

The medieval invention of emancipating credit

Maria Giuseppna Muzzarelli (University of Bologna- Italy)

The history of solidaristic credit, which also belongs to today's system of microcredit, has ancient origins dating back to the 15th century. For example, the pawnshop, an institute that still functions today in many cities, originated at the end of the 15th century. The pawnshops of the Middle Ages operated in a similar way to the shops of today. Tailoring the type of credit to each client's individual needs, the medieval pawnshops helped people obtain credit they would normally have been denied at a regular bank. Paraphrasing the title of Maria Novak's book, the official banks made loans only to the rich. Therefore, the pawnshops were directed, according to the original statutes, to people who were neither very rich nor absolutely poor.

The system of credit that the pawnshops wanted to offer developed in the name of piety. Intending to take care of people in need, the pawnshops functioned like a bank but under particularly favourable conditions for a well-defined type of client: a moderately poor and virtuous citizen.

Similar to today's microcredit, solidarity was the central point of pawnshops during the Middle Ages and first Modern Era. As a scholar of the Middle Ages, I will not focus on the modern microcredit system but, instead, on the medieval invention of the pawnshop. In particular, I intend to reveal the common elements between the medieval and modern systems that are rarely noted. Microcredit is a type of credit offered today to people who need support and a small sum of money to escape poverty; many elements of the microcredit system seem new, but are really oversights of the past historical models.

The system of microcredit is one of the modern approaches used to recognize and alleviate financial necessity; the foundation of the pawnshops confronted the same issue at the end of Middle Ages. The goal was to offer credit with special conditions, applying rates lower than fair market value instead of charity. The premise was, at both that time and today, to have faith in the possibility of escaping poverty, at least for the moment. The client would have the possibility to overcome the general condition of inability. The pawnshop system enables the creation of wealth by the individual and reinforces indirectly the economic potential of the citizens.

As noted, the first pawnshop was founded in Perugia in 1462; with a gradual increase over the next century, the total number of pawnshops in Italy soon grew to be over 100. From the growth, at the end of the Middle Ages, there were many types of moneylenders: merchant-bankers, moneychangers, private-bankers and, in particular, Jewish bankers.

If we limit ourselves to considering the small or medium credit loans—typically credit restricted for consumption needs—we must eliminate from the list only the greatest merchants-bankers, leaving all of the other lenders in the field. However, to separate consumer credit from an enterprise loan is difficult, as no formula clearly exists delineating the categories. In the beginning, the town had many people with a bit of extra money that would freely lend, but in an unregulated and not publicly recognised manner. We can define these phenomena as a diffused molecule of credit. In all these cases, the clients should have been able to offer a pawn with a value of a third more than the sum of the loan.

Beginning in the 13th Century the small pawn-loans were officially exercised by Jewish bankers with which the authorities of the citizens stipulated official agreement, the so-called “condotte” or conduct. These pacts stabilized the conditions of loans and of cohabitation between the Christian majority and the Jewish minority. These conventions indicated a new and important phase in the history of loans, and not only of small loan. These conventions represent a phase of consciousness of a widespread need for loans. At the same time, the rules also represent a phase of trust in these brokers that, although they were not Christian, were still trustworthy. The relationship with Jewish broker lasted many centuries. In some cases, the Jewish operations were interrupted in the second half of 15th century; but, in many other cases, they continued after the foundation of pawnshop. The two types of loans were similar in practice but characterized by some important differences. The coexistence of the lending systems transpired in territories directly under the rule of the Pope until the end of 15th Century and in other areas through the modern era.

The pawnshops derived from the particular culture and sensibility of the Franciscan order, but also from Jewish experience. The idea of intervening in this sector in order to give help originated from the Franciscans, but the practice came from the experience of Christian and Jewish bankers.

However, there were a series of differences between these banks and pawnshops. The later:

- Lent only to citizens
- Lent only small sums (the maximum amount was indicated in the Statutes)
- Lent at a minimum rate in order to only recuperate operational expenses and, in case of some pawnshops, lent willingly without any request of reimbursement
- Asked for a justification of the loan.

With the pawnshops, the Christian world directly addressed the problem of small credit, separating the idea of charity. The latter remained necessary for aiding the really weak, people who were not able to overcome independently poverty because of age or illness. The pawnshops, instead, were destined to aid those who only needed economic help in order to leave a condition of necessity relying on personal ability related to the economic situation.

