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THE OTHER BANKING
CHARITABLE LOANS IN PRE-MODERN ERA

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Abstract

There are two different histories of banking: the first, well known for-profit commercial banking, the second, partially forgotten - charitable banking. This article inquires into the second way of lending money. Loan established itself as a pillar of charity thanks to the interconnection between two processes: the prohibition of interest-bearing credit, whose primary aim was to protect the poor, and the formation of financial funds administering interest-free or low-interest loans to the less fortunate. Historically, the first references to funds created for the provision of non-interest bearing loans date back to ancient Athens. Similar scheme gained further ground in ancient Rome and in medieval Italy again. Since the 15th century we can find so-called *montes* which laid a firm and lasting foundation for the European banking sector, made retail banking available to all strata of the population, and promoted the rise of solid, sustainable financial enterprises at a larger scale. The idea of employing commercial companies to help the poorest of the poor later took deep roots in the European tradition.

Keywords: charitable loans, interest, banking

1. Introduction

Loan established itself as a pillar of charity thanks to the interconnection between two processes: the prohibition of interest-bearing credit, whose primary aim was to protect the poor, and the formation of financial funds administering interest-free or low-interest loans to the less fortunate. Initially, the reason behind interest-free credit was to facilitate the survival of all members of the community, and loan constituted a modification of gift because the lender explicitly expected refund at a corresponding degree of quantity and quality. By using the terminology applied in the theory of decreasing marginal utility, we can define this type of loan as a non-zero-sum transaction. If there is ample food for me to share my part with someone dying of hunger, then, owing to the decreasing marginal utility, the person will gain a high marginal utility through the loan, and my loss will be merely negligible. And if they return the favour while I am in need, my marginal utility will be high, whereas his or her loss will

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remain low. These equivalent loans rooted in agriculture-based economies subsequently gave rise to charitable loans of money; even these were nevertheless granted as interest-free or bringing only a little profit to cover the costs. Financial credit also began to be used as the initial capital enabling the debtor to become economically independent or, in the very least, to free themselves from the bonds forged by the usurers. Such approach made loan a peculiar instrument of philanthropy, a tool lying on the boundary between trade and charity as it could ensure direct material profit or financial gain for both parties. By virtue of the mutually shared prospect of improvement in the status of the debtor, a charitable loan may strengthen collective relationships in a society, assist the poor to cope and help themselves, and facilitate continuous restoration of the funds that enable actual provision of the loans.

The gradual transformation of loan necessitated also certain changes in the overall concept of credit. Originally, the prohibition of interest had been formed to protect an individual in existential or financial need, and it was based on the principle that an individual within a primitive community should not fear hunger if the social group as a whole is spared from this threat. And it is precisely the absence of preconditions for such starvation that, in a certain sense, makes a primitive society more humane (but also less economic) than any culture observing market principles [1].

However, simultaneously with the development of trade, the organic form of society was progressively superseded by a more atomistic and individualistic pattern. The binding factors of kinship, profession, neighbourhood or confession were gradually pushed out of the existing social structure because they required the loyalty of an individual, thus restricting his or her freedom to act. For that reason, any growth of economy or step forward in trade increased the pressure to justify the interest imposed on commercial and, subsequently, personal loans, which facilitated the emancipation of an individual. The very existence of interest also brought about simplified access to capital and enabled the development of credit markets for both communities and individuals. Among other elements, the credit markets included organisations providing small loans to the poorest strata of the population. As noted by Adam Smith, “Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.“ [2] The history of microcredits, or minor loans to the poor provided mainly (but not exclusively) as a support for their entrepreneurial activities, is long enough to effectively show how economy (and, through it, economics too) is entangled in the web of social relationships and influenced by the laws of religion and ethics.

