Trust among Merchants circa 1400: A Research Note[1]

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In 1400 the plague reappeared in northern Italy. During the epidemic, Bino Piaciti sent Francesco di Marco Datini a distressing letter from Venice about a Florentine colleague, Piero Benedetto:

> Ser Piero became very ill with the pestilence late Monday evening [27 September 1400] and on the 30th a rumor spread from envy that he was dead and that he had wished to petition other banks [to honour his accounts] . . . . I heard that many artisans and other Venetians, fearing for their assets, rushed to his bank to be paid. It is said that they came in such great numbers, and with their emotions running so high, that the bank staff saw they could not conduct orderly business under such conditions.

Rumours of Ser Piero's death led his customers to a full-fledged run on the bank. At its managers' request, the banking regulators of the Venetian government, the Mercanzia, intervened by taking possession of the Benedetto Bank's books, and Piero's family sought to calm panicked depositors by guaranteeing the bank's solvency.

> It is said that they wish to pay each and every one and that they ought to be able to do so. At this point, the employees of the bank and his executors seek to contact the greater part of the bank's creditors and show clearly that they can pay everyone, and that 15,000–20,000 ducats of gold will remain to Piero's sons . . . but we have heard, and verified by speaking with some of his friends, that Piero's relatives have ordered a collection of money, which is a tremendous burden to family and friends. On Monday, however, when the bank reopens with more cash on hand, it should be

[1] This note is a fragment of a much larger project on trust for a book tentatively titled, *The Italian Renaissance: The Tenuous Bonds of Trust, 1350–1650*. The standard study on trust is Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York, 1995), a book so anachronistic and programmatic that I found it of little use for historical understanding.

able to satisfy everyone who comes to the bank for money they have deposited there.

Yesterday on the 4th . . . the relatives of Ser Piero finished contacting all the Florentines in this territory and . . . assured them that the bank would pass to Ser Piero's heirs and the accounts would be transferred from the old books to the new. But the relatives asked that we neither delay payments due in January or any time in the next four months, nor ask that they pay off accounts that are near completion . . . . All of the Florentines responded graciously, and it pleases them and their honor, having been asked for the time, to grant it.[2]

The unfortunate Piero's death and the run on his bank reveals the tender strands of trust that made the merchant economy of Renaissance Italy possible. Then as now banks survived on the trust of their clients. Depositors needed assurances that their money would not disappear from a collapse, and their fears could put in jeopardy not only the bank itself but the whole network of financial relationships it helped sustain. In the moment of crisis, the staff of the Benedetto Bank sought protection from the banking agency of Venice, the Consuls of the Merchants, who were charged with regulating commerce in the volatile capitalism of the time. The government of Venice saw the wisdom of supporting even a foreign bank in trouble. Once the run on the bank was under control, the family took charge and pooled its own resources to rescue the bank, but the family did not act alone. Not only did the Benedetto relatives rely on protection from the government, they sought help from their fellow Florentine merchants, who instead of taking advantage of their competitors' moment of weakness helped bail them out. The Benedetto case shows the peculiar characteristic of merchant capitalism in Renaissance Italy: the vulnerability of investments, the shadow role of governments in protecting the stability of markets, the commitment of families to the well-being of all their members, and the reliance of individual bankers and merchants on a network of personal relationships among friends, who saw it as honourable to help out a colleague in

[2] Archivio di Stato, Prato, Datini 712, *Carteggio Bologna,* letter from Venice to Bologna, Bino Piaciti to Francesco di Marco Datini e Compagnia, November 2 and 5, 1400, transcribed by Flavia Zaccaria and translated by Victoria Morse, in *Medieval Italy: Texts in Translation,* ed. Katherine L. Jansen, Joanna Drell, and Frances Andrews (Philadelphia, 2009), 98–99. I have changed some inaccuracies in the translation.

need: ‘it pleased them and their honor, having been asked for the [additional] time, to grant it’. The necessary trust among merchants bequeathed to them personal honour – their reputations that would make future transactions, future loans, future profits possible. More than guarantees from a government, the whole system depended upon mutual trust.