If the pawnshop did not expressly prohibit the use of the loans, the credit given could support also small economic activities.

The philosophy of credit, which is the basis of the pawnshop, was new. Also new was the idea of the devout Christian offering credit at special conditions, different from the conditions proposed by bankers and dictated by the market. New was the direct action by Franciscans for proposing and founding these institutions. New was the distinction between poorest and less poor. The service of pawnshops was directed to the latter with the goal to avoid the transformation of the less poor into the really poor.

Pawnshops were an advantageous economic venture for the clients, but also for the city. The city was alleviated from the obligation to assist men and women who risked becoming really poor. For the city, the risk of potentially dangerous behaviours inspired by poverty diminished.

The general economic and social conditions were very diverse; yet, the less affluent people were like potentially active men in the economic field. But, they are not comparable to symbols of potential wealth as theorised by Peruvian economist Hernand de Soto in his book *Mystery of Capital* or like potential consumers as sustained by Prahalad, author of *The Fortune of the Bottom of the Pyramid*. Prahalad sustains that the less wealthy could be considered consumers with limited resources; given the resources and directed with appropriate political structures, the less wealthy could transform from the poor to potential rich.

The clients of pawnshops, the less poor, if appropriately sustained would have been able to access the goods and start small activities, consequently producing wealth. By supporting the individual, the city would have been free from the obligations of financial assistance. If the less poor were ultimately impoverished, the obligation would have continued to strain the finances of the community.

The clients of pawnshops at the end of the Middle Ages were situated, like the potential users of today's microcredit, between poverty and a slightly superior economic state. His condition could be a basic departure for the arrival to a major stability or finally to very small ascents.

The solidaristic action of these groups of people could be a "good" action: good for improving the condition of which was collocated at the limit between need and sufficiency.

To trust people who belonged to these groups was beneficial for the entire city which, working towards the emancipation of the less poor, effectively wagered on the success of these individuals.

The less poor, if helped, could access the goods and, in this manner, they could sustain the civic economy. Obviously, this regarded only goods of modest value for consumption but we cannot underestimate the economic value of the small consumer loans that permitted access to the market for the marginal population. One other obtainable goal was to convert a portion of the individual wealth for a social use. This operation was based on the emphasis of Christian values. The preachers promoted the opportunity to grant goods and money to the pawnshops and to make the pawnshops the heir of homes or shops. The deposit was a “good” action for the investor who could trust the use of his money; from the second decade of 16th century the deposit also had the vantage of earning a small interest. In this way, it was possible to connect the destinies of the richer with those of less poor.

The operational method of the pawnshop was not a novelty because it was a loan on a pawn. This kind of loan was practiced for centuries in the Christian or Jewish banks and this loan has little interested the scholars of medieval or modern era economy. But, it was a very important sector at that time not only because it assured survival for many but, also for the benefits on the general economy.

Not only the entrepreneur loan is productive but also could be, at least indirectly, the consumer loan. The latter improved the economic conditions of many individuals, sustained the communities and contributed to a general good.

The pawn-loan derives from the presentation of a good as a guarantee of restitution and the item goes into circulation, acquiring a second life. Originally in their first life, the objects cost money but, when used as a pawn in their second life, the same things produced money without being lost forever.

As in the private bank, the pawnshop would accept a good pawn for obtaining credit and, in consequence, raise oneself, perhaps only for a short period but, sometimes also definitively from a difficult condition.

The high interest level asked by Christian or Jewish bankers, with agreement or without, often was an obstacle for the less poor. The challenge was to pair the conditions of the loan with the needs of the client. This was realised by pawnshops that succeeded, or at least tried, to use the loan at solidaristic conditions as a lever for the overcoming of the state of need. The conditions were solidaristic in so much as they permitted many people to utilize the low interest level loans of the institute. This low level was made possible by fact that the capital of the pawnshop came from legacies and donations. Obviously, all of this was not possible at private banks, which used private

capital. An accumulation of resources, a figurative mountain of money (Mons Pietatis), became available to the community through the pawnshop. The pawnshop requested an interest level of 5% to cover the management costs and to replace the usual start-up capital. The 5% was not the price of the money lent but only reimbursed the expenses.