2. The genesis of loan-providing funds

Historically, the first references to funds created for the provision of non-interest bearing loans date back to ancient Athens, where *eranos*, or institutions of mutual aid, evolved into credit organisations during the last decades of the 5th century BC. The described system originated from public feasts whose costs were shared by members of the community in a manner that required each participant to either contribute a portion of the food and drink or host the event. The term *eranos*, initially used to denote such type of happening, later came to represent money loan. The associations for mutual aid, *eranistai*, practised solidarity through lending interest-free money to their members, and they also served several other purposes. Any donation or deposit to these funds was quoted by various tribunals of Athens as an instance of charity and civic virtue, whereas the inability to pay off the debt signified decline and bankruptcy. And this form of loan is also admitted by Plato in *The Republic* (915E); within the same dialogue, the philosopher nevertheless does not approve of the judicial enforcement of the ensuing debt, because the money or another concrete object is owed on the basis of charity. Also, importantly, the *eranos*-credits are a fruit of friendship, in which no tribunal or court should intervene. Yet it has to be noted in this connection that "the strong obligation to lend was matched by a reciprocal obligation to repay as soon as possible" [3]. Most preserved examples of the credits involve the more affluent citizens; in spite of this fact, however, there are indications that loans were granted to members of all strata of Athenian society, from its elites at the top to the slaves at the very bottom [3, p. 77].

The charity system that used the amassed capital to provide small loans (microcredit) to the poorest borrowers gained further ground in ancient Rome [4]. Emperor Augustus, at the beginning of his reign, created a special fund from the confiscated property of criminals, thus facilitating the provision of credit to the poor against pawn and in the amount of half the value of the pawned object. A similar institution was brought to life by Emperor Tiberius, and later also Alexander Severus had money lent to the destitute, who were encouraged in this manner to purchase their own land [5]. But these activities, albeit beneficial, gradually waned to end with the fall of the Roman Empire and the related disintegration of the money-based economy.

Further embodiments of the above-characterised approach surfaced under the term *monte di pietà* only in 15th century Italy. The word *monte* stems from the Latin expression *mons*, namely a *mountain*, and a transfer of its meaning in Italian leads us to *a large quantity* or, more specifically, *a large quantity of capital*. Prudentius (384-410) applied this concept to denote a sum of alms; however, it was not until the high Middle Ages that the word *monte* came to be used extensively as a name referring to a certain class of public fund. The first true pioneers of the emerging institutional process were the *monte communale*, organisations which promoted the alleviation of public debt. By entrusting their money to these funds, burghers could finance the public debt in exchange for the interest paid on the savings, and this mechanism became understood in Italian city-states as a powerful instrument to curb the ever-growing government expenditure. The initial institution of the described type was founded under the name *mons profanus* in Venice around the middle of the 12th century, its purpose being to even out the public deficit generated as a result of the conflict between Pope Alexander III and Frederick Barbarossa [6]. In the Republic of Venice, the capital necessary to cover public expenditure was accumulated via forced loans bearing the interest of 5%; this procedure later became a standard method for the mitigation of any Venetian state debt. The first such loan is dated back to 1167 [7]. And, not surprisingly, the same needs and processes characterised also the municipal montes of Genoa (founded approximately in 1300) and Florence (1345).

Furthermore, the discussed concept of *mons* included a portion of medieval shareholding-based companies, such as particular insurers or the *mons aluminarius*, whose main function consisted in concentrating the finance required for the exploitation of alunite deposits in Tolfa. But even some more refined forms of the enterprise were available, for example the Florentine *monte delle doti*, namely an institution which enabled fathers to save money for the dowry of their daughters. These funds, too, offered the savers a modest interest guaranteed by the underlying investment in public debt. The Florentine *Catasto* of 1480 shows that, among citizens of Florence, the widespread willingness to invest in the *monte delle doti* rather outshone the potential of the *monte comune*, whose shares were an investment option favoured especially by members of the higher social strata [8, 9].

After being recognised by the Church and the world, the pawnbrokers introduced above were joined in the middle of the 15th century by the *monte di pietà*, a charitable organisation established to provide the poor with small secured loans at very low interest rates that only served to cover the common operating costs of the business. The first of its branches was founded by two Franciscans in Perugia (1462), and the idea soon spread to other cities and towns. The local *montes di pietà* then either emerged as municipal institutions (Siena branch was a prominent example of this class of *montes*), whose functioning was considered a public and civic affair, or assumed the form of privately held, non-profit, self-governing organisations promoting charity on an independent and personal level. Their purpose was to "secure loans to the poor at an interest as low as acceptable". The actual aim behind the described concept consisted in ensuring low interest on small credits; until then, clients who had taken out such loans were often made to accept even the highest interest ceiling. These conditions are exposed by, for example, the *condotta* (a contract between a city and Jewish creditors) of Gubbio concluded in 1421, where the ceiling on a loan up to one florin stood at 50%. However, the limit applicable to credits between 1 and 7 florins already remained below that rate, amounting to 45% [10].

