

The self-conception of the bourgeoisie and the new money market

For centuries, the world was ruled either by people with weapons or by the clergy threatening with hell. But then enter the bourgeoisie with its rather worldly expectations of a good profit. This picture tour traces how trade changed the world and which financial tools were developed to do so. We will cover a time period from around AD 1100 to 1300.

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Generosity versus profitability

The noble knight does not care for economics. He gives until there is nothing left to give. His generosity is his glory. Dealing with money matters is below his rank. The new merchant class profits from this attitude. They are happy to loan the necessary money because the nobility has many sources of income available for pawning. So they raise loans on tax yields and customs; they buy them cheap and in advance. And the nobles? They don't understand why their incomes are shrinking, while, at the same time, making an appearance that is befitting one's rank costs more and more.



Frederick I (1122-1190) confirms the pawning of the estate Lantershoven. Munich, University Library – 0900/ND 4800 5891-2 / CC BY-NC-SA 4.0

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Zurich buys its freedom

The nobility pays for their luxurious lifestyle with their power. Also in Zurich. Here, a high-income class is developing, which takes an increasingly powerful place next to the Reichsvogt and the abbot. Soon the citizens of Zurich take matters into their own hands and gain imperial immediacy in 1219 at the latest. Which means that only the emperor himself could give them orders. This privileged position is threatened. Because some aristocrats, too, are versed in the game of money. So the Habsburgs offer Emperor Ludwig of Bavaria 200,000 marks of silver for Zurich, St Gallen, Schaffhausen, and Rheinfelden, cash. The towns, however, are equally able to raise that sum. St Gallen, Schaffhausen, Rheinfelden and Zurich pay the sum themselves and retain their freedom.



Frederick II (1194-1250) confirms Zurich's imperial immediacy on January 11, 1219.

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Sizeable sums

200,000 marks of silver! The mark, mind you, taken as the Zurich mark of 234.71535 gram. So the emperor extorts close to 50 tons of silver from the four wealthy towns! Just to give you an idea of the dimension of this: The ransom for Richard the Lionheart that the English Crown was asked to pay in 1193 amounted to exactly half as much and was never raised in full! So four Swiss towns are richer than the English Crown. But where do the citizens get their money?



Zurich. Vierzipfliger Pfennig, 13th century. From Sincona auction sale 44 (2017), No. 6017.

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Expanding businesses – salt

Of course trade never really disappeared from Europe entirely. Individual venturesome men still move from town to town in the early Middle Ages and make a living selling that which the landlord cannot produce by himself on the farm. That includes above all salt. Because salt is of crucial importance. In an epoch without refrigerator it is the only means to preserve fish and meat over long periods of time. No wonder that countless merchants are soon spreading out from the salt-producing towns. And where are those towns located? At the coast, of course.



Coastal regions still produce salt today: yields from seawater salt works in Motya/ Sicily. Photo: KW.

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Expanding businesses – corn

At the same time, the sea is the best transportation route. The Roman streets are run-down and the merchants can only drive their ox carts on them with difficulty. So small, salt-laden ships sail along the coasts and up the rivers into the heartland. They also deliver salted fish, which the monasteries take off them all too willingly. After all, meat is forbidden on fast days and salted fish a wonderful replacement. Salt and fish are traded in for corn. Everybody produces corn. Everybody needs it. Sometimes more, sometimes less. Because, in the Middle Ages, the harvest depends on the weather. That makes this year's producer next year's buyer. Merchants are venturing ever farther along the coasts and rivers, learning where the best and the cheapest goods of any kind can be had.



Salt merchants in Paris. Historical painting from the 15th century.

06 The self-conception of the bourgeoisie and the new money market Why the modern financial economy was invented in Italy

Luxury goods are bought in the Muslim trade centres of Africa and the Middle East. Sicily is only a good 200 km from the African coast, a breeze for any good seaman. What lures him there are spices from Asia, fabric from Isfahan, gold from Sudan. The Eastern bazaars offer everything a nobleman would like to have to flaunt his wealth. But trade is not one-directional. The merchants learn quickly which goods are coveted in Alexandria and Tunis: wood and slaves. There is a reason why two Venetian vaporetto stations are still called “Zattere” (construction wood) and “Riva degli Schiavoni” (river bank of the Slavs, who provided most of the slaves). Genoa, Pisa, Venice, they are all doing big business with the East. And big business requires large capital expenditures. In order to raise this capital, new methods of financing are developed.



