The Centennial Of Confederation In Canada In 1967
Construction Was Made Possible Through The Co-operation Of The Province Of Ontari(
And The Government Of Canada

**Appendix D** – Text of the 2000 Historic Sites and Monuments Board of Canada three plaque series beside the Buxton Museum

First Plaque

The Buxton Settlement

From the shores of Lake Erie to the seventh concession, from Dillon Road on the east t( Drake Road on the west, Buxton's ordered fields are dotted with churches and home: from the epic experience of the Underground Railroad. In 1849, Reverend William Kin; arrived with fifteen former slaves at a 9,000-acre tract of swampy, forested land. Mor refugees followed, buying and clearing 50-acre homesteads, establishing industries churches and schools. The settlers created the regular pattern of roads and drainag ditches seen today, transforming the landscape into the prosperous Elgin Settlement, as i was then called, where neat cottages spoke of industry and thrift, and children received ; classical education. Buxton lives on today through descendants of these determine( immigrants who carved out a free life for themselves and their family on the tranqui plains of southwestern Ontario.

Second Plaque

This plaque features an image of the settlement plan for the Elgin Settlement with th layout of the roads, fields and houses

Third Plaque

The third plaque features an image of the "Freedom Bell" donated to Reverend King an( the settlers form a group of blacks in Pittsburgh. The inscription on the bell reads "Presented to Rev. Wm. King by the colored inhabitants of Pittsburgh for the Academy a Raleigh C. West."



## The Social Origins of Modern Banking

**Samuel Knafo**

### Introduction

England has been traditionally identified as the cradle of modern banking.[49] There emerged many of the basic components that have come to define modern banking: fiduciary forms of money, such as banknotes, modern deposit banking, and central banking. These innovations profoundly changed the dynamic of finance and helped to make London into a dominant financial centre in the nineteenth century. But more importantly, it established the foundations for the rise of modern banking when other European countries started adopting these innovations in order to reconfigure their own monetary system in the nineteenth century. In this way, English banking shaped the nature of the contemporary financial structure.

Because of its importance in financial history, England's trajectory has been heavily scrutinized. For most scholars, English finance represents the genuine liberal model of financial development. Its distinctive features are thus generally explained as the result of a liberalization of financial markets and the non-interventionist role of the English state, with its tradition for "sound money". The impressive development of English finance would thus be seen as the product of a more dynamic financial sector which benefited from its relative freedom by comparison to financial systems in other countries. There are many historical problems with this view. Most notably, it neglects the central role of the English state in profoundly reshaping the nature of finance. Indeed, the state in England intervened to regulate finance in a way that no other state in continental Europe did. Hence, I argue for the need to recast our understanding of English financial developments. In doing so, I propose a different approach which focuses on the rise of capitalist social relations and the new imperatives they imposed on the state and economic actors. Confronted with problems specific to this new social context, merchants and financiers, I argue, had to devise new financial solutions that slowly led to the rise of modern banking.

### The Elusive Model of Liberal Economic Development

There were three distinctive features which characterized modern banking. First, the supply of money became increasingly independent from the stock of gold and silver. Precious metal had long been dominant in the monetary circulation of European countries, and remained so until the late nineteenth century except in England. This monetary system depending on precious metals posed significant problems for a rapidly expanding monetary socialization. By developing a relatively stable method to issue banknotes in the 17$^{th}$ century, English bankers gained the ability to increase relatively smoothly the supply

[49] Raymond de Roover, *Gresham on Foreign Exchange* (Cambridge: Harvard University Press, 1949); Armand Bizaguet, "Les origines des institutions et des mécanismes bancaires en Europe Occidentale: De la Banque Romaine à l'Empire Napoléonien," *Revue d'histoire internationale de la banque* 9 (1974): 17-79.

of money and satisfy growing monetary needs in a way that no other European countries could.[50] Second, banking acquired an importance in England and Scotland that was incomparable to banking on the continent. Indeed, the combination of two forms of banking, issue banking and deposit banking, which had remained until then separate provided British banks with the flexibility to offer liquidity and credit in a more active way.[51] Finally, with the creation of the Bank of England, England established the basis for a new form of public bank which enabled the state to achieve higher levels of financing than any other state in Europe.[52] More importantly, the Bank progressively acquired leverage over the English economy which allowed the Bank to exert unprecedented influence, as it became the first central bank. The Bank of England thus took a central role in the regulation and, later, the management of the economy, two roles that no other European public banks had ever thought of pursuing.

These innovations represented banking feats unmatched in the rest of Europe before the second half of the nineteenth century. Yet the most remarkable feature of these innovations was the monetary stability that accompanied them. Indeed, the success of English finance can be measured by its ability to maintain a monetary tension while finding ways to adjust the supply of money. The difficulty in developing such a monetary system based on fiduciary money are clearly displayed by the experiences of other European countries that ventured in this direction only to experience monetary and financial instability. The introduction of paper money often led to over issues of money and to major devaluations of banknotes accompanied by deep crises of confidence towards paper money.[53] When deposit banks issued fiduciary money, they generally over issued banknotes and suffered runs which threatened their reserves. Finally, the expansion of public finances often led to heavy debt loads for states and perpetuated a cycle of state bankruptcies. In comparison to most other countries, England, for some reasons, seems to have navigated through these pitfalls with significantly less difficulty. The distinctive feature of these modern banking practices was thus more than simply their sheer novelty but that these innovations, far from jettisoning monetary stability, actually reinforced it. It is a striking fact that England's important development of paper money coincided with more than 200 years of relative monetary, banking, and public finance stability.

