

# **The Primacy of Italian finance from the Middle Ages to early modern times.**

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## 1.0 ECONOMIC EXPANSION AND CREDIT IN THE 12TH-16TH CENTURIES

### 1.1 The birth of Europe.

Between the 11th and 16th centuries Europe's position with regards to other civilisations radically changed. With the advent of the Ottos in the 10<sup>th</sup> century, when the fundamental features of the continent's policies became established, Europe was still socially, culturally and economically backward, overtaken by the refined and still solid Byzantine Empire, the flourishing world of Islam, albeit showing the first signs of political division, and the magnificent Song Dynasty in China. In the 16<sup>th</sup> century, with the disappearance of the Byzantine Empire and an upturn in the fortunes of Islam with the Ottoman Empire, Europe by now was able to compete with the China of the Ming dynasty in terms of scientific knowledge and military strength.

This self-sustaining change had its roots in Italy and the Flemish area and gradually was to spread elsewhere in Europe. These extraordinary advances, which were set to continue in the forthcoming centuries and would allow European countries to expand their spheres of influences all over the world, have no easy explanation.

In the competition with China, Europe enjoyed an immediate advantage. Both areas had an immense heritage of scientific and technical knowledge, but the Chinese world was dominated by a veneration of the past and constant reference to traditional models, whilst in Europe there was greater openness and acceptance of ideas coming from outside. Both areas enjoyed an abundance of raw materials, but Europe had the edge thanks to its network of seas and rivers that aided communications. In China, the existence of a sole power of celestial origin helped to keep society in a dangerous state of conformity which led during the Ming period to a decline in knowledge in the areas of mathematics and astronomy, aggravated until 1567 by the prohibition of maritime trade with abroad<sup>1</sup>. Europe, on the other hand, was divided into states that were almost always at war with each other and whose inhabitants enjoyed greater degrees of freedom which gradually increased as the feudal system declined and their rulers sought economic progress both as a way of replenishing state coffers and garnering political supremacy. As regards these aspects, the fragmented situation of the Italian peninsula lent itself particularly well since competition amongst new political players (communes, seigneurs, principalities) fuelled costly local tensions and acted as a stimulus for individual initiative. At the same time, social ideals were changing and the pursuit of wealth became a widespread socially-acceptable goal thanks also to the rising importance of the Italian

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<sup>1</sup> *Storia della scienza*, II, Rome 2001, p. 445.

mercantile classes engaged in overseas and transalpine trade. Against this already favourable backdrop, the rise of individual initiative and the capitalistic ideal were determinants in setting off an irreversible mechanism of technical and scientific progress that would lead to the adoption of the method of experimentation and confirm Europe's new superiority, at least in certain fundamental sectors. Proof of the continent's new found primacy lay in the fact that in 1620 China officially authorised the importation into the celestial empire of canons from Europe, despite having had their own firearms since the 12<sup>th</sup> century<sup>2</sup>.

Whatever the decisive factors were, in the last centuries of the middle ages Europe demonstrated an inventiveness that was made up, rather than by a series of epoch-defining events, by the efforts of artisans and merchants who on a daily basis sought to improve the efficiency of their work. Over time, it was the sum of these small-scale advances and innovations that was to be of extraordinary importance.

This process of advancement was particularly evident in the industrial field: new techniques in metallurgy and mechanics (albeit thanks mostly to the invention of gunpowder), improvements to windmills (the major energy source of the time), the invention of the printing press, etc.. Often in the background lie the innovations made in finance and commerce, which originated in Italy and would later be exported throughout Europe and become part of its collective heritage. One possible reason for this could be that advances in manufacturing, industry and weapons were tangible, whilst mercantile procedures, laws and litigation can only be understood via the study of historical documents that are by no means easy to interpret.

Amongst these less immediately recognisable financial innovations, some have been so important for economic development that the contemporary world has absorbed not only the principle underlying them, but also the substance. These innovations are essentially linked to the diffusion of credit and consist in the development of rules, instruments and techniques capable of satisfying more effectively the requirements of both the credit demand and credit supply sides.

## **1.2 The economic and historic nature of credit**

Economists have long dedicated considerable time and energy to the concept of "credit", reaching at times equivocal or even differing conclusions. Some economists view credit as a clear-cut transaction by means of which two or more individuals transform present goods into future goods or

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<sup>2</sup> *Ibid*, p. 549.

vice versa depending on whose perspective the transaction is seen from, the lender or the borrower<sup>3</sup>. For some, credit is equivalent to any form of lending provided the creditor supplies the borrower with a temporary source of liquidity against the payment of a charge (interest); excluded from this category therefore are perpetuities or cases in which the object lent is not money<sup>4</sup>. Others, avoiding the problem of providing a definition, prefer to address the concept indirectly by talking about the banking system as the highest organisational expression of credit<sup>5</sup> and the one institutionally responsible for its proper working<sup>6</sup>. Other scholars prefer to illustrate the nature of credit by describing its effects on the market. Consequently, some view credit as an instrument of circulation that enables additional forms of exchange to those settled exclusively in money<sup>7</sup>; others in part following this line of thought, view credit as any instrument that allows an individual to make a purchase that on the basis of his current economic situation he would not be able to make<sup>8</sup>. With the exception of Pareto's intellectually challenging definition of credit, which is possibly too abstract to help us decipher historical occurrences of the phenomenon, the other definitions of credit reflect the situation in contemporary society where credit transactions are characterised almost everywhere by the use of money, the role of banks as loan intermediaries and the fiduciary character of monetary systems. The current features of credit did not appear over night and also today continue to be in a constant flux in response to a dynamic economy. Credit in its present form is the result of a long historical evolution during which contextual and institutional settings constantly changed over centuries. Developments that came and went included barter, the use of metallic money and the influence of the Church; all these influenced forms of credit that are not captured by the definitions provided above and which are all skewed excessively by contemporariness.

If we wish to adopt a longer historical perspective that goes beyond recent decades to reach the later middle ages, we have to see how credit evolved over the centuries and leave to one side ideas such as ready cash, banks or similar in favour of a more generic formulation which, without altering the essence of the phenomenon, is compatible with credit forms not only widely in use today but also in the past.

Bearing in mind the inevitable widening of the net that a longer temporal horizon implies, credit can be defined as a transaction where the owner of an economic good (the creditor) grants the ownership of the good to another person (the debtor) against a discharge over time. In other words, to offer or receive credit is the equivalent of granting or receiving a loan. This definition coincides

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<sup>3</sup> V. PARETO, *Corso di economia politica*, I, Turin 1949, p. 361.

<sup>4</sup> S. RICOSSA, *Dizionario di economia*, Turin 1982, p. 110.

<sup>5</sup> K. WICKSELL, *Lezioni di economia politica*, Turin 1950, p. 320.

<sup>6</sup> P.A. SAMUELSON, *Economia*, Turin 1954, p. 377.

<sup>7</sup> G. DEL VECCHIO, *Credito*, in *Enciclopedia italiana*, Rome 1949, pp. 814-816.

<sup>8</sup> C. BRESCIANI-TURRONI, *Corso di economia politica*, I, Milan 1949, p. 53.

with the opinion held by the more perceptive scholars, but also has the advantage of extending and making more precise the nature of credit with regards to other more narrowly defined or ambiguous concepts currently in use. This definition in fact leaves aside the question of what is being lent, which may be a sum of money, a material good or a real right, and the intentions of the debtor, who may use the capital received for productive purposes, unavoidable family expenses, social competition or – in the case of a political group – the maintenance of power in the face of internal or external enemies, refurbishment or renovation works, etc..

Underlying the existence of a loan is an imperfect distribution of economic goods within a society. As a result, there are persons or organisations that have more than they currently need, whilst there are others who have an insufficient amount or none at all. This distributional imbalance can be overcome by legal and voluntarily-accepted means (it can of course be achieved illegally and by coercion) whereby goods can be transferred on credit from one person to another. This transaction can be in widely differing forms.

In the traditional type of loan, the most easily recognisable and frequently used since the beginning of the contemporary age, the owner of capital invested or idle assigns it to another person thereby receiving a higher income than he would otherwise have earned; the debtor on the other hand now comes into possession of another person's economic good that he – the debtor – can use immediately (earlier than if he had waited to accumulate the amount via saving) against the payment of an appropriate compensation.

Credit does not always take the form of a simple and clearly evident loan. Less frequently, there are cases where the existence of a loan is by no means so perceptible and may even appear absent.

A complex form of credit in which the loan component is not immediately recognisable can be found in clearing: in regular and ongoing business relations between two parties, each one will be in a certain moment either a creditor or debtor of the other; both agree to set off upcoming amounts exigible with amounts owed and to settle the net outstanding amount at agreed-to intervals. Clearing, which can be carried out directly by the parties involved or by an agent, is effectively a series of reciprocal credits with possible interest payable on a negative closing balance.

A legal transaction resembling a loan and already known in the 12<sup>th</sup> century is one in which the creditor, believing that the purchasing power of metallic money in his possession is either insecure or not easily invested, decides to deposit it with a reliable debtor in exchange for a promise of reimbursement or for a commitment to pay his creditors or even (and this became increasingly more frequent from the 15<sup>th</sup> century onwards) in exchange for an instrument of credit that he will be able to use for his own payments. This transaction offers advantages also for the debtor who, leaving

money in custody or paying a sum for the deposit, receives liquidity that can be invested as he wishes.

According to the historical meaning adopted here, credit then, though maintaining intact its nature as a loan, is a multi-faceted phenomenon that ranges from the simple assignment of any type of economic good against future payments, from a system for reducing the use of metallic money to a more convenient method of payment. The effects are nevertheless the same as those highlighted by economists i.e., the redirection of capital from certain investments to others and, at the same time, the anticipation of future trades or the multiplication of those in the present.

### **1.3 Internal factors: contractual variables.**

A credit agreement is a complex transaction because the requirements and conditions of each party may differ considerably.

The creditor before approving the loan, for instance, will need some assurances as to the debtor's capacity to respect the terms of the agreement. If the debtor is a private individual he must have sufficient capital or an income; if the debtor is a sovereign entity it must possess goods and above all have the power to raise taxes. As an alternative or in addition to these requirements, the creditor may demand certain guarantees that range from a promise in writing made by the debtor to repay the loan to the existence of third-party co-obligors, from the deposit of pledged assets to the right to keep possession of his debtor's property in case of insolvency, from the creditor's right of recovery on guarantors to the introduction of fast-track procedures in defence of certain categories of credit, etc..

An important contractual variable is what is demanded by the creditor for lending the good along with its repayment. The transaction may be in exceptional circumstances free of charge if the creditor does not require any payment but simply the return of the good or its equivalent; usually a loan is with a charge if, separately from the return of the capital, the creditor requires the debtor to pay an amount proportionate to the value of the good being lent and the duration of the loan i.e., an interest. This amount may be paid in one sum at the beginning or at the termination of the loan or payable in instalments. The repayment of the capital (principal), both in agreements where a charge is foreseen or not, can be at a pre-determined date decided on by one or both parties, or on the occurrence or non-occurrence of a particular event or even never occur .

As regards the debtor, the performance he requires from the creditor may consist in coming into possession of the good he wishes to receive (real estate, raw materials, machinery, foodstuffs, etc.)

or, alternatively, the purchasing power (essentially money) necessary to acquire it. The debtor, in the light of his comparative weaker bargaining power, is generally not in a position to offer terms and conditions that are not advantageous for the creditor or which do not offer suitable guarantees regarding the debtor's solvency and the successful completion of the contract.

In spite of the considerable amount of freedom parties had in drawing up credit agreements, the models typically used on a daily basis can be traced back to a variety of sources: Roman or Germanic law, the obscure experiments of a high-medieval economy still little known, exotic models found in overseas trade, forms of agreements that began to be used after 1000 A.D. for local purposes and then legitimised in the courts of justice. Over time, some of these, either with well-defined characteristics at the outset or later after some adjustment, established themselves in financial practice; others of a more composite nature broke up into different parts thereby producing distinct contractual forms. These processes of assimilation, experimentation and selection did not occur in total freedom, but were profoundly influenced by the canon law ban on interest that was obviously binding in the states of the Church and exercised a moral force in the other countries of Christianity.

#### **1.4 External factors: interest and canon law.**

A crucial element in any credit transaction is the fee normally charged by creditors for lending money, a profit that canon law had long challenged and condemned as illegal. Interest-bearing loans, although legitimised by Roman law and in widespread use during the High Middle Ages, met with growing opposition from the Church, which judged that when the granting of a loan and its repayment occur in the same place and in the same legal money, the demand for interest albeit minimal is prohibited by the Sacred Scriptures and by the tradition of the Church Fathers<sup>9</sup>. The ban, which was justified by a theological argumentation based on fraternity and natural moral law, found solid support in secular power up to the time of Charlemagne and remained absolute until the 12<sup>th</sup> century<sup>10</sup>. From then onwards, economic life began to evolve more rapidly, above all in Italy. The use of money became more widespread and trade grew considerably, but the increase in metallic money in circulation could not satisfy fully demand partly because monetary flows tended to

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<sup>9</sup> A. PERTILE, *Storia del diritto italiano: dalla caduta dell'impero romano alla codificazione. Vol. IV: Storia del diritto privato*, 2° ed., Turin XXXX, pp. 590-591.

<sup>10</sup> R.M. GELPI - F. JULIEN-LABRUYÈRE, *Storia del credito al consumo. La dottrina e la pratica*, Bologna 1994, pp. 60-63; on this aspect see also G. TOZZI, *S. Tommaso: sul commercio e sul credito*, in *Studi in onore di Amintore Fanfani*, II, Milan 1962, pp. 639-710.

privilege the ruling classes in the form of feudal rights, rents and taxes instead of traders who suffered from limited access. In spite of the canon law ban, recourse to loans with interest grew in rural areas and even more so in the cities, in the secular world as well as in ecclesiastical circles. The ban on usury, in fact, damaged also the economic interests of the Church and its religious orders as, on one hand, it sterilised assets, rents and donations that otherwise could have been used in lending, whilst on the other it reduced the possibility of accessing external sources of finance should the need arise.

Growing pressure to abolish or skirt the canon law ban on the lending of money at interest opened up the way for a long and tortuous process of legitimisation, which ended only in the 18<sup>th</sup> century and which represented the Church's gradual and belated surrender to pressure from the real world.

A tenuous opening towards the legal acceptance of interest can be found in the scholastic usury doctrine which, with Saint Thomas Aquinas (1225-1274), reasserts the charitable nature of a loan (*mutuum*) of those things that can be measured, weighed or counted and which are consumed by use, whilst for other things the lender is recognised the right to compensation arising from the temporary loss of the money lent (*per quod subtrahitur sibi quod debet habere*)<sup>11</sup>. In the 14<sup>th</sup> century a less rigorous conception was developed and the greater part of both canon and civil doctrines, though maintaining the distinction between loans for consumption and loans for production, accepts for the latter lending at interest in three cases: *periculum sortis*, *lucrum cessans* e *damnum emergens*<sup>12</sup>. The basis for these three exceptions is that (i) the creditor would normally have his capital invested in productive activities and could therefore suffer an immediate damage due to the assignment of funds in the form of a loan, (ii) he would receive no income arising from the previous investment and (iii) he would also be exposed to the risk of default.

Various methods to avoid the charge of usury had been for some time commonplace in the most dynamic economic centres: in Genoa, the omission of the amount lent and the use of exchange contracts to disguise interest had been already in use since the late 12<sup>th</sup> century<sup>13</sup> and only a few decades later it was frequent practice to insert in a loan agreement the request for a sum of money on the grounds that this would cover risk and loss of profits. This means that the solution accepted by the scholastic doctrine was not new, but was simply the admission of stereotypes already developed by the market. Further steps towards the acceptance of interest occurred in the second half of the 15<sup>th</sup> century with the opening of *monti di pieta*, which offered credit without charge or at a minimal cost for workers in need, and in 1515 when Leo X authorised these institutions to charge the borrowers an amount destined to cover the costs of the transaction.

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<sup>11</sup> G. TOZZI, *S. Tommaso* cit., pp. 690-691.

<sup>12</sup> A. PERTILE, *Storia del diritto italiano* cit., IV, p. 593.

<sup>13</sup> R. DI TUCCI, *La nave e i contratti marittimi. La banca privata*, Turin 1933, pp. 86 sgg.

It was not until 1745, however, that Benedict XIV's encyclical (*Vix pervenit*) admitted the legality for anyone to apply a moderate interest charge on loans, so scaling down the canon law ban and paving the way for the adoption of loan agreements.

