



Francesco Sasseti and the Downfall of the Medici Banking House

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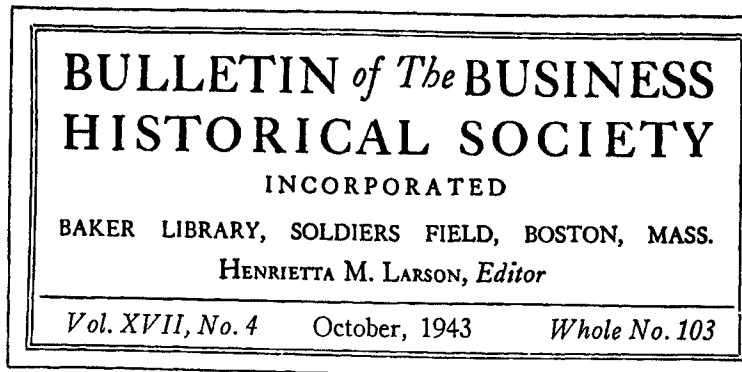
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Among the close associates of Piero di Cosimo de' Medici and his illustrious son, Lorenzo de' Medici, no one was more trusted by both father and son than Francesco Sassetti, their business partner and general manager. Yet Sassetti is virtually unknown to English readers. Like the Medici, he belonged to a noble Florentine family whose wealth originated in trade and was later re-invested in landed property in the city of Florence and the surrounding country.

Francesco, the youngest son of Tommaso Sassetti, was born in Florence on March 9, 1421, and died there in April, 1490. Destined for a business career, he probably studied accounting and other business subjects in one of the schools which then existed in Florence—as in other Italian mercantile centers—for the training of the sons of prosperous merchants. At seventeen or eighteen years of age he entered the service of Cosimo de' Medici and was sent as a factor—that is, clerk or employee—to Avignon. Displaying unusual ability, he soon rose to the rank of junior partner and eventually to that of branch manager.

It was the policy of the Medici family to form a separate partnership for each branch abroad. These branches engaged in foreign

trade and international finance. The management of each branch was entrusted to a junior partner, but ultimate control of policy was vested in the senior partners, that is to say, the members of the Medici family. In practice, the head of the family—at first Cosimo, then Piero, and later Lorenzo—had the final say in all matters of policy. Usually the senior partners, that is, the Medici, subscribed to at least half the capital in each partnership in order to have control. As a rule, the junior partner's share in the capital was one-fourth or less. In some cases an investing partner also held a share in the capital but was not entrusted with any managerial duties and was not responsible for any decisions on policy. It also happened that the assistant manager, when there was one, had a minor share in the capital.

The name of the Medici did not necessarily appear in the style of each partnership over which they had control. Thus, in 1458, the Avignon branch was styled "Francesco Sassetti and Giovanni Zampini and Co." without any mention of the Medici, although they owned the major part of the capital.

It was probably Avignon that witnessed Sassetti's climb from the rank of factor to that of assistant branch manager and later branch manager. Some time before 1453 he was transferred to Geneva, but he continued to own a share in the Avignon establishment, presumably as an investing partner.

In 1458 Sassetti returned to Florence, married, and settled down to spend his life as a family man in his native city. Probably because of his outstanding performance as a branch manager, he became the close adviser in business affairs of Piero and Lorenzo de' Medici. From then onward, Sassetti's position can perhaps best be compared to that of general manager in a modern corporation. According to a family history written by a great-grandson, Francesco Sassetti was so intimate with Lorenzo the Magnificent that he was kept fully informed concerning the Medici interests. With regard to business, nothing was decided nor was anything done without consulting Francesco.¹ In a family record Lorenzo de Medici refers to Sassetti as *nostro ministro*, a very suggestive title.² He determined the general policy which the branch managers were expected to follow in the management of their branches. It was his duty as "general manager" to see that instructions were

¹A. Warburg, "Francesco Sassetis letztwillige Verfuegung," *Gesammelte Schriften*, vol. i (Leipzig: B. G. Teubner, 1932), p. 130.