There have been two dominant approaches which claim to explain England's financial trajectory. The first position, liberal and modernist in inspiration, insists on the fluidity and soundness of English banking. It hails the absence of state intervention as an important factor in the development of a more efficient and fluid financial system. According to this view, financiers and bankers were able to devise sounder strategies of

[50] Jean Marchal and Marie-Odile Picquet-Marchal, "Essai sur la nature de l'évolution du billet de banque." *Revue internationale d'histoire de la banque* 14 (1977): 1-87.

[51] Raymond de Roover, *L'évolution de la lettre de change, XIVe-XVIIIe siècles* (Paris: Armand Colin, 1953).

[52] Michael Mann, *The Sources of Social Power, vol. I of A History of Power from the Beginning to A.D. 1760* (New York: Cambridge University Press, 1986); P.K. O'Brien and P.A. Hunt, "The Rise of the Fiscal State in England, 1485-1815," *Historical Research* 66, no. 160 (1993): 129-176.

[53] Herbert Luthy, *La Banque Protestante en France: de la Révocation de l'Édit de Nantes à la Révolution* (Paris: S.E.V.P.E.N., 1959); Bizaguet, "Les origines des institutions."



investments which yielded more profitable investments and a liquid asset-structure for banks that was less prone to crisis because banks were free from external interferences.[54] Liberals stress that this distinctive freedom enjoyed by English financiers was complemented by the English state's uncanny sense of restraint in monetary policy. The stability of the sterling pound, it is often said, laid down propitious conditions for investments by providing security to financiers. Liberal limitations to state intervention would thus have prohibited the state from "arbitrarily" manipulating monetary and financial markets from the seventeenth century onwards. In this sense, the creation of the Bank of England as a relatively independent institution from the state represented a crucial step in what is often described as the financial revolution of England.[55] By creating institutions responsible for channelling investments that were partly independent from the state, England would have established better foundations for the growth of financial markets.

A second perspective, defended by institutionalists, insists on the "disorganized" nature of this banking system. Institutionalists stress the lack of clear direction given by financiers and bankers in the development of the real economy and contrast this to the role of universal banks in Germany. Taken to be the product of a purer form of capitalism, the English financial sector is thus often portrayed as emerging out of an environment which resembles what "one finds in today's microeconomic textbook."[56] Atomistic in its structure, this sector lacked a commitment to production and was geared towards conservative strategies characterized by a self-interested preoccupation with low risk investments. This favoured, it is said, a propensity towards short-term and speculative investments.[57]

Institutionalists generally attribute this flaw either to the advanced nature of English modernization or to the fact that banks and financiers were less subject to state directives than in Continental Europe. Following on Gerschenkron's contribution to the debate,[58] institutionalists have emphasized that the lack of competitive pressure on industries limited their need for external financing, and encouraged financiers and bankers to look for other opportunities of investments, notably in the empire.[59] More importantly, institutionalists hold the lack of state intervention responsible for reinforcing the liberal and atomistic tendencies of finance. They thus offer an inverted image of the liberal

[54] Michael Collins, *Banks and Industrial Finance in Britain 1800-1939* (Houndsmill: MacMillan, 1991).

[55] P.G.M. Dickson, *The Financial Revolution in England* (Toronto: MacMillan, 1967); Paul Kennedy, *The Rise and Fall of the Great Powers. Economic Change and Military Conflict from 1500 to 2000* (London: Fontana Press, 1988).

[56] Bernard Elbaum and W. Lazonick, "An Institutional Perspective on British Decline," in *The Decline of the British Economy*, ed. B. Elbaum and W. Lazonick (Oxford: Clarendon Press, 1986), 3.

[57] Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development* (London: Macmillan, 1984).

[58] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*. (Cambridge, Mass.: Harvard University Press, 1962)

[59] P.J. Cain and A.G. Hopkins, *British Imperialism, 1688-2000*. (Toronto: Longman, 2001).

argument by stressing again the responsibility of the state in these developments. By neglecting its interventionary role, the state allowed the development of a financial structure that was ill-suited to industrialization and growth in the real economy.[60] Being poorly endowed to satisfy the needs of production, this "disorganized" form of financial intermediation tended to reinforce *rentier* activities leading to a superfluous growth of finance in relation to other economic sectors.

In contrast to both of these approaches, I contend that this characterization of English finance as a model of liberal financial development fails to capture its specificity. While both liberals and institutionalists explain England's specificity by focusing on its open financial environment and the sound money policies of the state, I argue that this characterization is somewhat imprecise and liable to misinterpretation. While not entirely incorrect, the main flaw of this depiction is that it offers little explanation for the emergence of modern banking in England. Indeed, it is certainly true that the English state was more "detached" from economic activity than its counterparts on the continent, but it is problematic to view English financial history as one marked by the lack of state intervention. The state in fact played an active part in adopting measures to shape finance even if it did not adopt the type of centralized management of the economy that characterized countries such as France or Prussia. Hence, even if the role of the state was qualitatively different, it cannot be characterized as liberal if we mean by this that state interventions did not play a role in shaping finance.

