CHAPTER SIX

Three City-State Experiences

Up to this point, my empirical analysis has taken the form of a broad comparison involving a large number of states and a very long time span. I have identified an apparent financial advantage of city-states. I have argued that this financial advantage stemmed from the fact that public creditors were well represented in the governance of city-states, but creditor representation was itself dependent on underlying factors involving small geographic size and the presence of an elite that held liquid forms of wealth. The econometric tests in chapter 4 provide significant support for this argument, but even after considering these results, there remain questions whether the financial advantage of city-states might be attributable to alternative mechanisms. City-states may have had better access to credit for economic reasons that had little or nothing to do with political representation of creditors, and these economic factors may have been incompletely controlled for in my cross-state regressions. I now present a more detailed analysis of credit and representation in three city-states: Cologne, Genoa, and Siena. This analysis will be critical in highlighting the mechanisms at work that determined whether a state had access to credit and at what cost. The contribution of this chapter is threefold.

First, the chapter makes a novel contribution by explicitly comparing outcomes between two Italian city-states and a major Northern European city-state. Too often in discussions of the development of public debt, Italian city-states are seen as precursors without a full examination of similarities between their experiences and those of autonomous cities elsewhere in Europe.[1] The second contribution is to emphasize how public indebtedness was an issue of strong and often violent social conflict within city-states. Given this basic fact, any argument that city-states were more successful in sustaining representative institutions and in accessing credit because they were more homogeneous and consensual is hard to sustain. The third contribution of the chapter is to emphasize the importance of political control by merchants. I give particular emphasis to changes in political control by merchants within states. While the core argument of

[1]An important exception is the contribution by Tracy (2003).

this book emphasizes that merchants controlled city-state affairs much of the time, it should nonetheless be possible to identify periods within individual states when merchant power was less secure. In the previous chapter I have already referred to the existence of these episodes. In this chapter I will elaborate on several such developments in greater detail.

The experience of Cologne, Genoa, and Siena shows that there was nothing more effective in ensuring access to credit than being ruled by a merchant oligarchy. We also have evidence that when merchant control was challenged, this had negative consequences for access to credit. The most dramatic example of this is provided by Siena, where a merchant oligarchy known as the regime of the Nine held power from 1287 to 1355 but then lost power as the result of a popular uprising. The series of regimes that ruled Siena after 1355, and that had substantially more popular participation, found it considerably more difficult to obtain access to credit. In Cologne we see examples where several similar popular uprisings had dramatic effects on public credit, but these proved to be temporary, as a governing oligarchy succeeded in reestablishing control. In Genoa we see that the lowest interest rates on public debt occurred during a period where a merchant oligarchy had most firmly entrenched its power.

Merchant Oligarchy in Cologne

While the role of Italian city-states as financial innovators is well known, I have argued throughout the previous five chapters that city-states elsewhere in Europe also obtained access to credit at low interest rates. In Northern Europe the experience of the city-state of Cologne presents a particularly interesting example in this regard. Though it did not attain formal status as a Free Imperial City until 1475, Cologne's leading patrician families had established de facto political control by the thirteenth century, the outcome of a dispute with Cologne's archbishop. The city did not lose this independence until it was conquered by French Revolutionary armies in 1794. Cologne is located in a favorable geographic position on the Rhine, and from an early date it became an important European center for long-distance trade. The city's population is estimated to have numbered 54,000 before the Black Death and continued to number between 40,000 and 45,000 through the end of the sixteenth century, making it one of the largest cities in Northern Europe.[2]

[2]These figures are drawn from Bairoch, Batou, and Chèvre (1988).

The city of Cologne also developed a long-term debt at a very early stage, during the thirteenth century. In the discussion that follows I will review the development of public credit and political representation in Cologne, demonstrating the intimate link between political control by merchants and access to credit.

Development of Public Credit in Cologne

While the first records of borrowing by the city of Cologne involve short-term loans contracted with merchants from Siena, it is also known that from the thirteenth century the city began borrowing long-term by issuing annuities. The best, albeit brief, English-language account of the evolution of public credit in Cologne is provided by Fryde and Fryde (1963). In producing their summary these two authors drew on the fundamental earlier work of Richard Knipping (1894, 1898), and the following discussion is based heavily on these sources.[3] Long-term borrowing by the city of Cologne went through several successive stages during the fourteenth and fifteenth centuries. After initially relying on the sale of life annuities, between 1350 and 1370, the city shifted in the following decades toward raising money through short-term interest-free loans from rich citizens, as well as from the sale of perpetual but redeemable annuities to citizens of other free towns in Germany, including Augsburg, Lübeck, and Mainz. After an interruption in access to credit following a popular revolt in 1396, the city borrowed during the fifteenth century by selling both life and perpetual annuities to its inhabitants.[4] This was the point at which the institutions of public credit in Cologne became the most sophisticated and at which the city found itself able to borrow at particularly low interest rates. City finances were managed by the city council, which in turn relied on a chief financial official known as the *rentmeister*, as well as managers of three separate annuity chambers (*rentkammern*) or treasuries: the Wednesday Chamber, the Friday Chamber, and the Saturday Chamber.[5] Finally, according to

[3]I would like to thank Tolga Sinmazdemir for assistance with Knipping (1894, 1898).

[4]Knipping (1894) suggests that during this period the municipality also began to sell annuities in smaller denominations to a broader segment of the population, a development that appears to have been spurred by the fact that after the revolt in 1396, a number of wealthy individuals were initially reluctant to lend to the municipality.

