

The funding of modern business relies heavily on banks, securities markets, and other financial intermediaries. These forms of indirect finance became dominant from the late nineteenth century, as the rise of big business boosted demand for external funding. They supposedly rooted in earlier instances of deposit banking and securities trading, as practiced notably in Italy, Flanders, Holland, and Britain from the Middle Ages onwards. But pedigrees like this are as appealing as they are suggestive, not to say misleading. They rely on a continuity that is implied rather than proven, and they disregard institutional arrangements that do not fit the evolutionary model culminating in today's hallmark institutions. In this paper we investigate one such alternative arrangement: the direct financing of business in the Dutch Golden Age in the form of trade credit or loans contracted on the money market. We do this in order to understand why Amsterdam, for all its early financial sophistication, did not develop deposit banking during its heyday. We analyze both the institutional set-up of Amsterdam's financial market in the seventeenth century and the loan portfolios of two leading businessmen and investors, Louis Trip (1605-1684) and Joseph Deutz (1624-1684). Comparing the return these lenders made on money market loans with the yield on safe assets, we find that the narrow spread between borrowing and lending prevented financiers like Trip and Deutz from scaling up their operations into banking proper.