Most authors are conscious of this fact and have discussed state policies such as the constraints against exchange between currencies enacted in the late Middle Ages, the constraints on joint stock banking adopted in 1721, or the banking acts of 1826 and 1844 which curtailed banking activity. However, scholars remain attached to the idea that England represents the quintessential case of a liberal form of financial development. To the extent that it intervened, it is argued, the state only reinforced tendencies already latent in financial markets.

A first group of scholars, for example, have argued that while the state did intervene, it did so in the interests of *rentiers* and financiers in England. Hence, the policy of sound money would have only reinforced market led developments in banking. For authors such as Geoffrey Ingham[61] or P.J Cain and A.G. Hopkins,[62] financial interests in the City were able to efficiently mobilize for political purposes in order to push forward measures that were beneficial to financial investments. Ingham, for example, examines the emergence of an institutional cluster, formed by the Bank of England, the Treasury and the City, that was able to support successfully the interests of financial investors. Such arguments are somewhat valid if we only consider the late nineteenth century, which indeed is often the focal point for these institutionalists. But the opposite seems true for periods that preceded the second half of the 19th century. Historically, the English state showed no favourable

[60] John Zysman, *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983).

[61] Ingham, *Capitalism Divided?*

[62] Cain and Hopkins, "*British Imperialism.*"



predispositions towards financiers in England.[63] It adopted many measures to curtail or contain financial activity and was often reluctant to heed the opinion of bankers. Financial debates generally pitted members of the parliament against either central bankers or bankers with the former usually gaining the upper hand. These confrontations would reach their pinnacle in the great financial debates of the early nineteenth century when Parliament moved to progressively impose a tight system of convertibility which was vehemently opposed by bankers. Hence, if there was a divide between financiers and the state before the late nineteenth century, it remains to be explained how the so-called speculative configuration of finance emerged in the late nineteenth century.

A second alternative on which many authors fall back, especially in the liberal tradition, stresses the importance of sound monetary policies in England. For these authors, the state might have intervened in economic matters, and could even have done it despite the direct interests of specific financiers, but by ensuring a stable monetary environment it solidified the basis for financial development from the broader standpoint of financial stability. England's growth would thus have been a function of fixed and stable "rules of the game" in monetary and financial matters.[64] Regarding this approach, there is little dispute regarding the fact that England did follow some sort of sound money policy. The currency was generally maintained at a stable level over long periods of time and significant efforts, even if not always successful, were deployed to combat inflation. However, it is doubtful that these policies were intended to neutralize the effects of state policies on financial markets. By contrast to the traditional assumption, sound monetary policy had little to do with freeing up markets in a liberal spirit. The irony was that the English state, in its attempt to maintain the stability of money, established one of the most institutionalized monetary markets in the world. Even in the nineteenth century, at the height of England's so-called liberal period, the state imposed tight constraints on banking and on the creation of money in order to maintain the stability of the pound. These measures reflected a growing frustration on the part of parliament that stemmed from the difficulties it encountered in attempting to control certain developments in monetary and financial markets. Many of the "liberal" measures of the nineteenth century were thus aimed at making the supply of money amenable to state control.[65] Hence, sound monetary policies, far from being an icon of liberal management before the twentieth century, constituted a driving force towards the increasing involvement of the state in monetary markets and banking activity. These measures were not innocuous, but reshaped profoundly the banking activities in England.

[63] Jerôme de Boyer, "Les débats monétaires et le développement de la théorie monétaire en Grande-Bretagne dans la première moitié du XIXe siècle," in *Nouvelle histoire de la pensée économique. Tome 1. Des scholastiques aux classiques*, ed. A. Béraud and G. Faccarello (Paris: Éd. de la découverte, 1992), 554-577.

[64] Michael Bordo and Finn Kykland, "The Gold Standard As a Rule: An Essay in Exploration." *Explorations in Economic History* 32 (1995): 423-464.

[65] Samuel Knafo, "The Gold Standard and the Creation of a Modern International Monetary," Paper presented for the Groupe de Recherche Intercontinental, Montreal, 2003.

The problem of the significance of sound monetary policy raises more fundamentally the question of why England adopted this sound monetary course.[66] As Braudel says, abstract arguments about the soundness of England's economic policies owe more to *post hoc* projections than to historical facts.[67] Indeed, there are few signs that England was "more rational" or "wiser" in monetary matters than other European states. A glaring paradox of English financial history is the apparent contradiction between the much vaunted soundness of English financial policies and the apparently misinformed and conservative biases that motivated these policies, when judged from the standpoint of economic theory. One can refer here to Locke's weak arguments in favour of a full restoration of silver coinage in the late seventeenth century, to the laws adopted to curtail joint-stock banking in the eighteenth century, the misunderstandings of the Currency school on the nature of money embodied in the Peel Act of 1844, etc. Considering that the numerous and seemingly more knowledgeable contributions made by bankers in monetary debates were frequently rejected by parliament, the sound money policies hardly seem to stem from a coherent and enlightened economic vision. There are no indications that a clearly defined ideology existed, which could explain this continuity in monetary management.

