A profile of Genoa's "Casa di San Giorgio" (1407-1805): a turning point in the history of credit [1]

1. Presentation

The *Casa di San Giorgio* was an institution which not only influenced Genoa's history for four centuries (1407-1805), but also played a pivotal role in the evolution of credit structures and financial techniques.
To put its role in perspective it is useful to remember the full name by which it was known from 1408 onwards, which in Italian was *Casa delle compere e dei banchi di San Giorgio*. The term *Casa*, or more precisely *Officium* in Latin, denotes a body with its own legal identity (in that it survives the succession of those managing it), performing a specific function via the management of a group of assets. These are administered in an autonomous manner, within the limits set by the law. As far as the reference to *San Giorgio* is concerned, whenever there was an element of risk in Genoa it was the norm to invoke the protection of a saint and therefore, in the hope of holding on to and increasing the money lent to the state in the past, the public creditors who funded the *Casa* chose the young warrior saint~~;~~, Saint George. The two other terms *compera* and *banca* refer to the business carried out by the body.

2. The Genoese "*compera*": a new kind of public debt

The word *compera* is synonymous with a particular type of public debt which was widespread in Genoa for centuries. It worked like this: a group of individuals would step in to subsidize the state, by lending it a certain sum of money for an agreed term. In return for the loan they would earn the right to collect, for their own benefit and for the entire term, a tax, either already levied or specifically created for the purpose of repaying the loan. The tax revenue would be proportionate to the loaned capital. The tax represented, in fact, the interest on the loan and acted as a guarantee for repayment of the capital: if the state did not meet the repayment date, the lenders would continue to receive the tax income until such time as the loan was repaid. Given that it was a tax, the amount made by the creditors could vary from year to year depending on economic trends, sometimes exceeding but, more often than not, falling short of the sum initially

[1] This commentary reproduces the speech made by the author at the official launch of the computerised inventory of the archive of the Casa di San Giorgio (www.lacasadisangiorgio.it). As a first approach to the sources on which it is based, see: "Dall'Italia all'Europa: il primato della finanza italiana dal Medioevo alla prima età moderna" (in *Storia d'Italia, Annali 23: La banca*, Einaudi 2008, pp. 93-149), *Scritti di storia economica* (vol. I, in Atti della Società ligure di storia patria, Genova 1998), "Il credito all'erario e ai privati: forme ed evoluzione" (in *La Casa di San Giorgio: il potere del credito. Atti del convegno, Genova, 11 e 12 novembre 2004. A cura di Giuseppe Felloni*, Genova 2006, pp. 155-163) and the notes to the detailed computerised inventory.

expected. This brought an element of uncertainty to the capital/interest ratio for the creditors, thereby avoiding the automatism of a fixed interest which the Church, in those times, would have condemned as unlawful earnings. It was from this that the term *compera* arose because in Genoa: assuming the role of creditor it meant "buying" a specific tax revenue in exchange for a certain price (matching the capital). In short, it was a financial instrument similar to today's index-linked bonds, the interest on which changes over time depending on certain parameters. In the case of the *compere* the interest changed in proportion to the tax revenue (that is to say, in relation to economic trends) and was furthermore paid out in monies with stable purchasing power such as the CTR (*certificati di credito reale del tesoro* or certificates of actual credit from the treasury).

The "*compera*" was not a treasury operation lasting only a few months, but a public loan over the medium-long term, generally 5 years or longer. Each loan would have its corresponding *compera* and, to distinguish one from the other, each *compera* was given a name which reflected the capital supplied (*compera di lire 20.000* i.e. *compera* of lire 20,000), what it was being used for (*compera dell'armamento marittimo* i.e. *compera* for marine weaponry), the tax on which it was based (*compera dell'1% sulle assicurazioni* i.e. *compera* of 1% on insurance), the name of a saint (*compera di San Pietro* or Saint Peter's *compera*) and so on. The *compera* had its own legal identity, survived over time even if the lenders ceded their quota to a third party, directly managed (in most cases) the income on which it was founded and was administered in rotation by the directors (called *protettori* i.e. patrons). These were elected by the body of participants in the *compera* from amongst their number, in a manner similar to today's share companies. The sum on loan to the state was the *compera*'s capital and, to facilitate the collection of the money which was to be loaned, it was subdivided into shares with a nominal value of 100 units of account, without materiality and known as *luoghi*. These were registered against the individual lenders, could be transferred to a third party by simple registration in the official creditors' ledgers and were sometimes accompanied by legal privilege. Since in Genoa there was considerable public debt, these shares were actively traded, also for speculation.

