

The instruments of the Reformed merchant

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The acceptance of moderate interest by the reformers did not change the instruments of credit overnight. The merchants of Basel in the second half of the sixteenth century continued to use the instruments that their predecessors had developed: the rent contract for long-term credit secured on real property, the partnership for the financing of trading ventures, the sale on credit for commercial transactions and the bill of exchange for the transfer of funds between trading centres.

The bill of exchange was the most sophisticated of these instruments. It was a written order by which a person, the drawer, instructed a correspondent in another city, the drawee, to pay a sum of money to a third person, the payee, at a specified date. It combined a transfer of funds between places with an extension of credit over time, because the payment in the distant city took place weeks or months after the bill was drawn. Its price, the rate of exchange, included an element that reflected the time value of money, which allowed merchants to earn interest while formally engaging in a currency exchange. The canonists had accepted the bill of exchange as a lawful contract of exchange, which the merchants used to disguise loans at interest.¹

After the Reformation, the Reformed merchants no longer needed to disguise interest, but they continued to use the bill of exchange because it was the most efficient means of transferring funds and of financing trade. The fairs of Lyon and Frankfurt, and later the exchanges of Amsterdam and London, were the centres where bills were drawn, accepted and settled. In the seventeenth century, the practice of endorsement, by which the payee transferred the bill to another person by signing it on the back, transformed the bill of exchange into a negotiable instrument that could circulate like money. The endorsement allowed merchants to pay their debts with bills received from others. It also created a market for bills that became the

foundation of the money markets of the eighteenth and nineteenth centuries.

The Swiss law of bills of exchange, codified in the Code of Obligations on the basis of the Geneva Conventions of 1930 on the unification of the law of bills of exchange and cheques, still regulates this instrument, although its practical importance has declined with the rise of electronic payments.² The Geneva Conventions of 1930, negotiated in the city that is the subject of the companion volume, unified the law of bills of exchange in continental Europe and marked the end of a long history of divergent national laws. They were adopted in the same year in which the central banks founded the Bank for International Settlements in Basel. The two events belong to the same effort to create an international legal and institutional framework for finance.

1 Notes

1. On the bill of exchange as an instrument of transfer and credit and its canonical treatment as a contract of exchange (cambium), see de Roover, *The Rise and Decline of the Medici Bank*, 1963; the literature on the history of the bill of exchange. To be verified. ↩
2. Art. 990 ff. of the Swiss Code of Obligations (SR 220) on the bill of exchange (Wechsel), based on the Geneva Conventions of 7 June 1930 providing a uniform law for bills of exchange and promissory notes. To be verified. ↩

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