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THE ORIGINS OF BANKING: THE PRIMITIVE BANK OF DEPOSIT, 1200-1600¹

I

THE study of the origins and early history of banking raises a broad problem of definition. What is the simplest credit agency that can legitimately be called a bank? It is clearly important to draw some distinction between isolated credit transactions and organized banking. The lending of coined money, with or without interest, merely transfers purchasing power from one person to another. The mere acceptance of deposits of coined money involves no banking activity, even if the money is used in trade. In such a case, too, there is merely a transfer of purchasing power. Banking begins only when loans are made in bank credit. This is possible only when deposits nominally payable in specie on demand can be used effectively by

¹ The source materials from Barcelona upon which the present study is largely based were collected in 1929. Travelling expenses and the costs of more than two thousand photostats were covered by grants made by the Committee on the Milton Fund of Harvard University, and by the Committee of the Social Science Research Council on Grants in Aid. These original grants also covered the costs of clerical expenses involved in preparing translations of about one-third of the material. The Committee on Research in the Social Sciences has assisted, in the years 1932-3, and 1933-4, with grants to meet certain clerical expenses of work upon these materials and the published sources available for the study of banking in Italy. Careful study of these Italian and Catalan sources shows clearly that the Catalan material must be regarded as the controlling source for the period prior to 1500. The material at Barcelona is more abundant and more varied in character than for any single region in Italy. In Sicily, relatively few ordinances are available prior to 1500. At Venice, there are ordinances, but no accounts or business documents. The lack of accounts is serious. Printed inventories for Italy contain no indication of additional bank accounts prior to 1500, except at Genoa. These Genoese accounts seem to be the only known material, prior to 1500, not already utilized or published *in extenso*. The records at Barcelona contain a large number of ordinances, many registers of accounts for the critical period 1370-1450, and large masses of business documents. Additional material is available at Valencia. The Italian material becomes much more abundant after 1500, but new interests are involved. The development of the cheque and of the doctrine of negotiability dominates the period 1500-1700. Failure to recognize the extent of these changes has led to many errors in the interpretation of the earlier documents. The present paper is a preliminary statement of the general conclusions that have emerged from an intensive study of these materials. The work is now far advanced, but the reparation of the full text is a laborious task that will require no little time.

a system of book transfer and clearance. The banker can then use some of the deposits to make loans or engage in trade without depriving the depositors of the free use of their deposits. The deposits become a means of payment that is independent of specie to the extent that the transactions involved can be offset by book clearance without using specie. Deposits thus become bank money, and are consciously recognized as an independent means of payment as early as the fifteenth century. In Venice, an ordinance of 1421 uses the expression *contadi di banco*, in antithesis to *denari contadi*.¹ These phrases can be adequately rendered only as "bank money" and "cash." The phrase "payment in bank," or its equivalent, appears at least as early both in Barcelona and in Sicily. These expressions indicate a somewhat tardy recognition of the essential character of banking, and the effective practice of banking must be recognized as having been already long established.

Although the lending of credit is the essential function of the banker, it is not always possible to secure specific evidence as to the nature of loans in the early historical period, and for purposes of historical criticism it is best to use more objective tests. The lending of credit becomes an assured possibility as soon as a considerable number of current deposit accounts can be drawn together in one enterprise. We may therefore presume that banking begins when we are able to find separate accounting units handling some appreciable number of current accounts. Even if the proprietors of the business are engaged in other affairs, we are entitled to speak of a bank if a separate set of books is kept for the banking business.

In studying the twelfth and thirteenth centuries, practical historical problems require us to distinguish banking from dealings in domestic and foreign coin or from the casual credit transactions that would necessarily appear in any mercantile business. Money-changing involved no use of credit in any form, and though some of the money-changers became bankers, the enlargement of function was usually recognized by some distinguishing qualification. In Catalonia, the bankers were called bonded money-changers, or public money-changers. Dealers in coin were called petty money-changers. In many parts of Italy the term "banker" appears at an early date, but, unfortunately, without assured accuracy in usage. These terms are, thus, a peculiarly unsatisfactory basis for the establishment of the beginnings of banking. Whenever it can be established that these money-changers or bankers are actually holding deposits on current account we may safely presume that the characteristic banking functions are being exercised.

¹ Lattes, E., *La liberta delle banche a Venezia dal secolo XIII al XVII.*, p. 47, Milano, 1869.

Merchants were inevitably engaged in various credit transactions. Many of them were involved in various partnerships for particular ventures or for the activities of a continuing enterprise. If the funds were furnished by a silent partner, they were, in a sense, deposited with the active partner for use in trade. Such deposits were not sharply distinguished in contemporary law from the deposits held by bankers on current account, but it is obvious that a distinction must be drawn for purposes of any functional analysis. Then, too, the merchant might purchase or sell foreign exchange, or loans might be granted to various parties. A few isolated credit transactions would hardly justify the inclusion of such a merchant in the list of bankers. If, however, there were many transactions, and separate accounts were kept of these banking activities, we must recognize the emergence of a bank. In such enterprises the independence of the accounting unit is the more significant of the two criteria.

All early banks were banks of deposit, similar in essential functions to any modern bank of deposit, but, for two centuries at least, many features of banking business assumed special forms because these early banks made no use of cheques and found no negotiable commercial paper available as a means of placing their loans. They may be characterized as a primitive type of the bank of deposit. Almost every basic feature of their operation presents itself in a form unfamiliar to us, by reason of these important differences in the legal and administrative details of handling their credit. The whole credit structure was jeopardized by the absence of a satisfactory type of short-time paper. The banks were forced to engage directly in trade, and disastrous losses in Italy in the sixteenth century led to a demand for regulation which resulted in some undesirable curtailment of the credit activities of the banks.

II

Banks of deposit do not appear in mediæval Europe, even in their primitive form, until the close of the twelfth century or the beginning of the thirteenth.¹ Precise dates vary somewhat in different regions, and documentary material is so capriciously preserved that it is not wise to place much reliance upon any single piece of evidence. It was not a new form of economic activity, in any strict sense, because it is fairly clear that there were some deposit banks in Rome from the late

¹ Cf. Rota, Pietro, *Storia delle banche*, Milano, 1874. Aurelio Martín Alonso y Agustín Blasco Cirera, *La banca a través de los tiempos*, Barcelona, 1926. These useful general books are untrustworthy in many details, most especially in the critical period of the fourteenth, fifteenth, and sixteenth centuries. The chapters contributed by Pierre des Essars to the *History of Banking in all Nations* (vol. iii., New York, 1896) are unreliable.

years of the Republic. Banks were also to be found in the Near East both before and after the rise of Mohammed.¹ The legal basis of early banking was thus fully developed in Roman law of the period of the jurists, and these doctrines were not significantly modified until the concept of an implied contract appeared in the opinions on commercial law given by the Post glossators in the fourteenth century. The development of banking in the Middle Ages was, thus, a revival of an older institution rather than a new beginning. It is not impossible that some kind of contact may be established between banking in Imperial Rome and mediæval banking, but there is nothing in evidence now available to indicate any direct continuity in practice. Some have believed that the Jews played an active and important part in the maintenance of banking throughout the early Christian period, but recent studies indicate that the development of banking among the Jews began at a relatively late date.² It is not impossible that Syrian merchants coming to Europe from the Near East exercised some banking functions, but, on the whole, the presumption is against any specific continuity in the practice of deposit banking.

The legal principles upon which deposit banking was based never lost their validity, for the elementary principles were definitely embodied in all the shorter codes of Roman law that were drawn up during the period of the migrations. The revival of the study of the full text of the Digest in the twelfth century was not a necessary prelude to the revival of banking. There was no period in which it would not have been lawful for a money-changer to accept a deposit of funds which he might employ in trade or lend to others, subject only to the obligation to repay the depositor on demand in coin of equivalent value. As there can be little doubt of the continuance of dealing in domestic and foreign coin, it is eminently possible that deposits were occasionally received, but this practice would not warrant the assumption that

¹ Westermann, W. L., "Warehousing and Trapezite Banking in Antiquity," *Journal of Economic and Business History*, vol. iii. (1930), pp. 30-54. Herzog, Rudolph, *Aus der Geschichte des Bankwesens im Alterthum*, Geissen, 1919. Mitteis, L., "Trapezita," *Zeitschrift der Savigny Stiftung*, vol. xix., pp. 198-259. Platon, Georges, "Les banquiers dans le legislation de Justinien," *Nouvelle Revue de Droit Français et Étranger*, vol. xxxiii. (1909), pp. 5, 137, 289, 434. Preisigke, Friedrich, "Zur Buchführung der Banken," *Archiv für Papyrusforschung*, IV. (1907), p. 95. Petra, G., "La tavolette cerate di Pompeii Rinvenuti ai 3 e 5 Luglio 1875," *Atti della R. Accademia dei Lincei (Roma)*, 1875-76, Ser. 2, iii., p. 155. Freundt, C., *Wertpapiere im antiken und frühmittelalterlichen Rechte*, Leipzig, 1910.