## 2. CREDIT IN ITALY AND ITS VARIOUS FORMS IN THE 14TH TO 16TH CENTURIES

### 2.1. The market calls and credit responds

The limits fixed by the Church may have helped to contain certain explicit forms of money lending with interest, but they were not able to prevent other modified or disguised variations developed to dodge the accusation of usury. Changes underway in political and economic life brought with them the need for greater financial freedom to better reconcile the requirements, on one hand, of capital providers, who demanded optimal returns and secure and easy disinvestment, with, on the other, those seeking funds who, in addition to the accepted practice of paying the lowest rates for the longest contracts, had a variety of differing needs depending on what they did and where they operated. In response to the twin factors of market expansion and technical advance (in particular double-entry bookkeeping), in the period between the 10<sup>th</sup> and 11<sup>th</sup> centuries and the early 17<sup>th</sup> century, the diversity of credit types in use placed Italy at the forefront in Europe. The variety of financial solutions adopted were of two main types: monetary contracts and instruments of credit<sup>14</sup>.

### 2.2. Monetary contracts

On the basis of the historical sources at our disposal, credit transactions agreed on solely by the lender and borrower without the intervention of third parties certainly do not appear to be the most widely used in the Middle Ages or the modern era. There is little doubt that the document containing the parties' obligations was destroyed on the successful completion of the contract and the only surviving examples are those contained in some insolvency proceedings. However, the serious risks faced by the debtor and creditor meant that they typically would use the services of a notary public who, in the presence of witnesses, would listen to the positions of both parties so as to formulate an agreement that would avoid any interpretative distortions. This explains why we can find amongst the historical sources of the time countless examples of credit transactions signed in front of a notary and made up of so-called monetary contracts i.e., a category that, given the rarity

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<sup>14</sup> For a useful overview of the development of medieval mercantile law in the Mediterranean, with reference in particular to Genoa and Venice, see V. PIERGIOVANNI, *Il diritto dei mercanti genovesi e veneziani nel Mediterraneo*, in G. ORTALLI-D. PUNCUH (eds.), *Genova, Venezia, il Levante nei secoli XII-XIV. Atti del convegno internazionale di studi. Genova - Venezia, 10 - 14 March 2000*, Genoa 2001, pp. 59-72..

of private documents and the limited use at that time of instruments of credit, represents undoubtedly the most common credit form of the period.

Despite having the legal support of a notary in common, monetary contracts differed widely in terms of the standing of the parties involved, the nature and duration of the agreement, the amount involved, the payment of interest, the method of repayment and the type of guarantees offered by the debtor. However, they all conformed to models foreseen by doctrine and recognised *de iure*, which in Italy at that time were of three main types (each with their own variants and sub-variants): census, loan and exchange; three further types that were still in their early development stage and so not widely used were bank deposits, advances and discounting.

#### **a) Census**

An important monetary contract was census (not to be confused with its present day meaning i.e., a count for official purposes), which underwent various transformations during the Middle Ages<sup>15</sup>. The oldest type (level census) was tied to a property lease and represented the annual amount (*census, pensio, livellum*) payable to the owner by the tenant for the use of the property for an agreed period of time; it was in other words the rent to be paid for an area of land or for the use of a building. Alongside this form, another type of agreement, with its roots in ancient times, started to be developed in ecclesiastical practice and subsequently also in agreements between individuals outside the Church: the *contractus censualis*, where an owner assigned the property in land to another person against the payment of rent (*pensio*), the non-payment of which, however, did not affect the latter's property rights.

From this contract, whose distinctive features were defined at the start of the 13<sup>th</sup> century by Bernardo da Parma and by Cardinal Sinibaldo de' Fieschi (Innocent IV), emerged the reserved or retention census (*censo riservativo, censo ritentivo*), normally considered legal as regards the question of usury and which was to remain basically unchanged until the 18<sup>th</sup> century. In contrast with it the doctrine offered the constitutive census (*il censo consegnativo, il censo costitutivo*) where a creditor paid a debtor a sum of money for the purchase of an annual census which the latter would pay to the creditor. We are dealing here in fact with the purchase of an annual income flow (paid for in money or in kind) for an agreed period (a certain number of years, perpetually, for the life of the creditor or the life of another person named by the creditor), with the right of redemption extended to one or both of the parties. The extensive use of this census got round the prohibition of usury thanks to a play on the rent/capital relationship. However, in the 13<sup>th</sup> century, the question of its legitimacy was raised, with its initially being accepted only in very few cases and with greater

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<sup>15</sup> F. VERAJA, *Le origini della controversia teologica sul contratto di censo nel XIII secolo*, Rome 1960, pp. VIII+ +245.

tolerance being shown later. During the 15<sup>th</sup> century, the attention of canonists turned to certain types of private incomes in the form of tax revenues, sold for cash by the state authority in various cities (Venice, Genoa, Florence, etc.) and known with the name of *compere, montes, imprestita*. A series of papal edicts addressing the legality of these instruments followed: the first was Pope Martin V's bull of 1425, followed in a similar vein by Callistus III's mandate of 1455, which offered the debtor the opportunity of extinguishing at any time the census either in part or in full through the payment of a sum equal to the capital received, denying the creditor the right to demand the return of the sum advanced. A bull of Nicholas V (1452), in addition to these dispositions, accepted the possibility of establishing a charge not only on real estate, but also on *facultates* and all other types of income as well as recognising the buyer's right to require the borrower to mortgage his property as security for the payment of the census. Despite the favourable position of the Church, the question was hotly debated by jurists and moralists until the whole matter of the constitutive census, of which the *compere* had become accepted as a variant, was regulated by Pius V in the bull *Cum onus* (1569), with additions made a year later (1570) and applied throughout the Italian peninsula with the exception of the southern kingdoms, which remained faithful to Nicholas' edict of more than a century before.

*Cum onus* in fact: (i) prescribed the intervention of a notary at the deed of sale of a census; (ii) limited its use solely to real property or similar capable of producing earnings and enclosed by distinct boundaries (thereby sanctioning the view that tax revenues were forms of earnings generated by real property); (iii) differentiated between redeemable censuses (if specified as such in the contract) and perpetual censuses; (iv) recognised the right solely of the buyer to redeem the census at his discretion by returning the capital received.

The regulation of the contract brought about by Pius V's edict had immensely significant effects. On one hand, the legal framework that the census now had inevitably led to its use in certain areas of economic life rather than others. On the other, the census now offered the certainty of complete legality in transactions both for private individuals, who made considerable use of this instrument in the 16<sup>th</sup> and 17<sup>th</sup> centuries, and for states, which were more than happy to accept the canonists' position that tax revenues were similar to the earnings generated by real property and that only the debtor could decide if and when to repay the loan. In this way, states were able to legitimise public interest-bearing loans as censuses made up by the public revenues mentioned above and intensify the recourse to borrowing under the same form. Additionally, *Cum onus* established only the general principles on which the census was based, leaving room for other legal variants, such as tying the census to the life of a determined person (the creditor, the debtor, a third-party), on whose death the debtor's obligations were fully extinguished (life census), bringing forward repayment

when market interest rates fell, breaking up the repayment into different time periods, assigning the census by drawing lots etc..

## **b) Loan**

One of the most widely-used contracts was the simple loan made up essentially by a creditor, who assigned a sum of liquid money to another person (the debtor), who undertook to return the sum in the same place and in the same monetary form along with an interest charge payable in money, provisions or works<sup>16</sup>. In practice, during the historical period we are examining, the contract drawn up did not and could not reflect the situation described since one significant ingredient of the loan – interest – was banned by canon law, being prohibited by the fifth book of the Pentateuch for relations between Christians (it was not prohibited, however, in dealings between Christians and non-Christians).

For this reason, from the earliest known examples in Italy and for many centuries onwards, the loan contract avoided any reference that might suggest the existence of an interest charge and contained instead the name of the two parties, the sum of money received by the debtor and his promise to return it on a certain date. Formally, the interest ban was respected because it was not mentioned, but the fulfilment of *all* the terms of the contract, which could not be stated in writing due to the ban on usury, was dependent on the good faith of the parties and in the event of disagreement on the intervention of a judge. On other occasions, anticipating or taking advantage of openings by canonists in favour particularly of the mercantile classes, only the amount to be repaid at maturity was stated in the contract rather than the exact amount actually received (*tot de tuis rebus*), or the loan was expressly stated as being free of charge with payment due in eight days, with a fine (at times quantified) for late payment to cover loss of earnings or risk of default.

The risks involved in a legally controversial area such as this, plus those associated with contingencies of other types, led to the development of other, more complex contractual forms where the loan component was hidden or not easily identifiable. A frequent and important example is the contract of sale with a repurchase agreement<sup>17</sup> by which the buyer (creditor) purchased for a certain sum of money from a seller (the debtor) a good on condition that the seller was to repurchase the good at a later date for an agreed sum. The contract had clear elements of usury if it had a fixed duration (some of these contracts were also perpetual) and the sum of money received

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<sup>16</sup> A. PERTILE, *Storia del diritto italiano* cit., IV, pp. 589 *et seq.*

<sup>17</sup> In Italian known variously as “*patto di retrocessione*”, “*retrovendita*”, “*recupera*” and “*scrocco*” For the latter term, see F. Galgano (*Lex mercatoria*, Bologna 2001, p. 59). Its Arabic origins are clearly evident in the Latin term “*contractus mohatrae*” provided, for instance, at the entry “*Usura*” (Usury) in *Novissimo digesto italiano* (p. 374).

by the debtor was lower than the amount he had to pay for the resale<sup>18</sup>. There were countless ways of concealing the loan, with different varieties being used throughout the Italian peninsula also in the modern age. In the territory of Milan, as documents from the 10th to 11th centuries show, the transaction always involved pledged real property, the use of which could pass either to the creditor or remain with the debtor. Various forms were designed to disguise its real nature, for instance the creditor: could purchase land from the debtor and keep it until the resale, receiving the profits from the land as a form of interest; allow the debtor to use the land in exchange for a payment until redemption; assign to the debtor usufruct and the right to sell the land to third parties with the creditor maintaining his right of pre-emption<sup>19</sup>. In other rural applications, the creditor purchased and paid in advance a price established for a part of the upcoming harvest and the debtor had the obligation to purchase it immediately after at the then current price; alternatively, the creditor lent a quantity of provisions of a certain value and the debtor promised to give the creditor after the harvest a quantity of foodstuffs equivalent to the market price then in force. In these cases, the interest is implicit in the difference existing between the initial and final price that the creditor, taking advantage of his influence, tended either to increase or reduce on the basis of the market price quoted depending on whether during the harvest he had to resell or repurchase<sup>20</sup>. Related to these transactions was the so-called "*vendita alla voce*", a vehicle for usury practices particularly common in rural, southern parts of the country, where a trader or important landowner (the creditor) paid a peasant (the debtor) an amount corresponding to a provisional value for the purchase of farm produce to be delivered after the harvest and paid for at the market price to be established by the local prices committee (this committee, as regularly occurred in many rural communities in Italy at the time, was responsible for keeping under observation the prices of principal foodstuffs that were subject to price fixing). The amount of interest depended therefore on the price fixed at harvest time, which the committee – easily influenced by the creditor – would tend to fix in his favour<sup>21</sup>. Amongst other solutions produced by the market was the extremely common practice of substituting the loan with other types of legal contracts that foresaw interest in the form of a difference in exchange rates (outward and return bills) or a variant (legal or not) of the census contract that enabled the creditor not only to protect his capital, but also the payment of interest.

### c) Sea loan

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<sup>18</sup> For a discussion of the use and importance of the agreement, see A. PERTILE, *Storia del diritto italiano* cit., IV, pp. 570-572.

<sup>19</sup> C. VIOLANTE, *Per lo studio dei prestiti dissimulati in territorio milanese (secoli X-XI)*, in *Studi in onore di Amintore Fanfani*, I, Milan 1962, pp. 646 et seq..

<sup>20</sup> A. PERTILE, *Storia del diritto italiano* cit., IV, pp. 550.

<sup>21</sup> *Ibidem*, pp. 565-566.

The principal difference between the sea loan and other forms of loans lay in the fact that the debtor was a merchant who travelled overseas, so increasing the creditor's exposure to risk. This contract (*foenus nauticum*) also foresaw initially the assignment of liquid money at the port of departure and its repayment in the same money form and in the same port on the ship's return from a voyage agreed on or after an established period of time, probably with an additional payment to be made in the form of interest.

In the event of a total loss of the ship arising from sinking, destruction or capture, the credit was extinguished and the debtor's liabilities ceased. Taking into the account the high degree of risk, the amount of money demanded by the creditor was obviously far higher than the sum supplied. Such a practice clearly raised suspicions of usury to such an extent that sea loans were explicitly condemned by the Church in 1236. Both before and after this date, sea loans nevertheless continued to be stipulated in various forms designed to disguise the demand for interest such as for example specifying in the agreement not the amount advanced but the amount to be repaid, or specifying that the amount advanced was free of charge (*gratis et amore*), but that repayment was subject to the ship's return to its port of departure. Another widely-used variant, which was based on land exchange, was that repayment was to be made after the arrival of the ship in a foreign port and in local currency, so making it impossible to calculate from the rate of exchange (itself variable) the amount of any interest charged. It is possible that the contract, known as the sea exchange loan (*prestato a cambio marittimo*) implied in some cases a second contract covering the return journey to the place of departure in order to repay the creditor in its own currency, but it possible that this type of contract marked an increasing presence of merchants in overseas traffic. In the modern age, thanks also to the relaxing of canon law controls, the new importance of trade, the use of bills of exchange, the movement of exchange fairs and the practice of endorsement all determined further changes in the contract, which was by now in universal use throughout Europe. In its new form, it became known in Italian as *cambio marittimo*, literally maritime or sea exchange, where the ambiguous term "exchange" does not presuppose the translation of an amount from one currency to another, which was not the case; further confusion arises from the fact that in Genoa, where the contract was in common use in the 17<sup>th</sup> and 18<sup>th</sup> centuries, the expression *cambio marittimo* was for a long time used as a synonym of loan. This contract to all effects differed little from the *foenus nauticum*, except that the essential terms and conditions, and the amount of the values were stated explicitly without subterfuge: as in the old model, the repayment of the capital and the payment of interest were subject to the ship's safe return, the credit was guaranteed by a mortgage on the ship's hull and rapid credit collection procedures existed in the event the master of the ship did not pay the amount owed. The contract designed in this way had the problem of attempting to satisfy different

needs: on one hand, the credit necessary for managing the marine adventure and, on the other, the covering of marine risks. It was not until the 19<sup>th</sup> century that these two developed, splitting into two distinct parts; one that led to the development of the naval loan contract, whilst the other was to join the centuries' old branch of marine insurance.

#### **d) Mercantile exchange by letters**

Of widespread use in mercantile centres was the contract of exchange or *cambium per litteris*; the oldest known examples of which were Genoese and go back to 1155, although the transaction was probably already well-established before then. This contract allowed one person to pay a certain amount in local currency to another person, who would pay (or arrange to pay) the former (or a person indicated by him) a certain sum in another place and in the currency of that place.

The transaction could involve only two individuals, although this was rarely the case, provided the parties in the first market exchanging a certain sum of money both travelled to the second market, where they personally settled the amount due; alternatively, the transaction could involve another, third person in the final market, appointed by one of the parties to pay or collect the funds in his name, or other two persons, each acting on behalf of one of the parties. The latter is the classic model where four individuals operated in two different locations: the person providing the capital (the creditor or money supplier), who in general was a merchant with funds in market A, wanted these to be transferred to market B in order to carry out payments there; his correspondent in B who on his behalf had to collect a bill (the beneficiary); the person receiving the money in A (debtor, payee, drawer), who was typically a merchant in A requiring funds to purchase goods for sale in B; his correspondent in B (drawee), who had to pay on his behalf.

At the moment of the signing of the contract, the receiver of the funds handed over a letter to the provider of the funds which he would send to the beneficiary in order for it to be presented to the drawer to receive payment. Over time, the letter acquired the characteristics of an autonomous instrument of credit, the bill of exchange (see below), which would supersede but not completely replace the exchange contract. In fact, the latter continued to be used in many places up to the mid-17<sup>th</sup> century, probably because of the legal recognition the contractual ties between the parties received from the courts in the cities where they lived.

#### **e) Bank deposit**

This contract is not to be confused with the deposit contract already foreseen and regulated by Roman law, which offered no space whatsoever for the granting of credit as it consisted solely in the delivery for safe keeping and without charge of a precisely identified movable object with the

obligation of returning the same object received. The so-called irregular deposit was very different; here the object deposited was a fungible good, in particular money, which had to be returned and which the depositary, having obtained the property, could make free use of. It became particularly important in city communes, where the expansion of the mercantile and monetary economy had encouraged private individuals to deposit sums of money with *bancherii* and merchants, sometimes for simple safekeeping, but more often as source of income.

This unnamed contract, which was in no way related to typical contracts of the Middle Ages, was already in use in the late 12<sup>th</sup> century and consisted of a deed under the seal of a notary in which a banker declared the receipt of a certain sum of money and promised to return the sum either on request or at an agreed future date. The reason for the transaction was rarely stated (*nomine depositi*, <*pecunia*> *quas teneo in banco meo*, etc.) along with any mention of interest<sup>22</sup>. Subsequently, the transaction was recorded in a deposit ledger of the depositary/banker – the *banchieri de scripta* – along with the delivery to depositors of various types of documents proving the receipt of the money and the obligation to return it. These documents were essentially receipts that acted as proof of the creditors' rights and which were the forebears of the first banknotes, which would appear in the modern age (credit notes issued by Neapolitan banks, receipts from the *banchi di San Giorgio*, coupons of the *Banco di Santo Spirito*, etc.).

