

Medici Money

Ross Welcome to Renegade Inc. The Renaissance is known as a foundation stone of the modern world through both its art and ideas. But lesser known is that it was also a time when the modern banking system was created. The Medici Bank was the most influential. Yet the trouble it attracted with the church and the state over using usury as a business model is a problem that our societies still face today.

Ross Tim Parks, welcome to Renegade Inc.

Tim Parks Glad to be here. Hello.

Ross Tim, recently we spoke to an economist called Steve Keen. He is looking at the detrimental effects of climate change. And one of the things that he attributes to climate breakdown is the fact that we measure every single thing now in monetary terms. Is it the case that this financialization has ripped through society, is it a case that we can go back to the Medici era and look at what they were doing in their banking system and say some of that has been transposed to now, but it's just been done on steroids because of making money out of money, usury and all this synthetic credit derivative swaps, et cetera?

Tim Parks Well, listen, money has always been a scandal. Just the existence of money as a unit of measure which measures everything. And there's certainly nothing new about measuring everything with money. If you think about the 15th century, you had the price of a prayer for the dead. You had the price of a prostitute. You could say a prostitute costs you this and a prayer for the dead cost you that. So as soon as you've got money, you have got a universal unit of measure for every service, ok? And clearly, that's a huge problem. But this is the other thing that one has to understand. You said how much this has changed and we are on steroids. We're on steroids from the moment that money ceases to be a piece of gold, which is worth what it is because it's gold to the moment when it's worth we agree it is, and then when it disappears in paper, and then when it starts to move around without us knowing where it is. If you imagine a world without money, and particularly without paper money, and without bills of exchange and cheques and so on, then everything is visible. I know how rich this guy is. I know what he owns. I can see his cattle. I can see everything, and if necessary, I can intervene. I know who is rich and who isn't rich, ok? When I have money, I don't know if this guy's got everything in the bank and I don't know which bank it's in. I don't know where it is. I can't get rid of it. I can't tax him because I don't know how much he has. Then when this guy starts making money out of money and I don't know how much money he makes out of money. Then he gives that money to other people and then other people borrow that money. And from being an ordinary miller or for being a worker or a guy who works on a loom making wool or a farmer who works on the land, he says, give me some money. He invests it in something and he gets rich. And all of a sudden that pyramid of society, which is medieval society, had this notion the pyramid with everybody having that particular position. As soon as you have money and loans with interest, then the whole of society becomes much more fluid. You have social mobility, which is a wonderful thing. But not maybe perceived as a wonderful thing if you liked the idea of a completely stable society,

Ross The Medici banking dynasty is something that you have given an awful lot of time to thinking about and you've written extensively about it. What did the Medici banking dynasty give us today when it comes to modern finance or when we look back to Renaissance times?

Tim Parks The Medici Bank starts in about 1398 and runs to 1497, right? It's nowhere near as big as the banks of the previous century, the so-called Peruzzi Bank. They made vast fortunes. The Peruzzi Bank operating from Florence in the 14th century had 83 locations outside Florence, mostly all over Europe, ok? What the Medici brought were two things. From the purely economic, financial side, they solved the problem which had destroyed the Peruzzi Bank, which was bad loans - bad loans to the King of England and the whole system collapsed. It was the English vault. And what the Medici did was they more or less invented a kind of holding company so that all their different outlets, if you want, their branches all over Europe, were separate companies, then you couldn't get the same kind of collapse. But I think far more important than that was that the Medici, more than any other group, really intuitively began to look at how money could be made respectable. So it was it was the Medici Bank that started the major investments in church architecture and the huge charitable operations, spending money on everybody to get consensus and in that way, moving into politics as well. But most of all, there was this problem. Usury or just interest rates of any kind were considered a sin - a sin worse than almost any other sin. You could only be forgiven for this sin with full restitution. Now full restitution is impossible when you've been making money. The problem then with that whole question of interest rates was how to make money respectable. And two things happened, basically. One was the invention of the bill of exchange where a kind of interest was hidden in a currency exchange. But the other thing was this willingness to invest in the church. If you look at the churches before the 15th century, they're very austere. On the ceiling of the Baptistery in Florence, you've got heaven and hell. And that's it. There's no negotiation between heaven and hell. Everything is just austere - black and white. And what the Medici first, and then others began to do, was to introduce into this space, luxury. The Madonna is dressed in beautiful clothes. They loved to show the Three Kings, The Magi, because they were rich men who were good, you know? They loved to show the Coronation of the Madonna where gold is put on the Madonna's head, you know?

