Long-distance trade always involved transferring assets over space. Maritime ports functioning as linking nodes on the circuits as well as gateways to extensive hinterlands had to offer financial facilities to fuel activities in transport, commerce and exchange. To capture the best opportunities for profitable exchanges, merchants were eager to get the latest news about supply and demand in the markets, as well as about conditions in general which might have an impact on their transactions. Seaports served as information hotspots in the late medieval and early modern periods, linking European commercial networks to one another. This chapter first discusses the context of the gathering of information, then deals with the various institutional forms of banks, and finally with the instruments of credit and exchange, most of which were typically developed in major maritime ports.

Harbours as centres of information

Harbours were superb places to pick up commercially useful information. There are three reasons why this should be so. The first is enforced idleness. English shipping contracts generally called for a turnaround time of twenty-one working days,¹ a bit more than a calendar month. The reason for this enforced idleness in port was, of course, the fact that harbours were logistical bottlenecks, where goods were transferred from one form of transport (sea-going) to another (river-based, land transport).² During this time, merchants and commercial agents accompanying the ship had plenty of time to scout out commercial intelligence. We are not limited to suspecting that this was so, we can demonstrate it. When the English crown directed that witnesses be heard to determine the question of whether Giuliano Gattilusio, the pirate who had attacked and captured the fleet provisioned and commanded by Robert Sturmy and John Heyton off Malta in 1458, was Genoese, a number of people came forward whose obiter dicta throw a good deal of light on how frequently
information was exchanged in casual conversation in harbours, even between people of different nationalities. William Denys of Devonshire stated that he heard about the whereabouts of Sturmy’s ship and Gattilusio’s intentions in Rhodes, Candia (Herakleion on Crete), Corfu and Parenzo (Poreč on the Istrian peninsula in present-day Croatia) and picked up further common rumours in Venice. William Crike not only claimed to know some 150 Genoese by sight who had served with Gattilusio, having seen them in port in Southampton and Sandwich, but had also talked to the inhabitants of Portofino near Genoa about the arming and victualling of Gattilusio’s galley. John Warde was able to report the substance of a conversation he had had in Bruges with Laurence Test, a servant of the London alderman Thomas Cock, about what Test had heard about Gattilusio while he was in Genoa. Finally, a number of Venetians were able to confirm that Gattilusio was in fact Genoese, drawing on what had been ‘commonly rumoured’ and what they ‘had been told by many people’. Now, one might be inclined to dismiss this evidence as unrepresentative and therefore unpersuasive, were it not for the fact that even in the mid-seventeenth century Samuel Pepys went to the Royal Exchange every day and to taverns nearly as often to pick up gossip from foreign merchants on what was happening in Europe. Commercial intelligence, in other words, was still being passed by word of mouth.

The second major source of commercial information specifically available in harbours was the customs administration. From the moment in 1303 when Edward I agreed with foreign merchants to grant them a number of rights in exchange for certain new customs, the customers were privy to price movements on a host of foreign markets, since all merchandise (saving wine and wax) imported by aliens was valued at purchase cost rather than at its market value in England and had to be declared immediately upon entry into the kingdom. With the introduction in 1347 of the ad valorem poundage subsidy (normally 5 per cent) which applied to all denizen and alien imports and exports, even fuller information became available, although poundage was only collected sporadically up to the 1390s. The result was that any customer worth his salt could, with very little effort, build up an exceedingly accurate picture of the ebb and flow of merchandise through his customs district. Origins, type and amounts of merchandise entering the country as well as their prices at first purchase were at the customer’s fingertips, as were the amounts and destinations of English merchandise being exported. This goes a long way to explaining the intense interest of urban mercantile elites, particularly in London, in having their members serve in the customs administration, although they received no salary: being a customer was an excellent way of keeping tabs on the domestic and foreign competition by collecting information. To be sure, England threw away this advantage when the crown introduced books of rates listing standardized prices for most, if not all products in the early sixteenth century and required the customers to use these prices when calculating the value of cargoes. Although periodically updated, the books of rates clearly had only the loosest connection with current market prices overseas, so that the customs administration lost its value as a source of information to merchants.
But by that time this function had been superseded, as Englishmen trading with the country’s principal export good (cloth) in its primary market (Antwerp) had formed a cartel (the Merchant Adventurers) – accepted by the crown in 1497 – to which all cloth exporters were required to belong. This perfected the more ancient, but looser corporate organization of English merchants in the Low Countries and established a permanent conduit for market information. In rapid succession, other English trading companies obtained royal charters granting them a monopoly on trade in a particular region, among others the Russia Company (1555), the Eastland Company (1579), the Levant Company (1581), the Morocco Company (1585) and the East India Company (1600). But the formal constitution of a trading company by royal charter granting it a trading monopoly was only the last stage in a much longer process initiated by intense information gathering at home, the dispatch of one or more exploratory commercial expeditions and the establishment of permanent resident agents. Information was flowing long before the companies were founded.