Putting in question the "liberal" features that are attributed to financial developments in England might appear surprising considering the importance of liberalism as an ideology in England. It is certainly not my objective to deny the role of liberalism in influencing the policies of the state. But the influence of liberalism on the decisions taken over financial matters was far from being clear-cut. Most participants in English financial debates would have defined themselves as liberals, but they still defended divergent conceptions of finance.[68] Hence, liberals from different social *milieux* argued over free trade, devaluation (late seventeenth century), the freedom of the Bank of England (most of eighteenth and nineteenth centuries), convertibility (early nineteenth century), monometallism (the bullion controversy of the 1890s). The difficulty here, as some have

[66] It is sometimes argued that dominant economic countries tend to be more liberal in nature because of the competitiveness of their economy. See Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987). However, the historical evidences square poorly with this view. Both Italian cities, such as Venice or Florence, and Holland represented dominant economic powers in their own time, but never pursued sound money policies. In fact, Italian cities used their economic power to debase their currencies more than anywhere else. See Carlo M. Cipolla, "Currency Depreciation in Medieval Europe," *Economic History Review* XV no. 3 (1963): 413-421; Peter Spufford, *Money and Its Use in Medieval Europe* (New York: Cambridge University Press, 1988). Moreover, sound money was a distinctive feature of England long before its economic dominance.

[67] Fernand Braudel, *Civilization and Capitalism, 15th-18th Centuries, vol. III of The Perspective of the World* (New York: Harper and Row, 1984).

[68] An example of the complexity of liberal ideas can be gleaned from the opposition between Adam Smith and Jeremy Bentham. Adam Smith, a great proponent of free banking, defended the existence of usury rates to limit legally the maximum interest rates that financial intermediaries could impose. On the contrary, Bentham, a staunch critic of free banking, favoured the abolition of these usury rates.



noted,[69] is that different liberal objectives are not necessarily compatible. Beyond vague references to Liberals rejecting political encroachments on the market, it is impossible to define what is a quintessential liberal prescription for finance. Should banking be left to itself or should it be regulated to maintain a monetary stability? Does free banking represent a better reflection of liberalism, or the stringent rules of convertibility adopted in 1844 with Peel's Act?

It is important to stress that the object of these debates did not simply concern mere variations on a common theme.[70] Although most economic thinkers in England could be defined, in relation to continental thinkers, as being liberal, this fact in no way demonstrates a common liberal agreement on the economy. Their common adherence to liberalism only reflected the fact that people think about issues that concern them by using the theoretical tools that permeate the society in which they live. Broad approaches, such as liberalism, generally serve to define the conditions under which a truth claim can be made. Economic liberalism, for example, required the demonstration of a self regulating economic process as a condition of validity for any truth claim made. But such a parameter was used for a wide range of arguments that often conflicted with one another. Hence, people might have based their ideas on common assumptions, but their ideas were not reducible to the theoretical framework they used. Even with a similar language and similar categories, people could defend significantly different arguments.

More generally, we should not conclude that Liberals were opposed to state intervention in itself, even if they generally criticized *arbitrary* interventions of the state and emphasized the need for social processes to become self-regulating. The paradox was that the liberal objectives put forth by different social forces generally required states regulations in order to create the proper conditions for self-regulation. Ricardo for example insisted on the regulation of banking in order to ensure natural adjustments of monetary markets.[71] Hence, Liberals often argued over the proper policies the state needed to adopt even if their alleged objective was defined in terms of reaching a condition of automatic adjustment. While they criticized arbitrary intervention on the part of the state, they still advocated certain forms of state intervention. One could thus say that debates in England were partly concerned with what role the state should play in economic development, rather than simply with how should the state refrain from intervening in it. Only the terms of the debate justified the label of liberalism we attach to these authors, not the conclusions they reached within the parameters of liberalism. While the justification was self regulation, the means advocated often involved state regulations. In the end, monetary debates had more to do with the pragmatic problems which different social forces were compelled to confront using the parameters of a liberal discourse, than with a liberal theoretical reflection on the nature of finance.

[69] Gilpin, "*Political Economy*"; Eric Helleiner, *States and the Re-emergence of Global Finance. From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994).

[70] As the work of theorists such as Quentin Skinner show, the theoretical context in which people couch their ideas cannot be used as a means to define their positions.

[71] R.S. Sayers, "Ricardo's Views on Monetary Questions," in *Papers in English Monetary History*, ed. T. S. Ashton and R. S. Sayers (Oxford: Clarendon Press, 1953), 76-95.

