

Import-Export Activities of Italy Ca. 1400 — Some Economic and Accounting Considerations

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Economists have traditionally classified a nation's tract into internal and external transactions. Both types of transactions are important to the business historian. The nature of economic development for a nation is influenced by many factors, including climate, arable land, water power, natural resources, and the educational and training level of its citizens. Import-export transactions have been vital to the attempts of individuals and nations to satisfy economic wants more completely.

The early civilizations of the Near East engaged actively in import-export transactions. Professor W. B. McBride has identified and described the extent and degree of sophistication of such transactions in early Mesopotamia [9]. He found a surprising level of managerial techniques were applied in the individual transactions that constituted the external commerce of that period. He noted basic concepts of transaction recording that were expanded and refined during additional centuries of human activity until they culminated in the full-fledged development known as "double-entry bookkeeping" which appeared in the 13th and 14th centuries in northern Italy.

Although commercial transactions within a particular nation required a certain facilitating accounting theory and generally accepted social structure, import-export activity transactions clearly placed certain other strains or requirements on the existing commercial structure. The ability to convert or equal foreign currencies and the creation of credit instruments and terms are examples of the new pressures placed on local record-keeping procedures by external commercial transactions. The Mediterranean Sea facilitated international commerce and it is not surprising that many civilizations developed along the edge of this sea. By the 15th century, the various political and economic units of northern Italy had developed a cultural and economic structure which placed it as perhaps the leading commercial center of the world at that time. Import-export transactions were an important part of the commercial activity and provided the environment for some important accounting and economic developments.

THE ITALIAN CITY STATES

The Italian City States provide a genuine bonanza for the business historian. Many have written of this area of modern Italy as the cultural and economic center of much of the world's activity during the latter part of the Middle Ages and that important era known as the Renaissance. The ingredients that are apparent in much of today's business society began to appear or "to crystallize" in the setting of the Italian City States. C. M. Cipolla noted the significant shifts that occurred.

It is evident, then, that even the very ancient institutions of money, property and the art of writing took on a vitality in the new surroundings which had been impossible in the ancient world. The Renaissance was not an awakening of interest in the arts alone. New interest appeared in practical matters as well, for commerce, capital, credit, arithmetic were all antecedents of bookkeeping, and all absorbed the spirit of the Renaissance which surrounded them: they seemed animated by a new life in comparison with that shown in ancient history. [1, p. 18]

In the foregoing passage, A. C. Littleton¹ used the interesting phrase "antecedents of bookkeeping." For the modern accountant these antecedents or facilitating conditions in an economic environment are of predominant importance. The Italian City States of this time are credited with perfecting the rudimentary record-keeping procedures of earlier civilizations and centuries into that basic structure of modern accounting, double-entry bookkeeping.

One might inquire as to the historical forces that led to such a unique development of the Italian City States at this period. The immediately preceding centuries have been described as the "Dark Ages." As the name implied, commercial as well as other activities receded from earlier periods. The several crusades between 1096 and 1272 are cited as a major cause for the social awakening that occurred.

The soldiers of the Crusades and their supporting staff required formidable logistical support and for the suppliers these transactions were profitable. The flow of crusaders to the Near East generated a parallel flow of commercial activity. Some of the commodities of that region, particularly spices, were increasingly sought in Europe. Import-export transactions developed logically to meet these new and growing consumer demands. The Italian City States were graphically well situated to become the center of such import-export activity. Capital did accumulate in these cities, thus further facilitating the productive cycle of trade.

In preindustrial Europe three sets of circumstances favored the freezing of saving in the form of hoarding: (a) Institutions to collect savings and to direct it to productive users were either lacking or

inadequate; (b) The opportunities for turning saving to productive purposes were limited; and (c) Money in circulation consisted of pieces of metal. Gold and silver always had a special fascination for man, and the temptation to hoard gleaming pieces of gold and silver is stronger than the temptation to hoard printed paper. [1, p. 41]²

The accumulation and productive use of capital in the Italian City States accelerated after the 11th century. Collateral and developments facilitated the economic activity. Cipolla notes these developments, identifies the developers, and the historical periods.