This kind of loan involved all of the city: the community, persuaded to offer money, seats and collaboration but also the city asked individuals to direct to some income to the pawnshop.

All to emancipate from the state of need a type of citizens able to develop some economic activity and to arrive to self-sufficiency. We must observe that this type of credit involved frequently women who were perhaps also clients of Jewish banks but we have few records of this activity. Some owned a jewel of modest value or some possessed clothing that could be exchanged with a Pawnshop, not only to survive, but in some cases, also to advance a little—perhaps homemade—economic activity.

The pawnshop loan for self-consumption was a significant variant of the exchange market, which constituted a portion of citizen economy.

The statutory prohibition of strictly using the pawnshop money for business (“mercatare”) did not negate the potentially liberating character of the pawnshop loan; instead, they demonstrated the innovative methods of the loan as a source for entrepreneurial adventures through contradictions and challenges.

The more innovative aspects of this initiative, created in Franciscan environment, met challenges. These aspects were the request of reimbursement of expenses, which were considered usury and the use of Pawnshop money for business.

Men like Bernardino da Feltre, Franciscan preacher of the late 15th Century, always maintained the request to reimburse expenses (only 5%) but many people opposed this way of operating in the name of the tradition of charitable behaviours. It was difficult to organize such behaviours with the use of pawnshop loans for business. The last were obstructed not only by explicit prohibition of business (like in the statute of the pawnshop of Pistoia) but also, by small sums—on average 4-5 florins—which the Pawnshop could loan according to regulation. The amounts were not possible to support significant economic activities.

Obviously, it is difficult to know the use by clients of the pawnshop. In some cases, we know the condition of the clients and can deduce from this a possible use of the obtained money for their activities. If we examine, for example, the accounting books of the pawnshop of Bologna we can observe that many clients, more than a third of those that went to the pawnshop from July 1 to September 29, 1473, the foundational period of the pawnshop, were craftsmen. On this basis, it is

legitimate to think that the pawnshop's loans were finalized also for a small productive credit. The few surviving accounting banks make possible an interesting study on the pawns presented.

Some pawnshops, for example, those of Parma, offered services at different conditions according to the social "status" of the client, differentiating a loan without interest for the poorer and a low-interest loan for the less poor.

The interest rate of the pawnshops was generally one-third or one-fourth of that requested by the private banks. Because they were private, the banks could not burden themselves with the question of public utility. Instead, the last aspect was important to the pawnshop since they were public banks.

If it is true that at that time a large portion of the objects of consumption were acquired through other goods, the action of the pawnshops intervened to transform the goods into money. Every good could "buy" money at the cost of the simple transaction. It permitted many people to procure money, leading to many outcomes.

In conclusion, the invention of the Pawnshop was relevant for a variety of valuable reasons:

- because it recognized in the economic activity a possible field of solidaristic action
- because it aimed to enable the less poor the opportunity to free themselves from a marginal economic state
- because it chose to operate at the level of the citizen, connecting the destinies of the rich with those of the less affluent.

However, things did not always go well:

- many times the clients did not succeed to recuperate their pawn and only maintained their low position or became worse,
- the small amount of the loan did not permit anything other than very small economic activities, which were unable to modify the situation,
- the richer people in the city often utilized the pawnshops money, which by Statutes should have been reserved for the less affluent,
- many times the employers of the institutes acted incorrectly by considering the pawnshops' money as a resource for everyone and, therefore, for no one.

In the general idea, the pawnshop was confined to the field of very small survival loans. This field in reality did not exhaust the potential of the institute and was not disconnected from the general economic activity of the city.

In short, I would like to underline the novelty of the idea at the origin of the pawnshop credit. This idea is not a recent discovery. Through this economic strategy, it is convenient to invest in the

less poor (“paupers pinguiores”), as the clients of the pawnshops were defined during this period; the justifications derive from the fact that the pawnshops were:

- convenient economically and ethically;
- convenient to individuals as a collective;
- convenient to less affluent but also to the rich.

The theoretical basis of the pawnshop during the late middle ages provides a basis to the initiative of microcredit; in principle, the community responds to the economic needs of its inhabitants and carries a great force. This force is able, as sustained at the end of the 15th century by the Franciscan preacher Bernardino da Feltre, to knock down a mountain or to restrain a wild horse. In the present case, the wild horse could represent the weakly regulated capitalism.