Where did the trust among merchants come from? The great European commercial revolution of the late eleventh and twelfth centuries depended upon bonds of trust among merchant families and firms, especially since in these early stages governmental regulation and legal enforcement lagged behind the economic transformation. Commercial contracts allowed the transportation of goods from one place to another. A system of exchange, which would evolve into institutions such as the Benedetto Bank, transferred money from one person or one firm to another often across long distances. The commercial revolution occurred at the same time as the rise of the Italian communes, which also relied on networks of trust. One of the characteristics of the early communes was the reliance not just on personal relationships but on written norms, laws, and records.[3] The documents from this early period do not reveal the precise mechanisms whereby trust among neighbors and among international merchants evolved, but, as Richard Goldthwaite has argued,

> especially significant were the social implications of the two principal instruments through which these men tied themselves into the system: accounting, which served as an efficient tool to keep a record of their complex relations, and the bill of exchange, which allowed them to circulate money – the sinews of their business – freely throughout the system. Accounting required trusting the written record, and the bill of exchange required reliance on a financial relation with a merchant in a different place and on a collective agreement for the fixing of exchange rates at each of the various international centers.[4]

Businessmen enhanced their trust in these abstract instruments by virtue of the fact that they worked with one another and that they often used the same agents in distant foreign cities. As the case of the Benedetto Bank reveals, Florentines trusted and relied on other Florentines, as did Pisans on Pisans, and Venetians on Venetians. Michael Bratchel has

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[3] For the example of Lucca, see M. E. Bratchel, *Medieval Lucca and the Evolution of the Renaissance State* (Oxford, 2008), pp. 27–50.
[4] Richard A. Goldthwaite, *The Economy of Renaissance Florence* (Baltimore, 2009), pp. 105–06.

shown how vital the system was for the prosperity of Lucca, which created a commercial and banking network that stretched from the eastern Mediterranean to northern Europe: 'Like other Tuscans, the Lucchese from the late fourteenth century were operating the *sistema d'aziende* of juridically autonomous companies, largely familial in character and united by the participation and capital investment of the pre-eminent partner(s).' Lucca anticipated Florence in establishing the standards of limited liability, which enabled families and companies to survive failed investments, sudden market shifts, disasters at sea, war, piracy, predatory governments, and all the other vulnerabilities of international trade. Merchants were trained in a common business culture and as boys served apprenticeships in a number of different firms, which widened their network of business acquaintances. In Lucca itself the personnel of the merchants companies were registered in a single Book of the Merchants, but abroad Lucchese businessmen operated within 'a nexus of partnerships and interlocking interests of bewildering complexity'. Communities of Lucchese silk manufacturers, merchants, and bankers in London, Bruges, Paris, Avignon, Lyons, Geneva, Florence, Valencia, Rome, Bologna, Naples, Venice and many other places traded and borrowed, not just with their counterparts in Lucca but among themselves, creating a truly international network of relationships. Many of these Luccese spent their entire careers abroad.[5]

From the fall of Rome in the fifth century to the commercial revolution in the eleventh, credit and the circulation of money barely existed. 'People placed confidence', Marvin Becker argued, 'principally in primary ties of obligation. They had little faith in abstractions; seldom did they judge abstractions sufficient for constituting effective social bonding. In this archaic world it was rare to find individuals pursuing a middle path between deep trust and total mistrust.'[6] Material gifts became tokens of friendship and obligation, but gifts do not allow an economic system to grow through investment and exchange. Once merchants began to expand their contacts beyond their personal acquaintances, they found it necessary to accept new standards of trust, epitomized by faith in the sanctity of the written document. Trade across vast distances required merchants to find ways to trust trading partners they had never met. The desire of

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[5] M. E. Bratchel, *Lucca 1430–1494: The Reconstruction of an Italian City-Republic* (Oxford, 1995), pp. 159–64 (159, 161).
[6] Marvin B. Becker, *Medieval Italy: Constraints and Creativity* (Bloomington, IN, 1981), p. 20.

international merchants to take advantage of the new market opportunities forced them to take risks.

Overcoming total mistrust, the war of all against all, as the seventeenth-century philosopher Thomas Hobbes so famously put it, represents a crucial moment in the history of capitalism. It is impossible to imagine the modern market functioning without an ethic of trust in which every transaction has implications for future transactions or capitalism evolving without institutions that reinforce trust and punish those found unworthy of it. The classic formulation of this problem can be found in the eighteenth-century philosopher, David Hume's *A Treatise of Human Nature*:

> Your corn is ripe to-day; mine will be so to-morrow. 'Tis profitable for us both, that I shou'd labour with you to-day, and that you shou'd aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my own account, in expectation of a return, I know I shou'd be disappointed, and that I shou'd in vain depend upon your gratitude. Here then I leave you to labour alone; you treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security.[7]