The spread of irregular deposits in the closing centuries of the Middle Ages and in the modern age was helped by a variety of factors: these deposits offered the possibility to skirt the usury ban by presenting interest either as a gain deriving from the joint participation in a business venture or as a discretionary offer made by the debtor, as was common practice amongst the Florentine *banchi* of the 15<sup>th</sup> century; state bodies such as the Venetian Wheat Chamber or public *banchi* offered these deposits special privileges; the law often made it compulsory to deposit sums above a certain amount solely with public *banchi*.

#### **f) Advance**

In today's terminology, an advance is a transaction by which a bank lends a customer a sum of money secured by pledged goods or financial instruments. In general, the credit is used by the customer for business transactions that have yet to be completed. In these terms, the contract has been in use above all in recent times i.e., since the 19<sup>th</sup> century. Before then, the contract was certainly known of, but documentary sources are scarce. In mid-14<sup>th</sup> century Milan, the constables of mercenary bands would receive from the Visconti treasurers an advance of their wages (a loan) secured by the wage itself, whilst the mercenaries obtained money from private money lenders by

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<sup>22</sup> R. DI TUCCI, *La nave e i contratti* cit., pp. 89, 93, ecc.

pledging their horses, arms or future wages. In Florence, where the situation was similar, in 1362 a specific *banco* or “*presto degli stipendiarii*” was created to provide interest-free advances on wages to constables and corporals<sup>23</sup>.

Sporadic proof of advances on future incomes in other areas also exist: in the countryside during harvesting, in trade and shipping, where typically before leaving, crew members left the advance received from the ship owner with their families. The advances granted by public *banchi* to the state or to private individuals are better documented with ample evidence of these transactions in the 15<sup>th</sup> century accounts of the Banco di San Giorgio<sup>24</sup> and in the financial records of *banchi* in the modern age.

### **g) Discount**

In finance, discounting is the transformation of a future receivable amount into current liquidity; this transformation implies the existence of interest equal to the difference between the amount due at term and its lower present value. The party offering present liquidity in exchange for a future obligation is the creditor; the party receiving cash against the assignment of a future value is the debtor.

In these terms, discounting, i.e. the deduction of interest from an initial value, is implicit for instance in sale and repurchase agreements where lending at interest is disguised and is probably taken into account in the private transferring of term credits. In Venice during the 14<sup>th</sup> century, suppliers of salt to the commune assigned their credits to private individuals with discounts ranging from 30 to 14% of their face value<sup>25</sup>. However, such a transaction did not appear to be used at that time in official bookkeeping except in Genoa. Here discounting was introduced shortly after the middle of the 15<sup>th</sup> century in public debt transactions, which were at that time administered by the Casa di San Giorgio and whose interest charges (*paghe dei luoghi*, that is revenue of public securities) were paid several years later than the due date owing to a shortage of funds. From 1456, on the express authorisation of the Pope, the Casa delle compere, the Genoese state and private individuals could pay, collect and in general transact these interest amounts as if they were liquid money, deducting a sum (i.e. discounting) from their nominal values. This particular form of discount, although continuing to be used in Genoa until the mid 18<sup>th</sup> century, tended to be an

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<sup>23</sup> P. MAINONI, *Mutui alle compagnie di ventura al servizio dei Visconti*, in *Istituzioni e attività finanziarie milanesi dal XIV al XVIII secolo. Convegno di studi, Milano, 20, 21, 22 ottobre 1977*, Milan 1977, pp. 147-185.

<sup>24</sup> G. FELLONI, *I primi banchi pubblici della Casa di San Giorgio (1408 - 45)*, in *Banchi pubblici, banchi privati e monti di pietà nell'Europa preindustriale: amministrazione, tecniche operative e ruoli economici. Atti del convegno: Genova, 1 - 6 ottobre 1990*, I, Genoa 1991, p. 233.

<sup>25</sup> J.-C. HOCQUET, *Le sel et la fortune de Venise*, II, *Voiliers et commerce en Méditerranée 1200-1500*, Lille 1979, pp. 456-464; la citazione è di R.C. MUELLER, *The Venetian Money Market. Banks, Panics, and the Public Debt, 1200-1500*, Baltimore-London 1997, p. 111.

isolated case. In Venice too, during the same decades as in Genoa, financial difficulties caused considerable delays in the payment of interest on public debt: in 1453 the Chamber of Loans (*Camera degli imprestiti*) was 8 years behind, in 1463, 12 years, in 1480, 21 years...; interest arrears represented a non-interest bearing credit that was actively traded, whilst the discount that was probably applied was to remain a private activity and to be systematically ignored by public finance<sup>26</sup>.

### 2.3 Negotiable instruments

Gradually, these forms of credit, in use generally everywhere and made up principally by monetary contracts, were flanked by other more sophisticated contracts that were applied to much more specific areas of economic life. Driven by specific needs, market participants tended to experiment with other types of mechanisms whose use was inevitably linked to their position as regards the law and the moral evaluation offered by the Church. For the new credit forms to be widely adopted, legal certainty about their characteristics had to be in place. Such a process took a considerable length of time as the response of law makers could not address only the changes under way in the market, but had also to take account of the views of the Church, which was in Catholic countries the highest moral authority.

Undoubtedly, from the last centuries of the Middle Ages credit and the world around it experienced a series of innovations which, though difficult to pin down exactly in time and place, were to have significant effects at the economic, legal and business levels. The end result of this process of innovation and development was the creation of instruments of credit i.e., paper documents issued by the debtor and delivered to the creditor in exchange for liquid funds and which conferred on the latter (or his rightful assignee) the right to repayment. These documents had three specific characteristics: (i) they contained an undertaking made by the debtor to fulfil the terms of the agreement or instructions addressed to a third party for its performance, both therefore having a probative function as regards the creditor's rights; (ii) they allowed for a more rapid assignment of right and can be transferred from the creditor to another person via delivery or endorsement; (iii) they accelerated contractual performance times as well as offering higher levels of protection

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<sup>26</sup> G. LUZZATTO, *Il debito pubblico della repubblica di Venezia dagli ultimi decenni del XII secolo alla fine del XV*, Varese-Milan 1963, p. 258, and for a particular case, note (<sup>187</sup>); A. PERTILE, *Storia del diritto italiano* cit., II, parte I, p. 511.

against non performance since being notices of execution they were sufficient to enable a dissatisfied creditor to obtain from a judge an order of distraint of the debtor's property.

The instruments of credit in use in the Italian peninsula at the beginning of the modern age, included: the bill of exchange, which was widely used despite its then limited negotiability; the bill of lading and policy of insurance; public debt securities, existing in a somewhat abstract form, were soon to take on distinct features from the 17<sup>th</sup> century onwards. This albeit limited number of instruments had a significant impact on economic life as they aided enormously the circulation of capital invested in trade, shipping and state finance.

### **a) Bill of exchange**

Amongst the differing types of credit instruments, the bill of exchange was the most flexible and most widely used by merchants, bankers and agents of the past. In order to trace its origins, we have to go back to the 12<sup>th</sup> and 13<sup>th</sup> centuries, when the word *cambium* denoted the two ways in which money could be traded.

The first, more correctly termed *cambium manuale* or *cambium sine litteris*, was used by the *campor* (money changer) and consisted in the receipt of one type of money in exchange concurrently for another. The second form of *cambium* was termed *per litteris* so as to distinguish it from the first use. As we have already seen, on signing the contract, the creditor received from the debtor a letter addressed by the latter to the drawee, inviting him to pay the beneficiary (payee) the amount indicated. Once in possession of the letter, the creditor sent it to the payee, who would then present it to the drawee in order to receive payment. The letter, called *tracta*, represented at first a simple complement to the agreement (in fact it tended not even to be mentioned in the instrument) and contained solely the debtor's order of payment addressed to his foreign correspondent. In time, the essential elements of the agreement (the written document containing the order of payment in favour of the creditor's agent, the presentation of the order to the debtor's agent and the payment of the sum owed) were to be contained in one autonomous document i.e., the bill of exchange.

Scholars differ as to whether the bill derived from the *instrumentum* or, which appears more likely, from the *littera*. The fact remains that in the early 15<sup>th</sup> century the bill of exchange, supported by the recent spread of acceptance (Florence, 1393, Lucca 1396, Genoa 1403) and protest (Genoa 1384 ?) had already acquired the status of a document of credit and the exchange transaction took the form of a straightforward sale and purchase of the bill of exchange, which the creditor (the provider of the money) purchased in cash from the drawer (the receiver of the funds).

The new instrument was soon to become widely used, thanks to the possibility it offered of: 1) settling business transactions with other markets; 2) carrying out financial transactions with

correspondents operating in distant locations; 3) covering local interest-bearing loans judged illicit both by the Church and by law. In other words, in addition to its mercantile function, which opened up the possibility of making payments over long distances without the risks associated with the physical transfer of money, the bill of exchange was also able to perform a financial role by covering interest-payable loans whilst disguising the interest as the exchange differences present in various trading locations, thereby evading the Church's usury laws.

The Church's position as regards these two functions – mercantile and financial – was not uniform. In fact, in a Papal Decree of 1517, Pius V condemned dry exchanges (i.e., the combination of an outward bound draft from place A to place B and a return draft from B to A) as a device for splitting into two formally distinct parts the lending of money and its repayment with interest. Only transactions that moved money in one direction were permitted as these implied a different place of issue and payment which apparently guaranteed the existence of a licit relationship (i.e., a commercial transaction and the transfer of money from one market to another).

The rejection by the Church of dry exchanges was the cause of considerable concern for the financial world and Genoa in particular. In fact, from the late 15<sup>th</sup> to early 17<sup>th</sup> centuries the Genoese market in exchange contracts grew continuously and the need to disguise more effectively these financial transactions led to further developments in the bill of exchange: the two bills (outward and return) gained further independence to the extent that it became virtually impossible to view them as the two legs of an interest-bearing loan. The Church, albeit far from having a clear and rigid position on the question, was forced to introduce a string of exceptions and a more flexible interpretative approach. However, legitimisation under canon law of the financial use of bills of exchange would only occur in 1745 with, as we have seen, Benedict XIV's encyclical that admitted the legality of (moderate) interest charges on loans.

The process of drawing up a regulatory framework for the bill of exchange involved the participation also of canonists and lay jurists (in particular, Scaccia from Rome and della Torre and Casaregis from Genoa), who were often torn between the need to respect canon law on one hand and the interests of merchants on the other. A more useful response to the requirements of the market came from judges who, having to decide on concrete matters, legitimised many mercantile conventions and practices. An important example of this was the adoption of simplified procedures in favour of the payee, which increased the degree of safety and flexibility of the bill of exchange. Genoese statutes passed in 1498 and 1589 established that an insolvent debtor in regard to the debt owing under a bill of exchange had twenty-four hours to pay, after which time enactment of seizure of his property would take place. In Naples, the question was regulated by an ordinance of 1565, promulgated at the petition of Genoese and Florentine merchants, which recognised the

unpaid bill as an order of execution i.e., compelling the debtor to pay, provided the bill had been accepted and protested in the appropriate way.

Although the bill of exchange was extremely useful in transferring money from one market to another, two characteristics held back its diffusion: 1) it could not be endorsed, thereby being payable only to the payee or his agent; 2) the payee could collect payment solely in the place where the drawee or his agent had their registered offices. To overcome these obstacles, drawers developed the practice of making bills payable by the drawee or his agent in a particular fair (which would act as the temporary domicile of one or the other). In this way, the bills tended to circulate above all during trade fairs, where they could be paid, cleared or renewed.

Bills of exchange were initially domiciled in trade fairs held in the Champagne area of France and subsequently in Geneva, Lyons and Antwerp. However, in 1535 Genoese bankers established fairs in which only bills (financial and mercantile) were traded rather than goods. These exchange fairs, as they became known, began at first in Besançon, from where they moved to other places such as Piacenza, Novi and Sestri Levante, significantly ever closer to the operational centre of the transactions, Genoa. The exchange fairs lasted eight days and were held four times a year at regular intervals (the Apparition, Easter, August, All Saints) in accordance with rules established by the Genoese senate. Compliance with these regulations was entrusted to a specific authority made up by a consul and two councillors (one of whom was from Milan) which acted also as court of first instance. The primary players in these transactions were bankers, merchants or agents, who moved from their home markets to the fairs in order to settle their firms' bills or those of others. The fairs utilised their own monetary system based on a unit of account (the scudo) that was fixed to gold<sup>27</sup>. In this way, the fairs acted as a form of suction pump that would attract bills from all over Europe, settle them with a multiple clearing system that was a forerunner of today's clearing houses, and issue new bills for use on individual trading markets or later exchange fairs.

Although transactions took various forms, they can be categorised into two main types: free exchanges, which were used above all in settling trade debts, and exchanges with recourse, which were used in financial transactions. The latter type consisted in a series of bills that were renewed every three months, enabling the debtor access to a certain quantity of funds for an established period of time. Genoese financiers were in this way able to borrow money from savers and with the considerable sums collected offer credit to third parties, in particular to the Spanish Crown and its Italian dominions, making a profit on the difference between the interest paid to savers and that received from borrowers.

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<sup>27</sup> The rate used was 100 scudos for 101 gold scudos of the so-called "five dies" (i.e. Spanish, Genovese, Neapolitan, Florentine and Venetian coinage).

The exchange fairs experienced considerable growth for more than half a century, during which time the Genoese became Europe's major financiers. Turnover started to increase in around 1550, accelerated after 1580, and peaked in the years 1596-1610, when the volume of bills traded per fair amounted to about 10 million gold scudos, that is 40 million per year, a figure equivalent to the annual revenues of Spain, France, England and Italy put together. The next decade was characterised by less dynamism often against the backdrop of imminent depression. From around 1620-1625 onwards, the glory days of the Genoese fairs were over. The decline was principally due to the suspension of Genoese funding to Spain, whose public finances were increasingly out of control, and the development in other centres of bills of exchanges that allowed endorsement, thereby enabling the payee to transfer the bill to a third party and collect the proceeds in his place of residence.

### **b) Bill of lading**

The Bill of Lading's origins lie with ship logbooks, which the copyist on board, in line with trading practice in the Mediterranean, would deliver to the shipper with a description of the goods loaded on his behalf (Tiepolo's Venetian statutes of 1229 are very clear on these aspects)<sup>28</sup>. In the 14<sup>th</sup> century, probably as a result of increased shipping relations with northern Europe, the document began to be filled in and signed by the master of the ship himself, as was common practice in northern waters. Over time, the document was transformed from a simple receipt into an instrument that gave the consignee the right to demand delivery of the goods described in the bill, regardless of any events taking place, and it was negotiable to order by endorsement or to bearer. It is difficult to say precisely when the bill acquired these features; in fact, for a long time the document was known by names that indicated its original function (*scriptum de recepto*, *apodixia*, *scriptura*) and it was only in the 16<sup>th</sup> century that it began to be called *apodixia caricamenti*, or port or loading note and eventually in Italian *polizza* (i.e. policy) *di carico*<sup>29</sup>. In the same period we find the earliest surviving examples of court records of shipping litigation in Genoa; the Civil Rota judged on several occasions that the person specified on the bill had the right to receive the goods and the transfer of the document to a third party implied also the transfer of the right to receive the goods to the same person. The decisions of Genoese courts of the 16<sup>th</sup> century therefore established that the bill of lading to be such had to have two essential features: it was proof of the consignee's right to

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<sup>28</sup> G. CASSANDRO, *Saggi di storia del diritto commerciale*, Naples 1978, p. 332; on ships' logs, see M. FORTUNATI, *Scrittura e prova. I libri di commercio nel diritto medievale e moderno*, Roma 1996, pp. 176.

<sup>29</sup> E. BENZA, *Le forme primitive della polizza di carico*, Genoa 1925, p. 15; E. BENZA, *L'evoluzione storica della polizza di carico ed il problema delle lettere di garanzia*, Milan 1926, pp. 14; see also A. PERTILE (*Storia del diritto italiano* cit., IV, p. 692, for a discussion of the port or loading notes, which could be endorsed by others in the event of the sale of the goods).

receive the goods specified therein and it was transferable. It is difficult however to say whether the bill of lading was already at this time also evidence of a creditor's lien on the goods of the master of ship arising out of non-payment, as certainly became the case in the 17<sup>th</sup> century<sup>30</sup>.