From the eleventh century onward there was a remarkable development of business techniques. The list of innovations is long: One need only consider the organization of fairs, the development of the bill of exchange, the appearance and spread of the manuals of commerce, the evolution of new techniques of accounting, the check, the endorsement, insurance, and so on. From the eleventh to the sixteenth century, Italy was the birthplace of most of the innovations. Even the monks interested themselves in business: Father Luca Pacioli sent to press in 1494 a famous treatise on accounting, and Father Bernadino da Feltre thought up and organized the *Monti de Pieta*, destined to become important institutions in the credit structure. [1, p. 182-83]

Many scholars, including Schumpeter, consider the refinement of double-entry bookkeeping into accounting to have been a collateral factor essential to the expansion of trade and commerce. Raymond de Roover [2, p. 115-116] identifies three factors which contribute to the development of accounting -- the partnership form of business organization, the widening use of credit, and the use of agency relationships. Individual proprietorships were supplemented by agencies and later by partnerships. The joint stock company of England was not yet available. The oldest known business records of the Middle Ages relate to a partnership in the year 1157 [8, p. 115].

THE NATURE OF COMMERCE

Commerce at the end of the medieval period was influenced more by domestic than export trade. The real catalyst for economic expansion, however, came from international trade. The foreign commodity most desired was spices. Spices provided much of the wealth generated by Venice and other ports of the Western Mediterranean. Spices, as luxury goods, carried the same large profit margins representative of that type of commodities today. Venice

competed vigorously with Pisa and Genoa as ports seeking this profitable trade. The heavy emphasis on spice imports was gradually augmented by other foods, such as oranges, and other products, such as silk, damask and muslins.

In return for all these imports, by which a more comfortable and refined standard of living gradually spread throughout Western Europe, the Italians supplied the seaports of the Levant with timber and arms, and Venice, at least for a certain time, with slaves. But the woolen goods soon became the chief export, at first fustians woven in Italy, then, from the second half of the twelfth century, cloths from Flanders and Northern France. No doubt the visits paid to the Champagne fairs by Italian merchants brought to their notice the superior quality of these cloths and suggested the possibility of a profitable trade. The port of Genoa was in a good position to export them to the East, and they certainly played a large part in the rapid progress of its trade. [10, p. 145]

THE NATURE OF ITALIAN BUSINESS ENTERPRISES IN 1400

As noted, one of the primary types of trade was in commodities, particularly spices. The type of commercial venture was gradually and most effectively handled by maritime transport and the merchants soon found it logical to have salable cargo for both directions of their voyages. The spices and other goods of the Far East and Middle East were brought to the Italian City States and, in turn, some of the finished products of the Italian manufacturers-traders were taken back to the Near East.

The idea of the corporation and the continuity of enterprise life, transferable shares of ownership with limited liability to the investor, was still not perfected. The Italian trading venture was a common type of organization whereby a family or a partnership of individuals could band together for a specific enterprise purpose. Normally the related accounting procedures were designed to reflect the economic nature and purpose of the single commercial venture. This was a much easier type of accounting than that of today when the continuity of enterprise life is a condition incorporated conceptually in our current generally accepted accounting principles. In a single venture the difficult problem of accruals was largely able to be ignored. The problems of valuation were also mitigated as with the conclusion of the specific purpose of the trading mission the accounts were closed and a division of the profits or losses made. This is in sharp contrast to the use of long-lived capital assets common in modern industry and with the accompanying legal ramifications of the divisible and transferable shares of ownership of the modern corporation. The complexity of

the accounting problems reflected in today's modern corporate balance sheet contrasts sharply with the enterprises of the Italian City States.

The Italian City States were not without their problems, however. The discovery of the ability to raise revenue by taxing individuals and businesses was perfected on a more regular basis by the Italian City States. This in turn caused merchants to attempt to find advantageous listings of inventory assets and to find appropriate timing for the listed balances of their assets. The particular valuation of inventories because of tax pressures became important. The computation of profits and the resulting distribution of these profits or their retention and accumulation in terms of enterprise-invested capital which might be subject to tax raised accounting and managerial problems.