Hume identified the paradox of trust. It requires a leap of faith in a neighbour to believe that effort expended on his behalf will be repaid in kind. In a world of pure competition everyone loses, and in fact the behaviour of Italian merchants during the Renaissance reveals a clear understanding of that principle. Firms competed with one another for business, of course, but individuals did not. They accepted the principle of generalized reciprocity. The philosopher Michael Taylor described the principle this way:

> Each individual act in a system of reciprocity is usually characterized by a combination of what one might call short-term altruism and long-term self-interest: I help you out now in the (possibly vague, uncertain, and uncalculating) expectation that you will help me out in the future. Reciprocity is made up of a

[7] Hume, *A Treatise of Human Nature*, book 3, part 2, section 5 [1740], as quoted in Robert Sugden, *The Economics of Rights, Co-operation and Welfare* (Oxford, 1986), p. 106.

> series of acts each of which is short-run altruistic (benefiting others at a cost to the altruist), but which together typically make every participant better off.[8]

The market required competition to establish prices and to make profits from investments, but Italian merchants did not engage in the cutthroat competition typical of modern capitalists primarily because they lacked the legal protections against fraud offered modern capitalists. Groups of merchants from one city might compete with merchants from another city, Florentines against Venetians, Venetians against Genoese, for example. The letters of Italian merchants, however, reveal a greater propensity to cooperate with fellow merchants than to drive them out of business for personal gain.[9] The willingness of Piero Benedetto's Florentine compatriots to assist the family bank after his death was not unusual. It was normal business practice. Given the perils of the commercial world, merchants sought a haven from a hostile world in a culture of mutual trust. Except for the biggest bankers such as the Medici, merchants did not seek to monopolize the source of supply for a commodity as the Medici did with alum, did not undersell to drive out competition, and did not stockpile goods to drive up prices. These practices would have cut the tender ties of trust.

Businessmen were full of advice in their letters to their subordinates and family members, but their advice was seldom about the technology of business – accounting practices, insurance, judging markets, setting prices, or long-term planning. Merchants advised about matters of character and patterns of behaviour, the stuff of a merchant's reputation. The advice was exceedingly practical: 'the merchant must guard his reputation, seek not to arouse envy, conduct his affairs with reason and honor, know how to deal with others, and judge everything not by absolute standards but by the circumstances of the moment'.[10] Some merchants like Francesco di Marco Datini were micromanagers, heavily involved in the day-to-day details of their innumerable transactions, sticklers for precision, and obsessive record keepers. Others, most famously Lorenzo de' Medici 'The Magnificent', might delegate the details to others, but in the case of Lorenzo the hands off approach led to bankruptcy. By the fourteenth century a merchant was a prisoner in his office tied to his desk. He and his staff, especially the

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[8]Michael Taylor, *The Possibility of Cooperation* (Cambridge, 1987), pp. 28–29.
[9] Goldthwaite, *The Economy of Renaissance Florence*, pp. 588–89.
[10] Goldthwaite, *The Economy of Renaissance Florence*, p. 80.

young apprentices, spent day and night writing letters and keeping books. It was not unusual an apprentice to complain that he slept only three hours a night, and even the master merchant might be at his desk long after midnight.

The point of all this writing was that trust depended on documents. The most important documents were the account books. In fact, in the archives of the business court of Florence, the Mercanzia, by far the largest single collection of such documents are the account books that merchants submitted as evidence in disputes. In advance of other cities, Florentine merchants abandon recording contracts with a notary and replaced them with account books as more efficient in saving time and money. Rather than finding a notary to fill out a contract, when a Florentine cut a deal with a fellow Florentine he merely entered a record in the company books. If he had a transaction with a non-Florentine he would be obliged to resort to a notary to authenticate the terms of the deal. The result was that Florentine business practices through account books became an expression of the tight network of trust among Florentine businessmen. The reasons for the Florentine reliance on account books may have been quite simple. They had to deal with an enormous volume of daily business. The Florentine Strozzi firm in its Naples office engaged in an average of thirty-four transactions every day in 1472–1473. Accounts covered a remarkable range of commodities. Datini traded in leather, metals, raw wool, woolen cloth, toys, dried fruit, ostrich feathers, arms, and works of art. There was an enormous geographical range to their activities. Again Datini serves as an example. His letters came from 267 different places stretching from London to North Africa and the Byzantine Empire, and each deal might require dozens of letters about the original order, bids from suppliers, transportation, and arrival at the final destination.[11] These account books became highly standardized by the second half of the fourteenth century and followed a system of double-entry in which debits and credits appeared on facing pages of a folio. The same transaction would be entered twice, once on the debit side and once on the credit so that the gain or loss of each deal could be easily calculated. Double-entry represented one of the critical innovations of Italian Renaissance businessmen. In Latin the term 'debit' (*debeo*) means 'he owes, and 'credit' (*credo*) signifies 'he trusts,' a revealing term. The oldest surviving double-entry account book

