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THE BANK OF VENICE.

AN often repeated and long accepted legend respecting the origin of the Bank of Venice carries back the history of that remarkable institution to the latter part of the twelfth century. A public debt, contracted not far from 1171, is said to have been made transferable like a modern registered debt, then to have been found useful as a medium of payment, to have become the nucleus of a system of deposits and transfers of money, and so to have developed into a bank of deposit of the primitive type, holding a place of great though variable importance in European commerce for more than six centuries. With this legend have been joined confused and often contradictory statements as to a "money of account" of mysterious nature created by the bank, and the superiority of this "imaginary money" to actual cash in hand. Owing, perhaps, to the aversion of the Venetian government to anything like publicity in the management of its business, even the Venetian historians were sometimes misled by the tradition; and it is, therefore, not surprising that writers in other countries followed it with little question.

The researches of Lattes and Ferrara in the archives of the Frari destroyed the familiar legend twenty years ago; and the date and manner of the establishment of the Bank of Venice were then settled as definitely as the chartering of the Bank of England. The traditional fable has perhaps been more persistent in English than in any other language, still holding its place in the most recent encyclopædias, English and American; * but elsewhere it is effect-

* McLeod, *Dictionary of Political Economy*, p. 69, rejects the fabled connection of the Venetian *monti* of the twelfth and succeeding centuries with the beginning of public banking in 1587; but his erudition has often failed to command proper attention.

ually discredited, and ceases to adorn the history of mediæval banking. It would hardly be worth while, then, to revive the subject here, were it not for the light which the documentary evidence throws upon the early practice of private banking in Venice and upon the place which the public bank and its credit really held in the commercial organization of the city for the last two centuries of Venetian independence.

The leading documents relating to this subject, which are now within reach of the public, may be classified as follows:—

1. A series of acts of the Venetian Senate, nearly forty in number, ranging from the year 1270 to 1530 and regulating the business of private bankers, brought to light by Professor Elia Lattes, and reprinted by him, apparently with great fidelity to the text of the original records, in his work, *La Libertà delle Banche a Venezia dal secolo XIII. al XVII.*, published at Milan in 1869.

2. A mass of original papers relating to Venetian private banks from the fourteenth century to the end of the sixteenth, collected from public and private sources by Professor F. Ferrara, and published by him in part in the *Archivio Veneto* for 1871, and also used by him as material for a paper on the ancient banks in Venice, published in the *Nuova Antologia* for January and February, 1871.*

3. The acts of the Venetian Senate of 1584 and 1587, under which the first public bank in that city, the Banco di Rialto, was established; several other acts regulating the affairs of that bank; a speech made in the Senate, in 1584, by Tommaso Contarini, in favor of establishing a public bank; and a speech, by an unknown senator, opposing such an establishment. These are collected and printed with great care by Lattes.

* Ferrara explains with great frankness that, in his introduction of Volume VI., 2d Series, of the *Biblioteca degli Economisti*, he had himself helped to propagate the *favole* which Lattes destroyed by irrefragable proofs. See especially Ferrara's "Avvertenza Preliminare," in the *Archivio Veneto*, vol. i.

4. The act of the Senate of May 3, 1619, establishing by the side of the Banco di Rialto a second public bank, known as the Bancogiro, or Banco del Giro, which ultimately became the only public bank of the city and was famous throughout Europe for generations as the Bank of Venice. This act is also given by Lattes.*

5. The rules and regulations of the Bancogiro, put in force by the Senate and published by its authority in 1663, and also given by Marperger, in his *Beschreibung der Banquen*.

6. A discourse upon the Bancogiro communicated by the French ambassador in Venice to his own government in 1786, and referred to by Daru in his *Histoire de Venise*, but now printed for the first time in the Appendix of the present number, and containing the fullest contemporary account yet published of the bank and its methods in the last years of its existence.

These documents present a distinct picture of banking in its true sense, as an entirely spontaneous growth during the flourishing period of Venetian commerce, carried on by private individuals, and exhibiting the mixture of advantages and abuses which have been its familiar results in every country and age; and they also show the Bank of Venice to have been established, not by gradual development or chance, but by deliberate purpose, in order to take under the guarantee of public authority some of the functions which for two hundred and seventy years or more had been performed by private bankers.

It is tolerably clear that private banking in Venice began as an adjunct of the business of the *campsores*, or dealers in foreign moneys. In a city having a great and varied trade with many countries, these dealers necessarily held an important place, close to the stream of payments which was constantly in motion. As early as 1270 it was

* A translation may be found in the Appendix.

deemed necessary to require them to give security to the government as the condition of carrying on their business, but it is not shown that they were then receiving deposits. In an act of September 24, 1318, however, entitled "Banherii scriptae dent plegiaras consulibus," the receipt of deposits by the *campsores* is recognized as an existing practice, and provision is made for better security for the benefit of depositors.* Whether the title of this act is contemporary or not, its text shows that somewhere between 1270 and 1318 the money-changers of Venice were becoming bankers, by a method similar to that by which the same class of men in Amsterdam a couple of centuries later, and later still the London goldsmiths, became bankers. More than once in the next half-century provision was made for some public oversight of the *campsores*, and in the acts the terms *banherius* and *bancus* became frequent in what seems to be a technical use. The number of bankers appears finally to have become considerable; † and the terms *bancus scriptae* and *banherius scriptae* came into use in the sense which, in their Italian equivalents (as *banco di scritta* or *banco di scrittura*), they held for centuries, denoting the banker who keeps written accounts of transferable deposits.

The documents brought to light by Lattes and by Ferrara give us the names and tell something of the chequered

*The acts of March 8, 1270, and September 24, 1318, are given by Lattes, pp. 28, 26. Lattes thinks that the "natural scope" of the former covers security for depositors. The opinion of Ferrara is to the contrary (*Nuova Antologia*, January, 1871, p. 183); and it does not appear that any direct evidence has been found to show that in 1270 the *campsores* were receiving deposits, although the occasional possession and use of money belonging to others must have become an incident of their business very early.