In sum, the English State substantially intervened in financial matters, generally against the desires of the banking community, and for purposes other than clearly defined objectives that pertained to a sound monetary policy. This conception, which emphasizes the non-intervention of the state and its policy of sound money, thus appears too coarse a template to grasp the nuances of a financial history which is more complex than the opposition between liberalism and interventionism would suggest. In raising these ambiguities of English financial history, my objective is not to demonstrate the irrational basis of English development. Nor is it to argue that the conservative nature of England can be held responsible for its "pioneering" role in finance. Rather, I argue that these episodes, which do not fit in traditional conceptions, suggest that financial developments in England are not as obvious as they are sometimes portrayed. Modern banking was characteristic of England because it reflected a peculiar English social context, not a generic form of liberal banking. It is a telling fact that Anglo-Saxon countries, despite their common liberal context, still managed to produce very different financial systems: the open Scottish banking system with its joint-stock banks, the restrictive English banking system which produced central banking, the decentralized American banking system which rested for a long period of time on fiat money.[72]

### The Capitalist Transformation of Finance

The methodological shift proposed in the previous section leads to two broad arguments concerning the emergence of modern banking in England. First, I argue that the peculiarity of English finance can be traced to the specific institutional structures developed within a tight framework of monetary and banking regulation. As I mentioned, this emphasis on the institutional structures in England runs somewhat against the traditional explanation which stresses the liberal nature of English finance. In this traditional argument, English institutions are seen as serving to protect the market from "external" interventions. These institutions would thus have negated social and political forms of agency that threatened to disrupt the operations of the market. By contrast, I argue that modern banking rested on the development of institutional structures which empowered the state and constrained banking in a distinctive way.

Second, I contend that this institutional framework, which culminated with the adoption of the classical gold standard of the late nineteenth century, was implemented within the context of a wider social transformation shaped by the rise of capitalist social relations in England. Hence, the relation between this social transformation and modern banking offers substantial ground to conclude that there was a capitalist transformation of finance in England. Because new social imperatives emerged within a capitalist society, bankers were led to make distinctive financial innovations which came to characterize modern banking.

It should be stressed that the conception of capitalism used here differs from the traditional definition of capitalism as a society in which market activity plays an

[72] It is quite illustrative that people who characterize England as liberal have a tendency to associate the form of banking practices in the US with English practices despite the important divergences between both.



important role. For this latter conception, capitalism emerged with the growth of trade across Europe, and a significant increase in market activity. This change is often related to the dissolution of feudal constraints on market activity, such as the prohibition on usury, which constrained activities geared towards profit making. Hence, as market opportunities expanded, merchants and financiers developed new techniques and methods that were efficient for profit makers. In this approach, finance is deemed to be inherently capitalist because it is geared towards profit making. It is even often considered as the quintessential form of capitalism because of its flexibility and its tendency to pursue profit on the sole basis of opportunities for investment. Finance is not mired by fixed investments in the way production is. It deals with liquid assets and thus has greater freedom to pursue profit. Within this framework, finance and banking in England would thus appear as only one form of economic strategy among others to pursue profit.

By contrast, I follow Robert Brenner in defining capitalism in terms of its specific social relations. This emphasis rests on the idea that market competition takes different forms depending on the nature of a society. Following Marx, Brenner associates capitalism with social relations in which market competition comes to be shaped by the systematic restructuration of the labour process. This focus on the re-organisation of production for the sake of being competitive was, for a long period of time, a distinctive feature of market dynamics in England.[73] By contrast, Italian merchants of the thirteenth century exploited price differentials between markets in order to buy cheap and sell dear.[74] The Dutch of the seventeenth century focused on the efficiency of their shipping techniques to become dominant in the world economy. French producers in the eighteenth century used guilds to regulate production and establish criteria of quality on the production of goods which restricted competition from cheaper producers. Different means to compete on the market thus shaped in various ways the nature of economic competition and entailed different forms of economic and social development.[75]

The reason for these different trajectories lies in the nature of power and the opportunities it provides for social forces to compete on the market.[76] Depending on the nature of power in a society, people can exploit different strategies to bolster their profit. England thus differed from other countries, not only because of the growth of landless workers following the movement of the enclosures, but more importantly because of the dissolution of customary rights and the elaboration of a new conception of property based on the absolute right of proprietors.[77] Hence, for the first time in history, capitalist

[73] Robert Brenner, "Agrarian Class Structure and Economical Development in Pre-Industrial Europe," in *The Brenner Debate*, ed. T. H. Ashton and C. H. E. Philpin (New York: Cambridge University Press, 1987), 10-63; Samuel Knafo, "The Antinomies of Marxian Economics and the Problem of Subjectivity," *Historical Materialism* (Forthcoming).

[74] Ellen Wood, "From Opportunity to Imperative: the History of the Market," *Monthly Review* (July/August 1994): 14-40.

[75] Robert Brenner, "The Origins of Capitalist Development. A Critique of Neo-Smithian Marxism," *New Left Review* 104 (1977): 25-92.

[76] George Comninel, "English Feudalism and the Origins of Capitalism." *Journal of Peasant Studies* 27, no. 4 (2000): 1-53.