²William Roscoe, *The Life of Lorenzo de' Medici* (London, 1847), Appendix X, p. 425.



Detail of Ghirlandaio fresco in Sasseti Chapel, Santa Trinità, Florence, showing (from left to right) Antonio Pucci, Lorenzo de' Medici, Francesco Sasseti, and Sasseti's youngest son.

actually carried out, and especially to audit the accounts rendered every year by the various branch managers.

The statement made by Sassetti's descendant is corroborated by the surviving business correspondence of the Medici, by Sassetti's will, and by other documents. Among these the most valuable is the secret account book (*libro segreto*) kept by Francesco Sassetti himself during the period from 1462 to 1472.³

This private account book contains detailed records of his real and personal property and his business investments. The book opens with a general financial statement (*valente*) of his entire estate, dated November 1, 1462. Farther on in the account book there is another financial statement, which gives a rough estimate (*di grossato*) of Sassetti's possessions in 1466.

The book was meant to be kept in double entry, but Sassetti became careless and did not follow that method to the end, so that not all the accounts balance. The counterparts of some of the entries were found in other books that are not extant. As a result, it is impossible to make up the balance sheet for November 10, 1472, when the book was closed and replaced by another. Since Sassetti's handling of some difficult problems reveals a thorough acquaintance with accounting practices and principles, this situation is not the result of lack of knowledge.

In spite of its being incomplete, the book is valuable because it shows how a fifteenth-century merchant accumulated a fortune. Business profits were clearly the main source of wealth. The major part of the unspent income was re-invested in business, and only a minor part was devoted to the purchase of real estate.

According to the inventory of 1462 (Table 1), Sassetti's estate was divided as follows: personal property (silver plate, jewels, books, clothing, and furnishings), 19.8 per cent; real estate (in Florence and outside), 11.6 per cent; business investments, 68.6 per cent. The latter included shares in the capital of the Medici branches at Geneva and Avignon (19.5 per cent) and the money placed at interest with the branches at Milan and Geneva (49.1 per cent).

³Florence, Italy, R. Archivio di Stato: Carte Stroziane, Series II, no. 20: Libro segreto di Francesco Sassetti, 1462-1472.

TABLE 1. INVENTORY (*VALSENTE*) OF FRANCESCO SASSETTI'S ESTATE ON NOVEMBER 1, 1462^a

Description of Assets	Amount	Per cent of Total
PERSONAL PROPERTY		
Silver Plate	Fl. 551 <i>di suggello</i>	2.1
Jewels	1,630	6.1
Books: Latin	Fl. 370	
Vernacular	21	1.5
Clothing: himself	Fl. 483	
his wife	346	3.1
Furnishings	2,000	7.0
	<u>Fl. 5,401</u>	<u>19.8</u>
REAL ESTATE		
House in Florence	Fl. 400	1.5
Farm 1	Fl. 1,738 $\frac{1}{2}$	
" 2	427 $\frac{1}{3}$	
" 3	531	
	<u>2,696$\frac{5}{8}$</u>	<u>10.1</u>
		<u>11.6</u>
BUSINESS INVESTMENTS		
Deposit with Medici in Milan	Fl. 6,000	22.8
" " " " Geneva	7,019	26.3
Shares: Geneva	2,576	9.6
Avignon	2,628	9.9
	<u>18,223</u>	<u>68.6</u>
	Fl. 26,720 $\frac{5}{8}$	<u>100.0</u>
	or Fl. 26,720.16.8 <i>di suggello</i>	

^aLibro segreto di Francesco Sassetti, fol. 2.

