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*ABSTRACT: N.S.B. Gras, the father of Business History in the United States, argued that the era of mercantile capitalism was defined by the figure of the "sedentary merchant," who managed his business from home, using correspondence and intermediaries, in contrast to the earlier "traveling merchant," who accompanied his own goods to trade fairs. Taking this concept as its point of departure, this essay focuses on the predominantly Italian merchants who controlled the long-distance East-West trade of the Mediterranean during the Middle Ages and Renaissance. Until the opening of the Atlantic trade, the Mediterranean was Europe's most important commercial zone and its trade enriched European civilization and its merchants developed the most important premodern mercantile innovations, from maritime insurance contracts and partnership agreements to the bill of exchange and double-entry bookkeeping. Emerging from literate and numerate cultures, these merchants left behind an abundance of records that allows us to understand how their companies, especially the largest of them, were organized and managed. These techniques can also be put in the context of premodern attitudes toward commerce and the era's commercial-political relations. The Commercial Revolution anticipated the Industrial Revolution by over half a millennium and laid the groundwork for today's world of global business.*

The emergence of business history as a distinct discipline, first in the United States in the late 1920s, and the development of the history of commerce in late medieval and Renaissance Europe were, from the very beginning, inextricably linked. N.S.B. Gras, the "father" of business history and holder of the first chair in the discipline at Harvard Business School (Boothman 2001; Fredona and Reinert 2017), fruitfully encouraged business historical work on premodern merchants and mercantile firms both in the U.S. and in Europe (Ferguson 1960: 13-17). Gras believed he had discovered, in the rise of what he called the "sedentary merchant" (understood in contrast to the earlier "traveling merchant" who accompanied his own goods to market or trade fairs), the crucial moment in the development of "mercantile capitalism" in Europe, the stage of economic development in which Europe first rose to

undisputed economic prominence on the global stage (Gras 1939). The articles on medieval and Renaissance merchants published in the foundational *Cambridge Economic History of Europe*, written by Gras's MBA student Raymond De Roover (1963b) and by Robert S. Lopez (1952), whom Gras had helped bring to the United States from Italy, bore the clear marks of Gras's influence. Lopez's piece, for example, used the phrase "sedentary merchant" nine times. And the later impresario of economic history Frederic Lane's (1944) early study of the fifteenth-century Venetian merchant Andrea Barberigo was explicitly conceived of as a case study of one such "sedentary merchant". In Gras's view, the sedentary merchant, freed from the demands of travel to trade fairs because he conducted his business through agents and by means of commercial correspondence, was able to develop revolutionary managerial techniques for the administration of business. And these techniques ushered in, or, more properly, developed alongside a "commercial revolution" in the later Middle Ages, focused around a long thirteenth century, a fertile conceptual nexus first coined by De Roover (1942) in response to Gras and later associated with Lopez's (1976) widely-read and debated book of that name, which presented the case for such a revolution (more broadly understood) even earlier.

The medieval "commercial revolution"—not to be confused with Early Modern commercial or financial "revolutions" in the Low Countries and England (involving the long-term development of the bourse, exchange banks, joint stock companies, and so on) that built upon it (e.g. Roseveare 1991)—saw the invention, diffusion, or earliest perfection of holding companies, of cashless transactions using bills of exchange, of contracts for marine insurance, and of advanced bookkeeping techniques including so-called "double-entry" accounting, practices which together allowed for the radical facilitation and expansion of long-distance

trade, international banking, and commercial and industrial partnerships. Although Gras's schematic and stadial view, with the "sedentary merchant" as point of historical rupture, is doubtlessly an oversimplification of complex, contingent, and overlapping historical processes, there can be little doubt that the period of the "commercial revolution" saw a remarkable transformation of mercantile practices, practices by which merchants were able to create a global trade in both commodities and luxury goods and to thereby enrich and empower urban Europe. Gras, along with Italian pioneers like Gino Luzzatto and Armando Saporì (Varanini 2014; Franceschi 2014), understood that business records (chiefly account books and commercial correspondence), mercantile manuals, and the personal memoranda of merchants (called, in Italy, *ricordi* or *ricordanze*) could give a clearer picture of the development of commerce and of business practices than the normative sources (guild statutes, laws, and so on) that had largely informed earlier (especially nineteenth-century and German) work. This essay will briefly sketch the development of medieval and Renaissance mercantile practices, focusing especially on Italian merchants in the Mediterranean, for it was in large part Italian merchants who invented or developed the techniques of modern business, not least of accounting and banking, and thereby created the world of pre-Industrial global capitalism.

### THE COMMERCE OF THE MEDITERRANEAN

The fall of Rome in the West, concomitant with the "invasion" of by then already Romanized "barbarians", witnessed the collapse of the movement of surplus wealth from North Africa and Egypt to the imperial center and to its politico-cultural aristocracy, which had long been enriched in this way, thereby shattering the unity of the Roman Mediterranean as a