Ross And is all this a cleansing process for the act of making money? in a sense, are they the first philanthropists really and sponsors of the arts to be able to sort of cleanse that process of making hard, cold cash?

Tim Parks Well, certainly, they are not the first philanthropists, because I think Christian charity is as old as Christianity, but they are the first people to really negotiate this space of the church and to introduce a certain amount of confusion into the church and into the idea of whether money is good or bad or whatever. The church becomes a more comfortable place. It's one thing just to give money away to charity, which they did. And it's another thing to make the church look like a bourgeois, comfortable lounge. And of course, many people in the church hated this. Many people in the church hated it. And you know, when at the end of the 15th century, you have Savonarola coming along and also the Protestant reform. It was very much in response to this kind of thing. They said, no, we don't want any of this stuff in the church. Let me just say that today we see the same thing in the way the banks sort of clean their consciousness, investing in sports, investing in cultural programmes, sponsoring museums and so on and so forth. And they like to be very discreet and very in the

background. You know, I'm not against it. I mean, I'm just saying that that all begins with the Medici.

Ross So this relationship with the entrepreneur, the businessman, the banker, whoever it is, making money, God would look unfavourably on it. So how do they in some way pass this off as a virtuous act? How do you camouflage that? Because you mentioned, you know, moving up in society and more fluidity. Surely God is at the top of that pyramid and judging. How do you marry your commercial activity with pleasing the big guy?

Tim Parks With difficulty and never being quite sure if you're getting it right. But the easy way to talk about this is to give a simple and absolutely crucial episode. In the 1430s, Cosimo de Medici is the head of this bank doing these bills of exchange, which nobody's quite sure whether it's usury or not. He speaks to Pope Eugene whatever he was, I can't remember the number. And he says, you know, I probably sinned a lot. How can I resolve this? And the pope says, spend ten thousand florins renovating the convent of San Marco, which was in disrepair. Now ten thousand florins was what it took to set up a new bank, ok? It was huge. It would be like the price of ten skyscrapers today, ok? And Cosimo says, ok, I'll do that, but only if you change the monks in the convent. Because in that period, the monks in the convent were considered to be very lax. They drank and there was talk of women. And Cosimo said, no, I want the Dominicans in there. Now, the Dominicans were the ones who were poor, who were righteous and religious. So this rich man actually insists on a religion which is terribly serious. And then when he has it renovated, he introduces a beautiful library full of books, many translated from Latin and Greek, and he has his own private cell built close to the cells of the monks. And in his cell there's a beautiful fresco of The Three Magi. And he has inscribed in stone, 'This is for the forgiveness of my sins'. It's actually inscribed in stone. And then he has Fra Angelico do these wonderful, wonderful, images of Christian suffering, of the beauty of the Madonna, the Annunciation and so on. Now in the refectory where Cosimo didn't go, somebody wrote on one of the paintings, one of the monks wrote something like in English, it would be, 'May damnation fall on he who has brought money into our house. So not everybody was on board. There was this constant tension. And a lot of the guys in the church were saying, 'yeah, look, we're using this money for the glory of God, so it's ok. And then others were saying, 'well, wait a minute, you know, aren't we legitimising a form of behaviour? and so on and so forth. So there was a tension that was actually very, very fertile, you know, because the more tense it was, the more beautiful the objects became, you know? And then when you had the backlash with Savonarola and he just said, 'no, that's enough'. And he became head of the Convent of San Marco. Then, you know, everything got burnt and you have the Bonfire of the Vanities and beautiful paintings being burnt in the public square. So, you know, there's always tension between these things. And these are going on today. You can see your man who's worried about monetary values and stuff. You can find poems from the 12th century that are saying exactly the same thing.