Finally, harbours functioned as funnels for information from their hinterlands into the wider world. It is simply a fact of geography that a good number of important European ports lie at the mouths of large, navigable rivers with a significant catchment area. Anyone can think of examples: Riga (Duna), Danzig (Vistula), Hamburg (Elbe), Rotterdam/Dordrecht (Rhine), London (Thames), Bristol (Severn), Nantes/Bourgneuf (Loire), Bordeaux (Garonne), Lisbon (Tejo), Marseille (Rhône) and so forth. While it is not to be denied that there are exceptions to this rule, it is nonetheless true that harbours located at these mouths had a particularly important role to play in the collection and diffusion of information. Bearing in mind that transporting goods by water cost less than a quarter as much as land transport, it stands to reason that harbours into which large, navigable rivers drained would tend to receive information from a much greater area than land-locked towns. Moreover, these ports benefited from linking leeward and seaward information, disbursing information from their own interior into the wider world and absorbing sea-borne information for use in their hinterlands, if for no other reason than the waiting time engendered by the transfer of merchandise from river-borne to sea-borne vessels and vice versa. By connecting the land with the sea, information was essential for the functioning of financial institutions and techniques traders made use of. It also fuelled their invention and development.

**Banks and finance**

Finance was of vital importance for trade, since it mediated between savers and investors by moving purchasing power around in time and space in order to direct savings to their highest value use, which in our period was usually long-distance trade. How much money was saved and invested – and at what price – was determined by supply and demand, as expressed by the prevailing interest rate. This makes the study of finance in Catholic Europe more difficult, since the Church capped its perennial condemnation of taking interest on loans in 1311/12, when the Council
of Vienne forbade both the licensing of ‘manifest’ usurers by urban authorities and the enforcement of their contracts. This did not rid the world of interest-bearing loans, but it did drive them underground. A second difficulty is that businesses called ‘banks’ were not the only entities performing banking functions. Quite a lot of lending went on without the participation of any ‘bank’, and ‘banks’ played only a very minor role in facilitating international payments. That was the province of merchant-bankers, whom we designate as such to emphasize that they were first and foremost merchants and that facilitating international payments was merely an adjunct of their primary business.

‘Banks’ are very old. The earliest ones crop up in the very first surviving Genoese notaries’ registers (1154). Originally, these Genoese ‘bankers’ were money-changers, whose name – *bancherius* – was derived from the bench (*bancum*) on which they sat while going about their business of exchanging foreign for domestic coin. On the cusp of the thirteenth century the registers reveal that they had expanded their business horizons, accepting deposits on which they either paid interest or credited a portion of the bank’s profits. They employed these deposits to grant loans at interest and to invest in trade (as silent partners). A suit before a Genoese court in 1200 reveals more:

1. A Genoese merchant generally had a bank account.
2. Payments, initiated by oral instructions, were customarily executed across bankers’ books without use of ready money.
3. It was not unusual for a merchant to overdraw his account (with the permission of his banker).
4. Bankers had discovered the fractional reserve principle, whereby they only had to retain a certain portion of their deposits for day-to-day payments and could invest the remainder.
5. Payments from one merchant to another did not require that they be clients of the same banker, since all the bankers in town had accounts with one another and could clear debts and credits without resorting to cash payments.

Such deposit and transfer banks sprang up around the Mediterranean basin in the course of the thirteenth century – Florence 1211, Bologna 1245, Venice 1274, Barcelona and Valencia 1284, Palma de Majorca 1288, Montpellier 1293, Perpignan 1300, Lerida before 1301 – and shortly thereafter on the other side of the Alps (Lille 1294, Bruges 1300). Note that most these cities were maritime ports, and all were connected to trade routes. At around the same time, ‘exchange booths’ (*Wechselstuben*) arose in Germany (Nuremberg and Nördlingen 1219, Cologne 1341, Speyer 1346, Basel and Strasbourg c.1350, Regensburg 1377), which fulfilled the same functions on the circuits along and to the east of the Rhine. With two exceptions, these deposit and transfer banks were strictly local in scope.

The dates and places given only mark the first unequivocal evidence that a bank was in operation, not the founding date of that institution, much less the date of origin of banking in that town. In some cases (Venice, Florence) indirect evidence
points to the fact that banking was, indeed, much older. However, we are entirely at the mercy of our sources, and consequently of the vagaries of survival of documents. It was far more common to engage the services of a notary to record a contract in Italy than it was north of the Alps, and notaries’ registers have survived in greater numbers there, not least because the courts treated the entries in those registers as *prima-facie* evidence of transactions. By sheer chance, a number of early notaries’ registers survive in Genoa (and, to a lesser degree, in Lucca and Venice), so that we are far better informed about early banking there than, say, in Florence, where the notarial record only begins around 1300, by which time entries in merchants’ and bankers’ ledgers had attained evidential value, so that the surviving notaries’ registers tell us very little about banking.

### Informal banks

Formally constituted deposit and transfer banks were, however, only one part of a much larger picture. In fact, having a bank account was not as common as one might think. No more than one in thirty to thirty-five people had one in medieval Bruges or Venice, which works out to no more than one in seven to ten heads of households. However, many bank accounts in Bruges were temporary and existed only for a few days, so that the frequency of bank account holding was in fact much lower. Moreover, whole groups opted out of the banking system, for instance the Hanseatic merchants who frequented Bruges in large numbers and were flush with money, but are only to be found in disappointingly small numbers in the account books of late fourteenth-century Bruges bankers. Are we, then, forced to conclude with von Stromer that the Hanse, ‘having no banking system’, was primitive and backward? In fact, informal banking was probably more significant – at least in terms of assets – than formal banking, even in the most highly developed European economies. Indisputably, the informal banking sector fulfilled bank functions – accepting deposits (with or without interest), extending credit and facilitating local payments – just as the formal sector did. In listing these financial services roughly in ascending order of importance, we must bear in mind that the evidence is so scattered that we cannot begin to estimate the volume of business done or to generalize confidently from the known examples. Finally, we must bear in mind that the categories are not watertight. After all, even formally constituted banks were anything but loath to loan funds on a pledge, thus functioning effectively as pawnshops, and quite generally people who provided financial services were opportunists, out to make a buck any way they could.