[77] *Ibid.*

producers found themselves able to single-handedly determine the conditions under whic means of production could be used, thus gaining the ability to reshape authoritatively th conditions of labour without regard for customary rights. This second standpoint makes more difficult to situate finance in relation to capitalism. If we accept that capitalis refers to a specific set of social relations, not just to the profit motive, then finance mu be distinguished from capitalism. Because finance predates the capitalist social relatio that emerged in England, its articulation to these social relations cannot be taken fo granted. I am thus interested in examining how the rise of new social relations with the distinctive imperatives created new problems that were partly addressed through ne financial innovations. If there is a social distinctiveness in England, one can surmise th it played a role in bringing about the specific financial innovations that have bee associated with English banking. It is in this sense that I speak of a capitali transformation of finance. Indeed, capitalist social relations created new imperatives th encouraged merchants, industrialists, financiers and the state to seek specific forms o financial solutions. Modern banking did not simply represent an extra step in th evolution of finance. It emerged as various actors in England faced specific challeng and thus devised distinctive financial solutions.

The rise of capitalism in England created new liquidity requirements which we partly incompatible with the traditional forms of finance. The pre-modern forms o banking developed in Italy and in the Low countries were directly tied to the operation c currency exchange. By exploiting the flexibility offered by exchange rates betwee currencies, financiers were able to circumvent the constraint of usury laws that prohibit the payment of interest on loans. By using disparities in the exchange rates given i different cities of Europe, merchants and bankers could make a profit without asking f any interest. A banker, for example, could entrust funds to a merchant in one currency an be repaid in another. By using the exchange rate as a means to make a profit, banke could avoid asking for interests on the loan.

However, beginning in the thirteenth and fourteenth century the English state impose numerous prohibitions on exchange transactions since that hindered the emergence o financial intermediaries. Ironically, these prohibitions were tightly linked to what is no defined as sound monetary policies.[78] In an attempt to maintain the value of its coins, th state took various measures to protect the value of the currency from the speculati activities of merchants. The Crown moved to seize the mints, obliging all exchang between currencies to be made officially through the mint. It also restricted the use of bil of exchange, and prohibited all export of coins or bullions.[79] Such constraints constitute

[78] Braudel, "*Civilization and Capitalism.*"

[79] Also important were the measures to regulate trade. Often seen as responsible for manipulati the value of the currency, merchants were repeatedly targeted by the state in its attempt to protect i currency. Measures, such as the Statute of Employment which was established in 1402 to oblig foreign merchants to purchase commodities equal to their imports in England were aimed institutionalizing trade in order to ensure a positive balance of payment, thus preventing the outflo of money from England. See James S. Rogers, *The Early History of the Bills and Notes: A Study the Origins of Anglo-American Commercial Law* (New York: Cambridge University Press, 1995).



a bane for financiers because it hampered their ability to use traditional forms of banking already developed on the continent.

The result of these policies was that until the seventeenth century, England was the only country in Western Europe without financial intermediaries.[80] While long distance merchants continued to use certain exchange operations within the framework of their own transactions with foreign partners, they could not afford to openly provide financial instruments to other market participants. This situation became particularly significant when new demands for liquidity started to emerge in the second half of the sixteenth century with the rise of capitalist social relations. The slow emergence of a national economy with its dense network of domestic trade created a demand for liquidity that needed to be provided within the framework of a single currency. This meant that merchants could no longer simply use traditional financial instruments for themselves, nor could they turn to establish financial intermediaries. On the European continent, when national trade started to develop bankers found ways to adapt their old techniques to national forms of demands for credit even if these were not directly related to international trade. The complex clearing systems developed in Holland, for example, provided a flexible tool which could be adapted to some extent in order to solve liquidity problems without turning to an operation of exchange. But in England, the lack of established clearing systems meant that financial solutions had to be devised on a fundamentally new terrain. Hence, in England, monetary banking innovations became tied to the issue of banknotes rather than the clearing systems that dominated in Continental Europe.

This new monetary framework built outside of the operations of currency exchange would be a central characteristic of modern banking. It laid the foundations for a second financial revolution which started in the late eighteenth century with the rise of industrialism. Indeed, with the industrial revolution there was a dramatic rise in the need for circulating capital in order to pay for wages and raw materials.[81] But since the industrialization occurred in English provinces, industrialists needed to find sources of credit outside of the traditional mercantile centre of London that usually provided for liquidity. With the rise of country banking, the foundations for national banking were slowly established which would unwittingly lead to the emergence of central banking.

The state thus played a crucial role in shaping the direction of financial innovations by imposing constraints that deterred financiers from adopting the traditional practices developed on the continent and thus created new imperatives for future financial innovations. I thus emphasize, as most financial historians, the centrality of sound monetary policy, but not for the reasons that are traditionally advanced. Most scholars emphasize the protection offered by sound monetary policy to foster an environment more conducive for investments and market development. However, it is never clear in these accounts why the tight regulation of financial activity associated with sound monetary policies would have encouraged financial innovations rather than stifle them. Indeed, sound monetary policies imposed harsh conditions on bankers and financiers that could quickly lead to bankruptcy if they were not respected. In many ways, they made it more

[80] Kennedy "*Rise and Fall.*"

[81] L.S. Pressnell, *Country Banking in the Industrial Revolution* (Oxford: Clarendon Press, 1956).

difficult for financiers and bankers to develop new methods of banking because of th significant risks that were associated to innovations.[82] Thus it was no coincidence tha financial intermediaries emerged later in England than in most other Western Europea countries. Sound monetary policy did not necessarily encourage financial innovations i themselves, but they did shape the *form* these innovations took in England by obligin financiers to move away from the use of clearing systems that became prevalent on th continent. These policies thus contributed to shaping banking innovations in a more direc way than is generally assumed. Far from levelling the field to allow bankers to operate i a liberal environment, they actively reshaped this environment by obliging bankers t adjust their practices to face these new and growing restrictions.

