Chapter 8

Financial Changes and Financial Innovations in Milan and Genoa during the Thirty Years' War

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1. *1550-1617: The Golden Age of Financial Innovations*

The second half of the sixteenth century was a period of economic expansion that matched favourably the increasing financial demands on the Italian states, especially Milan and Genoa, stemming from their involvement in the geopolitical strategy of the Spanish Empire. The interplay of economics and politics fostered several financial innovations that – though at different levels - notably increased the collection of monies and tied financial capital to their processes of state-building. The innovations included the progressive substitution of bond issues for compulsory loans, the rise of a lively demand for state securities due to the earmarking of future tax income for interest payment, their easy transferability and their tax-free status. All these innovations constituted a kind of financial proto-revolution. Eventually, the emergence of the Besançon fairs (settled in Piacenza), operating under the Genoese as an international credit market with its own currency of account according to a mechanism that avoided the charge of usury, represented the other new crucial element of the sixteenth century.

This kind of 'off shore' capital market was essential then for providing Spain with the increasing amount of financial resources raised from the savings of the urban and rural societies. In the more dynamic productive areas of Italy, public finance, private credit, and economic production ended up with a meaningful complementarity based essentially on the usefulness of sovereign debt as collateral for private financial ventures. In northern Italy public debt represented also a powerful instrument to link the different social classes of the state and the subject territories to the central polities by engaging the local ruling elites and the territorial bodies in a mechanism of redistribution of income.

At the turn of the seventeenth century a general spirit aimed at making money profitable without leaving it idle was progressively spreading not only among regular practitioners but also among wealthy citizens who found the investment of money convenient, especially because it was tax-free (De Luca 2011).

2. *1618-1648: The Thirty Years' War and the changes in the financial architecture*

The Thirty Years' War involved the Italian territories only marginally and mainly in two specific circumstances: in Valtellina and the war of succession in the Duchy of Mantua and Monferrato. Both these areas attracted the European monarchies for their strategic position.

The Valtellina, part of the Spanish Lombardy, was a fertile valley at the south of the Alps and at the border of Switzerland. It represented a key passage that – through Milan - enabled the Spanish to reach the Tyrolean regions that were part of the same Habsburg dynasty (Parker 1972). Likewise, the Duchy of Mantua and Monferrato, under the Spanish monarchy as well, was a strategic area that connected Milan to Genoa.

The conflict in Valtellina (1620-1639) broke out in the context of the Thirty Years' War. Caused initially by religious matters (between Catholics and reformed Christians), the war was in effect waged by the opposing ambitions to achieve control over that crucial stretch of territory. Spain, allied with the Holy Roman Empire, fought against the attempts of the Republic of the Three Leagues, which was later supported by the Republic of Venice, the Duke of Savoy and France, to occupy the region. For the Three Leagues the Valtellina represented an important commercial route and a potential region for levying taxes. In the last phase of the conflict the Three Leagues, supported by the French army, finally obtained control of the Valtellina.

In the same years the War of Monferrato and Mantua (1627-1631) broke out. In this case the *casus belli* was that Vincenzo II of Gonzaga, Duke of Mantua and of Monferrato, died without leaving an heir. The natural successor would be Charles I of Gonzaga, Duke of Nevers (the closest relative of Vincenzo II), but he belonged to that branch of the Gonzaga family that had established itself at the French court. Hence the Emperor, Ferdinand II of Habsburg, fiercely opposed his nomination and imposed instead the Duke of Guastalla, Ferrante II Gonzaga. The Duke of Nevers soon reacted by asking for the help of France. On the other side, the Duke of Savoy, Charles Emmanuel, supported Spain. In 1629 the French army invaded the Italian territories and defeated the Duke of Savoy, while the Spanish troops had conquered the city of Mantua. In the meantime Germany was occupied by the Swedish troops and the Imperial army of Ferdinand II had to intervene to help the German regions, leaving Mantua and Monferrato at the mercy of the French. The Duke of Nevers, Charles I of Gonzaga, became therefore the new Duke of Mantua and Monferrato.

The war, along with the spread of the bubonic plague in 1630, surely had negative and immediate consequences on the northern Italian economy and its financial system but not as enduring or severe as much of the historical literature has stated. According to a traditional view, the changes of the seventeenth century were elements that led Italy to an irreversible crisis and stagnation from which the Peninsula would recover only at the middle of the following century. Conversely, recent studies - drawing upon new empirical evidence – have shown that the Italian economy was undergoing a transformation that implied a structural reorganization of the economic and financial system that was adjusting to the new changes and necessities (De Luca and Sabatini 2012, pp. 11-25; Lanaro 2006, pp. 19-69).

