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Milan and the Mediterranean Economy: 16th – 17th centuries

The theme of this study is the metamorphosis which a Mediterranean city of finance, Milan, underwent and simultaneously promoted in response to the severe crisis which hit all of Europe in the 1620s. The Milan case and the Mediterranean prospective in general show the negative side of this change. Seen from the south, the 17th century crisis is on first examination to be regarded in terms of mere decadence. It is true, however, that the strategies of the losing side give by contrast the idea of the new scenario of European economic competition reflecting as in a mirror the 'new age' breaking in from outside, from the north. The novelty consisted in the new nature of commerce and of a fundamental departure in economic thought[1] with respect to which the new peripheral zones reorganized the continuity and change.

With regard to Milan and its economy, in the years roughly between 1580 and 1620 the resources offered by the traditional organization of economic life were being exhausted, and in the meantime, new financial and acquisition strategies were gaining ground and new economic operators were being more clearly defined. What therefore was Milan's initial position in this transformation? To what extent was it involved in international commercial traffic and how did this involvement in commerce make it a city of finance? I will try to answer these questions by outlining a model of the Milanese economy. The description of the normal functioning of the 'Milan method of production' necessarily requires analysis to define limits to this functioning, on which basis it will be possible to evaluate the capacity of the system to react and adapt to the new situation – to be precise, the crisis.

From the middle of the 16th century to 1619 exports from Milan remained, with some variations, at a high level. After that the recession knew no stopping point. If it is true that the predisposing causes of the recession were many, it is also true that the beginning of the crisis is attributable to one, fundamental 'fact' : the loss of commercial outlets due to competition from the mercantile powers of the north. At its zenith, the commercial supremacy of Milan was exercised over a wide range of high quality products, and in particular the old draperies and brocades. Such products were sold in Germany and eastern Europe – in Hungary and Poland in

[1] B. Supple, *Commercial Crisis and Change in England, 1600 – 1642*, Cambridge, 1964, p. 147.

particular[2] – but above all in France, where the Crown and Court demanded the best and most expensive fabrics. The shape and extent of the commercial network depended, it might be said, on the duration and stability of 'taste', in the sense that demand for luxury products was a function of quality rather than price. Here was a primary identifying factor: the Milanese merchants clothed and armed the princes and nobility with fabrics and weapons which were above all else 'beautiful'. The predominance of quality in demand was echoed by careful maintenance of technical supremacy. Production was organized entirely on a craft basis : a base of a myriad highly skilled small producers, almost all living within the city, supported corporations which controlled the quality of the product and distributed the orders (thus eliminating all competition between the producers) and above these again, in the predominating position, were the merchants (resident in Milan, but able to control their business by a dense network of agents). The business was regulated by monetary instruments – letters of exchange – which were referred to a centralized payment clearing house in Lyons. The very structure of this payment system made the merchant the main (and in some senses the only) monetary operator within the productive system. As a debtor to raw material suppliers and creditor to outlet markets, the merchant balanced the two flows in which he was concerned and extracted a surplus which could then be invested in the following cycle. In actual fact, such a balance – basically positive between 1560 and 1620 – was not immediately, or above all not necessarily, reinvested in production. Rather, it circulated in the international circuits of credit and, above all, public finance. Not only this: the system of payment itself, i.e. letter of exchange, tended to concentrate flows on a clearing centre, whose functions were exercised (at least up to 1580) by Lyons.

Therefore, from the merchant's point of view, finance, credit and commerce were strictly bound to a single strategy of using currency as a commodity. In this sense, the linking of commercial circuits at Lyons served as a base for purely monetary negotiations and at the same time was the origin of exchanged surplus. On the basis of their 'real' traffic, merchants and merchant-bankers operating at Lyons created monetary and credit exchanges to accrue to themselves additional profits: on the other hand, these monetary negotiations were the only way by which the real exchanges could occur.[3] Besides the monetary channels, the commercial surplus had another outlet, even though it was external to the commercial circuits : land purchase (in Italy the onset of this phenomenon can be traced back to the early years of the 15th century). What emerges, from within our model, is that the surplus was not immediately productive capital but a monetary capital which could be directed towards different and alternative uses. Due to the very structure of mercantile intermediation, the profit resulting from the book difference between sales and purchases (or in financial terms, between debt and credit) once earned showed no functional link to production i.e. did not need to be reinvested to any particular extent. Above all, a cycle of debt and credit could be followed by another with ex-

