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GEOGRAPHY, INSTITUTIONS AND ECONOMIC DEVELOPMENT: POLITICAL ECONOMY OF FLORENCE FROM 13TH TO 15TH CENTURY

The purpose of this paper is to explain the link between geography, institutions and economic development by studying Florentine political economy during the heydays of Florence from the late 13th to late 15th century. Geography plays an important role in economic development because it sets the starting positions for development of political, economic and cultural systems. Institutions and social capital are as important as geography for economic development, so we could set the following formula for their interrelationship: geography + institutions + social capital = path dependence. By using historical and comparative methods we argue that geographical features of Tuscany played an important role in the formation of its institutions, type of government and economy which enabled birth of the Renaissance, economic development and social mobility in the Florentine society. It is not by pure coincidence that today Tuscany is one of the most prosperous regions of Italy and Europe, as well. Geography influenced the building of medieval Florentine society and prevented feudalism from being formed there. Politi-

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cal and economic institutions of Florence were also conducive for economic growth and were made for the rule of merchants by the merchants. Far from being perfect these institutions enabled the birth of humanism, where individual rights (property rights being the most important) were respected, with the emphasis on best interests of civic community. Implications for today are that those parts of Italy that had better civic tradition like Tuscany of Emilia-Romagna have better local administration, better quality of life and higher economic growth.

Key words: geography, institutions, economic development, medieval Florence, regionalism.

1. Introduction

The purpose of this paper is to explain the link between geography, institutions and economic development by studying Florentine political economy during the heydays of Florentine state and economy from the late 13th to late 15th century. Geography obviously plays an important role in economic development (after all, Ricardo's theory of comparative advantages is partially based on geographical features of land), because it sets the starting positions for the development of political, economical and cultural systems. Institutions are as important as geography for economic development of a nation, both formal and informal rules by which the society governs itself. Geographical features of land such as mountains, sea access and climate influence the birth of social institutions so we could set the following formula: geography + institutions + social capital = path dependence. Of course the impact is not one-sided, but all of them mutually influence each other, as it will be explained in the paper.

We have chosen Florence as our case study, because Florentine society and economy of this period allowed Florence to prosper and be the birth place of Renaissance. Social scientists, whether they are sociologists, historians, historians of art or political scientists have shown remarkable interest in the Florence and Florentines of the period from the 13th to 15th century. Now we think economists should research economy, political system and geographical features of the city that gave birth to Renaissance, especially the connections between geography and institutional systems that produce economic development or backwardness. We argue that geographical features of Tuscany played an important role in the formation of the Florentine political and economical systems that were in a way similar to that of the other Italian communes, but unique in its own right, because of the remarkable social mobility that was present in the Florentine society.

The structure of the paper is as follows: first we will study the Florentine geography, political institutions, and its society. Later we will show the main theories of economic development based on the economic geography and institutional economics, and see whether we can explain the remarkable economic, political and cultural development of Florence by using these theories.

2. Florence and Florentines 13th-15th century

2.1. *The Florentine economy*

Geography played a major role in the development of the Florentine economy. The region around Florence is full of hills, which prevented wheat from being grown on a large scale, but which was ideally suited for planting vineyards, olive and lemon trees. Florence, if we are to believe the historian Giovanni Villani had around 100 000 inhabitants at the beginning of the fourteenth century. It was to be the absolute peak of the demographic expansion of Florence, because following the epidemic of Black Death in the 1348 it would take almost two centuries for the city population to reach the level of the pre-plague years¹. People could not have lived of the scarce wheat production that the Tuscan countryside provided, therefore a new economic niche had to be found in order for Florence to feed itself². Lemon, wine and olive oil were among the first Florentine products that were exported by its merchants.

The societies, where there is more land suitable for agricultural production will probably develop certain form of a feudal society, because they will have the resources to build up a feudal society. Even the ancient Empires of Babylon, Egypt, China, and India though they emerged as despotisms did have a profound feudal structure. Florence simply did not have enough land to support the institutional framework of feudalism, while there was the abundance of land present, say, in the kingdom of Naples³. But the real future of Florentine economy lay in

¹ During the prosperous fifteenth century the Florentine population reached 60 000 to 70 000 inhabitants (Strathern,2005).

² Giovanni Villani in his *Nuova Cronica* provides valuable insights here as well. Each day according to him the residents consumed over 2300 bushels of grain and drank in excess of 70,000 quarts of wine. Some 4000 cattle and 100 000 sheep, goats and swine were slaughtered each year to provide the city with meat. See in Brucker, 1983, pp 51-52.

³ Which was as we will see the most important trading partner of the oligarchic Florentine commune. If there are mutual interests and potential gains from the trade, ideologies then as now do not prevent trade flows between countries that are governed by the different political-economic

banking. Florence was a relative latecomer to the banking world of the medieval period, since Florentine banks were founded in the thirteenth century, almost a century later than the Lombard banks, and some fifty years later than the banks in the neighbouring towns of Siena and Lucca. It seems to us that some sort of a primitive medieval banking cluster was born in Tuscany, which enabled Florentines to benefit from technological spill-overs from the neighbouring Tuscan towns of Lucca and Siena. Florence not only managed to catch up with Siena and Lucca, but somewhere around the end of thirteenth century it managed to surpass them in its banking activity, and in the amount of capital deployed in its banks (Hunt, 1997).

The manufacturing of cloth was also a strong industry in medieval Florence. River Arno provided necessary running water for the development of this industry. Woollen cloth industry employed 30% of Florence inhabitants, and it was a most important industry for sustaining the cities growing population⁴ (Brucker, 1983, p. 52). Florentines were latecomers⁵ to wool manufacturing (Brucker, 1983, p. 54).⁶ Crucial to the development of it was the existence of the merchant banking companies, which were able to provide a necessary capital for starting the cloth business, import high quality wool from England and Spain⁷ and finally sell the finished cloth products abroad. Wool and cloth were to be the dominant “industries” of the Florentine state, together with the construction industry.