commercial space. Although it did not dissolve as a political unit or as a regional power (albeit a limited one) until the middle of the fifteenth century, Byzantium, the empire in the East centered at Constantinople, similarly survived as a major commercial power only until it lost its wealth-generating provinces in Egypt and the Levant to Islamic expansion, beginning in the seventh century (Lewit 1991; Wickham 2005). European Christians nonetheless maintained a presence, as pilgrims and traders, in North Africa and the Levant well beyond this period, and, although not necessarily predominant, commercial motivations inspired the Crusades, ca. 1095-1291, which saw the foundation and then loss of Christian states in the Levant, created new or larger European markets for Eastern goods, and allowed merchants from the Italian city-states to take advantage of new opportunities for West-East trade and seaborne transport (Abulafia 1993; Phillips 1988). Before Europe's epochal geographic expansion in the fifteenth century—beginning perhaps as early as 1415 with the Portuguese capture of Ceuta near Gibraltar, but punctuated and defined most powerfully by the discovery of the Americas and the navigation of the Indian Ocean in the 1490s (Chaunu 1995)—the mastery of global trade, from a European perspective, meant constructing anew a system of lucrative shipping lanes and proto-colonies in what had once been the Roman Mediterranean, a process fully underway already by the tenth century, when Lopez saw the first evidence of a “commercial revolution”. And even up to and throughout the sixteenth century, as Europe began the process of creating maritime empires in the Indian Ocean and in the Americas, the Mediterranean remained an essential zone for European merchant activity.

No scholarly approach to the Mediterranean has been more influential than that of Fernand Braudel (1972), who viewed the Mediterranean as a single unit of analysis, where

interactions were defined more by long-term underlying ecological and geographic structures and by periodic cyclical changes in relation to these structures than by the profusion of "events" that preoccupied earlier political and economic historians. More recent approaches have stressed the Mediterranean's numerous tiny micro-regions and the connectivities, including economic ones, between them (Horden and Purcell 2000) or the resilience of the Mediterranean's environment in the face of millennia of human exploitation (Grove and Rackham 2003), but until the creation of the Atlantic economy, i.e., from antiquity to the sixteenth century, the Mediterranean was a (if not, indeed, the) chief locus of long-distance trade and dynamic wealth creation in the West. The industrial and mercantile cities of Northern Italy, enriched by the eastern trade, formed the bottom pole of an almost continuous geographic corridor of advanced, wealthy, and densely-populated urban communities stretching across the continent to the Low Countries and ultimately southern England (Brunet 2002). This corridor was the historical axis of capitalism, trade, and civilization in the West.

Even before the revival of global trade in earnest, the desire of European elites (in cities and in monasteries as at royal courts) for luxuries from the East was met by small merchant communities of Jews, Greeks, and Arabs or by traveling middlemen (Vercauteren 1964). But, not surprisingly, it was the Italian cities with the closest ties to Byzantium and its trade in the Eastern Mediterranean—places like Genoa and Venice, with commanding positions on the Tyrrhenian and Adriatic Seas, and cities along the Italian coast like Amalfi—that had the first major medieval breakthroughs in establishing effective and secure sea routes (McCormick 2001: 501-47). European merchants, chiefly Italian, without the control of territory within the Muslim and Byzantine polities of North Africa and the Eastern Mediterranean, regularly

established diasporic trading colonies there, following a pattern established by earlier commercial diasporas, of Jews, of Egyptians, of Greeks. By the twelfth century, merchants from Venice, Genoa, and Pisa had already established extensive networks of such colonies—often small and often centered around a *fondaco* (from the Greek *pandocheion* by way of the Arabic *funduk*), a combination warehouse and inn, where Christian merchants were permitted to trade and to pray, and where they were supervised and regularly subject to local taxes and duties; but sometimes large enough to house thousands of expatriate merchants, extending to entire neighborhoods or city districts, as at Constantinople—all along the Mediterranean basin. Similarly, foreign trading colonies existed within the mercantile cities of premodern Italy: the most famous is surely the Fondaco dei Tedeschi, or German traders' colony, at Venice, which was established in the early thirteenth century and which housed several hundred northern traders (Constable 2003). The communal nature of diasporas certainly mitigated the dangers of international trade before it was facilitated by more permanent institutions (Greif 2006), but they could also remain competitive even into the eighteenth century, as in Francesca Trivellato's (2009) important case of the Sephardim of the Tuscan free port of Livorno.

### THE COMMERCE OF EUROPE

Gras's sedentary merchant must naturally be understood in contrast to the so-called "traveling merchant" who defined an earlier but, to a significant extent, contemporary period of long-distance overland trade in Europe, a trade facilitated by the existence of regular circuits of commercial fairs across Northwestern Europe in the Middle Ages. Originally local or regional in character, linking town and countryside or economic center and periphery, these fairs soon



became hubs of inter-regional and international merchant activity, linking the premier commercial and industrial zones of Europe. The traveling merchant who attended these fairs accompanied his goods to market, bargained face-to-face with buyers and sellers there, and personally assumed the burdens, costs, and risks of overland travel, from bandits and wolves to unstable infrastructure and inclement weather. Commercial fairs are attested as early as the seventh century in France, but the ninth through thirteenth centuries witnessed an explosion of both long-distance overland trade and the establishment of fairs. The most important fairs were those of Flanders and of the Champagne-Brie region of Northeastern France. A cycle of fairs spread over the course of the calendar year (eventually there were six six-week events) and across the region, the Champagne fairs gained particular prominence because of their geographical position—there Flemish cloth dealers, bearing wool and linen cloth from the advanced industrial centers of the Low Countries, could meet with Italian merchants, bearing the goods of Italy and the Mediterranean trade—and because of the protection provided them by the Counts of Champagne. The protection of the Counts, out of which ultimately developed reliable systems of policing, debt enforcement, and dispute resolution, inspired confidence in the Champagne fairs. A sign of the importance and assurance of these fairs: by the late twelfth century, the coins of Provins (one of the Champagne fair towns) were regularly used in Southern Europe and the system of weights associated with Troyes (another) was commonly used in the North. In addition to the direct buying and selling of goods, the Champagne fairs, as those of Flanders had earlier, became centers for financial transactions, money markets and clearing centers facilitated by letters obligatory and by investment and association contracts, such that credit could reliably be extended at one fair and debt paid back at another (Bautier