[2] J.G. da Silva, *Banque et credit en Italie au XVIIe siècle*, Paris, 1969, p. 242.
[3] cf A. De Maddalena, Con mercanti e banchieri fra Cinquecento e Seicento, in Credito e sviluppo economico in Italia, dal Medioevo all'età contemporanea, Verona, 1988, pp. 160 – 161.

actly the same characteristics. This structural aspect of investment has another result: pricing regimes are not influenced by investment decisions. In other words, the structure of production costs is not a variable on which the merchant can act directly, by way of decisions of a technical or production nature. It is starting from these considerations that we have to consider the currency cost on the level of exports from Milan.[4] From the end of the 16th century (1591) to 1619, Milan experienced severe depreciation, of an overall cumulative nature, of the domestic small currency, and as result of this, of the unit of account. Taking into account the low bargaining power of the labour force, the divergence between monetary wage and 'real' wage – its domestic purchasing power – could be maintained for long enough to guarantee excess profits. On the other hand, the tendency of exchange rates to rise, favouring exports and guaranteeing mercantile profits, tends, although not necessarily so, to generate increased production activity and therefore increased demand for hard currency as a means of exchange and as a consequence of the monetary rate (this means that the value of the hard currency measured in lire of account increases). This cumulative depreciation of the lira could be interrupted theoretically by the replacement, on the part of foreign buyers, of export goods by domestic market goods, generating a rebalancing in exchanges; but such replacement is not allowed for in the normal operation of the model. The international demand for Milanese products was linked to what could be described as the incontrovertible manifestation of taste, rather than taking into consideration substitution possibilities. In this way the depreciation of the lira accompanied and favoured, though without being a 'cause', the expansion of the Milanese economy; it never became a political economic instrument with which variations in the economic situation could be controlled. Because of this, both monetary measures (by decree, edict and monetary tariff) and income adjustments came about only when the pressure could not be supported any longer.

Having outlined the normal operating characteristics of the Milanese commercial-financial system, we now look at the reactions of the Milanese economy to that event, anything but 'normal', of the crisis of 1619. Only from that year did the effects of the competition from northern merchants which had existed for some time against Italian textile products in the Mediterranean, become manifest. The crisis of 1619 marked the triumph of the new draperies. The results are well known. There were 70 firms in Milan in 1620 making old draperies, with an annual production of 15,000 pieces; in 1640 there remained only 15, which altogether produced 3,000 pieces.[5] With regard to the traditional structure of the relationship of production and commerce which has been described for the case of Milan, the new way opened by the northern competitors, in particular for the new draperies, in the long run stood the traditional relationships and methods of production on their

[4] On the question of monetary devaluation in the early Modern era see H. van der Wee, Monetary, Credit and Banking System, in Rich-Wilson (Ed.), *The Cambridge Economic History of Europe*, vol v, for northern Europe; and C.M. Cipolla, *Mouvements monétaires dans l'Etat de Milan (1580 – 1700)*, Paris, 1952, for Mediterranean Europe.
[5] Cf. C.M. Cipolla, op. cit., p. 33.