Ross Tim, in the first half, you mentioned what the Medici's had brought to modern finance. And one of the things is a holding company. That meant that their banks were distributed as opposed to centralised. The Peruzzi Bank and the Bardi Bank both collapsed - those empires collapsed, those dynasties collapsed because of bad loans, because they were centralised, Medici more distributed. The other thing that Medici gets credited for, excuse the pun, is the double entry bookkeeping system. Was it him, was it them, that came up with this or did he just pick that idea up from somewhere else?

Tim Parks Double entry accounting had already been around for a while when the Medici started operating and they themselves didn't always operate with a double entry accounting. The Florentines and also the Sieneese were way ahead on this for a very long time. But let's say this, these banks were as good as the people running them at that particular moment. So, for example, the Medici did invent this idea of having - they had something like 20 different branches around Europe and in each branch, like 40 percent, would be owned by the local bank manager and then the rest owned by the family. So they could bring a lot of capital into their banking system, but then keep control of all the separate branches. That was another problem that the Peruzzi had, that they lost control of their own bank. So they did this. But then later they dropped this. And in fact, they themselves went broke, giving bad loans again, political loans, to Milan, to England and to Bruges. There were all kinds of reasons why that happened. One thing is it's impossible to keep money away from politics. And this is another thing where when you look at this period, it's obvious that what goes on in the modern world takes us right back there, because a banker obviously begins to have an enormous amount of power because he's lending to people and people become deferent to him and he begins to get control of the situation. So the government tries to tax him. The government tries to block him, and he gets cannier and cannier with moving his money around. And then he says, no, I'll have to be the government.

Ross One of the things that Cosimo was very, very good at was credit creation. So he'd use double entry bookkeeping, as we do today to create credit, private banks to create credit out of thin air and lend it at interest. And back in the day, he would use a letter of credit brilliantly to, let's say, augment his books and push his power far and wide. Have modern bankers looked at him as a bit of a forerunner?

Tim Parks Let's try and nail what Cosimo actually did and what the bankers in Florence were actually doing. They were not allowed to give interest bearing loans. As the result, they didn't invest their money locally very much at all. The only way to lend money and get more money was to pretend that it was an exchange deal. So, for example, somebody comes to my bank, ok. I'm out in the street with my table. They had the tables out in the street. Somebody comes and says he really wanted a thousand florins. And he said, You give it to me, I'll give it to you back in Sterling, ok? So then we pretend that it isn't him who asked for the money, but that it's the bank who has asked to change some money. Now why can we make money like this? Because of course, we don't have pound sterling in Florence. They didn't hold foreign currencies. So that means we have to go to London for that. And it takes time to go to London - 90 days, Florence to London. Of course, it was ridiculous. You could get to London much quicker than 90 days, but that was the time it would take you to buy a load of silks to arrange for a shipping to get the silk shipped all the way around the Mediterranean, the Bay of Biscay to London to sell the silks. So you've used your loan of a thousand florins and then you pay the guy forty pence. But in London, Sterling is worth more than in Florence. In London, the exchange rate is 36. So I get the money at 40 in a place where the exchange rate is 36 and then I do the same deal going back. So if you work it out you've made about 10 percent in six months going back and forth. And then what they did was simply eliminate the actual exchange of money. They just pretended that the money was being exchanged when actually it wasn't. One of the things that's going on that's really crucial is that because of all these moral worries about money, you start getting financial exchanges described in ways which don't actually describe what's going on. So you get a kind of difference between the

way we talk about what's happening and what's really happening. And that is absolutely crucial about, you know, in fact, there is something the same goes on, I think - I don't want to become polemical - but in certain kinds of loans in Sharia law, there's a sort of dubiousness about what is actually going on in those laws.

Ross And is that because Islamic finance posits that, actually, usury and interest are bad and therefore they bury that within that loan in some way to morally cleanse it but ultimately, it sits on top of the capitalist system that we have, and that's an interest bearing system. So for every reason, you have to pass that cost onto the punter?

Tim Parks Yeah, they have the same objections to usury, which let me say that I really actually respect the whole early Christian position on this. It wasn't stupid. The idea was, if everybody starts thinking about borrowing money and making money and interest rates, when are they going to think about their soul. When are they going to think about God? And you remember all those early pictures of usurers. They're all tight with their money. You know, they're all closed mentally. This is what it's about. And your man who you mentioned before saying, you know, we've money ties to everything, we don't care about nature, is making exactly the same complaint about money that the people who objected to usury were making so many years ago.