† This is to be inferred from the language, explicit, if not classical, of the act of August, 1374, giving the bad condition of the banks as a reason for placing them under the charge *quinque sapientum*: "Quia est providendum de necessitate pro bono terrae nostrae et mercatorum et mercationum etiam nostri communis super facto banorum Rivoalti, quae non possent stare in peiori termino eo quod sunt ad praesens Consideratis damnis et incommodis, quae fiunt toti terrae," etc. See Lattes, p. 33.

fortunes of a considerable number of these private banks which flourished between 1348 and 1584. Some of them belonged to families or men of high standing, as the banks of Soranzo, Priuli, Pisani, Lippomano, Vendramin, Sanudo, and of Pisani and Tiepolo; some of them stood in close relations and high favor with the government of the day; several of them went through the phases of failure, reorganization, and resumption more than once; and, in fine, of the banks now known by name Ferrara was only able to find one, the house of Soranzo, which after an existence of over a century closed its affairs by payment in full,— *a trombe e pifferi*. The list as we now have it comprises rather more than twenty names, including probably the most important. But the speech of Tommaso Contarini in 1584* sets the number of banks known to have existed at one hundred and three, “of which ninety-six have come to a bad end and only seven have succeeded.” And yet, notwithstanding a train of disasters nearly two centuries and a half long, the service rendered by the banks to commerce had been such, on the whole, as to lead Contarini to argue that to preserve the trade of the city without banking was not only difficult, but impossible.

A series of acts beginning in the fourteenth century and running through the fifteenth and sixteenth show plainly that this service was rendered by means of deposit accounts. How early the convenience of making payments by transfers on the books of a banker was understood there is nothing to show. An act of 1403 † recites that great sums are placed in the hands of the *bancherii scriptae*; and an act of 1421 ‡ deals with some evils which had arisen, in terms which imply not only the receipt and payment of deposits, but their use in payment of bills of exchange. In 1445 § it was thought necessary to require the bankers to be present daily for a certain number of hours, and a penalty was imposed *se non sentaranno et scriveranno* as

* See Lattes, p. 124. † *Ibid.*, p. 44. ‡ *Ibid.*, p. 47. § *Ibid.*, p. 56.

required, in consequence of the loss to merchants occasioned by their irregularity. Passing by numerous acts for regulating or reforming the banks, we come to an act of 1526, entitled "Ordinationes circa bancos a scripta," and evidently designed to restore regularity and honesty in a long-established business. In this act we find the following provisions,* showing distinctly the form which banking transactions had then taken:—

7. It shall be free for every one to accept or not accept a credit in bank (*partida de banco*) for contracts made heretofore; but this shall not be refused for those made hereafter, unless by express agreement it shall have been declared that payment shall be made outside of bank.

8. Credit in bank shall not be written off to any one for any amount in his absence; but credits shall be written with both parties present.

9. Bankers, as aforesaid, must pay, to those who wish, in cash at once and in hand their money in good and heavy gold, or good moneys at the market rates, or rates current at our offices; and, if any should refuse, they shall be subject to the penalty of twenty-five ducats, and the *proveditor* then present shall none the less make them pay.

But the language in which Contarini discusses the usage of Venetian merchants is enough to show that in 1584 the transfer of credit had long been an important means of payment. A comparison made by him with the practice at Antwerp and at the Lyons fair makes it certain also that, in his mind, the convenience to be obtained by the use of credit did not arise from any such substitution of credit for money as should enable the community to dispense with any part of its stock of cash, but from the simple fact that the transfer in bank saved the necessity of counting coin and of its manual delivery in every transaction. The coin itself had been deposited as the foundation of the credit, and was to be paid on delivery: the creation of a credit without such deposit was in his view an abuse; but payments could be made by the transfer of

* Lattes, p. 91.

the right of the depositor to demand, with such facility as to enable merchants to carry on dealings to an extent otherwise impossible. "Buyer and seller are satisfied in a moment, while the pen moves over the page: whereas a day would not be enough to complete the contract for a great mass of merchandise by counting a great number of coins." To this simple but important use of bank credit the Venetian Senate was unable to restrict the private bankers; and it was to secure the advantage of payment in this convenient form, without the risks of private mismanagement, that, as we shall see, the public bank was afterwards established.

The nature of the case, however, gave a much wider scope to the business of the private bankers than the primitive function of deposit-keeping. "Those who open banks," says Contarini, "do not undertake this labor, and subject themselves to the burden of being cashiers for all the money in the market merely for the sake of holding it, but in order to trade with it, and by trading to make gains." In 1374 an act forbids any one *qui teneat bancum de scripta* to be concerned in any way in dealings in copper, tin, iron, lead, saffron, or honey, or in the purchase of silver at public sale.* This prohibition was somewhat relaxed by the Senate in 1386, 1387, and 1390; † but in 1403 an act was passed forbidding any banker to ship or send away by land either merchandise or money

* Lattes, p. 34. Lattes supposes the fluctuating price of these articles and the difficulty of converting them into cash at all times to have made them unfit, in the opinion of the Senate, to be held by bankers. Ferrara has the well-grounded opinion that, besides hindering bankers from placing deposited money in trade, the Senate also wished to prevent any monopoly of certain articles of great importance. *Nuova Antologia*, January, 1871, p. 187.

