

## Banking's earliest chapter

Research by an Italian academic could lead to the history of capitalism being rewritten. Vincent Boland reports

On March 2 1408, eight men gathered in the great hall of the Casa di San Giorgio, a trading house on what was then the main street in Genoa, a few metres from the shore of the Ligurian Sea. They were merchants – rich and powerful representatives of the city's most influential families – and they were meeting to discuss a matter of the utmost gravity. The once-glorious republic of Genoa had fallen on hard times. After years of war with Venice and a crushing defeat at the battle of Chioggia in 1381, the state was effectively bankrupt. The task was to rescue it.

A few months earlier, towards the end of 1407, Genoa's Council of Ancients had authorised the Casa di San Giorgio to carry out this job. It would be accomplished by creating a bank that would facilitate the repayment of Genoa's debts in return for interest at 7 per cent and the right to collect taxes and customs owed to the city. The purpose of the meeting that spring day was to declare the Banco di San Giorgio open for business.

The great hall, an enormous room on the first floor, is part of the Casa's original building that survives today. It is lined by a gallery of statues of the Casa founders and their successors, who, to all intents and purposes, were the forerunners of today's merchant bankers. Literally, they were merchants who made themselves bankers. At least one of them – Rabella de Grimaldis – was a member of a dynasty that survives to this day. The Banco di San Giorgio would, in time, become as powerful as the republic that created it – more powerful, according to Niccolò Machiavelli. It would survive for nearly 400 years. It would become the world's first modern public bank, not just a forerunner of the Bank of England but its prototype. From the 15th to the 18th century its coffers were filled with the riches of Genoese capitalists all over Europe. Christopher Columbus, Genoa's most illustrious son, would be a customer.

Given its origins, purpose and longevity, one would expect the Banco di San Giorgio to be more celebrated than it is. Yet almost nobody today knows that it existed at all. In histories of modern banking and finance, Italy's pioneering role is widely acknowledged and the city of Genoa, which had a more advanced banking infrastructure than Venice or Florence, usually gets its due. But the Banco di San Giorgio hardly gets a mention. In *The Ascent of Money*, his wide-ranging history of finance, Niall Ferguson makes one reference to it. Tim Parks, the author of *Medici Money*, an account of the rise and fall of the Medici family and its financial empire in Florence in the 15th century, doesn't refer to it at all. Nor does J.K. Galbraith, the American economist, in *A History of Economics*.

There are a couple of reasons for this lacuna but the most important is that the bank's archives, which have lain mostly unexplored at various locations around Genoa for more than two centuries, were not readily accessible. These records – thousands of books, ledgers and statements documenting nearly every transaction that the Banco di San Giorgio undertook between its incorporation in 1407 and 1805, when it was shut down – are written in Latin, in a beautiful script that appears to have changed little over four centuries. Parts of the archive's most striking and illuminating texts – including a letter, dated 1502, from Columbus to the bank's officers – are stored in a handsome former convent that houses the Genoese state archives in a side street atop a steep rise, where the city reaches up to look out over the sea. The bulk of the bank's records are elsewhere – in a chilly, dimly lit warehouse on the outskirts of the city.

For the past 30 years, Giuseppe Felloni has devoted much of his time to a study of the bank's archives – uncovering and cataloguing nearly 40,000 books that amount to a day-to-day record of its existence. Felloni is fluent in Latin, and can read the tiny script and follow the impenetrable internal logic of the transactions. Now that his obsessive scholarship has been completed, he is intent on restoring the Banco di San Giorgio to its rightful place, as he sees it, in the history books.

Felloni contends that what he has discovered will transform our understanding of the origins of modern finance, and perhaps even of capitalism itself. Many of the concepts and practices that are commonplace today were, he argues, pioneered or improved upon by the Banco di San Giorgio. They include the issuing and management of government debt, double-entry book-keeping, sinking funds – funds into which payments are made so that a particular debt can be repaid – the role in financial transactions of the clearing house, which wasn't adapted in England until the 18th century.