The *montes*, though by no means offshoots of usury, nevertheless required the debtor to pay a small amount of money outside the actual instalments. This margin initially encompassed 5% of the total credit and was applied as an allowed and necessary instrument to cover the operating costs of the institution. The interest rates could differ between the cities (for example, the figure originally set by the pawnbroker of Siena was 7.5%).

Regardless of the region, the activities of a *monte* were invariably governed by rules similarly strict. The owner of the pawned object (usually a minor item, such as a hat, knife, book, overcoat or dish) received a loan of up to

2/3 of the estimated pawn value, and they were expected to redeem their property by paying off the debt and the interest within one year. After the stipulated period, the *monte* acquired the right to sell any unreclaimed object to the highest bid at a public auction [6, p. 2]. If such sale yielded more than the principal price and the interest in question, the surplus was credited to the account of the debtor, who could collect it without restriction. And as services of the *montes* were sought after by members of all social strata, a pawnbroker's counter became a common target point for doctors, sailors, lawyers, clergymen and, in certain cases, even aristocrats [6, p. 94]. This policy reflects an older practice recommended by the Church, a procedure in which the usurer was openly ordered to pay back any excessive interest received from a loan. The disbursement of such money could be carried out either via direct transfer of the unjust profit to the debtors (if traceable) or through a charitable donation (erogatio pauperibus). A suitable example of the first method can be seen in the testament of Giulio di Giovenco de' Medici, an eminent Florentine banker. Giulio had provided commercial loans at the annual interest rate of 10-12%; if, however, any of these loans did not include collateral to preclude risk, the related interest was not to be paid back – not even to charitable organisations the like of Ospedale degli Inocenti, a hospital for abandoned infants. But for any case where a pawn was required to guard the banker from possible consequences of the debtor being made bankrupt, the amount of interest was to be repaid by the inheritors [6, p. 21]. Contrary to the banker, the *montes* eventually opted for the latter repayment scheme, mainly owing to administrative difficulties connected with the former approach.

The *montes* found their most prominent defenders within the ranks of the Franciscan order; conversely, the competing Dominicans could be identified as the main opponents of the entire concept. According to the latter, any charge for a loan – albeit intended to cover the running costs of the institution – constituted interest and therefore was to be considered usury. In 1494, the Augustinian theorist Nicolaus Barianus issued his treatise *De monte impietatis*, which summarised old arguments against usury and posed the question of whether the Pope, who at that time still sanctioned the establishment of each new monte with a separate writ, was (given such executive system) effectively capable of permitting the collection of interest. Before the coming into force of the decree released during the tenth session of the Fifth Lateran Council, the Popes had to confirm the birth of each *monte* separately [11]. The decree nevertheless enabled the *montes* to begin operation without special authorisation, describing their activities as praiseworthy and eligible for official endorsement. Further details can be obtained from relevant documents of the Fifth Lateran Council [http://www.papalencyclicals.net/Councils/, accessed 17.04.2014]. The Franciscans then reacted with an apology by Bernardinus de Bustis, an eminent friar and poet, whose six articles in defence of the charitable pawn shops were completed in 1497. But the friction did not thus cease, and wherever the Dominican influence reached beyond its ordinary scope, the formation of the *montes* was often significantly delayed. Not surprisingly, therefore, even the

Florentine *monte* gained firm ground only when it had been advocated by the popular Dominican preacher Girolamo Savonarola. Compared to its counterparts in the other cities, the Florentine branch was thus delayed by more that 30 years, a relatively significant amount of time in the given context. The general success of the friar's sermons hence fostered the *monte* which was to become, from both the historical and the statistical perspective, the most comprehensively described and documented institution of its kind.