† See Lattes, pp. 39-41. The act of 1386 recites that the house of Soranzi have petitioned for some relief for the bankers because "ipsi sunt onusti mercationibus olei, et aliis mercationibus, de quibus male possunt exire, si ipsas ad ferrum, et alia barrattare non possunt, sicut alii cives nostri," and because of the small gains of banking. In 1430 the law was again relaxed at the instance of the Soranzi. Lattes, p. 55.

beyond the amount of one and a half times the loans which he might have made to the republic.* This singular restriction, which is treated by Lattes as a remarkable anticipation of the legislation of the United States requiring from national banks a deposit of public securities, is at any rate important as showing a wide range of investment opened to the bankers in 1403, provided the public securities bore a certain proportion to the whole. The laws show other traces of loans made by the banks to the republic; and Ferrara's researches enabled him to compile a list of such loans for the years 1457 to 1507, amounting to rather more than five million lire of the present day.† But the language of Contarini is enough to show the variety of methods in which the bankers used the funds confided to them by depositors. Trade with the Levant, the western trade, corn, exchange, the accommodation of friends, the purchase of lands and houses,—these were typical classes of a banker's investments in that age. That loans to individuals had some place among the bankers' use of capital is shown by an act of 1467, limiting to ten ducats the amount which could be lent to any person upon a single obligation.‡ But the restrictions imposed by the canon law upon the reservation of interest impeded loans of this kind, and probably hindered the definition and even the growth of legitimate banking investments. Mercantile adventure long continued to be the banker's natural employment of his funds; and the dangers of such employment, pointed out with great distinctness by Contarini,

* Lattes, p. 44.

† *Nuova Antologia*, January, 1871, p. 205. The loans noted by Ferrara are those mentioned in scattered documents, and it is certain that their amount is far below the real total.

‡ Lattes, p. 72. . . . "Accomodare non possint alicui personae maiorem summam ducatorum decem sub uno quoque signo." On the somewhat doubtful meaning of this limitation, see a remark by the late Professor Nasse in his review of early Venetian banking in *Jahrbücher für Nationalökonomie*, 1880, p. 338; and Ferrara's remark, *Nuova Antologia*, 1871, p. 452.

were keenly felt by the Venetian public century after century.

Nothing shows when the Venetian bankers first learned that, besides the money actually received from depositors, they could also make use of credits opened on their books, but not representing any deposit, and when they began in this manner the modern system of issue. The idea must have come soon after the transfer of deposits became common. The act of 1374, forbidding bankers to deal in certain commodities, declares that the banker shall *nec mutuare nec facere scriptam argenti alicui qui emeret argentum ad campanellam*,—shall neither lend nor open a written credit for the prohibited purchase. Another act, of 1450, forbids the giving of credit, either to any foreigner or any citizen, for the purpose of purchasing silver, except for such money as he shall really have in the bank.* These limitations upon the extension of credit for some purposes imply strongly that its extension was a recognized practice for other purposes; and we learn from Contarini that in the sixteenth century, at any rate, such was the case. The banker, he says, can accommodate his friends without the payment of money, merely by writing a brief entry of credit. The banker can satisfy his own desires for fine furniture and jewels by merely writing two lines in his books, and can buy estates or endow a child without any actual disbursement.† In short, the Venetian private banks had become banks of issue, and the bankers found many temptations in the way of a prudent use of this power.

The immediate effect of the over-issue, to which the bankers were thus tempted, would of course be a difficulty in meeting the demands of depositors and the resort to ex-

* Lattes, p. 34, note, and p. 70.

† So, too, in the speech against the establishment of a public bank published by Lattes, “i mercadanti si servivano della commodità dei banchi particolari, scrivendo partide, seben non havevano alcun credito in banco, ò seben il credito era inferior assai a i danari, che scrivevano ad altri.” Lattes, p. 152.

pedients for avoiding payment. Embarrassment of this sort, as well as actual fraud, is probably the explanation of a long series of practices legislated against by the Venetian Senate. When, in 1445,* the bankers were required to be present for business daily, at least two hours in the morning and two after dinner, instead of presenting themselves merely *quando et quanto voleno*, we may be sure that the Senate intended, among other things, to provide for depositors who might wish to draw out their money. The requirement in 1467 that bankers should show to any person the books containing his accounts and balances, *rationes et resta sua*; † the strict provision in 1523 that the bankers should have ready on the counter, *sopra li banchi tenir conveniente*, the money for making their payments in full and publicly, ‡ and must count it out *sopra il banco* or be responsible for any deficiency sworn to by the payee,—these provisions may have been directed against debtors avoiding payment either from embarrassment or fraud. But when the law of 1526 declares that bankers shall not, upon a demand for cash, send the creditor to another bank with an order upon it, and so wear him out by sending him from one to another, nor say that there is an error and that accounts must be compared, nor delay or refuse to transfer to a person likely to demand actual payment, § we are instantly reminded of the shifts of insolvency. The repeated increase of the security to be given by bankers, which in 1523 had risen to 25,000 ducats; the summary jurisdiction over questions between bankers and depositors, given, by various acts from 1421 to 1523, to designated public officers; and other precautions into the detail of which it is impossible to enter,—all show that the republic was painfully aware that prompt payment was not always the first object of the Venetian banker. How much the republic accomplished by its efforts to regulate the banks is doubtful. In one

*Lattes, p. 56.

† *Ibid.*, p. 72.‡ *Ibid.*, p. 82.§ *Ibid.*, p. 92.

or two cases the preambles of acts naïvely admit the non-observance of previous legislation.* It is enough for the present purpose, however, that the laws disclose the presence, in the Venetian private banking, of precisely the same evils and mistakes as those with which later centuries have had to struggle.

With a system of banking obligations on which payment is avoided or suspended, depreciation is a natural result. There is reason to infer from the law of 1421 † that this evil had then shown itself; for the law explains that, as money cannot be drawn from the banks, there is a practice of selling credits held against them, with great injury to the state. The evil appears more clearly in 1523, when the law declares ‡ that the banks shall make their payments without deduction for cash, *far li pagamenti integri et senza alcuna diminuzione*, and also forbids the purchase or sale of cash with bank credits,— a prohibition which implies a difference in value, and hence a depreciation of the credit. But the “Ordinationes circa bancos” of 1526 § declare in so many words that the extortion practised by the bankers upon those who wished for money had then reduced the bank credit twenty per cent. below the level of cash. The remedy applied was vigorous. The number of the *sopra banchi* already in office as inspectors of the banks was increased, so as to give one for each bank, their presence day by day during banking hours was required, and large powers were given to them. Dealings in bank credit with an agio for cash, *con alcuna laza*, were then forbidden. It was ordered that exchange should be sold at one price, whether for cash in hand or in bank, and that payments for goods or for other cause should be made in the same way, the bank credit to be

* See especially Lattes, p. 69, where, in 1447, it is said of an act of 1421, “Sicut notum est talis ordo nunquam fuit observatus, nec presenti tempore observatur.”