The Banco di San Giorgio was the not the first bank to be established in Europe. A form of banking had been practised in Genoa and elsewhere in Italy since the middle of the 12th century. In 1401, a bank – the Taula de la Ciutat – was founded in Barcelona, in effect to act as the treasury of the government of Catalonia. The Medici are generally regarded – and, Felloni argues, mistakenly – in the Anglo-Saxon world, as



**Dedication** Giuseppe Felloni has spent 30 years studying and cataloguing the archives of the Banco di San Giorgio, which include (below) the first entry in the Genoese bank's earliest ledger after it was set up in 1408

Photos by Charlie Bibby

the summit of Italian achievement in banking and finance. But, says Felloni, were historians to visit the archives of the Banco di San Giorgio, they would have to return to their universities and rewrite their histories to give this institution its due.

Felloni turned 80 in March. Tall and slim, with a full head of grey hair and exceptional manners, he is an emeritus professor at the University of Genoa, where he has taught the history of economics for much of his career. In 2004, he first published his discoveries in a book co-authored with his collaborator Guido Laura, titled, somewhat tentatively, *Genoa and the History of Finance: A Series of Firsts?* "Of course, you can write a history of modern finance without visiting the archives of the Banco di San Giorgio, and it has been done," Felloni told me as we stood in the rain on Genoa's seafront outside the building that used to house the Casa di San Giorgio. "If you read English histories, the sinking fund was an English invention. But it was being practised in Genoa 400 years earlier, and now that we have opened the archive, the evidence is here for all to see. The Banco di San Giorgio invented many of the instruments that are still practised today, and the archives prove that."

I spent three days with Felloni on three visits to Genoa. Once or twice I got the impression that he was hesitant about his archive findings, as if they might be a little late and a little too arcane to insist on their importance to an indifferent world. Guido Laura, who introduced me to Felloni, seems to recognise the professor's hesitation. Acting as a sort of Boswell to Felloni's Johnson, the younger man is pushing Felloni to write an entirely new history of the origins of banking that would put these findings at the centre of the story. "Don't you think that would be a good idea?" Laura, a businessman who divides his time between Genoa and London, asked me as we drove in Felloni's car from one archive to the other.

Felloni is not arguing that existing accounts of the emergence of modern finance are inaccurate. His point is that they are incomplete. In the introduction to his book, Felloni writes: "Regarding Genoa's claims to being first... my greatest wish is that these claims should lead to further research elsewhere. Whatever the findings might be – favourable to these theses or not – such research would serve only to further enrich and benefit our historical knowledge."

At the heart of Felloni's argument is his feeling – one that I feel may be shared among Italian historians – that British and American accounts of the history of banking give too little credit to the diverse origins of modern banking in Italy, and especially in the Genoa of the Middle Ages, and too much credit to Florence in the age of the Medici. Felloni is adamant that Genoa and Venice were far more important as banking centres in the 15th century than Florence. Indeed, as Tim Parks has written: "The Medici invented nothing in banking practice."

The Medici family bank was founded even before the Banco di San Giorgio, in 1397, and it collapsed in 1494. But the family's lasting creation may be the myth of itself. The Medici were not just brilliant, wealthy, ruth-

less and powerful; they were a seriously dysfunctional family. This may explain why they offer such rich material for historians and novelists. (See especially *April Blood*, by historian Lauro Martines, an account of the plot, led by the Pazzi family but also involving the king of Naples and Pope Sixtus IV, to wipe out the Medici family in 1478.)

**The Banco di San Giorgio was not a family.** It was an institution, bound by secrecy and rules, without any dominant personality. The men who ran it for almost its entire history were public figures, yet little is known of their lives: the bank is the hero of its own story. What is known is that in a short space of time, it became so entwined with the republic of Genoa that the bank and the state were indistinguishable. Machiavelli described the relationship as "a state within a state". The Banco di San Giorgio grew so influential that it replaced the Fuggers, the German banking dynasty, as the source of financing for Europe's cash-starved, perpetually warring monarchs. A century and a half after it was created, it had restored Genoa's power as a maritime state to such an extent that the period from 1557 to 1627 was termed the Age of Genoa by Fernand Braudel, the great French historian (Felloni was his student).