1970; Epstein 1994; Cavaciocchi 2001). By the end of the thirteenth century, the largest European fairs were in decline. Although it is difficult to establish causation in one direction or the other, the foundation and increasing regularity and safety of direct sea routes connecting Italy (and thus the West-East trade) with Northwestern Europe was a parallel and related phenomenon. One possibility is that these direct routes, which passed by Gibraltar and linked the Mediterranean with other European sea spaces for trade, reduced the need for the fairs and for overland travel, for which increasingly endemic warfare and instability in Europe had radically increased transportation costs (Munro 2001).

Of course, the Mediterranean was not the only commercially important European sea space in the period. The Black Sea, fed by the Danube and directly open to Constantinople through the Bosphorus (along with the connected Sea of Azov, fed by the Don), was an important source of foodstuffs and other goods for Byzantium, serving as a commercial crossroads that linked the Eastern Empire to Eastern Europe, Russia, and Central Asia. As early as the eleventh century, Byzantine concessions to Genoa allowed the Italian city-republic to trade and establish colonies there; and by the mid-thirteenth century, the Genoese controlled much of the direct seaborne trade of the Black Sea with the Mediterranean (Todorova 1987). More importantly, the East-West trade of Northern Europe, like that of the Mediterranean, was a lucrative source of both profit and power for premodern merchants. The German Hanse, a largely commercial but later loosely political organization of merchants in dozens of towns on and around the North and Baltic Seas—stretching from London and Bergen to Bruges and Lübeck and on to Novgorod in Russia—allowed merchants from Northern Germany to successfully mediate (though never to monopolize) the trade between the eastern Baltic and

Germany, Flanders, England, and Scandinavia. Although there were eastern markets for western goods, like woolen textiles, the Hanse largely satisfied the continental demand for grain, foodstuffs like salted fish, raw materials like wood and metal, and even luxury goods like fur and amber from Scandinavia and especially from the Baltic and regions east (Hammel-Kiesow 2000). But as lucrative as this trade was, it has nonetheless recently been estimated, on the basis of available records from Lübeck and Genoa in the second half of the fourteenth century, that the total value of the Hanseatic trade then represented as little as one fifteenth (ca. 6.6%) of that of the Mediterranean trade (Spufford 2002).

### COMMERCIAL INNOVATIONS

The desire for merchant credit and decreased transaction costs in long-distance trade led to the use of moneys-of-account and the creation of the earliest instruments of international finance; the most fundamental of the latter was the “bill of exchange”, the *lettera di cambio* or *di pagamento*, a multi-party payment order executable in a foreign currency in a distant location, which was invented in Northern Italy, widespread already in the fourteenth century, and in use—largely unchanged—until the eighteenth. Cashless exchanges had occurred at the fairs, on the basis of obligatory letters or so-called *lettres de foire*, but the bill of exchange was revolutionary because the issuer could thereby order a distant third party to pay the debt in another currency, which allowed the bills to circulate widely and function as instruments of both credit and transfer in international trade. The interest or profit from issuing such bills of exchange could be included (or perhaps better, given the usury prohibition, hidden) within the exchange rate, artificially raised in the lender’s favor (De Roover 1953). By the 1320s,

Florentine merchants were importing the highest quality raw English wool for local manufacturing directly from Southampton rather than through continental middlemen. Florentine merchant-bankers were also simultaneously dominating both international finance and the incredibly lucrative collection of papal taxes; as a result, the largest Florentine companies were able to make extensive loans to the English crown, secured by income from English duties on the export of wool. In this environment, for example, bills of exchange could be employed to great advantage, allowing Florentines resident in England to buy English wool with English papal taxes and to have their partners resident in Italy give the Pope profits from other transactions in lieu of those English taxes (Lloyd 1977: 60-140). The extension of credit, indeed of trust, through formal mechanisms like the bill of exchange facilitated trade between merchants who no longer were meeting face-to-face, and brought together those with capital and those in need of it.

Primitive methods for spreading risk through indemnification, akin to so-called "bottomry" loans, high interest maritime loans nullified by the loss of the ship itself, may have been known to the ancient world (Andreaeu 1987), but insurance as we understand it today appears largely a development of the fourteenth century in the maritime cities of Northern Italy, where the risks and rewards of business were stark enough and big enough to create regular entrepreneurial opportunities to offer premium insurance for profit. Although there were certainly earlier and undocumented developments, the earliest known insurance contracts that can properly bear that name (even though they hid their interest-bearing nature for legal or ethical reasons) are Genoese and cover a 1343 voyage from Pisa to Sicily and a 1347 voyage from Genoa to Mallorca (Melis 1972: 7; Bensa 1884: 192). A wide range of insurance

contracts (Zeno 1936) rapidly developed side-by-side with advances in maritime transport, and the resulting parallel decrease in risk and in shipping rates fed an explosive growth of trade, such that by the late fourteenth century, according to Federigo Melis, a real insurance market had emerged and merchants, originally in Tuscany, had turned insurance into a matter of issuing private contracts (rather than public, notarized documents) and began to include insurance premiums as discrete debits in their bipartite (credit-debit) accounts (Melis 1975; 1984). The next great advance would have to await the mathematics of probability and the mathematization of risk (Daston 1987), and the related growth of large-scale insurance firms, but in the Renaissance the insurance market was highly fragmented and merchants had to rely on a large pool of small-time insurers, since these other merchants and merchant-bankers were willing to underwrite only relatively small policies to avoid catastrophic loss. Between 1390 and 1401, for example, the fabled Prato merchant Francesco Datini, whom we will discuss below, had to rely on some 490 insurers to underwrite 128 policies (Goldthwaite 2009: 99).