[5]According to Knipping (1894), these chambers also served as savings banks for the population of Cologne, which provided a further source of finance to the municipality.

Knipping (1894), there is also evidence of the development of a secondary market for public annuities during this period.

The extensive study by Knipping (1898) provides interest rates on both life annuities and perpetual annuities issued by the city of Cologne for a period running from the middle of the fourteenth century to the 1470s. By the end of the fourteenth century the city council of Cologne was able to issue annuities at interest rates as low as 5%. This compared favorably with the lowest interest rates prevailing in Italian city-states. After an interruption in access to credit after the 1396 revolt, during the course of the fifteenth century the 5% level became a ceiling rather than a floor for interest rates on perpetual annuities sold by the city. The evolution with regard to rates on life annuities was similar if somewhat less marked.

After the middle of the fifteenth century, public finances in Cologne appear to have taken a decided turn for the worse. The need to finance a war to defend the city of Neuss against the Duke of Burgundy resulted in the city borrowing more in two years than it had borrowed in the preceding half-century. This represented a turning point when the emergence of larger territorial states on Cologne's borders began to pose a new challenge for the city. That the ruling magistrates of Cologne were actually able to find purchasers for such a large quantity of annuities testifies to the public's perception of the municipal government as creditworthy. Ultimately, however, the choice made by Cologne's ruling magistrates to service a rapidly accumulating stock of debt almost exclusively through indirect taxes on common consumption goods helped to trigger popular revolt. During this period, proposals had been made that would have increased revenues through the creation of a property tax and other taxes that would fall primarily on the wealthy, but these ideas were rejected (Knipping 1894). A first revolt occurred in 1481, followed by another significant revolt in 1513. It is unfortunate that the interest rates provided by Knipping (1898) do not cover this later period of fiscal crisis. We can nonetheless conclude from the foregoing analysis that after an interruption in access to credit following the popular revolt of 1396, the city-state of Cologne during much of the fifteenth century was particularly successful in obtaining access to long-term credit at low cost. The next question is to what extent this might be attributed to the system of political representation in Cologne.

Political Representation in Cologne

Speaking of the political system of German cities, the historian Robert Scribner has suggested that "[i]f any blanket term is applicable to the polity of German towns it is that they were inherently oligarchic."[6] Cologne was no exception. Its governance went through two distinct regimes during the period considered here.

From the time it first established its independence until the late fourteenth century, Cologne was governed by a patrician regime in which a small number of the city's wealthiest families governed the city. From the eleventh century the Cologne patriciate organized itself through the city's merchant guild. Subsequently, the members of the patriciate formed the *Richerzeche*, a social club that included the city's great merchants and property owners. The distinction at this time between patriciate and non-patriciate in Cologne, as in other German cities, did not correspond perfectly to a divide between "merchants" and "artisans."[7] Many members of the patriciate were merchants, but this was not the case for all of its members. Likewise, there were also many successful merchants who were not part of the patriciate. Overall, however, it does not appear unreasonable to suggest that there was clearly a strong correlation between patriciate membership and mercantile capital. The patriciate in other autonomous German cities had similar organizations, a prominent example being the Circle Society of the Hanseatic port of Lübeck.[8] Finally, the role of the patriciate in Cologne, as in other German cities, was also strengthened by intermarriage.

Beginning in 1216 formal authority in Cologne was exercised by the city council. This was a small body of fifteen members that was renewed each year and for which the fifteen new members of the incoming council were chosen by the outgoing council—a system of cooptation. Philippe Dollinger (1954: 461) suggests that in Cologne, as well as in other German cities at this time, this selection mechanism ensured that control of the council remained with a small number of influential families. One final feature of patrician control in Cologne is the extent to which, at least until the late fourteenth century, its governing class was not subject to the sort of factional divisions that would threaten political stability in Italian city-states like Genoa.[9]

The popular revolt in 1396 led to the creation of a new constitution, the *Verbundbrief*, which was designed to ensure broader representation in

[6] Scribner (1996 p. 313).

[7] This would follow the caution suggested by Dollinger (1955).

[8] See Dollinger (1971) and Rotz (1977).

[9] This distinction between German city-states and Italian city-states has been emphasized by Finer (1995) as well as by Sidgwick (1903).

Cologne's governance. As a result of the 1396 reform, the *Richerzeche* club was abolished, and the selection method for the city council was altered. Political organization in the city was now to be based on 22 individual corporations, or *Gaffel*. Five of these were associations of merchants, and the remaining seventeen were designed to represent Cologne's numerous craft guilds. The Gaffel in turn elected 36 of the 49 members of a new city council. The remaining thirteen members were to be selected by the first thirty-six.

What is striking about this new constitution is that the abolition of the patrician regime does not appear to have produced more than a temporary change in the social groups that in practice ran the city. As Robert Scribner (1976: 237) observes, "In theory this structure seemed to provide a government with broad participation of the commune organized in the Gaffel. In practice it provided the basis for a system of tight political control by a merchant oligarchy." If anything, the only real change may have been to strengthen the position of merchants in Cologne with respect to older patrician elements, a number of whose wealth was held primarily in property.