### c) Policy of insurance

Although insurance already covered life and land transport risks in medieval times, it owed its development primarily to shipping. The increase in overseas traffic not only acted as a stimulus for the development and refinement of transport documentation, but it also opened up the need for cover against loss or damage to the ship and cargo. According to available sources<sup>31</sup>, the question of risk of loss – total or partial – was of already of importance in the late 12<sup>th</sup> century and already appeared in loan and maritime exchange contracts, where the significant difference between the amount lent and the amount repaid included indiscriminately interest and an increase according to the level of risk. Insurance cover contracted solely against possible loss of the ship and/or its cargo took various forms in the late 13<sup>th</sup> century, typical of transaction types still in their nascent stage. One of the most common models was one in which one or more insurers (debtors) agreed to pay the insured an agreed sum only if the insurable good specified (the ship and the freight payable or cargo) did not reach their destination safe and sound. In the event of the insured good's safe arrival, the debt was to be considered cancelled. In some cases, the contract stated that the insurer's debt derived from his having purchased the goods, thereby giving the appearance of an undertaking to sell in the event of the loss of the ship<sup>32</sup>. Until the late 14<sup>th</sup> century, Genovese notarial deeds made no mention of the premium, which the insurers probably received on the signing of the contract, whilst documents from Pisa in 1324 and from Lucca in 1334 clearly contain reference to the payment of a sum of money “*per la sigurtà*”<sup>33</sup>, *pro securitate*<sup>34</sup>. Flanking or replacing these notarial deeds, one can find private agreements, *apodixia* or policy, which initially acted as a receipt for payment and subsequently, above all in Venice and Tuscany, was a document that contained the full contents of the contract of which it was also evidence. Initially, Genoese merchants continued to use the services of a notary, but towards the end of the 14<sup>th</sup> century, possibly influenced by the

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<sup>30</sup> *Enciclopedia del diritto*, XXXIV, p. 208.

<sup>31</sup> E.BENSA, *Il contratto di assicurazione nel Medio Evo. Studi e ricerche*, Genoa 1884, pp. 238; F. MELIS, *Origini e sviluppi delle assicurazioni in Italia (secoli XIV-XVI)*, I, Rome 1975, pp. XLVI+368; G. CASSANDRO, *Saggi di storia cit.*, pp. VIII+430.

<sup>32</sup> M. BALARD, *La Romanie génoise (XIIe – Début du XVe siècle)*, II, Genoa 1978, pp. 631-639; L. LIAGRE-DE STURLER, *Les relations commerciales entre Gênes, la Belgique et l'Outremont d'après les archives notariales génoises (1320-1400)*, I, Bruxelles 1969, pp. XC-CXXIII.

<sup>33</sup> M. BERTI, *Economia marittima e assicurazione a Pisa nella prima metà del Trecento*, in *Aspetti della vita economica medievale. Atti del convegno di Studi nel X Anniversario della morte di Federico Melis. Firenze-Pisa-Prato, 10-14 marzo 1984*, Florence 1985, pp. 413-422.

<sup>34</sup> F. MELIS, *Origini e sviluppi delle assicurazioni in Italia (secoli XIV-XVI)*, I, Rome 1975, pp. 5-6, 20.

presence of Tuscan merchants, they began to use a simple, private form of contract (*ad florentinam*), disguised as a contract of sale<sup>35</sup>. The elevation of the policy from a simple contract to an instrument of credit was completed when, in addition to the probative status it had already long enjoyed for example in Tuscany, it was attributed the same executive standing as a deed under the seal of a public officer and bills of exchange<sup>36</sup>. The legislative moves that sanctioned this crucial change were the transfer of insurance-related matters from a generic to a commercial judiciary: this arrived in Venice in 1468, in Genoa probably after 1485 and in Florence in 1524, when a dedicated section named “*Ufficiali di sicurtà*” was created within the confines of the mercantile court<sup>37</sup>.

#### **d) Public debt securities**

Another category of credit instrument derived from the evolution over centuries of public debt and particularly from medium/long-term loans required by states to manage extraordinary events. Capital providers would typically be recorded in a ledger along with the sums advanced; the lenders had the right to leave these amounts to their heirs or to assign them to third parties. As the amounts involved were considerable, to make calculations easier for administrators and creditors, in some countries the capital was divided into units. This was the case in Genoa at the beginning of the 13<sup>th</sup> century, where the system of *compere* i.e., consolidated loans was already in use. With this mechanism the term *locus* (later *luogo*; plural *luoghi*) also appeared in the financial language of the time to indicate the participation in a *compera* (the word had previously been used to measure the share of a joint ownership in a ship). The word with its new meaning possibly appeared for the first time in a document of 1214 and was subsequently adopted by the *monti* of Florence, Rome, Bologna and other Italian cities, excluding Venice. In its financial meaning, the *luogo* represented a quota of public debt, a standard amount corresponding to 100 units of account of local currency, which could be divided or combined, and which was registered, transferable and sometimes preferred<sup>38</sup>. The essential features of the *luogo* in many ways, with the exception of materiality, therefore had much in common with modern-day public-debt instruments. The next step was in the 17<sup>th</sup>-18<sup>th</sup> centuries when in some Italian states it became common to provide each subscriber with a document (coupon, card, share, certificate) which was proof and evidence of his credit. In Rome, the administration of the *monte* was regulated by a brief issued by Pope Paul V in 1615 which ordered, amongst other things, the recording in the licence (on parchment) of the details contained

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<sup>35</sup> J. HEERS, *Gênes au XVe siècle, Activité économique et problèmes sociaux*, Paris 1961, p. 207; F. MELIS, *Origini e sviluppi delle assicurazioni in Italia (secoli XIV-XVI)*, I, Roma 1975, p. 42.

<sup>36</sup> E. BENSÀ, *Il contratto di assicurazione nel Medio Evo. Studi e ricerche*, Genoa 1884, p. 137; F. MELIS, *Origini e sviluppi* cit., p. 25.

<sup>37</sup> *Ibid.*, pp. 172-176.

<sup>38</sup> G. FELLONI, *Genova e la storia della finanza: una serie di primati? - Genoa and the history of finance: a series of firsts?*, Genoa 2005, pp. 31-35

in the register of the *monte* along with any restrictions or obligations relating to the *luogo*, the withdrawal of the licence in the event it was assigned to a third party and the issue of a new licence for the new creditor. The innovation, first introduced by the Papal States and subsequently in Venice, Milan, Florence, Turin, etc. may not have led to an expansion in the market of *luoghi* administered by the *monti*, but by acquiring materiality the *luogo* was to gain the status of an instrument of credit<sup>39</sup>. As regards floating debt, in the Middle Ages warrants were occasionally used and issued by public entities in the form of paper documents that were registered and payable at sight. These documents resembled the *cartae debiti communis Mediolani* in circulation during the 14<sup>th</sup> century<sup>40</sup> and examples of these can be found in the ledgers of the commune of Genoa of the time. In the same period, not dissimilar were perhaps the credit notes (*fedi di credito*) issued by the *Monte* of the commune of Florence, despite the fact that they have been rather boldly described as having the same value as paper money<sup>41</sup>. In actual fact however they have nothing in common with modern-day Treasury bills or bonds: the former are writings authorizing the repayment of credits reaching maturity, whilst the latter are commitments made to pay at a future date in return for the immediate delivery of cash. The first modern day warrants, i.e. instruments designed to cover liquidity shortages on a systematic basis, were the Exchequer bills, issued for the first time in England in 1696.

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<sup>39</sup> F. COLZI, *Il debito pubblico del Campidoglio. Finanza comunale e circolazione dei titoli a Roma fra Cinque e Seicento*, Naples 1999; see in particular pp. 34 for the certificates, pp. 37-43 for administrative aspects and p. 246 for short-term securities.

<sup>40</sup> G. BARBIERI, *Aspetti dell'economia lombarda durante la dominazione viscontea-sforzesca. Rassegna di documenti*, Milano 1958, p. 31.

<sup>41</sup> L. DAL PANE, *La finanza toscana dagli inizi del secolo XVIII alla caduta del granducato*, Milan 1965, p. 38. The source for this statement probably was found in A. PAOLINI (*Ragionamento storico-politico sul debito pubblico della Toscana*, in "Continuazione degli Atti dell'I. e R. Accademia economico-agraria dei Georgofili", IX (1831), p. 198), who is the likely originator of the statement that these certificates "*acquistarono valore di carta moneta*".

### 3.0 THE CREDIT DEMAND SIDE

#### 3.1 The demand for credit and its determinants

The variety of contractual forms we have seen was the result of the agreements reached between the parties, whose needs varied according to their particular situation in a particular moment. In fact, an analysis of the situations underlying the demand for and supply of credit provide significant insights into the history of credit in Italy during the period under examination.

In the contemporary world, when analysing borrowers' characteristics and the reasons for their indebtedness, credit is typically classified into three main categories: consumption credit (the term used here in its strictest sense i.e., the borrower requires goods that will be extinguished on consumption, such as food, or requires money to purchase such goods); productive credit (a capital provider, rather than investing his funds directly in a productive activity, loans capital to someone who requires funds or is better equipped to invest them profitably in agriculture, trade or industry); public credit (the state or one of its agencies requires funds to carry out its ordinary and extraordinary activities).

This classification has significant implications for credit in terms of its efficiency: consumption-related credit only enables the debtor to face a difficult or temporary contingency and does not lead to any improvement in terms of investment either for the individual or for his community. Productive credit, on the other hand, by using the capital of some and the business acumen of others, allows for a multiplication of goods with positive knock-on effects for society as a whole in terms of the creation of wealth and the eradication of poverty. Public credit allows the state to cover the costs relating to war, foreign expansion or domestic development.

These distinctions have considerable historic support, albeit with differing degrees of documentation, and we will use them to investigate the multi-faceted features of the credit demand side of the period.

#### 3.2 Consumption credit and the *monti di piet *

Consumption-related credit, which owing to the ban on lending at interest had remained for a long time undocumented, probably was an established part of rural life, where low land productivity plus uncertainty as to the size and quality of harvests meant that the question of simply surviving was

often a daily one. Many, particularly the young, were forced to leave; those that stayed often had to borrow money or food against the fragile guarantees of a future harvest. The most common forms of credit appear to have been: a loan against pledged goods i.e. delivery of a chattel as security for the payment of a debt, where the agreement was stipulated either in a private document in two copies (one for each party) or in a notarial deed; the purchase in advance of a future harvest; the reciprocal sale and purchase of foodstuffs at different prices (the so-called “*stocco*”). The creditors were likely to have been prominent landowners with reserves in excess and local merchants who would act as intermediaries with nearby markets. Unfortunately, surviving sources on the subject are scarce and have attracted little attention from scholars and researchers; what documentation we do have can be found in synodal decisions relating to usury, in the reports of local functionaries and the records of court proceedings.

Also in the cities, cases of poverty were widespread as reflected by pauperism and the increase in steps taken to counter such phenomena at public and above all private levels from the 14<sup>th</sup> century onwards. The forms of consumption loans certainly resembled those used in the countryside, but the recipients were very different: not farm workers or small landowners, but casual labourers, craftsmen and employees of the state or private firms; in other words, they were neither unemployed nor beggars, but individuals with regular sources of income<sup>42</sup>.

Above all in support of these categories of debtors, from the 15<sup>th</sup> century institutions sprang up imbued with the Franciscan desire to fight usury through the granting of loans backed by pledged goods: the *monti di pietà*.

Although the public pawnbrokers which opened in Velletri (1402) and Arcevia (1428) were short-lived, those founded subsequently had more success, as their numbers proved. The first significant *monte di pietà* was established in Perugia in 1462 and was followed in the next twelve years or so by around forty others in central Italy, with further openings in the north (Bologna 1473; Savona 1479; Milan and Genoa 1483; etc.) and south (Lecce 1520, Naples 1539, Caserta 1548, etc.).

The biggest drawback these institutions suffered lay in the fact that, until the early 16<sup>th</sup> century, they depended almost exclusively on funds granted by the Church, offerings made by local nobility or donations coming from private individuals and from the income these generated; private money deposits, not being remunerated, probably had a less significant role. When the demand for loans exceeded the funds available, calls were made for charitable donations or bequests or, in particularly serious cases, requests for public offerings against indulgences during fund raising initiatives such as solemn processions.

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<sup>42</sup> P. MASSA PIERGIOVANNI, *Artigiani, credito e Monti di Pietà: l'esempio di Savona alla fine del Quattrocento*, in *Aspetti della vita economica medievale. Atti del convegno di Studi nel X Anniversario della morte di Federigo Melis. Firenze-Pisa-Prato, 10-14 marzo 1984*, Florence 1985, pp. 530-540.

The rules and operations of these bodies were set out in details in their by-laws, which dedicated close attention to the granting of credit. In the case of the *monte* of Savona, for example, loans could be made only to those living in the town, the district and the diocese. The borrower (whose name remained a secret) received a policy which had to be presented to reclaim the object pledged. These objects of pledge, inalienable and inviolable, had to be reclaimed within thirteen months (raised to eighteen in the case of non-perishable objects in gold, silver and metal) with the repayment of the loan and, possibly, the payment of an interest charge no higher than 0.875 % per month (9 % per annum); if the goods were not redeemed in the allotted time, they were sold at a public auction with the proceeds going to the *monte* as repayment of the loan and any surplus credited to the borrower<sup>43</sup>. The interest charged by the *monte* of Savona covered administration costs, in line with the recommendations made by the Franciscan Order, but this was not initially common practice. The *monte* of Padua, for instance, granted interest-free loans for amounts under 30 soldi, but applied a 5% charge for higher amounts<sup>44</sup>; other institutions preferred to follow the canon law ban on interest with the result that their funds for future lending were over time diminished. The situation radically changed in 1515 when Leo X, with the bull *Inter multiplices*, recognised the right to charge interest as a means of covering transaction costs. From this moment onwards, it was the Church itself that promoted the *monti di pietà*, which saw further expansion in Italy (particularly in the South), represented a serious challenge to Jewish money lenders in many parts of the country and also stimulated the growth of these credit institutions in other Catholic countries.

Alongside the *monti* established in cities and towns, there were similar bodies in rural areas, possibly evolving from pre-existing medieval organisations. Although information regarding these rural *monti* is limited, they appear to have grown from the 16<sup>th</sup> century onwards. Examples include *monti* specialising in the lending of chestnuts and other foodstuffs in mountain areas (*monti delle castagne*), and *monti* lending grain principally for sowing and to a lesser extent for consumption, which would be returned at the next harvest (*monti frumentari*). In Piedmont, grain was usually lent at interest, with the charge being modest if the borrower pledged goods and higher if he could not<sup>45</sup>.

### 3.3 Productive credit

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<sup>43</sup> P. MASSA, *La contabilità dell'antico Monte di Pietà di Savona. Illustrazione del primo registro (1480)*, in *Savona nel Quattrocento e l'istituzione del Monte di Pietà*, Savona 1980, pp. 305-329; G. FIASCHINI, *Per una storia del credito a Savona fino alla fondazione del Monte di pietà (sec. XII-XV)*, in *Savona nel Quattrocento* cit., pp. 237-238.

<sup>44</sup> G. ZALIN, *Il Monte di Pietà*, in "Padova e il suo territorio. Rivista di storia arte cultura", VIII (1993), n. 46, p. 57.

<sup>45</sup> G. CALIGARIS, *Evoluzione dei Monti di Pietà e politiche produttivistiche nel Regno di Sardegna in Età Moderna*, in P. AVALLONE (ed.), *Il "Povero" va in banca. I Monti di Pietà negli antichi stati italiani (secc. XV-XVIII)*, Naples 2001, pp. 36-37.

The information we have regarding credit granted for production activities in farming, crafts, trade or finance is undoubtedly scarce, though the acceptance of interest in these cases helps us understand better the documentation at our disposal. It is likely that most of these contracts were not short-term, as was the case for consumer credit, but had longer expiry dates compatible with the time required for the return of circulating capital and of fixed investments.

In rural areas, the sums needed for investments relating to farming or land were probably much higher than those required for the basic equipment used by craft enterprises in towns and cities. This supposition is based on the fact that the quality of those providing capital was very different. In the first case as some research reveals, the money was loaned by feudatories and large local landowners either with a pledge over the borrower's land or with the purchase of a property census; in the second case, the borrowers did not appear to be at a socially higher level than their creditors. As regards working capital credit, in country areas this took the form principally of the lending of seeds to farmers by major landowners, local merchants or *monti*. The subject however is still one that has been little explored.

In towns and cities, enterprises' fixed capital was modest and probably working capital credit in various forms prevailed. One such form was certainly purchases with payment made at a future date, which was used by families, public bodies, merchants operating on the local market and those in business relations with foreign correspondents; another was advances or down payments used by craftsmen working on orders from merchant/entrepreneurs and by merchants themselves in their dealings with customers. Records of these transactions can be found in notarial deeds, but usually they appear in the books of account where private individuals openly recorded (these transactions were now recognised as legitimate) the working capital lent or borrowed and updated their current accounts with correspondents with whom they had reciprocal clearing and settlement relations. Evidence of this has been clearly shown in the rigorous financial analysis of Tuscan registers carried out by F. Melis.

### **3.4 Public credit**

Undoubtedly, the most important (and best-documented) credit form was public credit, more commonly referred to as public debt when seen from the perspective of the state<sup>46</sup>.

