# How the 14th-Century Lombard Banks Created the Dark Age

by Paul Gallagher

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The Bardi, Peruzzi, and Acciaiuoli family banks, along with other large banks in Florence and Siena in particular, were all founded in the years around 1250. In the 1290s, they grew dramatically in size and rapaciousness, and were reorganized, by the influx of new partners. These were "Black Guelph" noble families, of the faction of northern Italian landed aristocracy always bitterly hostile to the government of the Holy Roman Empire. Charlemagne, 500 years earlier, had already recognized Venice as a threat equal to the marauding Vikings, and had organized a boycott to try to bring Venice to terms with his Empire. Venice in 1300 was the center of the Black Guelph faction which drove Dante and his co-thinkers from Florence. In opposition to Dante's work *De Monarchia,* a whole series of political theorists of "Venice, the ideal model of government" were promoted in north Italy: Bartolomeo of Lucca, Marsiglio of Padua, Enrico Paolino of Venice, et al., all of whom based themselves on Aristotle's *Politics,* which was translated into Latin for the purpose. The same "coup" made the Bardi, Peruzzi, et al. Black Guelph banking "supercompanies," suddenly two or three times their previous size and branch structure. Machiavelli describes how, by 1308, the Black Guelph ruled everywhere in northern Italy except in Milan, which remained allied with the Holy Roman Empire—and was the most economically developed and powerful city-state in Fourteenth-century Italy. . . .

A century earlier, in the 1180s, Doge (Duke) Ziani of Venice had provoked hostilities between the two leaders of Christendom, the Pope and the Holy Roman Emperor, Frederick Barbarossa, the grandfather of Frederick II. Doge Ziani, in time-worn Venetian style, then personally mediated the "Peace of Constance" between the Pope and the Emperor. The Doge got his enemy, Emperor Frederick, to agree to withdraw his standard silver coinage from Italy, and allow the Italian cities to mint their own coins. Over the century from that 1183 Peace of Constance to the 1290s, Venice established the extraordinary, near-total dominance of trading in gold and silver coin and bullion throughout Europe and Asia. . . . Venice broke and replaced the European silver coinage of the Holy Roman Emperors, the Byzantine Empire's silver coinage, and eventually broke the famous Florentine "gold florin" in the decades immediately leading into the 1340s financial blowout—which blew out all the financiers *except* the Venetians.

The Black Guelph bankers of Florence did not simply loan money to monarchs, and then expect repayment with interest. In fact, interest was often "officially" not charged on the loans, since usury was considered a sin and a crime among Christians. Rather, like the International Monetary Fund today, the banks imposed "conditionalities" on the loans. The primary conditionality was the pledging of royal revenues directly to the bankers—the clearest sign that the monarchs lacked national sovereignty against the Black Guelph "privateers." Since in 14th-Century Europe, important commodities like food, wool, clothing, salt, iron, etc., were produced only under royal license and taxation, bank control of royal revenue led to, first, private monopolization of production of these commodities, and second, the banks' "privatization" and control of the functions of royal government itself.

By 1325, for example, the Peruzzi bank owned all of the revenues of the Kingdom of Naples (the southern half of Italy, the most productive grain belt of the entire Mediterranean area); they recruited and ran King Robert of Naples' army, collected his duties and taxes, appointed the officials of his government, and above all, sold all the grain from his kingdom. They egged Robert on to continual wars to conquer Sicily, because through Spain, Sicily was allied with the Holy Roman Empire. Thus, Sicily's grain production, which the Peruzzi did not control, was reduced by war.

King Robert's Anjou relatives, the monarchs of Hungary, had their realm similarly "privatized" by the Florentine banks in the same period. In France, the Peruzzi were the cooperating bank (creditor) of the bankers to King Philip IV, the infamous Franzezi bankers "Biche and Mouche" (Albizzo and Mosciatto Guidi). The Bardi and Peruzzi banks, always in a ratio of 3:2 for investments and returns, "privatized" the revenues of Edward II and Edward III of England, paid the King's budget, and monopolized the sales of English wool. Rather than paying interest (usury) on his loans, Edward III gave the Bardi and Peruzzi large "gifts" called "compensations" for the hardships they were supposedly suffering in paying his budget; this was in addition to assigning them his revenues. When Edward tried forbidding Italian merchants and bankers to expatriate their profits from England, they converted their profits into wool and stored huge amounts of wool at the "monasteries" of the Order of Knights Hospitalers, who were their debtors, political allies, and partners in the monopolization of the wool trade. It was the Bardi's representatives who proposed to Edward III the wool boycott which destroyed the textile industry of Flanders—because by 1340, it was the only way to continue to raise wool prices in a desperate attempt to increase Edward's income flow, which was all assigned to the

Bardi and Peruzzi for his debts! By 1325, Genoese bankers largely controlled the royal revenues of the Kingdom of Castille in Spain, Europe's other supplier of wool.

