Layout: A5 HuSSci Book ID: 459376_1_En Book ISBN: 978-3-319-90248-7
Chapter No.: 7 Date: 13 June 2018 14:21 Page: 147/164

CHAPTER 7

Public Banks and State Finance in Florence and Venice

Luciano Pezzolo

1 Bank and State Finance in Florence

Florence is rightly considered as one of the most developed financial areas of the Renaissance. Its merchant-bankers, who were widely involved in international and long-distance trade and in the church's financial system, were able to mobilize huge resources and transfer them across every place of the continent. Considering that the banking sector was one of the pillars of the Florentine economy, it is surprising to find that the role of bankers in the mechanisms of public finance in their city was marginal. While it is very likely that until the mid-fourteenth century banks were requested to advance money to the municipal treasury, after the consolidation of the debt following the establishment of the *Monte* (Fund) in the 1340s and the development of a solid tax system, the use of short-term loans became less pressing, at least until the early fifteenth century.

The heavy military commitments of the 1420s caused serious difficulties for the state financial system: the government increased the

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demand for forced loans and at the same time failed to pay interest regularly; many taxpayers-lenders encountered difficulties in funding the loans and the number of delinquent citizens expanded dramatically. In this context, the government returned to exploiting the practice of short-term debt to finance urgent needs.

Although it is not yet clear when the system took hold, research has shown that the floating debt represented one of the vital devices for financing urgent needs. First the *Officiali del Banco* (Bank's Officers) and later the *Officiali del Monte* (Monte Officers) were set up precisely to take responsibility for raising loans, which would be paid back relatively quickly. The officers could lend their money directly to the *Monte* or take charge of collecting sums from among various citizens at a lower rate and then lending to the government at a slightly higher rate. So, for example, Lorenzo Morelli, who in the 1480s held the position of *Officiale del Monte* on various occasions, received money between 9 and 12% and lent to the government 14% (Goldthwaite 1996). The interest rate usually ranged from 12 to 14%; the amounts assigned to repayment came from forced loans and, especially from the end of the fifteenth century, direct taxes (Molho 1971; Marks 1960). Unlike traditional loans, which offered an interest if paid regularly—of 5%, short-term loans were particularly attractive. In Renaissance Florence, a discretionary deposit—that is, a medium and long-term passive investment in commercial companies—gave an annual return of 8% (Goldthwaite 2009, p. 438; De Roover 1992, pp. 883–884); and the agricultural sector did not offer returns above 5%. It is more useful, however, to compare returns on short-term investments, similar to those concerning the Monte officials.

The exchange market, by definition volatile and particularly insidious, between Florence and Lyon in the 1470s generated profits of 18%, with marked fluctuations between a minimum of 4 up to a maximum of 33%. Lorenzo Morelli, a Monte officer who performed his function in the 1480s, paid less than 14% on the money borrowed through the exchange market between Florence and the fairs of Lyon (Goldthwaite 1996; Tognetti 1999, p. 283; Conti 1984, p. 77). The yield on a government loan, therefore, was to be considered satisfactory, in that the prospects to be reimbursed were much more robust than those concerning the forced loans. A point that has been stressed by scholars concerns certain political aspects connected to the magistracy of the Monte officials. According to Louis Marks (1960), the officers mirrored at the financial-institutional level the oligarchic character of Lorenzo Medici's Florence, based on a patronage network that distributed substantial benefits to its members. This perspective was subsequently revised, however, by smoothing down the highly negative aspects and at the same time highlighting a relatively large participation of Florentines in the floating debt system (Goldthwaite 1996). The catchment area of the underwriters who between November 1494 and November 1496 lent 450,000 florins at 14% was quite wide (Barteleit 2004, pp. 150–160; Cambi 1786, p. 3). From the early sixteenth century, however, recourse to the Monte officers diminished in intensity, although the magistrates still represented an effective financial instrument (Barteleit 2004; Ciappelli 2006, pp. 189–234).