3. The Florentine monte di pieta - renewal of charitable banking in practice

Despite not being chronologically the first in the row, the Florentine monte di pietà developed into a most influential *monte*. For this reason, the body of primary sources related to the activities of this organisation is comparatively large and well-examined; the records contain detailed information on both the overall volume of capital and the number, frequency, and average sum of the loans provided. Interestingly, in this context, the relevant analysis presented within the study *Charity and State in Late Renaissance Italy* [6] shows that the operating rules and certain economic patterns in common use at the time have hitherto not undergone a major change.

The existence of the Florentine pawn bank was triggered twice: After the first unsuccessful attempt of 1473, the Great Council of Florence approved the establishment of the *monte* on 26 December 1495. Not allowing for any public subsidies, this act nevertheless remained only declaratory, and the enterprise was to be supported exclusively from donations and voluntary deposits. Within four months, articles of the institution were completed to define its internal structure or management principles and to regulate the purchase procedures. Furthermore, the rules emphasised absolute independence of the *monte* and its funds from political power.

The pawn bank was governed by a board of directors referred to as the Council of Eight. (Based on the constitutional rules of the *monte*, the eight councillors were forbidden to serve two consecutive terms, but they could resume their posts after the required gap.) The council appointed an executive officer (a *massaro*, or an administrator) and two assistants (*scrivani*, namely scriveners or copyists) from the ranks of reputable citizens. These officials were generally in charge of taking over the pawn from the client after he or she had sworn that the thing offered was his or her own property, and they also examined and recorded the quality or condition of the item. Subsequently, the pawned object was submitted to two estimators (stimatori), who determined its worth. Yet there were also articles, such as yardage, semi-finished products or clothing, whose acceptance by the estimators depended upon an approval from the relevant guild. The *massaro* then made an accounts voucher in three counterparts (one for himself, another one for the debtor, and still another one to accompany the accepted article) and entered the amount of money lent in the account book. The stipulated sum - usually at a value not exceeding 2/3 of the estimated price of the pawn - was paid to the client by the cash-keeper, whose duties involved primarily the updating and revision of the cash book; in this context, the cashier was responsible for paying out and receiving the money, and he also calculated the interest. The actual provision of loans had to observe certain limits regulating the maximum extent of credit, both per applicant and per year. During the initial period, namely before the *monte* reached the full breadth and intensity of operation, the ceiling per loan applied to Florentine citizens was 25 liras; prospective debtors living in the country within 5 miles from the city proper could be granted 10 liras at the most. Thanks to the growth of the *monte's* capital, the limits were later increased to 50 and 15 liras, or values common also in other municipalities of the region.

After a given time, any unredeemed item could find a new owner at a public sale. If the object was sold and the profit exceeded the amount due including interest, the client became a creditor of the *monte* and obtained the surplus as a deposit in his account. This principle, too, survived in the *montes* that remained active until the 21st century, for instance in Brussels.

Activities of the *monte* were subject to inspection and numerous guarantees; the articles of the organisation therefore explicitly stated how the employees were to behave in public or private life (though prescriptions for the latter can be characterised as only moderate). To preclude financial loss, the institution was entitled to penalise the estimators for incorrect pawn appraisal. The *massaro* had to find 8 guarantors, each of them willing to deposit 1,000 florins payable if the recommended person was proved dishonest in word and deed. Similarly, the cash-keeper also needed 4 guarantors capable of providing 1,000 florins each; other members of staff were required to secure smaller sums [6, p. 61].

The most vital and best remunerated positions in the *monte* became a domain of Florentine patricians. As noted by Carol Menning, no banker or tradesman was prepared to spend time developing a charity-based service for the salary of 2.5 florins a month, especially given that the employees in these jobs were expected to exploit fully their knowledge or skills in both general finance and double-entry bookkeeping; conversely, the example of Cardinale di Nicola Rucellai, a scrivener of the *monte* in the year 1496, shows that most aristocrats of Florence would readily perform the work under the conditions [6, p. 59]. A happy, long-term consequence of such practice was that representatives of the highest social strata, who regularly assumed positions within the institution, came into continuous contact with persons from the lowest ranks of society.