The most advanced economic areas revealed new factors such as the liveliness of rural industry, the rationalization of agricultural production, the prominence of the financial sector and, in the Spanish dominions, the positive impact of Spanish military spending (Ruiz Ibañez and Sabatini, 2004). The Italian economy of the seventeenth century proved then very resilient and able to respond efficiently to the changing environment. At the macro-economic level, it has recently been estimated that real urban wages and per capita production rose after the 1629-30 plague. Recovery was possible because the fewer surviving workers were endowed with much greater fixed capital.[1] Hence, the seventeenth century, far from being considered the age of crisis and collapse, began a favourable conversion towards a new balance based on the consolidation and industrial growth of silk production.

Also the financial system readjusted, adapting to the economic conversion and stopped playing the supply-leading role that it used to have during the sixteenth century. This transformation did not take the shape of new tools, new operators or new credit institutions; rather it mostly produced widespread changes in the financial organization and one innovation. At the domestic level these changes were represented by the emergence of new public banks, while with respect of the international financial flows they were reflected in the fragmentation of the fair networks and in the passage from the *asientos* to the *factoría*.

Almost everywhere (from Milan to Genoa and from Venice to Naples) an intensification of new public banks was taking place. This was in part the response to the crisis that affected private bankers in 1580s and 1590s, which proved unable to collect the necessary funds (De Luca 1996). In the international financial world the exchange fairs were losing their monolithic structure dominated by the Genoese, while the *asiento* was gradually being replaced by a new contract, the *factoría*, which constituted the first real innovation of the century.

[1] According to the endogenous neoclassical economic model proposed by Malanima, the crisis in per capita production occurred in the following century when the population began to grow again at a greater rate than capital formation and gross production (Malanima 2006, pp. 383-404).

In addition, meaningful transformations were occurring also in the private market. This market that had long been dominated by private bankers, who mostly knew their borrowers directly, was turning into a less personal one, based on reputation and on selection carried out by notaries. This metamorphosis was the result of a macro impulse coming from the demand side. New actors emerged: the municipalities, the religious institutions (convents and monasteries) and *pia loca* in general, which progressively became the protagonists of the local capital market. The municipalities in particular became more indebted as a result of the heavier taxation imposed by the state whose expenditures – coming chiefly from the need to nourish and host the troops - were steadily rising. In order to sustain their debt the municipalities turned to citizens and local charitable institutions, leading to a progressive socialization of credit.[2]

The intervention of local institutions, which could boast a large consensus due to their centrality in the social network, enabled authorities to mobilize money that otherwise would not have flowed directly into the public coffers. These institutions had abundant liquidity originated from dowries – especially for the female convents – and from large donations accumulated throughout the years for confraternities and ecclesiastical bodies. Such resources went to finance the financial needs of the rural and city communities on which the seventeenth-century fiscal pressure was concentrated. As a consequence, the considerable indebtedness of the municipalities created a thick private credit market that gradually extended throughout the seventeenth century thanks to a relationship network centred on notaries who helped make this market more and more reliable and attractive for private lenders.

[2] This phenomenon continued in the following century, spreading to other parts of the Italian Peninsula. See the case of Trentino, where the communities of the countryside were indebted to the nobleman Leonardo Piomarta de Langenfeld for more than 45,000 *florins* (225,000 *lire*) spread across a score of transactions (Lorenzini 2018).

2.1. *The public banks: changes of the domestic financial organization*

With the second decade of the seventeenth century and the beginning of Mantua's first War of Succession military expenses further increased the deficit of the Milanese Hacienda, which reached in those years the sum of 1.4 million *scudi* (Muto 1995, p. 290).

The response to the conflicts and the consequent higher government indebtedness was to restructure the financial market and operators, which at the domestic level was manifested in the proliferation of public banks founded with the specific purpose of reorganizing public debt. The recourse to public banks was also the result of the failure of private bankers in the 1580s and 1590s in Milan. The intensification of public credit institutions was, on the other hand, a phenomenon that spread throughout many Italian states and that other European countries like the Netherlands and the German territories soon imitated. By 1640 there were 21 public banks in the Peninsula: 8 were settled in Naples, 5 in Genoa (but they were all managed by the Casa di San Giorgio), 3 in Sicily, 2 in Venice (Pezzolo, *infra*), 3 in Milan, 1 in Rome and 1 in Siena (Felloni, 1999, 119). While up to that moment the relationship between government and private lenders had been direct, now it was intermediated by new public financial institutions that aimed at guaranteeing and safeguarding credit, collecting capital among subscribers and lending it to the state.

The term 'public banks' refers to credit institutions that could be either public or private but needed the authorization of the government (Felloni 1999, p. 116). On the basis of their origins, they can be classified into three groups. The first type includes banks that were created by decision of the state (central offices). The most emblematic case is the Banco della Piazza di Rialto, founded in 1587 by the Republic of Venice (Muto 1983, pp. 85-102). The second type comprises those banks created per resolution of city institutions, like the Banco di Prefetiza in Trapani (1459) and Monte dei Paschi di Siena (1472). Most of them had benefited from the resources of the state. The intervention of the government in the activity of these institutions progressively increased and the banks lost much of their independence so that the state ended up in control of their resources. The third group consists of banks established by religious bodies or associations, whose activities were formally and publicly recognized by the state (Muto 1995, p. 85).