Perhaps the best indication that Cologne's constitutional change of 1396 did not produce a real increase in political participation is that a frequent demand of those who led subsequent revolts in Cologne was to apply the true principals of the 1396 constitution, the *Verbundbrief*. The reasons why the constitutional change of 1396 failed to radically broaden political participation have been considered by Scribner (1976). One problem with the Verbundbrief seems to have been that the devil was in the details. So, for example, while the Gaffel now elected thirty-six of the forty-nine council members, the heads of each Gaffel were not themselves chosen in an open election by all members—they were instead selected by a special committee of more prominent members. The principle of free election of Gaffel representatives was briefly established during a popular uprising in 1481, but it was abolished in 1482 following the overthrow of the rebellion. A second problem seems to have been that, over time, the new rules were simply ignored, as a body of sitting magistrates consulted informally with "friends and capable men." A third problem involved the frequent use of electoral manipulation and fraud. Finally, the Gaffel system also strictly regulated rights of assembly, which served as a further mechanism to control potential opposition. The Gaffel system was not perfect at suppressing revolt. A revolt in 1513 produced a document called the *Transfixbrief*, which called for reasserting the original intentions of the 1396 reform. The revolt led to the arrest and execution of six sitting city councillors, as well as institutional changes, such as the provision that the city's seal, which was necessary to certify annuity letters, would be kept under 23 keys with the head of each of the Gaffel holding a key. In the end, however, this revolt apparently produced little durable change in actual governance.[10]

Distributional Conflict over Debt

So far I have argued that the city of Cologne was able to borrow at low interest rates and that it was ruled by a merchant oligarchy. Formal political influence of merchants was significantly reduced in 1396, but the real effect of this change appears to have been short lived. I have not, however, presented any evidence to suggest that outcomes would have been any different had the merchants not held political power. One way of considering this problem further is to investigate what transpired in instances where the power of Cologne's merchant oligarchy was placed in jeopardy. Political revolts occurred in Cologne in 1371 and 1396, and again in 1481 and 1513. In each of the four instances dissatisfaction with decisions regarding debt and taxation was a prominent factor fueling unrest. This was particularly clear for the latter two revolts, which occurred during a period of rising debt and rising taxation. In 1481 a proposed increase in excise taxation triggered a revolt in which its more radical leaders called for a suspension of payments on annuities. The revolt in 1513 resulted in an actual reduction in payments on annuities as well as new provisions requiring the consent of the whole community before new debt could be issued.

The basic cleavage in Cologne over the issue of public debt was the same one that existed in many European city-states. Public annuities were owned primarily by wealthy individuals who very often tended to be those who had accumulated wealth through commerce. The revenues to service these annuities depended primarily on indirect taxes, many of which were levied on common consumption goods. The structure of the tax system ensured that poorer groups of artisans within the town bore a significant part of this tax burden. It is important not to oversimplify by implying that this idea of a fundamental cleavage between merchants and artisans over public finance can adequately represent what was certainly a more complex picture in Cologne, or in other Hanseatic cities for that

[10]Knipping (1898) hints at this fact in the conclusion to his introductory essay on Cologne's finances.

matter. The detailed study by Rhiman Rotz (1977) on events in Lübeck during the early fifteenth century points to divisions within the city's elite between individuals actively engaged in long-distance commerce and individuals who had acquired wealth in long-distance commerce but then adopted more rentier lifestyles by investing in land and in annuities. With this said, it would seem difficult to contest the basic idea that the financial policies pursued by the city-state of Cologne had significant distributional effects, and that we can see evidence of this in the case of demands made by protestors during each of the four popular revolts that I have listed.

Summary

We can conclude that in Cologne merchant control was a critical factor in explaining the municipal government's access to long-term credit. The nature of political conflict within the city strongly suggests that it was not just a strong merchant presence but also merchant political control, facilitated by a particular set of institutions, that sustained the city's ability to borrow. Had one of Cologne's numerous popular revolts produced a more durable change in the system of government, outcomes with regard to public credit would, in all likelihood, have been very different.

Genoa and the Casa di San Giorgio

The Genoese republic is widely recognized to have been a pioneer with regard to public debt and a notable example of a European state that was able to gain access to long-term finance at low cost. Observers since the time of Machiavelli have attributed Genoa's financial success to the presence of the Casa di San Giorgio, a private centralized institution established in 1407 that managed the Republic's debt while also being responsible for collecting much of its revenues.[11] Because of its reliance on delegation to a private company, the ingredients for financial success in Genoa on the surface appear to have been quite different from those in Cologne, or many of the other city-states considered in this study. In

[11]The discussion in this section relies primarily on the recent histories of Genoa by Epstein (1996b) and Kirk (2005), as well the classic study of Genoa in the fifteenth century by Jacques Heers (1961). An insightful recent analysis of Genoese public debt and the Casa di San Giorgio is provided by Fratianni (2006). Machiavelli included a brief description of the Casa di San Giorgio in his *History of Florence*.

these states, city councils retained direct control of their finances. In what follows I will reveal a more fundamental similarity between these cases. The Casa di San Giorgio achieved its greatest success as an institution after Genoa's mercantile aristocracy established a lasting political dominance over both popular elements and the landed aristocracy of this particular region of Italy. Moreover, there was an extremely close association on a day-to-day level between the individuals who managed the Casa and the individuals who managed the affairs of the Genoese Republic. The more oligarchic the Genoese Republic became, the better its access to credit.