In order to prevent the desire for profit in the staff, the pawn bank restricted its maximum fixed expenses to the amount of 600 florins annually, of which approximately 2/3 were allocated for the fixed wages; the remaining portion comprised rent and various minor operating expenses.

Initially, founders of the *monte* also intended to shield its capital from possible claims raised by the municipal authorities. Thus, the charter contained a clause stipulating that no subject but the *monte* itself was entitled to use the disposable property or assets, and any financial transaction inconsistent with the articles or main mission of the organisation was to be regarded as unacceptable from the very beginning [6, p. 62]. The sole purpose of the funds available was to uphold assistance to the poor. The *monte's* articles, in essence, could be modified, but only after previous approval by the city council; such arrangement later enabled the institution to expand under changing conditions (for example, higher credit limits and new branch offices).

Besides collections organised by the Church, the *monte* relied on two other types of income: gifts, which constituted the stable capital basis, and interest-free loans, namely sight deposits registered in the names of individual depositors. After the first three years of operation, the fund of donations comprised 893 florins and 3,758 liras (approximately 1, 519 florins in total). Although the most frequently deposited amount during the initial three-year period equalled 40 florins, the more affluent donors increased the average sum per account to 160 florins. These deposits were entered into a separate section of the account book and complemented with a note indicating that the creditor had entrusted his money to the pawn bank '*for free and in love of the Lord*' and is aware that he or she could receive the full amount back upon request at any time. The depositor was nevertheless expected to observe the notice period of one month after communicating their intention to withdraw the funds; such a condition was rather uncommon in medieval banking, where cash reserves were routinely kept very high.

While noble families preferred the profit-bearing investment in the *monte comunale*, the middle class favoured the *monte delle doti*, and the wealthy guilds subsidised their own charitable activities, the *monte di pietà* would win supporters only slowly, relying predominantly on members of the lower middle and bottom social strata. From the year 1425, the *monte delle dotti* offered profit rates of either 11.33 or 12.99% (the money was employed to support public expenditure). However, Florentinians remained cautious, not giving much credence to the institution; seven years into its existence, the bank had thus accumulated a mere 6,000 florins. But after (and only after) a modification of the articles was pushed through in 1433 to ensure full security of the deposits, the number of investors began to grow rapidly. We can therefore claim that if it was not easy to seduce Florentinians by advertising a benefit of 12-13%, then the chances for the *monte di pietà* to attract a wider range of clients were spiralling hopelessly downward. Indeed, not many good citizens were allured by the opportunity to let their money work for the poor without any apparent gain, especially in the turbulent 1490s. The *Arte di Calimala* (the guild of cloth merchants) supported twelve monasteries, and also hospitals, in Florence and its vicinity, while the *Arte di Lana* (the guild of wool merchants) operated the *Ospedale degli Innocenti*. Even though these two organisations, too, financially assisted the *monte* through its earliest period, the support only took the form of short-term deposits that would soon be withdrawn.

Thus, at the beginning of its existence, the *monte* needed a capital increase to survive and fulfil its role as intended. The problem was resolved by interconnecting the *monte* and other public funds that facilitated permanent cash deposits. The first cooperating fund to open a portion of its assets to the *monte* was the *Magistrato dei Pupilli* (Court of Wards). In addition, the pawn bank‘s efforts were backed by the city council, which required certain taxes or fees to be paid into an account managed by the *monte*. The money was then provided to the council as requested. To illustrate this mechanism, we could refer to the provision of spring 1498 where the *monte* was entrusted with administering the gain generated from the sale of property confiscated after Pisa's revolt of almost four years before. Then, in the course of nine months, the bank's treasury received 5,893 florins and 2,086 liras, amounts which exceeded the total sum of private or corporate deposits. By 1502, this investment had more than doubled, and such influx of capital made it possible for the *monte* to overcome the initial funding problems. In the said year, the city council also allowed the *monte* to open two new branches, thus enabling the pawn institution to accumulate multiple cash surplus shortly thereafter; in 1506, the surplus already amounted to 3,202 liras, or approximately 500 florins (The approximate conversion rate was 1 florin per 6-7 liras; 1 lira then amounted to 20 soldi or 240 denari). It is therefore obvious that support stemming from the public sector spurred the development of the *monte* and brought palpable economic benefit for years to come.