In the state of Milan two new credit institutions were born in the seventeenth century: Monte di San Carlo (1637) and Monte San Francesco (1648). Beside these, the Banco di Sant'Ambrogio, that was founded in the previous century (1593) and with quite a different purpose–underwent a significant change in the seventeenth century and began interacting with them.[3]

The Monte di San Carlo opened in 1637 with the aim of consolidating the Milanese public debt. Finding new capitals to finance the rising expenses was becoming more and more urgent. The city administration appealed to other Spanish Viceroyalties and looked for receiving *asistencias* from the Reign of Naples, of Sicily and from the Hacienda of Madrid (Marsilio, 2013). Public finance collapsed in the second decade of the century. The Duke of Feria – the governor of the Duchy of Milan - appointed Giovanni Salvaterra to raise new funds necessary to finance the mounting expenditures of the state because the funds collected from private citizens had proved insufficient. After looking for new resources in the Milanese square without success, he turned to Genoa.[4] Here he met one of the most influential bankers of the Genoese credit market, Stefano Balbi, who agreed to lend the money to the state of Milan (Cova 1995, p. 367). The agreement implied heavy conditions for the government that had to grant high guarantees for the indebtedness,

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[3] Besides these three institutions, the Monte di Pietà (Mount of Piety) also operated in the seventeenth century Milanese financial market. The Pawnshop was founded in 1497 but compared to the public banks its activity was limited. The highest sum it lent in the seventeenth century was 85,000 *lire*, and generally its loans were much smaller (Cova, 2014, pp. 329-340).

4 Milanese bankers with sufficient liquidity were undoubtedly also present in the Ambrosian city, but they preferred to invest in less risky operations with high guarantees, as for instance in the Banco di Sant'Ambrogio (Cova 1995, p. 366).

i.e. the revenues from duties on merchandise and other minor revenues, the remittances from Naples and Madrid, etc. Also, prospective losses on the exchange fairs would be charged to the state (Marsilio 2013). The Milanese Chamber borrowed from Balbi 1,470,000 *ducatoni* (8.5 millions of Imperial *lire*) at 8 per cent interest. 700,000 *ducatoni* still had to be returned. Being unable to collect that sum through traditional methods, the Chamber agreed to Balbi's project to create an institution in order to raise the funds owed to him. The Monte di San Carlo issued 7,000 *luoghi* of 100 *ducatoni*, at 5 per cent interest (Cova, 2014, p. 330). New tax revenue was destined to pay the interest rates. In addition, in order to make the *luoghi* attractive they were tax-free and could not be confiscated. The *luoghi* were nominal and transferable credits and gave rise to a secondary market, anticipating the modern state bond market (Felloni 1999, pp. 102-103). By turning debt into *luoghi*, public debt was transformed from floating into consolidated.

Balbi was appointed to the administration of the Monte and as a consequence in control of the Milanese public debt. In the 1630s the Milanese economy was undergoing a negative economic conjuncture with worsening state indebtedness. Balbi realized the necessity to reallocate the public debt to domestic and foreign markets. Most of the capital invested in the Monte did not come from the Milanese bankers, but from the Genoese. Among the most prominent operators there was Gio. Filippo Spinola, who from 1645 to 1649 purchased 28,757 *scudi di marche* (Marsilio 2008, p. 163).[5] The payments were made by way of bills of exchange issued in the fairs. These instruments enabled the state to have at its disposal large amounts of capital quickly, but the interest rates charged on debts were becoming very onerous for the government. The Monte started issuing new *luoghi*, which in turn increased the state's indebtedness that amounted to more than 1,200,000 *ducatoni*. The

[5] 1 *scudo di marche* equalled 20 *soldi* and 1 *soldo* equalled 12 *denari*. In 1646 Spinola along with other exponents of the Airoldi and Ceva families made a loan (called 'soccorso') to the city of Milan.

urgency to extinguish or at least diminish the debt led the institution to involve the Banco di Sant'Ambrogio, which – rich in liquidity – agreed to give credit to the state. Its final aim was to obtain control over the city tax revenues, including the management of the Monte di San Carlo.