² Hoffman, Moses, *Der Geldhandel der deutschen Juden während des mittelalters*, Leipzig, 1910. Staats- und Sozialwissenschaftlichen Forschungen, G. Schmoller und Max Sering, No. 152. Schipper, Ignaz, "Anfänge des Kapitalismus bei den abendländischen Juden im frühen mittelalter," *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, XV., pp. 501-564.

there was a sufficient volume of funds on deposit in current accounts to make credit creation possible.

There is a phase of credit development that immediately precedes the emergence of true banking. This stage is characterized by the occurrence of individual transactions in credit at such infrequent intervals that no significant development of clearance is possible. The general character of these activities appears clearly in the Low Countries in the late thirteenth century. In the last quarter of the century the Italian merchants were allowed by the authorities to establish "loan offices" (*tables de prêt*) in specified towns. The earliest dated grant is of 1280, but there is no reason to suppose that this grant for the town of Hulst was in fact the first. In the next two decades the institution was rapidly generalized.¹ In the larger towns more than one loan office might be authorized, but for the most part the privilege was held to confer some exclusive rights. Deposits were accepted, loans were made, and some of the funds were at times used in trade by the merchant-banker. Many, but not all, of the loans were pawnbroker's loans on goods. Offices of this general type continued in this region until after 1450. In the course of this period some of them doubtless came to exercise banking functions, but the volume of their business at the close of the thirteenth century must be taken into consideration. There are documents giving records of the loans made at Tournai for the years 1260-1289, though the records for many years seem to be incomplete. For 1272 and 1273, however, the returns appear to be fully representative. There were 20 transactions in 1272 amounting in all to £1,384 11s. 6d. (Paris). The records for Nivelles in 1362 show 99 transactions, but the average for the years 1356 to 1388 is only 40.² Even if some allowance is made for omissions, it is evident that these loan offices did not regularly carry current accounts, and that the actual number of credit transactions was so small that these activities must be recognized as incidental and discontinuous. The earliest positive evidence of the holding of current accounts by these loan offices is for the years 1390, 1410, and 1418, when the office at Namur acted as fiscal agent for the town in collecting certain forced loans.³ Even in this instance the banking activity seems to be distinctly less developed than it was in the Mediterranean countries at a much earlier date. But it is not necessary to attempt to fix any positive date for the development of the use of the current account in

¹ Bigwood, Georges, *Le régime juridique et économique du commerce de l'argent dans la Belgique du moyen âge*, I., pp. 319-379. Académie Royale de Belgique, Classe des Lettres et des Sciences Morales et Politiques: Mémoires, II^e Série, XIV., Bruxelles, 1921.

² Bigwood, G., *op. cit.*, I., p. 368; II., pp. 103-261.

³ *Ibid.*, I., p. 434.

Belgium. For the moment, our chief concern is to show the importance of making a distinction between organized deposit banking and the mere making of loans and the acceptance of casual deposits.

In Latin and in the vulgar tongues, there are terms that must be literally translated as *money-changer* and *banker*. In some parts of Italy a real distinction ultimately develops between these terms, and we find in fact that the money-changer is indeed a dealer in domestic and foreign coin, whereas the banker holds deposits and lends credit. But these terms are by no means a safe guide in tracing the early history of banking. In Florence, in Catalonia, and in France the term *money-changer* was frequently, if not generally, applied to the private bankers. In parts of Italy, the terms *money-changer* and *banker* were used indiscriminately, at least as late as the fourteenth century.¹

The references to bankers in the notarial documents of Genoa possess some special significance, however, because these documents throw light on various supplementary activities of these bankers. The printed extracts from the earliest of the notarial note-books, covering the years 1155 to 1164, contain references to thirteen bankers.² In some instances, the references appear only in the lists of witnesses to contracts, but in several instances the bankers are parties to contracts of partnership for trade. It would seem likely, therefore, that they were banker-merchants, accepting deposits which they utilized directly in trade. But even though it is evident that these bankers had extended their activities beyond dealings in domestic and foreign coin, there is no basis for an inference that they held current accounts on any appreciable scale. Unless we go beyond the documents, they must thus be classed with the Belgian money-lenders, some of whom were likewise engaged in trade, and who were certainly accepting deposits. At Siena, there are references in 1156 to bankers who accept deposits, but without more details we cannot accept these references as evidence of the emergence of deposit banking.³

The financial activities of the Templars in England and in France disclose more explicitly the development of the current account in the later years of the twelfth century. Henry II. of England deposited

¹ La Sorsa, Saverio, *L'organizzazione dei cambiatori fiorentini nel medio evo*, p. 133, Cerignola, 1904, Statutes of 1299, art. 78. Lattes, Alessandro, *Il diritto commerciale nella legislazione statutaria delle città italiane*, pp. 198-199, Milano, 1884, Cusumano, Vito, *Storia dei banchi delle Sicilia*, Roma, 1887, I., pp. 44 ff., 71 ff.

² *Historiæ Patriæ Monumenta*, VI.; chartæ, II., Torino, 1853, 293-989. The names are: Alberton, Amicus, Baldo Baldus, Donaldeus, Gilbertus, Ingo Ingone, Hugo, Martinus, Museus, Nubelotus Nubeletus, Poncius, Raimundus, Sorleon. The references appear in the index under these names under the word Januensis.

³ Senigaglia, Q., *Le compagnie bancarie Senesi nei secoli XIII e XIV*, in *Studi Senesi* (1907-1908), vols. xxiv., xxv.; vol. xxv., p. 24.

funds with the Temple in 1182 and 1188 for use in the Crusade, and Philip Augustus deposited funds with the Templars and with the Knights of St. John. An account of 1202 shows that the Templars held the general receipts of the French Crown and were acting generally as the disbursing agency on royal account.¹ It seems evident that these activities continued, and that the scope of the banking business of the establishments of the Temple in France increased steadily. By 1250 accounts were held for Blanche of Castile and for various peers. The itemized records of some of these accounts which have survived show overdrafts, so that we must assume that the Templars were definitely financing the larger expenditures of the Crown and some of the Peers.² In the second half of the twelfth century the King of Aragon and several of the Catalan nobility were given loans by the Prior in Catalonia upon the security of stated revenues. There is no evidence that the Templars held current accounts for the King.³ By 1212, the Templars at Paris were assisting in the collection and remittance of papal revenues. There is no specific evidence that these activities were continuously maintained thereafter, but the enlarged scope of financial activity on the part of the Temple is indicative of a development of new facilities.

For Italy, too, there is unmistakable evidence of the use of current accounts in the early years of the thirteenth century. We have two sheets from the ledger of a Florentine banker for the year 1211.⁴ These sheets were used as guards in the binding of a codex of the Digest, and although they were somewhat damaged on some of the edges and badly worn in places, it has been possible to recover nearly the whole of the text. The entries are in Italian. They are one of the earliest extant documents in the Florentine dialect, and the interest of the editor was primarily philological. The sheets were used on both sides, and the entries were made in two columns, but this division was merely a matter of convenience. Debtor and creditor items are not carefully separated. The amounts are not drawn off in the margins, nor are any balances given at the end of each account. The book thus represents the basic elements of the ledger, in as far as it is a statement of the accounts of particular individuals or partners with the banker. But it represents a transitional stage in the development of double

¹ Delisle, L., *Mémoire sur les opérations financières des Templiers*, pp. 27, 40. Mémoires de l'Institut National de France, Académie des Inscriptions et Belles Lettres, XXXIII, II^e Partie, Paris, 1889.

² Delisle, L., *op. cit.*, pp. 32-33, 99.

³ Miret y Sans, Joachim, *Les Cases de Templiers y Hospitalers en Catalunya*, pp. 107-109, Barcelona, 1910.

⁴ Santini, P., *Frammenti di un libro di banchieri fiorentini*, Giornali Storico della Letteratura Italiana, vol. x. (1887), pp. 161-196.

entry bookkeeping, because the accounts are never presented in the form of an equation or balanced statement. There are references to other books, but only in such vague terms as "the old register" (*libro mekio*) or the "new memorandum" (*quaderno nuovo*). It is difficult to identify the journal under either of these terms.

This prototype of the bank ledger shows conclusively, however, that the use of the current account was definitely established. The accounts cover parts of May and June, 1211. In some instances the entries relate to the last two weeks in June; a few items relate to transactions in May. Even with so small a fragment it is clear that there was much greater activity than in the loan offices in Belgium. The transactions, too, are specifically banking transactions: loans for a few months or for a year, on personal security; transfers of funds in bank; receipts and payments of specie. Some of the items are not dated, so that it is not possible to balance any of the accounts. It would seem, however, that some of them were definitely overdrawn.