Development of Public Credit in Genoa

The city of Genoa emerged in an area of Italy (Liguria) that had few natural resources, and it developed an economy based primarily on long-distance commerce. The first record of a self-governing commune in Genoa dates from 1099. Involved in frequent military conflicts, the Genoese state also began borrowing at a very early date to finance its military operations. One of the earliest forced loans in Genoa occurred in 1221, and it involved an assessment of 1% of wealth.[12] As was generally the case in Italian city-states, this loan was not voluntary, but it did pay interest. From a very early date, the Genoese state also developed a practice of borrowing by creating a *compera*, which involved a loan by private individuals to the state in exchange for the right to future revenues from a specific tax. These *compere* were initially also compulsory but would eventually become voluntary. In 1259 a reform was implemented to consolidate Genoa's existing debt. Existing holders of debt were given shares in a new *compera* that paid a nominal rate of 8%. In addition, they also had the right to sell these shares, which created a secondary market.[13] In 1339 under Genoa's first doge, Simone Boccanegra, a new principal was established of paying variable interest on the consolidated debt, depending on the level of customs revenue, which in turn depended on the level of trade.[14] As a result of this change, holding Genoese debt began to resemble holding an equity stake in the state. This type of debt differed from that seen both in Northern European city-states that financed themselves through the sale of annuities and in other Italian city-states where fixed

[12]Epstein (1996b: 111).
[13]Epstein (1996b: 146–52).
[14]Day (1963: xxiv).

interest rates were paid on obligatory loans that in many cases could be traded on a secondary market.

The Casa di San Giorgio emerged in 1407 as part of a new attempt to consolidate the Genoese Republic's debt.[15] Holders of existing shares in different *compere* were given shares in the new *compera* of San Giorgio. These paid a nominal rate of 7%, but the actual rate varied depending on the level of receipts on trade duties. It is worth following Jacques Heers (1961: 112) in pointing out that there was nothing fundamentally new or revolutionary about the Casa compared to previous mechanisms for managing government indebtedness in Genoa. The principle that interest rates could be conditioned on tax receipts had already been established in 1339. In terms of its internal management, Jacques Heers (1961: 117–18) suggests that it closely resembled other compere that preceded it. According to the Casa's initial constitution of 1411, its day-to-day affairs were run by a committee of eight "protectors." To be eligible for selection as a Protector of San Giorgio, individuals were required to own at least ten shares in the Casa (a significant sum representing 1000 lire), and Protectors were chosen by a system of cooptation. The Casa also had a larger council of shareholders that appears to have met infrequently and exercised only a relatively limited influence over the Protectors. Where the Casa differed from the institutions that preceded it is that it eventually succeeded in controlling the totality of the republic's debt. The other critical feature of the Casa, which will be described shortly, is that the Protectors of San Giorgio were intimately involved with the governance of the Genoese Republic itself.

Distributional Conflict over Debt

One of the contributions of Avner Greif's important (1994) work on Genoa has been to show that governance in this Republic, or in other Italian communes for that matter, cannot be reduced to a simple scenario of "governments of the merchants, by the merchants, for the merchants."[16] There were instead major distributional struggles and factional conflicts between merchant groups within Genoa. However, inter-merchant factionalism is not to be ignored, it is also important when considering the

[15]For an analysis of the Casa di San Giorgio, see the recent study by Fratianni (2006), as well as the earlier study by Heers (1961).

[16]The original quote is from Lopez (1971).

specific issue of Genoa's public indebtedness not to overlook the presence of very significant distributional conflict among different economic groups within the Republic. Since much of the city's debt was held by those who had originally made fortunes in commerce, popular groups consistently protested against heavy levels of indirect taxation on common consumption goods. It was these taxes that helped service the city's debt. When a popular revolt brought Guglielmo Boccanegra to power in 1259, one of the motivations was popular dissatisfaction with public finances. In the law that Boccanegra passed to consolidate Genoa's existing debt, he made explicit reference to the fact that Genoa's debt was held by the wealthy while the bulk of the tax burden was borne by popular groups.[17] Eighty years later, when a popular revolt brought Simone Boccanegra to power, popular discontent with the costs of servicing Genoa's public debt was again the motivation. One of the new regime's first acts was to burn the official list of the state's creditors. The motivation for this act was undoubtedly fueled by the fact that a very large fraction of the Republic's annual budget was devoted to debt servicing.[18] One further thing to note about popular protest in Genoa is that the city's craft guilds were always weak, and as a result there was no vehicle by which the guilds might demand a place in government. This represents a fundamental difference from Cologne, where craft guilds were much better organized, even if their rank and file ultimately had little impact on the city council's decisions.[19]

Genoese Political Institutions

Medieval Genoa was characterized by an extremely high level of factional conflict. For the 270-year period between the captainship of Guglielmo Boccanegra in 1259, who first consolidated Genoa's long-term debt, and the initiation of the Andrea Doria Republic in 1528, Steven Epstein (1996b) documents no fewer than 54 major revolts, the majority of which were successful in creating a change in control of government. This is a very high level of political instability even by the standards of most Italian city-states. It is certainly indicative of a much higher

[17] See Epstein (1996b: 148).

[18] Day (1963: XXXIV) reports annual budgets for two years in the late fourteenth century. In 1377 debt servicing amounted to 61% of revenues. In 1382, a year of higher customs receipts, it amounted to 49% of current revenues.