The Florentine economy was dominated by its guilds that managed to secure a significant proportion of political and economical power for themselves. There were seven great guilds in Florence, or the so called *arti maggiori*, and fourteen minor guilds, the so called *arti minori*. The most influential were *Arti della Lana* and *Arti dell Cambio*, the guilds of cloth producers and money-changers. Right to form a guild was given to certain professions, but the majority of skilled workers were not admitted to any of the guilds.

The Florentine state also tried to lead a mercantilist policy with erecting tariff barriers against cloth import in the later part of the fourteenth century (Hay, Law,

systems (Today the relationship between USA and say Saudi Arabia is similar to that of Florence and Naples).

⁴ Although banking industry brought more profit, it employed a relatively small number of Florentine labour-force, and it was often involved in the investment with the cloth industry.

⁵ Lombard towns and the towns in Flanders were doing it a hundred years before them.

⁶ It seems that medieval Florence and modern Asian countries like Japan, South Korea had similar paths to economic development, first by entering industry and producing the cheap merchandise, and later developing top quality products, which are able to command good prices in the world market.

⁷ So efficient were the Bardi in their wool importing business from England, that they managed to control 80% of the English wool exports. This was the cause of their great wealth, but also of their downfall, because in order to control English wool exports, they had to lend heavily to the kings of England, upon whom the whole business depended (Hunt, 1997).

1989). When Florence conquered Pisa in 1409, the government tried to discourage the rival Pisan cloth industry. Many Pisan merchants chose to move to Venice and continued their activity there. But the most striking feature of the Florentine economy was the number of entrepreneurs that were recruited from the members of its merchant class. Members of the merchant class seldom became rentiers, and preferred the risky life of a merchant-banker. Sons of the noble merchant families became physicians and lawyers only if they were thought to be incompetent to become merchants. St Antonin, the Archbishop of Florence, was fearful for the future of his home city, if the merchant became the rentier. He condemned usury and the money speculation with these words: "The nobles who do not wish to work, in case they lack money they gradually consume, give it to a merchant or a money-changer, principally intending to receive something annually at their (the depositors) discretion, the capital, being kept safe. And although they call it deposit, yet it is clearly usury" (Wood, 2002, p. 199). Maybe St Antonin was just expressing his fear that many of the formerly productive parts of the entrepreneurial Florentine society were in this way becoming financial speculators? He must have understood this, because he often praised the diligent merchants in his sermons, and was aware that the lack of entrepreneurial spirit might cause the decline of the Florentine economy.

Florence was the City of the medieval banking and financial markets, and thus had a ready credit for it would be manufacturers and merchants. The typical Florentine banker also had his own manufactures, where he usually produced woolen cloth, and he was also an owner of the merchant company dealing with the export of Florentine manufactured goods and import of the raw materials and wheat. He also owned a villa in the *contado*, and raised crops of wheat, lemon and wine for the consumption of his own family (self sufficiency in domestic consumption was the norm of the day among richer classes).

The most important Florentine banks and bankers of the 14th century were the Bardi and the Peruzzi. These were the giant companies for that period and one of the reasons for the failure of these super companies was that they became too big to be managed by single person or indeed the single family. Not to mention that business cycle that lasted from 1250s to 1340s also coincided with the rise and decline of the Florentine super companies.

The slow fifty years decline and possibly a recession of the Florentine economy started with the bankruptcy of the Bardi and Peruzzi super-companies in the early 1340s. This recession could possibly have been shorter and less painful were it not for the outbreak of the Black Death in 1348, which turned a recession into a depression. The recovery of the Florentine economy started with the new rise of the banking activity in the late 1300s, which is linked with the rise of the Medici bank.

2.2. Florentine political institutions

The main organ of Florentine political organisation was the *Signoria*. It comprised eight members, called priors, two from the each of the cities four districts, and the ninth member who served as a sort of president of *Signoria* and Florentine head of state called *gonfaloniere of justice*. In theory the *gonfaloniere of justice* was equal in power to his other eight colleagues, but tradition had made this position into the most prestigious and the most coveted position in the Florentine administration. The *Signori* held daily meetings in order to discuss the problems in its jurisdiction. The meetings were usually held in the *Palazzo della Signoria*. The *Signoria* had to consult *duodici buonomini* and *sedici gonafalonieri* for every major decision it wanted to make, also when it wanted to propose legislation to the Florentine assembly⁸. *Signoria*, *duodici buonomini* and *sedici gonafalonieri* were known together as the *tree maggiori*. *Tree maggiori* represented the core of the decision making function of the Florentine government. There were a number of committees of permanent or semi-permanent nature (e.g. *Dieci di Balìa*, *Otto di guardia*, *Consulte* or *Pratiche*) that dealt with the specific aspects of administration.

The interesting feature of Florentine political life was that the members of legislative bodies were elected by the *Signoria*. There were two bodies in Florence with legislative powers: the three hundred men strong *Council of the People*, and the *Council of the Commune*, which had two hundred members (they served for six months). The initiative for proposing legislation rested solely in the hands of *tree maggiori* organs of the Florentine administration. The legislative bodies had only the right to debate the proposals, and to approve or reject them. In order for the law or any other proposal to be accepted a qualified 2/3 majority was asked. Brucker wrote that “these two bodies did constitute a check upon executive; they frequently rejected legislative proposals submitted to them by the *Signoria* (Brucker, 1983, p. 135). Furthermore Brucker concludes that “determined group of *priors* could usually persuade a recalcitrant assembly to approve a controversial measure” (ibid, p. 135). But it is also true that any proposition for increasing tax levies, or new forced loans were most likely to be rejected by the councils. Florentines liked their city, but it seems that they had liked their money more, and they did not want to pay more then what they thought was their fair share of the tax burden.