- Tradesmen extended *credit* to their customers in Bruges and Florence to enable them to make purchases. This is also likely to have been the case with John Thorpe, a York shopkeeper dealing in cloth, ironmongery, grocery and haberdashery, who died in 1435 with accounts receivable averaging 12s 3d (median 3s 2d), while his accounts payable were an order of magnitude greater (average £10; median 17s 4d).
Capturing opportunity, financing trade

- Larger private loans were granted by bond in Bruges and York or by notarial contract in Florence.
- In Florence, tradesmen allowed customers to overdraw their trade accounts and even granted them cash loans.
- Again in Florence, customers with a credit balance with one tradesman used it to offset debts owed to another by book transfer without recourse to any bank. Fifteenth-century Hanseatic merchants in London transferred bonds to cover debts payable, although this was by no means as simple as it was in Florence.
- In Bruges and Florence pawnbrokers were licensed, regulated and taxed by the urban authorities from 1350 onwards. They were financially redoubtable, attracting considerable resources by accepting deposits at interest and selling shares in their pawnshops (Bruges only). Furthermore, they held current accounts with the bankers (Florence) or exchangers (Bruges), which suggests a complexity and volume of business not likely to have been characteristic of a petty lender. Finally, wherever we have their account books, they prove to have granted loans, secured by pledges, at a level ‘far above the level of petty distress loans to the desperately poor’, counting noble rulers and substantial Hanseatic merchants among their clients. Even then, their bread-and-butter business seems to have been providing bridging loans for artisans short of liquidity who had to put food on the table every day and pay their workers’ weekly wages but were only paid on completion of the job.

**Formal and informal banking: Liaisons secrètes**

It is clear that a number of institutions not formally constituted as banks were, in fact, fulfilling bank functions. Indeed, pawnbrokers seem to have been encroaching on the banks, offering financial services such as interest on deposits and current accounts. How did the banks manage to survive? Well, the answer is: in most cases, they didn’t. In 1584, Doge Tomasso Contarini lamented that of the 103 banks founded since the twelfth century, 96 had failed, leaving only 7 survivors. North of the Alps, exchanger bankers failed in large numbers between 1390 and 1400. Banks may have failed, but banking went from strength to strength, as Robert Lopez, echoing Schumpeter, was fond of remarking. But that is only to push the problem onto another level: How did formally constituted banking survive? What was its edge in the market?

The crucial advantage of formally constituted deposit and transfer banks was their ability to offer clearing facilities, maintaining clearing accounts with one another which allowed book transfer of funds between two parties even if they were not clients of the same bank, since the banks would credit and debit their clearing accounts with one another accordingly. Since Bruges pawnbrokers and hostellers (who provided financial services to their guests, especially to Hanseatic merchants) had accounts with the major exchanger bankers, but not with one another, all payments in town ultimately had to run across the bankers’ books (if one did not want...
to pay in cash). This created ‘a seamless system of book transfers across both the hostel and the exchange’.

Just how crucial these clearing facilities were may be judged from the complete chaos which ensued when the Bruges magistrate forbade payment by book transfer and mandated cash payments for some (but not all) debts in 1399. So in Bruges, the informal banks were hooked up to the financial system through the formally constituted deposit and transfer banks run by the exchangers. How characteristic this was of Europe as a whole in our period is difficult to say. Nonetheless, there are indications that formally constituted banks were the lynchpin of the financial system elsewhere. Pawnbrokers in Leuven and Antwerp seem to have been just as dependent upon formally constituted banks as were their counterparts in Bruges. In Venice banks were central to the payments system: both Jewish and Christian pawnbrokers maintained accounts with the Rialto bankers and Venetian banks on the Terraferma cleared debits and credits among themselves via those banks, rather than doing so locally. There is, however, one more indication that the deposit and transfer banks were, almost everywhere, the lynchpin of the financial system, namely that they handled the local payments associated with international transfers of money by merchant bankers from Italy, Barcelona and South Germany, and it is to them we must now turn.

**Bills of exchange**

The beginnings of cashless international payments can be traced to a specific problem Italian merchants faced in the twelfth century. Lucchese merchants traded silk cloth, woven in Lucca from silk imported via Genoa, for Flemish woollens at the fairs of Champagne, which they transported to Tuscany and sold there. At both ends of the line, merchants either had credit balances piling up which they wanted to remit or need of funds to borrow in order to invest in goods. Since transporting coins from one place to another was expensive, slow and dangerous, the Italians invented first the notarial instrument *ex causa cambii* in the twelfth century and then its successor, the bill of exchange, on the cusp of the fourteenth century, in order to remit surplus funds from one place to another, that is to transfer purchasing power in space. This may look like a straight loan, since one party entrusted funds to a counterparty in exchange for a written promise of repayment. However, there were two crucial differences: the money was advanced in one currency but repaid in another, and the money was advanced in one place and repaid far away. For purposes of illustration, let us imagine a bill drawn in Bruges and payable in Barcelona (Figure 3.1).