Duke Cosimo I (1519–1574) used traditional devices to cope with war expenses: ordinary taxes, extraordinary charges, forced loans and indebtedness on both the domestic and international market. Unlike the republican practice, however, the duke did not turn solely to the large area of lender-taxpayers, but also to merchant-bankers who belonged to the European financial aristocracy (Parigino 1999, pp. 56–74). The mechanism based on the sovereign who borrows personally from bankers, merchants, officers and courtiers is typical of the princely regimes; the urban-republican one, instead, as in the case of Florence, was based on forced loans collected on the basis of tax records in which the tax capacity of each citizen was registered. In summary: floating debt in the first case, consolidated debt in the second. This obvious difference tends to hold true until the early sixteenth century, when princely governments also resorted increasingly to issue securities on the open market, similarly to what city-republics had long been doing. Cosimo, therefore, would seem to act against the current by financing himself through merchant bankers rather than raising funds on the domestic market. The problem lay in finding liquidity quickly, so as to maintain a steady flow of money for the troops; and the only way to ensure this flow was to ask the Fuggers, Grimaldi and Negroni for money. After all, the duke had already dealt with German banking firms, so it was obvious that he borrowed from their agents in Antwerp and Venice. One wonders whether the involvement of the Fuggers was a choice to be placed in the broader context of relations between the emperor and the Florentine duke (Von Pölnitz 1942). The fact is that the state budget of 1567 records 50,000 *scuds* (with an interest of 9464 *scuds*) loaned by the Fuggers of Antwerp, 25,000 in the name of the Florentine Filippo Salviati, along with the Genoese Antonio Maria Grimaldi and Andrea Imperiali and some names that evoke the most eminent Florentine patriciate.[1] This would suggest that traditional relations with foreign financiers were maintained and that the area of possible lenders widened. We must not therefore dramatize the lack of Florentine financial capital, since other magistracies, such as the General Depositary, on the eve of the war in Siena record short-term loans at 12% in favour of the duke (Menning 1993, p. 146).

2 The Monte di Pietà

It was the institution of the Monte di Pietà of Florence that represented a fundamental event in the history of indebtedness of early modern Florence. Initially established as a pawn bank, the Monte di Pietà evolved into a veritable public deposit-and-loan bank (Goldthwaite 2009, pp. 471–479). In 1582 just 280,809 *florins* were lent against pawns, while 629,882 *florins* were granted as larger loans. At the same time, the Monte di Pietà became a sort of treasury for the government, where numerous public agencies deposited money, and where the grand duke himself borrowed for himself, his family, friends and clients. The Monte, thus, served as a lender to the weaker sections of the population, a provider of larger loans to private individuals as well as to the government.

The Monte di Pietà managed the floating debt of the state by issuing deposit certificates in favour of its creditors, who could transfer them to third parties; the government recognized those certificates with paying debt power and accordingly committed itself to pay its obligation to the holder. Following this new role, the Monte di Pietà replaced the system of short-term debt centred on the Officiali del Banco and bankers. The government resorted to the Monte's money for several reasons: expenses for the plague, for the war, for subsidies to foreign powers, to buy cereals, for the construction of palaces and public works, to finance trips and gifts as well as the purchase of buildings and jewellery for the Medici family.

In addition to managing the floating debt, the pawnshop also became an element of the long-term debt system. In 1616 it launched a series of securities at 5% for 2 million *scuds* divided into shares of 100 *scuds*

[1] Florence, State Archives, *Carte strozziane*, I, fasc. 22, c. 40v.

Layout: A5 HuSSci Book ID: 459376_1_En Book ISBN: 978-3-319-90248-7
Chapter No.: 7 Date: 13 June 2018 14:21 Page: 151/164

each, whose interest was to be paid by the yield of the Customs of Florence, one of the largest revenues in the budget state (Cantini 1804, pp. 28–37). At the same time, the borrowers of the Monte would have paid 5.75% in order to meet the operating costs of the institute. It is interesting to note, however, that a part of the bonds was assigned to local communities and state agencies that had been obliged to transfer to the Monte their budget surplus. Actually, their credits at the Monte were transformed into bonds. In 1619 another 400,000 *scuds* were issued as annuities at 5%. The war of Castro (1642–1645), which saw an alliance between Florence, Venice and Modena in support of the duke of Parma and against the Pope, provoked a further demand for money. The government launched new series of annuities but not involving the Monte di Pietà, probably in financial difficulty. In fact, in 1646 the total debt of the Mount reached 7,750,000 *scuds*, while thirty years earlier it was about 2,250,000 *scuds*. From that year until 1651, the debt was converted by lowering the interest rate to 4% first, then to 3% and finally as low as 1.5% (Pampaloni 1956).