3. Spreading the Genoese model

To my knowledge, it was Genoa that invented, via the *compere*, a new type of public debt, which became established everywhere. This type of operation was first documented in 1141 and soon became enriched with supplementary clauses, amongst which a power of early redemption (1150). Initially Venice followed the same path when, according to documents from 1164, it ceded the tax income from Rialto's markets to a group of citizens for 11 years in recompense for a loan. However, later on the city preferred to adopt the tactic of financing itself by forced loans, as subsequently also did Florence, Parma, Chieri etc. Where the participation of citizens to political power was small or non-existent, as was the case in Milan, Naples and Rome, the States financed their debt in different ways: some of the methods which prevailed for a long time included the collection of pre-set amounts from every province, the imposition of non-reimbursable contributions (so called *donativi* or, donations), mortgage loans and taxes on real estate.

From the XIII century onwards the public debt of the Italian states multiplied almost everywhere: at first in Genoa, Venice and Florence, and then in other States, such as Milan, Naples, Rome, Bologna. Up until the beginning of the 16th century the technical features were extremely different, but over the rest of the century the differences diminished markedly and the format of public debts began to resemble more closely the contractual formats devised by the Church between 1452 and 1569; ~~:~~during his reign, Pope Pio V (1566-1572) approved a mortgage prototype known as the *censo costitutivo*, which copied (with very few changes) the Genoese *compere* system and enjoyed significant success in Italy and abroad, in both private and public contexts. Despite being referred to by different names in different regions (*deposito*, *monte*, *prestanza*, *rendita*, *annuità*) this type of public debt offered considerable benefits to both parties: to the prince, who could impose taxes of every kind to collect large sums, refunding them at his discretion when it suited him or converting them *de facto* into perpetual debt; and to the creditors, who enjoyed increased guarantees and could sell the "*luoghi*" to third parties if they needed cash or preferred to switch to other investments. Although with time public debt grew in all countries, this increase was not an uninterrupted phenomenon, but the result of a series of alternating phases of expansion and consolidation. In all countries periods of greater proliferation of debt were, in fact, followed by adjustment periods during which floating-rate loans were consolidated and unified into a single fund with a lower interest rate. In Genoa the processes of debt consolidation and unification began in 1274 and took place again in 1303, 1332, 1340 and 1407, when the *compere di San Giorgio* first came into being.

4. Banks and bankers: the ambiguity of historical terminology

Further to the word "*compere*" (which, as already explained, were a financial mechanism known in Genoa for centuries which became a prototype or, at the very least, a precedent for all state public debts of modern times), the word *banchi* also appears in the name of the newborn *Casa di San Giorgio*. The interpretation of this word requires particular care because in historical documents and in the language used by many historians the terms *banca* or *bancario* were used very differently from today. From a technical viewpoint, banking operations consisted exclusively of borrowing cash, lending it to others in return for payment of adequate compensation and integrating this principal activity with making payments on behalf of third parties, exchanging local money into other currencies or vice versa, etc. In today's financial world, such operations are mostly consolidated in a specialised business (the "pure" bank). Moreover, there are companies which, besides banking operations of some kind, also carry out industrial and/or commercial activities; they are therefore known as *merchant banks,* and their owners as *merchant bankers* or business bankers. The difference between the two types of banking institution is clear-cut: a "pure" bank is linked to a single, well-defined activity from which it cannot deviate since that activity constitutes its legal *raison d'être,* i.e. the purpose for which it was created. On the other hand, the *merchant bank* has no such restrictions; it is free to make choices and to invest in what it deems most profitable, even across different sectors. It can also happen that merchant bankers have a preference for banking operations because of their experience, ability, or personal aptitude, but on principle they would never rule out becoming involved in other kinds of operations, if only to better spread risks in a dangerous business. It is this trend which gave rise to the most eminent merchant banks of the past two centuries: the Rothschild, the Barings, the Morgans and the Hambros, to name but a few, and before them the Durazzo, Cambiaso, Brignole Sale, all from Genoa and all well known in 18th century Europe.