[19] Epstein (1996b) suggests that this weakness of the Genoese craft guilds was attributable at least in part to Genoa being a port city.

degree of instability than existed in German city-states, such as Cologne, Bremen, and Hamburg. In keeping with this high level of instability, the structure of Genoese political institutions also changed frequently during the medieval period. During the twelfth century, Genoa was governed by a committee of between four and eight consuls. In 1190 the commune attempted for the first time to resort to rule by a podesta, an official originating from outside the city who would serve a period of one year. The role of the podesta has been examined extensively by Greif (1994, 2006), who argues that this institution initially helped to limit open conflict between warring factions in Genoa, but that it failed to provide an enduring solution to the problem. From 1339 Genoa's supreme magistrate was an elected doge, but the selection process was often a source of violent conflict.

When we turn to considering the structure of Genoese representative institutions, we see that they changed frequently in the period before 1528, but there is clear indication of a strong and increasing influence of government creditors over time. Heers (1961) provides a detailed picture of the workings of Genoese political institutions in the fifteenth century. Day-to-day control was exercised by a council of eight magistrates who served for terms of four months. These magistrates met almost daily and made all important decisions, in addition to nominating key administrative officials. In their meetings the magistrates were very frequently accompanied by the eight Protectors of San Giorgio, who thus exercised a very direct degree of control over the Genoese state. In the case of major decisions, Genoa also had a larger assembly, the Magnum Consilium, which included the magistrates in addition to between 300 and 400 citizens. This was apparently not a regular institution, nor did it have regular procedures determining who would participate in its deliberations.

In 1528 a series of dramatic reforms were enacted, giving Genoa a new set of political institutions that would last until 1798. A new form of aristocratic government was established based on 28 clans, or *alberghi*. From the list of all adult males from the *alberghi*, four hundred were individuals selected by lot to participate in the Maggiore Consiglio. From within this body one hundred individuals were chosen by lot to participate in a smaller council, the Minore Consiglio, which nominated the key officials who managed Genoese affairs on a daily basis.[20] In 1547 a

[20]See Epstein (1996b: 315–16).

constitutional reform was passed that reduced the element of lot in this selection process and that interestingly gave the Protectors of San Giorgio a partial right to nominate certain councillors.[21] Jacques Heers interprets the Andrea Doria reforms as the triumph of Genoa's mercantile class over both artisans and those nobles whose wealth was based primarily on land.[22] Epstein concurs with this analysis to the extent that the reforms signalled a durable exclusion of popular (popolo) participation in Genoese politics. He suggests that "[f]or five centuries the nobles and the popolo had been contending for power, and in 1528 the nobles and some of the richer popolo abolished the political rights of everyone else" (1996b: 316).

Interest Rates in Genoa

Genoa presents a rare case where we have data available for interest rates on government debt that cover a particularly long time span involving several distinct episodes in the evolution of Genoa's political institutions. To the extent one believes that Genoa's financial success depended on the creation of the Casa San Giorgio in 1407, we should expect to see a downward shift in interest rates after this date. According to this interpretation, which was essentially Machiavelli's analysis, even if the Genoese Republic itself was subject to constant turmoil and popular revolts, the existence of the Casa would have ensured creditworthiness by insulating the management of public finances from these developments. In an alternative interpretation that would be closer to the core argument of this book, Genoa's creditworthiness as a borrower depended more broadly on the extent to which creditor interests could establish lasting political dominance in Genoa. This may have been facilitated by the establishment of the Casa di San Giorgio, but the most dramatic break in this regard occurred after the establishment of the Andrea Doria Republic in 1528.

Figure 6.1 reports long-term interest rates on the Genoese public debt from three separate sources. It also places a vertical line at the date of the creation of the Casa di San Giorgio and at the creation of the Andrea Doria Republic. The series of data from 1340 to 1407 was collected by John Day (1963), and it corresponds to the period immediately prior to the establishment of the Casa di San Giorgio. The series that runs from 1445 to 1466 was compiled by Heers (1961). It covers a period when the Casa

[21] See Kirk (2005: 56–57).
[22] See in particular Heers (1961: 610).

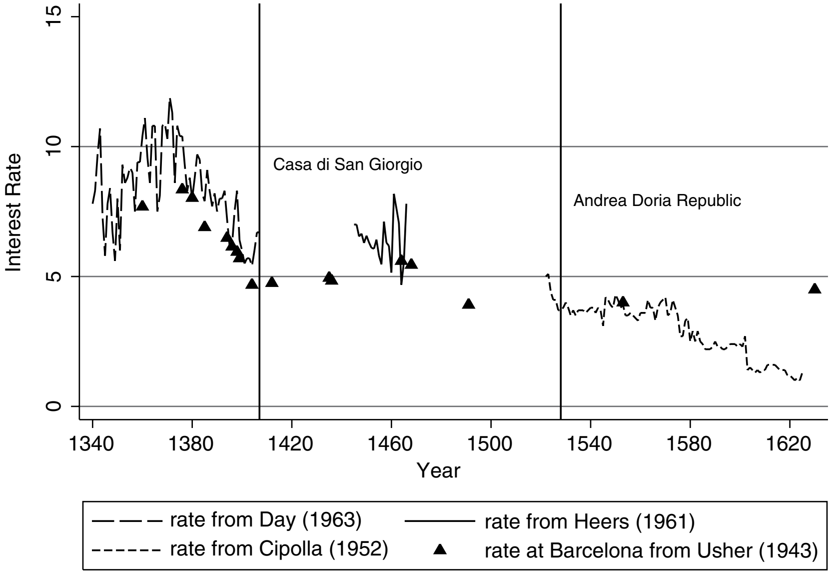

Figure 6.1. Interest rates on the public debt in Genoa. See text for a full description of calculations.

di San Giorgio had already established control over much of Genoa's consolidated debt, and when the Protectors of the Casa were incorporated into the decision-making institutions of the Republic. This was also a period when noble and popular revolts continued to occur with high frequency. Heers (1961: 160–61) suggests that during this period the market price for shares of the Casa was heavily influenced by the occurrence of these revolts. Finally, the series that runs from 1522 to 1625 was constructed by Carlo Cipolla (1952). This corresponds closely with the first century of the Andrea Doria Republic, which was established in 1528.