To support the financial institution, the revenue from some taxes was earmarked to its coffers, but the efficiency of the Tuscan tax system turned out to be rather modest: of the 204,000 *scuds* earmarked to the Monte in 1646, 90% (184,257 *scuds*) were made available to the Monte, not enough, considering that it was estimated that it needed 310,000 *scuds* a year. It is not surprising, therefore, that from the mid-seventeenth century any reference to the Monte di Pietà disappeared from the list of extraordinary income of the Florentine state budget. The situation of the institution had progressively deteriorated and now it was unable to provide financial resources to the ducal government. The only trace that remained in state finance was the payment of the interest of the annuities issued in the early seventeenth century, which continued to be paid until 1770, when the debt of the Monte di Pietà was incorporated into the new Monte Comune (Felloni 1971, pp. 283–289).

Between seventeenth and eighteenth century the need to find short-term loans was met by bankers, mostly Tuscan and Genoese. In 1707, requesting financial help from the emperor, the Grand Duke Cosimo III (1642–1723) resorted to Florentine bankers and financiers in Milan, where the headquarter of the imperial army resided. While the Florentine bankers generally required an interest rate of 7%, in Milan the presence of the troops had made the cost of money extremely high, so that in the years 1708–1710 the loans cost the grand duke 12%, and on one

Layout: A5 HuSSci Book ID: 459376_1_En Book ISBN: 978-3-319-90248-7
Chapter No.: 7 Date: 13 June 2018 14:21 Page: 152/164

occasion even 24% (Waquet 1990, pp. 100–106). To quickly repay these capitals, the government sought money at medium and long-term, finding it in Genoa and issuing securities.

The limits of the financial demand of the Grand Duke did not lie so much in his credibility as a debtor, but in the scarce supply of capital that the Florentine market presented. It was therefore necessary to resort to bankers and financiers who, through their personal relationships, could raise money. These same people then found themselves in the main financial agencies of the state, in the General Depositary, in the management of public debt and in the collection of taxes (Waquet 1990, pp. 117–119). The role of bankers, however, was limited to the financial sphere and did not extend their influence to other areas of ducal politics.

3 State Bank and Finance in Venice

It is well known that Venice was one of the most important financial centres of preindustrial Europe. She probably reached her heyday in the fifteenth and sixteenth centuries, as her financial institutions provided a model to other European centres. The most important aim of the Venetian financial market was first to provide merchants, rightly considered as the protagonists of the economic success of the city, with services. A foreign merchant coming in the Rialto was immediately struck by the ease to do business without cash. From the late thirteenth century, some local bankers kept their clients' deposits and transferred money by simply writing the sum from an account to another one (Mueller 1997). This system facilitated transactions and limited considerably the use of coins. The main features of the Venetian banking system were the generally accepted use of bank money, a lesser stock of money than the volume of deposits, and the fact that bankers had accounts in other bank. Local bankers were more interested in supporting trade than granting credit, but when they permitted depositors to overdraw they created credit for their clients, who could then even lend to other clients (Mueller 1997, pp. 16, 23).

Bankers often exceeded the limits imposed by the law, and the government itself occasionally required their credit services. Furthermore, although the government required an exact equivalence between the money deposited and the value of the transactions recorded, bankers usually took advantage of the availability of money to make investments on their own account, hoping the depositors would not have requested their money in the meantime. But as soon as it was rumoured that a banker had been struck by some unfortunate event (loss of merchandise, bankruptcy of merchants close to him, death of some protector) a multitude of creditors huddled in front of his bank claiming their money back. In most cases there was nothing but to declare bankruptcy and rely on the justice for the settlement of debts.

The relationships between banks and government were quite close. Bankers were requested by the authorities to pay a draft, advance money for grain supplies, and so on. During the fifteenth and early sixteenth century local bankers provided several short-term loans, especially in the frequent periods of war. In 1473–1475, during the Turkish war, the four banks then operating at the Rialto lent at least 300,000 *ducats* (Mueller 1997, p. 432). At the beginning of the sixteenth century the banks of Rialto had provided various loans to the government: between 10 July 1510 and 5 September 1510 the Pisani and Capello-Vendramin banks anticipated at least 30,000 *ducats* 'for the satisfaction' of Swiss mercenaries and to hire other soldiers; of the 13,500 *ducats* sent to the Venetian proveditor Cappello in March 1511, 8000 were lent by the Cappello and Vendramin bank, and 5500 from the Priuli bank. These short-term loans were usually guaranteed by tax revenues and did not undermine the banks' financial health.[2]

The frequent bank crises, however, forced the government to intervene. In 1564 the Venetian senate forbade the opening of new banks, and in 1584 the failure of the last private bank of Pisani and Tiepolo, which had a loss of 1.4 million *ducats*, paved the way to the first public bank (Tucci 1981, pp. 231–250). Three years later, in 1587, the Banco della Piazza di Rialto, which basically performed the same function of the former private banks, was founded. The novelty was that the government itself exerted a close control over the management of the new financial institution and was the guarantor of the deposits. It received deposits and made giro transactions between current accounts. The clients' chances to be in the red faded away, for the function of the Bank was limited to controlling the monetary system by providing, at least until the end of the sixteenth century, reliable bank money.