A bill of exchange was an internal company document, in which a taker (whom we imagine here to have required ready cash in Bruges) acknowledged payment in Flemish écus in Bruges from a remitter (who wanted to transfer cash to Barcelona) and ordered a correspondent to pay the equivalent amount in Barcelonese currency in Barcelona. Money only changed hands locally, while the bill, having first been handed over to the remitter in Bruges, was physically transported between Bruges and Barcelona and delivered to the payee designated in the bill. There the payee
presented it to the payer. The bill itself was not payable until it reached maturity, at the end of the *usance*, which in the case of Barcelona was thirty days after sight. Bearing in mind that the correspondents in Bruges had cash in hand for two months before the Barcelona branch had to pay out a penny, interest was charged on what was essentially a loan. However, the bill itself gives no indication whatsoever that interest was paid, specifying only the amount of money received in Bruges and the exchange rate. This was by design, intended to allay ecclesiastical suspicions.

We only know that interest played a role because the correspondents of the Datini company quoted exchange rates in Bruges and Barcelona in their regular letters. Francesco di Marco Datini of Prato was an important, but not overarching, merchant based in Florence. His business archives (1386–1410) with some 500 ledgers and accounting books, 150,000 business letters and countless other documents, cast a brilliant light on the dealings and the far-flung connections of his factors in Barcelona, Valencia, Palma de Majorca, London and Bruges, and numerous other partners in ports from Bristol to Tana. Bowing to universal convention, the rates were expressed in both cities as a variable number of shillings and pence Barcelonese for one Flemish écu. These rates were not equal, as they were comprised of two components, principal and interest. The Bruges rate was almost always higher, and this was typical of the fixed leg of every exchange rate quote in the Middle Ages. Of course, no businessman knew whether he had gained or lost until he repatriated his funds (Bruges → Barcelona → Bruges), even if the remitter usually had the advantage, garnering around 12–14 per cent p.a., irrespective of whether the transaction was initiated in Bruges or Barcelona. But there was a risk you might get burned, and it was just high enough to satisfy the requirements of the Church.

The spread between the Bruges and Barcelona rates widened and narrowed in a fairly regular manner, tending to be highest in the autumn and lowest in the early summer. Italian merchant bankers knew precisely what caused these recurring phenomena, the low early summer interest rates, for instance, resulting from the arrival of cash-laden Hanseatic merchants. Not only did the merchant bankers...
have a shrewd idea of what to expect on the money market, they also knew how to make money out of a fluid situation. The strategy was simple enough: always lend money when interest rates are high and borrow it when they are low, that is, be a remitter (buying bills) in the first instance and a taker (selling bills) in the second. However, you could get burned, because unpredictable events could upset all calculations: war (which required large withdrawals to pay soldiers’ wages and outfit armies and navies), devaluations (which lowered the weight and fineness of one currency only) and even the advent of a papal collector (who only dealt in cash) all caused interest rates to skyrocket. Nonetheless, a clever arbitrageur, who had a good sense of how the markets functioned and kept his eyes peeled and his ears open for news, could make money hand over fist by exploiting the differences between exchange rates. This was easiest in Venice, where the peaks and troughs of the interest rate were normally quite predictable, peaking from July to September when the state galleys departed for the Levant, since exporters were desperate to get their hands on cash and besieged anyone with money to lend, offering to sell bills payable in Alexandria, Beirut and other points east as well as in Bruges or London. The Florentines, who not only knew the score but also ran the show in Venetian banking, made sure to concentrate their assets in Venice when demand for ready cash was at its highest, causing exchange and interest rates to skyrocket. The truly clever could take advantage of complete chaos to turn a quick profit. When the Bruges magistrate, doubtless at the behest of the Duke of Burgundy, ruled at the end of September 1399 that henceforth all bills of exchange were to be paid in hard coin, irrespective of whether they originated there or were drawn elsewhere on Bruges, interest rates rose dramatically and the markets were thrown into turmoil. Nonetheless, the Datini correspondents in Bruges came up with instructions to the Barcelona branch on how to deal with the situation by 17 October, and reported a month later that exchange arbitrage was so profitable that the Catalans had abandoned trade altogether. If the town fathers had to mandate cash payments on all bills of exchange, then they must have been settled by another method before that. And indeed they were: in Bruges as well as elsewhere in the world of Italian business, book transfer across the ledgers of the deposit and transfer bankers was the universal method of settling claims arising from international payments by bill of exchange. Deposit and transfer banks were the indispensable link between the international and local finance markets.