But as this pawn bank could exist only on the precondition of *no profit*, the proceeds had to be distributed: the clients served during the given period were invited to withdraw a portion of the interest paid. Such refunding practice nevertheless constituted an administratively demanding problem, which led the board of the *monte* – after numerous discussions with the Franciscans and Dominicans – to begin transferring any profit to other charitable institutions instead of repaying it regularly and directly to the poor. The allocation of the profit to particular funds bolstering charitable activities connected with care for the body and soul was an approach practised in other cities as well. Thus, the Perugian *monte* diverted the sum of 1,000 florins to a student loan account, facilitating smooth purchase of books and clothing; the pawnbroker of Busset helped to provide the furniture and equipment for the town‘s public library, paid the librarian, and subsidised four(!) students; and the pawn banks of Castellfranco Venneto and Feltre backed construction work on the Dome [6, p. 16].

The first thirty years of the Florentine *monte* were characterised by undisturbed growth, resulting in the bank's self-sufficiency and capital security. This stability, however, was not to remain intact: the expulsion of the Medici and proclamation of the Republic in 1527 significantly influenced the perspectives of the *monte*, mainly because, besides other difficulties, a heavy tax and fee burden was imposed on the city to finance the mercenaries guarding the new regime. The actual defence intensively exploited the property of the guilds and became the chief cause behind the seizure of Church-owned funds and estates. In the city of Prato, organisations administered by the Catholic Church, such as hospitals, were made to sell most of their possessions and hand the proceeds over to the Signoria. Similar measures then targeted the *monte*, which was (in utter denial of its articles) ordered to grant an interest-free loan to the government. From the total assets of approximately 48,000 florins, the municipal authorities drew 16,408 florins for military protection purposes, including Michelangelo's work on Florence's fortifications. Although the republican Signoria obliged itself to repay the debt, such promise did not appear very trustworthy at the time of war with dubious outcomes; indeed, the expenditure on the soldiers' wages and defence facilities eventually proved to be fruitless as the Republic was not saved: the Medici returned to power in 1530 (1532) and then held it continuously till 1737.

One of the difficulties the family had to face after their comeback consisted in the lack of capital plaguing the *monte*. The regular pawning activities had been markedly hindered by the enforced loans, and therefore the pawn bank was permitted in 1532 to collect 10% interest for the period of five years. The demand for credits nevertheless grew, even despite the rather high cost. In 1539, the interest rate decreased back to 5%.

A related step was then taken in June 1533 when the senate decreed that the *monte* would be entitled to pay the interest of 5% per year on certain deposits. The first interest-bearing deposit, however, was accepted only at the beginning of the year 1538; the reason for such a delay probably consisted in the management hoping that the five years of retaining the permitted 10% interest would bring enough capital to the bank's treasury. Similar measures came to be adopted also by other cities in the region, and their effects were invariably positive. The Pistoian *monte* began to pay the interest of between 1-7.5% on its clients' deposits in 1475, two years after being established.

Simultaneously, the *monte's* articles were supplemented with a clause stipulating that the deposits are secured by the property of both the institution and the city. Thanks to this series of decisions, the *monte* began to be perceived as the safest investment option: unlike common banks, the pawnbroker did not pursue any risky operations, and all its credit products were secured by collateral and involved municipal guarantee. In addition, assurance tools were created to warrant for the conduct of the employees; in 1539, the insurance fund comprised 129,000 florins. Moreover, the *monte's* treasury was located at the town hall offices, enjoying the protection of the city guard. The small but reliable yield clearly attracted a comparatively high number of depositors, who nurtured the gradual growth of the capital. While it is true that the 1530s were characterised by a steady decline of the sums on deposit and a dwindling count of donors, the proceeds from both interest and the sale of unredeemed pawns gradually increased. The interest collected between 1530 and 1533 amounted to 8, 275 liras, with 5, 500 items pledged in total. In 1545, the *monte* already administered 133 accounts, of which 80 were interest-bearing. In the first third of the 16th century, the average number of accounts was approximately 66 [6, p. 107]; by contrast, in 1563 the pawnbroker had already registered 330 interest-bearing accounts. One of the changes that significantly contributed to such improvement had occurred at the end of the 1550s: a progressively expanding group of noble depositors - most likely also encouraged by the Medicean patronage of the pawn bank - began to use the *monte's* services, thus spreading the goodwill of the institution further among their own circles.