The republic avoided exploiting the funds intrusted to its bank, sought no profit from the use of its credit and, in short, merely

[2]Venice, State Archives (henceforth ASV), Consiglio dei Dieci, Misti, reg. 33, cc. 47r-v, 66v, 107r, 124v; reg. 34; Gilbert (1980, pp. 33–34).

Layout: A5 HuSSci Book ID: 459376_1_En Book ISBN: 978-3-319-90248-7
Chapter No.: 7 Date: 13 June 2018 14:21 Page: 154/164

undertook to keep the money of depositors in safety, and to pay it out or transfer it to others at the will of the owner. At a given moment the depositors might even withdraw the whole of the cash, in full satisfaction of their claims, if they chose, and nobody could prevent them from doing it. Some functions of the private banks were thus transferred to the public bank. For some years its budget recorded a perfect balance between deposits and cash: in 1588 it amounted to 546,082 *ducats*, in 1592 to 705,849 *ducats*, in 1597 to 950,440 *ducats*, and in 1618 to 1.7 million *ducats* (Tucci 1981, pp. 240, 248). Such expansion undoubtedly reflected the prosperity of the bank. The increase in deposits was accompanied by limited withdrawals of money, so that in 1593 the sum earmarked to the daily cash service could be reduced from 30,000 to 20,000 *ducats*.

The new bank operated as a monopoly, for it was forbidden to open private banks that might be in competition with it. The state seldom used the Banco just for specific operations, and on these few occasions it paid back soon the sum withdrawn. In order to meet short-term financial needs, the authorities sometime established funds that allowed providers to use their credit through transfer to others with debt-paying power, until the debt would be extinguished. On 4 January 1596, for example, a giro fund was established in favour of some suppliers of precious metals to the mint. In 1607 this practice was renewed with a Banco Giro delle Biave, to be used by suppliers of huge amounts of grains. When it was closed in 1614, the government had paid back three-fourths of the original amount and the rest was spread throughout several creditors, even for as low as ten *ducats*. The sum was assigned to the Banco della Piazza, with coins as guarantee placed into a chest of the mint.

4 The Banco Giro

The establishment of the Banco Giro in 1619 marks a crucial event in the Venetian economic history. Although its accounting mechanisms were similar, the new Banco was quite different from the Banco della Piazza di Rialto (Tucci 1973). While the latter was a bank in which procedures implied real deposits, the former used transfers of state credits, which formed a fiduciary circulation controlled and guaranteed by the state. With respect to earlier experiences, this new bank was to lose its temporary character and become a true public bank. In 1637 the Banco della Piazza di Rialto was suppressed because of the growing importance of the Banco Giro. Initially a huge supply of silver to the mint was paid with both gold and a credit recorded in a new giro fund, so as to make the sum quickly at the disposal of the provider. Further loans and provisions of goods and services were fulfilled by crediting suppliers at the Banco. Such practice was so successful that in 1620 a new accountant was hired, and in 1626 it was said that the clerks worked all the days and even at night. The new floating debt managed by the Banco Giro was born.

In this early phase the Banco's assets were formed of its credit toward the state and a sum of money regularly assigned by the government to extinguish its debt; the liabilities were just the balance of the holders' accounts. The government, in fact, intended to exploit the new bank only briefly and wanted to redeem this kind of debt as soon as possible. Although initially the two public banks did not seem to be in competition, within a few years the Banco della Piazza di Rialto suffered consistent outflows of money. While in 1618 the amount of its deposits was 1.7 million *ducats*, in 1630 it dropped to as low as 56,185 *ducats*. No surprise, then, that in 1637 the government decided to close the Banco di Rialto. The very nature of the Banco Giro turned out to be successful: its linkages to the public finance and the mechanism of supplying precious metals to the mint implied that most of its clients were merchants, who found it extremely convenient to operate by means of transfers on the Giro's books.