III

The materials described above indicate clearly that banking functions were exercised by more than one kind of enterprise, even in the beginning. The Templars were active until the suppression of the order in 1312. Some of their activities in France were taken over by the Knights of St. John, but there is little to indicate that the order was an important factor in international finance in the fourteenth century. The great Italian trading companies became conspicuously important in the course of the thirteenth century, but early references to them are not very explicit in respect of their banking activities. It is significant, however, that loans made by Italians to German ecclesiastics were repaid at the Fairs of Champagne as early as 1213. By 1233, Sienese bankers were acting as fiscal agents for the Pope and a body of special privileges was rapidly built up. The bankers were authorized to lend to ecclesiastics such sums as might be necessary to meet the donations and grants customary at the time of induction into the various ecclesiastical offices and dignities.¹ Closely associated with this class of business was the general trade of northern France and Flanders centring in the Fair systems of Champagne and Flanders. The Italian companies played an important part in the business of these fairs, finance as well as general trade. Their services as agencies for the remittance of funds were deeply involved in the fair trade and

¹ Schulte, Aloys, *Geschichte des mittelalterlichen Handels und Verkehrs zwischen Westdeutschland und Italien mit Ausschluss von Venedig*, Leipzig, 1900, I., pp. 231-235. Senigaglia, *op. cit.*, Studi Senesi, vol. xxiv., pp. 163-164.

seem to have furnished some means for the establishment of a primitive form of interregional clearance.¹

The fairs also attracted a class of Italians and Jews who acted as money-changers and bankers. They constitute a special type, closely similar to the resident money-changers and bankers, but they possessed a number of special functions closely associated with the fairs. In the twelfth century, their activities were largely confined to dealings in domestic and foreign coin. Then two new functions appear. Descriptions of the fairs in the early thirteenth century show that many of the transactions were cleared by book transfers. When a merchant made purchases which he was not at the moment able to cover in specie, he took his creditor to a money-changer and promised payment through the money-changer at the close of the fair. It was assumed that the merchant would then be in funds through the sale of goods. In so far as payment through the bankers took the place of specie, some proportion of the total transactions were doubtless settled by clearance. This type of transaction was not uncommon in general commercial practice, but the effect was not the same. At the fairs there was no positive obligation to pay until the end of the fair. The promise to pay through the banker, thus, did not involve any loan on the part of the banker. The banker merely guaranteed payment. The effect was about equivalent to the endorsement of a modern promissory note.

This business, however, carried the bankers towards true credit activities. In some instances merchants found that their commitments for the close of the fair exceeded the receipts from the sale of goods. In this event they found themselves facing legal action for default, unless they could borrow funds to meet their immediate requirements. Loans repayable at the next fair appear in the records at the Champagne fairs as early as 1218, though the practice was not definitely established until the close of the century. The loan for the interval between fairs became a characteristic feature of commercial life that persisted in some centres, such as Lyons, until late in the eighteenth century. This highly important type of short-time loan constituted the chief form of loan on the part of fair bankers. In the early period it was based on the letter of the fair, or perhaps even on a book entry. In the fifteenth and sixteenth centuries such loans were made on bills of exchange, drawn in favour of the lender.²

¹ Bourquelot, F., *Études sur les foires de Champagne et de Brie*, II., 103. Mémoires de l'Académie des Inscriptions et de Belles Lettres, Paris, 1865. The use of the fairs as a term of payment can be traced continuously from 1159. The loans and remittances of the great trading houses were built up on this practice in the course of the following century.

² Bourquelot, F., *op. cit.*, II., 118-146. Huvelin, P., *Essai historique sur le droit des marchés et des foires*, pp. 544-569, Paris, 1897.

Finally, there were the sedentary money-changers and bankers who had an office only in one town. In some localities this type of banker appears as early as any of the others, but they became more important in the fourteenth and fifteenth centuries. After the failures of the great Italian trading companies in the fourteenth century, the sedentary bankers became the dominant factor in banking in Italy, Spain, and France. Conditions in Central Europe were different. The rise of the great Austrian banking houses in the fifteenth century certainly reduced the small local bankers to a distinctly secondary rôle, but we do not hear enough about them to give us any precise notion of their significance in that region. Offices for dealings in domestic and foreign coin were established at Augsburg, Lübeck, Hamburg, Aachen, Dortmund, Erfurt, Nürnberg, Frankfurt-am-M., and Strassburg.¹ One would infer, therefore, that private money-changers were not very active. As in other regions, the functions of these offices were extended by the acceptance of deposits and, in some instances, deposit banks may have developed.

Public banks of deposit were established at Barcelona in 1401, and at Valencia in 1407. These institutions did not displace the private banks, but as they served as fiscal agents for the towns and provinces they restricted in some measure the scope of the activities of the private bankers. Some writers have classified these public banks as "giro" banks, assuming them to be similar in function to the banks established at Venice in 1584, 1587, and 1619, and to the Bank of Amsterdam of

¹ Lattes, A., *op. cit.*, pp. 217-219; Cusumano, V., *op. cit.*, *passim*. Lattes E., *op. cit.*

References in Spanish ordinances apply primarily to sedentary bankers and money-changers: A. Diaz de Montalvo, *Ordenanzas reales de Castilla*, Lib. V., Tit. VIII., L. 1 (1445, 1455), in *Codigos Españoles*, VI., p. 410. *Novissima, Recopilacion*, Lib. IX., Tit. III., L. 1 (1435, 1436, 1455); *loc. cit.*, L. 2 (25 Julio, 1499). *Codigos Españoles*, IX., p. 183; *ibid.*, Lib. XI., Tit. XXXII., L. 1 (1548); *loc. cit.*, L. 7 (18 Julio, 1590). Cristobal Espejo y Julian Paz, *Las antiguas ferias de Medina del Campo*, pp. 71-128, Valladolid, 1912.

For France, see Vigue, Marcel, *La banque à Lyon*, pp. 50-52, Paris, 1903. Paris, Archives Nationales, KK, 5, *Livre des changeurs du Trésor*, 1335-1343; KK, 15, *Livre des changeurs du Trésor*, 1397-1405, Z 1b, 286-290, *Registres des changeurs du Royaume*, 1456-1601; AD, XI., 1, *Agents de change et banquiers*, 1572-1789. These materials were hurriedly examined in 1927 and 1929. They indicate roughly the general character of the development of private banking in France, but without the letters and accounts of banking firms the study could not be carried very far.

For Germany, Ehrenberg, R., *Das Zeitalter der Fugger*, Jena, 1896 (1922), I., pp. 85-90, 186-197. See also the later literature on the Fuggers by Max Jansen, Jacob Strieder, and A. Schulte. Kulischer, J., "Warenhandler und Geldausleiher im Mittelalter," *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, XVII. (1908), pp. 202-204, 217-219. Marperger, Paul Jacob, *Beschreibung der Banken*, Wien, 1717.

1609. The banks at Barcelona and Valencia were, however, true banks of deposit, identical in all their general features with the private banks of deposit in Catalonia,¹ Spain, Italy, and France. As they were administered conservatively they exhibit the primary features of the primitive bank of deposit even more clearly than the private banks. At Barcelona, the Bank of Deposit retained its original form until 1609, though both the private and public banks in Italy introduced new features in the sixteenth century, which created some circulating credit. The Bank of Saint George at Genoa exercised banking functions during the years 1407 to 1445, and again after 1586, but these activities of the Bank have not been extensively studied, despite the abundance of material.²

Deposit banking developed rapidly in all the more important commercial centres of Europe in the course of the thirteenth century. The wide extent of this development was, undoubtedly, fostered by the influence of the Templars and the Italian merchants following the fairs. The relative uniformity of practice was also fostered at this time, and later by the influence of Roman Law upon the commercial law. Although the amount of material varies considerably in different regions, there is no reason to doubt the actual existence of important banking activities throughout the greater part of Europe. The dearth of material in France for the fourteenth and fifteenth centuries is especially unfortunate.

The early history of banking is in all regions dominated by a highly characteristic form of deposit bank, which differs in a number of particulars from the practice of the modern bank of deposit as well as from the modern bank of deposit and issue. Full analysis of the functions of the primitive bank of deposit requires more material than is available in many of the localities where we know banking was carried on, but a general description of the primitive bank of deposit can be given if careful use is made of the large masses of material available in Florence, Venice, Sicily, Naples, and Barcelona.

Important material is available in some other places, notably at Genoa and Valencia, and the resources of Florence, Venice, and Barcelona have not been exhausted, but material now at hand is sufficient to establish the primary features of the primitive bank of deposit. Local variations from the general type are not of great significance for the fourteenth and fifteenth centuries.