Transfer of funds by bill of exchange was possible just about anywhere Italian merchants put down commercial roots in Europe. The map shows the more prominent centres of activity of these merchant bankers between the 1350 and 1450. However, the Muslim world was the end of the line. Bills of exchange could be directed to the Italian colonies in Constantinople and Tana, but beyond that Western finance could not reach, since Islamic law frustrated the development of an instrument corresponding to the bill of exchange despite the sophistication of Muslim bankers. Beyond the confines of the fondaco, business was strictly on a cash or barter basis.
Figure 3.2 does seem to show one huge gap east of the Rhine, but this is more apparent than real. The outermost points on the map mark only the borders of Italian bill trading. South Germans, notably in Nuremberg and Augsburg, were certainly acquainted with Italian financial instruments by the fifteenth century and used them to great effect. While Hanseatic merchants right around the Baltic and the North Sea were certainly conversant with bills of exchange from their inception, even if they called the transaction an *overkop*, thinking of it in terms of buying and selling claims to payment rather than the exchange of one currency for another, they did not use them much in the Baltic area until the mid-sixteenth century, principally because bills were expensive and slow there and simple holograph bills were perfectly sufficient. Even so, it was always possible to link into the Italian system in Bruges and Cologne, or in the sixteenth century in Nuremberg or Augsburg. Moreover, when the bill of exchange became more common as a financial instrument in the Hanseatic world, it was the ports – Cologne and Danzig in the late fifteenth century, followed by Hamburg in the sixteenth – which led the charge. However, even the Hansards reached their limits: Russians dealt only on a cash or barter basis.

Once the Italians had perfected the bill of exchange, there was no end of uses to which it could be put. A merchant was not limited to transferring surpluses from one place to another, he could draw a bill of exchange in one place (an international fair, for instance) on an expected surplus in another place, thus paying for goods with a bill, shipping those goods onward for sale and using the proceeds to pay off the bill when it matured. Johann Rosenkranz, a young merchant of Cologne, made use of this possibility in a straightforward manner in the 1430s, financing purchases of massive amounts of English cloth at the Antwerp fairs by drawing bills on his
uncle (and principal) Gerhard von dem Viehof in Cologne, who in turn sold the cloth and paid off Johann’s bills when they matured. 71 At the same time, Cologne merchants and London mercers built up a symbiotic relationship: Cologne merchants, requiring funds to buy English cloth for shipment to the Antwerp fairs, sold bills payable there to the mercers, who had excess funds which they wanted to remit to Antwerp in time for the fairs. The Cologners bought the cloth and shipped it to Antwerp, where they used the proceeds to settle the bills and remit any excess funds back to England, which they did by buying bills from the mercers, who used this ready money for purchases at the fairs, shipping their goods back to England, selling them and paying off the bills, whereupon the next cycle began. 72 As the Cely letters (1472–88) show, English staple merchants exporting wool to Calais and English merchants trading at the Antwerp fairs built up a similar cycle. 73

Since a bill of exchange was, in substance, a loan, a merchant could borrow funds by selling bills. There were a number of methods of doing so, all designed to cloak the fact that loans were being granted at interest. The simplest one was ‘dry exchange’, 74 in which there was never any intention of paying out funds abroad. Either the payer abroad ‘paid’ (by prior agreement between the remitter and the taker) by drawing a second bill on the original taker, payable to the remitter and calculated at the then current local rate of exchange, or the payer simply refused to accept the outward bill, which threw it back on to the original taker. Fundamentally, the dry exchange was nothing more or less than a local loan, funds being advanced in one place in one currency and repaid in the same place and in the same currency. However, the rate of interest depended upon the current exchange rates abroad at the time the outward bill matured and upon the length of time both bills were under way. One popular form of dry exchange was the cambium ad Venetias, 75 the exchange on Venice. It took advantage of the fact that usance from Florence to Venice was five days after sight, assuming the bill took six days to arrive, but that usance from Venice to Florence was twenty days after date. So a dry exchange ad Venetias was a one month loan, the re-exchange rate being calculated at the rate current in Venice when the outward bill matured. There were corresponding dry exchanges between Venice and Bruges (a four-months loan) and Venice and London (six-months loan). Andrea Barbarigo, a Venetian merchant, raised cash in Venice for making purchases in the Levant by drawing bills on London, Bruges and Geneva on dry exchange. 76

Public banks

From the beginning of our period to the end, bankers were suspected (not without some justice) of concealing assets before they fled from their creditors and depositors, which governments – beginning with Aragon 1300/01 – attempted to prevent by promulgating draconian measures designed to prohibit fraudulent accounting and ward off bankruptcy. 77

The answer of the fifteenth and sixteenth centuries to the perceived dangers of private deposit and transfer banks was the public bank, which was forbidden to
engage in any sector of business deemed to be risky and required to fulfil the useful bank functions at no cost to the public. Indeed, when the first public bank – the Taula de cambi of Barcelona – was founded in 1401, the authorities underscored the necessity of combating the bankers’ ‘greed’. All subsequent public banks – Genoa (1407/8), Venice (1587, 1619), Amsterdam (1609) and elsewhere – were placed firmly under civic or state supervision and strictly limited to low-risk business sectors. They were permitted to accept deposits and facilitate transfer payments across their books, in particular to settle claims arising from bills of exchange (in Venice and Amsterdam this was mandated above a certain level), but they were usually required to offer these services free of charge. Frequently, they were obliged to serve as a cashier for the supervising authority. Gradually, public banks began to act as a central clearing bank, at first for regional payments (in Barcelona and Genoa) and then for international payments (in Venice and Amsterdam). On the other hand, any business endeavour which looked risky – private loans, over-drawing accounts, discounting of bills of exchange and other credit instruments – was strictly prohibited. There was, to be sure, one fatal exception: the regulator himself, who gave himself permission to plunder the public banks’ assets.