The main principle for staffing the various organs of the government was the principle of distrust. Florentines had a bit of the problem since a lot of their patricians, middle class merchants, bankers and lawyers had a significant amount

⁸ In this case *Signoria* had mandatory obligation to seek counsel from these two bodies.

of economic power, and they wanted a corresponding political power in order to guard their economic and political interests. So a way had to be found in which a large number of men could hold political offices⁹, but not for the very long time. Officers of the State served for a period from two to six months. (Hale, 2004, p.15). Considering also semi-permanent institutions 3000 men were given chance to rule the city every year. Members of the *Chancery* were the only that were regarded as permanent civil servants¹⁰. This enabled preservation of balance of power and gave an opportunity to the cities brightest and best educated people to partake in the running of the city.

The election system of Florentine Republic was a fairly democratic one, and at least in the beginning offered a chance for advancement to the luckiest eligible members of Florentine “good society”. The names of candidates for public office were put in a bag and were drawn from it. In order to be eligible for the *tree maggiori*, a candidate had to meet certain requirements.¹¹ No man could hope to be elected as a member of *Signoria* if he had served in it less than three years before, or if any member of his family had served within one year. In this way Florentines at least tried to prevent one family from gaining the dominance over the *Signoria* and the running of the city. Openly it was impossible for one noble family to rule the city, but they could always form a party and lead from the shadows.

Democracy is good for economic growth though we often forget that democracy is closely correlated with the redistribution of wealth in a society. Florence prided itself on its democracy and its democratic institutions. To prevent the wealth to be redistributed Florence limited the voting rights, and the eligibility for holding office, and thus had a representative government, and not a democratic one. If we analyze Florence using Olson`s method we could say that Florentine politics were almost on verge of becoming democratic, since 10% out of its 90 000 inhabitants had some degree of political rights¹² provided that they were males, and that they had paid their taxes. This right was limited only to citizens of Florence, while other towns that were under Florentine rule were granted a degree of autonomy, and had to pay taxes and provide troops for the Florentine state. In our opinion the key year for the establishment of the Florentine political system was

⁹ Women were as was normal for the period not permitted to hold public office.

¹⁰ Niccolò Machiavelli was to achieve fame and eventually to write his masterpiece “Il Principe“, based on his experiences as a civil servant.

¹¹ He could not be bankrupt or in arrears with his taxes; he had to be over thirty years old; he had to be enrolled in one of the seven *arti maggiori* or major guild, or one of the fourteen minor guilds (Hale, 2004, p.17).

¹² Nothing like this would be seen until Polish Commonwealth came into being in the 16th century. In this Republic all the male nobles had voting and vetoing powers, providing a degree of political anarchy unsurpassed in history of modern states in Europe. Indeed in England voting rights that were equivalent to Florentine would not be seen until the turn of the 19th century.

1385, when the *ciompi* revolt ended, and the government of the merchants (and for the merchants) was established. Being oligarchic in nature and dominated by the powerful merchant family lead by the Albizzi, it nonetheless had as we have seen certain democratic elements (large number of voters etc).

To govern Florence, relatively large and often unstable coalitions had to be formed. The success of Medici take-over of the Florentine state in 1434 was based on their wealth but also on their ability to form alliances with other powerful Florentine patrician families, such as Strozzi, Bardi, and Neri. The ruling oligarchy was always wary of its own interests, and the Medici though being by far the richest family in Florence could not match the combined political and economic power of the other patrician families. So the Medici had to rule as *first among equals*, and had to observe the Republican constitution and form. In 1533 the citizens of Florence rose one last time against what had become the Medici tyranny, but with the help of the armies of the Emperor Charles V the rebellion was crushed. In 1534 the Medici were finally established as the hereditary and absolute rulers of Florence. Now there was only one legitimate party, the Medici party, and the only socio-economic interests that counted were of that party. No wonder that the slow and painful economic and cultural decline began.

2.3. The Florentine legal system

Legal systems of oligarchic Florence was far superior to legal systems in say rival and anarchic Naples. Why was it so? First of all in Florence Roman law as the predominant form for trade contracts was slowly but steadily replaced by *lex mercantoria*, the so called merchant law that was far better suited for the regulation of trade. Cotrugli thought that good merchants should resolve their disputes outside of the civil courts that were usually using the Roman law (Kotruljević, 2005). The civil procedure was far more costly both in resources needed and in the waste of time. In Florence tribunal *Sei dei mercanzia* was resolving disputes by using *lex mercantoria*, and thus significantly lowering the transaction costs of the concerned parties. Long term investments were not possible, if citizens feared that their property would be confiscated, or if there was no impartial third party that could secure the implementation of contracts. Florentine judicial system was quite effective and just by the standards of the time, and *lex mercantoria* was used. Florence usually respected the property rights of her citizens, especially after the introduction of the *catasto* tax system in 1427 instead of the manipulative *estimo* system. Sometimes there were exceptions to these rules, since men, who were seen as the threat to the regime had their property confiscated. Florentine state always prided itself on its currency the golden florin. Florin was always made of the same amount of gold. Florence

never caused inflation by lowering the amount of gold in the florin, so inflationary pressures were either supply induced (if there was a rise in prices of imported raw materials, or grain), or on the demand side (when population became too large and problems in food supply appeared). And public debt or *monte* was usually paid and not repudiated. No wonder then that investments were made not only in business sector of economy (secure property and contract rights), but also in building up the palaces (property rights), which along with its churches are a continuous remainder of the Florentine affluence and confidence in 15th century.

It is important to mention here that *lex mercatoria* was used by regular Florentine courts, while in the rest of Europe with the possible exception of some other Italian, Catalan or Provençal commune, it was used by the special arbitrary courts of merchants, and not by courts of the state¹³. North has praised the advantages of order for economic growth (North, 2003). Throw in stable hierarchies of merchants that Braudel claim are necessary for economic development¹⁴ and you get Florence of the 14th and 15th century.