5. The banking business in the Middle Ages

The current situation is the latter phase of a process of progressive specialisation spanning many centuries and not yet complete. While today the "pure" banks outnumber the commercial banks (and even more so the *merchant banks),* at the beginning of the 1400s – just before the creation of the *Casa di San Giorgio* – the world of credit was dominated almost exclusively by merchant bankers, in whose hands were concentrated the most important businesses of the time. They originate~~s~~ from the Italian businessmen of medieval times; entrepreneurs with great freedom of movement and prepared to conduct any type of operation as long as it showed promise for profit. In the entire history of Europe their first documented appearance was, in fact, recorded in Genoa in the middle of the XII century, when the series of notarial acts, a source of pride in Genoa's archives, began. It is actually from notarial deeds of the time that we learn about these "do it all" entrepreneurs which the documents called *bancherii* (sing. *bancherius*) because they did not work in a workshop as did the craftsmen, but behind a table, a flat surface for dealing on (a *bancus*) set up in the market square. These were heroic times for the Genoese economy: land and sea commerce opened up possibilities for extraordinary earnings, ripe for the picking, but the process of accumulation was just at the beginning and the greatest problem the entrepreneurs faced was to assemble the funds needed for investment. This, therefore, opened numerous business opportunities for the *bancherii* who, from behind their desks, linked the supply of money with demand and, at the same time, participated first hand in trading activities. Notarial acts detail how the Genoese *bancherius* of the late XII century operated from behind a *bancum* (at times renting it from the owner), received other people's money in the form of deposits or shares in the business, changed money, made loans at interest, bought and sold goods, was involved in overseas commerce. In effect, they were at the same time dealing in domestic and foreign currencies, working as bankers (in the modern sense of the term), and also operating as merchants, on their own or in partnership with others. In the following two centuries the picture changed slightly: foreign exchange operations became more common, especially with regards to the growing trade between Genoa and the trade fairs in Champagne or the market square in Bruges; the accumulation of wealth gave rise to increasing private fortunes, both in size and in number; a greater division of labour resulted in increased professional specialisation. In the late fifteenth century, with the loss of the colonies in the Levant (which had sustained the fruitful Genoese commerce with Asia), the

centre of gravity of Genoese trade shifted westwards, culminating in the following century in the great adventure with the Spanish crown, of whom the Genoese merchant bankers became the main financers. This era was called, with Braudelian emphasis and somewhat exaggeratedly, the century of the Genoese.
However, to be precise, here we are still following the thread of a somewhat ambiguous banking activity, whose protagonists were ready to conduct any business, as long as it showed promise of profits. The famous Medici bank was no exception: it too was involved in trading, mainly the buying and selling of high quality foodstuffs, luxury products, raw materials and any other merchandise as long as it gave a good profit margin, from almonds to four poster beds. The bank also managed three industrial workshops for the manufacture of wool cloths and silk fabrics (velvets, brocades, taffeta). However, even the partners in the Medici bank operated using mainly their own funds; they were, therefore, capitalists who used their own great riches. The so-called *depositi* which appeared in their book-keeping ledgers gave the depositors shares in the profits (not fixed interests), as it was explicitly outlined in some contracts.

6. Public banks: a Genoese innovation

In this scenario, where the most developed banking activities were those of the "multi-faceted" merchant banker, the opening of the *Banco di San Giorgio* in 1408 was a revolutionary event. It was the first example of a "pure" bank, from which – via an evolutionary process spanning many centuries – today's credit institutions would descend. The Genoese prototype from the 1400s is what would be termed a "public bank", one of those institutions in public or private ownership (but in the latter case, born with the approval of the local authority and subject to a few formalities), which had the exclusive role of taking anyone's cash deposits, returning them to the creditors, transferring them in whole or in part to a third party by simple written accounting methods and providing credit on special terms.
Precursors to new solutions of this type were already to be found in 14th century Venice and specifically in two entities concerned with the supply of foodstuffs, the *Camera del frumento* (Chamber for wheat) and the *Officio del sal* (Office for salt), which however operated in the area of commercial policy and were not public banks. The *Taula de canvi*, founded in Barcelona in 1401, was not a bank either, but a simple treasury department serving the city and the *Generalidad de Cataluña*.
The bank which opened in 1408 as the *Casa di San Giorgio* was very different in character, given the operations it performed, the volume of capital passing through it and the abundance of documentary proof. It can truely be regarded as the first public bank for deposits, transfers and credit, both in Italy and Europe. This brings us to the second operational reference couched in the official name of the *Casa*: ... *dei banchi* (*bancorum* in Latin). To be precise, the word *banchi* signified "bank counters", since each *banco* had its own cash desk and set of accounts; the word in the plural form, *banchi*, indicated the existence of several bank counters at the same time and, in fact, there were 3 from 1408 to 1445, rising to 8 between 1531 and 1805.