heads. In the commercial strategy operated by these producers, the basic calculation was made on prices, through the control and the planning of costs. The initial success of the new draperies was due to the low labour cost rather than imitation and falsification by imported techniques or, in their turn, imitated; but it was consolidated by commercial policies, based on prices and considerations of the potential demand, and no longer on the quality of the product and the traditional tastes of the consumers.[6] In other terms, commercial policy was based on the control of variations in the value of production, which regulated, at least tendentially, the relative distribution of capital. This new nature of commerce[7] was based on a 'lower cost of labour ... state support of exports ... product variation to reduce the quality related costs of manufacture'.[8] In this method of production which was emerging, the State and the Credit became 'factors of production', working inside the commercial production nexus with the explicit aim of expanding the field of monetary transactions : the appearance of new retailing in Mediterranean Europe[9] too gave a push to the expansion of the market and the production towards strata of lower-income consumers . It is therefore easy to understand, on the basis of our model, how the 'new way' taken by the northern entrepreneurs was in principle impractical for Milan, and for all the Mediterranean economy in the end, in as far as this was based on urban manufacture, i.e. the separation of production from commerce. The irreversibility of the Milanese crisis, beyond the fact that it initially seemed to be derived from the current business cycle is explained by the inability to translate the northern commercial-production model into the Mediterranean environment. After 1619, the alternative for Milan was decline pure and simple or the adoption of a peripheral position in the reorganized world commercial network.

Towards the end of the 17th century, the economic status of the State of Milan was that of an agrarian economy, technically advanced with a high degree of commercialization of the agricultural produce.[10] We are not here concerned with the explanation of the entire phenomenon, just with concentrating on some strategic aspects of the process. At Lyons merchants and merchant-bankers financed the crown and gambled on the level of exchange, anticipating in their calculation the changes in monetary tariffs decided by the French sovereign. All in all, it was an extremely risky game and no one at Lyons could or wanted to specialize in this kind of operation, least of all the Lombard operators, who remained in a subordinate position with respect to the Tuscan bank. There remained one other way, by far the best way of consolidating wealth: land. The land-purchasing strategy of the

[6] This phenomenon was not confined to Milan, but applied to the entire European industry in fine fabrics.
[7] 'Whereas in the sixteenth century, partly under the stimulus of a sellers market, unanimity has reigned as to the necessity of maintaining the price of English cloth, of 'selling dear', now a new feeling arose, that textiles should be sold as cheaply as possible'. B. Supple, op. cit., p. 147.
[8] R. Rapp, 'The Unmaking of the Mediterranean Trade Hegemony: International Trade Rivalry and the Commercial Revolution', in *The Journal of Economic History*, vol. XXXV, 1975, p. 521.
[9] Ibid., p. 521.
[10] Cf. D. Sella, *Crisis and Continuity. The Economy of Spanish Lombardy in the Seventeenth Century*, Cambridge Mass., 1979, p. 154 It.ed.

merchant class continued uninterrupted through all the late Middle Ages and into the Modern era. At the end of the 1500s, to this 'classic' alternative of the merchant class was added that opened up within the horizons of the Bisenzone Fair,[11] transferred to Piacenza in 1579. In their Piacenza period (which was also its most splendid period) these exchange fairs offered an exclusively monetary landmark in the strategy of using monetary capital. While Milan saw ever more concrete threats to its commercial interests, the purely financial attraction of Bisenzone opened up new economic possibilities. The presence of Bisenzone is closely linked to the opening and consolidation of new monetary channels which not only facilitated the movement of money but were in themselves sources of earnings. While from many points of view the Bisenzone Fairs were still traditional monetary institutions,[12] the real innovation of the Genoese fair was in being a 'perennial source of credit', a centre of attraction for financial capital, whatever its origin. In this exclusively monetary 'place', the constant risk of depreciation of the local currency could be faced by the guarantee of sure monetary interest; through the contraction of the depreciating local currency, measured in terms of an ideal (and thus stable) unit of account – the scudo di marco – the feraldi (bankers admitted to trading in exchanges) measured the value of a currency purely in terms of monetary factors, without reference to economic or political factors.[13]

While the fair was solidly in the hands of the Genoese, the Lombard and Milanese businessmen remained in the second row, outclassed. However, by means of the more important intermediary networks, the Milanese were able to ensure some 'speculative revenue' above all due to the ricorsa contract, with or without repetition. The speculative possibilities offered by this kind of channel are best illustrated by the operating method of the Compagnie Lucini.[14] The Lucini bought and sold local currency against the scudo di marco, guaranteeing their own capital and that of their clients against the devaluation of the local currency of account which could technically be defined interest. Comparative analysis of the prices of the scudo di marco and the Doppia di Spagna (Spanish Doubloon), clearly show how the fair exchange mitigated, from the point of view of the creditor's interest, the effects of the generalized monetary devaluation.[15] In this form, the practice of the ricorsa contract was continued, in Italy, for all of the 17th century, and remained in competition with the more traditional forms of credit.[16] What is important to note is that the channel constituted by the ricorsa existed in parallel with the commercial circuits, while these still retained a good level of activity. Not only was the financial