† Lattes, p. 47.

‡ *Ibid.*, p. 82.

§ *Ibid.*, p. 89.

taken, if at all, on the footing of cash, ducat for ducat, the bankers being at the same time required under penalty to maintain their payments in cash. In the preamble of a law respecting money-changing passed in 1528* it is recited that these provisions had brought the bank ducat and cash to equality of value. Two years later a law respecting bills of exchange makes the same recital, but adds that at the Lyons fair bills had been drawn payable in bank with a difference of two and a half per cent., and therefore requires that bills drawn payable in bank shall be settled at the rates current for bills made payable in cash.

Contarini's statement as to the large proportion of the Venetian banks which ended in failure has already been noticed. Details of the failure of several have been collected by Ferrara, the cases of the Soranzi, Garzoni, and Lippomani being the most remarkable. The winter of 1498-99, when the two latter failed and the Pisani had in consequence to meet a run by depositors,† appears to have been a season of panic upon the Rialto. There are also indications of serious trouble not far from 1523. In 1584 came the failure of the house of Pisani and Tiepolo for 500,000 ducats, and this event apparently brought private banking in Venice to its end. Its history, if we may judge from the fragments which have survived, was a tale of repeated disaster; and yet it must be remembered that the events which appear to us now as parts of a single picture were, in fact, spread over the greater part of three centuries, during which the Venetian public continued to intrust its interests to the private banks. It may be, therefore, that, if we could restore the proper perspective of time and could see these disasters in their true relations to other events, the Venetian experience might not appear

* Lattes, pp. 95-97: "Essendo per l' iddio gratia riddotti li banchi nostri de scritta in buon esser, che tanto è al presente il ducato del banco, quanto è il contado."

† A lively account of this run, given by Malpiero and cited by Ferrara, may be found in the *Archivio Storico*, Ser. I., vol. vii. p. 715.

more unfortunate or even more chequered than that of other countries, which have had to learn by actual trial how to use the dangerous forces of credit.

But, however this may be, the Venetian Senate became satisfied of the necessity of a radical change of system. The speeches of Contarini and his unknown opponent were part of a debate which, in a few months after the failure of Pisani and Tiepolo, ended in the act of December, 1584, for the establishment of a public bank, to be called the Banco della Piazza di Rialto. This act was repealed in the following April, in consequence of strong opposition; and it would appear that the city was left for the next three years without any bank, either public or private, to the great confusion and injury of its business. The act of April 11, 1587, at last established a bank of deposit, sometimes called the Banco di Rialto, and sometimes the Banco della Piazza.* The acts of 1584 and 1587 differed in some important particulars, but they agreed in their main purpose of giving to a public institution the deposit business so long retained by the private bankers; and we can therefore conveniently confine our attention now to the act of 1587, as expressing the meaning of the revolution in Venetian banking which took place in 1584.†

The act of 1587, after reciting the mischiefs resulting from the ruin of the private banks, the great need of a bank of some kind, and the conclusion that private banks

* The acts of 1584 and 1587 are given in full by Lattes, pp. 101 and 109.

† Morosini, in his *Historia Veneta*, under the year 1587, says "Negotiatorum quoque incommodo subvenire decretum, qui, apud privatos mensarios pecunia deposita, eorum fraude, avaritia, crebrisque decoctionibus ingentes jacturas damnaque patiebantur; ex quo publicis etiam redditibus haud parva detrimenta accedebant. Itaque lex lata in Senatu, ut publica mensa erigere-tur, in qua tuto singuli argentum aurumque adservarent; ei Gubernator prae-ficeretur, qui rite atque ex ordine cuncta administranda curaret; id munus Francisco Gradenico primum tributum." But Morosini takes no note of the establishment of the Banco del Giro in 1619, and perhaps supposed that bank to be the same as the "*mensa*" of 1587.

could not supply the want, establishes a *banco de scritta* for three years, to be placed under the charge of a governor elected by the Senate for the same term, and under the inspection of the *Proveditori soprabanchi*. The bank was required to receive all cash deposits offered in good and current money; the money was to remain always subject to call, *sempre pronto a requisition di creditori*; transfer in bank could be made, but only in the presence of the depositor or by his written consent lodged in the office of the *soprabanchi*; no transfer could be made in blank, but credit must be given in account to the transferee at the same time that the transfer was debited; and, finally, the expenses of the establishment were to be met by means of the duties on imported goods. In December, 1593, a further act provided that all bills of exchange should thenceforward be paid by transfers in bank only. It is evident from these provisions that the Bank of the Rialto was not a bank in the modern sense, as the private banks superseded by it had been. The republic wisely declined to undertake the investment of the funds intrusted to it, sought no profit from the use of its credit, and, in short, merely undertook to keep the money of depositors in safety, and to pay it out or transfer it to others at the will of the owner. At a given moment the depositors might even draw out the whole of the cash, in full satisfaction of their claims, if they chose, and nobody would be any the worse.* Certain of the functions of the private banks were thus selected and made the work of the new establishment, and the rest were disregarded. It is clear, then, that this development of the Venetian public bank from the business carried on in private hands

*It is worth noting that the governor of the bank was forbidden under heavy penalties to traffic in, use, or lend any of its moneys. Lattes, p. 110. Contarini's discussion as to what might happen in case of war, and his assertion of the ability of the bank to pay everything on demand, *tanto sarà il dar, quanto l' haver*, is important as showing that commercial and not fiscal convenience was the purpose of the undertaking. See Lattes, p. 137.

had no possible relation to any public debt or to any use which the state might be able to make of the moneys deposited with it.