Since these manifold restrictions on their business activities left the public banks almost no room to earn profits, they only survived thanks to oppressive legal requirements, promulgated by their regulators, such as

1. the rule that certain assets had to be banked with them – in Barcelona, for instance, all assets of orphans had to be deposited with the Taula, in Genoa the Banca di San Giorgio was in charge of the exploitation of trading posts and colonies,
2. that other transactions had to run across their books – in Venice, all bills of exchange had to be settled by book transfer in the Banco de Rialto from 1593 onwards, and from 1605 this rule was extended to all commercial payments over 100 ducats,
3. by dint of state restriction of the activities of their competitors, sometimes to the point of outright prohibition (Amsterdam 1609).

Given this tight corset of regulation, it is not surprising that financial innovation did not see the light of day in the public sector. Even the fabled Amsterdam Wisselbank (‘exchange bank’, founded 1609) succeeded not by innovating itself, but by bundling disparate innovations which the private sector had brought forth (e.g. the stable bank florin, multilateral international clearing).

Financial innovations of the fifteenth and sixteenth centuries

The fifteenth century improved on its predecessor by inventing a completely stable currency for international payments, by regularizing the rhythm of international payments to form a predictable quarterly system in place of the vagaries of *usance,*
and by internationalizing clearing (which had hitherto been local). These innovations were hatched at the great international finance fairs of Geneva and Lyons.

**Stable money of account, regularity of the financial year**

Around 1400\(^3\) the four yearly fairs of Geneva had established themselves as an important link between the Mediterranean and North European economies. Geneva’s fairs quickly began to function as a clearing centre for international payments by bills of exchange between Italian merchant bankers. While Giovanni da Uzzanno’s handbook for merchants (1425) makes no mention of Geneva as a banking centre and quotes no exchange rates on the écu, the Medici set up a branch there in the early 1420s, and by 1440 five further Florentine banking houses had established a permanent presence. From 1450, merchant handbooks leave no doubt as to the importance of Geneva in the banking world.\(^4\) Indeed, it became so central that by 1460 Venice, which had been the financial link between the Mediterranean and Northern Europe, began to fade from the scene.\(^5\) In their clockwork regularity, the finance fairs of Geneva continued and improved upon Venice’s attraction for international payments. If Venice had recommended itself because of the predictability of the times of departure and return of its state galley fleets to the Levant (outbound July–September; return Christmas), Geneva went one better and offered almost precisely quarterly fairs (6 January, Easter, 1 August, 1 November). Increasingly, bills right across Europe no longer matured at *usuance* (which could be almost any time), but at one of the four Geneva fairs, which made unpleasant surprises less likely.\(^6\)

**International clearing of bills of exchange**

The exchange fairs of Geneva were supplanted around mid-fifteenth century by those of Lyons. The royal ordinance of 1463 showed just how far the monarch was prepared to go in wooing the bankers.\(^7\) He agreed to forgo collecting customs and other tolls from visitors to the Lyons fairs. Abandoning the crown’s bullionist policies, which aimed to retain precious metals within the kingdom, Louis XI dropped all exchange and currency controls, allowing merchants visiting the fairs freely to import and export any foreign or domestic coins (which were to circulate freely at the fairs at rates determined by the merchants themselves) and to remit money abroad without limit or restriction. Finally, he permitted those frequenting the fairs to loan money to one another from fair to fair at a maximum of 15 per cent p.a. interest, irrespective of what the Church might think. Essentially, Louis XI had created a financial free trade zone, in which any merchant could do anything he wanted as long as it was agreeable to all the others. That set the tone for Lyons: mercantile consensus was the foundation of its success. The Lyons model – founded on mercantile autonomy, transparency and consensus – proved to be eminently successful. Indeed, when the Genoese bankers were exposed to unwelcome pressure
from the French crown and decamped to Besançon (1535) and thence to Piacenza (1579) to set up their own purely exchange fairs, they refined and adapted the Lyons model to the vastly increased volume of business rather than striking out in a wholly new direction. In the end, Piacenza triumphed over Lyons, because the French crown’s insatiable demands for credit – precisely the factor which had driven the Genoese out – overwhelmed the liquidity of the fairs.

Here, too, the Amsterdam Wisselbank may be regarded as the heir to Lyons. International transactions, even if they originated outside of Amsterdam and without Dutch participation, increasingly were paid by bills of exchange drawn on accounts at the Wisselbank, which most large firms made sure to possess. More and more, the Wisselbank facilitated the international clearing of bills of exchange, while Piacenza went into decline from 1621 onwards. With that, the Italian contribution to financial techniques in our period comes to an end. All further innovations were hatched in Antwerp and Amsterdam, which was much the same thing, since many members of Antwerp’s mercantile community fled before marauding Spanish troops to Amsterdam in the late sixteenth century.

Transferability

On the cusp of the sixteenth century, North European trade was financed predominantly by promissory notes, called bills (or letters) obligatory if they were informal holographs signed by the debtor and bonds if formally drawn up and sealed. These were of little use in a rapidly expanding economy unless they were negotiable, i.e. if they could pass from hand to hand, being given in payment of other debts. The essential element was the bearer clause at the end of the bill.

Be it known to all men . . . that I, John Saxby, merchant of the staple at Calais, do owe unto Harry Grover, haberdasher of London, £68 6s 8d Flemish money, the which sum I promise to pay or cause to be paid to the afore named Harry or to the bringer of this my bill on 8 July next (dated 24 May 1542).

