

## **Podcast Amsterdam Trading Culture- From the Golden Age to Now**

### **Episode 6: The Exchange Bank and the origins of our financial system**

Welcome to Amsterdam's Trading Culture, a podcast by Lexence in honour of Amsterdam's 750th anniversary. My name is Hidde Bruinsma, and in this episode we dive into the financial history of our capital city. Because did you know that Amsterdam was the financial centre of the world in the 17th century? We talk about the founding of the Amsterdam Exchange Bank in 1609 and the parallels with the modern financial system.

Today, we discuss this with two experts:

Marius van Nieuwkerk, economist and author of De Wisselbank, among others, and Charles Destrée, law partner at Lexence, specialising in banking

**Hidde Bruinsma:** Marius, the Exchange Bank was founded in 1609. Why was that such an important moment?

**Marius van Nieuwkerk:** The Wisselbank was actually the first stable bank where people could safely deposit their money. At the time, there were hundreds of different coins in circulation - some 371 silver and 505 gold coins in Amsterdam alone. The Exchange Bank brought peace, cleanliness and regularity to that. It provided confidence in the system, which was crucial in an open trading city like Amsterdam.

**Charles Destrée:** And the supervision of that bank was well regulated back then. It was a city bank, supervised by the Amsterdam city council. That created trust - something that is still essential in the financial world today.

**Hidde Bruinsma:** Interesting. What was the role of the Exchange Bank during the tulip mania?

**Marius van Nieuwkerk:** That's a great example of an economic bubble. Around 1630, tulips were extremely popular and prices rose to unprecedented levels - three bulbs of the Semper Augustus could be as expensive as an Amsterdam canal house. Those transactions ran partly through the Wisselbank, but it was limited to people who could afford it. It did not cause the economy to collapse.

**Charles Destrée:** What is important is that the Exchange Bank survived that bubble. Even in the disaster year of 1672, when the country was literally and figuratively on the verge of collapse, the bank continued to pay out smoothly. That created confidence, and that is still the foundation of any bank today.

**Hidde Bruinsma:** Charles, what is the role of central banks today, compared to that of the Exchange Bank?

**Charles Destrée:** Very similar actually. Central banks like the ECB and DNB provide supervision, stability and confidence. They check whether commercial banks have their affairs in order. After the 2008 financial crisis, a lot of European regulation was added. Banks must now have so-called recovery and resolution plans ready, so they can fail in a controlled way without taxpayers' money.

**Hidde Bruinsma:** So the lessons from the past are really being used?

**Charles Destrée:** Absolutely. Take the takeover of Credit Suisse by UBS. That was an example of how a systemic bank was bailed out within a weekend to avoid a domino effect. Without taxpayer help, but under central bank supervision.

**Hidde Bruinsma:** Marius, how do you view modern bubbles, such as crypto currencies, for example?

**Marius van Nieuwkerk:** There are clear parallels with the tulip mania. With crypto too, there is a lot of speculation, little transparency and no central party to guarantee value. The so-called 'greater fool theory' applies there - as long as there is someone willing to buy it for more, it will keep going. But when the music stops...

**Charles Destrée:** Fortunately, banks are still keeping far away from crypto as an investment. And there are rules for that: banks are not allowed to simply put crypto currencies on their balance sheets. That protects the system.

**Hidde Bruinsma:** Finally, the Exchange Bank closed its doors in 1820. How did that happen?

**Marius van Nieuwkerk:** The Netherlands had then lost economic ground to England. The VOC had collapsed, and the Exchange Bank was found to have secretly granted large loans to the VOC - something that did not fit within its mandate. When that came to light, confidence was gone. William I had seen in England how well the Bank of England worked, and founded the Nederlandsche Bank on that model.

**Hidde Bruinsma:** Finally, can we say that much of our modern financial system has its origins in Amsterdam?

**Marius van Nieuwkerk:** Certainly. The Exchange Bank was a blueprint for modern central banks. Not for nothing did foreign historians say, "In the 17th century, all financial roads led to Amsterdam."

**Hidde Bruinsma:** That brings us to the end of this episode of Amsterdamse Handelsgeest - From the Golden Age to Now. A podcast by Lexence, in honour of Amsterdam's 750th anniversary. Many thanks to my guests, Marius van Nieuwkerk and Charles Destrée.

Want to know more about other topics, such as the notary in the Golden Age or the history of real estate in Amsterdam? Then follow us and don't miss an episode.