The provision made in 1593 as to bills of exchange, already referred to, was for two centuries an important regulation of Venetian commerce; but it had its origin from a special cause. It is manifest that, so long as the Bank of the Rialto should be conducted in accordance with its fundamental law, payments in bank must be the exact equivalent of cash payments, since the payee in bank received a credit convertible into cash at pleasure. Debtors who found it inconvenient to meet their debts with cash would therefore find it equally inconvenient to meet them with a transfer in bank. This led to a practice of settling bills of exchange by novation, or the substitution of one debtor for another, like that described by Contarini as existing in Antwerp.* An act of November, 1593, says, "There has been introduced within a short time a notable abuse in the Piazza di Rialto: that payments for exchange and merchandise, which ought to be made by accounts in bank or in cash, are made by a kind of transfer in which debtors assign to their creditors each one his debtor, and this debtor assigns another, and so on," to the great embarrassment and injury of creditors who really wish for their money, *se il creditor vuol valersi del suo per qualche bisogno*. This transfer (*giro*) of debts, when cash was really due, was therefore forbidden; and a few days later the act of December 14, 1593,† after a similar recital of the evil, made the well-known requirement for payment in bank of all bills of exchange, under

* See Lattes, p. 121.

† For the two acts of 1593, see Lattes, pp. 170, 171. In Colwell's *Ways and Means of Payment*, in a chapter on the Bank of Venice, the date of this act is given on the authority of Savary as 1423. Mr. Colwell, adopting the traditional account as to the great age of the bank, easily accepted a date which carries the act back to a time when there was no public bank in Venice, and long before the establishment of any such provision as to exchange.

severe penalty. The increase of transactions thus thrown upon the bank compelled the Senate in April, 1594, to authorize an increase of clerical force in the bank; and they then took occasion to require that not only all letters of exchange drawn upon Venice, but all bills of a similar kind drawn at Venice and sold, should be settled for in bank, thus making payment in bank a legal tender for all commercial paper of this class.

The question whether the public bank with its restricted functions should have the sole occupation of the field of banking was finally decided by convenience rather than by deep policy. The act of 1584 had forbidden the establishment of private banks, *restando nell' avvenire prohibito del tutto a' particolari il levar più banche*;* but this act being repealed, and the act of 1587 containing no such prohibition, the establishment of private banks may be said to have become possible, although for several years bankers were not forthcoming. But in February, 1596-97,† the Senate, after reciting the impossibility of meeting all the needs of commerce by means of a single bank, gave to Dionisio Contarini, who had served as governor of the public bank, leave to establish a private bank for six years. The banker bound himself to give security to an extent declared to be unexampled, and to supply the mint annually with an agreed quantity of gold and silver. All his receipts and payments were to be in good money of lawful weight, he was to undertake no public contract for merchandise, and payments offered by transfer upon his accounts were to be receivable only at the pleasure of the payee. Nothing more has yet been brought to notice respecting Contarini's bank; but in 1619 the Senate again gave a companion to the Bank of the Rialto by the act of May 3, creating the famous Banco del Giro,—the great public bank whose origin is so often said to date from the twelfth century.‡ The two banks, organized separately, but with

* Lattes, p. 102.

† *Ibid.*, p. 177.

‡ The act is given in full by Lattes, p. 183. A translation will be found

similar powers, continued to work side by side until 1637, when the Bank of the Rialto was discontinued in consequence of the absorption of its business by the Bancogiro ; * and the latter was then left as the sole occupant of the field. †

The circumstances under which the Banco del Giro was established are stated in general terms in the preamble of the act. Giovanni Vendramin had contracted to supply to the Venetian mint a large amount of silver, in bulk or in Spanish reals, and to receive payment, one-half in coin or in bank credit, and the other half in gold, either coined or in bars ; and, as the rate at which he supplied the silver was low, the republic agreed to make him a large loan in bank credit. At the same time there were merchants, to whom the republic was indebted for goods and for bills of exchange, who had received assignments upon the mint and other public offices, the collections upon which were slow and embarrassed by official forms. To make a prompt settlement with Vendramin and with the other creditors, the new bank was created, and placed in charge of an officer called the Depositario del Banco del Giro ; and the creditors were paid by being credited with deposits on its books. To enable the bank to meet the demand for payment to which it was thus exposed, a large sum in reals received from Vendramin was exchanged at the Banco di

in the Appendix of this number. As for repetitions of the legend referred to in the text, it is enough to cite among the latest *Encyclopædia Britannica* (9th ed.), vol. iii. p. 316 ; Appleton's *American Cyclopædia*, vol. ii. p. 273 ; *Dictionnaire des Finances* (1889), vol. i. p. 291.

* Rezasco, who made a diligent search in the Venetian archives for matter relating to the two public banks, cites the order abolishing the Bank of the Rialto as dated January 2, 1637. *Dizionario di Linguaggio Italiano Storico ed Amministrativo*, p. 85.

† The Banco del Giro was so named, as has often been explained, because of the continual movement of credit by transfer from one depositor to another. The name distinguished the bank from the Banco della Piazza, but the practice referred to by it was in no way peculiar to the new bank, as has been shown already.

Rialto for current money; and this, with coin struck from silver in bulk supplied under Vendramin's contract, was placed in the Banco del Giro, to the extent of 150,000 ducats, as a reserve. It was also provided that payments of 10,000 ducats per month (increased soon afterwards to 30,000 ducats) should be transferred from the mint to the bank, until the sum of 500,000 ducats, the amount of the payments to be made to public creditors, should be covered.*

The greater part of the act of 1619 relates to the organization of the bank and the duties of the officers to be appointed; and there is little pains taken to explain the functions of the institution so carefully officered and guarded. There is enough on the face of the act to make it clear, however, that the Banco del Giro was to be a deposit bank of the familiar type, holding, transferring, and paying deposits at the call of the depositor, like the existing Banco di Rialto, but performing no other of the functions of banking:—

That in this new Bank it shall not be allowable to exact any charge (*non si possi scuoder*) from merchants, but only to pay in cash, except to those who have overdrawn.

That no one shall refuse payment, in said Bank, of his credits, from one hundred ducats upwards.