Although the Banco Giro offered convenient means of payment and a stable money of account, the merchants considered it to be primarily as an instrument of public finance. Because bank money was a form of public debt, the government sought to limit the issuance of it and gradually amortize the debt. To this aim, the authorities had initially allocated a sum of 10,000 *ducats* monthly, but in 1625 the amount had been raised to 80,000 *ducats*, as a result of the expansion of debt (Fig. 1).

The first years of the Bank also saw a good assessment of its money, which enjoyed a legal premium (*aggio*) of 20% (120/100) on the current money of account; in 1624, for example, the price was 121.[3] The second half of the 1620s was characterized by financial commitments that culminated in the plague of 1630–1631. In 1629 the *aggio* had reduced to

[3] ASV, Senato, Giro, fz. 2, December 26, 1624.

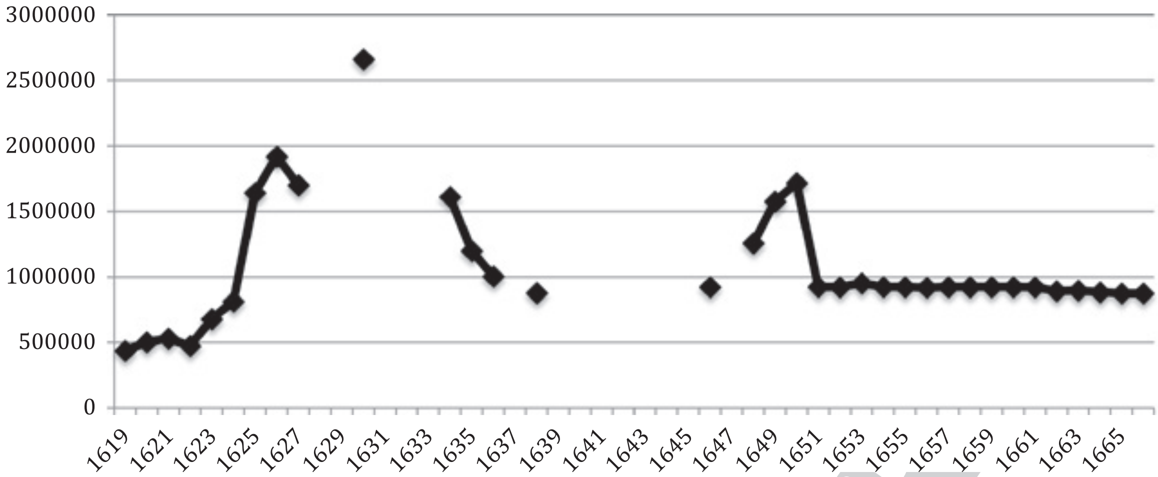

Fig. 1 Debt of the Venetian government at the Banco Giro, 1619–1666 (*Source* Tucci [1973], p. 370; ASV, Senato, Giro, fz. 2, September 29, 1626)

19.5%, causing an alarm among both merchants and authorities; but the following year the price fell to 90, making the value of the bank money even lower than the current one. In the following years, however, the level of debt was significantly reduced, which allowed the Venetians to pay a portion of their taxes in bank money. The closing of the Banco della Piazza di Rialto and the policy of debt control favoured a consolidation in the confidence of Banco Giro and consequently an increase in the price of its money of account, which reached 122 in 1635 and in 1638. This obviously worried the authorities, since the merchants preferred to pay custom duties in cash with a premium of 20% rather than using the bank money priced at 22. In 1643 the situation became even more complicated, as the price of the bank money reached 25 due to an unusual inflow of bills to be paid at the Banco Giro (Mandich 1957, pp. 1169–1170).

The outbreak of the war of Crete (1645–1669) naturally involved a tough strain on Venetian state finance. The government imposed new taxes, above all to support the growth of the public debt. It is likely that the major effort that the Republic produced was in the first years of the war, when both the tax burden and the demand for loans grew significantly. Tariff increases and extraordinary direct taxes characterized the fiscal policy of the government in the second half of the 1640s; in the following years some taxes were made ordinary to support the debt service. While in 1641 the long-term debt corresponded to less than 170 tons of silver, in 1670, a year after the end of the war, it had increased to about 890 tons. Table 1 shows the situation in 1670.