Differently from the Monte di San Carlo that was mainly financed by Genoese operators, the Banco di Sant'Ambrogio founded in 1593 was a credit institution entirely constituted by Milanese and it was conceived to collect capital for the city and to meet the growing demand for resources from the Milanese merchants.[6] The Banco di Sant'Ambrogio was initially a success. Also the Monte di Pietà during the metamorphosis of the Thirties – coinciding with the diffusion of the plague that had decimated a large part of the population - had begun to invest its capitals in the Banco, whose operations were considered safe as well as higher profit compared to other credit institutions. In addition it was possible to withdraw the invested capital at any moment to obtain ready cash (Fraccaroli 2008, pp. 59-62). However, the expanding expenditures of the Milanese Hacienda– due to the rise of taxation levied by the monarchy– made the administration rely on private bankers who lent money by means of bills of exchange. If on the one hand they were highly profitable for private lenders, on the other they proved excessively burdensome for the city. The Banco di Sant'Ambrogio hence was authorized to issue *luoghi*, which turned out to be a success for the Banco's activity.[7]

In the meantime also the Monte di San Carlo was issuing new *luoghi* but this caused a further increase of the State's indebtedness which reached the amount of 1,756,000 *ducatoni*. Stefano Balbi

[6] The Banco di Sant'Ambrogio was created with the purpose of lending money to the Milanese great merchants. However it enlarged its activities and became soon a punctual lender to the Milanese administration (Marsilio, 2008, p. 154).

[7] By means of *luoghi* the institution had collected 13,5 millions of Milanese *lire*, beside 400,000 *lire* originated by non-interest-bearing deposits In addition the Banco lent the city 7 millions of credits (through bills of exchange) and other 5 millions of loans. (Cova, p. 365).

was at that point dismissed and in 1654 the administration, along with the management of public debt, shifted to the municipality's hands (Marsilio 2008, p. 155).

Meanwhile, the Banco di Sant'Ambrogio also revealed it was unable to pay the interest rates on *luoghi*, but it obtained from the city the control over all municipal duties, a sum of about 900,000 *lire*. This fiscal manoeuvre implied the subordination of the general interests of many to the interests of a group of few.

Ten years after the Monte di San Carlo's foundation, another credit institution was created in 1648, Monte San Francesco, with the purpose of collecting capitals to finance the expenses of the city. The institution issued 1,000 *luoghi* of 100 *ducatoni* each at 10 per cent interest rate, so a high rate, and initially it adopted – without success – an articulate way to pay the interest rates. Interest rates that came from the revenues of the duties on oil and soap - were paid in instalments of one twelfth for each month. The surviving shareowners would then divide the entire revenue of the duty throughout their lives. The last survivor would receive the entire amount of the interest payments. However, this method of payments proved inefficient and was abandoned and the Monte di San Francesco turned to traditional methods (Cova 2014, p. 331-338).

2.2. *The fragmentation of the exchange fairs and the emergence of a new apex: changes at international level*

At the international level, the bills of exchange fairs, some of the most important financial innovations of the early modern age, still represented a key element in the capital market of the seventeenth century. However a transformation was occurring in the traditional structure. Since the sixteenth century the Ligurian *hombres de negocios* had dominated this market. During the fairs, periodical meetings occurring every three months and gathering bankers from all over Europe, large short-term loans and modest private transactions were negotiated, yielding high profits to traders, especially the Genoese, who had achieved a high expertise in this sector. The Spanish monarchy, more and more hungry for resources, was soon attracted by these bankers and turned to them to borrow money. By means of *asientos* - short-term credits at high interest rates - the Ligurians became rapidly the major financiers of the *Real Hacienda* and Genoa the *metropoli financiera* of the Habsburg (Alvarez Nogal 1997, p. 51). Their role of chief creditors began to suffer, however, from the incapacity of the Spanish monarchy to repay the principal. The defaults of 1607 and 1627 – that had added to the previous crises of 1557, 1575 and 1596 – led the financial operators of the Genoa *Superba* to renegotiate and restructure their debts with the *Real Hacienda*. Interest rates were then reduced and the deadline for repayment extended. The debt was transformed into an irredeemable and consolidated loan. The *asientos* were turned into *juros*, which allowed the holder to receive interest perpetually but not the initial capital. Although these conditions were not as profitable as earlier for the Genoese, the renegotiation proved as suitable as in the past to resolve the immediate crisis.

After the default of 1627, however, the Genoese bankers began to diversify their risks and move their loanable funds to safer operations, especially investments in the foreign public debt of northern Italian States: the Duchy of Milan, the Duchy of Savoy, and the Republic of Venice

(Felloni 1971). These operations represented new profitable and secure opportunities to place revenues that originated from their extended networks of finance and from the swaps of short-term *asientos* for long-term *juros* that the Spanish Monarchy had realized at the conclusion of each default. Meanwhile the relationship with the Habsburg was deteriorating. The real estate that the Genoese owned in Spanish dominions was confiscated; in addition they were obliged to make extraordinary donations and loans. Likewise, their relationship with the Reign of Naples was changing, at least in the Genoese modes of operation. Along with their activity as lenders, in the second half of the seventeenth century they shifted their interests toward holding positions as officials of the administration and purchasing feudal possessions as well as achieving noble titles that helped them to consolidate their social and economic role in the Neapolitan Kingdom.