That transfers of any amount may be made, although of one hundred ducats or less, at the convenience of merchants, provided the parties are agreed.

And, as the reason for establishing the large reserve described above, the law premises,—

Since one of the chief and most necessary considerations as to this Bank for the public and for the private interest is, that such a sum

* These transactions can be made out with reasonable clearness from the preamble and the last four sections of the act of 1619 establishing the bank. An account is given of them by Rezasco, p. 82, with some details as to Vendramin's contract obtained by examination of the original. There is also a brief account given in a short memoir on the public banks, written near the end of the seventeenth century by the senator Bernardo Trevisan, and published under the title of *Informazione per il Banco del Giro* in Vigano's translation from Sonnleithner, *La Scienza del Commercio*, p. 293.

be assigned to it that not only private individuals may receive promptly whatever sum of money they may need to draw for the day, but that always, in case it should seem good to this Council to proceed to close the said Bank, the Capital may be ready in sufficiency to pay to every one his just due,

Therefore, be it ordered, etc.*

These provisions undoubtedly contemplated the establishment of a cash-paying deposit bank, of which the reserve was supposed to be sufficient at the start for all probable demands, and was to be increased to the point of equality with the total liability. The credit of the bank was to be sustained, therefore, not only by the good faith and policy of the republic, but ultimately by the actual presence of all the money which the credit might represent. This system contained the least possible mystery, either as regards theory or practical operation; and the Bancogiro would have been simply a second Bank of the Rialto but for the fact that the debts of the republic to Vendramin and the other public creditors were the occasion for its creation. As it was, instead of opening for business with neither liabilities nor cash on hand, as a simple bank of deposit might have opened, the Bancogiro began with a large liability upon its books to certain creditors of the state, and with a considerable resource in cash, which the state agreed to fill up to the full amount of the liability. If we imagine the case of a government taking advantage of a demand for paper circulation by paying its creditors in notes convertible on demand, with the purpose of gradually accumulating in its treasury cash

*This statement is so important as showing the object of the reserve that it is worth while to present its text. —

“Et perchè una delle principali et più necessarie considerazioni di questo Banco per il publico, e per il privato interesse, è che li sia fatto assegnamento tale, che non solo possano li particolari haver prontamente qualche summa de denaro, che è loro bisognasse cavare alla giornata, ma che sempre, paresse à questo Consiglio id venir alla estinzione di detto Banco, vi siano pronti li Capitali sufficienti per dar ad ogn’ uno il suo giusto credito.

“Però s’ intendi fermamente preso, ecc.” Lattes, p. 189.

equal to the amount of notes in use, we should have a case strongly resembling the operation undertaken by the Venetian Senate in establishing the Bancogiro as one of its public offices.

These circumstances afford some explanation for the tradition that the Bank of Venice was originally a public debt;* and, taking into account further the fact that the Banco del Giro superseded the Banco di Rialto so effectually that the date of its own creation was, as it were, submerged, and that the transfer of deposits, the *giro* practised by both, was their best known characteristic, and had also been the practice of private bankers for an unknown period, we can see the possible growth of the legend which finally assigned to the Bank of Venice a life of about six centuries.

The history of the Banco del Giro from its establishment in 1619 has never been written. Materials for it exist in abundance in the Venetian archives; but, although they have been drawn from by Ferrara and Rezasco, nobody has thought it worth while to follow the bank carefully through its vicissitudes, and it is not certain that the gain from doing so would be great. For the present purpose, at any rate, it is enough to say that the republic did not find it easy to carry on the business of the bank in the regular course contemplated by the law. The engagement to fill up the reserve of the bank by monthly payments was, in effect, an engagement to pay off a public debt at that rate from revenue; and, this being found difficult, fresh creations of liability put off the time for completing the payments. In 1630 the closing of the bank was determined upon,† and the raising of the money needed for this purpose was provided for; but some changes in affairs — the effect probably of the breaking

* This explanation is suggested by Rota, *Storia delle Banche*, p. 114.

† See Trevisan's *Informazione*, as cited above, p. 297.

out of the war in Candia in 1631 — caused this plan to be abandoned. The bank kept on with varying success and credit; and in 1650 money was again raised to cover in part the public debt and thus to place the establishment on a firmer basis. During all this earlier part of its history, however, the bank probably suffered as much from disorderly management as from the inability of the government to clear off its debt. Notwithstanding the elaborate regulations prescribed by law to insure against official malfeasance, frequent irregularities and frauds appear to have occurred; and several revisions of the regulations had to be made to check the negligence of responsible officers. In 1662 a great fraud committed by a book-keeper was discovered;* and it is to this culmination of evil in the management of the bank that the revision of its regulations in 1663 was due.† The new code then published is filled with such minute provisions against neglect and misconduct, and contains such frequent references to abuses and fraud, as to give the impression of a constant struggle with unfaithful or dishonest servants.

The eighteenth century saw the cash office of the bank closed and specie payments suspended, from 1717 to 1739, as a consequence of the wars in which the declining republic was engaged for many years. The credit of the bank fell during this period, but recovered when the cash office was reopened by order of the Senate in 1739;‡ and thenceforward the commercial writers treat the bank as a solid and important establishment until the breaking out of the wars of the French Revolution. The embarrass-

* Trevisan says "un enorme intacco." *Informazione*, cited above, p. 298.

† The *Ordini e Regole* of 1663 begin with this recital: "Vedendosi da gl' Infedeli Ministri neglette, e contravenute a tante sapientissime Regole dalla prudenza dell' Eccellentiss. Senato fondate per la buona drettione del Banco del Giro, anzi con fraude dannabile dilapidati i Capitali del Banco stesso con tanto universale gravissimo pregiudicio." In Marperger, *Beschreibung der Banquen*, p. 190.