The initial and profound expansion of the Mediterranean trade in the tenth and eleventh centuries was also symbiotically accompanied by the creation of new, legally-recognized forms of commercial cooperation that appreciated the special characteristics of long-distance merchant ventures, which were high risk and required large initial capital investment. The best known of these is the so-called *commenda*, signified by numerous contemporary names, a contract for pooling capital and sharing the risks and rewards of overseas commerce, which likely evolved from earlier Islamic commercial agreements. A recent analysis of notarial records in medieval Genoa suggests that over 90 percent of all commercial partnerships there before the mid-fourteenth century were based on *commenda* contracts (van

Doosselaere 2009). *Commenda* contracts varied in details, but one (sometimes called a “bilateral *commenda*”) might look like this: a passive investor, resident in Genoa, puts up 2/3rds of the necessary capital for the commercial sea voyage; an active investor—a traveling merchant who will accompany the goods in transit and provide commercial expertise—puts up 1/3; profits are shared equally; losses shared are shared in proportion to the initial investment (based on Lopez and Raymond 1967, doc. 84). Contracts of this sort, abundantly available in medieval notarial cartularies, allow us to trace the activities of merchants first hand, but these activities must always be placed in the context of Genoa’s contemporary trade wars with its Mediterranean rivals, like Venice and Pisa; its development of colonies as far away as Kaffa on the Black Sea and maintenance of Pera, the Christian trading quarter of Constantinople; and its early creation of a public debt to finance costly naval construction and maritime expansion (Epstein 1996; Miner 2017). The line between Genoese government action and commerce was often exceptionally indistinct: the Genoese colony at Chios, on the Aegean, for example, was administered by a consortium (called the *maona*) of Genoese investors who had funded its capture in 1346 and who exploited its resources to pay dividends to its members (Argenti 1958). Unlike agreements based on a single sea voyage, other forms of partnership agreements were created for firms engaged in longer-term commerce; in Italy such a firm was commonly called a *compagnia*, related to our own word “company”, and its members *compagni*. Partnership agreements specified the duration of the partnership (often three years), the initial capital investment (*corpo*) and ultimate shares of the profits, how later investment of capital (*sopraccorpo*) would be handled, which partner(s) would actively run the business either in person or through agents and which would remain passive “investors”, and they often depicted

the partnership's *segno* or trademark and laid down guidelines for its portability to other firms. Firms could vary in size, but most had only a handful of partners, often blood relatives (even if only distantly related), and the size or scale of partnerships in Tuscany seems to have been under largely downward pressure after the mid-fourteenth century (Goldthwaite 2009: 64-79). Although the strength of the Renaissance family has become something of a popular trope, dynastic family businesses, with ownership descending through a single patriline, remained relatively rare (though see the example in Caferro 1996) and most firms were, for lack of a better term, *ad hoc*, with merchants seeking to expand their business creating new partnerships as needed. Partnership agreements, largely unchanged throughout the period, also created—unlike the modern corporation—unlimited personal liability in the partners, even though legislation could (as in Florence after 1408) grant external, passive investors limited liability (Melis 1991).

The sedentary merchant, seen by Gras as defining the first (mercantile) stage of capitalism, achieved what Alberto Tenenti in a suggestive profile of the Renaissance merchant (1988) has called the “gradual and organized control of time, space, and risk” by becoming a manager instead of a trader, and this management required him to transform the world around him into information, into words and numbers. In the jargon of the Tuscan merchant of the late Middle Ages and Renaissance, the word for a firm and the word for its set of account books was, not coincidentally, the same: *ragione*, from the Latin *ratio*, a count, an accounting, a calculation, a reckoning (Edler 1934: 236). In the firm's books, as in its articles of association, the theoretical body achieved something like a concrete existence. Although the limited-liability joint stock company was a much later innovation, business corporations of a significant size—

with a home office, distant branches (*filiati*), directors, partners, agents, and employees—emerged, “constructed out of sedentary merchants”, in the second half of the thirteenth century in Tuscany (Padgett 2012, quotation at 121), where and when we also find the earliest references, as in an incomplete 1281 cash book of the Sienese Salimbene company, to complex accounting procedures involving interrelated accounts books (De Roover 1974b). Tuscan account books came to be routinely written in the bilateral or *contrapposto* format, showing debits verso and credits recto, a century later (Padgett and McLean 2006:1539-43), sometimes using the so-called “double entry” (*partita doppia*) technique, which is often associated with its first systematic exposition by Luca Pacioli near the end of the fifteenth century and which did not gain widespread European acceptance until the seventeenth century (De Roover 1974b; Yamey 2004). Jacob Soll (2014) has recently shown the clear relationship between these methods and the viability ever since of political communities, indeed of the modern state itself, which has historically flourished when accompanied by a culture of accountability.