The interest rates in each of the three series depended on a nominal interest rate, but they were also conditioned on the level of customs receipts received by the Republic in a given year. The latter two series also take explicit account of the secondary market price of government debt, so as to present an actual yield on government debt.[23] Much of the movement in these series, particularly the short-term movements, would have depended on changes in trade flows that influenced revenues. However, their long-term trends would also have depended on the

[23] It is not clear from Day (1963) whether he also took into account the secondary market price when constructing his series.

nominal interest rate on government debt and its market price. A government judged to be more creditworthy should have been able to offer a lower nominal interest rate on its debt. Holding other factors constant, market prices should also have been higher for a more creditworthy government, resulting in a lower yield on debt. In a final step of the exercise, figure 6.1 also reports several data points on market interest rates for government debt issued by the city of Barcelona. As a self-governing maritime city located in a similar Mediterranean location, Barcelona makes for a comparison that we might expect to help control for a number of other potential determinants of the level of interest rates.[24]

It is inevitably a risky exercise attempting to establish inferences across the three different interest rate series for Genoa, given that they are not constructed using identical methods or sources, and that we also have two sizeable gaps where there are no data available. Nonetheless, if we do use this data to investigate change in Genoa over time, we conclude that interest rates were lower after the establishment of the Casa San Giorgio than before. But the sharpest drop in Genoese interest rates appears to have occurred only after the establishment of the Andrea Doria Republic in 1528. It was also only after this point that we have a clear indication that the Genoese republic was able to borrow at a lower rate of interest than the city of Barcelona.

Summary

Events in Genoa lead to us to several conclusions that fit with the core argument of this book. Representative political institutions of this city-state were critical for assuring access to credit to the extent that these institutions gave government creditors a very direct degree of control over the Republic's affairs. This degree of control increased over time, and it was associated with a notable decline in interest rates on Genoa's long-term debt. At the same time, the presence of significant popular protest over debt suggests that the Genoese Republic's ability to borrow was not something that was guaranteed by its status as a major center of commerce. Access to credit ultimately depended on the political dominance of one social group and on the fact that this group was able to use Genoese political institutions to control public finance. Once again, merchant oligarchy seems to have been a key ingredient in assuring access to credit.

[24]The interest rates for Barcelona are drawn from Usher (1943).

Siena under the Rule of the Nine

The fourteenth-century experience of the Italian city-state of Siena provides a third important opportunity to investigate the reasons why city-states enjoyed a financial advantage over territorial states in Europe. Unlike Genoa and Cologne, Siena appears at first glance not to fit with my core argument. While Siena gained access to credit at an early date, the city did not succeed in establishing a consolidated long-term debt until 1430, which was later than most other Italian city-states. During the first half of the fourteenth century Siena had a stable system of public finance, and the commune found it relatively easy to gain access to credit. In the second half of the fourteenth century this changed as the commune found it increasingly difficult to attract loans and faced prolonged fiscal crisis. The core institutions of Sienese finance remained the same across these two periods. One thing that did change after mid-century was that Siena suffered a number of serious shocks. These involved both the Black Death and incursions by armed bands of mercenaries. But other Italian city-states also faced these same shocks, and in many cases without it adversely affecting their access to credit. I will also emphasize a further critical difference: during the first half of the fourteenth century Siena was governed by a merchant oligarchy, whereas after this point it was governed by several more short-lived regimes that involved significant popular participation and in which Siena's merchants played a less dominant role. There is direct evidence that this reduction in the political influence of merchants had significant adverse effects on public credit. Precisely because it allows us to observe the financial consequences of a merchant oligarchy losing power (the opposite of what happened in Genoa), Siena provides evidence of how political control by merchants was critical to the ability of city-states to gain access to credit. In the absence of merchant political control, the Sienese commune found it far more difficult to gain access to credit. It is possible to use events in fourteenth-century Siena to improve our understanding of the link between political representation and public credit thanks to the important work of William Bowsky (1970, 1981), who examined Sienese politics and finance under the regime of the Nine (1287–1355), and to the recent work of William Caferro (1998), who provides a view of the crisis of Sienese public finance during the half-century that followed.[25]

[25] In addition to work by these two authors, I have also relied on the contributions by Wainwright (1987) and Ascheri (1994), along with considering the earlier interpretations of events in Siena offered by Douglas (1902) and Schevill (1909).