In order to maintain or increase their control over the international fairs, the Genoese transferred the meetings from Piacenza to Novi Ligure (1621), under the Republic of Genoa. It would be a temporary solution, justified by the necessity to safeguard the Genoese from the dangers and risks caused by the war in Valtellina in 1620s. This was an occasion for other financial groups to free themselves from the Genoese hegemony. Tuscans, Venetians and Milanese wanted to separate and create their independence so they established fairs to meet in cities under their dominion. In the second decade of the seventeenth century the international financial network of the fairs, which up to then centred upon the Ligurian *hombres de negocios*, began to break up and reshape its organization (Marsilio 2007).

At the first meeting in Novi Ligure the rivalry among the bankers of the other *nationes* was emerging. In 1622 the Tuscans separated from the Genoese and along with the Venetians established one fair in Parma and two in Verona.[8] The alliance between the Tuscans and the Venetians however soon vanished. In the fair held in Marignolle – a site established by the Tuscans under the Duchy of

[8] For the fairs in Verona, see Lanaro 2003, pp. 21-51; Mandich 1947, pp. 1-16.

Tuscany – the Venetian operators lost 25 per cent of their money employed in bills of exchange, which started the division of the two groups. Under the pressure of the Genoese government the fair was placed again in Piacenza in 1638, but the gathering proved to be just a momentary reunion. The conflicts among the several operators persisted and in 1641 the Genoese placed the fair in Novi Ligure once again.

The Milanese bankers, also characterized by a compact and national spirit, wanted to replace the *hombres de negocios'* primacy in the *asientos* business with the Spanish Empire, and two years before (1639) they stated that it would be desirable that His Majesty employ his efforts to attract the skilful Milanese traders to Madrid.[9] They highlighted that:

> The traders of the Milanese market, vassals of His Majesty (and very united) could alone, along with their capitals, talent and credit that have throughout European markets undertaken and finalized considerable *asienti* (*tirare a buon fine assenti*) in Italy, the Flanders, and the Alemagne for His Majesty. In these three or four years – that have been years of calamity – some bankers were able in effect to succeed and could reduce the groups of Venetians and Florentines.[10]

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[9] The document States: 'Sarebbe cosa buona che SM [Sua Maestà] porcurasse di far venire detti negotianti di Milano habili a tal mestiere allettandoli col ben trattarli, dandogli assegni avvantaggiati e massime nella cautione, poiché una volta incaminata la tresca con questi requisiti potrà SM accresce e continuare con maggior facilità li assenti de quali la natione Genovese non manca d'haverne gelosia e sin adesso alcuni di detta Natione hanno fatto stimolare quei pochi milanesi che in questi tre o quattro anni hanno servito a SM per dargli danari e pigliare patrecipazione nelli assenti fatto o da farsi'; Archivo General de Simancas (henceforth Ags), Estado, leg. 3352, 1639.

[10] Literally the document states: 'Non ha dubio che li negotianti della Piazza di Milano Vassalli di SME (et massime uniti) potrebbero loro soli *con i loro capitali, talento e credito che hanno per le piazze d'Europa* intraprendere e tirare a buon fine assenti di qualche considerazione per Italia, Fiandra et Alemagna per il servitio di SM, come pure si è visto in prattica che alcuni pochi hanno fatto in questi tre o quattro anni, che pure sono stati tempi calamitosi, e con questo forse ridurrebbero

2.3. *A real innovation in the international financial market*: *From* asiento *to* factoría.

The system of *asientos* (short term loans at high interest rates) was gradually replaced by a new instrument, the *factoría*, a contract that did not include an interest rate (like the *asiento*), but only a percentage, a commission, because the lender (theoretically) did not take the risk of providing or managing capitals for the Royal administration on which he anticipated sizeable differences.[11]

It was with Giovanni Giacomo Durini, Marc'Antonio Stampa, Marcellino and Cesare Airoldi, and Giovanni Battista Crotta that the Milanese financiers achieved in the seventeenth century by statute the position of *factores reales*, the '*cúspide de las actividades financieras*' linked to the Spanish crown (Sanz Ayán 1989, p. 34). In those years neither the war nor the finances were going well for Spain with new revolts in Portugal and Catalonia supported by the French in addition to the ongoing revolt of the Netherlands. The Genoese lenders to Spain were gradually disappearing in favour of the Portuguese. On 2 January 1640 Giovanni Giacomo Durini drew up the first contract of *factoría* signed by a Milanese. It implied the provision of 140,000 *ducats* to the Real Hacienda. Differently from the *asiento* the *factoría* did not imply an interest rate but a commission that was fixed at 2 per cent, which remained unvaried for 20 years.[12]

According to the letter issued in 18 May 1640 from the Magistrato Ordinario the *factoría* was something new: 'era cosa nuova che la Regia Camera habbi a pagare tal fattoria non essendo a nostra notizia sin hora usata cotal forma.'[13] The Magistrato manifested concern about the *factoría* because it was still an uncommon innovation. Despite the initial scepticism, however, the contract spread.