¹ Usher, Abbott Payson, "Deposit Banking in Barcelona," *Journal of Economic and Business History* (1931), IV., pp. 121-155.

² Sieveking, H., *Genueser Finanzwesen vom 12 bis 14 Jahrhundert*, pp. 1-75, Freiburg, 1898, II. Volkswirtschaftliche Abhandlungen der Badischen Hochschule, I., 3e Heft. Marengo, E., Manfroni, C., and Pessango, G., *Il banco di San Giorgio*, pp. 193-217, Genova, 1911.

IV

The distinctive features of the primitive bank of deposit were largely derived from the predominant use of the verbal contract.¹ Written contracts were valid, but until the sixteenth century the use of the written contract was restricted and it was regarded as a means of dealing with a number of situations that could not readily be provided for by the usual verbal contracts. In order to facilitate the establishment of the content and authenticity of contracts, the notarial system of Rome was developed and extended. The verbal contracts of mediæval commerce were thus made before a notary and witnesses. The transaction was recorded in the register of the notary and became a matter of public record. The record was accepted as competent evidence of the content of the contract, unless it could be shown that the record was incorrect. The most effective defence against the record was the establishment of an alibi. If the party alleged to have made the contract could prove that he was not in town on the day stated, the record would be overthrown, because the contract required the presence of both parties to make the formal statement of the contract and to accept the contract.² Great pains were taken to make the notarial registers absolutely trustworthy, but, like the records of our modern registries of deeds, they were merely evidences of the actual contract.

The Journals of the early banks were given the legal status of a notarial register. Private bankers were required to swear that their Journals were a faithful record of all the transactions of the bank.³

¹ The critical establishment of the views presented rests primarily upon the interpretation of a number of technical terms. Some of these terms acquire new meanings in the sixteenth and seventeenth centuries, others have misleading connotations to the modern student. The wide differences of opinion about early banks have been due to the different readings given these terms. The present study is based upon a glossary of Catalan terms constructed upon rigidly historical principles. The interpretation of each term has been determined by dated passages in which the context affords an absolutely unambiguous clue to the meaning. The more difficult terms have been discussed with Prof. J. M. D. Ford, and with Jacme Llorens, a native Catalan, now studying economics at Harvard. The interpretation of Italian terms is based upon the glossary of mediæval Italian business terms which is being prepared by Miss Florence Edler for the Mediæval Academy of America. Problems of translation are merely incidental, for the terms used in the documents themselves must needs be rendered into modern Spanish, Catalan, or Italian. The Catalan glossary will be published with the completed text. Miss Edler's glossary will appear shortly.

² Freundt, C., *Wertpapiere*, I., p. 69. Justinian, *Institutes*, III., xix., 12.

³ Lattes, A., *op. cit.*, p. 205. Covers specifically Genoa, Piacenza, Milan, Bologna, and Venice. Cusumano, V., *op. cit.*, I., p. 131. *Constitutions y altres drets de Cathalunys, compilats en virtud del cap de las corts . . . celebrados en la vila de Montso*, 1585 (Barcelona, 1587. Hereafter cited, *Constitutions de Cathalunya*). James II. at the Cortes at Barcelona, 1299, c. vi., p. 384.

At Barcelona, the Journals of the Bank of Deposit were kept by notaries and thus were merely a special notarial record. The entries in the Journal were required to be made without intervening blank spaces, no erasures or cancellations might be made unless duly described in the margin, and no leaves might be torn out. These rules have left traces in modern commercial law, but the background has changed. In the Middle Ages, the Journal contained the only legally valid written record of most of the contracts between the bank and its customers. It was much more than an account book, and for this reason it was considered essential that the Journal entry should contain a full statement of the details of the transaction. The private bankers were at times lax, and in Italy there was a strong disposition to reduce the entry to the simplest possible form, but the basic facts must needs be stated. The Journal entry of a bank differed from the ordinary notarial record in the omission of all record of witnesses. The Florentine ledger of 1211, however, preserved a record of witnesses for certain types of transactions. This is the most impressive single indication of the extremely primitive character of that bank register. Because the Journal was a legal record in which cancellations could not lightly be made, it was not a book of original entry. In the Bank of Deposit at Barcelona, the account in the Ledger was ordinarily checked if any funds were to be transferred, or if any loan were to be made. If a private bank were large enough to have separate bookkeepers for the two books, the Journal entry would be made only after an appropriate memorandum had been received from the keeper of the Ledger.

These legal attributes of the Journal tended to simplify the details of paper work at the bank. It was not necessary to require separate promissory notes from customers who were granted a loan, because the Journal entry was itself competent legal evidence of the contract. It was not necessary to provide the customer with a pass-book or with any certificate of deposit, because the Journal was a public register of contracts that was open to the inspection of the customer. It soon came to be regarded as a breach of confidence to allow other persons to inspect the account of a customer of the bank, but in the early period it is fairly certain that the information in the Journal could not be kept confidential.

All bankers kept a ledger or some book that was a prototype of the ledger. The fragments of the accounts of the Templars at Paris and some of the records of Pèrre des Caus and Andreu d'Olivella in Barcelona suggest that the early bankers were likely to keep a large number of separate records. The defect of their bookkeeping consisted in having too many records of particular accounts and no general

analysis of the business as a whole. There is not enough material now extant to make it possible to establish the details of development during the thirteenth and fourteenth centuries. Cash accounts or separate accounts of receipts and expenditures appeared at an early date.¹ Balances and analyses of the enterprise as a whole, if made at all, were commonly separate documents and few have survived. There were considerable differences in the practices of the various regions in all these respects. At Barcelona, there is no evidence that there was any general analysis of the affairs of the bank, until late in the sixteenth or early seventeenth century. Italian practice may have been better, but the descriptions in the texts afford no basis for any positive statement. The officials of the Bank of Deposit at Barcelona were obliged to balance the accounts every two years, when new Administrators took office, but the extant record of such an audit for the year 1433 shows that it was no more than a general check on the accuracy of the arithmetic.² We have all the elements from which a balance sheet can be constructed, but the officers did not themselves draw up any comprehensive statement of the affairs. The private bankers may have made some audit when they started a new ledger, but there is abundant ground for doubt. For the most part, they merely copied off the individual balances of the open accounts. It is hardly surprising that there were many failures. The average banker had no exact summary statement of his commitments. We must assume that banking policy consisted chiefly in keeping some actual cash in hand, extending loans to promising customers, and making some investments in trade.

Deposits fell into two classes: general deposits and conditioned deposits. The general deposits were demand obligations on current account comparable in all respects to the deposit in a modern bank. The depositors fell into three general classes: individuals and corporations owning real property, or holders of funded debts; public bodies

¹ Barcelona, Archivo del Real Patrimonio (hereafter ARP), 2380. *Libre de Père des Caus e d'en Andreu d'Olivella . . . datas e rebudes*. Cusumano, V., *op. cit.*, I., 129. Bensa, E., *Francesco di Marco da Prato*, pp. 194-208, 448-466, Milano, 1928. Marengo, Manfroni, Pessango, *op. cit.*, p. 198.

² Archivo Historico Municipal de Barcelona (hereafter AMB), *Llevament fet per en Marti Gariera, 1433*. There is no formal provision in the ordinances for any audit of the books of the Bank of Deposit earlier than 1513, but examinations of the bank were made twice each year after 1476. AMB, Reg. d'Ordinacions, 1510-18, f. 67v; *ibid.*, 1471-79, f. III.

The fragments of accounts studied by Cusumano are largely of the sixteenth century. The accounts of private banks available at Genoa have not been studied with reference to these aspects of accounting, though the brief notes of Marengo, Manfroni, and Pessango imply that there was some general analysis at an early date.

who carried current accounts covering all, or at least a part, of their general receipts and expenses; lastly, the business men and merchants. The deposit accounts of these early banks thus exhibit the diversities of expenditure and interest characteristic of the modern community. Public authorities and merchants carried active accounts, and were usually applicants for loans. The holders of the less active accounts were the landed gentry, widows, orphans, and ecclesiastical corporations. Their revenues were paid into the banks and drawn down gradually for personal expenditure. This group was the great resource of the state for loans, though the mercantile community must not be excluded. Long-time loans were common throughout Europe on the basis of the sale of a rent. The legal concept was readily assimilated to feudal law, and because it was in essence a sale of property there could be no infraction of the usury laws. As these rent charges could be redeemed at pleasure in most jurisdictions after the early thirteenth century, they were, in effect, mortgage bonds without a fixed date for redemption. These instruments present special features in many regions, wherever the revenues were collected directly by the mortgagee. In Spain and in France the rent charges were scarcely distinguishable from a modern mortgage bond. A fixed income was paid the mortgagee during the life of the bond. The property remained under the control of the owner, and in the case of pledges on revenues of state the state collected its revenues at its discretion.