This leads finally to the fundamental question of why sound monetary policies wer adopted in such a consistent fashion in England since the sixteenth century, or even th fourteenth century. As I mentioned, the difficulty in explaining the origins and the strikin continuity of England's sound monetary policies lies in the fact that state officials neve articulated a clear formulation in favour of something such as a sound monetary polic before the eighteenth and nineteenth century. It is thus difficult to ascribe monetar policies in England to a precociously enlightened elite or to early liberal ideologica commitments. This continuity was particularly surprising since sound monetary policie defied the pre-modern common sense in matters of finance because they hindered the us of advanced financial practices already developed on the continent. If there was no clea idea of a monetary policy involved, how then could there be such continuity in polic despite changes of rulers and political regime over such a long period?

The key to this historical puzzle, I argue, lies in the imperatives that constrained wha would be later seen as a nascent capitalist state. Hence, sound monetary policie constituted pragmatic solutions to social constraints on the English state which derive from the conflict between the Crown and landlords in England. The state in England ha often been characterized by the ability of parliament to limit the fiscal power of th Crown through its veto on taxation and on debasements of the currency. Debasemen were often used by rulers to increase their revenue by minting new coins with older one producing coins that were lighter in their metal content than the ones they replaced.[83] I creating more money from the stock of precious metal contained in the old coins, ruler thus could keep a portion of the surplus of money for themselves. Debasements, howeve engendered inflation when people started to adjust their prices according to the reductio of precious metal in coins. This inflation in turn affected the revenues of landlord especially their rents that were fixed by tradition. Although, throughout Europe, landlord resisted in various ways to debasements, it was only in England that they were successfu in protecting the value of their rents by systematically resisting monetary debasemen through the parliament. English landlords thus never really had to find alternativ strategies to defend themselves from inflation. By contrast, Italian landlords, for exampl requested payments for their rents in kind in order to protect themselves from the wil debasements of Italian cities.

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[82] If a bank is obliged to ensure the full convertibility of its banknotes, it cannot take as many risk with its funds for fear of not being able to meet sudden demands for banknote conversions.

[83] Spufford, *Money and Its Use in Medieval Europe.*



However, the constraints on debasements adopted in the direct interests of landlords created unintended effects which obliged the state to increasingly intervene in long distance commerce in order to maintain the stability of its currency. Because the English Crown debased the value of its coins to a much lesser extent than other European rulers,[84] it became profitable to export English coins with their high content of precious metal, and re-coin them in foreign countries where more coins could be minted with the same amount of metal.[85] This form of Gresham's law led to the export of good quality coins found in England and their replacement by foreign imitated coins of lower quality. Confronted with this situation, the Crown adopted an increasing number of regulations to control the market of currency exchange. As I mentioned earlier, the export of bullion was prohibited, the operation of currency exchange was directly controlled by the Crown, and a series of rules were adopted to restrict the freedom of merchants in their monetary activities.

Sound monetary policies were thus driven initially by the Crown's desire to partially subject the market to its control. The irony was that the inability of the Crown to manipulate the value of coins for its own interest, as was the case in most other West European countries, obliged it to intervene in monetary matters as few other states in Europe did. As merchants exploited the high value of coins in England, the Crown was compelled to find institutional solutions to counteract the negative and unintended effects of market speculation. It was precisely because sound monetary policies were adopted in a pragmatic fashion to react to these developments, that they never found a clear formulation before the nineteenth century. Only the development of modern banking within this distinctive framework would change this and lead to an explicit formulation of sound monetary policies.

There was no natural reason for financiers and bankers to support sound monetary policies as financial developments on the continent showed. For most bankers and financiers, monetary instability was central to their financial operations because it provided them with a crucial flexibility in their operations.[86] Variations in the exchange ratios between two currencies were crucial for pre-modern financial instruments that depended on currency exchange. By contrast, English bankers, producers and merchants became increasingly unanimous about the need to ensure monetary stability. What then can account for the rise of financial liberalism and the current common notion often accepted these days that financiers favour monetary stability?

As the Crown moved to supervise and regulate operations of exchange, it restricted the extension of continental practices and encouraged merchants to find novel financial techniques. New banking methods were thus developed which no longer depended on the exchange between currencies to operate. Goldsmiths for example started to issue banknotes that were convertible in gold at a guaranteed rate. The fixed rate of conversion was generally considered to be a necessary condition for ensuring the credibility of these banknotes. But as bankers acquired increasing liabilities by issuing large amounts of

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[84] Cipolla, "Currency Depreciation in Medieval Europe."