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<sup>46</sup> For an overview of the state of public finances in North West Europe and the activity of Italian merchants there, see. E.B. FRYDE - M.M. FRYDE, *Il credito pubblico, con particolare riferimento all'Europa nordoccidentale*, in *Storia*

The conventional categories of public credit (floating and consolidated, with the latter sub-divided into life, redeemable and perpetual) also existed in the past. These various forms changed over time as a result of advances made in finance and in response to the needs of states. Developments in public debt however were also conditioned inevitably by the characteristics of the dominant political order. For most of the Middle Ages, in the case of monarchies, which were considered as mere, self-governing systems of wealth belonging to the king, it was difficult to distinguish between public debt and the liabilities of the monarch; on the contrary, in the city states and in the republics the personal assets of the administrators *pro-tempore* were distinct from those of the public entity they governed. Indeed, the life of the entity extended far beyond the life of its administrators. This is the main reason why in Italy and in other countries short, medium and long-term public debt appeared much earlier in city states rather than in absolute monarchies, where for a long time extraordinary needs had been met principally by using metallic reserves (treasures) accumulated by saving, war booty, confiscations, etc..

The earliest forms of indebtedness that we can find contracted by the communes arose with the creation of new political entities, whose capacity to set themselves against pre-constituted powers depended on raising adequate funds in the form of loans amortisable (hopefully) with future conquests. Over time, Italian city states and after them seigneurs and principalities continued to make recourse to financial markets. Their predominance in financial markets can be put down to three factors: firstly, political rivalry, overseas campaigns and new techniques in warfare (gunpowder, mercenary militias) meant considerable costs that states could cover solely by borrowing; secondly, these three areas of cost acted as an incentive to develop new ways of raising funds either in the form of forced lending or by voluntary forms attractive to potential subscribers; thirdly, frequent conditions of insolvency led to, in the long run, the accumulation of public debt which, in turn, in some ways was responsible for the creation of securities markets.

Whilst short-term needs could be met by obtaining advances repayable with future tax receipts, more sizeable commitments meant either creating forms of indebtedness that the state could repay over the medium and long-term or exacting forced loans from all citizens on a means test basis. The solutions adopted are documented by historical sources though it is likely that these solutions might have made their first appearance some time before. On the basis of these documents, Genoa appears to have taken the lead with a transaction that was perhaps inspired by the reserved or even the constitutive census then still in use: the Commune assigned to a group of private lenders, in exchange for an amount of money and for a designated period of time, the revenues generated by a

particular tax as a guarantee of repayment of principal and interest; sources for this type of transaction go back to 1141 and soon after additional refinements were added, such as the right of redemption (1150). Venice followed suit; documents dated 1164 show that the city transferred the tax revenues from the Rialto market for twelve years to a group of citizens as repayment of a loan received, though recourse to forced loans was preferred later<sup>47</sup>. Also in Florence, the city exacted forced loans from citizens in proportion to their wealth and from 1427 on the basis of property ownership recorded in the land registry (*catasto immobiliare*)<sup>48</sup>, with other cities, such as Parma and Chieri, adopting similar methods<sup>49</sup>.

Where citizen participation in the system of political power was limited or inexistent, states used varying forms of indebtedness. In Milan, the Ducal Chamber for a long period of time charged fixed contributions according to a citizen's ability to pay based on the value of his assets recorded in the communal *estimo*, levied indirect taxes (*gabelle*), such as on salt, and exacted other forms of forced loans, without however resorting to debt consolidation. A significant change occurred in 1466 when there was a large-sized sale in perpetuity (perhaps with a right to repurchase) of duties and other indirect taxes collected in various parts of the state (excluding the capital), with the purchasers having the right to enjoy the jurisdictional rights attached to the territory generating the tax revenues acquired<sup>50</sup>. In the Kingdom of Naples too, up to the early 16<sup>th</sup> century, locally-levied taxes were the main source of revenues, charged in proportion to the number of fireplaces and supplemented by one-off extraordinary donations and indirect contributions, such as customs duties on sheep in Apulia. In the second half of the century, the parlous state of the Kingdom's finances, which the sale of property and feuds at the time of Charles V had had little effect on, was addressed by the return on a large scale to the system of loans backed by tax revenues previously used during the time of the Aragonese monarchs; this involved the alienation in perpetuity of a large quantity of public income flows capitalised at pre-established rates, whilst maintaining the right of redemption foreseen by the papal edict of Nicholas V<sup>51</sup>.

In the Papal State, until the 15<sup>th</sup> century the Apostolic Chamber accessed extraordinary funding by means of remittances from the Christian world, redeemable loans backed by lands or precious objects (e.g. the papal tiara!) or census contracts relating to property. In 1486, the sale of *uffici vacabili* (sinecures) began and this first nucleus of public debt was subsequently added to since

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<sup>47</sup> G. LUZZATTO, *Il debito pubblico* cit., pp 16 *et seq.*

<sup>48</sup> J. DAY, *Moneta metallica e moneta creditizia*, in *Storia d'Italia. Annali 6: economia naturale, economia monetaria*, Turin 2000, p. 355.

<sup>49</sup> A. PERTILE, *Storia del diritto italiano* cit., II, parte I, pp. 508-511.

<sup>50</sup> G. CHITTOLINI, *Entrate e alienazione di entrate nell'amministrazione sforzesca*, in *Istituzioni e attività finanziarie* cit., pp. 83-103.

<sup>51</sup> R. MANTELLI, *L'alienazione della rendita pubblica e i suoi acquirenti dal 1556 al 1583 nel regno di Napoli*, Genoa 1994, pp. 118.

1525, with the creation of the *Monte Fede*, the most substantial debt of the *monti non vacabili* based on voluntary loans<sup>52</sup>.

Whatever the system used, public debt grew and was to spread nearly everywhere in alternating phases of extending and consolidating loans. The periods of increased indebtedness were in fact followed by phases of consolidation of floating loans into single bundles with lower interest payments. In Genoa, the consolidation and unification of debts started in 1274 and was renewed in the years 1303, 1332, 1340, 1368, 1381, 1395 and 1407, with the appearance of the *compere* of San Giorgio. The commune of Savona's *Monte di credito* was probably the vehicle for a similar transaction; the earliest documentation we have goes back to 1331, though it is likely that the *Monte* was instituted some time before<sup>53</sup>. Even in areas where forced loans were the norm, periodic reorganisation and unification of the stock of public debt was necessary, as documents show for Venice in 1262, 1482, 1509, etc.<sup>54</sup>, for Florence between 1343-1347 with the consolidation of the debts of the city's *Monte*<sup>55</sup>, and for Siena in 1382<sup>56</sup>.

In Genoa, single loans and the funds into which they were consolidated became known as *compere*, elsewhere variously called *monti*, *depositi*, *prestanze*, etc.. They all had features of the constitutive census, at first with some differences, but above all following the bull of Pius V in 1569, and they could be classified into three distinct types according to whether the census contract was temporary (redeemable), perpetual or for life (the census expired on the death of the creditor or its third party assignee).

The capital of these *compere*, *monti*, etc. were for the most part provided by consortia of creditors: these autonomous consortia had full legal personality and their administration was entrusted to a board (*collegio*) made up either exclusively by public functionaries (like the *Camera degli*

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<sup>52</sup> F. PIOLA CASELLI, *Banchi privati e debito pubblico pontificio a Roma tra Cinquecento e Seicento*, in *Banchi pubblici, banchi privati* cit., I, pp. 461-495; E. STUMPO, *Il capitale finanziario a Roma fra Cinque e Seicento. Contributo alla storia della fiscalità pontificia in età moderna (1570-1660)*, Milan 1985, pp. XII+374; A. GARDI, *La fiscalità pontificia tra medioevo ed età moderna*, in "Società e storia", IX, 3 (1986), pp. 509-558; L. NINA, *Le finanze pontificie nel Medioevo*, voll. 3, Milan, 1929-1932, pp. 356, 482, 320; W. REINHARD, *Finanza pontificia e stato della Chiesa nel XVI e XVII sec.*, in A. DE MADDALENA - H. KELLENBENZ (a cura di), *Finanze e ragion di stato in Italia e in Germania nella prima età moderna*, Bologna 1984, pp. 353-387 (Annali dell'Istituto storico italo-germanico, quaderno 14).

<sup>53</sup> G. FIASCHINI, *Per una storia del credito a Savona fino alla fondazione del Monte di pietà (sec. XII-XV)*, in *Savona nel Quattrocento* cit., pp. 172-173. Del monte di credito si è interessato specificatamente ed unicamente A. BRUNO (*L'antico Monte di Credito del Comune di Savona*, Savona 1894, pp. 19).

<sup>54</sup> G. LUZZATTO, *Il debito pubblico* cit., A. STELLA, *I prestiti ed i depositi pubblici nella repubblica veneta*, in "Annali del Regio Istituto tecnico e nautico di Napoli Giovanni Della Porta", 1895, pp. 51-94.

<sup>55</sup> B. BARBADORO, *Le finanze della repubblica fiorentina. Imposta diretta e debito pubblico fino all'istituzione del Monte*, Firenze 1929, pp. 740; A. MOLHO, *Tre città-stato e i loro debiti pubblici. Questi e ipotesi sulla storia di Firenze, Genova e Venezia*, in *Italia 1350-1450: tra crisi, trasformazione, sviluppo. Pistoia, 10-13 maggio 1991*, Pistoia 1993, pp. 185-215; as regards Pisa in 1348 see M. GINATEMPO, *Prima del debito. Finanziamento della spesa pubblica e gestione del deficit nelle grandi città toscane (1200-1350 ca.)*, Florence 2000, Olschki, p. 133.

<sup>56</sup> M. GINATEMPO, *Prima del debito* cit., p. 133.

*imprestiti* in Venice), by a mixture of public officers and private creditors (Pisa, Lucca)<sup>57</sup> or solely by private creditors (the *compere* in Genoa, the *monti* in Florence, Rome, Bologna). This board was responsible for managing the incoming revenues destined to cover interest payments, for transferring credit entries pertaining to subscribers and where necessary for repaying capital<sup>58</sup>.

From the early thirteenth century in Genoa and then later in Savona, Florence, Rome, Bologna, etc., capital, as we have seen, was divided into quotas or shares with a book value of 100; these shares – *luoghi* – were immaterial, registered and transferable by entry in the official roll of creditors, at times with legal privileges. Where the size of public debt was considerable (Genoa, Venice), vibrant secondary markets of the various *compere* or *monti* developed<sup>59</sup>.

The rate of interest was always specified in the deed of issuance, but the meaning of such a specification varied from place to place and the interest commitment was not always maintained. In Venice, the *Monte vecchio* established interest payments of 5%, which were at first paid out of budget surpluses and later the revenues generated from eight different forms of indirect taxes. However, in the period between the wars of Chioggia (1378-1381) and Ferrara (1482-1484), interest repayments were frequently suspended and interest rates cut, with the difference between the nominal rate and the new rate presented as a form of tax<sup>60</sup>. Similarly in Florence, in the second half of the 15<sup>th</sup> century, administrators were forced to cut the interest paid on public debt and even levied on it a direct tax<sup>61</sup>. In Genoa, the agreed interest rate represented solely the maximum level and when the tax failed to rise to such a level the proceeds were reduced in proportion.

During the 16<sup>th</sup> century, the question of the scheduled payment of interest at the agreed rate was to be significantly influenced by the changes adopted by the increasing number of Roman and Bolognese *monti*. The entity borrowing funds, though committing a specific group of taxes as the source for interest payments, often went one step further: any shortfall in tax revenues would be backed by the entirety of the *monte*'s assets<sup>62</sup>.

In order to present a complete picture of the workings of the *compere* and *monti*, additional elements have to be taken into account (the information we have is unfortunately limited). For instance, the money used in the payment of interest was not uniform: the Venetian, Papal, and

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<sup>57</sup> H. SIEVEKING, *Studio sulle finanze genovesi nel medioevo e in particolare sulla Casa di San Giorgio*, I, p. 95.

<sup>58</sup> On the question of Rome's public debt, see J. DELUMEAU (*Vie économique et sociale de Rome dans la seconde moitié du XVI<sup>e</sup> siècle*, tomi 1 e 2, Paris 1957-1959, pp. 518, 519-1040), F. COLZI (*Il debito pubblico* cit.), R. MASINI (*Il debito pubblico pontificio a fine Seicento. I monti camerati*, Rome 2005, pp.238), F. PIOLA CASELLI (*Banchi privati e debito pubblico pontificio a Roma tra Cinquecento e Seicento*, in *Banchi pubblici, banchi privati* cit., I, pp. 461-495) e E. STUMPO (*Il capitale finanziario* cit.); for Bologna see G. ORLANDELLI (*I monti di pubbliche prestanze in Bologna*, "Acta Italica", 14 (1969) e M. CARBONI (*Il debito della città. Mercato del credito, fisco e società a Bologna fra Cinque e Seicento*, Bologna 1995, pp. 262).

<sup>59</sup> Per Venezia cfr. G. LUZZATTO, *Il debito pubblico* cit..

<sup>60</sup> *ibid.*, pp. 9-10 e 181.

<sup>61</sup> A. MOLHO, *L'amministrazione del debito pubblico* cit., ID, *Tre città-stato* cit..

<sup>62</sup> F. COLZI, *Il debito pubblico* cit., p. 33.

Tuscan *monti* appear to have used money recognised as legal tender, which meant tying interest to the devaluation of the currency; the same system was applied also in Genoa until 1594, after which interest was pegged to gold and silver coinage. Another significant aspect, especially for those borrowing, related to differences between nominal and market interest rates on the loans contracted. For example, when the current market price of money was higher than the interest rate established on the loan, the market protected itself by selling the capital below par and offloading the disagio onto the creditors; on the other hand, when the debtor state paid interest at a higher than market rate, it could either propose redemption or renegotiation of the interest rate (downwards); this was the alternative offered by the Genoese government to its creditors when the *compere* of San Giorgio were instituted. With the regulation of the constitutive census in 1569, which recognised the debtor's right to redeem perpetual debt at his discretion, the now licit, voluntary conversion of rates brought public debt into line with market trends and such a mechanism was frequently used by papal states.

In this sketch of the situation existing between the 11<sup>th</sup> and 16<sup>th</sup> centuries, we can say that public debt grew in most places, both in Genoa, Venice and Florence, where this form of borrowing had been widely used already in the past, as well as in other states such as Milan, Naples, Rome and Bologna. Up to the early 16<sup>th</sup> century, the methods adopted differed greatly: voluntary or forced loans, interest (or rare redemptions) covered by indirect taxes (*dazi*, *gabelle*) or by wealth, property or family taxes (*focatici*). As the century progressed, there was a move to greater uniformity and public debt, despite the limited information we have, appeared to move towards the use of consolidated loans inspired by the constitutive census in its variants foreseen by the edict issued by Pope Nicolas V in 1452, which was observed in the Kingdoms of Naples and Sicily, and by the papal bull of 1569 (Pius V), which regulated activities in the rest of the Italian peninsula. Under both regimes, the census offered borrowers and lenders conspicuous advantages: the borrower could raise considerable sums of money, return them at his discretion when convenient or convert them into perpetual debts, whilst the creditor had greater guarantees and could sell his *luoghi* to third parties when he needed liquidity or when he preferred other investments.

As regards the quantitative aspects of public debt, scholars have concentrated their attention above all on Venice, Genoa and Florence, producing a relatively large body of work; less attention has been given to other parts of Italy, such as the Duchy of Milan, the Papal State and the Kingdom of Naples, with the shortage of data this implies. The figures available have been compared with data from the city states and this has often led to conclusions that fail to take into account, firstly, the uncertain significance of the data being analysed and, secondly, the fundamental differences that developed over centuries in the areas compared. Nevertheless, a general pattern of increasing

recourse to public debt can be seen in the Italian states in the mid-16<sup>th</sup> century, after which the trend differed from state to state. The weight of public demand for credit was undeniable both in terms of the overall amount of resources absorbed and the impact each new, significant loan issuance must have had on the local financial market.

## 4.0 THE CREDIT SUPPLY SIDE

### 4.1 Credit and banks: the ambiguity of two misused terms

If we now turn our attention to the providers of credit, historiography shows that they were of various types and that any analysis requires an adequate classificatory framework. If with this objective in mind we take into account distinguishing features such as the property and the nature of the goods loaned, the creditor, the purpose of the transaction and the frequency with which it is performed by the creditor, we can identify three types of credit:

- a) *direct credit*, if the goods supplied to the debtor belonged to the creditor and were part of his personal estate, or *indirect credit*, if these goods were procured from third parties on credit, in which case the creditor collected the savings of others and redistributed them to those requiring them;
- b) *credit in kind* if consideration and counter consideration were not monetary, or *credit in money* if money was the object of the transaction;
- c) *occasional credit*, where individuals or enterprises granted credit to others for profit or not, on an occasional and not systematic basis; *complementary credit* where the creditors were capitalists, companies dedicated to lending for profit on a systematic basis but in addition to other activities; *specialised credit* where the creditors were capitalists, companies or entities granted credit for profit or for an institutional mission on a systematic basis, but as their exclusive or predominant activity.