Ross One of the other areas of work that you have focused on is a translation of Machiavelli. Whenever I see a newspaper interview with a CEO or a chairman, often when they're asked, you know, what time they get up in the morning, what breakfast they eat, what car do they drive, where they go on holiday. Often they say favourite book? And nine times out of ten, every clunking CEO alpha male type will say *The Prince* by Machiavelli. What's your view on that, ie using *The Prince* in the boardroom to try and gain advantage over the competition? Was that the real reason behind the book being written?

Tim Parks The book is much maligned and probably misunderstood. I mean, it's really not a book about how to cheat people, that's for sure. Let's remember that Machiavelli himself had been a politician for most of his life. He got kicked out when there was regime change. He was arrested and tortured for something he hadn't done. And then he was sent into a sort of domestic exile, sent back to his wife in the country, which bothered him because he was a philanderer. And there he sat down and wrote this book. And the idea was to write a book that would get him back into politics by explaining to a prince or to a leader because he didn't mean Prince Charles, he didn't mean Prince Charming. He meant the boss, basically. He would explain to them how to get power and how to stay in power. So that was the basic idea. But Machiavelli was a really intelligent scholar and he soon loses interest, I think, in just the business of how to persuade this or that guy to give me a job. And he starts really looking at how you get power and how you stay in power. And it is a really frightening analysis. The basic idea behind it is that if you want to stay in power, that must be your only priority. If you have any other priority before staying in power, then very likely you will lose power. Everything is prioritised in relation to that. And he doesn't say, oh, this is immoral or you know we're going to have to put the means before the end or something. He just says this is the way it actually is if you want to stay in power.

Ross So he's quite a pragmatist, really?

Tim Parks He's one of the world's great pragmatists. But he does make it quite clear that a leader won't stay in power forever if his people hate him. So the business of governing well is absolutely essential to staying in power. But then there may be all kinds of ways that you would understand that. For example, it may be necessary to be absolutely ruthless and cruel and eliminate a bunch of people in order to make it possible to run the show. And he makes no moral comment about that, which is why the book became such a scandal. But he also lived at a time when we have to remember that these times we're talking about with times, just incredible change, endless war. And Machiavelli believed that stability at the top was probably the best thing for any state. As long as the leader wasn't absolutely cruel and terrible, then stability was actually in everybody's interest.

Ross It strikes me that all the elements that we talk about when it comes to the Medici's, we're not a million miles from them now are we? When we look at the modern banking system - usury, lending money, credit notes, double entry bookkeeping - it's all there today. It's been there throughout history, but so has our really difficult, muscular, relationship between money, government, God and each other.

Tim Parks Absolutely. Essentially, there's this constant feeling that money is running away with the show and we're not in control of it. We don't understand it. We read about trading in futures. We feel that, wait a minute, there's this huge machine that's taken over and what about the business of me just being alive today? What does it mean to be good? So you know, there's a tension between these things. Of course, let's remember that money is fantastically exciting. Cosimo de Medici said, 'If I could make money by waving a wand, I would still be a banker'. It was fun working out how to make money.

Ross And that tension still sits with us today, doesn't it, insofar as people destroy their lives chasing fiat currency?

Tim Parks They do, indeed. You know, I mean, I myself drive a pretty hard bargain when I try and sell a book, you know? So, yeah, we all know then, you know, and we read endlessly in the paper, I suddenly realised that, you know, I should go and start a farm in the west of Ireland. So there's always people dropping out, people going to meditation retreats. The problem is to find some kind of stable position in all this, not to oscillate between being obsessed by money and then trying to become a Buddhist monk for a few months and then coming back to being obsessed by money again. The problem is to find some sort of equilibrium in the crazy world we live in.

Ross Tim, it's been an education. It's been a wonderful history lesson. It has been a really lovely end of us refocusing on what really matters. Thank you for Medici Money. Thank you for your work on Machiavelli and thank you very, very much for your time, Tim Parks.

Tim Parks Thanks a lot. It's been fun to talk. Thank you.