The *Casa di San Giorgio* ran the bank in its own name and at its own risk choosing governors (*gubernatores*) from amongst the best of the staff in the office. The cash counter was not given an initial working capital and would be funded solely by the irregular and unpredictable influx of voluntary cash deposits and the revenues of the *Ufficio di San Giorgio*. The deposits were used to make payments by written transfers between accounts, to reimburse clients, to pay interest on public debt and for loans. Amongst those seeking loans were skilled craftsmen, merchant bankers who resorted to San Giorgio to resolve short-term cash-flow difficulties, businessmen, tax contractors and, of course, the ordinary and extraordinary organs of the state. Loans were granted by opening lines of credit on current account and were always guaranteed by securities which, in the case of the State, took the form of tax revenues, which could be confiscated by San Giorgio in cases of non-reimbursement (as was almost always the case).

The accounts were kept by a notary of the College, filed by year and kept in a double-entry accounting system which, more than half a century before Luca Paciolo, attained a quite advanced level.

The bank opened for business on March the 2nd, 1408, and its activities grew so much that in 1440 it opened two other ledgers, for a total of three bank counters open for business simultaneously, with interconnected coffers. The volume of deposits, according to the end-of-year accounts, reached 100,000 gold *scudi* in 1417 and somewhere around 300-400,000 *scudi* from 1432 to 1444, a figure which outstripped by far the state's total revenues. The existence of the bank, however, was affected by some elements that were not entirely compatible with running it correctly: firstly, the lack of a capital endowment made it difficult to overcome occasional liquidity problems; secondly, the insistent demands for cash on the part of the state, which the *Casa di San Giorgio* could not refuse, in cases of failure to repay led to the conversion of the cash held in its coffers into an annual income. And it was precisely these factors which, resulting in an unfavourable liquidity condition, led the *Ufficio di San Giorgio* to suspend banking activities in 1445.

Its liquidation was completed in a couple of years, without violence and with full reimbursement initially of the minor creditors (i.e. those who held deposits of less than *lire* 10) followed by the larger creditors. The bank's closure was not traumatic and, on closer examination, was not detrimental to anyone, except for the fact that the mass of citizens who, not having a business relationship with the *Casa di San Giorgio*, could no longer avail themselves of its facilities to settle their outstanding debts. For those who owned San Giorgio "*luoghi*" (shares) or who were involved with the "*compere*", the suspension of banking activities was not particularly important: they could continue to perform the same operations as in the past via the books (*libri delle pagae*) in which annual interests on *luoghi* were recorded and, as they were payable after some years, it was their credits that owners of *luoghi* traded.

7. Public banks from Italy to Europe

It was only in the XVI century that the public *banchi* reappeared on the scene. The road was paved for a second time by the *Casa di San Giorgio* in 1531, with the activation of a new bank (*banco* "*di numerato*", that is "operating with coin"). Its purpose was to overcome the temporary shortage of cash which was harming the *Casa*, by offering private individuals a free service of deposit and transfer which would attract fresh money into its coffers. The bank enjoyed considerable success, a sure sign that the market needed it, and from the very first day there was an influx of private deposits, reimbursable on demand, used by the owners to pay their debts: purchase of goods and services, freight charges, rentals, currency exchange, insurance, etc. The volume of business grew to such an extent that in 1539 a second bank was established, with its own *cartulario* (in today's terms, "counter service"). Some years later a gold bank counter was opened (1586) and later two further banks, working respectively in silver (1607) and in Spanish "*real de a ocho*" coins (1625). These, operating in specific currencies, offered participants a safeguard for their money – at a time of intense bullion flows and turmoil in the gold-silver ratio – in the same way as currency accounts operate today. Their role gradually faded out from 1675 onwards when a more balanced money market made it possible to open four new banks in legal tender, which worked in exactly the same way, offering a predetermined range of currencies.

In addition to deposit and transfer operations, the Genoese banks of the modern era (sixteenth to the eighteen centuries) made loans to public and private entities in the form of discounts on their public debt coupons (which were payable within 5 years) and above all to the state, both in the manner already described, and also by transferring some shares in the *compere* ("*luoghi*") at nominal value which, after sale, would provide the government with the needed cash.