[85] John Munro, *Bullion Flows and Monetary Policies in England and the Low Countries 1350-1500* (Brookfield, Vermont: Variorum, 1992).

[86] de Roover, *"L'évolution de la lettre."*

convertible banknotes, they became increasingly preoccupied by the need to maintain th
stability of money. A drop in the currency's value threatened to undermine their reserve
since banknotes could then be converted into gold which could then be used to purchase
currency whose value was rising. Hence, by contrast to pre-modern financiers wh
exploited variations in exchange rate as the basis to make speculative profits on the
operations, English bankers became increasingly attached to fixed exchange rates in orde
to guarantee the convertibility of their banknotes. Sound monetary policies thus created
path dependency which progressively reinforced the imperative for the state to maintai
monetary stability. For this reason, the emergence of a form of financial liberalis
emphasizing the need for stable exchange rates can be seen as a consequence of soun
monetary policies, rather than its cause.

**Conclusion**

This article has argued that modern banking resulted from a capitalist transformatic
of finance. With the rise of capitalist social relations in England, new imperatives we
felt by the state and by economic actors resulting in different forms of financi
innovations. On the one hand, the emerging capitalist state was constrained to pursu
sound monetary policies which hampered the expansion of banking and finance i
England and redirected its future developments. On the other hand, the rise of a nation
economy and its subsequent industrialization created specific needs for credit an
liquidity that required new forms of financial practices that prompted new forms (
innovations.

In showing this relation between capitalist imperatives and financial developments,
should be clear that my argument focuses on the innovations behind modern banking n
on the conditions necessary for its operations. In other words, modern banking practic
did not require a capitalist context to operate, as indicated by the fact that they were lat
adopted in one form or another by a wide array of countries which were not necessari
capitalist. If modern banking emerged because of its capitalist context, it should not b
defined itself as being capitalist. Still, these pragmatic innovations were made in Englan
because they addressed distinctive imperatives stemming from a specific social an
institutional context.

This view leads to a series of conclusions that run counter to the traditional model (
liberal finance. First, I argue that the intervention of the state in banking matters was
crucial component in bringing about the new modern forms of banking. Second, I conte
that this intervention was motivated by the attempt to stabilize exchange rates, but not i
order to negate political control over economic development, as many Liberals
nineteenth century England would later claim. Rather the objective was for the state
gain an agency in monetary matters in order to react to undesired developments (
monetary markets. In other words, the state was seeking ways to exert influence ov
market dynamics in order to prevent developments it deemed deleterious. Third, th
emphasis on monetary stability was not initially favourable to financial interests. Rathe
it was sound monetary policies which constrained merchants and financiers to innovate i
a new distinctive way, changing the nature of their practices in order to render the
compatible with the institutional framework laid out by the English state.



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# Globalizing Inequality: Diasporic Citizenship Politics and the Case of Homeworkers in Toronto's Garment Industry

**Kim Rygiel**

## Introduction

This paper examines how new relationships of inequality are being constructed and challenged in globalizing cities as the places where globalization processes such as migration, production and finance are concentrated. I use the concept of citizenship and, more specifically, diasporic citizenship, to analyze the ways in which some groups are both marginalized by, as well as actively resisting, these globalization processes. The paper presents a case study of the situation of homeworkers in Toronto's garment industry as an example that draws out some of the ways in which global restructuring of the political economy creates new relationships of inequality along gender, race, class and ethnic lines. The paper theoretically develops the concept of diasporic citizenship, applying it, in the latter half, through a case study on homeworkers in Toronto. The situation of homeworkers in Toronto illustrates how globalization might simultaneously be marginalizing certain groups in globalizing cities and generating new forms of citizenship rights and practices.

## Unbundling Citizenship

In thinking about citizenship, I want to consider ways in which we can, in Saskia Sassen's terms, "unbundle citizenship",[87] that is, loosen the concept of citizenship from its close association with the nation- state and a particular modern logic of "fixed origins".[88] The reasons for this are twofold. First, our modern understanding of citizenship has been tied closely to practices of exclusion. As Engin Isin and Patricia Wood have shown persuasively, citizenship as an institution has always been practiced and designed to benefit a certain dominant group in society despite claims to represent all members of society.[89] Because of this, Isin and Wood argue that citizenship can be viewed as "a mediating institution and a contested field" between "dominated and dominant groups".[90] This conceptualization of citizenship as a mediating institution provides a useful lens through which to analyze some of the ways in which new hierarchies are resisted and, hence, remade along gender, class, race, religious and ethnic lines. It is also for this reason that I wish to think through ways in which citizenship might be conceptualized in more inclusive terms, which is why I use the term "diasporic citizenship".

[87] Saskia Sassen, "The Formation of New Political Subjects under Globalization," paper presented at the Theorizing Transnationality, Gender & Citizenship lecture series, University of Toronto, 29 November 2002.
[88] Avtar Brah, *Cartographies of Diaspora* (London and New York: Routledge, 1996), 180.
[89] Engin Isin and Patricia Wood, *Citizenship and Identity* (London: Sage Publications, 1999).
[90] *Ibid.*, 63.