*Above: "Survey of Venice," by James Howell, 1651; Inset: "Dance of Death," by Hans Holbein, 1538. The Black Death, and its consequences, brought on by the collapse of the Lombard bankers, led to a new dark age, in which one-third to one-half of the population of Europe perished.*

In the first few years of the Hundred Years War, which began in 1339, the Florentine financiers imposed on England a rate of exchange which overvalued their currency, the gold florin, by 15% relative to English coin. Edward III, in effect, now got 15% less for his monopolized wool. Edward tried to counterattack by minting an English florin; the merchants, organized by the Florentines, refused it, and he was defeated. By this action, the Bardi and Peruzzi themselves, in effect, provoked Edward's famous default, and demonstrated his complete lack of sovereignty at the same time. . . .

In Italy itself, these bankers loaned aggressively to farmers and to merchants and other owners of land, often with the ultimate purpose of owning that land. This led, by the 1330s, to the wildfire spread of the infamous practice of "perpetual rents," whereby farmers calculated the lifetime rent-value of their land and *sold that value to a bank* for cash for expenses, virtually guaranteeing that they would lose the land to that bank. As the historian Raymond de Roover demonstrated, the practices by which the 14th-Century banks avoided the open crime of usury, were worse than usury.

In the Italian city-states themselves, the early years of the 14th Century saw the assignment of more and more of the revenues of the primary taxes (*gabelle*, or sales and excise taxes) to the bankers and other Guelph Party bondholders. From about 1315, the Guelph abolished the income taxes (*estimi*) in the city, but increased them on the surrounding rural areas, into which they had expanded their authority. Thus, the bankers, merchants, and wealthy Guelph aristocrats did not pay taxes—instead, they made loans (*prestanze*) to the city and commune governments. In Florence, for example, the effective interest rate on this *monte* ("mountain" of debt) had reached 15% by 1342; the city debt was 1.8 million gold florins, and no clerical complaints against this usury were being raised. The *gabelle* taxes were pledged for six years in advance to the bondholders. At that point, Duke Walter of Brienne, who had briefly become dictator of Florence, cancelled all revenue assignments to the bankers (i.e., defaulted, exactly like Edward III).

Thus were the rural, food-producing areas of Italy depopulated and ruined in the first half of the 14th Century. The fertile *contado* (farmland) of Pistoia around Florence, for example, which reached a population density of 60-65 persons per square kilometer in 1250, had fallen to 50 persons per square kilometer in 1340; in 1400, after 50 years of Black Plague, its population density was 25 persons per square kilometer. Thus, the famines of 1314-17, 1328-9, and 1338-9, were not "natural disasters."

Some of the famous banks of Tuscany had failed already in the 1320s: the Asti of Siena, the Franzezi, and the Scali company of Florence. In the 1330s, the biggest banks, with the exception of the Bardi—the Peruzzi, Acciaiuoli, and Buonacorsi—were losing money and plunging toward bankruptcy with the fall in production of the vital commodities which they had monopolized, and which their cancer of speculation was devouring. The Acciaiuoli and the Buonacorsi, who had been bankers of the Papacy before it left Rome, went bankrupt in 1342, with the default of the city of Florence and the first defaults of Edward III. The Peruzzi and Bardi, the world's two largest banks, went under in 1345, leaving the entire financial market of Europe and the Mediterranean shattered, with the exception of the much smaller Hanseatic League bankers of Germany, who had never allowed the Italian banks and merchant companies to enter their cities.

Already in 1340, a deadly epidemic, unidentified but *not* bubonic plague, had killed up to 10% of many urban populations in northern France, and 15,000 of Florence's 90-100,000 people had died that year. In 1347, the Black Death (bubonic and pneumonic plague), which had already killed 10 million in China, began to sweep over Europe.