

The financing of the ribbon industry

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Since the ribbon industry required large amounts of capital, its financing is the key to understanding the emergence of banking in Basel. The capital needs of a ribbon merchant arose at every stage of the chain. He had to buy raw silk, which was expensive and often had to be paid for in cash or by bills of exchange on Italian or French markets. He had to pay for throwing, dyeing and finishing. He had to finance the looms of the weavers, advance wages and maintain stocks of material and finished goods. And he had to extend credit to his customers, who often paid only months after delivery.¹

The working capital of a large ribbon business was considerable. Between the purchase of the raw silk and the receipt of payment from the final customer, a year or more could pass, during which the merchant's capital was tied up in material, work in progress, finished goods and receivables. The merchants financed this working capital partly from their own resources, accumulated over generations and reinvested in the business, and partly through credit from suppliers, correspondents and other merchants.

The bill of exchange was the principal instrument of this financing. The merchant who bought raw silk in Milan paid with a bill drawn on a correspondent in Lyon or Frankfurt, payable in three months; before the bill fell due, he received payment for ribbons sold in Paris or Amsterdam, which he used to cover it. The customers who bought ribbons paid with bills drawn on their bankers, which the merchant could hold until maturity or discount with another merchant or banker to obtain cash immediately. The circulation of bills among the merchants of Europe created a network of short-term credit that financed a large part of international trade.

The Basel ribbon merchants became experts in the management of bills of exchange. They drew and accepted bills, discounted them, bought and sold them, and used them to transfer funds between the markets in which they bought and sold. Their knowledge of the creditworthiness of merchants in

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different cities, their correspondents in the principal financial centres and their capital made them natural intermediaries in the bill market. Some of them began to deal in bills for others, to accept deposits from other merchants and to lend money. The transition from ribbon merchant to banker, which Chapter III examines, took place through this activity.

1 Notes

1. On the capital requirements and financing of the Basel ribbon merchants (raw silk purchases, advances to weavers, stocks, customer credit), see the literature on the history of the Basel ribbon industry and on Basel merchant houses. To be verified. ↩

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