aisle Picking Systems

2021002-EEF: Wiese, R., and S. Eriksen, Willingness to Pay for Improved Public Education and Public Health Systems: The Role of Income Mobility Prospects.

2021003-EEF: Keller, J.T., G.H. Kuper, and M. Mulder, Challenging Natural Monopolies: Assessing Market Power of Gas Transmission System Operators for Cross-Border Capacity

2021004-EEF: Li, X., and M. Mulder, Value of Power-to-Gas as a Flexibililty Option in Integrated Electricity and Hydrogen Markets

2021005-GEM: Rozite, K., J.P.A.M. Jacobs, and D.J. Bezemer, Investor Sentiment and Business Investment

2021006-EEF: Spierdijk, L., and T. Wansbeek, Differencing as a Consistency Test for the Within Estimator

2021007-EEF: Katz, M., and C. van der Kwaak, To Bail-in or to Bailout: that's the (Macro) Question

2021008-EEF: Haan, M.A., N.E. Stoffers, and G.T.J. Zwart, Choosing Your Battles: Endogenous Multihoming and Platform Competition

2021009-I&O: Greve, M., M. Fritsch, and M. Wyrwich, Long-Term Decline of Regions and the Rise of Populism: The Case of Germany

2021010-MARK: Hirche, C.F., T.H.A. Bijmolt, and M.J. Gijsenberg, When Offline Stores Reduce Online Returns

2021011-MARK: Hirche, C.F., M.J. Gijsenberg, and T.H.A. Bijmolt, Promoting Product Returns: Effects of Price Reductions on Customer Return Behavior

2021012-MARK: Hirche, C.F., M.J. Gijsenberg, and T.H.A. Bijmolt, Asking Less, Getting More? The Influence of Fixed-Fee and Threshold-Based Free Shipping on Online Orders and Returns

2021013-I&O: Sorgner, A., and M. Wyrwich, Calling Baumol: What Telephones Can Tell Us about the Allocation of Entrepreneurial Talent in the Face of Radical Institutional Changes

2021014-I&O: Slavtchev, V., and M. Wywich, TV and Entrepreneurship

2021015-EEF: Kate, F. ten, M.J. Klasing, and P. Milionis, Diversity, Identity and Tax Morale

2021016-EEF: Bergemann, A., and R.T. Riphahn, Maternal Employment Effects of Paid Parental Leave

2021017-GEM: Abolhassani, M., Productivity Spillovers of Multinational Enterprises through Worker Mobility: New Evidence for the Netherlands

2021018-GEM: Abolhassani, M., Productivity Spillovers of Superior Firms through Worker Mobility

2022001-GEM: Oosterhaven, J., A Price Reinterpretation of the Leontief Quantity Model

2022002-EEF: Ghaemi, S, X. Li, and M. Mulder, Economic Value of Flexibility Provided by Power to gas Conversion Systems in Low-voltage Distribution Grids

2022003-OB: Meer, P.H. van der, Are All Self-employed Happy?

2022004-EEF: Perey, P., and M. Mulder, International Competitiveness of Low-carbon Hydrogen Supply to the North-west European Market

2022005-OPERA: Kasper, A., M. Land, and R. Teunter, University of Groningen, Faculty of Economics and Business, Department of Operations.

2022006-I&O: Fritsch, M., and M. Wyrwich, Entrepreneurship in the Long-run: Empirical Evidence and Historical Mechanisms.

2022007-EEF: Treurniet, M., and R. Lensink, Belief-based Poverty Traps and the Effects of Material and Psychological Development Interventions.

2022008-EEF: Kwaak, Christiaan van der, Monetary Financing Does Not Produce Miraculous Fiscal Multipliers

2022009-EEF: Beesten, E.R. van, and D. Hulshof, Transmission Capacity Reduction in International Power Systems: Economic Incentives and Welfare Effects

2022010-OPERA: Romeijnders, W., N.D. van Foreest and J. Wijngaard, On Proportionally Fair Solutions for the Divorced-Parents Problem

2022011-I&O: Hipp, A., M. Fritsch, M. Greve, J. Günther, M. Lange, C. Liutik, B. Pfeifer, M. Shkolnykova, and M. Wyrwich, Comprehensive Patent Data of the German Democratic Republic 1949-1990—Technical Report and Dataset Overview

2022012-EEF: Bianchi-Vimercati, R., G. Lecce, and M. Magnaricotte, Persistent Specialization and Growth: The Italian Land Reform

2023001-I&O: Fritsch, M., M. Greve, and M. Wyrwich, Shades of a Socialist Legacy? Innovation Activity in East and West Germany 1877-2014

2023002-EEF: Bahcivan, H., L. Dam and H. Gonenc, New Avenues in Expected Returns: Investor Overreaction and Overnight Price Jumps in US Stock Markets

2023003-I&O: Wyrwich, M. and M. Fritsch, How does Regional Entrepreneurship Transfer over Time? The Role of Household Size and Economic Success

2023004-OPERA: Seepma, A., and M. Spring, The Roles of Technology and Co-location in Overcoming Divergent Logics in Professional Supply Chains: the Case of Criminal Justice

2023005-EEF: Dalo, A., R. Mees, B. Scholtens, and H. Zhao, Corporate Sustainability, Cost of Equity, and Credit Ratings

2023006-EEF: Kwaak, C. van der, and S. van Wijnbergen, Financial Fragility and the Fiscal Multiplier

2024001-EEF: Herrmann, O., A partisan duty to vote?

2024002-EEF: Soetevent, A.R., and G.J. Romensen, The Short and Long Term Effects of In-Person Performance Feedback: Evidence from a Large Bus Driver Coaching Program

2024003-EEF: Stangenberg, L, and A.R. Soetevent, Don’t wait on the world to change! How technophilia causes group inaction – an experiment

2024004-GEM: Stumphius, C.J., and D.J. Bezemer, Green Bonds: financial development or financialization? A firm-level analysis of their emission and energy impacts

2024005-OB: Meer, P.H. van der, and R. Wielers, The Value of Meaningful Work

2024006-OB: Meer, P.H. van der: Home-office, Covid-19 and Subjective Well-being

2024007-GEM: Tian, X., The Effect of the Global Financial Cycle on National Financial Cycles: Evidence from BRICS Countries

2024008-EEF: Elgersma, S., Mitigation, Adaptation and Cooperation in Response to Climate Disaster

2024009-MARK: Koster, J., M.C. Leliveld, H. Risselada, and J.W. Bolderdijk, A System Approach to Sustainable Fashion: What Do We Know and Where Do We Go?

2024010-EEF: Moahid, M., N. Hermes, and M. Hudon, The Microfinance Regulation Maze: A Systematic Literature Review

2024011-EEF: Moahid, M., N. Hermes, and M. Hudon, Examining the Implications of Innovative Microfinance Products: A Systematic Literature Review

2024012-EEF: Karan, M.B., and W. Westerman, A narration of banks, economic freedom and liberal democracy www.rug.nl/feb