In Barcelona, all borrowing by the city or province took the form of the sale of incomes guaranteed by pledges of specific revenues. Non-negotiable documents were issued, and in nearly all instances, after 1401, the Bank of Deposit acted as the fiscal agent of the city in selling or redeeming these securities, and paying the semi-annual interest charges. At Genoa, the loans were handled in a somewhat more primitive fashion, as the syndicates who lent the money assumed direct charge of the collection of revenue. Venetian practice was varied. Forced loans were levied on many occasions in the fifteenth and sixteenth centuries. At times, banking privileges were associated with these loans.¹

Conditional deposits were a characteristic feature of the primitive bank of deposit. In their simplest form they consisted of actual deposits of specie to be paid to a designated party at a fixed date or after the performance of some definite act.² Funds to be paid on the

¹ Sieveking, H., *Genueser Finanzwesen mit besonderer Berücksichtigung der Casa San Giorgio*, Freiburg, 1898. *I prestiti della Repubblica di Venezia*, Padova, 1929. (R. Accademia dei Lincei, Documenti Finanziari della Repubblica di Venezia, Ser. III., Vol. I., Parte I.) Lattes, E., *op. cit.*, pp. 41-44.

² ARP, 2375. *Manual de Père des Caus e Andreu d'Olivella*, ff. 1-30v, *passim*. AMB, *Libre Major de la Taula de Cambi*, 1403-1404. AMB, Reg.

transfer of property, sums to be paid over on dowries or marriage settlements, sums due in settlement of judgments in the courts, the price of merchandise to be delivered at a later date, might all give rise to conditioned deposits. The payor placed the funds in the hands of the banker with an explicit undertaking that they would be transferred to the payee when the conditions of their agreement had been fulfilled. Such funds did not constitute a part of the ordinary current account of either party. The payor was obviously barred from diverting such funds to other uses, and the payee could not use them because they did not become his property until the final transfer was made. In their primitive form conditioned deposits did not lead to any use of credit, but small changes made them useful in an important type of credit transaction. The banker might allow a customer to overdraw his demand account in the ledger on the security afforded by a credit due from a third party in the record of conditioned deposits, or against an engagement of the borrower to repay the banker at a stated time. This operation would have the same effect as the discounting of a negotiable bill of exchange or promissory note, although different in form. There is evidence of such transactions in the audit of the books of the Bank of Deposit at Barcelona in 1433, and in the Journals of Pèrre des Caus and Andreu d'Olivella. Such transactions continued to be a significant feature of banking until the doctrine of negotiability was fully established and simpler means of effecting the same end were available.¹

The loans made by these early bankers commonly resembled the modern overdraft. The loan was created by transfers or withdrawals from the ledger account in excess of the credit. When the entries were in the ledger, we have no means of knowing what charges were imposed, but it is evident that no interest would be paid on any sums not actually used. The transaction differed from the modern overdraft by cheque, because each operation must needs have the consent of the banker.² Transfers from the current account of the primitive

d'Ordinacions, 1519-1530, October 27, 1527, f. 175. AMB, Llevament . . . 1433, ff. 31-48v, 53v. Cusumano, V., *op. cit.*, I., 163. Lattes, E., *op. cit.*, ordinance of 1421, pp. 47-48. Lattes, A., *op. cit.*, 224, n. 53, covers Novara, Milan, Como, Genoa, Piacenza, Florence, and Ferrara.

¹ AMB, Manual de la Taula, 1602. Balans del llibre de deposits, 1611-1612. See also material cited by A. Lattes; the statutes of the Italian towns remained in force, and in some instances the revisions of the statutes are of the sixteenth century.

² This discussion of the overdraft rests mainly upon study of the early Ledgers of the Bank of Deposit and the Llevament . . . of 1433. There are so many references to the ordinances that it is evident that the references cited below for 1435 and 1437 are characteristic of a continuous practice. AMB, Clavaria de la Ciutat . . . 1472, Oath of 1435, f. 5v; Reg. de Deliberacions, 1433-1437,

bank could regularly be made only in the presence of both parties, and, consequently, the client could not overdraw without the knowledge and consent of the banker, or the connivance of a clerk. The record in the Journal had sufficient legal status to make a formal promissory note superfluous, and the use of supplementary documents was confined to special cases involving the Crown, or loans to the City or Province.

The non-negotiable bill of exchange, which came into extensive use in the second half of the fourteenth century, was an important factor in the credit business of banks. A bill could not be discounted in the modern fashion, but exchange could be bought and sold. The essential objects of the modern transaction could be accomplished in various ways, though it is impossible to trace all these operations specifically in the accounts. We know, positively, that the proceeds of many loans made to the Crown by P. des Caus and A. d'Olivella were given the King in the form of bills of exchange on Sicily. We know, too, that exchange could be purchased with bank credit. Bills might also serve, indirectly, as a basis for a loan. The characteristic transaction at the fairs was the loan of present purchasing power against a bill payable to the lender at a designated fair, either in the same town or elsewhere. A merchant could not, however, raise money directly on an accepted bill, but a banker could permit the merchant to overdraw his current account, with or without a supplementary engagement as to the details of repayment. Bills play a large part in mediæval and early modern credit operations, because at an early date the interest charges were admitted to be outside the prohibitions of canon law. The purchase and sale of currency of a different jurisdiction required no explicit recognition of interest as such, and most early bills merely state the amount of money given and the sum to be paid. In some regions, the rate of interest was openly stated, and inter-fair loans were definitely legitimated by civil statutes at an early date.

November 19, 1437, f. 192. The Journals of P. des Caus and Andreu d'Olivella imply that their loans to the Crown were secured by formal notes and assignments of specific revenues, so that they were not overdrafts in the sense of a loan unsecured by any supplementary document. We can thus draw no inferences from the mere fact that there were debit balances in the accounts of the King of France and various French nobles with the Templars. Cusumano pays no attention to this problem in his study of the Sicilian material, though there must be conclusive evidence in the fragments of ledgers available. The Venetian ordinance of June 2, 1524, describes the practice explicitly (Lattes, E., *op. cit.*, p. 87), and Contarini (1584) clearly regards the practice as the most characteristic mode of lending (Lattes, E., *op. cit.*, p. 125). Although the evidence outside of Barcelona is less adequate than one would desire, the deficiency is due primarily to the inattention of the text writers and to the neglect of even the bank ledgers that survive. In this respect the Italian sources have been very inadequately utilized.

Although the bankers had several important avenues for commercial loans, they were closely associated with trade throughout the period.¹ In some instances, the mercantile interests were more important than their banking interests, and in nearly all regions bankers commonly had considerable sums invested in trade. These investments were the greatest single source of weakness to the banking houses of the early period.

The absence of cheques made inter-bank relations somewhat complex, but some contacts existed from an early date. Bankers kept accounts with each other. They could thus make some use of each other's facilities, though the authorities always distrusted such relationships.² In some instances, it amounted to an evasion of the banker's liability to meet the requirements of depositors on demand. It was not quite right to take the client around to other bankers to get the money. The Bank of Deposit at Barcelona feared lest the private bankers should deliberately attempt to use the reserves of the Bank of Deposit as a means of expanding their own activities. There were thus repeated prohibitions of the acceptance of the accounts of private bankers at the Bank of Deposit.

V

Commercial law exhibits a positive bias in favour of verbal contracts all through the fifteenth century, but exceptions were made. Some transactions in the banks were accompanied by written documents, and in some instances the written document soon became the controlling element in the transaction. The modern cheque grows out of this gradual development in the use of written orders drawn against current accounts. It is important to distinguish between the recognition of written orders in special cases and the frank acceptance of the cheque as a general means of effecting transfer or payments. The transition from a limited use of cheques to their general recognition occupied nearly a century and a half.

An exception to the rule, requiring the personal presence of the client, was frequently made by recognizing servants or messengers as

¹ AMB, Caja: documentos notariales y lettres de cambio, *passim*. AMB, unclassified sheets; articles of partnership for a bank, March 15, 1460. AMB, Reg. d'Ordinacions, 1433-45, fol. 63. Lattes, A. *op. cit.*, p. 208. Cusumano, *op. cit.*, I., pp. 137, 143-148.