2.4. The Florentine tax and monetary system

The prevailing method for basement of one's tax obligation to the 1427 was the *estimo* system. In this system individual's tax obligation was based on the estimate of individual's wealth by a select committee of his neighbours (Brucker, 1983, p. 143). While his neighbours were the most knowledgeable about his economic status, they could be very partial in their estimates as well. Florentines were very unusual by Italian standards of any age, because they actually accepted the necessary evil of paying taxes and principle that each citizen should bear the tax burden according to his ability. After the sum of money that Florentine owed to the state was established, he could try to ask tax relief from magistracies and legislative councils¹⁵. But Florentines nevertheless tried to win sympathy from their fiscal authorities painting the worst possible picture of the effect that the tax paid will have on their lives, or they were trying to convince fiscal authorities that they simply did not have the means to pay their taxes¹⁶.

¹³ Merchant law would slowly be recognised as part of the „official“ state judiciary system from the sixteenth century onwards, and this practice would have its peak in Napoleon's famous „Code Commerce“ in 1804.

¹⁴ See more in Braudel, Fernand: *Igra razmjene*. pp. 421-450.

¹⁵ The fiscal authorities were never known for their generosity in granting the tax relives. As Alexander Hamilton used to say „Only two things are certain in life: death and taxes“.

¹⁶ Pawn broker Barone di Cose used these words to describe his situation “This Barone possesses nothing in this world save his own body, his wife and three small children (one having died

This unjust system of taxation brought so much civil disobedience that it had to be removed and replaced by the *catasto* system in 1427. The *catasto* system was seen as many historians¹⁷ as being the most rational and equitable tax system then existing in Europe. Each taxpayer was obliged to furnish the fiscal authorities with a complete catalogue of his real and personal property and his obligations (Brucker, 1983). On the basis of these, his assessment was calculated. The rate of assessment was fixed one-half of one percent of the capital, less deduction, and this inflexible schedule favoured the wealthy, because the system was proportional. The fiscal officials still had wide discretion in calculating the levies of the poorer citizens and in negotiating settlements with delinquents, so that personal influence continued to be factor in the allocation of the tax burden (*ibid*, p. 146). The *catasto* system did not solve all the existing problems of the Florentine finance (reducing the total amount of the tax burden), and it certainly did not alter the heavy reliance of the state finances on the forced loans.

Florence did not often have balanced budget, so in order to finance its public debt the Commune started to levy forced loans or the *prestanze* on its citizens. The *prestanze* were commuted into shares of the funded debt the so called *Monte*, which paid small but regular interest. Almost all the patrician families of the fifteenth century owned *Monte* shares. The Florentine public debt rose greatly between 1345 and 1420s, largely as a consequence of wars of expansion and defence (Hay; Law, 1989). Florentines liked *prestanze* as a sort of a secure investment. And it was also possible for the poor to invest their meagre savings into the *Monte* shares. Hay and Law think that the extremist among the Florentine *ciompi* lost the popular support because of their threat to the public debt and the interest payments (*ibid*, 1989, p. 101). In an attempt to find more permanent and manageable source of finance, the Florentine commune instituted also the *Monte delle Doti*, or the Dowry Fund in 1425 (*ibid*, p. 105).

The main sources of the fiscal revenue for the Florentine state were indirect taxation and the *prestanze* financing of its public debt. In 1495 when the existence of the Republic was in danger, the state introduced a direct taxation. The government of Florence could borrow and raise loans with rather low interest rates, because the Republic was perceived to be good debtor. Interest rates to say Neapolitan Crown were usually very high, almost prohibitive, since capital always likes the order in the place, where it is being invested, and if there is disorder, or a sort of autocratic government it will ask for higher rates of return. The Florentine monetary system was a source of pride for the Florentine state. Florence was minting silver *grossi* or the so called *fiorini d` argento* by the 1237,

in prison) and he (Barone) is dying of hunger in jail, while his family starves outside” (In Brucker, 1983, p.143).

¹⁷ Burckhardt and Brucker were among them.

but the gold standard was already winning the battle between the gold and silver. In 1252 Florence began to mint its gold *florin*¹⁸, which weighted 3,5 grams. It was to become the proto-type of almost all the gold coins in the fourteenth century Europe. The main reason for minting the gold *florin* was the fact that the Florentine economy was expanding so the silver *grossi* were no longer enough to support the expanded economic activity¹⁹. The second reason was that the trade with distant places such as Northern Europe was demanding gold coins, which were far dearer to the northern businessmen than the usual silver money. The third reason was that the Byzantine *nomisma*, the supreme ruler of the gold coinage around the world for more than 800 years was slowly losing its value and the world needed a stable currency in order for the “foreign” trade to function easily. According to Villains’ chronicle Florence was minting between 350 000 and 400 000 *florins* every year²⁰ in the 1330s. During that century, *florin* managed to expand into Western Europe and became the dollar of the Western Mediterranean trade. Everyone wanted to possess it, or to mint imitations of it. And the forgers of the *florin* were severely punished. Even Dante reserved a special place for them in the deepest part of the eighth circle of hell²¹.

2.5. Florentine foreign relations and their importance for economic development

Since Florence lacked a good access to the sea, its sea access depended on good relations with its more powerful neighbour Pisa. The two towns were more often at war than at peace, which resulted in Florentine conquest of Pisa in 1409. Florence was also near but not on the sight of the major trade routes connecting the North of Europe with the Kingdom of Naples and Sicily and with Rome. The precondition for having a chance of sustained economic development and growth lay in Florence’s ability to have good political relations with Papacy and with whoever was holding power in Naples. Crucial for establishing good relations with Papacy and Naples was Florentine decision to join the *ghibelin* party lead by the Pope in the struggle for supremacy in Western Europe against the Holy Roman

¹⁸ The Cambridge Economic History of Europe: Trade and Industry in the Middle Ages/ edited by Postan, M.M. and Miller, Edward, p. 829.

¹⁹ Somehow the fact that the Florentine super companies such as those of Bardi and Peruzzi appeared a couple of decades after the introduction of *florin*, can not be dismissed easily as the sign of the expanding Florentine economy.