#### MERCANTILE CULTURE AND ARTEFACTS

If the figures presented by the historian Giovanni Villani are to be believed, already in the 1330s Florence had a boyhood schooling rate as high as 83 percent (Grendler 1989: 72), and, nearly a century later, self-submitted property surveys confirm an overall urban male literacy rate of around 80 percent (a rate not reached in England, for example, until the late nineteenth century). In the Florentine context, before classicizing humanism transformed childhood education in the late fifteenth century, literacy meant the basics of reading and writing in the Tuscan vernacular followed by the abacus training necessary for a life in



commerce (Black 2004). Literacy and numeracy together were, not surprisingly, the twin foundations of a thriving commercial culture, one evidenced by the abundance of literature left behind by early Renaissance merchants—men like Villani himself, who was a *factor* (business agent) of the Peruzzi bank in Bruges as a young man in the first decade of the fourteenth century (Luzzati 1969)—and by the super-abundance of business records left behind by their compatriots: approximately 2,500 account books from the thirteenth through the fifteenth centuries are extant in the archives of Florence and nearby Prato, more than for the rest of Italy and Europe combined (Tognetti 2012). And these extant books are, of course, but a fraction of the number of books produced: in the 1343 bankruptcy proceedings of the large Acciaiuoli family company, some fifteen hundred of the firm’s account books were referenced (Hoshino 2001).

Merchants, again especially in Tuscany, and not surprisingly given the culture out of which they arose, seem to have been afflicted with a *furor scribendi*, a compulsion to write. In an important early study of these merchant-writers, Christian Bec (1967) showed how generically capacious pre-humanist merchant writing could be, with “*marchands moralistes*”, “*marchands conteurs*”, “*marchands mémorialistes*”, and “*marchands historiographes*” producing advice books, short story (*novella*) collections, family chronicles, and histories. All of these genres, though, orbited around a central and vaster phenomenon, the keeping by merchants of run-of-the-mill *libri di ricordi* or *ricordanze*, personal memoranda books, usually recorded chronologically; quintessential records of “economics” in the pure, premodern sense of household or estate management (from the Greek *oikos*, home), these books laconically recorded chiefly personal business accounts, family data (births, marriages, deaths, etc.), and

only occasionally events outside the family-household sphere (Ciappelli 2014). The proverbial or aphoristic wisdom of merchant advice books, like that of Paolo da Certaldo, provides us with a glimpse into the ethos (sometimes startling, often all too familiar) of the premodern merchant (Branca 1986: 1-99). More apropos of the long-distance trade, manuals (*pratiche*) of commercial practices were also produced and examples, largely Tuscan and Venetian, remain from the fourteenth and fifteenth centuries: books, covering the width and breadth of the geography of the long-distance merchant's world, in which information useful to merchants—trade routes; distances; local currencies, weights, and measures; lists of spices and other goods; duties and tariffs; carriage costs—was compiled directly or second-hand from correspondents (Dini 1980, especially 53). The most complete specimen, written between 1310 and 1340 by Francesco di Balducci Pegolotti, who worked for the Bardi company in London and Cyprus, is extraordinary in scope, covering thousands of exotic coins, commodities, and measures in hundreds of cities from Acre, as it were, to Zara (present-day Zadar in Croatia) . The first route described by Pegolotti, for example, takes a merchant (or, more likely, his agents and goods) from the Italian colony of Tana (today Azov, Russia) to Canbalecco (Beijing), around 6000 kilometers away (Evans 1936).

After five to seven hundred years, we possess, quite understandably, only a small sample of the business records produced in the late Middle Ages and Renaissance. And when we do possess such records they are often incomplete, even fragmentary. More complete collections are unique and uniquely valuable: as we will describe below, it is precisely and only because so many of the account books and other materials from the businesses of the famous Prato merchant Francesco Datini survive that scholars, from Enrico Bensa (b. 1848) to Federigo

Melis (b. 1914) to the current generation of Italian economic historians, have been able to reconstruct the organization and management of his businesses. Harvard Business School's Baker Library possesses another uniquely complete collection (as per De Roover 1974c: 74), which, unlike the extraordinary Datini fonds, has barely been examined in the last 75 years (roughly since the important work of Edler 1934; and De Roover 1974 [1941 original]). The so-called "Selfridge Collection" of Medici family business records, donated to Harvard Business School by the Anglo-American retail magnate Harry Gordon Selfridge, contains about 150 manuscripts through which it is possible to trace the businesses—predominantly wool manufacturing and export—of one branch of Florence's Medici family. The most important merchant covered in the Harvard Business School collection is Francesco de' Medici (1450-1528) whose books, along with those of his father Giuliano di Giovenco (d. 1499), his son Raffaello (d. 1555), and his grandson Giuliano (d. 1565), make up more than 80 percent of the collection. Francesco began his business career in local banking by making petty loans in and around Florence (Goldthwaite 1985) and by selling the wares of goldsmiths; in 1472 he personally journeyed to Pera (the Christian trading quarter of Constantinople) and to Bursa (at the end of the Silk Road); after 1500 he was one of Florence's more prestigious entrepreneurs, regularly holding positions of honor in the city, and overseeing a sizable importing and exporting operation between Spain, Lyons, Florence, Ragusa (on the Italian Dalmatian coast), and the Ottoman cities of Constantinople and Adrianople, exporting finished woolens and importing raw wool from Spain, and silk, spices, and other luxuries from the East. Throughout his career, Francesco's business interests remained varied (lending small sums, dyeing wool, buying and selling leather, scrap cloth, silk, and jewels, etc.) and most often he had no partners

(operating as “Francesco di Giuliano de’ Medici and Company”); when he did have partners they were about half the time members of his close family (his father, brothers, and son) and half other Florentine merchants, especially one other local banker and several merchants with similar interests in the Levant trade.<sup>1</sup>