Note: The *forino di suggello* ("sealed florin") was at first a gold florin which was circulated in sealed bags, in order to prevent clipping. About 1450, this florin became a money of account; the new gold coin, the *forino largo* ("large florin"), was 20% better than the *forino di suggello*, e. g., 5 *forini larghi* were equal to 6 *forini di suggello*. The value of both florins varied in terms of silver currency (*lire, soldi, e denari di piccioli*), according to the conditions prevailing in the money market and the market ratio between gold and silver. Rates were posted every day by the money-changers' gild (*Arte di Cambio*).

According to the general statement or inventory of November, 1466 (Table 2), Sassetti estimated the total value of his estate at Fl. 52,047 *di suggello*, after deduction of all liabilities. Since in 1462 his estate had been worth only Fl. 26,720 *di suggello*, the value of his estate had nearly doubled in four years. This increase resulted mainly from Sassetti's spending considerably less than his

TABLE 2. BALANCE (STRATTO) AS OF
NOVEMBER 17, 1466*

Description of Assets	Amount	Per cent of Total	
PERSONAL PROPERTY			
Silver Plate	Fl. 1,000 <i>di suggello</i>	1.5	
Jewels	1,500	2.3	
Books in Latin & Vernacular	500	0.8	
Clothing	500	0.8	
Furnishings	3,500	5.4	
Cash on Hand	1,400	2.2	13.0
	<u>Fl. 8,400</u>		
REAL ESTATE			
In Florence	Fl. 3,400	5.3	
Outside	7,000	10.8	16.1
	<u>10,400</u>		
BUSINESS INVESTMENTS			
Time Deposits	Fl. 25,452	39.5	
Accrued Interest	2,765	4.3	
Shares in the capital of business ventures	4,500	7.0	
Accrued Profits	7,450	11.5	
Shares in Galleys (<i>Carati</i>)	729	1.1	
Corte di Roma	279	0.4	
Sundry Debtors	4,613½	7.1	70.9
	<u>45,788½</u>		
	Fl. 64,588½	100.0	
Deduct: Due to sundry creditors	12,541½	19.4	
	<u>Fl. 52,047 <i>di suggello</i></u>	<u>80.6</u>	

*Libro segreto di Francesco Sassetti, fol. 71.

large income, which was derived from his lucrative investments through his connection with the Medici. Only a small part of his savings was devoted to the purchase of farms (*poderi*) in the vicinity of Florence and to the acquisition of a new palace, into which he moved from a house that he had inherited from his father. The percentage of these investments in real estate tended to increase. Most of Francesco's earnings were re-invested under the form of deposits yielding a fixed return per year. His participation in the capital proper of the Medici partnerships remained practically unchanged during the period extending from 1462 to 1466.

Recent studies have emphasized the importance of these deposits made by partners and outsiders *fuori del corpo* or above and beyond the capital of medieval trading and banking companies. Francesco Sasseti's private account book sheds additional light on the prevalence of this practice. In the Medici enterprises the capital represented only a small part of the total investment. Two examples will make this point clear.

In 1462 Sasseti had money invested in the Geneva branch, both in the form of a share in the capital and in that of a time deposit. His share in the capital was only 2,300 écus (∇), or one-fourth of the aggregate, but the balance of his deposit account was more than twice that figure or, to be exact, ∇6,239 5s. 4d. This balance grew to ∇12,512 in 1466, chiefly because earnings were plowed back into the business. When the capital was reduced from ∇9,200 to ∇6,000, on March 25, 1466, Sasseti's share shrank from ∇2,300 to ∇1,500. The difference of ∇800 was significantly added to the credit balance of his deposit account.

The other example occurs in the Milanese branch. Francesco Sasseti did not have any share in the capital of this branch. Fl. 5,000 *larghi* of his money were nevertheless invested in the business *fuori del corpo*, or beyond the capital.

The words *fuori del corpo* and *sopracorpo*, so common in the fourteenth century, do not appear in Sasseti's accounts. Instead, the usual formula is that such and such a branch "holds money on deposit and at its discretion" (*tengonli in deposito et a loro discretione*). Sometimes it is added that the deposit is valid only for a specified period, for example, one year or six months. In one instance a deposit was repayable "at my pleasure at any time between six months and one year."