²⁰ The Cambridge Economic History of Europe: Trade and Industry in the Middle Ages/ edited by Postan, M.M and Miller, Edward page 832.

²¹ See more in Alighieri, Dante: La Divina Commedia, pp. 193-194.

Emperor. By backing the Pope and helping to provide the funds for the Angevine conquest of Naples, Florence managed to establish valuable trading, and political ties with these two powers.

In the beginning, the good relations with the Angevins of Naples were more important. We can actually see that the rise of Florentine economy and the decline of Neapolitan economy could be traced back to the end of the thirteenth century, when newly established Angevine kings of Naples tended to favour foreign merchants, especially those of Florence²² over domestic merchants who were thought to be loyal to the old regime of Hohenstaufen. The kingdom of Naples can be viewed as a land of opportunity for Florentine merchant companies that were buying grain in it and exporting the cloth to it. Later, the relations with the Papacy became absolutely vital for the development of Florentine banking, because to be named an official banker of the Pope meant to be able to collect funds for the Holy See from around the known Christian world. The Medici bank was trying frantically to be named official bankers of the Papacy, because it was the most lucrative banking position in the whole of Christendom. So successful were Medici in their bid that they managed to have two family members elected as Pope (Leo X and Clement VII).

2.6. The Social structure of Florentine society

Florence's social and political structure was also conducive to economic development, thanks to a remarkable degree of openness and opportunity of social advancement. The structure of the Florentine society was more or less the same as in most Italian cities at that time. Its highest rank was held by patricians or the so-called *popolo grasso* – wealthy bankers, lawyers, merchants and cloth manufacturers, or practitioners of the *arti maggiori*.

The next sub – class was the so-called *popolo minuto*²³, or small people, which consisted of small craftsmen, local merchants and artisans – all those who practiced the so-called *arti minori*. They had the right to form guilds, and through them they also had some influence on the governance of the city. The lowest class, were the *ciompi*, or menial workers at the manufactures which had no political rights and were despised by the well-off Florentines. Florence never had a closed caste social structure; skilled and capable men had the opportunity to climb the

²² They after all provided funding for the Charles of Anjou conquest of Naples.

²³ It is interesting to note here that there was also a physical difference between the *popolo grasso* and *popolo minuto*. Because they could afford to eat more meat, the patricians were taller than their common compatriots, but because of this meat diet were also prone to die in great pain of the gout disease.

social ladder and become patricians: there was nothing that money couldn't buy. After all, both the Peruzzi and the Medici were members of the *popolo minuto* before they rose to wealth and power, therefore they were typical examples of social climbers. Florentine society offered a lot of opportunities for ambitious men and families. Florentine dream and American dream are not that dissimilar. We know that in Florence as it was the case of the 19th and early 20th century USA, first generation of entrepreneurs got rich and then the second or the third generation enters politics. No wonder that such system of opportunity for the best and brightest resulted in a flourishing economy and a splendid hotbed of the Renaissance.

3. Geography and economic development

3.1. Theoretical views

Geography plays an important role in the process of economic development. It determines the economic development of a region, and few regions and states were fortunate enough to escape the development pattern of nature that surrounds them. Geography is the real space, where humans interact. It represents human habitat like towns, villages, mountains, plains, rivers, sea, raw materials. We shall treat geography as endogenous variable in our model of economic development. Transportation costs are of great importance in international economics (Krugman, Obstfeld, 2003), therefore geographical location can potentially promote or prevent economic development.

Mellinger, Sachs and Gallup summarised the seven types of hypotheses that various philosophers, historians and social scientist offer as a suggestion for the correlation between geography and economic development²⁴:

Early philosophers, such as Montesquieu, surmised that climate might have direct effects on temperament, work effort and social harmony. Many writers, activists, and politicians have argued that link from geography to development is link from race to development. Some philosophers and social scientists have linked geography and climate to the form of government, Wittfogel (1957) claims that riparian civilizations are prone to despotism because of centralized control of water system and the large public works that support irrigation. Some social scientists have argued that climate helps to determine the means of production-yeoman

²⁴ Mellinger, Andrew D., Sachs, Jeffrey D. And Gallup, John L: Climate, Costal Proximity, and Development in Clark, Gordon L., Feldman, Maryann P. And Gertler, Meric S. edited by: The Oxford Handbook of Economic Geography, 2000, pp. 172-173.

farming in the temperate regions, plantation agriculture in the tropics-and therefore the organisation of society and propensity to economic development. Many scientists have argued that geographical correlations are accidental reflections of historical events: the temperate zone societies succeed, in some sense accidentally, in dominating tropical societies through military conquest and colonial rule. Another approach argues that geography is important because geographical endowments (climate, access to navigable waters) directly affect productivity, through transport costs, health and disease, nutrition, population density, and so forth. A final approach argues that ecological and geographical conditions were once very important, but are no longer so important because of technological progress. Geographical correlations with economic development would therefore reflect the past relationships plus the continuing path dependence of history (early forces, no longer operating, continue to affect present conditions).

3.2. *Italy and its geographical features*

Italy was the most developed part of the Mediterranean world throughout the medieval time. It lies in the very centre of the Mediterranean, and was ideally suited to play the middleman`s role in the trade between Middle East and Western Europe. During the Roman times Italy was a centre of a world Empire that had all of the Mediterranean under its rule. Roman businessmen constituted a special social class of knights (*eques*) within the Empire. By building the harbour of Ostia, Roman Emperors gave new trading impulses to their subjects. When the Barbarians overran the Western Roman Empire a certain amount of these businessmen found shelters in the remaining Roman towns like Milano, Rome, Naples, or they managed to establish new towns such as Venice. Majority of these towns would become self-governing communes in the middle ages. A bit of the Roman entrepreneurial spirit might have been saved in these towns, falling asleep and waking up when the time was right.