The pawnbroker remained the preferred alternative mainly for the middle and lower classes; however, numerous deposits were made also by charitable corporations wishing to invest their surplus funds dependably. The nobility lent money almost exclusively to the city; not surprisingly then, the interest paid by the *monte communale*, which managed the Florentine public debt, amounted to 12% annually.

An interesting insight into the economy of the *monte* within the described period is available via the pawn bank's detailed records, where relevant business data are found. Between 1545 and 1548, each of its three branches supervised 16,000 collateral cases on the average. While the total of 162,585 items was accepted for pawn, only 146,950 objects could be redeemed, meaning that roughly a tenth of the initial number was auctioned. An even proportion between items redeemed and articles sold at an auction (nine out of ten) can be found also as late as the 19th and 21st centuries, namely in the records of the *montes* of Rome, Livorno, and Brussels [4; *Mont-de-Piété*, http://www.montdepiete.be/EN/index.htm, accessed 17.04.2014].

A typical loan brought 1.25 florins per pawned article. Naturally, the volume of objects passing either way over the bank's counter also grew or dwindled according to the actual season of the year, and the fluctuations were usually strong. The demand for loans stood at its lowest during and shortly after the harvest period as the fields, woods, and meadows mostly offered ample food. Conversely, every December the pawning cycle was high again due to the arrival of cold weather requiring warm clothes, heating materials, and sources of light. The pawn redemption process then included similar phases: while not many articles were claimed back in a winter, the spring or summer seasons saw clients collecting their property on a frequent basis. This pattern, in the general sense, conspicuously points to the persistent link between the welfare of city dwellers and the concrete season. Another characteristic of the described financial mechanism consisted in that a growth in the number of collateral cases was inevitably associated with a decrease in the quality and price of pawned objects; thus, the amount loanable was also kept low. When, by contrast, the interest in pawning fell, the value of items offered normally went up.

The decision of 1533 to pay interest on the deposits turned out to be a successful, capital-yielding move, but it also had an apparent weak point: the interest of 5% valorising the clients' investment was equal to the benefit from the loans provided, and the *monte* thus could – even when exploiting the full potential of the interest-bearing deposits - obtain only zero income. Any costs incurred then resulted in a loss. These adverse conditions were partially alleviated by donations, which assumed the role of interest-free capital; yet, in the long term, such a status was unsustainable. For this reason, the *massaro* (administrator) notified Cosimo de Medici in 1568 that the *monte's* yearly budget deficit had reached 600 ducats and proposed a solution in his letter: the interest on higher-level loans (from 100 scudi) should be increased to 6%. The broker's accounting documents of 1576 indicate that the gain from such loans equalled 16,547 ducats; as such, in the book, the sum was promptly relocated to the newly created column headed 'profit' [6, p. 198]. The Grand Duke complied with this wish, and the pawnbroker acquired a major source of revenue.

Other reforms, introduced after 1574 as a result of frequently recurring financial scandals and embezzlements, were made specifically to separate petty charitable loans from more prominent, high-end credits and services. In the innovated system, the previously established credit interest rates were stratified again, defining practical rules for the future. The stable 5% rate (virtually reserved for the poor) accompanied loans within the range of up to 40 florins, while anyone wanting to borrow between 40 and 300 florins was required to pay the margin of already 6%; the last stage then subsumed loans above 300 florins, which came to be provided at the interest rate of 7,33%. Classification by credit size soon found its way to other *montes* too, but most significantly it enabled the *monte di pietà* to accomplish fiscal balance and lay sound foundations for the institution's self-reliant existence, which was to end only by its incorporation into Florence Savings Bank in 1935.