The managers of enterprises in the Italian City States necessarily began to wrestle with the concept of a division of the types of capital, which the English later described as fixed and floating capital, depending on the expected life of the asset or its length of retention in the enterprise. The business records that management had were rudimentary at this time but the environment was conducive to experimentation and the ultimate perfection of the art of double-entry bookkeeping. This technique was ultimately given the status of a separate chapter in Luca Pacioli's famous treatise on mathematics published in 1494. The symmetry of bookkeeping has had an attraction for many nonaccountants for centuries. Goethe and Schumpeter are but two of the many who have been intrigued by the apparent neatness and logical completeness of bookkeeping procedures.

The double-entry bookkeeping system afforded the early Italian City State managers a new device to review the results of the activities enterprise. The payment of interest for the use of capital was, of course, a common type of transaction. Agents of firms were common, particularly for the banking houses. An increasingly sophisticated system of trade through agencies and ventures developed. The use of modern cost accounting techniques has been identified by Samuel Paul Garner [4] and others as occurring in the woolen and cloth industries of the Low Countries in the 16th century where the natural flow of the manufactured processes of cloth did lead to the establishment of cost centers in the accounts and financial records. An important change in double-entry bookkeeping occurred which permitted transfers of cost within the enterprise to be recognized as such within the accounts. Management thus became much more alert and was better able to monitor the flow of costs through an enterprise rather than to rely totally on the reports of transactions with outsiders for either the purchase of products for manufacture or their ultimate sale, as well as capital and credit transactions.

The growth of banks and the increase of their activities certainly was a facilitating condition in the Italian City States. The ventures were relatively long-term. A considerable amount of

capital was necessary and payments for the use of capital and conditions for its safety were common concerns of managements at this time. Banks were able to provide a source of the capital necessary to finance the trading expeditions to the Mid-East and Far East.

The accountants of this time were rather unique in that a mixed account developed, which was fairly logical when used in association with a venture situation. The costs of a particular venture could be accumulated on the debit side and the revenues could be accumulated on the right side. At the conclusion of the sale of all goods or their disposal through loss, each account would presumably show the balance of the profits or losses from these transactions.

CONCLUSION

The import-export activities of the Italian City States built up the recording and financial contributions of earlier civilizations. The accumulations of relatively sterile capital of the Middle Ages began to be productively employed with the significant increase in international trade prompted by the Crusades and the general human awakenings of the Renaissance. The Italian City States were geographically well suited to foster such trade and were aided by the facilitating accounting, legal, and commercial developments. This period and its practices and institutions have given modern society much of its basic structure.

NOTES

1. A. C. Littleton [7, p. 13] identified what he considered to be the antecedents of bookkeeping as

The Antecedents of Bookkeeping

1. A Material (something which needs to be reworked)
 - a. Private property (power to change ownership)
 - b. Capital (wealth productively employed)
 - c. Commerce (interchange of goods)
 - d. Credit (present use of future goods)
2. A Language (a medium for expressing the material)
 - a. Writing (a means of making a permanent record)
 - b. Money (medium of exchange, "common denominator")
 - c. Arithmetic (a means of computation)
3. A Methodology (a plan for systematically rendering the Material into the Language).

2. Cipolla cites an example of the extent of hoarding or non-income use of our assets as practiced in this time in the analysis of the nature and type of capital held in the estate of the Duke of Milan in 1445 at the time of his death [1, p. 42]:

	<u>Value in Golden Ducats</u>	<u>Percentage of Wealth</u>
Cash	95,500	77.6
Jewels	2,225	1.9
Provisions	150	0.1
Clothing	1,495	1.3
Apparel and household goods	483	0.4
Buildings	5,000	4.2
Land	12,300	10.3
Capitalized value of rents	<u>5,000</u>	<u>4.2</u>
	119,153	100.0

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