[11] This Fair originated in 1535 when Genovese bankers had to abandon Lyons on account of their links with the Hapsburgs. The first sessions were held in Besançon, hence the name Bisenzone Fair.
[12] For the difference between the paiements of Lyons and the fair of Bisenzone see J.G. da Silva, op. cit.
[13] J.G. da Silva, op. cit. p. 398.
[14] Cf. A. De Maddalena, Operatori lombardi sulle fiere di cambi di Piacenza. I Lucini (1579 – 1619) in *Dalla città al borgo. Avvio di una metamorfosi economica e sociale nella Lombardia spagnola*, Milano, 1982.
[15] Cf. A. De Maddalena, op. cit., p. 113.
[16] Cf. J.G. da Silva, op. cit., p. 211.

operation carried out in parallel with the real traffic, but, by attracting capital with the promise of cumulative earnings and the buffering of the depressive effects of monetary erosion, it crowded out the possible productive use of the monetary capital, cutting off its remaining links with the world of production. Thus for example the fair profits of the Lucini – but many other examples could be given – were reinvested partly in the financial circuit and partly in land.

For Milan, the crisis of the 17th century was at the same time the theatre for decline and the moment for decision and for consolidation. In the context of the general decentralization of the Mediterranean economy, the reaction of Milan to the economic climate of the first decades of the century did not go against the trend of European evolution (it actually backed it) in its efforts to consolidate a subordinate position. The effects of the diversion manoeuvre carried out within the Milanese economy became visible only after the turn of the half century, after two decades in which war and pestilence had raged. The desire to switch the capital tied up in production to rent-oriented diversification, must be related to more general dynamics, in which environment they can be evaluated.

a. The role of the state

A Spanish possession since 1559, Milan played a key role in the political, military and financial strategies of the Hapsburgs.[17] Despite the fact that the Milanese patricians still carried considerable weight, it was the requirements of the Hapsburg power politics which dictated the play in the period under consideration: taxes, sales of public revenues, deficit spending, transfer of funds strongly influenced the economic trends and the orientation of capital, commercial or otherwise. The public revenues attracted considerable monetary availability, as did the transfer of funds.[18] The influence of the public debt and the transfers can be gauged by the size of the issues from the Mint. Before 1620, when a close relationship could be expected between the amount coined and international trade, the Milan Mint worked in reality for the Spanish Crown.[19] Even though the relation between this phenomenon and deficit spending should not be overestimated, deficit spending was confronted by an economy suffering from severe unemployment, for reasons independent of the state of war, and it could therefore mobilize factors which would have remained inactive, using them for the war effort.[20] Furthermore, the increased weight of the public finances led to the movement of private capital looking for safer remuneration. The Banco di S. Ambrogio, from its foundation raked up private finance to invest in government loans, while its solvency – and the desirability of its 'luoghi' (public debt shares) – was guaranteed by the income on the duty paid by the city of Milan. In 1660, in an economy by then substantially agrarian, the

[17] Cf D. Sella, op. cit,. pp 81 – 87.
[18] Cf. J.G. da Silva, op. cit., p. 178.
[19] Cf. C.M. Cipolla, op, cit., p. 38.
[20] Cf. D. Sella, op. cit., p. 119.

reform of the Banco permitted the maintenance of a financial channel, fed by the state debt, through which private capital could guarantee an income which, though not high, was certainly secure. There appear to have been three results of the state spending on the mobility of monetary capital, which need not be manifest together:

1. At first public spending and its financing attract capital disengaging it from possible, though not necessarily probable, productive use. In this case the principal role was played externally by the money fairs, and internally by Banco di S. Ambrogio.
2. The attraction of capital has had, since the end of the 16th century to circa 1607, a crowding out effect which strikes a 'full- employment economy': the rise in prices until 1605 can be explained in this way. The consequent overloading of the structure of production costs, with a reduction in flexibility, probably left a crack in the system of production which the subsequent improvement in the economic climate did not remedy in any substantial way.
3. From these observations, and on the basis of general considerations, it can be asserted that deficit spending, from circa 1610, did not have a crowding out effect, but rather reduced the social costs of a transition already in progress, activating channels distributing earnings in the form of financial capital with guaranteed interest (financial earnings).

In general, the action of the state in the financial field seemed to be directed towards the safeguarding, more or less conscious, of the creditor positions. The sum of these actions tended to depress the domestic value of the hard currency : another element of rigidity in the already rigid position of the exporting merchants.

b. Land

The 'diversion effect' of commercial capital induced by the state spending is met by the age-old tendency to buy land and to consolidate real property, reinforcing it, and rationalizing it through the financial channels linked to the exchange fairs.

The problem of consolidating monetary capital property in the 17th century had two possible solutions: land and finance. These paths increasingly tended to join.[21] The last decades of the 16th and the first decades of the 17th centuries saw a sharp upswing in agricultural prices and as a result of monetary earnings, whereas the purchasing strategy of the large property owners was directed towards setting up compact and well situated properties, where, in the past, the mercantile class had operated more widely.

The high-price, high-earnings regime lasted to the 1630s; the demographic crisis caused by the plague and the state of war continued into the 1660s, generating a state of crisis and contraction of earnings, but also sparking off a selective process which tended to oust the purely 'speculative' purchases and to consolidate, at the

[21] Cf. A. De Maddalena, op. cit., p. 291.

end of the period, a sort of production-oriented distribution of land. With the passing of the 1670s, a new phase of increasing agricultural earnings rediscovered company and contract structures unchanged if not improved, which allowed a rapid relaunch of production. From the 1660s, in the Lyons marketplace a 'trade flourished which sent rice, raw and finished silk and various other goods in one direction, and linen cloth, woollen garments, knick-knacks and Lyons silk cloth in the opposite direction.'[22] As can be seen, Milan had maintained its links with the central economy, but with position and strength inverted.

c. The loss of influence of traditional industry and the role of the city

The transition from a manufacturing based urban economy to a substantially agricultural one was, in the case of Milan, neither rapid nor destructive; the industrial structure was not dismantled with the same disinvestment speed in all industries. Activities in which labour cost was a major factor declined, the luxury goods industry, which selected another specialization, endured better. While scaling itself down in absolute terms, the relative permanence of urban manufacturing softened and modulated the process of resource transfer. In this new horizon, Milan, like other northern Italian cities, less and less a centre of production and city of finance, reorganized and became a centre of consumption, or the focus of spending in an ever more structured and cross-linked national market, where flows of public and private spending linked to the new dominant activity – agricultural earnings in primis – come together.

While mercantilistic models, which regulated the size and direction of the European economic dynamic, were followed in the economies of the national states of north and central Europe, the regionalization of the Lombardy economy renders it a sort of medium level physiocracy, which is sufficiently connected to international flows to avoid absolute depression but also sufficiently far from the economic centre of Europe to see itself ousted from primary economic competition. In the 17th century it is the nation states, in their efforts to set up cohesive national markets, which are the combatants in a new struggle which takes the form of a struggle for power and political hegemony; a struggle founded on economic competition between nations and no longer between merchants and mercantile nations (nationi de' mercanti).

At the end of the century, with the close of the golden era of the fairs and their further marginalization, new financial institutions – the national bank and the stock exchange – take shape on the horizons of the economic world. The Bisenzone fairs, the terminal point of a technical and economic evolution hinging on the Mediterranean and its merchants, function exclusively as flywheels of peripheral transmission of financial impulses which have a completely different origin, both institutionally and geographically.

[22] Cf. D. Sella, op. cit., p. 154.