The word "discretion," as used above, evidently implied that during a given period of time the borrower was free to use as he saw fit the funds placed on deposit. Such deposits, it is obvious, were not payable on demand or freely transferable; they are comparable to the modern time deposits. The owners of the money thus deposited with mercantile companies were legally in a position similar to that of modern bondholders, whereas the partners or owners of shares in the capital can be compared to modern stockholders, but with unlimited, instead of limited, liability.⁴

According to Sasseti's account book, the interest received by de-

⁴For these comparisons, for the tables, and for numerous ideas in the succeeding pages, I am indebted to my husband, Raymond de Roover, assistant professor of economics at Wells College, who refuses to have his name appear in the by-line where I think it belongs.

positors varied between 8 and 10 per cent. In good years the profits reaped by the partners on their shares in the capital greatly exceeded these rates, but they were apt to drop sharply if times were bad. Table 3 gives the profit figures of the Avignon branch for the period from 1461 to 1472, covered by Sassetti's account book. The capital of this branch amounted to Fl. 20,000 *pitetti*, divided as follows: the Medici, Fl. 10,000; Sassetti and the local manager, Giovanni Zampini, each Fl. 5,000. As the reader will note, the profits varied between 37.5 per cent and 15.4 per cent of the capital. In December, 1468, the Medici withdrew, with the result that the capital of the partnership dropped from Fl. 20,000 to Fl. 10,000 *pitetti*. It appears from Sassetti's records that profits were de-

TABLE 3. PROFITS OF THE MEDICI BRANCH IN AVIGNON ACCORDING TO SASSETTI'S ACCOUNT BOOK*

Explanation	Profits		Capital	Rate of Profit
	Fl. <i>pitetti</i>	Fl. <i>pitetti</i>		
March 25, 1461-March 24, 1462	3,082.19.	8	20,000	15.4%
" " 1462 " " 1463	7,045.13.	7	20,000	35.2
" " 1463 " " 1464	5,680.9.	4	20,000	28.4
" " 1464 " " 1465	5,365.14.	0	20,000	22.8
" " 1465 " " 1466	6,680.11.	11	20,000	33.4
" " 1466 " " 1467	6,088.15.	9	20,000	30.5
" " 1467 " " 1468	7,500.20.	6	20,000	37.5
Balance of reserve account on December 10, 1468	1,977.22.	4		
	Fl. 43,422. 7. 1 <i>pitetti</i>			
Divided by the partners at different times	42,000. 0.	0		
Balance kept undivided as a reserve for contingencies	Fl. 1,422. 7. 1 <i>pitetti</i>			
New Partnership (<i>nuova ragione</i>)				
December 10, 1468-March 24, 1469	Fl. 1,012. 0.	0	Fl. 10,000	10.1%
March 25, 1469-March 24, 1470	1,019.10.	3	10,000	10.2
" " 1470 " " 1471	3,184. 4.	1	10,000	31.8
" " 1471 " " 1472	4,118.20.	3	10,000	41.2
	Fl. 9,334.10. 7			

*Libro segreto di Francesco Sassetti, fols. 15, 16, 25, 26.

Note: In December, 1468, the Medici withdrew entirely as partners in the

Transferred from the above re- serve for contingencies	1,968. 9. 9
	Fl. 11,302.20. 4
Divided by the partners	4,000. 0. 0
	Fl. <u>7,302.20. 4 pitetti</u>

Avignon branch. The *forini pitetti* were divided into 24, not the usual 20, *soldi* of 12 *denari* each.

terminated each year but usually remained undivided for some time. Even when a division took place, a small balance was usually left undivided as a reserve for bad debts and unforeseen contingencies.

