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Contents

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24

*“The story of the
Banco di San
Giorgio is the
story of banking
in Europe”*

Banking: *the first chapter*

Why research by an Italian academic could lead to the history of capitalism being rewritten. By *Vincent Boland*



Photographs by
Charlie Bibby

The first entry in the Banco di San Giorgio's earliest ledger - the bank was set up in 1408 to facilitate the repayment of Genoa's debts



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 where the waters of the Ligurian Sea lap the Italian shore. 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.

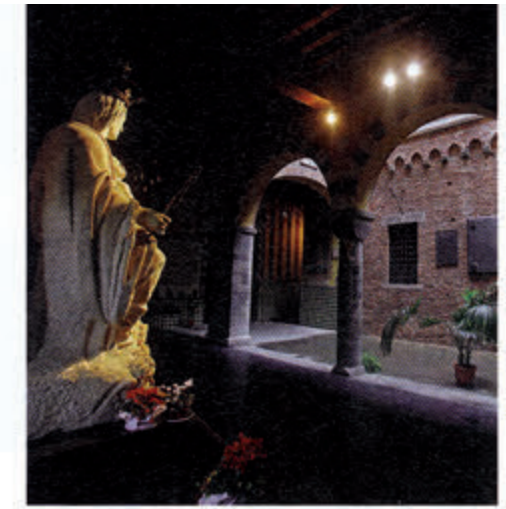
A few months earlier, towards the end of 1407, Genoa's Council of Ancients had authorised the Casa di San Giorgio to carry out this job. It would be accomplished by creating a bank that would facilitate the repayment of Genoa's debts in return for interest at 7 per cent and the right to collect taxes 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 di San Giorgio's original building that survives today. It is lined by a gallery of statues of the founders of the Casa 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 what it did, or 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



(Clockwise from left) Giuseppe Felloni has spent 30 years studying and cataloguing the archives of the Banco di San Giorgio; the original redbrick building that housed the bank; the bank's charges for the provision of certain services were set in marble



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, folios and statements documenting nearly every transaction that the Banco di San Giorgio undertook between 1407, when it was incorporated, 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 little 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 the collection of nearly 40,000 books that amount to a day-to-day record of its existence. Felloni is fluent in Latin, and he can read the tiny script and follow the impenetrable internal logic of the transactions. And 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.

IT IS FELLONI'S CONTENTION THAT WHAT HE HAS DISCOVERED IN THESE ARCHIVES WILL TRANSFORM OUR UNDERSTANDING OF THE ORIGINS OF MODERN FINANCE AND BANKING, and perhaps even of capitalism itself. Many of the concepts and practices that are commonplace today were, Felloni 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, and the organisation and conduct of lotteries.

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, certainly - and, Felloni argues, mistakenly - in the Anglo-Saxon world, as 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 of the making of the modern world to give this institution its due.

Giuseppe 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 academic 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?* It can be downloaded at his personal website - and he has created another site that will eventually offer a virtual tour of the archive's most striking exhibits.

"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 recently 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."

Felloni lists 10 innovations [see chart, page 29] documented in the records of the bank and elsewhere in the Genoese state archives that he regards as pioneering.

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These innovations contain, as he puts it, "the embryos of several financial institutions still in existence today".

Felloni speaks carefully and fluently about his discoveries, yet he can come across as shy. I spent three days with him on three visits to Genoa. Once or twice I got the impression that he was hesitant about what he has seen in the archives, as if the findings might be a little late and a little too arcane to insist on their importance to an indifferent world, and that it was sufficient that he himself acknowledge what he has found.

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 his findings from the archives 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 one day 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 I have the impression is 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, ruthless and powerful; they were a seriously dysfunctional family. This may



(Clockwise from right) the office of the Casa di San Giorgio, on the Genoa seafront, its magnificent frescoes have been maintained over the years; some of the bank's original books, ledgers, folios and statements; the original lottery machine - in the grand hall of the Casa di San Giorgio, used by the bank for selecting officials



explain why they offer such rich material for historians and novelists. (See especially *April Blood*, an account by the historian Lauro Martines of the plot, led by the Pazzi family but involving many others, including 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 Genoese power and influence as a maritime and commercial 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 Banco di San Giorgio 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: 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 the evolution of the bank 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 genius of the Banco di San Giorgio, alas, could not 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 in order 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 activity.