When Gras conceived of the sedentary merchant, he most certainly had in mind the even more exceptional figure of Francesco di Marco Datini (1335-1410), about whom he commissioned an article for publication in the early journal of business history that he co-edited with Harvard Business School’s first dean Edwin F. Gay (Brun 1930). Datini, who achieved something like lasting fame in modernity with the publication of Iris Origo’s lively account *The Merchant of Prato* (1957), left behind a superabundance of records—over 600 account books, and over 140,000 pieces of commercial correspondence including hundreds of bills of exchange—that is unparalleled for any other premodern merchant. An orphan, Datini first made his fortune with a warehousing and export-import business in Avignon, where the presence of the papal court had created a thriving commercial and financial center, one linked to Tuscany with regular overland mercantile and diplomatic traffic. In the 1380s he returned to Prato, which had been annexed to the Florentine regional state in 1351, and from there operated a massive international enterprise, which has been called a system of businesses or of firms (*sistema di aziende*; Melis 1962) and which foreshadowed, albeit imperfectly, the multinational trading companies of the nineteenth century (Jones 2002) and the hierarchically administered multiunit firm of the twentieth century (Chandler 1977). With major branches in Avignon, Prato, Pisa, Florence, Genoa, Barcelona, Valencia, and Mallorca, Datini’s commercial empire involved banking, industrial production (chiefly of woolen textiles), and hundreds of

commercial partnerships with junior partners, agents, and employees. Of course Datini's system was far from representative of the usually much smaller and more abundant mercantile partnerships of the era, and these were equally far from the still more abundant shops of the petty merchants of Prato in the same period, who kept only rudimentary accounts, dealt with the long-distance trade through local small bankers (*tavolieri*), and occupied a circumscribed world dominated by personal trust and rampant consumption loans (Marshall 1999). Late in life, and strongly influenced by a friend, the notary Lapo Mazzei, Datini became increasingly devout and left his fortune to a charitable organization for the poor of Prato that he established called the Ceppo dei poveri (Guasti 1880; Nigro 2010).

Although Datini regularly opened his new accounts in the name of "God and profit", as many Italian merchants of the time did, he also, again like many of his contemporaries, increasingly grew anxious about his wealth and its possibly deleterious effect on his salvation. The relationship of religion to capitalism and its origins became a major question around the beginning of the twentieth century: Max Weber's (2010; original 1905) famous argument that the "spirit" of capitalism did not arise until Calvinist and Puritan doctrines gave work, as a secular vocation (*Beruf*), a dignified place within God's plan was formulated in reaction to Werner Sombart's (1902) that capitalism's origins were to be found in the Italian merchants of the late Middle Ages, among whom acquisitiveness and the rational calculation of profit first became widespread (Lehmann 1993). Although the larger question of "spirit"—a cultural rather than empirical one—remains moot, capitalism as it developed in the medieval West did so alongside an often hostile religious or ethical mindset, most commonly associated in the most widely known scholarly literature with the usury prohibition and the just price doctrine.

Usury, understood as *any* interest rather than excessive interest, was forbidden by the Biblical and Koranic traditions, but was allowed in Byzantium, where legal rates were set by imperial legislation. The increased trade of the twelfth century created a demand for commercial credit and prompted increasing condemnations from church councils, like the Third Lateran Council of 1179, as well theologians and preachers. Pawnbrokers and moneylenders, often Jews because the Jewish usury prohibition was understood to extend only to loans to other Jews and not to gentiles, were understood to be preying on the Christian poor and were regularly subjected to rhetorical and physical violence (Le Goff 1988). Moneychangers and bankers provided their services and loans of capital at interest, but they often obscured the interest, as we have already noted, under the guise of otherwise licit transactions. And theologians and canon lawyers, already in the thirteenth century, had moreover created innovative doctrines to support commercial credit on the basis of risk, opportunity costs, and the legitimacy of remuneration for performing financial services. The Provençal theologian and Spiritual Franciscan Peter John Olivi even distinguished productive capital from money, a non-productive or “sterile” medium of exchange in the Aristotelian and Scholastic traditions (Spicciati 1990). Although there is some evidence that the usury prohibition retarded the growth of financial markets in medieval Italy, and although merchants were sometimes affected by moral anxiety that led them to undertake usury restitution (Galassi 1992), the impact upon merchants and upon the development of commercial instruments appears minimal. Similarly, the so-called “just price” was rarely understood by medieval theologians and canonists, in practice and under ordinary conditions, as anything other than the market price (De Roover 1958). That said, certain essential staple goods, like grain—subject to

unpredictable crop failures, and thus life or death matters for rulers and their subjects—were highly regulated (De la Roncière 1982) and continued to be for centuries (Kaplan 2015: xxii-xxiv); and neither the trades nor trade were “free” in premodern urban Europe: guilds and governments alike erected barriers to trade protecting local merchants and industries including quality, price, and exchange controls; tariffs and levies; subsidies and privileges; and franchises and legal monopolies (Munro 1977; Mackenney 1987; Mauro 1990).