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le nationi Venetiane e Fiorentine nel negotio; Ags, Estado, leg. 3352, 1639: "sobre introducir el negocio de letras de cambio en Milano.

[11]The *factor* could also receive a fixed sum 'un sueldo fijo' (Sanz Ayán 1989, pp. 36-40).

[12] Archivio di Stato di Milano (henceforth Asmi), *Registri delle Cancellerie dello Stato* (henceforth Rcs), *serie XXII, Mandati*, vol. 60, 221r.-222v., Vercelli, 18 May 1640.

[13] Asmi, Rcs, series XXII, Mandati, vol. 60, ff. 221-222, Vercelli, 18 May 1640.

The *factorista* was an operator who worked in close contact with the central administration. He worked in practice for the Royal Chamber as he managed the money on its behalf. His role was more important than the simple *asientista* and benefited from more privileges.

Along with Durini, who thanks to his performance as *factor* of the Duchy of Milan was named Earl of Monza, Marcellino Airoldi also began to operate as *factorista*.[14] In 1649 Marcellino's activity enabled his brother Cesare to obtain the office of General Treasurer of the State, which was then transferred to his grandchild. Marcellino Airoldi was undoubtedly the most influential banker of the Milanese market in that period. His commission provided to the state's coffer about a half million *lire* (De Luca 1997, p. 75). His first contract of *factoría* was drawn up in 1643. Others then followed in 1644, where he anticipated the sum of 300,000 *lire* for the payment of bills of Naples; another one in 1645 in which he lent 445,000 *lire* 'per servizio urgenti di sua Maesta' (for urgent needs of His Majesty). In the contract signed in 1645 he provided Vienna with 200,000 *lire* 'per soccorrere il Sacro Romano Impero' (for supporting the Holy Roman Empire), along with another sum of 216,500 *lire*.

Marco Antonio Stampa was another notable Milanese financier. In 1640 he signed up the second (in chronological terms) contract of *factoría*, in which he anticipated 86,000 *lire*, from which he received 10 per cent from exchanges and *factoria* and 1 per cent for the risk of collecting cash in Genoa. The following year, by means of *factoría* he gave credit for 128,400 *lire* to Antonio Cermilli (the collector of the bread tax) at 2 per cent.

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[14] For the many *asientos* and *factorías* drawn up by the Airoldi, from 1635 to 1688, see Archivo General de Simancas (henceforth Ags), Contaduría Mayor de Cuentas, 3ª Época, leg. 2169, n. 64; leg. 2319, n. 4; leg. 2558, n. 3; Ags, Estado, Milán, leg. 3353, f. 6; leg. 3366, ff. 132-140; Asmi, Rcs, series XXII, Mandati, vol. 60, f. 198r. For the role of General Treasurer held by Cesare from 1649, see Ags, Secretarías Provinciales (henceforth Sp), book 1367, ff. 173-180.

Though the Genoese primacy as chief lenders of the Spanish crown was declining in those years compared to the Milanese, there were agents operating in the market that were descendents of some of the most influential Genoese families of the time, i.e. the Spinola, Balbi and Pallavicino. Bartolomeo Spinola in particular was the biggest banker of the Republic of Genoa during the Reign of Philip IV. Thanks to the services that he had provided to the Crown, he was awarded with noble titles and in 1627 he was nominated *factor general* of the king, becoming soon after the *Consejo de Hacienda* and of the War. Bartolomeo died in 1644 and by that date he had provided the king with over 50,000,000 *scudi*. In 1643-1645 other *factores* operated in the state of Milan, in particular Gio. Francesco Spinola and Cristoforo Spinola. The first one provided to the Royal Chamber 525,000 *lire* by means of *factoría*.[15] Cristoforo Spinola, however, was the chief lender to the Monarchy, reaching a total sum of 950,000 *lire*, at the usual percentage. Other prominent *factoristas* came from the family of Pallavicino. Gio. Luca's activity for the crown, for instance, focused on the transfer of funds from Seville to Madrid. In 1637 by means of *factoria* he lent 200,000 *scudi* that the President of the Council (Don Antonio de Camporredondo) employed to pay to Madrid the consignations owed to several bankers. At his death, Gio. Luca's estate had credits to the Spanish crown amounting to 9 million *ducats*.