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Chapter No.: 7 | Date: 13 June 2018 14:21 | Page: 157/164

Table 1 Funded debt of the Republic of Venice in 1670

Ducats						
Deposits in the Mint	*Capital*	%	%	*Interest*	%	%
Series						
4%	1,127,952	5.3		45,118	3.0	
5%	8,485,806	39.6		424,29	28.2	
6%	3,707,307	17.3		222,438	14.8	
7%	4,346,029	20.3		304,222	20.2	
10%	292,412	1.4		29,241	1.9	
12%	179,591	0.8		21,549	1.4	
14%	3,284,280	15.3		459,799	30.5	
Total	21,423,336	100	46.5	1,506,657	100	63.4
Interest in arrears	11,000,000		23.9			
Total	32,423,367					
Loans out of the Mint						
Venice	12,670,750	92.8		825,316	94.7	
Mainland	988,551	7.2		45,863	5.3	
Total	13,659,301	100	29.6	871,179	100	36.6
Grand Total	46,082,668		100	2,377,836		100

Source Pezzolo (2006, p. 101)

War finance characterized the central decades of the seventeenth century but, as on other previous occasions, after the end of the war the government put its debt in order and began the to lower the interest rate paid on its securities. In 1672 the various redeemable series between 5 and 7% that had been issued during the war were unified in a single fund at the interest rate of 3%. The consequences of the war do not seem therefore heavy for the financial health of the Republic, but what happened to the Banco Giro?

A state budget drawn up in 1670 indicates that the role of the Banco Giro as an instrument of indebtedness was rather limited: just over a million *ducats* at 5 and 6% had recorded on the books of the bank, that is less than 3% of the entire debt, not considering the interest arrears. The government debt at the Bank in fact, after an initial growth, stabilized around 900,000 *ducats*, a level considered customary by the financial authorities. The limited amount of capital collected is not surprising: the Venetian government had instruments far more effective than the Bank; the so-called deposits in the Mint (annuities) enjoyed a well-deserved reputation and were widespread in society. It would have been extremely

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Chapter No.: 7 Date: 13 June 2018 14:21 Page: 158/164

dangerous for the Venetian government to exploit the Bank as a central element of the financing system, since the institute also performed delicate functions in controlling the money market. The decision to suspend the convertibility of bank money in 1648 (which was to last until 1666) lay precisely within the sphere of the money market rather than in the context of the financial needs of the state.

Although there is scanty information on the first years of the war, we know that in 1648 the bank money dropped to 113, and in 1650 the price had actually fallen to 96–97, also due to the suspension of government payments in favour of the Banco. In December of that year the senate, however, decided to increase the sum earmarked to the bank from 10,000 to 15,000 *ducats* per month, and the following year managed to pay off 600,000 *ducats* of debt, thus favouring a substantial rise in the price of bank money. The stability of debt shows that the government avoided issuing bank money.

With the end of the forced convertibility in 1666 a new phase for the Banco Giro opened, since it also assumed the function of a deposit bank available to all potential customers. Now the bank money could be transformed into cash and cash into bank money. The bank issued certificates of deposit, but they were never allowed to be transferable.

The first half of the eighteenth century was characterized by the Second War of Morea (1714–1718), which saw the Republic lose the Greek region that had been conquered after a long war in the last twenty years of the previous century. It has been estimated that the four years of war cost 15 million *ducats* in extraordinary expenses, which were found by first resorting to the debt. Between 1710 and 1719 the size of the state debt grew moderately from 67,578,000 *ducats* to 69,997,000.[4] In December 1714, the government decreed a forced conversion of the debt, making the rate of interest uniform at 2%. A year later, charitable institutions and guilds of Venice were involved, more or less voluntarily, in collecting loans of which they were guarantors. These institutions operated as intermediaries between investors and state: the former remained anonymous, had the right to transfer their securities as a means of a notarial act, and the maturity of the loan was predetermined; the latter managed to obtain loans in a context where investors' confidence had diminished following the reduction in interest rates two years earlier.

[4] ASV, Savio Cassier, 579, cc. 139ff; Da Ponte (1801, Table VIII).

Furthermore, in 1716 the tariff increase of the grinding duty allowed to launch a series of public debt at 4%.

During the war, the government turned to the Banco Giro withdrawing cash and expanding the volume of bank money. Between 1710 and 1714, the government deposited gold and silver coins to pay precious metal suppliers in bank money, but within a short time it withdrew the cash without extinguishing his credit. In 1714 the authorities decided that the bank money was not convertible, and this regime lasted until 1739. The lack of confidence in the Bank is evident in Fig. 2, which presents the bank money prices over the seventeenth and eighteenth centuries.