Sassetti's secret account book also gives information concerning the earnings of the Medici branch in Geneva, which was transferred to Lyons in 1466. Because of the formation of a new partnership (*nuova ragione*) in 1470, the series of profit figures is not continuous. Apparently the existing contract was terminated and the old partnership was wound up because of the heavy losses which had been suffered. According to Sassetti's account book, the existing reserve for bad debts and contingencies was not sufficient to cover all the losses. It is likely that they originated in uncollectible claims, and the presumption is, therefore, that no adequate provision for bad debts had been made in previous years.

As Table 4 indicates, the profits of the Geneva branch were extremely high and fluctuated between a minimum of 71 per cent and a maximum of 107 per cent. After the branch had been moved to Lyons, the profits soared to 142 per cent and then dropped sharply to 81 per cent. In the following year, 1468, losses were booked instead of profits. The Lyons branch was probably in such bad shape that it had to be reorganized. These facts are significant. Such abnormally high profits and such a sudden reversal of fortune are phenomena which defy explanation except on the assumption that the capital was only a small fraction of the total investment: *corpo* (capital stock) and *sopracorpo* (time deposits) combined. The situation is in no way different from that of a modern corporation having a small capital (in the accounting sense) and a large bonded debt. Such a financial structure would be dangerous if the corporation in question were engaged in an industry subject to cyclical variations. Profits would fluctuate widely: in times of prosperity dividends would be extraordinarily high, but the first depression would be likely to endanger the very existence of the corporation. If this diagnosis is correct, a de-

fective financial structure was the main weakness of the Medici enterprises and explains to a large extent the rise and fall of the powerful Florentine banking house.

TABLE 4. PROFITS OF THE GENEVA AND LYONS BRANCHES OF THE MEDICI BANK ACCORDING TO SASSETTI'S ACCOUNT BOOK*

Explanation	Profits <i>Ecus</i>	Capital <i>Ecus</i>	Rate of Profit
Geneva Branch			
March 25, 1461-March 24, 1462	8,423. 4. 6	9,200	91.5%
" " 1462 " " 1463	9,435.13. 2	9,200	102.0
" " 1463 " " 1464	9,876.18. 9	9,200	107.0
" " 1464 " " 1465	9,703.14. 0	9,200	105.0
" " 1465 " " 1466	6,565. 3. 8	9,200	71.0
Reserve transferred to profits	826.15.11		
Total	44,831.10. 0		
Divided among partners at various times	40,000. 0. 0		
Balance kept undivided as a reserve for contingencies	4,831.10. 0		
Profits after transfer of branch to Lyons:			
March 25, 1466-March 24, 1467	8,493.17. 6	6,000	142.0%
" " 1467 " " 1568	4,855.17. 5		81.0
Remainder of above reserve for contingencies	719. 8. 6		
Total	14,069. 3. 5		
Division of profits	8,493.17. 6		
Reserve for contingencies	5,575. 5.11		
Losses on December 1, 1468	3,442. 9. 1		
Transferred to new partnership as a reserve for contingencies	2,132.16.10		
Lyons Branch, new partnership (<i>nuova ragione</i>)			
March 25, 1470-March 24, 1471	6,085. 4. 6	Capital not given	
Additional earnings according to a statement rendered by Lionetto Rossi	1,114.15. 6		

	7,200. 0. 0
March 25, 1471-March 24, 1472	5,400. 0. 0
Total	12,600. 0. 0
Division of profits	1,200. 0. 0
Undivided profits	11,400. 0. 0

^aLibro segreto, fols. 17, 18, 24, 33.

Note: The *écus* are the *vieux écus* of 64 to the gold mark.