‡ For the decree, see Rota, *Storia delle Banche*, p. 116.

ment of the republic by the year 1797 had led to such drafts on the cash of the bank that, with a deposit of nearly 1,500,000 ducats, the reserve was reduced to a trifle over 522,000 ducats.* The bank, however, survived the occupation of Venice by the French; and when, under the treaty of Campo Formio in October, 1797, the Venetian republic was extinguished and the city was given to Austria, an effort was made to restore the credit of the establishment by creating a redemption fund, *fondo di Amortizzazione*, supported by a stamp duty on bills of exchange, bills of lading, and policies of marine insurance,† and later by other revenues. The deficit was for a time reduced; but the Austrian administration found its own wants pressing and the coffers of the bank tempting, and in 1804 the deficit had again risen, according to Rezasco, to nearly 1,280,000 ducats. The *Fiscal deputato al Bancogiro* reported at some length in January, 1805, upon some reforms for the benefit of the redemption fund. But the defeat of the Austrians at Austerlitz and the treaty of Presburg in December, 1805, brought Venice under the French domination; and in July, 1806, Napoleon issued his decree for the liquidation of the debts of the Bancogiro, allowing for one-fourth of the amount scrip receivable for purchases of public property, and registering the other three-fourths in the public debt called the Monte Napoleone.‡ This stroke, by a heavy hand, closed a remarkable chapter in economic history.

Without seeking to trace more minutely the changes in the varying credit of the bank and their causes, it is im-

* Rezasco, p. 83.

† Proclamation by Count de Walis, imperial commandant, October, 1798, in the archives of the Frari; *MS. copy*, received from Mr. F. R. Grist, late United States vice-consul at Venice.

‡ For copies of the report of the Fiscal Deputy in 1805 and of Napoleon's decree of liquidation in 1806, the writer is also indebted to Mr. F. R. Grist.

portant to observe the effect produced by the suspensions of payment, which, as has been seen, occurred several times, beginning with perhaps more than one such period during the war of Candia* between 1631 and 1669. In order to do this, however, we must briefly consider the nature of the currency used by the bank. The uniform statement of the writers who at any period had occasion to notice its currency is, that the ducat in which the bank kept its accounts was twenty per cent. higher in value than the actual ducats in circulation, or, in other words, that the bank used a money of account which bore this premium when rated in current money. This, for example, is the statement made by Turbolo so early as 1629; † by Malynes in 1656; by the writer of the *Discorso* printed in the Appendix, who wrote near 1760; and by Ricard and the other commercial writers near the close of the last century. The ducat *banco* represented no coin, and as little did it represent, as some have supposed, a superior value caused by the high credit of the bank. Whatever the reason for the particular ratio selected, the establishment of a nominal bank ducat superior to the real ducat was an administrative provision probably made when the bank was opened or shortly after. ‡ It was, in fact, simply the establishment of an imaginary denomination,

* It is probably to a suspension during this war that Matthew Lewis refers, in his pamphlet *A Large Model of a Bank* (London, 1678), when he says that in the late Turkish wars the Senate was forced to expend all the specie "now there is no money at all, neither is any money *in specie* ever paid out, but . . . the Fund is a meer imaginary thing."

† Turbolo, *Discorsi e Relazione sulle Monete del Regno di Napoli*, in Custodi's Collection, vol. 1. p. 200.

‡ Turbolo's statement, made in 1629, is that the difference of twenty per cent. existed *da molto tempo*. Trevisan, writing near the close of the same century and after examination of the documents, says expressly, after describing the foundation of the bank, "In questo momento si stabilì anche una moneta propria per il medesimo banco," etc. *Informazione*, p. 296. Malynes, *Lex Mercatoria* (edition of 1656), describes (p. 257) many cases of what he calls imaginary money. Among them is the Venetian ducat *banco*, but he does not remark upon it as in any way unusual.

for use in accounting. The language of the *Discorso* as to what really took place when the bank was still in full operation leaves no doubt on the point. If, says the writer, a person carries 1,200 real ducats, *ducati effettivi*, to the bank, he receives credit for 1,000 ducats *banco*; and if, having credit for 1,000 ducats *banco*, he draws it out, 1,200 real ducats are paid to him.* The so-called constant agio of twenty per cent. was then simply the result of using two denominations to express the same real value, — as if the Bank of England were to keep its accounts in guineas, which are worth five per cent. more than sovereigns, but are represented by no actual coin, sovereigns being used the while as current money. The agio presupposed freedom of deposit and freedom of withdrawal; and, such freedom being maintained, the agio would hardly rise and could not fall. It would not rise so long as credit in bank could be obtained by depositing coin, and it could not fall so long as 1,200 real ducats could be drawn for every 1,000 ducats *banco*. If there were a scarcity of bankable coin, the ducat *banco*, being required for certain payments, might conceivably be “cornered”; but this could not affect its relation to coin, and it could not depreciate except in the case of suspension.

The 1,200 real ducats with which the depositor procured his credit for 1,000 ducats *banco* were, however, ducats of lawful weight: whereas the coin in actual use in Venice, as in the other commercial cities of that age, consisted, to a great extent, of pieces below the standard, either from wear or from illegal practices, constituting a currency often much depreciated. The coin of full weight then bore a variable premium when exchanged for that in ordinary circulation; and thus we have what was called the *sur-agio*, which had to be taken into account in re-

* See Appendix, p. xviii.

ducing bank money to every-day cash.* The agio represented the difference between the denominations used by the bank and by the public in dealing with standard money, and the sur-agio measured the depreciation of circulating coin below the legal standard.

These were the conditions under which the Bancogiro carried on its operations when receiving, transferring, and paying out, according to the scheme of its charter. The execution of this scheme was several times interrupted, however, as we have seen, by suspension of payment. Besides one or two earlier suspensions of uncertain date,† the bank stopped its payments in 1691 and again in 1717, both times under the stress of war. In these cases, the Senate, closing the cashier's office, appears to have used for the public service the cash on deposit, and on the second occasion, if not on the first, according to the writer of the *Discorso*,‡ the supplies for the fleet were paid for by credits in bank, which, he adds, "is the same thing in substance as giving out notes instead of money." The statements made as to the effect of these suspensions on the credit of the bank are contradictory; but they may be reconciled upon a little reflection as to the connection between depreciation and over-issue.

