

# Commission trading allowed Italian merchant banks to flourish in the 16th century

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*... it may please your worships to understand, that the chiefest living and maintenance that we have is upon the commissions that are sent unto us of our friends from beyond the seas...*

— Italian merchants explaining their foreign exchanges to Sir Thomas Gresham and other royal commissioners [Ms. of Lord Calthorpe, Vol XX, f. 28].

Most of today's banks and brokerages' total revenues is generated by commission trading, i. e., the selling and buying of stocks, bonds, currencies, commodities or their derivatives on behalf of third parties for a service charge, as opposed to trading with ones' own money (prop trading). This global standard has its origins in the early modern age, when the growing population and its expanding trade — with Africa, Asia and the New World — deeply transformed the organisation of international business. Indeed, while the origins of commercial agency go back to antiquity, only the 16th century's unprecedented commercial expansion enabled the appearance of trade and banking houses specialised in the commission business, which required a high demand for goods and capital to yield substantial profits.

The possibility of specialising in commission trading stimulated the restructuring of the dominant firms in international trade: the Italian merchant banks. While the geographic extension of these firms and their capital reserves tended to diminish, and their juridical structure to loosen up in the 16th century, the volume and intensity of their activity continued to grow and increasingly took the form of commission trading, which the different branches of these decentralised firms practiced even amongst themselves.

This transformation is evidenced by the numerous Florentine firm archives of this period, which happen to be exceptionally well preserved. The parallel increase in the volume of Florentine account books and the growth of **commission accounts** during this period indicates the nexus between the 16th century's economic growth and this specific type of business organisation.

These accounts reveal the heavy involvement of the main Italian merchant communities (not only the Florentine but also the Lucchese, the Genoese, the Milanese and the Venetian) in the commission business – especially with firms located on the great commercial and financial centres of the time, such as Lyon, Antwerp or Besançon. The commission system enabled these firms to respond to the intense and fluctuating demand of international commercial hubs, and to seize any opportunity as it occurred.

The most important collection of commercial records from this period, the Archivio Salviati (Pisa), provides an insight into the development and functioning of early modern commission agencies and commission networks. My work has focused on the activity of the Salviati bank in Lyon, at that time the main commercial hub of international trade with Antwerp.

In Lyon, the importance of the commission business is attested by the existence of specific books of “commitenti” (or principals) in the archives of the major Italian banks settled in this marketplace (Salviati, Capponi, Martelli). These ledgers, which appear in the middle of the sixteenth century, just as the Lyon fairs were developing into a major clearing centre in the European payment system, are almost entirely devoted to payments and banking operations. Thus, while businessmen resorted to the commission system both in the field of exchange and commodity trade all over Europe, it seems that the specialisation of some Italian firms in the commission business was related to their parallel specialisation in banking.

In the Salviati bank of Lyon, between 1544 and 1564, 91 per cent of total revenue was generated by the commission business, and 89 per cent by banking on commission, e. i., in decreasing order, exchange, deposit, and government loan operations. For obvious infrastructural reasons, banking was indeed easier than

commodity trading, that is, on a very large scale so as to make significant profits. The circulation of capital by far exceeded that of goods in the main financial centres, where most payments were settled through bills of exchange, which were also used as credit in purely speculative operations. Furthermore, intensive paperwork remained easier than the handling of huge quantities of spices or delicate precious silks.

The most striking feature of early modern banking on commission, which sharply contrasts with modern practice, was the interchangeability of principals and agents. Indeed, most clients of Italian banks were themselves businessmen. As a result, they could act alternatively and sometimes concomitantly as both agents and principals, even in the case of banks working mostly on commission, such as the Salviati.

This versatility of the principal-agent roles, of course, increased the risk of conflicts of interests. The Salviati archives contain some examples of cheating: the Salviati sometimes bought bills of exchange at a better price than expected from their principals and kept the surplus for themselves, or invested money deposited with them in speculative operations to make a profit on the rate spread, while being bound to follow their principal's orders concerning modes of investments.

Such cases of opportunistic behaviour, however, occurred only on a small, acceptable scale, and could thus be considered as collective accepted deviances. The smooth running of commission agency relied less on commercial regulation – rapidly evolving during this period – than on reputation and networks. In the small world of big business, information about the financial capacities and reliability of merchant-banks, which circulated through commercial correspondence, could establish or destroy their credit, and thus determined their mere existence in the marketplace. Another crucial object of business letters was price currents, which facilitated monitoring and helped agents prove they could obtain the best deal for their principals.

Salviati archives thus document a crucial moment in Europe's financial history, with the constitution of societies specialised in services, which spread throughout Northern Europe in the following centuries. This development was the consequence of and response to the growth of 16th century international trade and securities markets, whose outstanding feature was the development of great exchange fairs (Lyons, Bisenzone, Castile, Frankfurt, etc.) with international clearing functions and facilities. Banks specialised in commission trading exploited these new opportunities to establish a business model that has prevailed in the banking sector to this day.



Notes:

- This article is based on [Commission trading and the transformation of Florentine business organization during the sixteenth century](#), a conference paper presented at the European Business History Association's 18<sup>th</sup> Congress (Utrecht, August 2014) and on the author's book [La Banque en Renaissance. Les Salviati et la place de Lyon au milieu du XVI<sup>e</sup> siècle](#), Presses Universitaires de Rennes, 2016.
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