The data contained in Sassetti's account book are not less illuminating from the point of view of economic history than from that of business history. They show clearly how profit figures are misleading as a measure of the productivity of capital (in the economic sense) in medieval times. Not only do such figures always include compensation for risk, but allowance should also be made for the compensation of management whenever managers did not receive salaries but a share in the profits instead. Moreover, profits were swollen by whatever was earned in excess of the interest of 8 or 10 per cent which was paid to depositors. Computations should therefore be based on aggregate financial resources, but such information is rarely available. For all these reasons it seems plausible that the return on money invested in business did not normally exceed the prevailing interest rate on time deposits. Figures based on rates charged by money-lenders on consumers loans should be rejected as fantastic and irrelevant. It is probable that in the Middle Ages capital invested in business, even if efficiently managed, yielded from 8 to 15 per cent and no more, except when producers enjoyed monopolistic advantages.

The responsibility for the disastrous end of the Medici banking house—a financial catastrophe was barely avoided—has been laid at the door of Lorenzo the Magnificent. Most historians have followed Machiavelli, who wrote in his *History of Florence* that Lorenzo was a great statesman and patron of the arts but a poor business man.⁵ While there is undoubtedly some truth in this statement, it overlooks many other facts. As we have already seen, the financial structure of the Medici enterprises was far from being watertight. Since public affairs required his constant attention, Lorenzo had little time left in which to take care of his business interests. Of necessity he had to lean heavily upon Francesco Sassetti, his closest adviser and general manager. Should not Sassetti shoulder part of the blame?

⁵Niccolo Machiavelli, *The History of Florence*, Book VIII, chap. vii, p. 400 of Bohn translation (London, 1854).

In his will, written in 1488 when he went to Lyons to save what could be saved, Sassetti disclaims all responsibility but charges that "the bad and neglectful government" of the local manager, Lionetto de' Rossi, was the source of all the trouble. This explanation is hardly acceptable. According to the surviving records, Sassetti was consulted on all major issues. It was his duty to control the local managers, to audit their accounts, and to lay down the rules which they were expected to follow. Cosimo de' Medici had been extremely careful in the choice of his branch managers and had always tried to keep them well in hand. Careless managers were reprimanded and summoned to Florence to report. Sassetti, it seems, changed this policy and gave much more leeway to the managers of the affiliated companies.

As early as 1469, the London branch came to grief because of excessive loans to Edward IV during the War of the Roses. With regard to the Bruges branch, Sassetti constantly favored Tommaso Portinari, the local manager, and overruled Agnolo Tani, a former manager, who still owned a share in the capital of the Bruges branch. Portinari was a brilliant but, unfortunately, overambitious and venturesome man. Poor Tani, who was less gifted but cautious and slow-moving, vainly urged Sassetti to apply the brakes.⁶ Tani was unable to enlist the support of Sassetti in favor of a policy of contraction. Portinari was given an all-clear signal and became involved in loans to Charles the Bold, Duke of Burgundy and ruler of the Low Countries. In 1479, after the death of Charles the Bold, Lorenzo decided to withdraw from his association with Portinari, who was forced to take over the assets and liabilities of the Medici branch in Bruges. Lorenzo was thus able to pull out and to limit his losses, but Portinari soon found himself in desperate straits. He was deprived of the prestige which was still attached to the name of Medici. He had no working capital left and he spent years and years in collecting, with only partial success, the frozen credits which had been granted to the House of Burgundy.⁷

There can be no doubt that, since he was a partner in the Lyons establishment, Francesco Sassetti was more directly responsible for the disastrous end of that branch than for the failures of the

⁶Very important evidence on the disagreement between Sassetti and Tani in matters of business policy is given by A. Warburg in a long footnote to his article, "Flandrische Kunst und florentinische Fruehrenaissance," *Gesammelte Schriften*, I, 375f.

⁷Armand Grunzweig, *Correspondance de la filiale de Bruges des Medici*, Part I (Brussels, 1931), pp. xxxii-xxxv.

branches in London and Bruges. The mismanagement of Lionetto de' Rossi, the local manager, does not exonerate Sassetti from all responsibility. Exactly why the Lyons branch went on the rocks is not clear from the surviving records. The main cause of the trouble was probably that doubtful credits were allowed to stand on the books instead of being written off. Probably no adequate reserve was set up to cover losses arising from bad debts, so that the profits declared in the balance sheet were fictitious and the critical condition of the branch remained concealed for a number of years. Perhaps the system was bad. The question may be raised whether the Medici should not have used traveling auditors or examiners. This method of control was later adopted by the Welsers of Augsburg. Lucas Rem, the author of an interesting autobiography, was one of those auditors who traveled from one branch to another in order to examine the books.