2.4. *The emergence of a vast and reliable private credit market*

Along with the emergence of new financial instruments, the seventeenth century is characterized by the increasing importance of a profession that, though not specialized in financial activities, played a key role in the local credit market: the public notary. Economic historians have long neglected this profession by considering him only in terms of his function of drawing up a myriad of deeds. His relevance has been attributed mainly to the wealth of data and information recorded in his registers. In the last twenty years, however, a new stream of research has shed new

[15] ASMI, Rcs, series XXII, Mandati, vol. 62, Tortona, 23 May 1643.

light on the role of the notary and on his effective importance in the credit markets of the ancien régime (Hoffman, Postel-Vinay, Rosenthal, 2000). Large strata of the population used to go to notaries to sign up contracts regarding a will, a dowry, a rent, a sale, and also a debt/credit contract. Most of the citizens, especially aristocratic families, had their own '*notaio di fiducia'* (trusty notary), who managed all the business and patrimony of the family. As a consequence, notaries collected a large amount of information about their clients, their social positions, relations and patrimonies and reputation. They also knew who was looking for loanable funds (debtors) and who had liquidity to invest (creditors). The notary was able to use this information appropriately to match borrowers and lenders. By easing the circulation of information he helped reduce the information asymmetries and transaction costs and made the credit market work more efficiently. By matching demand and supply of money he operated as an informal financial intermediary. Unlike specialized operators (i.e. cambists, money changers, sensali, etc.) the notary was not allowed to collect commissions on transactions. His profits came from his own reputation and the ability to satisfy his clients that would increase his fame and client networks. Deeds had a price (established by the government) that varied according their typology and length. Hence the more contracts a notary signed the higher his profits (Lorenzini 2016). Compared to the evolution of modern banks, which are able to bring together liquidity and risk pooling, notaries who dealt only in information were in effect making the best of an old job.

The financial instrument drawn up by notaries related to credit was the *census consignativus*, a kind of mortgage loan, used in the Italian States and European catholic countries since the second half of the sixteenth century but one that spread widely throughout the seventeenth. The *census consignativus* was based on the structure of the *emptio cum locatione* (literally a sale followed by a rent), a contract already present in the Middle Ages and probably devised to bypass the usury laws imposed by the Church. The *c. consignativus* was definitively regulated in 1569 with the bull *Cum*

Onus (1569) issued by the Pope Pious V. This instrument granted the owner the *dominium directum* (right to direct), while the *dominium utile* (right to use) was ceded to the tenant (De Luca and Lorenzini, 2018). The *c. consignativus* had to be drawn up before a notary. The borrower had to give as collateral the entire or part of his/her real estate, normally a plot of land, a house or a shop which could produce an annual rent, that constituted the yearly interest rate. The restyled form of *c. consignativus*, introduced by the papal bull, implied the rebalance of the pull between the debtor and the creditor in favour of the debtor. These mortgage contracts made up 90 per cent of all loans transacted by notaries (De Luca and Lorenzini, 2018). The debt had to be guaranteed by a rent-bearing property. As a consequence the borrower kept paying taxes on the portion of patrimony used as collateral. Historically, real estate had been the most common and most favoured collateral for these loans. In the more economically active regions, however, real estate gave way to other forms of collateral that were less linked to farmland and much more linked to moveable assets such as public bonds, tax and farming revenues, tithes, etc. Thus this innovation contributed to making the credit market more liquid and resilient and enabled the more responsive areas of the Italian economic system to expand during the long sixteenth century.

While the private capital market was undergoing a general shift from short-term loans to long and medium-term ones, in business financing an instrument was rapidly spreading, the limited partnership (*società in accomandita*). It was a kind of partnership more fitting to the new economic structure of northern Italy, in which the exports of semifinished products prevailed. Indeed, compared to the long waiting intervals, especially in the sector of silk manufacturing oriented to volatile export markets, the previous short term loans, ratified with *polizze*, proved more and more inadequate to meet the unpredictable swings in foreign demand. In Milan, even without a precise juridical recognition, the limited partnership had been used in the wool manufacturing system since

1575.[16] While it was emerging in the leading sector of urban economy, however, only at the end of the sixteenth century did the silent partnership receive its regulatory institutionalization from the bankers themselves - pushed by the State.

By means of this contract the merchant had more possibility to plan his activity, while he found himself managing a larger operating capital (represented in this case by ‘risk capital’) that was available without sudden interruptions for the entire life of the partnership, initially five or seven years and renewable. Moreover, the not negligible cost of defaulting on loans, which risk had to be borne also in times of bad business, were now on the contrary charged proportionally on the distribution of profits. These profits, coming from the extraordinary prosperity of the Milanese golden silk sector (manufactures) constituted the distinctive factors encouraging the participation of the financial operators of the city in these organization forms. Sharing (in majority percentage) the profits of merchandise that produced 15 and 20 per cent of profits, meant a fundamental incentive (for those who paid attention to silk trade) in the higher profits yielded by the capital compared to the collateralized short-term loans that generally yielded only 10 per cent.[17]

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[16] See Bortolotti, 1985, pp. 118-119. The limited or silent partnership was a medieval institution initially used only for risky operations, although it had been present in Florentine legislation since 1408. It spread from the mid-seventeenth century especially in Tuscany (Melis 1971, pp. 448-449).