Two major categories of creditor emerge from the diverse credit forms outlined above. The first includes all those who transferred on credit own goods, whether money or in kind, freely or for profit, on an occasional basis or as part of another activity; these were therefore small savers, capitalists or entrepreneurs who invested their money in credit transactions in exactly the same way as those who today purchase shares or bonds. It should be noted that today's investors are however not referred to as *banchieri* i.e., bankers. The second category includes enterprises that lent money received from others and entered into lending operations as their sole activity and for profit on a systematic basis; today these would be termed as banks (an establishment whose 'basic functions...are, in addition to custody and payment (those of the ancient banks), intermediation in

the circulation of savings and the creation of credit') and bankers ('an entrepreneur who carries out banking activity' or perhaps more effectively 'he who owns or controls a bank')<sup>63</sup>.

The distinction between capitalists who invest their own money and bankers who act as credit intermediaries, although clear-cut, cannot be simplistically transposed to a historical period where categories were notably blurred. In our case, sources show not only that lenders of money loaned both small and large sums that had been assigned to them by third parties, but also that bankers and banks used their own funds (it would have been difficult otherwise to attract deposits). The appropriate use of the term 'capitalist' in the first case and 'banker' or 'bank' in the second depends on whether the predominant part of the funds loaned belonged to the creditor himself or to third parties on whose behalf the creditor is the depository. The problem is not merely terminological, but derives from lexical ambiguities that create problems in the interpretation of financial history. We will turn to these later.

At this stage it will suffice for us to remember that the origins of the contemporary bank are relatively recent and prior to its appearance no other enterprises had come into existence already equipped with all its features. There was certainly a wide range of credit activities, but these were performed by different types of individuals or entities which varied from case to case.

For example, the occasional granting of credit played an important role during the Middle Ages and the Modern Age especially in the case of religious bodies, private foundations, hospitals, etc.. In fact, these entities, thanks to capital generated by the income on real estate (rent) in addition to bequests and donations, were in a position to grant (albeit as a marginal activity in comparison to their principal spiritual or charitable vocations) small amounts of consumption credit, mortgaged loans to landowners and sometimes even more substantial advances to rulers and princes<sup>64</sup>.

Rather than from these origins, the modern bank derives from the lending activities of money changers, of prominent merchants in the cities and Jewish money lenders in rural areas. The next stage on the path towards the modern bank was influenced by two distinct developments: the foundation of public banks, which after the limited examples of the early 15<sup>th</sup> century saw considerable growth in the second half of the 16<sup>th</sup> century, and the *monti di pieta*. The modern bank can therefore be seen as the end of a long road of change during which some enterprises that had carried out lending as a marginal activity gradually abandoned the area of credit, whilst others over time reduced their primary mercantile and industrial activities to concentrate on financial investment. Others were instituted *ex novo* for public needs and authorised to perform certain banking activities (above all deposit-taking and clearing); these activities had progressively grown

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<sup>63</sup> *Lessico universale italiano*, Rome; S. BATTAGLIA, *Grande dizionario della lingua italiana*.

<sup>64</sup> J.M. KULISCHER, *Storia economica del medio evo e dell'epoca moderna. Volume primo: Il medio evo*, Florence 1955, pp. 519-520.

and become more widespread, but always in the area of banking<sup>65</sup>. These developments are so complex that it is necessary to follow them separately.

### 4.3 From money-changers to *bancherii de scripta*.

In Carolingian Europe, forms of credit were still primitive and stayed that way until the Crusades, when the expansion of trade and contact with more advanced societies (the Byzantine and Arab worlds) favoured, thanks to increased wealth and a growing demand for credit, the development of saving and financial innovation. This process was particularly vibrant in the Italian Maritime Republics and in the 12<sup>th</sup> century Italy was the European country where credit and banking had made the most progress, both in terms of the variety of the forms adopted and the level of use on money markets.

Clearly, the level of progress was not uniform throughout the Italian peninsula. Despite the scarcity of research in this field, in mountainous and rural areas and in small towns credit probably continued to be rudimentary in form or extremely simple. This primarily consisted of loans of money or in kind, likely backed by a pledge or with a resale agreement, destined for the most part to satisfy consumption needs up to the next harvest and granted by monasteries, ecclesiastical bodies, major landowners or Jewish money lenders. One example of many: in October 1149 the abbot of the monastery of *S. Maria del Monte* in *Lucca* loaned the sum of 4 lire to a married couple, who agreed to pledge their farm along with the property title deed (*cartula*) until they or their heirs repaid capital amounting to 6.06 lire<sup>66</sup>. Another form of credit was the retention census, in which the creditor assigned property in land to a debtor in return for an annual census or rent. This transaction, which was extremely common up to the 11<sup>th</sup> century, was so commonly used by ecclesiastical bodies to build up rents on a real basis that the popes of the time feared an excessive

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<sup>65</sup> Bibliographical sources on the history of credit and banks are still patchy. A useful introduction to sources regarding the Italian context is F.C. LANE and R.C. MUELLER (*Money and banking in medieval and Renaissance Venice*, I, Baltimore 1985, pp.638-670); despite their age, bibliographies provided in the following works remain important: A. SAPORI ("Saggio di una bibliografia per la storia della banca in Italia fino al 1815", in J.G. VAN DILLEN (ed.), *History of the Principal public banks*, London 1964, pp.360-384); J.-G. DA SILVA (*Banque et crédit en Italie au XVII<sup>e</sup> siècle*, II, pp.34-98); *Storia economica Cambridge*, V. Castronovo (ed.), III. *Le città e la politica economica nel Medioevo*, M.M. Postan, E.E. Rich and E. Miller (eds.), Turin 1977, pp. 760-794), which, focusing on public credit in north-western Europe, lists contributions on the role played there by Italian merchants. See also the bibliography of the *Centro Interuniversitario di Ricerca per la Storia Finanziaria Italiana* at [www.delpt.unina.it](http://www.delpt.unina.it).

<sup>66</sup> R. PIATTOLI (ed.), *Le carte del monastero di S. Maria di Montepiano (1000-1200) pubblicate dall'Istituto storico italiano per il medio evo*, Rome 1942, pp. 207-209; the amount corresponded to the sum received plus 46 soldi, perhaps as interest or agio on the money received. For other examples, see C. VIOLANTE, *Per lo studio dei prestiti* cit..

depletion of the Church's assets<sup>67</sup>. As well as being creditors, churches and monasteries also appeared as debtors in the case of a perpetual or life census in favour of the donor of property. Alongside the retention census there is evidence of use of the constitutive census, where the object of the loan was not real estate, but money and its repayment was in the form of a rent of land; the attempt to deflect suspicions of usury aimed at this form of lending probably explains the scarcity and opaqueness of the documentation that survives.

The situation was different in major cities, especially those where, being capitals or administrative centres of a large territory, there were centres for the collection and redistribution of public revenues, possibly also mints and a large entrepreneurial class used to doing business with distant foreign markets. These cities, whose size enabled a high degree of work division, represented the heart of the Italian monetary economy and it was here that in response to the varying needs for finance, credit developed into more complex forms and involved economic actors from different classes operating in different fields.

At a lower level, we find individuals offering small amounts of consumption credits, often in the form of pledged loans. Many of these were Jews, who, having been excluded from craft activities and large international trade with the development of the city corporations in the Centre-North of Italy, fell back on buying and selling used goods, and money lending. Although the Jews possessed liquid capital resources, enjoyed solidarity within their communities and often received financial support from family members, the latent hostility of the local population and the unstable nature of their relations with authority forced them to work principally with their own funds and accept the invitation of princes or communes to operate in pre-determined areas (*condotte*), where the shortage of circulating funds was most acute.

Further up the scale were the *campsores* or *cambiatores*. The earliest records of their activities go back to 12<sup>th</sup> century Genoa. They were called *bancherii* because, unlike artisans or merchants, who worked in workshops or warehouses, their place of work was a table or *bancus*<sup>68</sup> placed in the local market square or even rented from its owner. The range of their activities was considerable: they changed metallic money of various types and also dealt in foreign exchange; they offered money custody services free of charge in addition to deposits redeemable either at term or at sight, for which they paid an interest or a share of any profit from the venture embarked on; they loaned money repayable at a certain date and subject to interest charges on late payment; they took part in

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<sup>67</sup> *Raccolta di documenti per servire alla istoria del ducato di Lucca*, V, parte III, n. 1795, Bull of Alexander II to the clergy and population of Lucca, prohibiting bishops to sell, enfeoff or alien the estate of the bishopric. Such fears went back as far as the end of the 6th century with the defence of the Church's assets by Emperor Justinian.

<sup>68</sup> Until the 14th century, the word *bancus* or *banca* was used to refer principally to the large table where magistrates and other public functionaries sat. It also referred to the seat of a judge or the table of a money-changer, butcher or any stall used by a salesman to exhibit his goods; the name of *bancherius* is applied solely to a public treasurer (*Glossarium mediae et infimae latinitatis conditum a Carolo du Fresne domino Du Cange*, II, pp. 543-546).

overseas trade transactions; they purchased goods for resale in Genoa or elsewhere. They were in other words a combination of money-changers, bankers, merchants, partners or agents in land or sea trade, all without one of these activities being clearly predominant.

During the 13<sup>th</sup>-14<sup>th</sup> centuries, the *campsores* began to lose some of the features that distinguished them in what could be termed as their golden years. In many cities most *campsores* broke away from the association of *negotiatores* or *mercatores* and established autonomous corporations with a narrower range of activities in comparison to the past, acquiring the popular name of “*bancherotti*”<sup>69</sup> (Bologna circa 1240, Prato 1293, Firenze 1299, Perugia 1326, Roma 1400, ...). The articles of association of the money-changers and goldsmiths of *Prato*, (1293), for example, required *cambiatores* to settle debts within ten days of the due date, prohibited them from having associates other than qualified cashiers (*qui retinea[n]t tappetum super mensa*) approved by the Commune and by other *campsores*, allowed the lending of amounts above 10 lire to citizens of Prato and its districts (above 1 lira for outsiders) solely against the granting of specific licences issued by the *consoli dell’arte* and in the form of a notarial deed<sup>70</sup>.

More significant was the activity of the minority of *campsores* that had abandoned the earlier model of their profession. Now holders of a specific licence and required to act in a suitably prudent manner (Genoa, Venice, Siena)<sup>71</sup>, they became the owners of a *banco* (*bancus de scripta* or *banco de tappeto*)<sup>72</sup>. Their activities are well-documented in Venice, Genoa and Rome: they changed money, traded in bills of exchange, accepted deposits, performed clearing services on behalf of clients, granted credit at interest for small amounts to minor traders, artisans, and the state, and continued to be involved in trade, although to a limited extent; in Venice, in fact, records show that these *banchieri* traded on their account or with others or by means of a third party in metals, spices and cloth<sup>73</sup>.

#### 4.4 The merchant bankers

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<sup>69</sup> G. SOLIVETTI (ed.), *Capitoli e convenzioni relativi all’Università dei Bancherotti o Cambiatori di monete in Roma del 1587*, Rome 1951 (Fonti per la storia della banca: capitoli e convenzioni)

<sup>70</sup> ID, *Gli statuti dei cambiatori negli archivi d’Italia*, Rome 1951, pp. 19.

<sup>71</sup> H. SIEVEKING, *Studio sulle finanze genovesi* cit., parte II, p. 55; E. DE SIMONE, *Storia della banca dalle origini ai nostri giorni*, Naples 1987, p. 66.

<sup>72</sup> Although generally considered as equivalents, in some places the expressions were used in reference to two distinct economic actors. In Genoa, for instance, the first term - *bancus de scripta* - was applied to bankers in the conventional sense of the word i.e., those performing financial transactions and recording them in a system of accounts, whilst the second was used with reference to minor operators who carried out only money changing. (H. SIEVEKING, *Studio sulle finanze genovesi* cit., parte II, p. 52).

<sup>73</sup> For Venice, see R. C. MUELLER, *The role of Bank Money in Venice 1300-1500*, in “Studi veneziani”, n.s. III (1979), pp.47-96; per Genova: H. SIEVEKING, *Studio sulle finanze genovesi* cit., parte II, pp. 54-61; for Rome, I. LORI SANFILIPPO, *Operazioni di credito nei protocolli notarili romani del Trecento*, in *Credito e sviluppo economico in Italia dal medio evo all’età contemporanea. Atti del primo convegno nazionale, 4-6 giugno 1987*, Verona, 1988, pp. 53-66.

The rise to prominence of the *banchieri de scripta* in the world of finance was accompanied, perhaps as an offshoot, by that of a category of merchants that attended the great international fairs and which was soon to become the most dynamic economic class in Italy, with the most important business transactions of the time in their hands. These were the ‘merchant bankers’ (*mercanti banchieri*), so-called as their activities were a mixture of trade, finance and production. Just like their modern-day descendants, the major capitalists of the Middle Ages used above all their own money and to a lesser extent that received from depositors or from the family, friends or clients expecting a share in any eventual profits from finance, trade or industrial activities. In some places and in some eras entrepreneurs inevitably crossed over from their line of business into finance, whether as a result of natural talent or social prestige; such a move however did not preclude their involvement in other non-financial activities also as means of diversifying and limiting their exposure to the risk of excessive specialisation in one area. Also in this particular case, however, numerous cases of great bankers of the modern age show that most of the capital invested was their own. The expression therefore ‘merchant bankers’ does not appear to correspond to the modern meanings of ‘bankers’, ‘banks’ or ‘investment banks’, except in the case that are dedicated primarily to financial investments and use capital resources belonging mainly to other providers<sup>74</sup>. In the case of bankers utilising predominantly their own resources, a more appropriate term could be ‘merchant capitalist’ or simply ‘capitalist’. With some misgivings, we will, however, continue to use here the traditionally adopted expression of ‘merchant banker’.

Merchant bankers originated in Italy and made their first appearance in the last centuries of the Middle Ages, when Italians dominated the European commercial and financial scene. Notarial documents of the closing decades of the 12<sup>th</sup> century show that Genoese merchants had long been regular participants in the great international fairs of the north of France, demonstrated by the steps they took to protect themselves against the devaluation of the local currency<sup>75</sup>. Like them, other merchants from the peninsula were present in France, from where they extended their activities to

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<sup>74</sup> The dictionary of the ‘*Accademia della Crusca*’, the institute responsible for the safeguard of the Italian language, somewhat curiously defines ‘*banchiere*’ in the terms adopted by traditional historiography and Tuscan historiography in particular (“*Colui che tien banca o banco, prestando o cambiando denari, ricevendo depositi e facendo altre operazioni di simil genere*”), whilst a bank’s activities are seen as those of money changing and money issuance, with no mention made of deposit taking or clearance (“*Istituzione di credito, sotto forma di società anonima, destinata ad operare sulla negoziazione degli effetti commerciali, come Cambiali, Fondi pubblici ecc., e sulla emissione di Biglietti, o Buoni di Cassa*”). Other Italian dictionaries such as Treccani or Battaglia, provide more satisfactory definitions that are in line with financial terminology.

<sup>75</sup> G. FELLONI, *Genova e la storia della finanza* cit., scheda n. 10.

Flanders, England and Germany<sup>76</sup>. They came from Alba, Asti, Chieri, Milan, Venice, Piacenza, Bologna, Florence, Lucca and Siena and were known collectively as 'Lombards'.

Out of this group, a category of merchants developed that was dedicated to trade on a large scale and, inevitably, to the trading of money. Their business activities over long distances required substantial capital resources which were subject to alternating phases of immobilization in the place of purchase and liquidity in the place of sale. Consequently, these resources had to be easily transferable from one place to another in order to take advantage of the opportunities offered by a constantly changing market. This situation meant: considerable capital resources on the part of the merchant with the possible addition of savers' deposits or joint ventures; considerable temporary liquidity which while waiting to be destined to new commercial ends could be exploited in profitable lending activities; wide scale use of bills of exchange for the movement of capital from the place of sale to the place of purchase, with the possibility of maximising the profitability of this movement in the form of payment and collection services on the behalf of princes, seigneurs, ecclesiastical bodies and above the Apolistic Chamber; inevitable contacts with the rulers of foreign countries, who often demanded the payment of sums with or without reimbursement in exchange for the granting of privileges or sale or purchase licences.

Although we are talking of merchant bankers, we should not think solely of individuals acting always alone or with the occasional help of others, but maintaining the exclusive decisional power and responsibility towards third parties. The rise to prominence of merchant bankers at a continental level was also due to the separation of economic and non economic activities, with the former being concentrated in an entity with its own legal personality and its own capital. This innovative transition took place when an increase in the size of the amounts involved in transactions, the difficulties present on markets or the desire not to expose the entirety of one's assets induced the *pater familias* to ask for funds from relatives or even persons outside the family in exchange for a share in the business. The entry of these new capital providers, who obviously wanted to supervise the use and outcome of their contributions, meant that decisional and control powers were no longer exclusively in the hands of one person.