Though it is politically incorrect now to agree with Montesquieu that climate might have some influence on temperament, work effort, and social harmony, it is hard to ignore it. Italy is roughly divided into two climate areas, the Northern part has more rain, while the Southern part, usually called *Il Mezzogiorno* or „land of the noon“, has very little rainfall²⁵. Southern Italians definitely had to adapt their working rhythms to the fact that it is virtually impossible to work the fields from 11 am to 17 pm²⁶.

²⁵ See more in Landes, David S.: *Bogatstvo i siromaštvo naroda*, 2003, p. 320.

²⁶ The same thing applies to region of Dalmatia in Croatia.

Italy's geographical position enabled easy development of agricultural plants and domestication of animals. Italy also avoided the tropical diseases, except for malaria that was to be found in the river Po region, and in swamp regions of Italy. Sea access gave Italy the benefits of the cheapest means of transportation that more than compensated for the problems of land transport. Land transport would eventually evolve through time and it would become reliable and cheap. Tuscan hills in the case of Florence did not offer enough place to start agricultural production that would feed its population. Florence would always be dependent on the imports of food from Naples. Since agricultural self-sufficiency and feudalism go hand in hand, it is no wonder that a different sort of society and economy was born in Florence and Venice. Capitalism needs trade to act as its midwife. Feudal institutions, such as chivalry never existed in Florence. Here the land was not the source of power, because there was no land to organise a sufficiently large food production. Lack of food forced Florentines to develop alternative means by which to acquire food. They had to find a way to produce other goods in order to exchange them for food. Florence saw its opportunity in cloth manufacturing. We argue here that its geographical location and the before mentioned lack of fertile farmland prevented feudalism from becoming the dominant system of political economy in Tuscany, and as the direct consequence of that an oligarchic commune was to be the dominant political system of Florence, while in economy we argue that there existed a proto-capitalism at least since the middle of 14th century. Florence led wars of expansion primarily to secure a sea access, which it finally achieved with the conquest of its arch-rival Pisa in 1409, and to destroy its potential trade rivals like Siena. Sea access was crucial in the development of Florence and Florence sent its own galleys to trade in Alexandria in 1420s. This is a remarkable achievement, one that shows that Florentines were thoroughly conscious of the importance of sea transport, and were also aware of the fact that if they had to pay for the transport of goods by the sea to their potential commercial rivals such as Venice, Genoa or Catalans, they were making them rich, and were dependent on their good graces. Therefore they were tying their hands in the conduct of foreign policy, because they would always have to be on friendly footing with the naval republics, while the possession of their own fleet allowed them to explore a whole new world of possibilities in the conduct of their mercantile foreign policy.

Political fragmentation of Europe and of Italy was also the result of geography, and lack of natural, and easily defensible borders. Western Europe was never ruled by a single king. This political and geographical fragmentation was according to Landes²⁷ key to European and Italian success. Italy was made of

²⁷ See more in Landes, David. S.: *Bogatstvo i siromaštvo naroda*, 2003, pp. 90-92.

many small states²⁸ that were keeping a jealous guard on their independence. Whatever innovation in economy and especially in military technology appeared in one state, was immediately imitated by its neighbours that were worried by the fact that they might fall behind. The rivalry between Genoa and Venice produced many new innovations in ship design, and naval warfare. There was great mobility of Italians of this time, who were moving from one place to another, not only in Italy, but through the world. Many factors played part in these decisions, from the love of profit to self imposed exile of certain merchant groups. Florentine super-companies had their agents in all the major places in Europe of that time. Profit motive was a strong one for migration, and Italian (Florentine) merchants were often following it²⁹. Since Renaissance time individualism was on the move³⁰, Renaissance artists like Michelangelo and Leonardo da Vinci were often working outside their native towns. Their examples would be followed by many less well known artisans and merchants, not to mention frequent migration from the *contado* to the town in the prosperous years, and the reverse migration from the town to *contado* in times of economic crisis. Northern Italian peasants became mobile three hundred years before their English counterparts.

4. Institutions and economic development

4.1. Institutions

We can introduce another endogenous variable to our model of economic development: institutions. What are institutions? What kind of impact do these mysterious rules of behaviour have on economic development? According to North, institutions are “rules of behaviour that structure human relationships: one man’s opportunity is another man’s constraint” (North, 2003, p. 13). Institutions lower the uncertainty by providing the structure for the everyday life be it social, economic or religious. There are formal institutions such as law code, or constitutions, and informal ones like customs. Their impact on economic life is an important one. The institutional framework evolves through a lengthy periods of time, and cannot be changed in a heartbeat. Many things have influence on it. As we have

²⁸ Metternich said: Italy is geographical and not political term.

²⁹ Political motifs may have played their part too. Pisan merchants preferred to emigrate to Venice than to continue doing business under the rule of their ancient enemy Florence. Same thing happened in thirteenth century Lucca, when many merchants decided to leave the city that was ruled by the „tyrant“ Castrucci, and instead settled in Florence, and Venice, where they helped to establish silk industries (Luzzatto, 1960)

³⁰ See more on this in Barzun, Jaques: *Od osvita do dekadencije*, 2003.