[17] Quotation from Vigo, 1977, p. 92. As Stated by a witness of the time, bankers did not ignore that the golden-silk merchants auroserici «divengono ricchi presto, e molto bene si sa, che diversi Abbati et Mercanti nel corso di dieci anni in circa si sono fatti ricchi chi di mille, chi di dua milla, et chi di tre milla scuti d’entrata», and always according to one of his example, a dead merchant Giovanni Battista Surano, who «misse a trafficar con capitale di due mille scuti» in fifteenth years had «lasciato tre mille scuti d’entrata». In addition his two daughters had married with wealthy citizens and had a dowry of 5/6,000 scudi each. Ags, *Visitas de Italia*, libro 403 (23), ff. 73-74: document of 10 december 1608.

It is not possible to calculate the weight of this form of agreement out of the total types of partnerships of that period, or evaluating with certainty whether the bankers provided new money and whether a large part of these firms ceased automatically at the end of the initial contract. However, as proved by deeds of these financiers, the importance of the silent partnership for the Milanese silk industry at the end of the seventeenth century was not inferior to that of silk, gold and silver in the Florentine industry for instance, both for capitals and subscribers (Malanima 1982, pp. 131-143). In Milan, their diffusion was not caused by a flight to safe havens for those who had capitals that they would otherwise transfer towards the purchase of real estate but rather to the fact that limited partnerships represented a more functional meeting point between the necessities of the most expanding economic sector and the availability of the financial operators (Malanima 1982, pp. 131-132).

3. *Conclusions*

During the Thirty Years' War a truly socialization of finance was going on in the main economic centres of Northern Italy. In Milan an increasing array of people became involved in payment affairs, public banks, and mortgage loans. Rather than real innovations, a general restructuring of the system's organization was taking place, both at the domestic level and at the international level. The financial fabric of the Italian territorial states underwent adverse selection and private merchant bankers, who constituted one of the pivotal elements of the late sixteenth century financial network, fell into a crisis. As a reaction to their failure, public banks were founded with the purpose of reorganizing permanently government debt, which was steadily increasing as a result of the growing expenditures brought about by military needs. The relationship between state and lenders shifted progressively from direct and personal ties to indirect and distant contacts. Public banks operated as the exclusively financial intermediaries between the government and its financiers.

At the level of the international movement of money the Thirty Years' War brought about the loss of the hegemony of the Genoese as the leading bankers of the Spanish Empire. After all, the huge interest rates that the Spanish Crown had to pay to the Ligurian *hombres de negocios* for the realization of the *asientos* was one of the reasons for the cyclic crisis that led the Spanish Monarchy towards the *factoría.* This new contract constituted the real innovation – in the strict sense of the word - of the seventeenth century and it began to spread especially from 1640s. Differently from the *asiento* that implied high interest rates (which were becoming unbearable for the Crown), the *factoría* required only the payment of a commission as the banker did not take any risk in managing a large amount of capital for the monarchy.

Also the dominant position of the Genoese bankers in the international fairs was changing and at the same time the international fair network was restructuring. The Besançon fairs were not settled in Piacenza any longer but were transferred to other cities. The Genoese established Novi Ligure, in order to have higher control, but other groups of bankers were emerging: the Tuscans, Venetians and Milanese. They wanted to get free from the Ligurian hegemony and looked for their independence. These new forces led to a polarization of the international capital market and to its reshaping.

At local level, the private credit market was growing, thanks to the emergence of notaries as informal financial intermediaries. Though they were not specialized in financial activities they proved able to channel appropriately the information they collected in the capital market, matching demand and supply of funds. The rising role of notaries in debt/credit transactions reflected in the market that expanded, attracting larger strata of the population, not only aristocrats, wealthy citizens or big merchants but also artisans, widows and all who were generally not familiar with the financial world.

Another significant change was the function of urban organizations like guilds, trusts, charitable institutions and local communities, which began to play a role as financial intermediaries. In some cases the governments resorted to forced loans from these bodies through direct taxes or developed the sale of annuities to be assigned directly to them. The mediation of local institutions, which could boast a large consensus due to their centrality in the social network, enabled governments to mobilize money that otherwise would not have flowed directly into the public coffers. The considerable indebtedness of the municipalities in order to meet the rising financial requests of the governments created a thick private credit market, which was supplied by well-off citizens and above all ecclesiastical bodies (monasteries, convents, and other *pia loc*a), which had accumulated huge patrimonies through time thanks to dowries and donations.

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