The fusion of contrasting interests (money in exchange for decisional and control powers) came about with the creation of a new type of company, distinct from the other activities of its owners and destined exclusively to economic transactions. It was instituted by means of a notarial deed which specified the names of its owners, the size of capital ("*corpo della compagnia*") and the

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<sup>76</sup> W. BLOCKMANS, *Financiers italiens et flamands au XIII<sup>e</sup>-XIV<sup>e</sup> siècles*, in *Aspetti della vita economica medievale. Atti del convegno di Studi nel X Anniversario della morte di Federigo Melis. Firenze-Pisa-Prato, 10-14 marzo 1984*, Florence 1985, pp. 192-214, E.B. FRYDE, *Italian Merchants in Medieval England, c. 1270-c. 1500*, in *Aspetti della vita economica medievale* cit., pp. 215-231, J.A. VAN HOUTTE, *Mercanti, imprenditori e banchieri italiani nelle Fiandre*, in *ibid.*, pp. 151-170.

amounts provided by each partner, the company's purpose and internal rules, the rights and obligations of its owners. The company had full legal personality and separate assets (share capital), but was not economically autonomous as its liabilities had to be met not only by its assets but if insufficient by the personal assets of its owners (similar to the modern-day general partnership). This transformation in the nature and structure of company ownership had its roots in Tuscany in the late 13<sup>th</sup> century and led to the development of companies known as '*compagnie di negozio*', the financial vehicle preferred by merchant bankers<sup>77</sup>.

Trade on a large scale along with lending and treasury services provided for clients generated lucrative but not risk-free business opportunities. The activities, which acquired increasing importance in the early 13<sup>th</sup> century, were at first the apanage of companies from Siena, which worked in association with merchants from Rome in the transfer of funds for the Holy See. The most prominent were the Ugolini, Gallerani and Bonsignori companies, with the latter the absolute market leader equipped to lend considerable sums to the Pope, the King of France and the counts of Flanders. Soon after other Tuscan companies entered the market and in the second half of the century a dozen of these, mostly from Florence, began their trading activities directly from England in cloth, twill, raw wool and the collection of papal tithes.

The companies' considerable financial resources and commercial prestige brought them to the attention of rulers and in particular English monarchs, who, during the second half of the 13<sup>th</sup> century, having squeezed their Jewish money lenders to the limit, could no longer count on loans from them. Consequently, they continued to need additional funds to cover the inadequacy of their ordinary resources. The principal Italian companies were invited to provide the monarchy with credit, also substantial, in the form of advances backed by customs revenues or in exchange for advantageous trading terms. The following companies from the late 13<sup>th</sup> to mid 14<sup>th</sup> centuries were involved in this form of special relationship with the English crown: Riccardi from Lucca from 1272 circa to 1294, Frescobaldi from Florence from 1299 to 1311, Bardi from 1312 to 1346, Peruzzi from 1327 circa to 1343 and the less important Acciaiuoli company from an unknown date to 1343 (the last three companies were all from Florence). Faced with increasing demands for money and retaliation if these demands were not satisfied, each company over-lent and inevitable royal insolvencies allied to an accumulation of unpaid credits pushed one after the other to collapse. Over fifty years the following companies disappeared: Riccardi (1294), Bonsignori (1298), Scala (1326), Bardi and Acciaiuoli (1343), Peruzzi (1346)<sup>78</sup>.

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<sup>77</sup> E.S. HUNT (*The Medieval Super-companies. A Study of the Peruzzi company of Florence*, Cambridge 1994) and above all F. Melis (*Documenti per la storia economica dei sec. XIII-XVI*, Florence 1972; *Aspetti della vita economica medievale. Studi nell'Archivio Datini di Prato*, Siena 1962).

<sup>78</sup> On the collapse of the Tuscan companies, see E.B. FRYDE - M.M. FRYDE (*Il credito pubblico* cit., pp. 516-521), E.D. ENGLISH (*Enterprise and Liability in Senese Banking, 1230-1350*, Cambridge 1988, pp. xiv+132) e E.S. HUNT (*The*

The financial problems faced by these so-called super-companies did not deter other merchants from entering the field, albeit containing and diversifying their loans to sovereigns as well as operating in other areas of business and adopting different forms of company organisation. The new players, to name only a few, were Francesco Datini from Prato, Corner and Soranzo from Venice, the Borromei family from Milan, the Medici family from Florence and the Lomellini, Centurione and Cavallo families from Genoa.

#### **4.5 The *Banco Medici***

The most celebrated and best-studied company was that founded in 1397 by Giovanni Medici (son of Averardo known as Bicci) in partnership with Benedetto Bardi<sup>79</sup>. The company belonged exclusively to the Medici family from 1435 onwards and was strengthened by the sons Giovanni, Lorenzo († 1440) and above all Cosimo, under whom the company reached its apex. After his death in 1464, the reins of the business passed to Cosimo's son, Piero and then from 1469 to Piero's sole descendant Lorenzo (*il Magnifico*). The company's golden years had however already passed with Cosimo's death. The disastrous management of the company by Tomaso Portinari led to the insolvencies and closure of the London and Bruges branches in 1472 and 1481, respectively. In 1485 the company's Lyon office was in difficulty and its manager was called back to Florence and arrested. In 1494, the Medici family were expelled from Florence and all their property was taken into possession by the new government.

The period of the company's ascendancy is well-documented. Its starting capital of 10,000 florins rose to 24,000 florins in 1420 and peaked at 75,000 in 1451. The increase was linked to the greater participation of the Medici family and partly also resulted from the company's organisational structure, which represented a major innovation in comparison to the traditional organisation of the *compagnie di negozio*. In fact, whilst in the companies of the previous generation the foreign branches were directly controlled by the parent company, in the Medici model each branch was a distinct entity whose capital was distributed amongst the Banco Medici in Florence (the majority shareholder) and one or more local shareholders, one of which was branch manager. Similarly, the two wool workshops and the silk workshop in Florence represented three distinct companies, all of which had the Banco as its majority shareholder. The Banco Medici can therefore be seen as a form

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*Medieval Super-companies. A Study of the Peruzzi Company of Florence*, Cambridge 1994, pp. 292); for a useful bibliography, see also M. CHIAUDANO (*Studi e documenti per la storia del diritto commerciale italiano nel sec. XIII*, Turin 1930, pp. 208).

<sup>79</sup> The information cited here comes from the unsurpassed R. DE ROOVER, *Il Banco Medici dalle origini al declino (1397-1494)*, Florence 1963, pp. XIV+646.

of holding, with its companies abroad and its workshops in Florence, being subsidiaries each independent from the other; given this structure, the share capital increase of the parent company was linked also to the opening of new branches or industrial firms.

By 1451 the Medici family owned three workshops in Florence and controlled six foreign branches (Avignon, Bruges, Geneva, London, Pisa and Venice) with an additional branch opened in Milan during the following year. Total share capital, excluding non distributed profits, amounted to 88,000 florins, 78% of which belonging to the Medici family and the remaining 22% in the hands of local partners. This total was considerably lower than that of the Peruzzi company, which stayed at or above 118,000 florins (peaking at 149,999 florins in the years 1310 to 1312), and lower than that of the Bardi company, which was higher still. On the basis of profits however, the Banco Medici appears to have been on a firmer footing with average annual profits of 6,700 florins from 1367 to 1420, 12,400 florins from 1420 to 1435 and 18,300 florins from 1435 to 1451. The most profitable branches were in descending order Rome, Venice and Geneva, which during the One Hundred Years' War had become a major European financial centre.

The Banco's business was similar to the previous *compagnie di negozio*, but with a preference for financial activities. The articles of association of the parent company in Florence following the departure of the Bardi family from the company's share capital established that the activities of the Banco were to be carried out in Florence and elsewhere, that the profession of money-changer should be performed honestly and professionally and that the funds provided directly by the companies or deposited therein were to be used for lending solely to merchants: *'debiano i detti compagni fare bancho in Firenze e così in altra parte fuori Firenze ... e trafficare bene e realmente l'arte e 'l mestiero del chanbio de' denari <che> in detta compagnia metteranno o che pervenissero loro alle mani per via di deposito o per altra onesta ragione'* and that the partners *'sono d'achordo che a niuno che non sia reputato merchatante e trafficante non si possa credere né prestare danari né ffare promessa per lui'*<sup>80</sup>. As the account books show, the Banco concentrated primarily on deposit-taking with the funds collected then channelled to lending. The difference between interest charged and interest paid represented the source of profit.

The deposits were typically at term rather than at sight and were referred to in the documents of the time as *'depositi a discrezione'* i.e., the banker not only had the right to utilise the funds received as he wished, but also to fix the interest payable. The city's bankers claimed that this interest was a freely-made donation not subject to any contractual obligations and therefore could not be considered usurious; it was also accepted as common business practice despite opposition from some particularly rigorous theologians. To limit risks, the deposit agreements were however worded

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<sup>80</sup> *Ibid.*, pp. 547-548.

in such a way that it was not clear whether the depositor was a creditor of the Banco or a participant in a business venture, as was openly declared in some cases. Prominent depositors included high-level ecclesiastics and politicians; as the amounts were considerable and concentrated amongst a comparatively limited number of persons, any request of withdrawal would inevitably expose the Banco to a shortage of liquidity. On the basis of the documents available, the deposit-capital ratio varied significantly from one branch to another: in 1428 the Rome office had discretionary deposits eight times higher than capital, whilst in Venice in the same year deposits and capital substantially matched, and in Milan amounts deposited were double own capital resources. Overall, deposits far outstripped capital. As regards financial investments, lending at interest naturally dominated in the form of payments made in other trading centres with a return bill and commission revenues on money changing.

Like other companies of the time, in its search for earnings the Banco Medici was also involved in a disparate range of trading activities that included almonds and four-poster beds; the most profitable areas were high-quality foodstuffs (spices, citrus fruits, olive oil), luxury items (woollen cloth, silk, jewels and silver), and raw materials (English wool, Tolfa alum from 1466 to 1476). On the basis of the profit and loss accounts of the Milan (1459) and Geneva (1466) branches, profits from mercantile activities were only slightly less than those generated by banking. Such evidence however does not allow us to draw any definite conclusions as to the importance of the mercantile sector.

Finally, the Medici were also industrial entrepreneurs who owned three workshops in Florence, two of which produced woollen cloth and one silk fabrics (velvet, brocade, taffeta). Manufacturing nevertheless had a limited impact both financially and economically: in the first three decades of the 15<sup>th</sup> century, average profits made by the workshops did not reach 1,500 florins per annum.

#### **4.6 Genoese merchant bankers**

Also Genoa's merchant bankers were involved in banking and trading and from the 15<sup>th</sup> century onwards extended their scope into manufacturing. Many businessmen in Genoa in fact operated not only in finance, but also in the manufacture and sale of silk fabrics. In 1455, the Lomellini family, long-established in Portugal, obtained the right to collect tax levied on cork.

Other business opportunities arose following the Turkish capture of Focea in 1455, with the discovery of large deposits of alum in Tolfa. Soon the Genoese provided the Medici (who had received from the Pope the concession for the mines) with the ships they lacked and purchased lots

of alum destined for England. Later, the Genoese Centurione brothers entered into partnership with the Medici (1464) and when the Medici monopoly expired, they took over the entire activity from mining to distribution. After a brief interruption, when control passed temporarily to Agostino Chigi from Siena, in 1532 the Genoese regained control, which they would keep for more than forty years (until 1574) under the management of a variety of families, such as Grimaldi, Sauli and Pallavicino. Growth in mercantile affairs was tracked by expansion in lending activities. In 1487, for example, Antonio Cavalli, together with the Fugger family, extended a loan to Duke Sigismund of the Tyrol; in 1489, Cristoforo Negroni, received as security for a loan jewels from the Crown of Burgundy and in 1490, in similar circumstances, the Centurione family received a papal tiara as a pledge. Charles VIII in 1494 borrowed 260,000 ducats from the Genoese to finance his Italian campaign. Countless other examples demonstrate the increasing presence of Genoese merchant bankers in international finance.

After 1529, increased technical skills in banking paved the way for the first real impact *en masse* of Genoese capitalists in the 16<sup>th</sup> century: the establishment of the exchange fairs and the large employment of recourse (bills of exchange to fairs and rechange from fairs), which enabled them access to liquidity in the form of available savings in various centres (particularly Genoa), which they then used for lending, making a profit on the difference between borrowing interest paid and lending interest received.

As we have seen, the principal beneficiaries were the Kingdom of Spain and its dependencies. The loans were granted via special contracts called *asientos*, which contained precise details of the amount, where and when the credit would be made available, usually in instalments, the guarantees offered to the creditors, and where and when repayment would be made, here too usually in tranches. The creditors (*asentistas*) at this stage contacted their foreign correspondents and initiated the process by means of bills of exchange that started with collecting money by means of drafts with recourse, then making it available in the place required by the borrower and finally organising repayment. Typically, these *asientos* were used to cover treasury shortages or for the transfer of funds from one part of the vast empire to another; they were short-term (in general with a one or two year maturity) and backed by public revenues.

Spain's precarious fiscal condition, however, meant that it was not always able to honour its debts, forcing it to suspend capital reimbursements, to interrupt interest repayments or to levy taxes on them. The recurring insolvency of the Spanish state (which declared bankrupt for the first time in 1557 and again in 1575, 1596, etc.) was always resolved by the conversion of floating debts of fairs into consolidated irredeemable debts (*juros*); in this way the savings invested in the *asientos* were frozen and not convertible into money without major losses. These insolvencies up to 1596 hit

German bankers in particular, whilst Genoese bankers were less seriously affected. A possible reason for this is that German bankers tended to use above all their own funds, whilst their Genoese counterparts, by using above all money collected by recourse, were able to repay their creditors with the *juros* received from the Spanish crown<sup>81</sup>.

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<sup>81</sup> G. DORIA, *Nobiltà e investimenti a Genova in Età moderna*, Genova 1995, pp. 157-174.

## 5.0 TOWARDS MODERN BANKING

### 5.1 The search for new solutions

Bankers (*banchieri de scripta*) and merchant bankers of the 14<sup>th</sup> and 15<sup>th</sup> centuries could not satisfy by themselves the financial requirements of an evolving economic system. The participation of other entities was needed to overcome a dearth of payment and saving instruments. Of these other entities, the *banchi pubblici* and *monti di pietà* were to play an important role in offering distinct and complementary lending services. The major difference between these institutions and wealthy banker-entrepreneurs lay in the fact that whilst the latter were individuals free to make their own investment choices, *banchi* and *monti* were tied to a precise activity that was established in their articles of association and which represented their legal *raison d'être*.

We have already seen the role of *monti di pietà* on the question of consumption credit (par. 3.2). Here we focus on *banchi pubblici*, banks either in public or private ownership (but in the latter case instituted by license issued by the local authority and subject to its supervision). These banks collected money deposits, made the funds available to depositors, transferred them by turning of accounts and lent money at particular conditions.

Prodromes of new tentative solutions can be found in 14<sup>th</sup> century Venice with in particular the Wheat Chamber<sup>82</sup> and the Salt Office<sup>83</sup>, which were responsible for establishing two funds that guaranteed the regular supply of wheat and salt. The bodies, both of ancient origins, carried out during the 14<sup>th</sup> century innovative financial activities with, for example, the Wheat Chamber appearing, at least at its height, to have acquired the functions of a State-owned bank<sup>84</sup> or semi-public bank<sup>85</sup>. Money was collected principally via deposits made voluntarily by Venetians or others, which joined funds confiscated by the Council of Ten, inheritances administered by the Procurators of San Marco (from 1328), liquid endowments and guarantees granted in favour of third parties (from 1329). The deposits received a variable rate of interest, were reimbursable with notice of six months and not subject to sequestration. The Chamber's liabilities regarding both principal and interest were guaranteed by the Commune, which would in case of necessity provide the Chamber with funds directly generated from taxes or forced loans. The offer of interest plus the

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<sup>82</sup> R.C. MUELLER, *The Venetian Money Market. Banks, Panics, and the Public Debt, 1200-1500*, Baltimore-London 1997, cap. 9.

<sup>83</sup> J.-C. HOCQUET, *Le sel et la fortune de Venise, II, Voiliers et commerce en Méditerranée: 1200-1500*, Lille 1979, pp. 740.

<sup>84</sup> G. LUZZATTO, *Il debito pubblico* cit., p. 76.