² This direct use of accounts in other banks is frequently described by modern writers as if cheques were drawn. The Barcelona material is most explicit. ARP, 2375, Manual de P. des Caus e A. d'Olivella, *passim*. AMB, Libre Major de la Taula, 1403-4, *passim*. At Venice, in 1527, even when some use was being made of cheques, the ordinance reads, "when a person comes to demand his money, the bankers often take him to another bank and transfer credit to him in that bank." Lattes, E., *op. cit.*, p. 91.

agents of the client. Such a practice was not inconsistent with the concepts associated with the system of verbal contracts. Agency was recognized at an early date, and, although a formal power of attorney was required for many kinds of transactions, much business could be done by agents whose quality rested upon less rigorous proof. The Journals of Pèrre des Caus and Andreu d'Olivella of Barcelona disclose withdrawals by servants or messengers in four instances in the period between July 20 and August 4, 1377. The sums involved were respectively: £60 10s. od; £3 6s. od; £72 os. od.; £36 os. od. In the same interval deposits were received by messenger in three instances; for sums as follows: £165 os. od.; £643 10s. od.; £400 os. od.¹ It is unfortunate that we have none of the papers that must have been used in such cases, as it would be interesting to know to what degree they possessed the external features of the modern cheque. It must be evident, however, that we cannot classify as a cheque an order which merely gave the bearer authority to act as agent for the client.

This problem of the legal significance of a written order or assignment is conspicuously involved in the documents printed by Bensa from the Datini archives at Prato. The papers of Francesco di Marco, an international merchant and banker of the late fourteenth century, include a considerable number of assignments on the current accounts held by the banker. In their general form, they present an extraordinary resemblance to the modern cheque, and Bensa has not hesitated to classify them as cheques. It must be recognized, however, that these documents precede by a wide interval any general use of a cheque by *private* persons. It is difficult to accept them as cheques when there is so large a body of material that indicates serious resistance to the acceptance of the concept in any form and especial resistance to any general use of such a device by private persons.² These documents, however, are not without special features that might easily justify their use as exceptions to the general rules in favour of verbal contracts. Three of the documents published were drawn upon the banking office by a client not at that time in town.³ An instrument of this general character might well have been recognized as a kind of bill of exchange. The general features of the instrument correspond closely with the contemporary bills. The banking house did a considerable business with bills and might well have been willing to recognize an instrument of this general character. The other documents, drawn in favour of a party in town by a client in town, present a problem

¹ ARP, 2375. Manual de P. des Caus e A. d'Olivella, ff. 16, 18, 22, 23v, 26, 27v, 28v, 30v.

² Bensa, E., *op. cit.*, pp. 164-166, 352-358.

³ *Ibid.*, p. 352. See also, Bigwood, G., *op. cit.*, I., pp. 648-649; II., p. 316 an isolated text of 1306.

which cannot be solved without more material. In all probability these documents possessed no certain status in court. They imply a relationship that extended beyond mere agency, but we have no evidence that any court would have recognized these implications. These documents were thus prototypes of the modern cheque, rather than true cheques.

The private bankers at Venice, at the beginning of the fifteenth century, permitted non-residents to use cheques. "It has been the custom of the banks of deposit," runs the ordinance of 1421, "to make transfers for non-residents up to the amount of their deposits on the presentation of written orders, because they can only use their funds in the form of credits in the bank. . . ."¹ The privilege led to some abuses. Credits in the banks were being bought and sold at a discount, as compared with specie. Such purchases and sales were prohibited, and the prohibition was reiterated subsequently. Without some study of bank journals it is impossible to be certain of the nature of these transactions. It is clear, however, that the practices arose out of concessions made to non-residents, and the basic privilege seems to have continued in force.

Among residents, written instruments first came into use in the transaction of official business, but the practices of the public officials require some distinctions to be made. In some instances, the written instruments were merely orders and memoranda for accounting purposes. Even though they were required, they were not the legal authority for the payment made by the bank. In 1435, the Administrators of the Bank of Deposit were forbidden to transfer any funds on order of the City Treasurer unless he presented "a warrant from the Councillors addressed to the Administrators of the Bank and sealed with the seal of the City. In this warrant . . . there shall be given the name of the party in whose favour the Treasurer wishes to transfer funds, and the amount to be assigned and recorded in the books, in order that the Administrators may be required to file these warrants and that they may be produced when their accounts are examined."²

¹ Lattes, E., *op. cit.*, p. 47. The interpretation given by E. Lattes cannot be sustained if the critical terms are read with the meanings established by other documents of the period. Important discussions of this ordinance are furnished by Alessandro Latte, *sup. cit.*, p. 233, and by F. Ferrara, "Gli antichi banchi di Venezia," in *Nuova Antologia di Scienze, Lettere ed Arte*, XVI., p. 453. The translation given above follows these commentaries. Unfortunately the commentary accompanying the text has been uncritically copied, and some writers declare without qualification that the Venetian banks issued demand notes. This ordinance is the only passage upon which such a statement could be based. Cf. C. F. Dunbar, "The Bank of Venice," *Quarterly Journal of Economics*, VI., p. 316.

² AMB, Clavaria, f. 7.

It must be noted that the accounts of the City stood in the name of the Treasurer, so that his verbal order was no less necessary than this accompanying document. Such a document must thus be classified as an accounting memorandum, although it was in form an order on the Bank, which, without this text description, might erroneously be identified with a cheque.¹

The accounts of the Province of Catalonia in the Bank of Deposit presented a different problem. When these deposits were first authorized in 1413, it was stipulated that no payments might be made from the account except upon presentation of a warrant signed by all three of the deputies who had charge of the affairs of the Province.² In such a case, we must regard the written order as the primary authority for the transfer. The account stood in the names of the three deputies. The order signed by all three was the only valid authority for transfer of funds. The person presenting the order was merely a messenger or agent of the Committee of three deputies. Later, when unanimous consent was no longer required, the Bank was allowed to recognize a warrant signed by a single deputy, if the payment had been duly voted by the commission.³

The City of Palermo, likewise, used written orders in handling City funds, from an early date in the fifteenth century. These orders were signed by the Prætor, the chief executive officer, or by one or more of the three deputies who assisted him.⁴ Cusumano assumes that these documents had the status of cheques. Royal officials in various regions also used written documents, but no bank assignments are available for the fifteenth century.

The Sicilian documents of the late fifteenth century contain a formula which Cusumano assumes to refer to the cheque (*polissa*), but we have no clear references to the use of cheques until the early sixteenth century. There is evidence of general use of cheques prior to 1530, in Sicily, in Barcelona, and in Venice, and a strong presumption in favour of early use in Naples. In Sicily and Naples the practice developed continuously without interference from the authorities. In Venice, the use of cheques was absolutely prohibited, November 6, 1526. In Barcelona, the Bank of Deposit was allowed to recognize only the cheques drawn by the City Councillors, but the private bankers were allowed to recognize them.⁵ The text of the ordinance in Barce-

¹ Even in 1553 the Treasurer was required to transact business in person at the bank. AMB, Reg. d'Ordinacions, 1549-59, fol. 101.

² *Llibre dels Quatre Senyals del General de Cathalunya*, Barcelona, 1634. Cort del any, 1413, c. 12, p. 22. ³ AMB, Reg. de Del., 1596, f. 19, January 8, 1596.

⁴ Cusumano, V., *op. cit.*, I, pp. 273-276. The earliest text cited is of 1443.

⁵ Cusumano, V., *op. cit.*, I, pp. 233, 280-289. Lattes, E., *op. cit.*, p. 91. Ajello, P., *I depositi, la fade di credito e le polizi dei banchi di Napoli*, in Filangieri

lona states explicitly the objection to general acceptance of the cheque. "Inasmuch as experience has shown that there have been in the past many abuses by reason of the fact that many parties able to come in person to the said bank make transfers and entries in the bank by orders signed with their name directed to the keeper of the Journal which seems to lead to the discredit of the said bank: Therefore the Honourable Councillors and Syndics establish and ordain that henceforth the keeper of the Journal of the Bank of Deposit shall not be allowed to record any transfer by reason of any cheque or warrant drawn by any individual, unless such person . . . be present in person at the bank or be represented by his lawful attorney; excepting only in the case of some Councillor of the City, during the year of his Councillorship, who, by reason of the dignity of his office, ought not and is not permitted to come like other individuals to the bank."¹ Although provision was made for a bank messenger to take statements of transfers at the homes of the clients of the bank, there were attempts to make use of cheques at the Bank of Deposit. Depositors, at times, gave a power of attorney to the keeper of the Journal or to some other officer of the Bank, but the authorities prohibited these practices in 1567. Finally, in 1609, a new public bank was established, which was authorized to accept cheques.²

VI

Banks of deposit retained some of their primitive characteristics, even after the cheque came into use, for some of the special features of their operations were due to the lack of negotiable paper. The investments of the bank were necessarily different in character from what they are to-day, and the details of many credit operations were affected. The development of the doctrine of negotiability was thus of critical importance to the history of banking. The emergence of true negotiable paper transformed deposit banking and made possible the bank of issue. Most of the present confusion in the treatment of the early history of banking is due to the failure of many writers to recognize the intimate relationship between the history of banking and the history

(1882), VII., pp. 646-647. AMB, Reg. d'Ordinacions, 1519-30, f. 179v, October 29, 1527. AMB, Reg. de Deliberacions, 1530, ff. 26v-27, July 11, 1530.