Sassetti's private account book is kept with great accuracy at first, but with less care in later years. Accounts no longer balance, and references to a book kept in the countinghouse by a clerk named Luigi Guidotti become more frequent. This laxity suggests a dangerous tendency. In the course of years, Sassetti probably devoted less and less time to business and more and more time to the enjoyment of the amenities of life. He entertained lavishly in his palace in Florence and in his country house at Montughi. The inventory (*valsente*) of 1462 discloses that he was a bibliophile and possessed a fine collection of manuscripts, in both Latin and the vernacular. Sassetti had a funeral chapel built for himself and his family in the Church of Santa Trinità. The chapel is embellished with a fresco by Domenico Ghirlandaio in honor of St. Francis, Francesco Sassetti's patron saint. In the foreground are the portraits of Sassetti and his youngest son standing beside Lorenzo the Magnificent. Sassetti's three older sons and the figures of Angelo Poliziano, the humanist, Luigi Pulci, the poet, and Matteo Franco, the pamphleteer, are shown in other groups.⁸ Probably Sassetti enjoyed the company of these learned men to the neglect of other duties. Intoxicated by his success in earlier years, he apparently grew overconfident and took undue risks. This frame of mind reveals itself in a sentence of his will where he expresses his belief in the whims of fortune and the providence

⁸Another portrait of Francesco Sassetti by Ghirlandaio is in the Jules S. Bache Collection, given to the people of the State of New York in 1937 and now on exhibition at the Metropolitan Museum. This painting shows Francesco in his middle or late forties with his eldest son Teodoro, then a boy.

of God without any reference to the power of reason or the counsels of prudence. This was not the attitude of Leon Battista degli Alberti, another member of the Medicean circle, who, in his treatise "Della Economia," extolled thrift, condemned extravagance, and advocated conservative business policies. A voice crying in the wilderness—his advice, if ever sought, did not prevail among the refined humanists who surrounded Lorenzo the Magnificent!

Another source of difficulty was the fact that business decisions were often influenced by political considerations. This intrusion of politics into business was probably the main cause of the downfall of the London branch. Because of the rapid development of the English woolen industry, the quantity of wool available for export steadily declined in the course of the fifteenth century. Moreover, wool could be exported only by the Merchants of the Staple and by foreigners who had obtained licenses from the government. In order to secure such licenses, the Medici were induced to lend money to Edward IV. The repayment of these advances was made difficult by the opposition of native merchants to the license system and by the recurrent financial embarrassment of an unstable government.

It is probable that the loans to Charles the Bold were made in order to stave off the menace of French intervention in Italian affairs. As long as Louis XI was kept busy in the North, he was less likely to disturb the balance of power in Italy by supporting the claim of the Valois-Orléans to the Duchy of Milan. However, the available evidence suggests rather that Tommaso Portinari, the Bruges manager, because of his ambition to play a conspicuous rôle in international diplomacy, was mainly responsible for luring the Medici into entanglements with Charles the Bold. In any case, there is no doubt that the business decisions of Lorenzo the Magnificent were often dictated by the necessities of his diplomacy. He was not simply a merchant, but a merchant who was also head of the state.