Cosimo Medici, apparently seeing no reason in retaining money that does not bring any interest, wrote a letter in 1571 to representatives of the Siena-based branch of the pawn bank, urging them that they should transfer the generated net profit to the Florentine *monte*, where the interest rate stood at 5% [6, p. 242]. This request and its prompt satisfaction can be interpreted as tokens of the full acceptance and ethical justification of interest. In the given context, then, the institution of the *monte di pietà* is regarded as the root of banking not in the sense of fostering the development of effective financial procedures, but mainly thanks to the fact that its activities facilitated the general acceptance and the Church's approval of interest on all types of loan. The actual genesis of the pawnbroker therefore constitutes a significant moment within the evolution of economic ethics.

4. Conclusions

If we look back at the long history of charitable loans, we will find out that its real basis consists in the interpretation of interest as a concept which denies the love of fellow creatures. This principle, already outlined in Ancient Greece and instilled by Torah, the Gospels and sacred tradition, embodied the rules of life in self-sustaining communities of peasants and nomads. Despite all the past transformations of economics, this principle still manifests itself in the existing social structures and bonds, namely between relatives and friends, where interest-free loans are a common instrument of assistance. In this environment, to demand an interest would inevitably mean to violate the web of interconnected relationships.

Yet beside these financial tools there also stood commercial credit, which expressed the sharing of a risk or profit rather than premeditated oppression. To participate in the funding of merchant voyages, share the risk and collect a portion of the profit was an acceptable component of trading. Thus, the essence of the debate was not seen in commercial loans, which could bear interest without restricton, whether in a direct and permitted manner (foenus nauticum) or via an indirect and permitted mode (conversion rates; profit share; overdue instalments). The point of difference consisted precisely in private loans to individuals, mainly because some variations of this instrument did not necessitate the prohibition of interest as a form of protection.

The discussion of interest was, in general terms, pushed forward by the pressure of external circumstances. The Venetian forced loans taken out to cover the public debt virtually justified the interest paid on any such compulsory credit in favour of the city, and if such interest was permitted and even considered beneficial, then there stood no obstacle to evaluating the whole concept of prohibition anew. The first forced loan cycle in Venice was organised in 1167; at the time, the interest amounted to 5%. The creditors accepted the safety of regular interest instalments and did not insist on receiving the principal periodically. The fact that the principal was repaid very slowly (or not at all) may have rested upon a theological argument: interestingly, an interest on overdue instalments was substantial.

The resulting novel interpretation of gain, accompanied by separating the actual prohibition of interest from the indispensable protection of the poor, reflected - among other influences - the realisation that the common value of money can be subject to fluctuation (enabling the banker to set the rate that will protect him from loss) and the fact that currency may be devalued by the state. The recognition of such causality facilitated the unrestrained development of the economic (not ethical) discourse on the worth of money and necessity of interest, and the actual understanding that the Philosopher assumed a mechanism of fixed currency rates and fixed prices came to constitute a major step in the process of challenging and overcoming the Aristotelian approach. The basic structure of these ideas was not formulated after Nicole Oresme (1325-1382), who preceded Gresham by more than 200 years in expressing the rule that the 'bad' money pushes the 'good' currency out of circulation [12].

The final move on the road to the ethical justification and subsequent full integration of interest in the economic life of a society consisted in generalising the experience of the Franciscans, whose pastoral activities enabled them to recognise not only the importance of microcredit for everyday life in towns and cities but also the fundamental role of competition for financial markets. For this reason, they supported the systematic foundation of pawn shops and banks, namely institutions which were to lend money to city people at cover prices, observing the prohibition to generate profit. The regular operation of these brokers thus effectively ended the dispute of the legitimacy of interest because, in the course of the Fifth Council of the Lateran, the decree by Pope Leo X of 4 May 1515 confirmed that the acceptance of small interest over principal in instalments cannot be considered a sin, especially if the gain is not accumulated or distributed and its sole use lies in amortising the costs. Moreover, the *monte* constituted a non-profit alternative to other creditor institutions and established themselves as a viable competitor of private pawnbrokers and moneymen, whose interest rates were often excessively high. At the same time, and perhaps more importantly, the montes also laid a firm and lasting foundation for the European banking sector, made retail banking available to all strata of the population, and promoted the rise of solid, sustainable financial enterprises at a larger scale. This conservative strategy later bolstered the expansion and wide acceptance of the *monte* as a trustworthy, respectable player in its business sector.

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