¹ AMB, Reg. d'Ordinacions, 1519-30, ff. 179v-180, October 29, 1527. Many written documents were, however, received from the Treasurer of the City, the Treasurer of Majorca, the Deputies of the province, and from attorneys. On various special days the bookkeepers were required to enter these transactions outside of banking hours. *Ibid.*, f. 176v.

² AMB, Reg. d'Ordinacions, 1519-30, f. 177, October 29, 1527. AMB, Ordinacions de la Taula, 1567, f. 3. AMB, Reg. d'Ordinacions, 1608-15, f. 38v, October 10, 1609.

of commercial paper. Although extensive use had been made of "order" clauses and "bearer" clauses in the remittance contracts of the Middle Ages, these clauses merely set up an agency which differed in vital respects from the full transfer of rights embodied in a mature concept of negotiability. In external form these early documents seem to resemble our modern commercial paper, but in actual legal properties they were profoundly different. They constitute only a preliminary step towards modern commercial paper.¹

Upon the general introduction of the written contract in the thirteenth and fourteenth centuries a bill of exchange emerged which presented none of the superficial elements of resemblance to modern paper. This was due to the explicit inclusion in the new instrument of all the four parties involved. The typical bill of the fifteenth century designated by name: (1) the party addressed—the payor; (2) the party who would present the bill for payment—the presenter or payee; (3) the party who had given consideration for the bill—the remitter; and, lastly (4), the maker of the bill. In the earlier remittance contracts the presenter was not named. The maker contracted to pay the stated amount to the remitter, or his duly constituted agent. The "order" clause was the most general form used to cover this appointment of an agent to receive the funds, but, despite its suggestiveness to the modern mind, this clause was never more than an authorization for one formal appointment of a specific presenter or recipient of the funds. The inclusion of this presenter in the mercantile bill of the fourteenth and fifteenth centuries made the order clause unnecessary. For many kinds of transactions, too, it was not necessary to arrange in advance for the appointment of an agent.

The position of the presenter at this time differed from that of the modern endorsee in three respects: his agency was automatically extinguished by the death of his principal, the remitter; his agency might be revoked; and, if legal proceedings were necessary, suit must needs be brought in the name of the principal. For promissory notes, rather than for bills of exchange, considerable use was made of a "bearer" clause. Possession of the instrument was sometimes interpreted as sufficient evidence of appointment as agent of the principal, but the lawyers became more rigid in their doctrine and came to insist

¹ The present account is based on the later German writing: Freundt, C., *Das Wechselrecht der Post glossatoren*, 2 vols., Leipzig, 1899, 1909. Schaps, Georg, *Zur Geschichte des Wechselindossaments*, Stuttgart, 1892. Hecht, Felix, *Ein Beitrag zur Geschichte der Inhaberpapiere in der Niederlanden*, Erlangen, 1869. These works supplant the older German writing to such an extent that references to the extensive earlier literature would serve no useful purpose. A fairly adequate account of these matters is furnished by Holdsworth, W. S., *A History of English Law*, VIII., pp. 113-170, London, 1922-26.

upon independent proof of an appointment as agent. The "bearer" clause thus became less useful in the course of the fourteenth and fifteenth centuries. The development of the doctrine of negotiability brought about important changes in the legal relationships among the parties to these commercial contracts. Without extensive changes in the forms of these documents there was an important transformation in their legal attributes, which made possible extensive revisions and developments of commercial practice.

There is no explicit evidence of any real break with older practices and doctrines until the second quarter of the sixteenth century, and it is equally clear that the new legal doctrines were not fully established in any country earlier than 1650. But only in 1700 can we assume that the primary types of commercial paper are fully negotiable. A critical period in the history of banking is thus complicated by this slow transition from non-negotiable to negotiable paper. If we are to avoid serious errors in the interpretation of banking practice, it is essential to have some appreciation of the timing of this process of development.

The change in the law followed changes in business practice, so that we must look to the activities of the traders and bankers for the initial impulses in this remarkable development of commercial law. In Europe, as a whole, there were three new practices which led towards full negotiability. In Naples, and perhaps in Sicily, the banks began to make use of certificates of deposit that were partially negotiable. The practice developed most explicitly in Naples among the banking departments of the public pawnshops and hospitals. There is no documentary evidence prior to 1573, because the records of the banks prior to that date were destroyed by fire, but it is presumed that the practice came into use at the time of the establishment of these banking activities in 1539, or shortly after. The extended discussion of the legal attributes of these Neapolitan instruments played a vital part in the development of the Italian theories of negotiability. By analogy, this mode of transferring rights was extended to the bill of exchange in Naples and in other parts of Italy.

In the early sixteenth century, too, there appeared in France and Holland promissory notes and bills of exchange made payable to bearer. These notes and bills circulated rapidly from hand to hand, unlike the Neapolitan certificates, which were supposed to effect only one transfer. The northern practice, therefore, brought up all the major issues of negotiability. Finally, actual use of the bill of exchange was found to present some variety of circumstance. In some instances, the remitter and the presenter were the same person. At times the remitter was, in fact, the agent of the party who became the presenter. Occasionally, it was inconvenient to name the presenter when the bill

was drawn, and the space was left blank, or provision made for subsequent appointment of the presenter by the inclusion of an order clause.

These various practices made bills and notes more flexible commercial instruments than was recognized by the lawyers, and the business men placed the lawyers under a positive pressure to make some provision for various problems. After much hesitation the law was made an effective instrument for the protection of the interests of business. The earliest of these legal steps that can be accurately dated is the recognition as a properly constituted agent of any bearer of bills or notes having a bearer clause. This doctrine was recognized as mercantile custom at Antwerp prior to 1535, and in 1537 it was embodied in an ordinance of Charles V. applicable to the low countries. It appears also in the statutes of Mechlen (1535), Utrecht (1550), Dordrecht (1570), and South Holland (1571). In the revised statutes of Antwerp, of 1580-81, the bearer was authorized to bring suit in his own name.

We cannot date as adequately the legal recognition of an order written on the face or the back of a document. In Italy notations of various kinds were commonly made on the face of the document, and, as a natural result, the orders of transfer of the Neapolitan certificates of deposit were written on the face of the instrument. The precise locus of these orders is a matter of indifference, and it is thus necessary to deal only with the legal content of the practice that we now properly describe as endorsement. In France and Holland orders were written on the back of the instrument. The practice is of uncertain origin, though references in Dutch treatises indicate that it became customary to note on the back any change in the relations of the parties to the original document. Thus, the appointment of a substitute by a duly constituted agent was noted on the back of the instrument of agency. It is desirable to note that the recognition of the order did not, at first, give the party any new legal rights. The party designated by the order was merely recognized as a duly constituted agent. The document thus contained all the material facts, and it ceased to be necessary to produce independent evidence of agency. These changes can be roughly identified with the second half of the sixteenth century, though the evidence is not very satisfactory in respect of dates.

The basic legal innovation is the concept of the *adjectus in rem suam* (the agent in his own affair). This new concept was first evolved in connection with various exceptional cases in respect of the bill of exchange. If the remitter and the presenter were, in fact, the same person, it was obvious that the presenter was, in truth, a principal and not an agent. Insofar as analogous cases occurred, the courts were

willing to allow a party to bring forward proof that he was acting in his own behalf and not as agent for another party. Schaps holds that this curiously expressed concept laid the foundations for the modern doctrine of negotiability. The *adjectus in rem suam* could not have his agency revoked, his rights were not contingent upon the life of another, and legal procedure was instituted in his name. The doctrine appeared in Italy and in France in the late sixteenth century, but it was at first strictly limited in application.

Freundt holds that the sixteenth century merely registered progress towards full endorsement, and that only in the seventeenth century do we find positive evidence of the establishment of the new doctrines. The Neapolitan ordinance of November 8, 1607, is the earliest explicit recognition of negotiability in Italy, but it was designed to be restrictive in effect. It speaks of the inconveniences that arise in connection with several transfers, and limits the use of the order clause to a single transfer. There is a similar ordinance for Lucca in 1610, but for Venice and Florence we have evidence that such transfers were not recognized at all. It is significant, too, that even the Neapolitan legists Scaccia, Peri, and Turri ignore the emergence of the concept of negotiability. It would seem, therefore, that the new doctrine made its way very slowly, and that this unwillingness to recognize it led to the continued use of much "bearer" paper. In 1649 the commentator Laganarius recognized the endorsee as having the rights of a principal (*procurator in rem propriam*), and Italian doctrine assumed its mature form towards the close of the century in the writings of Casaregis.