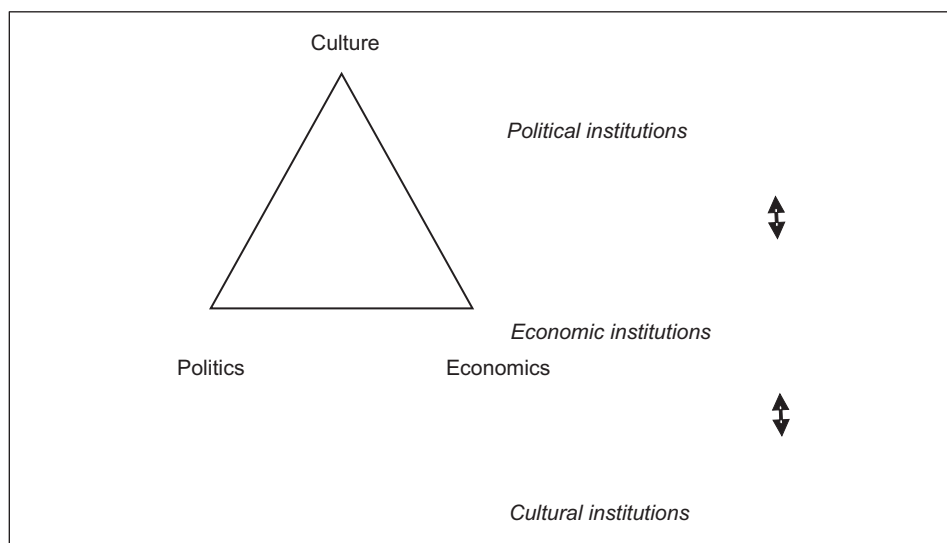
seen geography can influence the institutional framework easily and strongly. We can ask ourselves how comes that feudalism prevailed in the societies, which had land suitable for the agricultural production, while capitalism emerged and thrived in the societies where agricultural production was not very developed³¹? The source of power in feudalism was land, so the societies, where there is more land suitable for agricultural production will develop certain form of feudal society, because they will have the resources to build up feudal society.

Political, economic and cultural institutions represent three different systems that influence each other: politics, economics and culture. We can try and imagine that these institutions form a sort of triangle, where all three of them influence each other (Figure 1).

The process of interaction between various institutional systems is a complicated one. The most common path of institutional change would be that it first occurs in either cultural or economical institutions and is then adopted by political institutions (a sort of bottom-up institutional change). Institutional change can be introduced to economic and cultural institutions by using the power of political institutions (a sort of top-down institutional change). In order for institutional changes to occur, time is needed for humans to adapt their behaviour to new rules.

Figure 1:

INTERACTIONS BETWEEN DIFFERENT TYPES OF INSTITUTIONS.



³¹ The notable exception to the rule is of course the United States of America.

Two key areas of study for New Institutional Economics are transaction costs and institutional change. “High information price is a key for transaction costs, which are made out of cost of establishing the value of the things traded, costs of protecting property rights and establishing order and implementing contractual rights” (North, 2003, p. 44). If the institutions that lower the transaction costs are efficient, economic growth will be higher. The rediscovery and use of Roman law in eleventh and twelfth century served well in lowering the transaction costs, but more flexible *lex mercatoria* was gradually developing. When Roman law started to increase transaction costs it went out of use in Florence and *lex mercatoria* became the dominant legal system for trade.

North claims that the two main sources of institutional change are demographic changes and changes in relative prices (North, 2003, p.115). In these cases price mechanism is dictating the changes in institutional setting. In our opinion price mechanism is not the only mover of institutional change, and the sources of institutional changes can be external³², or internal. External influences on institutional change could be seen in the change of prices of land and labour following the Black Death, while endogenous institutional change will be the result of economic and political process by which different interest groups will try to establish institutional framework beneficial to their needs. In our opinion North is correct when he states that the prevailing institutional structure will not be the one that is the most efficient, but the one that is best suited to the interest of the dominant interest groups in the society (North, 2003). Reality-beliefs-institutions would be the genuine genetic code of emergence and change of institutions. When reality or our beliefs change, there will be institutional changes that will reflect the new beliefs.

4.2. Political economy of development: autocracy vs. democracy

Human societies began as anarchies, later autocracy was established, and from autocracy democracy somehow managed to emerge. Diamond in his book “Guns, Germs and Steel” offers a simple demographic explanation of the emergence of state. When tribes become too big, an impartial third is needed to provide order and give society a sense of direction. Small societies can function quite well

³² The best example of the external shocks that cause changes in institutional structure can be shown in the case of Russia. The military defeat in Crimean war in 1856 forced the regime to abolish serfdom and introduce some sort of capitalism. Then the defeat in World War I forced the transition from capitalism to communism, while the defeat in the cold war and the defeat of the economic system itself prompted the return to capitalism.

without formal political organization like state. In small society, where everyone knows everyone else it is easy to resolve conflicts by using personal method. When number of population increases the intimacy of the small population is lost and there arises a need for the impartial third e.g. the state to resolve the conflicts between the members of the society. Sedentary agricultural societies increased their population and developed sophisticated states hundreds of years before the nomad societies. We can see that this is in line with North's argument, because he mentions changes in demography, as one of the three main sources of institutional change.

Order in North's words is "a necessary (but not sufficient) condition for the long term economic growth. It is equally necessary (but not sufficient) condition for establishment and maintenance of the variety of conditions underlying the freedom of person and property that we associate with consensual or democratic society" (North, 2005, p. 104). Anarchy is not good for the economic growth because a lot of resources have to be invested in the protection from the external threat of the other individuals or groups, and the division of labour and specialization thus provided, cannot be used to their uttermost, if all the individuals have to protect their "property". So some sort of order must be established be it an autocratic kind of order or democratic one. North argues that both systems of order ideally have the following characteristics:

An institutional matrix that produces a set of organizations and establishes a set of rights and privileges;

A stable structure of exchange relationship in both political and economical markets;

An underlying structure that credibly commits the state to be set of political rules and enforcement that protects organizations and exchange relationships;

Conformity as a result of some sort of a mixture of norm internalization and coercive enforcement (ibid, p. 105).