The bank was able to do this because the circumstances in which it operated were particular to Genoa. It was not the personalities who ran the bank who were dysfunctional, but the state that had called it into being. Genoa in the 1400s was a peculiar place. Although it was a republic, it was run by aristocrats, and not well, and institutionally it was weaker than Venice or Florence. The Banco di San Giorgio gradually ended this state of affairs, through a creeping takeover of the republic. This is what Machiavelli meant. It is, scholars say, why the history books tend to look askance at the bank:

**The Banco di San Giorgio would become the world's first modern public bank, not just a forerunner of the Bank of England but its prototype**

its corporatist *modus operandi* tends to cloud everything else. "History would tell us that here is a set of bankers who bled the state to death," observes Michele Fratianni, a professor at the Kelley School of Business at Indiana University who has written extensively about the history of Italian finance.

Felloni says the archival discoveries he has made will overturn this negative portrayal of the Banco di San Giorgio. Indeed, he argues that its evolution into Machiavelli's "state within a state" – to the point where it was entrusted, in the style of the East India Company (but, again, centuries before it), with managing some of Genoa's colonies, including Corsica – was the catalyst for the bank's innovations. "Before the Banco di San Giorgio, a bank was a wealthy person," he says. "After the Banco di San Giorgio, a bank was an institution."

The bank's genius could not, alas, guarantee its own permanence. Though it survived many crises in its 398 years of existence – it even closed its doors to public transactions between 1445 and 1530 to serve exclusively as the state's banker – it folded in 1805, a few years after Napoleon invaded Italy and began to suppress independent banking.

Today, the office of the Casa di San Giorgio still houses the city's port authority, its magnificently frescoed façade studiously ignoring a hideous elevated motorway that almost cuts the city off from the water. But it is the Banco di San Giorgio's legacy that is in dispute, not its historical location. Is Felloni right that it has been unfairly and incorrectly ignored or downplayed? Riccardo Garrone, chief executive of the latter-day Banco di San Giorgio, which he founded in Genoa in the 1980s and named after its illustrious predecessor, has helped to pay for his friend Felloni's research. He is in no doubt about the importance of the discoveries. "The story of the Banco di San Giorgio is the story of banking in Europe," he told me.

Michele Fratianni is a little more circumspect. Genoa, he said, undoubtedly had financial acumen greater than that of either Venice or Florence. But he cautions that the lack of prominence that the bank receives in Anglo-Saxon chronicles may be a reflection of "Anglo-Saxon egocentrism". "The case [Felloni] is making is true of the Banco di San Giorgio and it is true for lots of other things, as well," he says. "You have to bear in mind that the archive has only just been opened."

Felloni shrugs. His work is largely done. But he has something to show me. We had been discussing the state of the modern banking system as it collapses all around us. For a historian, he takes a surprisingly utilitarian view of his subject. A bank, he says, is a simple creation. It merely stands between the depositor and the borrower. "Each is defined by a credit relationship," he says. "All these elements must be in equilibrium. That's how a bank survives."

On that rainy day in Genoa, he led me down several dark corridors in the warehouse where the bulk of the Banco di San Giorgio's archive is stored. The book he eventually pulled out was a manual from 1567 setting the regulations for appointing treasurers to run the bank. "These were very strict rules, and they are why the bank lasted as long as it did," Felloni said. "The Banco di San Giorgio was a far more sophisticated institution than any other bank. That's why people trusted it." The first stipulation was that a candidate – were elected by lottery – had to be at least 30 years of age. He then had to lodge 16,000 lire (worth about €275,000 in today's money) with the bank – it was raised to 40,000 lire in 1634 – and to provide the names of sponsors who would guarantee a further 90,000 lire for the duration of the treasurer's six-month tenure. It seems that in those days you had to pay the bank in order to run it, rather than the other way around.

Vincent Boland is the FT's Milan correspondent. Felloni's book can be downloaded at [www.giuseppefelloni.it](http://www.giuseppefelloni.it). A virtual tour of the archive will eventually be available at [www.lacasadisangiorgio.it](http://www.lacasadisangiorgio.it)