Finally, the Medici banking house probably got into difficulties because it overexpanded and because economic conditions in general were less favorable during the lifetime of Lorenzo than they had been during the life of Cosimo. As the operating resources of the Medici grew in volume through the accumulation of re-invested earnings and additional deposits, it is probable that it became increasingly difficult to find suitable investments for surplus funds at the prevailing rate of interest. It should not be forgotten that the investment opportunities open to the merchant-bankers

in the Middle Ages were practically limited to foreign trade, either directly by active participation in commercial ventures or indirectly by the purchase of bills of exchange. Local and regional trade required little capital, and necessary credit was not supplied by international bankers but was derived from other sources. Under such conditions the temptation was great to find an outlet for loanable funds by granting credit to princes and public authorities. In the Middle Ages such loans were as a rule consumers' loans, since the proceeds were rarely used to make improvements but were usually destined to cover the extravagant expenses of the court or the cost of military expeditions. Those loans were risky, since repayment often depended upon the preservation of peace and the willingness of the subjects to be taxed in order to "enrich" foreign bankers. If this reasoning is correct, it seems that the Medici should perhaps have lowered the interest rate which they paid on deposits, so that it would have been profitable to invest more money in the less risky ventures, such as foreign trade and banking, that is, in the purchase of bills of exchange.

The managerial problems of the Medici bank were probably made more difficult by a falling price level and adverse business conditions after 1465. Prosperity had come to an end and had given way to a period of depression. Unfortunately no statistical studies of Italian prices in the fifteenth century are available, but Professor Earl Hamilton has made an exhaustive study of price fluctuations in Spain during that century. According to the data collected by him, gold prices, in particular, fell drastically during the decade from 1475 to 1485 while silver prices remained more or less stable, presumably because of the increased output of the German silver mines.⁹ Inasmuch as Spain maintained active commercial relations with Italy, Professor Hamilton's conclusions should be valid for Italy, too. In all probability, between 1470 and 1490 gold prices declined sharply all over Western Europe. Since most of the Medici branches kept their books in florins or other gold currencies, the sharp drop in gold prices must have had disturbing

⁹Earl Hamilton, *Money, Prices and Wages in Valencia, Aragon, and Navarre, 1351-1500* (Cambridge, Mass., 1936), pp. 60 (chart 4), 62, 106 (chart 11). Cf. John U. Nef, "Silver Production in Central Europe, 1450-1680," *Journal of Political Economy*, vol. XLIX (1941), pp. 575-591. In Florence, the value of the *forino largo d'oro in oro* in silver currency, that is, in *lire di piccioli*, increased from £5 18s. in 1482, when it was first coined, to £6 10s. in 1490, £6 18s. in 1499, and £7 in 1503. This increase in value is apparently attributable either to the depreciation of the silver currency or, more likely, to a steady rise in the market ratio between gold and silver.

effects on the equilibrium of the balance sheet—assets tended to shrink in value while liabilities to depositors remained unchanged. Profits also tended to drop or to disappear altogether, but interest charges, which were determined by contract, were not correspondingly reduced and their burden became heavier and heavier as prices continued to fall. The dangers of such a situation were undoubtedly aggravated by the defects of the financial structure which has already been discussed.

As this analysis shows, the downfall of the Medici banking house cannot be traced to any single cause but to a complex of circumstances and a combination of interacting factors. It would be untrue to state that the ruin of the Medici was caused solely by the faults of Lorenzo the Magnificent, the shortcomings of Francesco Sassetti, or "the improper conduct of his [Lorenzo's] agents, who in all their proceedings assumed the deportment of princes rather than of private persons."¹⁰ Doubtless all three of these factors played a part in the tragedy. Other factors, political as well as economic, would have to be considered. Of course, some of these were beyond human control. In a changing world, institutions either have to adapt themselves to new conditions or be destroyed by the inevitable impact of the rising tide of change.

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¹⁰Machiavelli, *loc cit.* Adam Smith also attributes the fall of the Medici banking house to the improper conduct of the branch managers. He quotes the example of the Medici in order to prove that government enterprises lead to extravagance and are doomed to failure, and that the character of ruler is inconsistent with that of merchant (*An Inquiry into the Nature and Causes of the Wealth of Nations*, Book v, chap. ii, part 1).