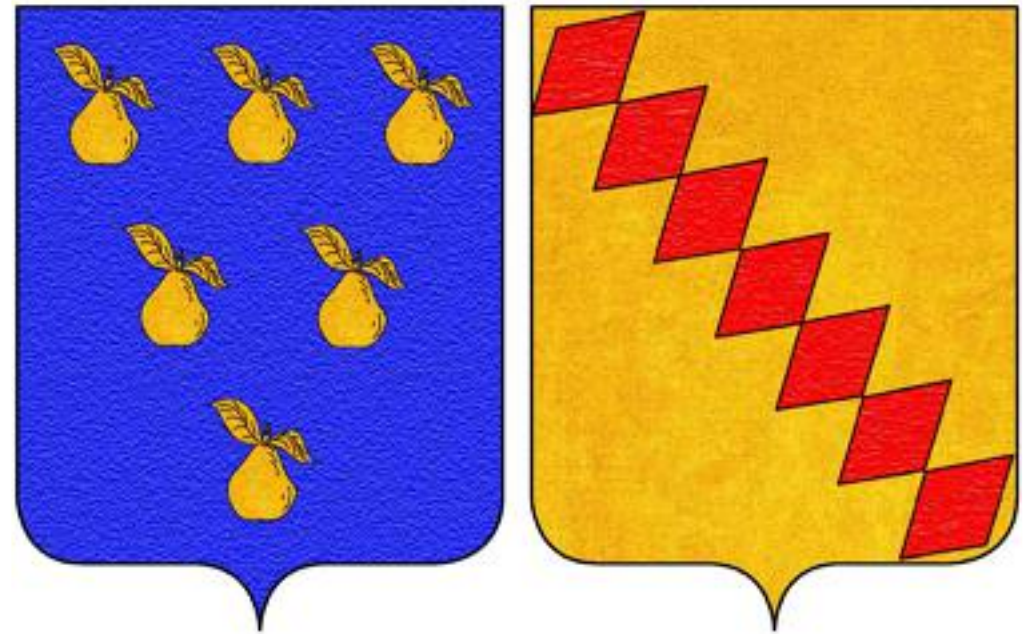
Venice cityscape. Nuremberg Chronicle, 1493.

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Fraterna compagnia and commenda

It's the easiest thing in the world: If a successful merchant dies, his sons take over the business. It then turns into a "fraterna compagnia", a trading company jointly managed by brothers. And their sons. And their nephews and cousins. In brief, the family plays an important role when it comes to distributing the tasks in a trading company. But what if there are not enough sons? If a rich investor has more money than he can invest in his relatives' businesses? In that case, there is the "commenda": A settled merchant collaborates with a travelling merchant. The latter provides a quarter, the investor three quarters of the capital. The generated profit is split in half. This way both parties benefit from the deal.



Coats of arms of two important trading companies in the 13th century: the Peruzzi (left) and the Bardi (right).

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The self-conception of the bourgeoisie and the new money market Venice's merchant fleet

Against this background a special form of trading develops in Venice, the *mude*, in which state and citizens cooperate as best as they can. The government provides the fleet, the investor buys the freight hold required for his trading ventures at auction. The ship's cargo is divided into 24 normed shares. If you are rich, you buy several shares. If you want to invest only a few ducats, you get together with others and jointly buy a single share. And of course you do that on as many different ships as possible, to minimize the risk.



Wooden galley model. Venice, Museo Storico Navale.