From 1573 onwards, institutions similar to the banks "*di numerato*" of the *Casa di San Giorgio* began to operate in other Italian states. By around 1640 the Italian peninsula would boast twenty-one banks, of which eight in Naples (most of them linked to charitable entities), five in Genoa (all run by the *Casa di San Giorgio*), three in Sicily, two in Venice, one in Rome, Siena and Milan. The style of this institution would be copied overseas from 1609 onwards, the year in which the bank of Amsterdam was founded, leading to similar structures in Middleburg (1616), Hamburg and Ulm (1619), Delft and Nuremberg (1621), Rotterdam (1653), etc.

8. The function of public banks

Regardless of the motivation behind their creation, with the public banks the economy was able to employ a financial instrument which was innovative from two points of view: a) because it protected deposits from the ups and downs of the money market as compared with legal tender, and in some cases it actually protected them from devaluation assigning a steady value in terms of metal to the unit of account used in their registration (bank *lira*); b) because it provided the market with a multitude of additional payment methods in the form of bank money (including interbank transfer) and paper money, although primitive for a number of reasons: because it was payable on demand, it was issued to the deposit holder in the denominations he preferred (and not in fixed denominations), it was nominal (instead of payable to the bearer) and transferable only by a formal deed (and not simply by consignment). Therefore, when considered in its historical context, this represented a new frontier in the evolution of financial operations, one which heralded the arrival of issuing banks and the advent of the credit economy.

Their proliferation, which as already stated has its roots in Genoa, in retrospect demonstrates two things: 1) the precociousness of the Genoese public banks, which opened a century and a half before other Italian banks and two centuries before the rest of Europe; 2) the positive role of such organisations in providing credit to markets whenever these were mature enough to welcome them.

What happened in Genoa in the early 1400s is a confirmation of this. Although it concerned phenomena which were already individually well-known in the city, the combination *compere* + *banchi* was an explosive innovation because the new organisation was capable of supplying a growing body of financial tools both to the private and public sectors. Deposits were the source of cash which the *Ufficio di San Giorgio* lent to the state in return for more tax revenues, the "*compere*" (old and new) were the fiscal pump which absorbed tax revenues from the market and redistributed them to shareholders, encouraging the accumulation of wealth. When between 1445 and 1530 there was a dearth of cash due to the closure of the banks, the spiral of loans to the state (with the usual new taxes given in exchange) was fed by delaying interest payments on the shares (*luoghi*). This way, the state still obtained what it needed and holders of the *luoghi* obtained cash discounting their credit (with papal approval). From then on, discount became a common component of Genoese financial activities.

9. The banks of St. George: the first steps toward central banks

One final remark: the banks opened by the *Casa di San Giorgio* were certainly the distant ancestors of today's credit companies, but right from the beginning they had some basic characteristics in common with the deposit and credit banks which we know today, as well as with the Bank of England, which is considered the embryo *par excellence* of central banks. Celebrated scholars of Kindleberger's calibre have noticed the similarities between the *Casa delle compere e dei banchi di San Giorgio* and the Bank of England at its origins. Today it is possible to confirm that those analogies encompass the fundamental roles of the two institutions. As was the case with the capital of the *Casa di San Giorgio* since 1407, the Bank of England, when it was founded in 1694, also had a share capital represented by a loan to the Crown which was repaid by revenue from a group of taxes, specified in detail in its constitution. The difference lies in the fact that the interest from the Genoese *luoghi* changed in line with tax revenues, whereas interest pertaining to shares in the Bank of England, whilst arising from similar revenues, was guaranteed by the Treasury at 6%. The *San Giorgio* notes (*biglietti di cartulario*) which circulated from 1630 were nominal, payable on demand and transferable by a formal deed, but the same was true also for the famous "goldsmith's notes" circulating in London in the second half of the 17th century and, for some years, for the Bank of England *notes* too. The latter, as we know, discounted private bills of exchange and made loans to the State, just like the *Casa di San Giorgio* discounted five-year coupons and financed the Republic. Finally, it is worthwhile remembering that both institutions played a leading role with regard to other credit institutions: in fact, in Genoa at the end of the 15th century, private licensed bankers, the *banchieri de tapeto*, were obliged to provide the *Protettori di San Giorgio* with the list of shareholders and with guarantees equivalent to share capital, whereas the Bank of England in fact obtained a monopoly over all banking activities, which could no longer be carried out by other share companies. Given all the above, might I be going too far if I were to state that the Bank of England, *en route* to becoming the Central Bank, followed the same path taken, almost three centuries earlier, by the *Casa di San Giorgio*?