[11] Goldthwaite, *The Economy of Renaissance Florence*, pp. 90–93.

comes from the Florentine firm of Farolfi from 1299–1300, but the system did not become universal until the fifteenth century, the height of the Renaissance.

Account books were just one kind of business innovation of the Italian Renaissance. Insurance policies reduced risk for pirate-infested sea voyages and bandit-ridden trails. A private postal system facilitated the flow of market information and business correspondence. Perhaps the most important new document was the letter of exchange, which allowed a merchant to pay a deposit at a local bank in Florence or Venice and withdraw the money or have someone else withdraw it from a distant branch in London or Naples. Like insurance letters of exchange reduced risk from robbers who could easily seize a bag of coins carried to buy goods, but in addition these letters allowed banks to make profits that evaded the Church's condemnation of usury, the interest-bearing loan. Merchant bankers created clever ways of avoiding the prohibition. For example, let us say a Florentine merchant wants to take a business trip to Bruges in the Low Countries. Instead of depositing the money he will need in Bruges, the merchant accepts a sum of money from the bank in the form of a letter of credit. All the merchant is going to do, as far as the Church is concerned, is exchange the letter of credit in florins to the groats of Bruges. It is a currency exchange. The merchant is given 60 days to get to Bruges or to send the letter to his agent in Bruges to make the exchange. In the meantime he uses the florins to buy merchandise to send to Bruges via ship to sell for profit. In effect, he has an interest-free loan before he has to make the exchange. The bank profited by fixing the exchange rate to its advantage. Everyone profited and no one was a usurer, at least on paper. Thus, the mountains of paper merchants generated had two functions. They guaranteed a system of trust among merchants who could verify the value of transactions in account books. And they helped bankers evade regulations that might otherwise have compromised the vitality and profitability of the economic system.

The system did not conform to modern notions of how capitalists should behave by pursuing private advantage and taking advantage of market competition. In fact, Renaissance account books make it appear that almost all businesses and banks were insolvent because they carried on the books a huge number of overdue payments and unpaid loans. Merchants delayed paying their debts for weeks, months, even years, and even for quite small transactions. Petty merchants and international bankers, that is

virtually everyone in the economic system, regularly granted credit to their customers and allowed them to overdraft on their credit lines. In short, the discipline of modern capitalism was lacking. In Florence the dyer Iacopo di Lippo Doni listed eighty-four debtors, twenty-seven percent of whom were in default. Worse off was Francesco di Gilio Gili who wrote off as deadbeats eighty-eight of his ninety-six debtors. Sixty-six percent of the money he had lent out was uncollectable.[12] Even the most successful Renaissance bankers would have flunked a modern university course on microeconomics, and yet they made vast fortunes and sustained the financial structures of a burgeoning global economy. Their objective, however, was not necessarily to maximize profits. Far more important was to maintain a network of personal relationships among people they could trust, and those people were more often than not their relatives, neighbours, and business associates. Credit was not just a way of making capital grow. It was a way of supporting relatives. It was a way of making and keeping friends and clients. To call in an outstanding loan or to seize collateral, which would seem rational and appropriate to a modern banker, would seem immoral to a Renaissance banker because to do that would break off a social tie, which was crucial for maintaining trust. Distributing money in this fashion to friends and family looks like corruption to modern eyes, but during the Renaissance it constituted honourable behaviour. An honourable person was never miserly but open-handed, generous, and liberal. The social capital of a network of friends was more vital than the financial capital of high profits.

[12] Ronald F. E. Weissman, 'The Importance of Being Ambiguous: Social Relations, Individualism, and Identity in Renaissance Florence,' in *Urban Life in the Renaissance*, ed. Susan Zimmerman and Ronald F. E. Weissman (Newark, 1989), p. 276.