Evolution of Sienese Public Finance

Siena at the outset of the fourteenth century was not as large as the most prominent Italian city republics, but it was still a very significant urban center, numbering around 50,000 individuals before the Black Death.[26] Though it was not a port and did not lie on a navigable river, Siena did lie on the principal road route from France to Rome, and it is known that merchants from Siena were pioneers in Europe, both with regard to long-distance trade and banking. Given Siena's early prominence, it seems necessary to explain why it declined during the course of the fourteenth century, becoming a second-rate power in Italy. To raise revenue, Siena relied on a wide number of indirect taxes, but the municipal government also relied significantly on a direct tax, the *dazio*. For this reason Bowsky (1970) has suggested that the tax structure in Siena was, at least initially, less regressive than that of numerous other Italian city-states. Faced with a need to raise funds quickly, particularly in response to military threats and opportunities, from an early date Siena also relied on loans. Like other Italian republics it raised money through forced loans that paid interest, and there is evidence of these being used at different points throughout the fourteenth century. However, the commune also relied extensively on voluntary loans contracted with residents of the city. Bowsky (1970: ch.8) presents evidence to show that these voluntary loans were particularly well secured with future revenues and that the government of the commune went to extensive lengths to see that interest and principal on both forced and voluntary loans were repaid. This included provisions requiring that new expenditures be authorized by the Nine (magistrates who managed the commune's affairs) and the city council (the Council of the Bell). It also seems clear that the Council of the Bell was an institution that met frequently, making it possible for the group to monitor public finances. A reform in 1332 reduced the frequency of council sessions by specifying that it should meet no more than once a week, which Bowsky (1981: 98–99) interprets as reducing the city council's influence on policymaking. Even if council meetings in Siena occurred only once per week, this was still a much more intensive form of representative activity than was observed in any European territorial state at this time.

During the first half of the fourteenth century, the ruling magistrates in Siena had frequent recourse to borrowing, and there is little indication

[26]This population estimate was produced by by Bowsky (1964).

from the extensive evidence in Bowsky (1970) that the commune faced significant constraints on its ability to raise funds. The interest rates on loans contracted by the commune of Siena were not low, settling to a habitual rate of 10% during this time.[27] However, this rate was not especially high compared to those paid by other city-states in the period before the Black Death, or with rates currently prevailing in Genoa.

What is most striking about Siena's public debt during the fourteenth century is that its early development was not followed by a successful effort to develop a consolidated debt with a secondary market, as happened in Florence, Genoa, and Venice. Nor does it appear that interest rates on Sienese debt fell after 1350, as was the case elsewhere.[28] By this point in time, the commune found itself faced with a need to defend itself against raids by marauding mercenary companies, but as it tried to fund its defense, Siena had increasing difficulty obtaining access to voluntary loans in particular. The analysis by Caferro (1998) provides detailed evidence on Siena's increasing difficulties after 1350 in obtaining credit through voluntary loans. He also documents the numerous temporary expedients that the regime was forced to use, which included frequent arbitrary actions taken to reschedule debts or suspend interest payments.[29] Faced with a proliferation of obligations to different creditors, the commune attempted to consolidate its loans into a single fund in the same manner that had been achieved in Genoa. It was unsuccessful in this effort. One might be tempted to argue that the absence of a consolidated debt provides an institutional explanation for Siena's troubles, but even when Siena did eventually succeed in establishing a consolidated debt (in 1430), there were few investors. A final sign of Siena's difficulty in obtaining credit during this period was that despite the commune's desperate need for finance, the total stock of Sienese debt at the end of the fourteenth century was actually significantly smaller than it had been during the first half of the century.[30]

[27]The most common rate during this period was 10%, but Bowsky (1970) reports that loans in some cases were made for nominal amounts that were less than what the commune actually received. This was a practice equivalent to selling a bond below its par value, and it would have implied that in these cases lenders were earning even higher returns.

[28]Wainwright (1987: 137) reports that during the fiscal crisis of 1369 the commune was forced to pay rates of between 16 and 20% on its loans. To the extent that these interest rates are representative, they would reflect a very sizeable increase compared with those that prevailed before 1350.

[29]Caferro (1998: 135–36).

[30]The conclusion is based on the figures presented by Caferro (1998: 154) who draws on Bowsky (1970: 295) for the debt stock before 1355.

Political Representation in Siena

Political factors provide an important explanation as to why Siena enjoyed access to credit prior to 1355 while lacking it thereafter. During the period from 1287 to 1355 Siena was controlled by an oligarchical regime in which the city's merchants were particularly well represented. During the decades after 1355, the commune was instead controlled by a sequence of regimes, several of which had much heavier popular participation and none of which was characterized by the same degree of merchant control.

Siena gained its independence as a commune during the twelfth century. After this point, like Genoa, it had a consular regime followed by rule of a podesta. Ultimate political authority in Siena rested with the city council (the Council of the Bell), which existed from 1176, and which intervened in all types of issues faced by the commune. From 1287 to 1355, while ultimate legitimacy remained with the Council of the Bell, the affairs of the commune were controlled by a committee of nine magistrates who held the title of the Nine Governors and Defenders of the Sienese Commune. More commonly, these individuals were simply referred to as the Nine. The Nine was actually a body of officials each of whom served a two-month term. The election procedure for these officials was intricate and was modified on several occasions between 1287 and 1355. There were two constants to this procedure though. First, there was always significant formal weight given to Siena's merchant guild in selecting both the members of the Nine and the members of the Council of the Bell. Second, there were specific restrictions on the types of individuals who could serve on the Nine.[31] By a statute of 1287 it was stated that the Nine "are and must be of the merchants and of the number of the merchants of the city of Siena, or indeed, of the middle people." This excluded members of the landed nobility, doctors, lawyers, and artisans.[32] Bowsky (1981: 87) notes that during the period of rule by the Nine, the same group of individuals eligible to serve as one of the Nine also typically held a significant fraction of the hundred seats on the Council of the Bell.