Such informal bearer bills had been used to settle debts since the late Middle Ages. However, the legal claims of the bearer were uncertain, unless the original creditor formally transferred his claims on the debtor before a notary or a court of law. This was not a great problem if payments were scheduled from fair to fair, say in Antwerp or Frankfurt, since all parties could be called together without ado, but the difficulties increased as trade became more anonymous on the cusp of the sixteenth century. The solution to the problem was achieved by an Antwerp turba in 1507, a turba being a sworn statement by honourable merchants before the Antwerp council that a certain practice had become customary and therefore had the force of law. In this case, the merchants stated that the bearer of a bill had an action at law against the original debtor even without a formal transfer of claims, since the bearer was in possession of all of the rights of the original creditor. This rule was adopted quickly
by Bruges, Dordrecht and Utrecht and mandated for the Netherlands as a whole by imperial decree in 1537. As a result, bearer bills were given in payment repeatedly, especially those of particularly trustworthy debtors like the Fugger of Augsburg, and typically would circulate until given to the original debtor in payment. However, the longer the chains became, the thornier the problem of liability proved to be: if A paid B with a bearer bill and B used the bill to cover a debt with C, who then presented the bill to A, who was on the hook if A refused to pay? The solution to the problem was provided in 1541 by an imperial decree that the (intermediate) assigner of a bearer bill was liable for the debt until the original debtor paid off the bill. Antwerp quickly worked out a practical method of dealing with the problem, simply pinning a slip of paper to the original bearer bill, on which each successive assignee entered his name, but the original debtor remained liable until the bill was paid off.

**Endorsement and discounting**

Once bills of exchange became more important in Dutch trade, particularly with England and the Baltic, around 1550, and indeed had become the standard means of effecting international payments, the problem of how to settle them became acute. Successive prohibitions by the dukes of Burgundy had succeeded in destroying the exchanger-bankers’ businesses by the end of the fifteenth century, so that it was difficult to settle claims by bank transfer, even though so-called kassiers (cashkeepers) arose in Antwerp by the 1530s, accepting deposits from merchants and executing local payments for them. The Antwerp bourse, which had been erected in 1531 and flanked by its London counterpart in 1571, did a roaring trade in bills obligatory, particularly after the imperial decrees took effect, but none of this applied to bills of exchange.

The first hurdle to be cleared was endorsement. From the late 1530s the bearer clause had been added to bills of exchange, clearly with the intention of applying the assignment principle to them, just as had been done with letters obligatory. However, this raised the same problem of the protection of creditors (remitters). This was solved by an explicit authorization on the back of the bill of exchange, in which the remitter assigned a named third party to receive the money in his stead. The earliest known example of such an endorsement of a bill of exchange in Antwerp trade dates from 1571, but the practice did not become common until the seventeenth century, by which time the centre of gravity of the financial world had shifted to Amsterdam. Even so, the authorization of a third party to receive payment of a bill of exchange was firmly rooted in the assignment system used with bills obligatory, which made legal responsibility absolutely clear if the payer made difficulties.

Discounting financial instruments is very simple in principle, but hard to demonstrate in practice. In principle, it involves nothing more than selling a financial instrument for cash for less than its face value to a third party before it matures. The evolution of discounting was, however, long drawn out. The first step – taken in
Capturing opportunity, financing trade

Italy as early as the thirteenth century and in the Netherlands a century later – was to ask the debtor to pay early, offering a discount on the face value of the instrument as an enticement. In Antwerp, the first known example of discounting to a third party (i.e. not the debtor) occurred in 1536 and involved a letter obligatory, not a bill of exchange. By the 1550s this sort of discounting had become fairly common on the Antwerp bourse. Its first known application to letters of exchange occurred in March 1560, when Antwerp kassiers bought up – for cash and at a discount – bills of exchange due to mature in May and payable at the Lyons fair. However, the practice did not become common until the seventeenth century, being restricted until then to times of acute stress in the markets, when money was tight and cash was at a premium.

Conclusion

‘Unstinting credit was the great lubricant of the Commercial Revolution. It was altogether a novel phenomenon’, since the Greeks and Romans of antiquity had known nothing of the sort. In our period, merchants, led by the Italians but followed soon enough by the Germans, Netherlanders and English, devised an array of financial instruments to transfer purchasing power in time and space, achieving a reasonably fair balance of interests between creditors and debtors and even allowing the occasional change of mind to suit circumstances (discounting). However, even if there is nothing particularly maritime about finance, many fundamental innovations of financial techniques were invented in major maritime ports just because of the high concentration of information, opportunities and risks to be found there. It is simply the mirror of trade, which passed from land to sea and back.

Notes

4 Ibid., p. 83.
5 Ibid., pp. 84–5.
6 Ibid., pp. 67–9.
8 The birth of a financial press worth the name was still a generation or so off: L. Neal, ‘The rise of a financial press: London and Amsterdam, 1681–1810’, *Business History* 30/2, 1988, pp. 163–79.
9 The *Carta mercatoria* (HUB II, no. 31, pp. 14–18) dates from 1 Feb. 1303, but was suspended at the instance of the Lords Ordainers from 1311 to 1322: N. S. B. Gras, *The Early English Customs System*, Cambridge, MA: Harvard University Press, 1918, p. 71.