In France and Holland evidence is not adequate for the first half of the seventeenth century. We have only a brief description of French practice that indicates a wide use of bearer paper. It is commonly held that bearer paper likewise dominated Dutch practice. Then, rather suddenly, endorsement was fully recognized. There is a series of ordinances at Amsterdam beginning in 1651, which establishes the basic principles of modern Dutch law, and Phoosen, a writer on business law (1677), gave wide currency to the doctrine. In France these doctrines were embodied in the ordinance on commerce of 1673 and given wide currency by the writings of J. Savary and Bornier. The details of law and practice differ in several particulars from Italian custom, so that we may infer that the French and Dutch jurists were not entirely dependent upon the Italians, despite the priorities that appear at some points.

In Germany, several of the great fair towns attempted to prevent the introduction of endorsement, but beginning with the revised ordinance of Frankfort-am-M., September 18, 1666, legislation was favourable; but legal recognition was not general until the beginning

of the eighteenth century. In England, the practice of endorsement was first described by Marius (1651), but legal recognition came only with the statutes of 1698 and 1704 (9 and 10 Will. III., c. 17; 3-4 Anne, c. 9).¹ In Spain, the new doctrines were not fully recognized prior to the revision of commercial law embodied in the Ordinances of Bilbao in 1737.

VII

The development of the cheque and even the early advances towards negotiable paper made many changes in the details of banking practice and gradually gave deposit banking its modern aspect. These changes inevitably resulted in greater differentiation than had existed during the fifteenth century. There were wide variations in the rate of change in different localities, and the public authorities looked upon the new business practices with varying degrees of sympathy. In Naples, new practices were frankly recognized; in Venice the senate pursued an ultra-conservative policy and prohibited all change. Furthermore, general economic conditions were unfavourable to the development of trade in the Mediterranean countries. Even if there were no absolute decline, it is fairly certain that there was little growth. The banking system was thus subject to severe strains on account of the losses of commercial firms, and extensive banking failures occurred in all sections of Italy. The attempt of the authorities to meet these difficulties added appreciably to regional differentiation of banking practice.

Unfortunately, the sources available for the history of banking in the sixteenth century are not sufficiently extensive to enable us to describe conditions in Europe as a whole. For France we have only the merest indications of banking activity, and there are no unused source materials known to be available in the major public archives.² Much light is thrown upon conditions in the Low Countries by the activities of the great international bankers like the Fugger, and by

¹ Richards, R. D., *The Early History of Banking in England*, London, 1929, pp. 45-46.

² Vigne, Marcel, *La Banque à Lyon du XV^e au XVIII^e siècle*, Lyon, 1903. Although the text shows that careful use has been made of MS. material available in Lyons the description rests primarily upon printed material. The extensive bibliography includes the basic material available for France as a whole. No important MS. materials were brought to light by careful searches made by the writer in the printed inventories of the Departmental and National Archives, nor by exploratory work in Paris at the Bibliothèque Nationale and the Archives Nationales. The critical jurisdictions are the Cour des Aides and the Cour des Monnaies. The extant series are obviously very incomplete, and of the materials that would have served for work on banking only seven registers remain—Z1b, 286-290, and KK 5, 15. When and how these materials disappeared we have no means of knowing.

the exchange operations of Thomas Gresham.¹ But these materials have not yet furnished us with any comprehensive description of the general character of banking practice. The Fugger archives are likewise the most important single source of information for Austria and Germany, but it is, of course, important to have more knowledge of the operations of the local banking firms.² We are thus largely dependent upon Italian material for detailed description of banking. For many towns of the north we have only brief indications in the statutes, and the abundant material at Genoa has not been effectively utilized. Significant knowledge of detail is confined to Venice, Naples, and Sicily. In the sixteenth century, Sicily was profoundly influenced by Catalan practice, so that Catalonia and Sicily constitute together a single region. Even with these limited materials it is evident that regional differentiation became conspicuous in the course of the sixteenth century.

In Venice, the private banks were subjected to much more rigid regulation than in other parts of Italy, and towards the close of the century a new type of public bank was created whose functions were so narrowly prescribed that scarcely any use was made of credit.³ Venice in the sixteenth century was ultra-conservative. Commissioners were appointed on June 2, 1524, to supervise the private banks, and to enforce the obligation to meet the demands of depositors. On November 6, 1526, the use of the cheque was prohibited, and some additional regulations were made. Even in Barcelona a limited use of the cheque was permitted in the Bank of Deposit, and the private bankers were allowed to use them freely. Venice alone stood out against this important development. The anxiety to make the banks safe was offset in large measure by the desire to utilize their resources for loans to the state. The amount of loans to the city was made the limit of investments in trade. Despite the reserve of 500 ducats deposited by each bank with the Commissioners under the law of 1524, the regulations failed to check the evils of excessive expansion. At all events, increasing regulation did not avert serious failures of banks. The average length of life was short, and Contarini gives the impression that practically all banks came to a bad end. This growing distrust

¹ Unwin, George, *Studies in Economic History*, London, 1927, pp. 145-167. Ehrenberg, R., *op. cit.*, II., *passim*.

² Jansen, Max, *Jakob Fugger der Reiche*, Leipzig, 1910. Translation by Mildred L. Hartsough, *Jacob Fugger the Rich*, New York, 1931. Reinhardt, E., *Jakob Fugger der Reiche*, Berlin, 1926. Strieder, Jakob, "Die Inventur der Firma Fugger aus dem Jahre 1527," *Erganzungsheft*, XVII., *Zeitschrift für die gesammte Staatswissenschaft*, 1905. Häbler, K., *Die Fugger in Spanien*, Weimar, 1897. Weitnauer, Alfred, *Venezianische Handel der Fugger*, Leipzig, 1931.

³ Lattes, E., *op. cit.*, *passim*. Ferrara, F., *op. cit.*, *passim*. Dunbar, C. F., *op. cit.*, *passim*.

of deposit banking led to the establishment of the famous Giro Banks: the Bank of the Rialto (1587) and the Giro Bank (1619). In 1637, the Giro Bank absorbed the Bank of the Rialto. These banks were hardly more than institutions for centralized clearance, actual credit operations were prohibited. The abolition of all private banking that was originally contemplated proved to be impossible, and a number of private banks were established.

In Naples, the private banks suffered many reverses during the sixteenth century. They were subjected to some regulation, but were not as severely handled as in Venice. Beginning about 1539 with the establishment of the *Monte della Pietà*, the banks met with competition from the banking departments of these charitable foundations. The banking business was developed in order to furnish funds for the loans on pledge, or for the hospitals. The distinctive feature of these banks was the issue of certificates of deposit which were partially negotiable from an early date. They subsequently became an important element in the circulation of the region and must be recognized as the prototypes of modern credit currency. These banks also permitted the use of cheques. The *Monte della Pietà* (1539?) and the *Sacro Monte dei Poveri* (1563) maintained banking departments under their own name. The hospitals and charitable foundations that established banks treated their banks as separate institutions, and gave them separate names. Thus, the hospital, *Casa Santa dell' Annunciata*, established the bank *Ave Gratia Plena* in 1587. The hospital of the *Incurabili* established in 1589 the *Santa Maria del Popolo*. An orphan asylum established in 1591 the *Banco dello Spirito Sancto*, and other hospitals established the banks of *Sant' Eligio* (1592), *Santi Giacomo e Vittoria* (1606), and *Santi Salvatore* (1640).¹ Although these banks have attracted little attention outside Italy, they played a more significant rôle in the history of banking than the better-known giro banks.

Sicily and Catalonia were conservative. Private banking continued with little change in the amount of regulation, but new public banks were established after the models furnished by Barcelona and Valencia. There are vague allusions to the establishment of a public bank at Trapani in 1459, but there is little evidence of an active bank. In the next century, public banks were established at Palermo (1552), Messina (1587), Gerona (1568), Saragossa, and Vich. There are general statements that would imply a much larger number of public banks in Catalonia, but particulars are not forthcoming. In general form, these banks show little modification of the original type until the first decade of the seventeenth century. Their statutes were then modified,

¹ Tortora, Eugenio, *Nuovi documenti per la Sotoria del Banco di Napoli*, pp. 16, 17, 45, 61-62, 65-69, 82-83, 93-94, 97, Napoli, 1890.

or, as in Barcelona, a new bank was established, so that cheques could be freely used. The distinctive feature of the Catalan system was the reservation of the credit facilities of the public bank to the city and other public authorities. The public banks acted as fiscal agents for the public authorities and supplied them with all credit needed. The private banks served the needs of trade. The contacts between public and private banks presented a number of difficult problems of policy, which were never settled in a wholly satisfactory manner. Even after the reorganization in the early seventeenth century, Catalonia and Sicily thus retained a system of pure deposit banking, modernized by the introduction of the cheque and the development of negotiable paper.

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