In 1717 the volume of bank money in circulation exceeded 2 million *ducats* and consequently the merchants tended to avoid use the Bank for their operations. The Giro advanced to the state at war 1.4 million *ducats*, which although it did not represent a considerable percentage of total spending, was a substantial injection of money into the market. The general economic condition was certainly not favoured by the expansion of the money supply. Because bank money inflation caused foreign exchange to rise, merchants preferred to pay imports with good coins, thus causing the disappearance of precious currencies while the bank money depreciated. To address the problem, it was decided to offer

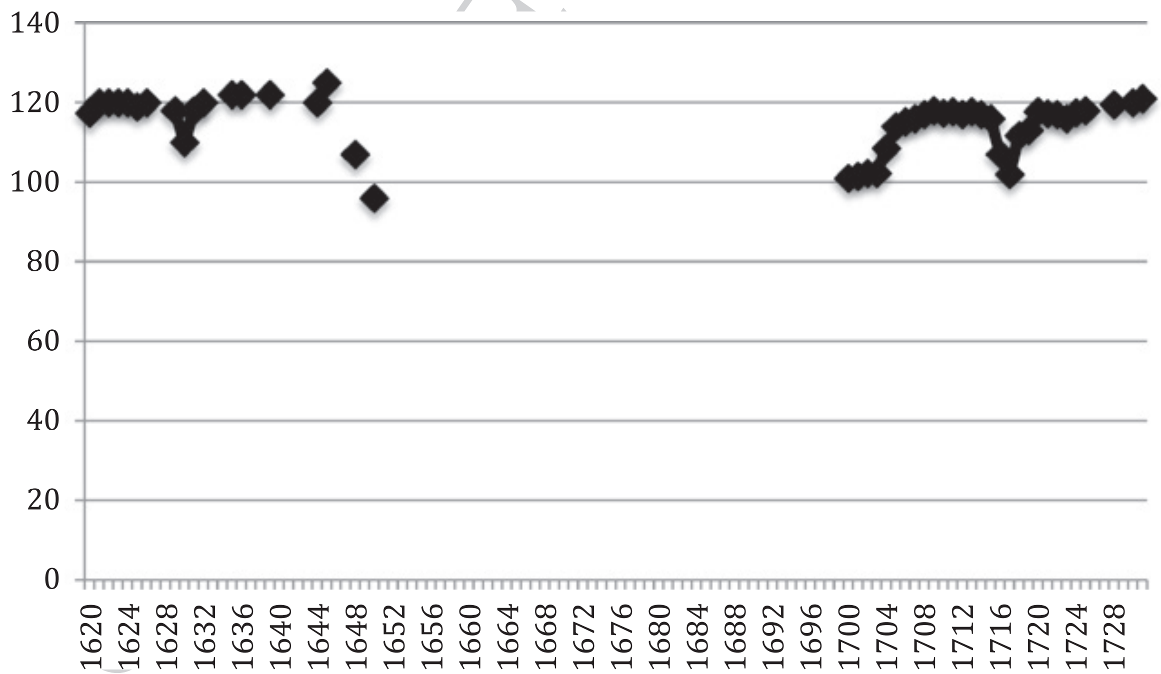

Fig. 2 Price of bank money in Venice, 1620–1731 (*Source* Mandich [1957] and Tucci [1973])

Layout: A5 HuSSci Book ID: 459376_1_En Book ISBN: 978-3-319-90248-7
Chapter No.: 7 Date: 13 June 2018 14:21 Page: 160/164

Banco creditors the opportunity to bind for a period a certain sum in favour of the state; in return, the creditor received 6% as interest, which was higher than 4% offered by the deposits in the Mint. The implications of this mechanism are highlighted in Table 2, which shows how the rumours circulated in Venice and how the prices were influenced by the decisions of the government.

The advantage of the state, besides transforming a short-term debt into a medium long-term debt, mainly lay in increasing the price of the bank money, with which it paid for goods and services. The problem was certainly not to be overlooked. In 1716 it was estimated that the depreciation of 13% of the bank money on a military expenditure of 4 million *ducats* had caused a loss of 520,000 *ducats*. The problem was exemplified by the exchange rate between bank money and the current money of account: as the cost of goods and services purchased by the state was expressed in current money of account, if current money was higher valued than bank money, more bank money was needed for

Table 2 Price of bank money and government activity in 1718. Official price 120

		Price
1718	April	Before the decree
	18	96.25
	23	97
	26	97.25
	28	97.75
	29	99.75
	30	100
	May	Before its performing
	2	103.5
	4	103.25
	7	103.62
	14	106.37
	May	After its performing
	21	107.75
	23	108.75
	27	109
	June 2	109.25
	10	112.83
	30	113
	July 18	114
	August 25	114