Today, the office of the Casa di San Giorgio still houses the city's port authority, its magnificently frescoed facade studiously ignoring a hideous elevated motorway that almost cuts the city off from the water. But it is the legacy of the Banco di San Giorgio that is in dispute, not its historical location. Is Felloni right that it has been unfairly and, for the historical record, incorrectly ignored or diminished 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.

"Before the Banco di San Giorgio, a bank was a wealthy person. [Afterwards] a bank was an institution"

Michele Fratianni is a little more circumspect. Genoa, he said, was undoubtedly the most brilliant of Italy's three pre-eminent Renaissance republics. Its financial acumen was greater than that of either Venice or Florence. "Genoa was the queen of finance," Fratianni says. But he cautions that the lack of prominence the Banco di San Giorgio receives in Anglo-Saxon chronicles is not necessarily specific to the institution and may simply 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."

Niall Ferguson, too, is guarded. Despite only one mention of the Banco di San Giorgio in *The Ascent of Money*, he includes ample reference to the pioneering role of Genoa. In an exchange of e-mails, Ferguson told me the Banco di San Giorgio was "a hugely important institution, there is no doubt". The reason it was largely overlooked in the book, he said, was because the book itself is based on a television series he did for Channel 4 in Britain, and the demands of television meant that only one beautiful Italian city could be visited during filming. Genoa, handsome as it is, would seem still to be in the shadow of Florence.

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 rules and 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 - they 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. A virtual tour of the archive will eventually be available at www.lacasadisangiorgio.it

10 innovations by the Banco di San Giorgio:

1 Public debt: has been financed by taxes for a thousand years, and was first documented in Genoa. Other Italian republics followed the Genoese example, as did Europe gradually from the 16th century.

2 Government bonds: issued by a government in the currency of its country. These have grown to become a common method of raising finance, and are now one of the world's biggest financial markets.

3 Public debt reforms: Genoa reformed its public debt issuance by either lowering the interest rate it paid or by raising taxes. Again, these methods are common today when governments try to reform or reduce a country's public debt.

4 Casa di San Giorgio and the Banco di San Giorgio: the earliest and perhaps the most striking example of a powerful creditor dominating a weak debtor. But the relationship was a deeply symbiotic one: the BSG and the Casa never foreclosed on their debtor because their survival depended on the survival of the state. The republic of Genoa of which the Casa and the Banco were the central institutions survived for about three centuries.

5 Discount of public debt coupons: first applied in Genoa in the 15th century, with the permission of the Church. It has developed as a policy tool in the stimulation of the economy.

6 Debt repayment and sinking funds: a sinking fund is a fund into which periodic payments are made in order to be able to repay a debt when the time comes. Some sources cite its first use in Great Britain in the 18th century, but as Felloni argues, "it was being used in Genoa four centuries earlier". It is still a means of repaying debt.

7 Double-entry book-keeping and accounting: double-entry "rationalises public and private accounting", Felloni says, by structuring it in logical fashion. It has become the standard way of presenting accounts, whether public or private.

8 Lotteries and elections: the BSG archives show that the lottery was being used for the purposes of selecting officials two centuries earlier than previously thought. A good example of an early type of democracy, especially in seeking to manage a bureaucratic institution such as the BSG.

9 Clearing house: helps to balance and settle a market. Was first used in Genoa, and then not until the England of the 18th century. It has become central to all modern financial markets, and works perfectly in markets where no money changes hands or needs to change hands. It was particularly useful in Genoa, which, at the time, was a coin economy.

10 Protection of capital: many Genoese invested in the BSG because they wanted to make more money. It was, in those days, the safest way to multiply money.