<sup>85</sup> R.C. MUELLER, *The Venetian Money Market* cit., p. 428.

privileges enjoyed by the deposits meant that the Chamber was able to attract significant capital flows that were used for a variety of activities, such as paying suppliers, offering loans to wheat importers and windmill owners, promoting wheat growing in Istria, etc.. The Commune also used these funds for its own liquidity needs, paying the Chamber the same rate of interest it offered depositors. The only accounts we have of the Wheat Chamber refer to the year 1345 and show total deposits of 236,000 ducats against 165,000 ducats in cash-at-hand and collectable credits. The balance of 71,000 ducats, made up by outstanding credits judged at risk of non-repayment ('non-performing loans' as they would be called today) and losses deriving from deteriorated wheat, indicate a critical situation in the Chamber's finances. At its peak, the Wheat Chamber, like the Salt Office, provided the Commune with a flow of floating credit of an amount we are not able to determine and therefore compare with other funding sources. With respect to private banks, the Chamber enjoyed prerogatives such as those regarding its deposits (not subject to attack and guaranteed by the Commune), but it did not transfer funds from one depositor to another. Clearly, the Wheat Chamber was not a *banco pubblico*, although it can be considered a forerunner; in fact on two occasions, in 1356 and 1374, there were calls for the Commune to establish a *banco*, but without success.

## 5.2 The first public banks

The first public bank was established only a few decades later. In 1401, the *Taula de canvi* was founded in Barcelona as a treasury entity for the city of Barcelona and Catalonia. As prescribed in its by-laws, it accepted private deposits, reimbursed them or transferred them to others; it could grant credit solely to the municipality in order for it to repay its debts. Despite the scarcity of the documentation, it appears that in the following decades, loans granted to the commune rose at an excessive rate. In 1468 the *Taula* was no longer able to reimburse its depositors and the amounts owed to them were consolidated in the form of public debt securities. The bank continued in existence as late as 1853, but only as a provider of treasury services to the commune of Barcelona<sup>86</sup>. Of much greater significance in terms of the amounts of capital involved and the complexity of the transactions carried out was the *Banco di San Giorgio*, founded in Genoa in 1408, which can be considered the first bank in Italy to offer deposit taking, clearance and lending services and the

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<sup>86</sup> A full bibliography can be found in E. HERNANDEZ ESTEVE, *Aspectos organizativos, operativos, administrativos y contables del proyecto de erarios publicos. Contribución al estudio de la banca pública en España durante la baja Edad Media y comienzos de la Moderna*, in *Banchi pubblici, banchi privati e monti di pietà nell'Europa preindustriale. Amministrazione, tecniche operative e ruoli economici. Atti del convegno. Genova, 1-6 ottobre 1990*, Genoa 1991 ("Atti della Società ligure di storia patria", n.s., vol. XXXI (CV), fasc. I e II, pp. 963-1033).

second (some claim the first) in Europe<sup>87</sup>. The bank's foundation (hereinafter we will refer to *banco* also as 'bank') was closely linked to the serious economic problems of the time: public finances were submerged by debt following the war against Venice and an acute shortage on the local monetary market (as in all Europe) of large-denomination money, which led to an alarming increase in its price and serious effects for debtors in prime money forms, such as the state. In 1407, a thorough overhaul of the public debt got underway that included the creation of the *Casa di San Giorgio*, which was authorised in 1408 by the French governor to open a *banco de tapeto*; its purpose was to enable reform and bring an end – with the multiplication of mediums of exchange in the form of bank money – to the avariciousness of bankers, who were blamed for unjustified increases in the price of large-denomination money and gold in particular. The opening of the *banco* was subject to a set of formalities: authorisation to carry our business granted by the *Officium mercanzie*; payment of a deposit; swearing on oath to operate in a right and proper way (*con coscienza*); compliance with the rules established by the public authorities relating to money rates, methods of repaying creditors; working times, etc.. The transactions performed included money changing, but mostly concerned the recording of entries (*scripte*) in the bank's account book that had full legal value both for the bank and its customers<sup>88</sup>.

The *Casa di San Giorgio* administered the bank in its own name and at its own risk through *gubernatores* chosen from top functionaries in the *Officium*, as the Casa was also called. As well as deposit-taking and clearance, the bank granted secured loans to individuals, bankers and to the state via current account lines of credit renewable at due date, and carried out treasury services for the *Office*. The bank had no starting capital and its funds came exclusively from deposits and taxes, whose flows were both irregular and unpredictable. The basic accounts were kept by a notary *di Collegio* and were divided into annual accounts based on innovative double-entry bookkeeping methods some fifty years before Luca Paciolo.

Each ledger was divided into two sections. The first contained the *de numerato* accounts, whose entries referred to money movements or clearance transactions and were payable at sight. These accounts included those of the *Cassa (de numerato per excellentiam)*, current accounts (depositors, creditors and debtors of the *Casa di San Giorgio*, bankers, public and private entities) and profit and loss accounts. The second, quantitatively smaller section, included accounts used exclusively for term transactions, i.e. advances granted to customers. These were entered as a debt in the borrower's term account together with the due date agreed on for repayment and as a credit in his current account; at the date of repayment, two matching entries were made in both accounts. The substantial difference between the two types of accounts lay in the fact that one was at sight, whilst

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<sup>87</sup> C.P. KINDLEBERGER, *Storia della finanza nell'Europa occidentale*, Bari 1987, pp. 67-68.

<sup>88</sup> G. FELLONI, *I primi banchi pubblici* cit., vol. I, pp. 225 et seq..

the maturity of the other was at an established future date. Apart from this, both accounts were used for the recording of transactions of any type, the granting and repayment of loans, the payment of expenses and collection of revenues, the levying and collection of tax, and clearance services<sup>89</sup>.

The funds came from voluntary deposits and the revenues of the *Ufficio di San Giorgio* and were used to cover the expenses of the *Casa*, which included interest on public debt, as well as the granting of loans. Borrowers, who had to supply adequate pledges and guarantees, included artisans, bankers with temporary cash flow problems, businessmen, entities assigned with tax collection duties, and public offices, which suffered from a chronic shortage of ordinary funds and often faced sudden needs that could not be delayed. In the latter case, credit was generally secured by public revenues, which would be collected directly by the *Casa di San Giorgio* in the event of non-repayment of the loan.

The bank opened for business on 2<sup>nd</sup> March 1408 and its activities grew to such an extent that in 1440 two more ledgers were opened, so offering three counters open at the same time with intercommunicating cash desks.

The increase in business volumes is illustrated by the size of deposits, which in the year-end balance sheets reached 100,000 gold scudos in 1417 and oscillated between 300,00 to 400,000 scudos from 1432 to 1444, figures that far exceeded total State revenues. The bank's days as a going concern were however numbered for three reasons: (i) lack of own capital necessary to face occasional liquidity shortages; (ii) insistent demands for money by the state which the *Casa di San Giorgio* could not turn down and which, in the event of non-repayment, meant a conversion of liquid capital into annual rents; (iii) the monetary policy of the government which, when in need of money, would authorise the bank to procure it paying an *agio*, whilst in the early 1440s, having less need for money, obliged it to respect the legal tender in making payments. Faced with yet more ordinance (31<sup>st</sup> August 1444), the *Ufficio di San Giorgio*, aware of the entity of recent losses as well as of those still to come, decided to suspend banking activity from 1445.

Liquidation took a couple of years with creditors owed 10 lire paid first and subsequently those with larger exposures. All in all the closure of the bank was not a traumatic event and damage was limited to those that did not have business ties with the *Casa di San Giorgio* and could not use its counters to settle their outstanding accounts. For the holders of *luoghi* and those with relations with the *compere*, the suspension of banking activity had little impact as they were able to continue carrying out the same transactions as in the past by using the account books of the *pagae*. These

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<sup>89</sup> For a useful survey of the variety of transactions carried out using term accounts, see A. ASSINI ("Banchi in numerato ed a termine (*Bancorum*)", in G. FELLONI (ed), *Inventario dell'archivio del Banco di San Giorgio (1408-1805)*, sotto la direzione di G. Felloni, vol. III, tomo 1, Rome 1990, pp. 13-18).

books recorded the yearly income of the *luoghi* (the shares of public debt) that were to be collected by the owners several years ahead and their credits represented the sole object of the transactions.

### 5.3 The *Casa di San Giorgio*: back in business

The 16th century saw the start of a second and longer-lasting phase of banking activity. The principal actor was for a second time the *Casa di San Giorgio*, which in 1531 opened once more a *banco*<sup>90</sup>. Its purpose was to overcome the temporary cash shortage suffered by the *Casa* by offering private individuals free deposit and clearance services in attempt to attract fresh liquidity. This new *banco di numerato* (i.e. working in coins and not in *pagae*) was an immediate success, proof that the market also had a clear need for these services. In fact, right from the first days of business, the bank attracted a considerable volume of funds in the form of sight deposits, which were used by their account holders to carry out by clearance accounts a series of transactions such as the purchase of goods and services, payment and/or collection of freight and rent charges, money changing, insurance, etc.. Rising volumes led to the opening of a second *banco* in 1539 with its own counters. The opening of banks dedicated to gold (1586), silver (1607) and the Spanish real (1625) modified further the situation with the two original *banchi* in time becoming solely treasury service providers for the *compere*. For this reason, in 1630 it was decided to close down the first bank opened a century earlier and to leave only the second counter open.

Each *banco* enjoyed particular privileges as regards both the validity of their book entries and the credits due to their depositors. According to internal regulations approved in 1568, the accounts were formally kept by two notaries, whilst the cash was kept by a treasurer that recorded and signed all the incoming entries of each *banco*, that is debts assignable to him (receipts); transactions assignable to him as credits (payments) were subject to a payment order (*polizza*) undersigned by both notaries and consigned by them to the beneficiary, who at the moment of collection signed below the corresponding entry as proof of receipt. From this *polizza* in early 17<sup>th</sup> century derived a nominal deposit receipt (*biglietto di cartulario*) that was payable at sight and could be transferred to others only by notarial deed. In other words, an embryonic form of banknote. As regards the division of responsibilities of the bank's officers, the two notaries could not allow anyone to withdraw in excess of funds deposited unless there was a special licence issued by the Protectors. Only they could allow overdrafts and then exclusively to the republic, the public entities and charitable bodies on condition that there was objective, urgent need, that the money would be repaid

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<sup>90</sup> The obscure *Banco della Prefetia di Trapani* is thought to have been operational in 1523. Documentation relating to the bank and its activities is however scarce.

promptly, that adequate guarantees were provided, and that *la cassa sia abbondante* ('the contents of the bank's coffers were abundant').

Lending to the state and public entities was in two forms: (i) the assignment of a certain number of *luoghi*, which the debtor had to sell or give in guarantee in order to procure the necessary funds, in exchange for the assignment to the *Casa di San Giorgio* of a specified flow of tax returns; (ii) the advance of up to five years of amounts corresponding to the face value of a certain quantity of *paghe* (the interest on public debt receivable at term), which were transferred to the *Casa di San Giorgio* with the difference between market and book value being recorded and charged to the *Casa* (i.e., discounting the *paghe* at an interest rate of zero). As regards private individuals, the sole beneficiaries were charitable and religious bodies, churches, convents and private foundations established for the public good. To apply for credit, these entities had to be the holders of *luoghi* issued by San Giorgio with related *paghe* (or have them secured by third parties) and illustrate the reasons for the application (building works, extraordinary expenses, etc.). If the request for credit was accepted, the *Casa* proceeded in the same way as it did in its lending to public bodies (form ii): it advanced the face value of outstanding *paghe* and covered the cost of discounting. The creditor's advance was exposed to no risks as it consisted of term credits that the borrower had against the lender so that the latter could be repaid through a simple clearing transaction in his book entry<sup>91</sup>.

The opening of the Genoese public banks, a century and a half before other Italian cities and two centuries before the rest of Europe, acted as an important driver for the city's financial development. Proof of this can be found in the events that occurred in Genoa from the early 15<sup>th</sup> century onwards. Singly, the phenomena of *compere* and *banchi* are known and experienced, well in the case of the former, less so in the case of the latter. Nevertheless, the combination of both (i.e., *compere* + *banchi*) represented a significant innovation that was capable of providing increasingly greater amounts of money to both the public and private sectors. Deposits were the source of liquid money that the *Ufficio di San Giorgio* loaned to the state in exchange for other taxes; the *compere* (old and new) acted as a suction pump that took taxes from the market and redistributed them to the holders of *luoghi* (*luogatari*), thereby favouring the accumulation of wealth. When between 1445 and 1530 deposit volumes vanished as a result of the closure of the *banchi*, lending to the state (secured as always by new taxes) was fuelled by delaying the payment of interest on the *luoghi*; in this way, the *luogatari* had access to liquid money by discounting (with papal approval) their term credits. From then onwards, discounting was to become a regular part of Genoa's financial skills alongside others already in use or in gestation.

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<sup>91</sup> G. FELLONI, *Il credito all'erario e ai privati: forme ed evoluzione*, in G. FELLONI (ed.), *La Casa di San Giorgio: il potere del credito. Atti del convegno, Genova, 11 e 12 novembre 2004*, Genoa 2006, pp. 155-163.

## 5.4 The spread of banks in Italy and abroad

Another twenty years were to pass before banks similar to the *banchi di numerato* established by the *Casa di S. Giorgio* started to appear. In 1551, more along the lines of Barcelona's *Taula de canvi*, the Municipal Council of Palermo opened a *banco* (*Banco pecuniario palermitano*) as a solution to the problems arising from the collapse of private bankers responsible for the city's treasury services and the excessive rates of interest it had to pay to procure liquidity. The *banco's* main functions were to meet the commune's expenses out of the money that entities responsible for tax collection were required to pay by law and, in order to tap further resources, accepted sight deposits and offered payment and clearance services.

In the following years, numerous other banks were established in Italy, either as providers of treasury services for public entities (mostly the case in the Centre and South of the country) or as vehicles for raising liquidity and offering additional payment services to trade (as in the North): in 1573 in Naples the *Banco dei Poveri*, in 1584 the *Banco della pietà* again in Naples and the *Banco di Santo Spirito* in Rome, in 1587 the *Banco della piazza di Rialto* in Venice and the *Tavola della città di Messina*, in 1593 the *Banco di Sant'Ambrogio* in Milan, founded on a project explicitly inspired by the Genoese *banchi*.

In the years up to 1640, there were twenty-one banks in Italy, eight in Naples (mostly attached to charitable entities), four in Genoa (all managed by the *Casa di San Giorgio*), three in Sicily, two in Venice, one in Rome, in Siena and in Milan. The first European institutions modelled on the Italian *banchi* saw the light from 1609 with the establishment of the Bank of Amsterdam, followed by similar bodies in Middleburg (1616), Hamburg and Ulm (1619), Delft and Nuremburg (1621), Rotterdam (1635), etc.

These institutions, whatever their initial purpose was, represented for the economy an innovative financial instrument from two perspectives: (i) bank deposits in some cases were protected from money market swings as regards to legal tender, whilst in others were even protected from devaluation as banks assigned a constant value in metallic terms to the unit of account used in their entries; (ii) banks provided the market with additional means of payment in the form of bank money (clearance) or paper money, albeit primitive in form, being as it was payable at sight, made available to the depositor in the denomination required (and not in fixed denominations), payable to order (and not to bearer) and transferable exclusively by endorsement (and not by delivery alone).

These *banchi pubblici* opened up new frontiers in the development of finance that was to lead eventually to the creation of issuing banks and the beginnings of the credit economy. Here too, the origins of this evolution can be traced back to the *banchi* opened by the *Casa di San Giorgio* which, though remote progenitors of today's banks, already had some fundamental characteristics in common with central banks and their forerunner, the Bank of England. Important studies such as those carried out by Kindleberger have shown the similarities between the *Casa delle compere e dei banchi di San Giorgio* and the Bank of England at its outset. We can say today that these similarities relate to the essential functions of both institutes. The Bank of England, too, on its foundation in 1694, had share capital in the form of a loan to the Crown and repaid via the revenues generated from a group of taxes specified by act of parliament. The difference between the two institutions was that the interest collected by the Genoese *luoghi* varied according to tax revenues, whilst that payable on the capital of the Bank of England, though coming from similar sources, was guaranteed by the Treasury at a fixed rate of 8%. The *biglietti di cartulario di San Giorgio*, which were in circulation since 1625-1630, were to order, payable at sight and transferable by endorsement, just like the goldsmith's notes that were in circulation in London in the second half of the 17<sup>th</sup> century and for several years the notes issued by the Bank of England. We know that the Bank of England discounted private bills and granted loans to the Government; in the same way the *Casa di San Giorgio* discounted coupons of up to five years (the proceeds of the *luoghi*) to finance the Republic of Genoa. Finally, both institutes were in a position to condition and control other lenders: in Genoa at the end of the 15<sup>th</sup> century, bankers (*banchieri de tapeto*) had to provide the Protectors with a list of the names of their partners and the guarantees provided in proportion to share capital, whilst the Bank of England obtained the monopoly of banking activity, which could not be carried out by any other stock company. With these similarities in mind, it is legitimate to say that the Bank of England, on its way to becoming a central bank, followed the same route used almost three centuries earlier by Genoa's *Casa di San Giorgio*<sup>92</sup>.

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<sup>92</sup> A deeper analysis of the history of the *Casa di San Giorgio* along with digital archives prepared by the author is available at [www.lacasadisangiorgio.it](http://www.lacasadisangiorgio.it).