Source Tucci (1973, p. 384)

payment. This was in fact a tool for short-term indebtedness, as is evident in an operation carried out in 1718. A foreign merchant provided 100,000 *ducats* in bank money through the Giro, which 26 months later was paid back in current money by the Treasury of Verona. Since the bank money loan had been valued at 99, the repayment in cash yielded 8.3% of annual interest. Moreover, this return was not much higher than the 7% that in 1722 had been promised to some local merchants in order to keep 500,000 *ducats* for 4 years at the Banco Giro. The relatively high interest rate compared to that offered by the government deposits in the mint (4%) was aimed at reducing the volume of bank money that was considered adequate to meet the demand of the market. The fact that at the beginning of the century this volume was around a million *ducats*, and that twenty years later 600,000 *ducats* were considered enough highlights the severe difficulties the Venetian economy had to cope with.

From the mid-seventeenth century the life of the Republic of Venice was characterized by three wars against the Ottomans and by numerous armed mobilizations along the eighteenth century. To cope with these commitments, the government resorted to extraordinary measures: in addition to imposing new taxes and borrowing, it had sold 90,000 hectares of common land, offices and access to the Venetian patriciate. Yet, around the mid-eighteenth century the Venetian authorities could affirm that the state enjoyed ample and deserved credibility. The basis of this trust lay in the punctuality in payments of interest on loans, the mint, and the Banco Giro. From 1739, when the convertibility regime was re-established, to the fall of the republic in 1797 the state debt in the Bank was kept at a moderate level. Despite some crises, the fiduciary issues had never been increased so as not to cause the collapse of the banking system; and as soon as the situation permitted it, the authorities re-established the good health of the institute. This was also facilitated by the government's financial policy, which aimed to ensure the balance of the budget between revenue and expenditure. The intensive exploitation of credit by means of bank money would have brought about a crisis, with consequent devaluation of exchange rates, taxes, state payments and would have encouraged speculation. From 1739 until the end of the republic the state debt to the Banco Giro was maintained under a million *ducats*, even in 1760, when the Ottoman threat had led to naval mobilization with a consequent extraordinary expense of 1,000,000 *ducats*, taken from the war chest.

5 Conclusion

Our overview of the relationships between banking and government in Florence and Venice shows marked differences between the two cities. First of all it is necessary to underline that the role of the state in Venice is much more evident than in Florence. In the Renaissance, the bankers are few and concentrated in the Rialto, while the Florentine banking companies are scattered; this allows the Venetian government to control operators with ease (Goldthwaite 2009, p. 457). They are also subject to strict regulations that form close links between banks and state institutions. The opening and closing of a bank in Venice was an event that involved the city. The Florentine banks operated on much wider horizons than the Venetian ones, who mostly limited themselves to transactions in the city. As far as relations with the government are concerned, in Venice the bankers were asked to provide short-term loans and to advance payments; in Florence the bankers were involved in the indebtedness system through the Officiali del Banco, although this office did not count solely on finance specialists.

With the establishment of the Banco della Piazza di Rialto the difference between the two cities became even wider. The Venetian state was the guarantor of clients' deposits and assured, at least in principle, the control of the monetary standard. In Florence there was no such institute: the Monte di Pietà probably could have performed the functions of a public bank, but the heavy influence of the ducal family and the insufficient support of state taxation caused the decline of the Monte.

The creation of the Banco Giro increased the distance between the lagoon and the Arno, not only in terms of managerial performances but also in terms of results. Despite various tensions in time of war, the Banco Giro managed to maintain a central role in the system of state financing and, above all, in providing a reliable service to the market. It seems that in Florence all this was missed. The Venetian authorities were always extremely worried about the effects of fluctuations in bank money prices, while the Florentine government was apparently less interested. It could be said that the reliability of the Venetian banking institutions relied on a higher fiscal capacity than that one could find in Florence. In the seventeenth and eighteenth centuries the series of wars that Venice fought stimulated the search for new ways of financing, while the few wars that involved Florence did not have the same outcome. This mechanism could explain the difference between the Italian financial market and the one that developed in Northern Europe in the seventeenth and eighteenth centuries. The level of intense inter-state conflict in the North encouraged the development of new financial instruments, while the Italian peninsula, at the forefront until the early seventeenth century, was unable to catch up the Dutch and the British powers.

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Chapter No.: **7** Date: **13 June 2018 14:21** Page: **164/164**

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