Capturing opportunity, financing trade


23 For instance, one Bernardus bancherius accepted £11 on 9 Dec. 1190 from Maria Sarda in Genoa at 10 per cent p.a. repayable on eight days’ advance notice: R. di Tucci, *Studi sull’economia genovese del secolo decimosecondo: La nave e i contratti marittimi. La banca privata*, Turin, 1933, no. 18, pp. 93–4.

24 Ibid., no. 11, p. 90 (11 Nov. 1190). When Rubeus bancherius accepted a deposit of £7 with a fifteen-day advance notice of withdrawal, he agreed, ‘If God grants me a profit on this [the £7], then I will give you as much of the profit as seems reasonable’.

25 Ibid., no. 27, p. 101 (1 Mar. 1200). The interest rate was 20 per cent p.a.

26 Ibid., no. 39, p. 108 (11 Feb. 1190). The loan of £4 was granted for a commercial venture to Marseilles. One fourth of the profits was reserved for the creditor, Enricus bancherius.


30 The Bruges exchanger-banker Collard de Marke (c.1370) was able to arrange book transfers beyond the boundaries of Bruges, to wit in Antwerp, Calais, Valenciennes and Ghent (all within a 100 km radius of Bruges): J. M. Murray, *Bruges, Cradle of Capitalism, 1280–1390*, Cambridge: Cambridge University Press, 2005, pp. 175, 237, 250–7. However, much of this seems to be an outgrowth of his obligation to deliver bullion to the mint at Ghent and supply coin to Bruges exchangers and hostellers, so that one cannot generalize confidently from this one example. Walter van Dijk, an exchanger-banker from Cologne, seems to have had a more than regional horizon (von Stromer, ‘Funktion’, p. 14), but von Stromer’s attempt to elevate Wilhelm Scheuenpflug from Nuremberg into this league does not convince (von Stromer, ‘Funktion’, pp. 13–14; Wolfgang von Stromer, *Oberdeutsche Hochfinanz 1350–1450*, 3 vols, Wiesbaden: Steiner, 1970, vol. 2, pp. 342–5, 358–9). In Venice (R. C. Mueller, *Banks, Pancis and the Public Debt, 1200–1500*, Baltimore, MD: Johns Hopkins, 1997, p. 84) and Florence (Goldthwaite, *Economy*, p. 413) deposit and transfer banks were firmly local in their operations.


34 This happened c.1200: van der Wee, *History*, p. 85; Lopez, ‘Dawn’, p. 11.

Stuart Jenks


42 TNA: PRO, CP 40/704 m 311d. The discrepancy between average and median is largely due to small sums owing to servants for wages and livery.


44 TNA: PRO, CP 40/704 m 311d. Debts of £8 and more were secured *per obligacionem*.


46 Ibid., p. 462.


49 Ibid., p. 420.


52 The clearest explanation of how this worked is provided by de Roover, *Money*, pp. 272–6.

53 On the financial services provided by hostellers in Bruges, see Murray, *Bruges*, pp. 210–15.

54 Ibid., pp. 196–205.


57 Mueller, *Banks*, pp. 20, 570, 89. However, we have only an imprecise notion of how the system functioned in Venice, since bankers’ account books have not survived there: ibid., p. 81.


60 De Roover, *Bruges Money Market*, pp. 111–15, 144–6. Italian merchants described these periods of high and low interest rates as *strettezza* and *larghezza* (‘tightness’ and ‘looseness’) respectively.


62 For more detail see ibid., pp. 49–50 (Bruges) and Mueller, *Banks*, pp. 303–14 (Venice).

63 Ibid., p. 306.


Capturing opportunity, financing trade

66 Ibid., p. 306.
67 Italians avoided the German market (by and large) by choice: de Roover, Medici Bank, p. 245.
70 In my view, this is not to be interpreted as a sign of backwardness. Hanseatic firms, lacking a network of correspondents and branch offices, were not structured in such a way as to allow a merchant to draw on surpluses elsewhere, since this crucially depended on being able to debit the taker’s account within the firm: Jenks, ‘Small is beautiful’, pp. 192–3.
76 F. C. Lane, Andrea Barbarigo, Merchant of Venice, 1418–1449, Baltimore, MD: Johns Hopkins Press, 1944; Mueller, Banks, pp. 327–32.
82 See the chapter by Carlo Taviani in this volume.
83 The following is based on van der Wee, ‘European banking’, pp. 134–6.
84 De Roover, Medici Bank, pp. 280–3; Goldthwaite, Economy, p. 162.
85 Mueller, Banks, p. 304.
86 De Roover, Medici Bank, p. 280.
87 Ibid., p. 290.

90 Van der Wee, ‘European banking’, p. 48


94 Van der Wee, ‘Monetary, credit and banking systems’, p. 326.

95 The assignees could not be entered on the back of the bill because that was used to record part payments.

96 De Roover, Money, pp. 339–41.

97 Van der Wee, ‘Monetary, credit and banking systems’, pp. 326, 331, 325.

98 The following is based on van der Wee, ‘Monetary, credit and banking systems’, pp. 322–32 and idem, Growth, vol. 2, pp. 348–52.


100 Van der Wee, ‘Monetary, credit and banking systems’, p. 331.