Historians have had sharply differing normative assessments of the regime of the Nine. For early-twentieth-century observers like Ferdinand Schevill (1909) and Langton Douglas (1902), this was an oligarchical regime from which Siena's mercantile elite drew profit for itself while

[31] Bowsky (1981: 58–61).

[32] Bowsky (1981: 63).

exploiting the popular classes, an opinion that reflects much historiography of city-states from this period. In Schevill's opinion, "In their greed of power the merchants did not hesitate to discard the whole theoretical basis of the early commune."[33] The work of William Bowsky has been fundamental in revising this interpretation. For Bowsky, the regime of the Nine was an oligarchical one that favored the wealthiest elements of Sienese society, but it was also one that made very considerable contributions to the commune. He further emphasizes that throughout the period between 1287 and 1355, the members of the Nine made it a practice frequently to consult the Council of the Bell for opinions and in its decision-making. Irrespective of the normative judgment they make about the regime of the Nine, what all historical observers seem to agree on was that the regime of the Nine was one in which merchants were particularly well represented. After an extensive investigation of all individuals who served as one of the Nine, Bowsky (1981: 74) found that "members of the merchant guild—bankers and international merchants in many commodities—predominate."

The regime of the Nine came to an end in 1355 as a result of a popular revolt, and it was followed by a series of short-lived regimes including the Dodici government of 1355–68, the Riformatori of 1368–85, and the Priori of 1385–99. While the social basis of the dominant individuals in each of these regimes varied, one conclusion that seems difficult to dispute is that they were each characterized by greater popular representation in government and commensurately less direct control by merchants than had been the case under the Nine. One historian has referred to the Riformatori government as "the most widely represent[ative] government in the history of the Tuscan communes."[34]

The Fall of the Nine as a Cause of Financial Crisis

What interpretation can we attach to the apparent link between the fall of Siena's merchant oligarchy and the commune's subsequent difficulty in obtaining access to credit? One possibility, and a plausible one, is that the Sienese experience does not demonstrate the importance of merchant political power, it merely shows that when a state is subject to a particularly severe set of exogenous crises, this may lead simultaneously to a financial

[33] Schevill (1909: 196).
[34] Caffero (1998: 22–23).

crisis and to the ouster of a sitting regime. One might emphasize here the combined effect of the Black Death, which reduced Siena's population by a half; the series of mercenary raids that began in 1342; and the increased burden of taxation necessary to defend against these raids (or in many cases to bribe the raiders). There would, however, be weaknesses with such an interpretation. First, Siena was hardly alone in experiencing a very high rate of mortality as a result of the plague. Second, the mercenary incursions to which Siena was subject during this period were not a purely exogenous development. The city became a target precisely because outsiders knew that the commune was experiencing a period of political instability. The fact that the city was subject to outside raids and that it had such difficulty defending itself was attributable at least in part to the difficulties experienced by the communal government in raising funds. This inability to raise funds was something that can, in turn, be directly linked to the composition of Siena's political regimes during this period.

In comparing late-fourteenth-century Florence with Siena during the same period, Caferro argues that Florence's greater ability to obtain access to credit was attributable to the fact that the Albizzi regime in Florence (which extended from 1382 to 1434) was a patrician regime dominated by the wealthiest Florentine citizens. He suggests that this is a striking difference from the case of Siena after 1355 as, for example, the Riformatori regime was a popular one whose own members were quite poor and which "represented the antithesis of the contemporary Florentine Albizzi regime." What this implies is that if Florence was largely immune to mercenary raids during this period while Siena was not, then this was not something that occurred by accident. Siena's military vulnerability was linked precisely to the political weakness of its merchants at this time.

As a final point, we can also suggest with some plausibility that the fall of the merchant oligarchy of the Nine in 1355 was triggered in part by an exogenous event, as opposed to an endogenous development such as an underlying fiscal crisis. The visit to the city by the Holy Roman Emperor Charles IV helped serve as a catalyst for revolt against the Nine, but there is little indication that the overthrow of the sitting Sienese government constituted a significant initial motivation for the emperor's trip to Italy (Schevill 1909: 213).

Overall, the fourteenth-century experience of Siena provides further support for the idea that oligarchic control by merchants was critical in facilitating the development of public credit. The Sienese case is so interesting precisely because it allows us to observe what happened when a merchant oligarchy lost political power. This gives us further confidence that it was political control by, and not simply the presence of, mercantile groups that was crucial for public credit.

Summary

In this chapter, I have presented detailed evidence on the joint evolution of public credit and political representation in the city-states of Cologne, Genoa, and Siena to complement the broader analysis of the previous chapters. In each of these three cases we find that a municipal government was, at least initially, able to gain access to credit and that this access was associated with the creation of institutions through which creditors could exert a degree of control over public finances. In all three instances these institutions took the form of what can be called a merchant oligarchy. We also see evidence consistent with my core argument that the evolution and behavior of these institutions was influenced by a geographic factor (small size) and by the presence of an elite holding liquid wealth. Finally, these three cases also contribute to the analysis because they allow us to investigate more thoroughly the effect of changes within individual states over time. We can see clear evidence that access to credit was particularly strong during periods of firm merchant control.