It is plain that a currency which for important purposes is a legal tender would not lose its ease of circulation by becoming inconvertible, and might even be kept at par with specie, if its supply were strictly limited to the demand for the special purposes referred to, as, for example, in this

* Thus Kruse, *Allgemeiner Contorist* (Hamburg, 1753), p. 174, says, "Die Valuta ist entweder Banco, oder Corrente, oder Piccoli," and then goes on to explain that *Banco* bears an agio of twenty per cent. in *Corrente*, and *Corrente* an agio of twenty-nine per cent. in *Piccoli*, defining the three *valute* substantially as above.

† In Matthew Lewis's *Proposals to King and Parliament* (London, 1677) there is some account of a suspension, apparently not very recent, given by him on the authority of Venetian merchants, as evidence that credit is better than cash.

‡ Appendix, p. x.

case, the settlements for exchange. In short, the good credit sometimes enjoyed by the bank after suspending payment, which excited the wonder of foreign observers, like the English pamphleteer, Dr. Matthew Lewis, is the same phenomenon which has been observed in other cases, where inconvertibility has not been made the excuse for over-issue. The notes of the Bank of England did not seriously depreciate for ten years after the suspension of 1797; the notes of the suspended banks of New York and New England did not fall much below specie after the suspension of 1857; and the Bank of France from 1870 to 1878 generally kept its inconvertible notes close to par. Considering the difficulty found even by the present generation in comprehending such cases, it is not surprising that in the seventeenth century the Bank of Venice should have seemed to have in use an "imaginary money," independent of any cash basis, and, nevertheless, of higher credit than even coin itself. But the Venetian Senate was not always cautious as to the use of credits in bank, but, as in the case referred to above, yielded to the temptation or necessity of over-issue. The inevitable result then followed,—the ducat *banco* depreciated, notwithstanding its use in settlements for exchange and the supposed credit of the republic.* The evil was of the simplest nature possible; and the remedy was as simple. After the long suspension from 1717 to 1739 the Senate finally, as an expedient, "a togliere ogni alterazione alla partida del Banco," to cite the words of the act,† re-

* As to the fact of depreciation, Savary may be cited, *Parfait Négociant*, vol. i. p. 464, where he remarks rather contemptuously that little harm was done, for those who lost confidence could easily find persons who would relieve them by purchasing their credits in bank at ten or fifteen per cent. discount. Cantillon, *Essai*, p. 412, apparently referring to the suspension of 1690 and using intelligence obtained from Venice, speaks of a depreciation of twenty per cent. Daru, *Histoire de Venise*, vol. iii. p. 135, says, "Les valeurs de banque continuèrent de circuler sans défaveur." But Daru, although he catalogued the *Discorso*, seems to have overlooked among other things its express affirmation that the bank credit fell twenty per cent. in the Ottoman War, and that the condition of credit was critical. See Appendix, p. x.

† See Rota, *Storia delle Banche*, p. 116.

opened the cash office, and, to insure its ability to continue its payments, devoted to this purpose 250,000 ducats then at the command of the government. In other words, depreciation was ended by resuming payment and restoring the convertibility of the ducat *banco*. No fiat of the Senate had given the ducat *banco* an invariable value when the bank was not paying its debts, and no such fiat was needed when these debts, to use an emphatic phrase from our own legislation, were again "payable *and paid* on demand."

Such a case falls strictly into line then with what happened to the Venetian private bankers when they suspended and again resumed, and with what happens in the nineteenth century when any bank of issue or of deposit goes through the same changes. That any mystery should have grown up as to the amenability of the Bancogiro to the recognized laws of value, is perhaps due in part to the belief that no depreciation took place when the bank suspended, which was industriously and ignorantly spread by some foreign writers, as has been noticed above. In part, also, the mystery is due to the failure to comprehend the meaning of the agio, in which, however, the merchant of the last century found nothing wonderful, as is clear from the matter-of-fact treatment of the subject by the commercial writers. The meaning of the agio is confused no doubt by the occasional efforts of the law to limit it to the regular rate, and to prevent speculation at times when either the scarcity of standard coin or the suspension of business at the cash office made it possible to "corner" the medium in which large commercial payments had to be made. Still, with the mind freed from the notion that credit can be worth more than cash otherwise than accidentally,—or, in other words, that a promise is worth more than the thing promised,—the agio falls into its natural place as the mark of a currency which is below the standard fixed by law or usage, and the transactions

of the Bancogiro are seen to exemplify and confirm principles now recognized as of every-day application.

The proper limits of this paper do not permit a review of the daily operations of the Bancogiro, as described by the writer of the *Discorso*. His account of the Depository taking his place in full view of the Piazzetta, ringing his bell when the concourse of merchants on 'change shows that the time for banking has come, and setting his hour-glass to mark the beginning of the two stated hours, the *viva voce* dictation of transfers by depositors so that the clerks may make the entries in duplicate, the peremptory close of transactions at the sound of the bell and the drawing of the *marella*, the removal of the books to the grated chambers, the careful separation of the two sets of books and of clerks, so that no collusion may invalidate the comparison of the balances when finally drawn off in duplicate, the use of Roman numerals in some of the accounts rather than Arabic,—all this gives us the picture of a leisurely, punctilious, and traditional movement, well adapted perhaps for a city with declining commerce, but not for one in the hurry and bustle of full prosperity. The private bankers, more ready to adapt themselves to the needs of the community, had served their purpose, but had paid the penalty of inexperience in dealing with credit. The public bank had replaced them, had discarded a part of their functions, and had reduced the remainder for safety to an inflexible routine. In this form, however, the public bank had no longer the power to adapt itself to the needs of commerce in a rapidly changing world; nor was it saved from loss of both cash and credit by the hand of the government. Even without the shock of the French Revolution, then, and without the final order for liquidation from Napoleon, it is not probable that its importance could have continued long. The Bancogiro, like the Bank of Amsterdam, could have found no place in the nineteenth century.

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