Olson measured the economic efficiency of autocracy vs. democracy by taking into account how these two systems of government can provide for the recognition and protection of property rights, the implementation of contracts, and giving us the stable currency without inflation. Economy will generate its maximum income only if there is high rate of investment. Much of the return on long-term investments is received long after the investments are made. In autocracy the autocrat, who is trying to have a long term view, will try to convince his subjects that their capital will be permanently protected not only from theft by the others but from confiscations by the autocrat himself. If his subjects fear expropriation, they will invest less, and in the long run his tax collections will be reduced (ibid, p. 25). If autocrats are not respecting the property rights of their subjects, instead of

investment there will be hoarding, and hiding of the money³³. The basic question for the autocrat is to set the tax rate that would allow him to gather enough income to indulge his tastes for princely consumption, and to keep up with the other autocrats, who are trying to conquer his territory. Basically he has to find a way not to kill the hen (the people and their property) that lays golden eggs (income received from the taxes)

In order for autocracy to be more stable, a dynastic succession of the eldest son has to be established, as the principle of succession. Thus an autocrat gains a longer-term planning view. The problem in the autocracy is that you never know what kind of an autocrat will succeed his predecessor. Will he be a long-term planner, or a short term robber? Olson offers an interesting explanation that democracy or at least representative government appears only when there is the balance of power between the forces that overthrow the autocrat and neither of them is powerful enough to appoint himself or herself the next autocrat. Democracy in Olson words comes into being "by accidents of history that leave a balance of power among a small number of leaders, groups or families - that is, by broadly equal dispersion of power that makes it imprudent for any leader or group to attempt to overpower the others" (ibid, p. 31). The second condition in Olson's opinion for the spontaneous emergence of democracy is "that different forces among which there is a rough balance of power should not be separated in a way that makes mini autocracies feasible" (ibid, p. 31). Finally, the third condition is that the area in which democratic arrangements are emerging is not conquered by neighbouring regimes, whether because of geographical barriers, city walls, or other fortunate circumstances (ibid, p. 31).

Democracy is very conducive for economic growth for number of reasons. First of all in democracy there are many legitimate interests in the society, and there is a notion that the rule of law will be upheld. Putnam draws a sharp contrast between the relatively open and democratic city-states in northern Italy and the autocratic regime in southern Italy, derived from Norman occupation (Putnam, 1993). He argues that these differences permeates the history of Italy and has influenced the north-south disparity in development up to this day (Putnam, 1993).

³³ China and India offer us a good example of this theory, because a lot of Indian families are still hoping to find the buried treasures today, see more in Landes, D. S.: *Bogatstvo i siromaštvo naroda*, 2003.

5. Conclusion

Is geography crucial for economic development? Are institutions the “silver bullet” that answers all the questions about the economic development? In our opinion it is not so, but we have tried to show the importance of geography and institutions for economic development. Is it pure coincidence that Tuscany is one of the most prosperous parts of the so called “Third Italy” and one of the most prosperous European regions today³⁴? Was it luck or path dependence? As we have seen geography put into the motion the society building of medieval Florence and prevented feudalism from being formed there. Florentine institutions in medieval times favoured oligarchic form of Republican government and were made for the rule of merchants, by the merchants. Political and economic institutions of Florence at this time were also conducive for economic growth. Far from being perfect in political and economical context, these institutions enabled the birth of civic humanism, where individual rights (property rights being the most important) were respected more than in neighbouring cities and regions, but the emphasis was put on civic community. By being the citizen of commune the individual was expected to act not only in his own interests but to also to act in the interests of commune or the wider political community. Horizontal ties were much stronger in Florence than vertical ones. There was great social mobility in Florence, and the ability of Florentine companies to cooperate in business was remarkable. The implication for today are that the parts of Italy that had better civic tradition like Tuscany of Emilia-Romagna have better local administration, better quality of life and better economic growth (Putnam, 1993). Horizontal ties (in economy, politics, culture etc) that sprang from the institutional system of Florentine commune, which in turn was the product of Florentine geography, played the most important part in the process of economic, but in our opinion also of human development.

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³⁴ Tuscan GDP stood at 25 000 euros per capita in 2005. Internet link source <http://www.investintuscany.com/192-economy.html>, 10.11.2008.

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ZEMLJOPIS, INSTITUCIJE I EKONOMSKI RAZVITAK: POLITIČKA EKONOMIJA FIRENCE OD XIII. DO XV. STOLJEĆA

SAŽETAK

Svrha je ovoga rada istražiti i pokušati objasniti veze između zemljopisnih osobitosti, institucija i gospodarskog razvoja, na primjeru politekonomske analize Firence u periodu njezinog uspona od druge polovice XIII. do pred kraj XV. stoljeća. Zemljopisne osobitosti igraju važnu ulogu u teoriji i praksi gospodarskog razvoja upravo zbog činjenice da predstavljaju polaznu osnovu za razvoj političkih, ekonomskih i kulturnih specifičnosti pojedinih područja. Institucionalna infrastruktura i društveni kapital također su bitni za razvoj gospodarstva. Stoga njihov međudodnos možemo prikazati formulom: zemljopis + institucije + društveni kapital = ovisnost o prijedrenom razvojnem putu.

Koristeći se povijesnom i komparativnom metodom istraživanja došli smo do zaključaka o ulozi i važnosti zemljopisnih osobitosti Toskane u formiranju institucionalne infrastrukture, oblika vladavine i gospodarskih aktivnosti u regiji. Nedvojbeno, one su pogodovale stvaranju povoljne klime za gospodarsku, kulturnu i socijalnu renesansu firentinskog društva, stoga nije slučajnost što je i danas Toskana jedna od najnaprednijih talijanskih i europskih regija. Zemljopisne osobitosti utjecale su na izgradnju društveno-političkih odnosa u razvoju srednjevjekovne Firence, priječeći razvitak feudalizma. Onovremene političke i ekonomske institucije skrojene po mjeri vladajućeg trgovačkog stališa, od strane vodećih firentinskih trgovaca, pogodovale su ekspanziji njezine trgovine, a kasnije i bankarstva. Nadalje, omogućile su razvoj humanizma, pravnog sustava (osuvremenjivanje trgovačkog prava), te afirmaciju ljudskih prava (osobito prava privatnog vlasništva), uvažavajući pritom interese šire društvene zajednice. U tome spletu geografskih, institucionalnih i socijalnih čimbenika leže uzroci današnje kvalitete civilnog društva, lokalne javne uprave, gospodarskog rasta i kvalitete života u Toskani i Emiliji-Romagni.

Ključne riječi: ekonomska geografija, institucije, gospodarski razvoj, srednjevjekovna Firenca, regionalizam