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A European trade network

The Venetian ships travel not only to the orient and to Africa. They transport their goods to the most important trade centres in Europe: The galleys sail to Palermo and Cadiz, to Lisbon, Antwerp, and London. They travel Istanbul and Trebizond and Kiev. And in all these towns there are Venetian colonies, in which permanent agents have settled, who buy and sell their goods then when profits are biggest. Of course the most important trading partners of Venice also have branch offices in the town. In the Fondaco dei Turchi and in the Fondaco dei Tedeschi. Not only the Venetians have agencies in Europe's most important trade centres. The competition from Genoa, Florence, and other merchant cities from the East are not twiddling their thumbs either. The steelyard in London, for instance, houses the Hanseatic League, which is doing business there.



Fondaco dei Turchi / Venice. Photo: Didier Descouens / CC-BY-SA 4.0

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Knowledge is power (or money? or both?)

Merchant families happily send their offspring to such foreign bases so that they can learn the trade there. A good merchant is well-travelled and knows where to buy which goods at the best price and in which currency he needs to pay. And for those who haven't travelled all the countries of the world, there are books, in which they can look up the missing information. The most famous guidebook for merchants is written by Marco Polo. In it, he indicates which currency – cowry shells, silver or paper money – is used to pay in each Chinese town and how the tax system works; just the kind of information in which every merchant is interested. That he also casually relates a few anecdotes makes his book “Il Milione” a bestseller.



Marco Polo reaches Hormuz on the Persian Gulf with elephants and camels, on his way from India. Illustration from “Il Milione” (Ms Fr 2810 f.14v), around 1410–1412. Bibliotheque Nationale, Paris.

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What really matters: Trade privileges

A merchant could make such beautiful profits if it weren't for the princes who exercise their power monopoly to make his life harder with taxes, fees, and duties. Fortunately all these princes are regularly at war and buy more luxury goods than they can afford so that they are constantly in debt. They then approach the merchant and want to borrow money from him. In return he receives something more valuable than interest. He receives privileges, which offers him an advantage in the battle for the largest profit. Sometimes it's a waiver of harbour taxes, sometimes a monopoly on a specific good, sometimes a share in the prince's income, sold in advance. The merchant always makes a profit, as long as he doesn't bet on the wrong horse. But if the prince refuses to pay back the credit, or worse, if he is killed at war, even large trading houses have to declare bankruptcy.



The bankruptcy of Edward III in 1340 was the end of the Florentine banking houses of the Bardi and the Peruzzi.

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Local hubs

We've reached the High Middle Ages. Sometime between 1150 and 1350. Not only in Venice, Istanbul, and London business is booming. Many towns turn into regional trade hubs around this time, especially if they're located on important trade routes. St Gallen produces precious fustian, which flies off the shelves on the markets in the Champagne and in Venice. Anyone going up the Rhine needs to reload his cargo from one ship to another at the Rhine Falls in Schaffhausen. A splendid opportunity to close a lucrative deal. And since Roman times an important trade route to the south leads across Lake Zurich. Here, too, the merchants are rich. Perhaps not as rich as those in Venice. And certainly not rich enough to pay 200,000 marks of silver in cash to the Emperor Ludwig of Bavaria. But rich enough that others are willing to lend them what's missing to raise the 200,000 marks.



View of Schaffhausen, probably in the summer of 1546. Woodcut from the Stumpf Chronik, 1548.

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The foundation of modern business life: the credit

After all, merchants can be as rich as they come, they will still need cash from time to time. And it doesn't even take an impertinent demand from the emperor for that. Maybe there's the chance to close a lucrative deal, but the old goods aren't sold yet. Maybe the merchant is a few hundred ducats short of financing a share of a large cargo. Or of building a mill. Or the daughter is getting married, the dowry is due, but no buyer for the land you intended to sell shows up on the spot.



Florentine bankers waiting for clients.

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Of human needs and divine laws

Many rich merchants urgently need short-term loans of cash. And they would be happy to pay interest on the money. And there's no shortage of people wanting to invest their money at a reasonable interest rate either. So why do those who mediate between creditors and investors have such a bad reputation in the Middle Ages? To understand that, we need to turn to the Church and what it calls usura, usury. But that's a topic for the next picture tour.



Matre Franois, Allegory of the deadly sins. Painting, 1463. Riding on the panther, the symbol of greed, is a usurer with a heavy bag of money on his belt.