### VENICE: MERCHANTS AND THE STATE

In approaching the trade of the Mediterranean, the case of Venice, the preeminent commercial power of the later Middle Ages and Renaissance, is exemplary; foreshadowing the mercantilist and national powers of the seventeenth century, in Venice more purely commercial activity went hand-in-hand with industrial-technological advancement and state intervention, creating for the Serenissima a set of partially overlapping commercio-political empires on the Italian mainland (the so-called *Terraferma*, ultimately extending to the plains of Lombardy and including cities like Brescia, Cremona, Padua, and Verona), in Istria and on the Dalmatian coast, and all across the eastern Mediterranean, controlling and fortifying possessions along the Strait of Otranto, the Gulf of Corinth, the Peloponnese (or *Morea*), and beyond, including Crete and Cyprus. Although undisputed Venetian mastery of the eastern Mediterranean was brief, lasting between the end of a series of commercial wars with Genoa and the start of Ottoman encroachment, its commercial and industrial power writ large was extraordinarily long lived (Chambers 1970; Lane 1973). A symptom of Venice’s stable and expansive mercantile power: Although Florence and Genoa both minted gold coins before

Venice did, with the former's famed Florin quickly displacing North African gold coins and gold dust as the foremost medium of exchange for high payments in Europe, the Venetian Ducat—first minted in 1285—was rapidly used and copied throughout the Eastern Mediterranean and, in the fifteenth century, overtook the Florin as the premier gold coin of Europe (Lane and Mueller 1985; Stahl 2000). Venice had been a vassal state under the jurisdiction of Byzantium until the late ninth century, it established major trade routes in the eleventh century, and by the start of the thirteenth century—when, in 1204, Doge Enrico Dandolo diverted the Fourth Crusade to sack Constantinople—it conspicuously rivaled or equaled the Eastern Empire due to its maritime prowess (Nicol 1988; Laiou-Thomadakis 1980-1). Venice's slow loss of mercantile supremacy in (and colonial rents from) the Eastern Mediterranean, offset in part by increased expansion in the Terraferma, sped up only in the seventeenth century, when Northwestern European national powers, the Dutch and the English, began to capture significant parts of the Levantine trade as a result of their burgeoning naval and economic power. The English Levant Company, a politico-commercial entity, came to trade directly with the Ottomans, entirely sidestepping the Venetians and similarly, when necessary, small and mobile communities of English merchants would deal with Greek rather than Venetian traders in territories under Venetian domination (Fusaro 2015). Such reversals of fortune often follow successful politico-mercantile emulation (Reinert 2011).

In Venice, as elsewhere in Northern and Central Italy, industry and trade were intimately and harmoniously linked. To take one famous example: Although the Venetian glass industry, centered on the island of Murano, began as early as the tenth century, it was the astonishing wealth of Venice's merchants in the late Middle Ages and Renaissance that supplied the large



capital investment necessary for growth and technological development and it was these merchants' mastery of Mediterranean sea lanes that facilitated both the importation of raw materials and the export of luxury glasswork (McCray 1999). Similar arrangements also existed on a much larger scale. The massive industry of turning raw timber, culled locally or from Venetian forests in Istria and Dalmatia, and long one of Venice's chief commodities for sale, into ships for war and trade lay at the heart of the Venetian enterprise: the Arsenal, Venice's shipyard, built in stages from the thirteenth through the fifteenth centuries, employed as many as sixteenth thousand shipbuilders in the 1420s and achieved remarkable productivity (Appuhn 2009; Concina 2006). The production of the Arsenal fed the system of public galley convoys that had long been central to Venice's maritime trading and war-making capacity, a system that collapsed only in the sixteenth century when the private interests of the Venetian patriciate could no longer be reconciled with the city's public interest (Judde de Larivière 2008).

#### THE SCALE OF MERCANTILE ENTERPRISES

Throughout the Middle Ages and Renaissance, merchant partnerships and companies, even those with "global" reach, tended to remain both small in size and limited in duration, and are often best viewed as particularistic entities embedded in much larger and sometimes overwhelming mercantile networks, trade routes, and flows of goods and precious metals, but there were exceptions: late medieval Florence, for example, saw the creation of what Edwin S. Hunt (1994) has called "super-companies": the Bardi, Peruzzi, and Acciaiuoli family companies of the fourteenth century. The Peruzzi company, defined by a series of renewed short-term partnership agreements, lasted nearly 70 years and grew to a conspicuously large size: in

addition to a main branch in Florence and others in some of the political and economic centers of Europe (Avignon, London, Paris, Bruges), the company, in 1335, had subsidiary branches all over the Mediterranean world—Pisa, Venice, Naples, Barletta, Sicily, Sardinia, Mallorca, Tunis, Cyprus, and Rhodes—and employed 90 salaried agents. By comparison, the papacy in Avignon, by far Europe’s largest administrative operation, employed about 250 there. The Bardi company was even larger and its assets, again in 1335, were an astonishing 4.5 times larger than the net receipts of the English crown nearly a century later. The scale of these companies allowed them to obtain trading privileges with kings and other political rulers in exchange for the large cash loans required to wage war. The three companies went bankrupt in the 1340s. It was long believed, due to the historic centrality of the wool trade in Florence, that the Peruzzi company’s failure resulted from Edward III, the English king, defaulting on the enormous loans that secured for the company control of the supply of high-quality raw English wool, but Hunt has shown that the Peruzzi instead fell victim to decreasing profit margins in the grain trade, which formed the real core of their business. Even if the “super-companies” did not collapse due to sovereign defaults, lending to kings, city-states, and other large institutions could be a very dangerous business for premodern merchants and merchant bankers. The case of Jacques Coeur is exemplary: the Bourges merchant, who amassed a fortune by importing tapestries and silk through Damascus, financed French military campaigns in the 1440s before ultimately running afoul of the court, having his property confiscated, and fleeing arrest to Rome (Mollat 1988).

Some Renaissance family companies also grew to extraordinary size and attained equally large geopolitical influence, most famously the Medici bank of fifteenth-century

Florence and the Fugger bank of sixteenth-century Augsburg, both of which profited from the collection of papal taxes, from the sale of insurance, from the regular fluctuation of international exchange rates, and from loans to merchants and princes. And both the Medici and Fugger companies, with branches all over Europe, in addition to these more bank-like activities, acted as vast international holding companies (or perhaps multinational business groups), operating manufacturing and mining enterprises and export-import businesses. Using the abundant and meticulous extant records of the Medici bank, including some of its “secret books” (*libri segreti*) discovered by his wife Florence Edler, Raymond de Roover (1963a) showed that the bank’s success relied not on innovative banking techniques but on managerial prowess—insulating the central company from losses, incentivizing branch managers to increase profits, requiring the regular presentation of financial statements—and that its failure, between 1464 and the ultimate collapse of 1494, likewise was the product of mismanagement by the younger generation. Jakob Fugger, the richest man in Europe, personally helped finance the 1516 royal election of Charles I of Spain (later the Emperor Charles V), and his family bank, its fortunes tied to Spain, reaped enormous profits and gained incredible holdings in land and mines (by which unpaid loans to the crown were redeemed) but, in the second half of the sixteenth century, was battered by a series of Spanish state bankruptcies (Kellenbenz 1990).

## CONCLUSION

It has lately become fashionable to suggest that the West’s clear economic advantage over the East is a relatively recent phenomenon, with Europe overtaking China only in the mid-eighteenth century (Pomeranz 2000), even though earlier periods, like the fourteenth century,

have been more persuasively presented on the basis of economic data (Maddison 2006). But the most commercially advanced regions of Europe, like the urban centers of Flanders and North-Central Italy, were extreme outliers much earlier, both globally and within Europe itself. Italy's was the leading world economy ca. 1300 and, even with a steady and long decline from then to the 1880s (Malanima 2011), England's did not overtake it (in terms of real wages) until the eighteenth century (Malanima 2013). Although the Industrial Revolution allowed for unprecedented prosperity and brought about modern economic growth (Hartwell 1971), Michael Mitterauer (2010) is right that Europe was set on its "special path (*Sonderweg*)" in the Middle Ages, but his search for causes—from the cultivation of rye to the centralization of the Papal church—largely overlooks the patent cause of Europe's distinct late medieval prosperity, which spurred revolutionary advancements in shipping, communications, and manufacturing: the long-distance trade of merchants. Indeed, to speak of the makers of global business must be, first of all, to speak of merchants.

In this chapter, with its focus on the Mediterranean trade of the Middle Ages and Renaissance, we have shown how the merchant—Gras's "sedentary merchant", freed from the harsh demands of travel by his mastery of information and by the seismic innovations of the medieval "commercial revolution"—emerged as a truly global figure. Then, as now, merchants pooled capital and shared risk to enrich themselves and their polities, utilizing the infrastructure and markets that they helped to make, and creating new legal and financial instruments to facilitate their ventures. Premodern merchants bequeathed to the businessmen of later centuries essential techniques of trade and bookkeeping, but also their commercial ethos, their institutions, and the very riches for which they competed and often risked their

lives. It is not by chance that the politico-economic system that followed is called the mercantile system, as in Adam Smith's (1976: 396-417) pejorative usage, or simply mercantilism, for, broadly understood, it held that the competition for trade lay at the essential core of state power (Reinert 2013). The violent Genoese-Venetian struggle for the Mediterranean trade, the aggressive emulation of Italian banking practices in the Low Countries, and so on, are forerunners of the mercantilist age and, indeed, of the perpetual competition, diversity of forms (political and economic), and innovation that has marked the development of the West.

Let us conclude with an example, from the Low Countries instead of Italy, which encapsulates much of what had already been said: Bruges, the quintessential merchants' city, spatially positioned to benefit from the decline of the Champagne fairs and from regional advances in textile manufacturing, was by 1350 a center a trade, finance, and industry: politically responsive to mercantile interests, densely urbanized, concentrating and exploiting the resources of the surrounding countryside, attracting skilled craftsmen as immigrants, hosting large merchant colonies (of Italians and German Hanse traders, of course, but of many others as well), and importing and exporting commodities and luxury goods in a trade covering the known world and extending beyond it, the Flemish seaport was also a center for deposit banking and credit creation, and a clearing house for commercial information (De Roover 1948; van Houtte 1982). To see one of the European merchant metropolises of the late Middle Ages or Renaissance—to see a city like Bruges or like Venice—was, we may say with crystalline hindsight, to glimpse the very future of the global business.

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<sup>1</sup> The collection (briefly described in de Ricci 1935) was acquired by Selfridge at auction in London (see Tyler 1919). HBS Medici Family Collection, Baker Library Special Collections, Harvard Business School, ms. 495, fascio C, pp. 89-146 for Francesco's sojourn in Turkey; ms. 519 [not physically with the collection, on which see Goldthwaite 2009b] for some of his earliest businesses; Francesco's activities from 1471 to 1525 are represented by at least 11 partnership agreements [in ms. 495] and 27 manuscript books [mss. 514, 516, 518-21, 523-4, 526, 528-34, 536 (2-6), 537-9, 543(1), 545-6, 568(1)], many of them ledgers (*libro debitori e*

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*creditori*), with a sizable number of other types, including journal (*giornale*), memoranda (*ricordanze*), and letter copybook (*copialettere*), and a single *libro segreto*.